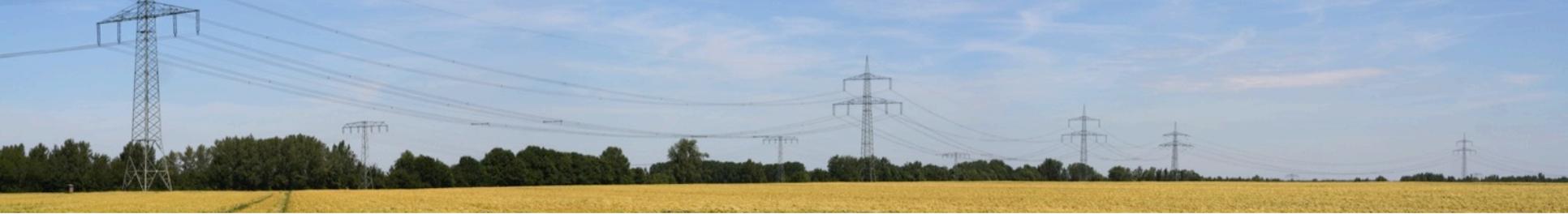


BHP 2016 Projected Net Revenue Requirement Meeting

October 26, 2015





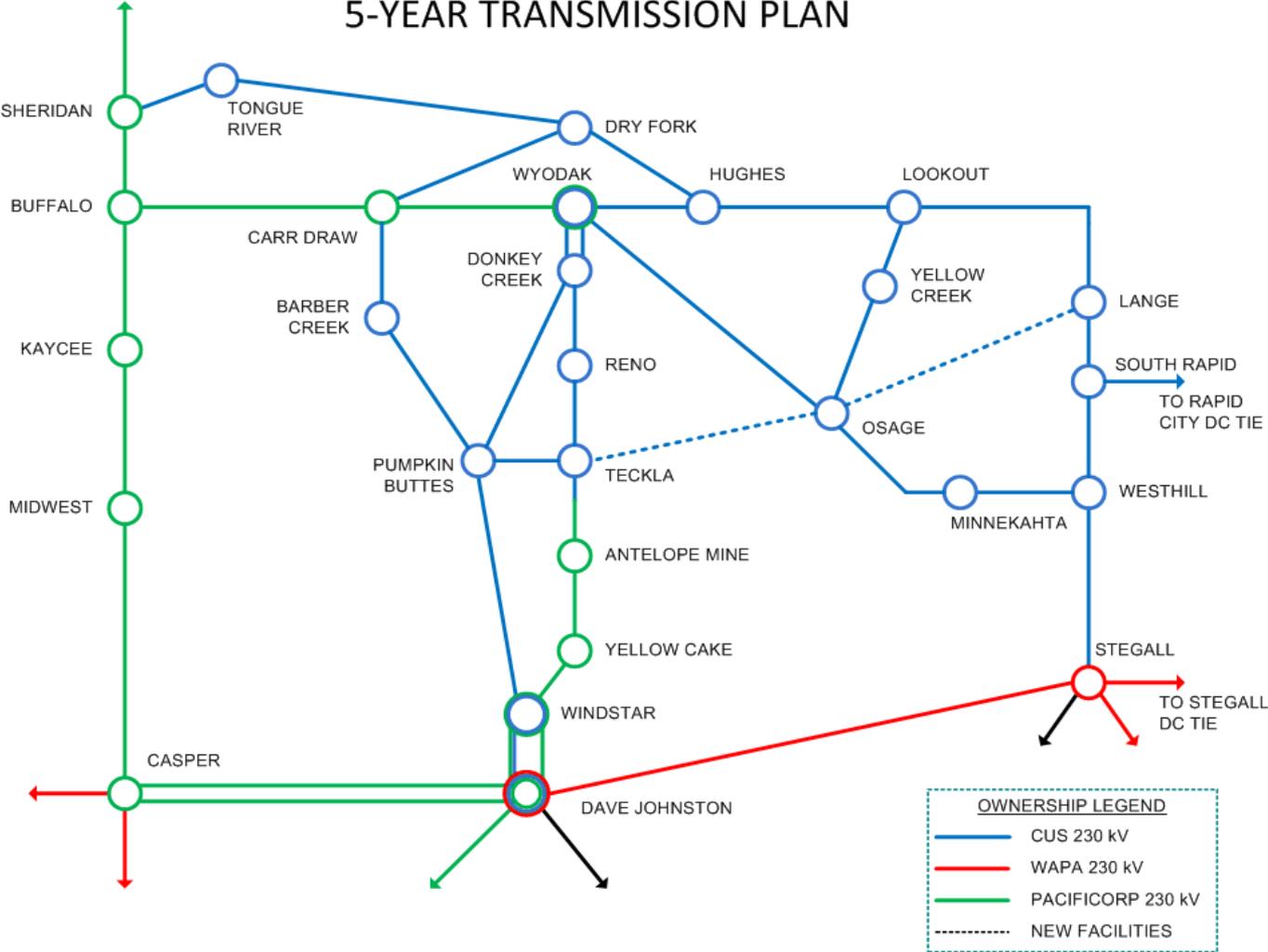
Agenda

- Introductions
- CUS Transmission System Overview
- Black Hills Power's Formula Rate Protocols
- Discuss the 2016 Projected Net Revenue Requirement
- Where to Find Information and be Engaged
- Questions & Comments

CUS Transmission System

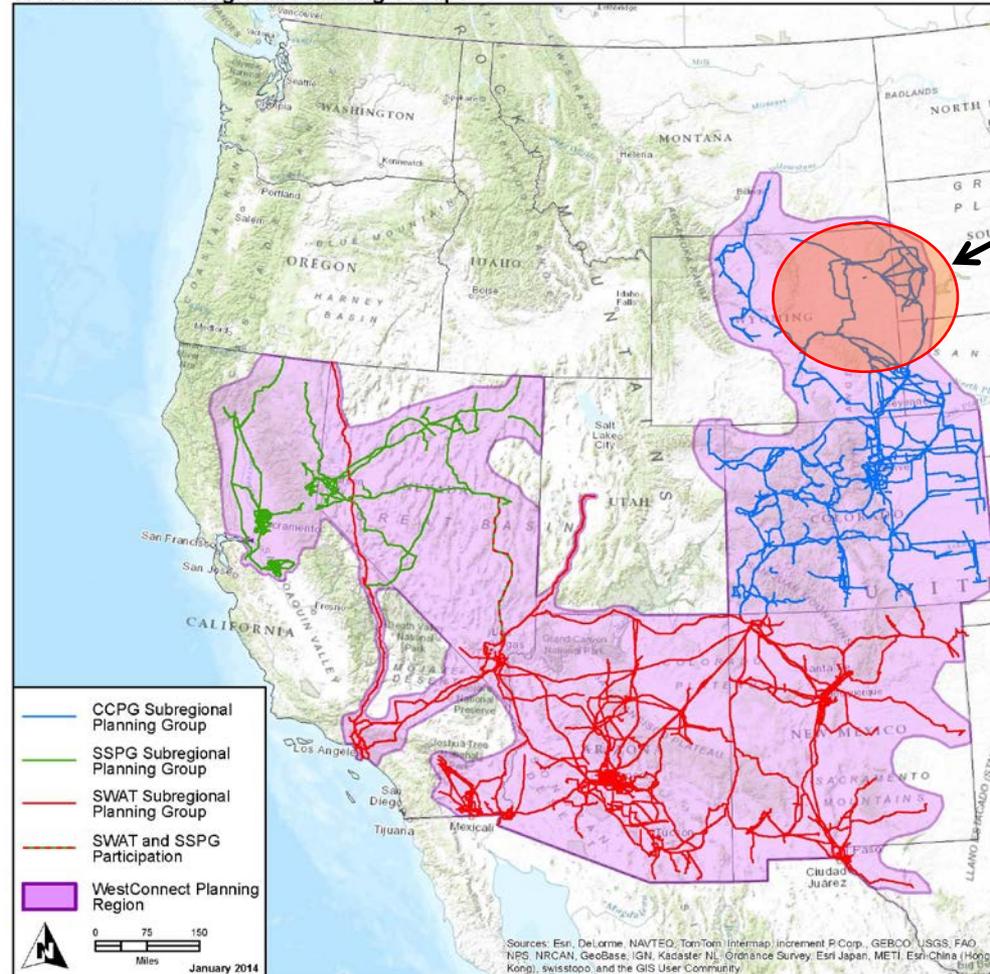
- The Common Use System (CUS) is a joint transmission system owned by Basin Electric Power Cooperative, Black Hills Power, Inc. and Powder River Energy Corporation.
- The CUS has filed with the FERC a joint open-access transmission tariff that provides transmission service over these combined assets that consist of 230 kV and limited 69 kV transmission facilities within areas of Southwestern South Dakota and Northeastern Wyoming.
- The CUS is made up of approximately 980 circuit miles

COMMON USE SYSTEM 5-YEAR TRANSMISSION PLAN



Where We Are in the West

WestConnect Subregional Planning Groups



BHBE / Common Use System

CCPG—Colorado Coordinated Planning Group
SSPG—Sierra Subregional Planning Group
SWAT—Southwest Area Transmission

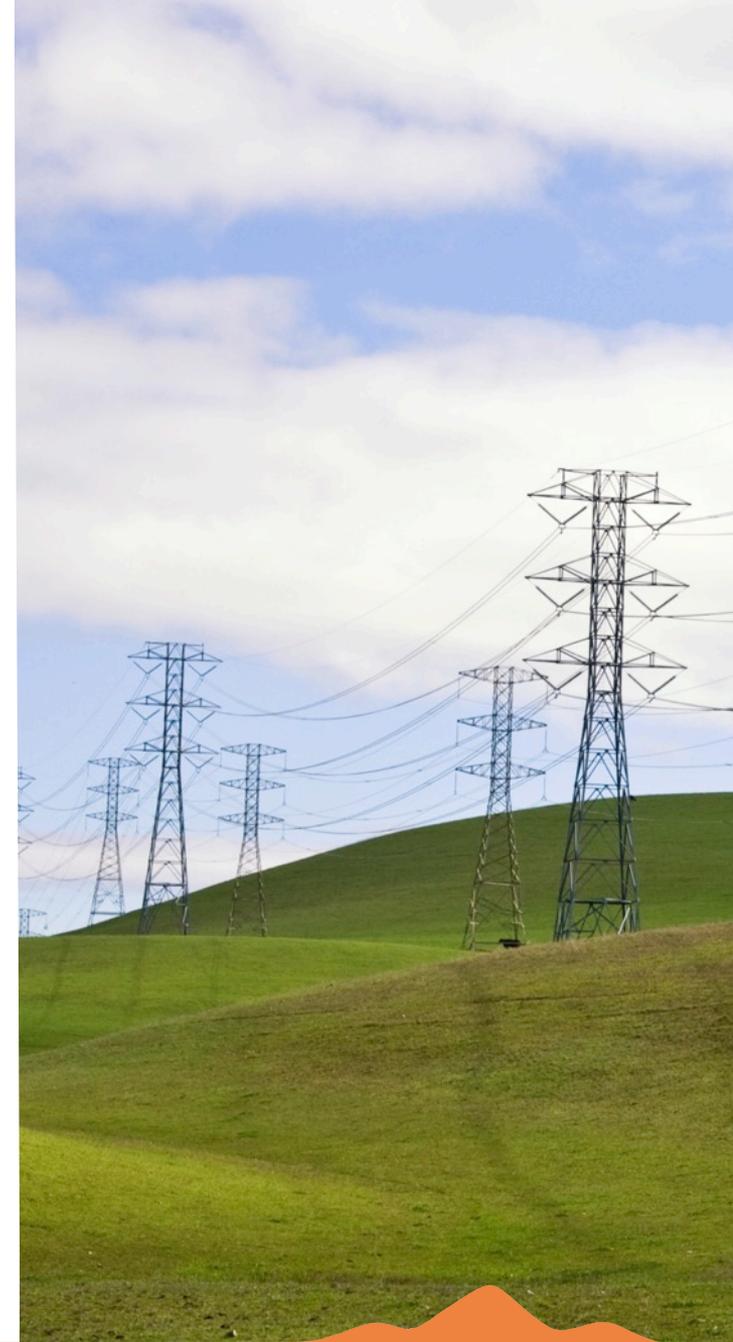
Formula Rate Protocols

- In July 2014, the Federal Energy Regulatory Commission (FERC) requested that Black Hills update its formula rate protocols
- The updates were needed to:
 - Provide clarification on who can participate in the information exchange
 - Increase transparency
 - Create challenge procedures
- Black Hills Revised its tariff and the new formula rate protocols went into effect January 1, 2015



Summary of Key Drivers

- 2016 total projected revenue requirement increases \$3,527,640 or 28% over 2015
- 2016 projected annual rate is \$33.58 kW-Yr, an increase of \$2.17 kW-Yr over 2015
- Primary driver of increase
 - Projected addition of transmission line from Teckla to Rapid City in 2016



2016 Projected Revenue Requirement

Black Hills Power Attachment H		2016 Projected	2015 Projected	2014 Actual
1	Average Transmission Rate Base	\$ 71,333,803	\$ 51,921,464	\$ 54,243,438
2	Weighted Rate of Return	8.76%	8.95%	8.92%
3	Return on Average Rate Base	6,247,057	4,648,795	4,836,670
4	Operating Expenses			
5	Operations & Maintenance	3,476,878	3,024,018	3,321,956
6	Depreciation	3,073,274	2,416,519	2,439,185
7	Taxes Other Than Income	848,643	672,354	739,297
8	Total Operating Expenses	7,398,795	6,112,891	6,500,438
9	Income Taxes	2,364,551	1,721,078	1,798,045
10	Total Revenue Requirement	\$ 16,010,403	\$ 12,482,763	\$ 13,135,153
Component Annual Revenue Requirements				
11	Black Hills	16,010,403	12,482,763	13,135,153
12	Basin Electric	16,482,130	16,482,130	16,482,130
13	PRECorp	1,297,602	1,297,602	1,297,602
14	Total Annual Revenue Requirements	33,790,135	30,262,495	30,914,885
15	Revenue Credits	(902,716)	(945,229)	(902,716)
16	Net Annual Revenue Requirements	\$ 32,887,419	\$ 29,317,266	\$ 30,012,169
17	Network Load	979,333	933,442	910,833
18	Rate (\$/kW-Yr)	\$ 33.58	\$ 31.41	\$ 32.95

Projected Revenue Requirement Accounting Change

Change addresses normalization requirements discussed in recent IRS private letter rulings

To be consistent with IRS normalization requirements, the proration formula is applied to accumulated deferred income taxes (ADIT) for purposes of calculating rate base for the projected revenue requirement

New supplemental schedule reflects the ADIT calculation using the proration formula

Impact to projected revenue requirement posted on 9/30/2015 is reduction of \$227,520

No change required for the true-up calculation

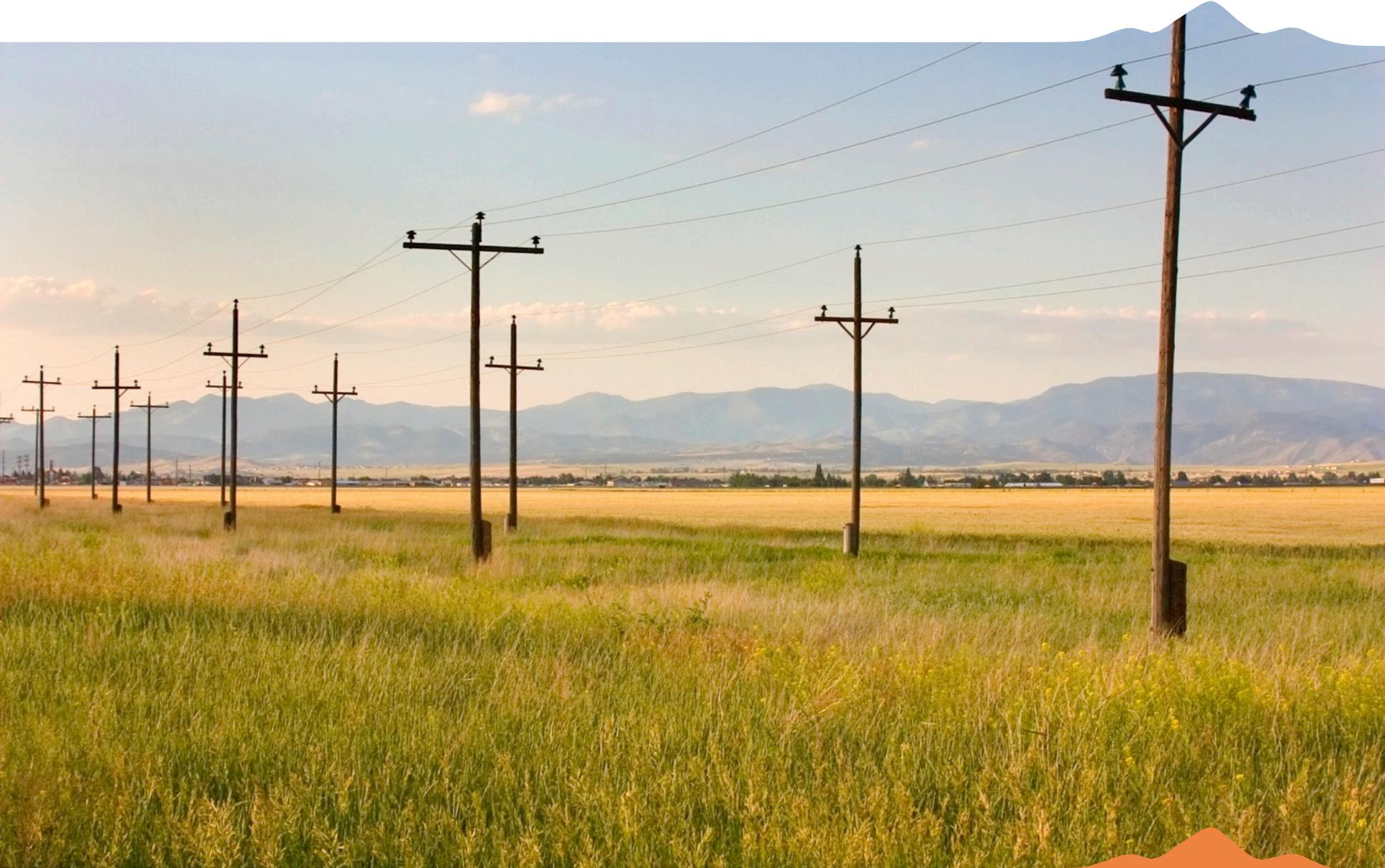
How to be Engaged

We invite our transmission customers to sign up to receive notices related to the Projected Net Revenue Requirement and Annual True-Up. A notification will be sent by email whenever there is an update. These notifications are also posted on our OASIS site. <https://www.oasis.oati.com/BHBE/index.html>

- To sign up for the notices go to our website www.blackhillspower.com. In the list on the left click on *In Your Neighborhood*. Next click on *Transmission & Distribution* then *Transmission Rates*. Under More Information click on the link *Sign up for notices*. Key in your email address and click Subscribe.
- If you have any questions please contact us on our transmission line at 605-721-2220 or email Transmissionservice@blackhillscorp.com.



Questions





Comments / Suggestions

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