

5. Organizational chart of personnel that includes list of directors, corporate officers, and other key personnel shared by any jurisdictional public utility and any non-utility associate company or holding company, along with a description of each person's duties and responsibilities to each entity, including:

- (a) Board list and description;
- (b) Kansas Officer list and responsibilities; and
- (c) Other key personnel - None (officer list sufficiently identifies key personnel), attached hereto and incorporated herein (requirement and Tab B3);

6. Summaries of each mortgage, loan document and debt agreement attached hereto and incorporated herein (requirement and Tab B4);

7. Income statements, balance sheets, and cash flow statements for (1) consolidated utility operations; (2) consolidated non-regulated operations; (3) consolidated corporate financials:

- (1) Black Hills' income statement and balance sheet; no cash flow statement for Black Hills;

- (2) Financial Statements for consolidated non-regulated operations are not maintained. BHC's Form 10K Annual Report does include operating results for each of the financial segments in the utilities and non-regulated energy business groups, but not full income statements and balance sheets; and

- (3) BHC's income statement, balance sheet, and cash flow statement, attached hereto and incorporated herein (requirement and Tab B5); and

8. If maintained, summary of financial ratios (attachment) for (1) consolidated utility operations; (2) consolidated non-regulated operations; (3) consolidated corporate financials:

- (1) This information is not maintained;

(2) This information is not maintained; and

(3) BHC's financial ratios using calculation set forth in the attachment, attached hereto and incorporated herein (requirement and Tab B6).

9. List of analysts that have recently provided either research updates on BHC or made comments regarding latest earnings is attached hereto and incorporated herein (requirement and Tab C3).

WHEREFORE, Black Hills requests the information provided be accepted by the Commission in compliance with the reporting requirements in the 181 Docket.



Dari Dornan
1102 East 1st Street
Papillion, NE 68046
(402) 221-2288, telephone
(402) 221-2686, facsimile

James G. Flaherty, #11177
ANDERSON & BYRD, LLP
216 S. Hickory ~ P.O. Box 17
Ottawa, Kansas 66067
(785) 242-1234, telephone
(785) 242-1279, facsimile
jflaherty@andersonbyrd.com

Attorneys for Black Hills Energy

VERIFICATION

STATE OF NEBRASKA, COUNTY OF SARPY, ss:

Dari Dornan, of lawful age, being duly sworn upon oath, deposes and says that she is an attorney for the within named applicant, that she has read the above and foregoing Compliance Filing, and the statements contained therein are true.



Dari Dornan

SUBSCRIBED AND SWORN to before me this 30th day of May, 2018.



Notary Public

Appointment/Commission Expires



CERTIFICATE OF SERVICE

I hereby certify that a copy of the above and foregoing was sent via electronic mail this 30th day of May, 2018, addressed to:

Amber Smith
Litigation Counsel
Kansas Corporation Commission
1500 SW Arrowhead Road
Topeka, KS 66604-4027



Dari Dornan

Black Hills Service Company

Cost Allocation Manual

Effective Date: July 14, 2008

Amended: January 1, 2010

Amended: August 1, 2010

Amended: December 1, 2013

Amended: December 1, 2014

Amended: December 1, 2015

Amended: December 1, 2016

Amended: December 1, 2017

Black Hills Service Company Cost Allocation Manual

Table of Contents

Introduction.....	3
Service Company Organization	3
Direct Costs versus Indirect Costs	3
Transaction Coding	5
General Ledger Business Unit (GLBU):.....	5
Operating Unit (OpUnit):.....	6
Department (Dept):	6
Account (Acct).....	7
Resource:.....	7
Product:	7
Work Order:	8
Timekeeping	8
Loadings.....	8
Allocation Factors	9
Changing Allocation Factors	10
Subsidiary Payment for Direct and Indirect Charges	10
Allocating Fixed Assets	11
Appendix 1 – BHSC Departments	12
Appendix 2 – Allocation Factors	18

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Service Company (the Service Company or BHSC), from recording the original transaction through the allocation of costs to Black Hills Corporation subsidiaries. Various topics to be addressed include the organization of the Service Company, the recording of transactions, calculating and assigning allocation factors, and recording allocation transactions.

The Service Company was formed on December 30, 2004, and was fully implemented and operational as of January 1, 2006. The Service Company was formed as required by the Public Utility Holding Company Act of 1935, which was administered by the Securities and Exchange Commission (SEC). Service companies were required of all registered holding companies under this law. Service companies coordinate corporate support functions and distribute costs to registered holding company subsidiaries using pre-defined allocation methodologies that had to be approved by the SEC.

Black Hills Corporation became a registered holding company at the end of 2004, and through a transition period and various amendments to the registered holding company filings, established the date of January 1, 2006 to fully implement the Service Company. In August of 2005, this law was repealed and replaced by the Public Utility Holding Company Act of 2005, which is administered by the Federal Energy Regulatory Commission (FERC). This new law was effective in February of 2006. Although certain administrative and reporting requirements changed as a result of the repeal, Black Hills Corporation did not change its implementation plan.

The Service Company is a wholly owned subsidiary of Black Hills Corporation (the Holding Company or BHC), and is a separate legal entity. The majority of operations and all employees were transferred out of the Holding Company on the effective date of implementation. The only transactions that remain at the Holding Company are transactions pertaining to long-term debt and related deferred finance costs, short-term financing (corporate credit facility and commercial paper program) and related deferred finance costs. In addition, as will be discussed in greater detail later, certain corporate costs are charged directly to the Holding Company. The most notable of these types of costs are corporate development project costs.

Service Company Organization

The Service Company is organized into operating departments based upon the services that those departments provide to Black Hills Corporation subsidiaries. A list of each department, as well as a brief description of the services they provide, is attached as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing Service Company costs is distinguishing between direct and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified subsidiary. This means that it is known exactly to which subsidiary these costs relate. Here are some examples:

- A Payroll Processor is processing the payroll for Black Hills Power. The labor costs incurred in processing payroll are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- An Internal Auditor travels to Denver to complete audits for Colorado Independent Power Production and Colorado Electric. The time associated with completing the audits would be charged to each company based on the time worked for each specific company project. The travel expenses should be split equally or on a pro rata share based on days worked.
- The Human Resources department incurs costs to bring an employment candidate on-site to Gillette for an interview with Wyodak Resources. These travel costs incurred in bringing the employee in for the interview are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- A Help Desk technician orders a replacement computer monitor for an employee at Black Hills Power. This hardware cost incurred is specifically associated with an identified subsidiary. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified subsidiary. This means that the costs indirectly support all companies or directly support the operation of the Service Company. In other words, costs that would be directly charged to the Service Company using the definition and examples above would be classified as indirect costs. Here are some examples:

- The Internal Audit department is completing a BHC consolidated financial statement audit. Since all entities indirectly affect the financial statements of BHC consolidated, this charge would be considered an indirect cost.
- An Environmental representative attends an industry training event. This charge cannot be directly attributable to any specifically identified company; therefore, this charge would be considered an indirect cost.
- A Help Desk technician orders a replacement computer monitor for an employee of the Service Company. This hardware cost incurred is specifically associated with the Service Company. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Whether the costs that are coded to a specific company or group of companies be substantiated; and (2) Whether it be substantiated that a utility-based entity is not subsidizing the operations of non-utility based company with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant Service Company expenses that follow these rules:

Always considered direct costs:

- Capitalized costs for non-BHSC projects (including capitalized labor)
- Corporate development project costs
- Retiree healthcare costs

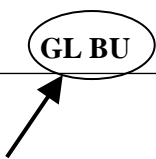
Always considered indirect costs:

- Board of Directors' fees and expenses
- Rapid City office facility rent
- Depreciation of BHSC assets
- Directors' and officers' insurance
- Investor relations expenses
- Shareholder expenses
- Intercompany interest expense and income

Transaction Coding

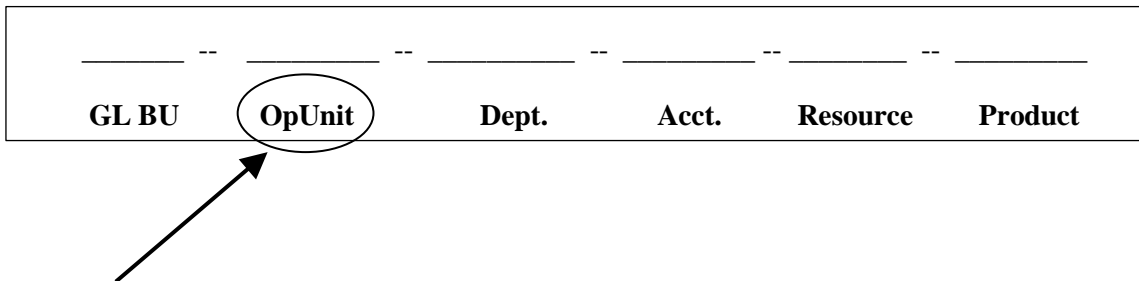
The Service Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct.		Resource		Product

A diagram showing a row of transaction coding fields. The first field, 'GL BU', is circled and has an arrow pointing to it from below. The fields are separated by double dashes '--' and are labeled as OpUnit, Dept., Acct., Resource, and Product.

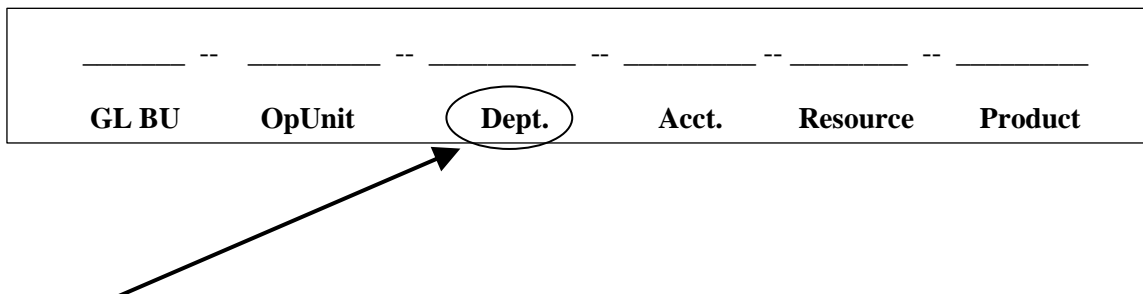
General Ledger Business Unit (GLBU):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions.
- The GLBU field will default based on the operating unit (Op Unit), as described below.



Operating Unit (OpUnit):

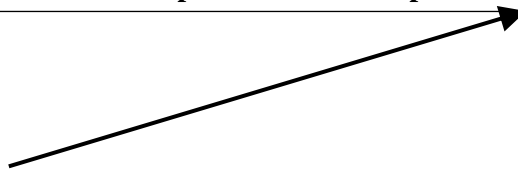
- Six (6) character numeric field.
- The OpUnit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the OpUnit field will be populated using the OpUnit code for the company being directly charged.
- The Op Unit field will be populated using one of the Service Company Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Service Company.



Department (Dept):

- Four (4) character numeric field.
- The Department field is used to identify where the cost(s) originated.
- The Department field is required on all income statement and capital transactions.
- Every Department is assigned to a GLBU.

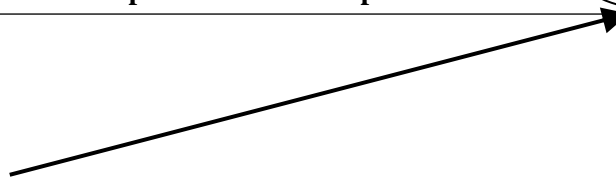
_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct.		Resource		Product



Account (Acct)

- Six (6) character numeric field.
- The Account field is required on all accounting transactions.
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.

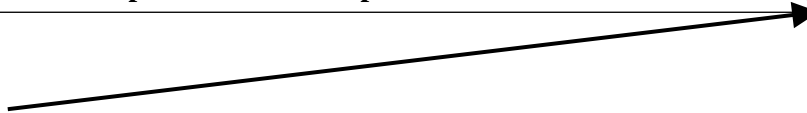
_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product



Resource:

- Four (4) character numeric field.
- A Resource is used to identify types of costs.
- The Resource field is required for all income statement and capital accounting transactions.

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product

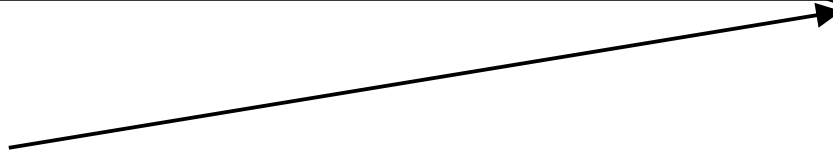


Product:

- Three (3) character numeric field.

- A Product code is used to identify business lines.
- Examples of the product line include electric, gas, coal and non-regulated

_____	--	_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product		Work Order



Work Order:

- Alpha or numeric field.
- Represents the collection of costs to allow the monitoring of a job or group of costs.
- The Work Order field is required on all construction work in progress transactions

Timekeeping

All Service Company employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the code block, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the remainder of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- **Compensated Absences:** including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- **Payroll Taxes:** including but not limited to FICA, FUTA SUTA and city taxes

- Employee Benefits: including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees
- Incentives: including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense

Supplemental loadings:

- Officer short term incentive plans
- Officer supplemental retirement
- Officer performance plan

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, Service Company costs are either directly charged to a subsidiary, or indirectly allocated when the cost is not associated with a specific subsidiary. Indirect costs are allocated using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio is selected based on the specific cost driver of that department. For instance, the expenses incurred by a Human Resources department are primarily related to their support of all company employees. In this example, the cost driver for the Human Resources department indirect costs is employees. Therefore, their indirect costs will be allocated based upon the Employee Ratio.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used, which is referred to as the Blended Ratio. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These factors were chosen to be included in the Blended Ratio because they best allocate costs based on the diverse nature of BHC operations.

In addition, some departments utilize a Holding Company Blended Ratio. The difference between the Blended Ratio and the Holding Company Blended Ratio is that the Holding Company Blended Ratio allocates a percentage of costs to BHC Holding Company. For example, the Corporate Governance department will allocate indirect costs using the Holding Company Blended Ratio because certain costs incurred, such as New York Stock Exchange fees and Board of Directors costs, relate to both the Holding Company and the subsidiary companies.

One additional item to note is that pooled benefits, primarily health care costs, are allocated differently due to the pooling method for benefits such as self-insured health care. BHC has chosen to pool certain benefit costs and spread the risk amongst all subsidiaries equally. All pooled benefit

costs of BHC are paid by the Service Company and allocated to subsidiaries based on employee counts.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the trailing twelve months ending September 30th for prior year. Assets, utility assets, employee counts, and power generation capacity are based on values as of previous period ending September 30th. Gross margin, utility gross margin, payroll dollars, and utility payroll dollars are based on values for the trailing twelve months ending September 30th.

Certain events may occur during the year that are deemed to be significant to BHC that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of the Service Company to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Subsidiary companies would see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of the Service Company to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to the Service Company by the end of the following month. The Service Company will monitor

payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

The Service Company maintains certain fixed assets that are used by and benefit multiple BHC subsidiaries. These fixed assets primarily consist of computer hardware and software that form the corporate-wide information technology network. Because these fixed assets support multiple BHC subsidiaries, they are allocated to the appropriate subsidiaries monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so that they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used for fixed assets and accumulated depreciation is the Blended Ratio, except as otherwise noted. Depreciation expense is also allocated using the Blended Ratio.

Appendix 1 – BHSC Departments

The following departments are included in BHSC as of 01/01/2017 and are subject to changes as required to support evolving business requirements.

SC-ACCOUNTING SYSTEMS (4700)

Description: Maintains the corporate- wide accounting systems of Black Hills Corporation, most notably the general ledger and financial statement preparation systems. (Blended)

SC-CORP DEVELOPMENT (4702)

Description: Facilitates the development of the corporate strategy, prepares strategic plans, and evaluates potential business opportunities. Department also assists various subsidiaries with financial analysis and special projects. (HoldCo Blended)

SC-CORP GOV AND SHAREHOLDER SERV (4703)

Description: Develops and enforces corporate governance policies and procedures in accordance with applicable laws and regulations. Provides oversight of compliance with Securities and Exchange Commission rules and regulations. Oversees the administrative duties to the Board of Directors. Provides various recordkeeping and administrative services related to shareholder services. Assists in the administration of equity-based compensation plans. (HoldCo Blended)

SC-TAX (4704)

Description: Prepares quarterly and annual tax provisions of all Black Hills Corporation subsidiaries. Maintains and reconciles all current and deferred income tax general ledger accounts. Prepares tax filings and ensures compliance with applicable laws and regulations. Oversees various tax planning projects. (Blended)

SC-CREDIT AND RISK (4705)

Description: Provides risk management, risk evaluation, and risk analysis services. Provides support to the Executive Risk Committee. Evaluates contract risks. (Blended)

SC-LEGAL - CORPORATE (4706)

Description: Provides legal counsel and services related to general business operations, including labor and employment law, finance, litigation, contracts, utility rates and regulation, financial reporting, Securities and Exchange Commission, Federal Energy Regulatory Commission and other state and federal compliance, environmental matters, real estate and other legal matters. Oversees the hiring and administration of external counsel. Provides legal support to various corporate development projects. Facilitates physical risk management strategies through the

purchase and evaluation of various types of insurance coverage. Provides claims management services. (Blended)

SC-ENVIRONMENTAL SERVICES (4709)

Description: Establishes policies and procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Oversees environmental clean-up projects. Obtains permits to support the business operations of Black Hills Corporation and its subsidiaries. (Asset Cost)

SC-EXECUTIVE MGMT (4710)

Description: Provides overall oversight of Black Hills Corporation and its subsidiaries. Provides the Board of Directors information for decision making purposes. (HoldCo Blended)

SC-SAFETY (4711)

Description: Develops and implements safety planning activities and provides employee safety education. Administers the corporate safety program. Assists with compliance with DOT, OSHA, and MSHA regulations. (Employee)

SC-FINANCE AND TREASURY (4712)

Description: Coordinates activities related to securities issuance, including maintaining relationships with financial institutions, debt holders, rating agencies, equity analysts and equity investors. Performs accounting, cash management, debt compliance, and investing activities. Monitors capital markets to support financial planning for all subsidiaries. Performs the accounting for the corporate pension plan..(HoldCo Blended)

SC-F&A LEADERSHIP (4715)

Description: Provides management and administrative support for accounting and finance functions of the Company's regulated and non-regulated businesses including external audit coordination. Oversees the corporate consolidation of subsidiary financial statements. Prepares monthly internal financial reports for management. Prepares quarterly and annual financial reports to the Securities and Exchange Commission, financial statements to banks and quarterly and annual financial statements filed with FERC. Researches emerging accounting issues and assists with the compliance of new accounting rules and regulations. (Blended)

SC-CORPORATE ACCOUNTING (4716)

Description: Responsible for closing the general ledger for the Company's regulated and non-regulated businesses (excluding WRDC) on a monthly basis and assists in the compliance of all accounting rules and regulations. Analyzes balance sheet accounts and assists the financial management team with monthly analysis. Maintains the accounting records for Black Hills

Service Company and Black Hills Corporation. Provides oversight of the Accounts Payable and Property Accounting departments. Processes payments to vendors and prepares 1099s and applicable documentation for the majority of Black Hills Corporation subsidiaries. (Blended)

SC-FINANCIAL MANAGEMENT (4717)

Description: Provides financial management to the Company's regulated and non-regulated businesses. Oversees the accumulation of subsidiary financial budgets and forecasts. Provides the consolidation of the corporate wide-budget and forecast. Guides the preparation of strategic plans. (Blended)

SC-HUMAN RESOURCES (4720)

Description: Provides general Human Resources support services to the subsidiaries through the administration of policies and labor contracts for all facets of Human Resources, including employee relations, labor relations, talent management, recruiting and employment staffing, compensation and benefits administration. Processes payroll including but not limited to time reporting, calculation of salaries and wages, payroll tax reporting and compliance reports for Black Hills Corporation and its subsidiaries. Oversees the administration of the corporate pensions and 401(k) plans. (Employee)

SC-COMPENSATION AND BENEFITS (4721)

Description: Administers policies related to compensation and benefits. Oversees the self-insured medical benefits plans and other pooled benefits and provides support to the third party administrators of the plans. (Employee)

SC-ORGANIZATIONAL DEVELOPMENT AND TRAINING (4722)

Description: Provides for employee and leadership development, succession planning, performance management, goal alignment, employee engagement, strategic workforce planning, talent assessment and general HR support for Black Hills Corporation and its subsidiaries. (Employee)

SC-INTERNAL AUDIT (4725)

Description: Reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Oversees the Sarbanes Oxley compliance efforts. (Blended)

SC-IN-HOUSE CORPORATE SOLUTIONS (4726)

Description: Develops strategies and implements programs for effective communication with internal and external stakeholders. Develops and manages measured, and coordinated

advertising. Designs and develops communication strategies and materials for the company. (Blended)

SC-POWER DELIVERY MGMT (4728)

Description: Performs resource planning, power delivery management, strategic planning, and construction management for the corporation's power generation assets. (Generation Capacity)

SC-PROPERTY ACCOUNTING (4729)

Description: Maintains the accounting records for property, plant and equipment for the majority of subsidiaries of the corporation. Assists in compliance with regulatory accounting requirements as it relates to property. Prepares various operating and financial reports for management. (Asset Cost)

SC-RECORDS MGMT (4730)

Description: Administers and maintains the records retention policies and procedures of the corporation. Manages and maintains the content management software. (Blended)

SC-SUPPLY CHAIN MGMT (4731)

Description: Manages contracts, including drafting, negotiating, reviewing and interpreting contracts. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. Manages inventory, obsolescence and scrap. Ensure availability of proper materials. (Blended)

SC-SUPPLY CHAIN (4732)

Description: Manages contracts, including drafting, negotiating, reviewing and interpreting contracts. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. Manages inventory, obsolescence and scrap. Ensure availability of proper materials. Pull, restock and stage materials. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. (Blended)

SC-FLEET SERV (4734)

Description: Manages fleet expense cards, fleet contracts, vehicle purchasing, replacement, disposal, licensing/registration and titling. Advises on vehicle maintenance and repairs, alternative fuel selections and implementations. (Blended)

SC-FACILITIES (4736)

Description: Provides facility, construction, and real estate management services for corporate-wide facilities. Supports disaster recovery and business continuation planning. (Blended)

SC-GOVERNMENTAL AFFAIRS (4741)

Description: Advances corporate objectives by initiating, influencing, monitoring, and researching government legislation and policies. Acts as a liaison with legislators and other governmental officials. Maintains relationships with federal, state and other governmental bodies. (Blended)

SC-IT ADMINISTRATION (4742)

Description: Provides guidance, governance, and strategic planning to the overall information technology operations. (Blended)

SC-IT BUSINESS APPLICATIONS-FIN&HR SYSTEMS (4743)

Description: Manages, maintains, and enhances the finance, human resource, web-based service and enterprise wide business applications. (Blended)

SC-IT BUSINESS APPLICATIONS-CUSTOMER SYSTEMS (4744)

Description: Manages, maintains, and enhances business applications within the utility companies. (Blended)

SC-IT BUSINESS APPLICATIONS-WEB & ECM (4745)

Description: Manages, maintains, and enhances the web-based and ECM service business applications of the company. (Blended)

SC-IT BUSINESS APPLICATIONS-UTILITY SYSTEMS (4746)

Description: Manages, maintains, and enhances the wholesale and utility business applications of the company. (Blended)

SC-IT INFRASTRUCTURE (4747)

Description: Manages, maintains, and enhances data center operations, infrastructure servers, storage, system software, enterprise architecture and corporate databases. Supports the data and voice communication needs for the company and provides telecommunication expense management services as well as technology support services and field service support for the company. Provides IT telephone support, technology training and technology integration services. (Blended)

SC-IT COMPLIANCE (4751)

Description: Responsible for internal and external audit compliance, disaster recovery, change management and legal compliance related to technology. (Blended)

SC-GENERATION PLANT OPERATIONS (4754)

Description: Operates and manages the generation for BHCOE and BHCIPP. (NamePlate Generation Capacity)

SC-IT BUSINESS APPLICATIONS - PMO (4755)

Description: The Project Management Office (“PMO”) provides IT project management services. (Blended)

SC-CPGS PLANT OPERATIONS (4756)

Description: Operates and manages the new generation for the Cheyenne Prairie Generation Station. (NamePlate Generation Capacity)

SC – ASSET BLENDED (4793)

Description: Records depreciation for the Service Company assets. (Blended)

SC-BENEFIT POOLED (4794)

Description: Records pooled benefit costs, primarily related to health and welfare for Black Hills Corporation and its subsidiaries. (Employee)

SC-ACCOUNTING ACCRUAL ENTRIES (4795)

Description: Records accrual of certain charges not related to specific departments or not significant enough to allocate to each department. (Blended)

SC-BENEFITS LOADING (4796)

Description: Records overhead benefit costs loaded to labor costs (Blended)

CATCH-ALL

Description: Departments at Black Hills Corporation and subsidiaries that are not specifically listed in the Cost Allocation Manual or included in the master allocation design that charge BHSC will be allocated using the Blended Allocation Ratio.

Appendix 2 – Allocation Ratios

Asset Cost Ratio – Based on the net cost of assets as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

The Environmental Services and Property Accounting departments utilize this ratio, and it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the trailing twelve months ending September 30th, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Payroll Dollars Ratio – Based on the total payroll dollars for the trailing twelve months ending September 30th, the numerator of which is the direct payroll charges from all BHC subsidiaries charging the applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums over \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted. This ratio is sometimes referred to as the general allocation ratio.

Departments that utilize this ratio include Accounting Systems, Tax, Credit and Risk, F&A Leadership, Internal Audit, Legal, Corporate Accounting, In-House Corporate Solutions, Records Management, Supply Chain Management, Supply Chain, Fleet Services, Facilities, Governmental Affairs, Information Technology Administration, Information Technology Business Applications Information Technology Infrastructure, Information Technology Compliance, Information Technology Helpdesk / Technology Integration, Assets Blended, Accounting Accruals, Benefits and BHSC portion of the Rapid City Plant Street Facility, Midlands Data Facility and Cheyenne Data Center Facility.

Holding Company Blended Ratio – 5% of costs allocated to the Holding Company, with the remaining 95% of costs allocated using a composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted.

Departments that utilize this ratio include Corporate Development, Corporate Governance and Shareholder Services, Executive Management, Finance and Treasury and .

Employee Ratio – Based on the number of employees as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

Departments that utilize this ratio include Safety, Human Resources, Compensation and Benefits, and Organizational Development and Training. Health and welfare costs for BHC will be in a pool and allocated to subsidiaries based on the Employee Ratio.

Power Generation Capacity Ratio – Based on the total power generation capacity as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Power generation includes capacity in service and capacity under construction.

Departments that use this ratio include Power Delivery Management.

Nameplate Generation Capacity Ratio – Based on the total facility's power generation capacity at the end of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Nameplate generation includes capacity in service and capacity under construction at the facility.

The Generation Plant Operations and CPGS Plant Operations departments utilize this ratio.

Square Footage Ratio – The total square footage of a given facility, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

The Rapid City office facility, Fayetteville and Denver Office Facilities utilize this ratio.

Black Hills Service Company

Cost Allocation Manual

Effective Date: July 14, 2008

Amended: January 1, 2010

Amended: August 1, 2010

Amended: December 1, 2013

Amended: December 1, 2014

Amended: December 1, 2015

Amended: December 1, 2016

Amended: December 1, 2017

Black Hills Service Company Cost Allocation Manual

Table of Contents

Introduction.....	3
Service Company Organization	3
Direct Costs versus Indirect Costs	4
Transaction Coding	5
General Ledger Business Unit (GLBU):.....	5
Operating Unit (OpUnit):.....	6
Department (Dept):	6
Account (Acct).....	7
Resource:.....	7
Product:	7
Work Order:	8
Timekeeping	8
Loadings.....	8
Allocation Factors	9
Changing Allocation Factors	10
Subsidiary Payment for Direct and Indirect Charges	10
Allocating Fixed Assets	11
Appendix 1 – BHSC Departments	12
Appendix 2 – Allocation Factors	1824

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Service Company (the Service Company), from recording the original transaction through the allocation of costs to Black Hills Corporation subsidiaries. Various topics to be addressed include the organization of the Service Company, the recording of transactions, calculating and assigning allocation factors, and recording allocation transactions.

~~Black Hills The Service Company (the Service Company)~~ was formed on December 30, 2004, and was fully implemented and operational as of January 1, 2006. The Service Company was formed as required by the Public Utility Holding Company Act of 1935, which was administered by the Securities and Exchange Commission (SEC). Service companies were required of all registered holding companies under this law. Service companies coordinate corporate support functions and distribute costs to registered holding company subsidiaries using pre-defined allocation methodologies that had to be approved by the SEC.

Black Hills Corporation became a registered holding company at the end of 2004, and through a transition period and various amendments to the registered holding company filings, established the date of January 1, 2006 to fully implement the Service Company. In August of 2005, this law was repealed and replaced by the Public Utility Holding Company Act of 2005, which is administered by the Federal Energy Regulatory Commission (FERC). This new law was effective in February of 2006. Although certain administrative and reporting requirements changed as a result of the repeal, Black Hills Corporation did not change its implementation plan.

The Service Company is a wholly owned subsidiary of Black Hills Corporation (the Holding Company or BHC), and is a separate legal entity. The majority of operations and all employees were transferred out of the Holding Company on the effective date of implementation. The only transactions that remain at the Holding Company are transactions pertaining to long-term debt and related deferred finance costs, short-term financing (corporate credit facility and commercial paper program) and related deferred finance costs, and the administration of money pool transactions for both the utility money pool and the non-utility money pool. In addition, as will be discussed in greater detail later, certain corporate costs are charged directly to the Holding Company. The most notable of these types of costs are corporate development project costs.

Commented [WJ1]: The administration of the pool actually occurs at SC. See Money Pool Agreements, SC is named as administrator. Recommend removing this statement from the sentence.

Commented [RB2]: removed

Service Company Organization

The Service Company is organized into operating departments based upon the services that those departments provide to Black Hills Corporation subsidiaries. A list of each department, as well as a brief description of the services they provide, is attached as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing Service Company costs is distinguishing between direct ~~costs~~ and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified subsidiary. This means that it is known exactly to which subsidiary these costs relate. Here are some examples:

- A Payroll Processor is processing the payroll for Black Hills Power. The labor costs incurred in processing payroll are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- An Internal Auditor travels to Denver to complete audits for Colorado Independent Power Production ~~and Colorado Electric and Black Hills Exploration and Production~~. The time associated with completing the audits would be charged to each company based on the time worked for each specific company project. The travel expenses should be split equally or on a pro rata share based on days worked.
- The Human Resources department incurs costs to bring an employment candidate on-site to Gillette for an interview with Wyodak Resources. These travel costs incurred in bringing the employee in for the interview are specifically associated with an identified subsidiary. Therefore, this would be a direct cost.
- A Help Desk technician orders a replacement computer monitor for an employee at Black Hills Power. This hardware cost incurred is specifically associated with an identified subsidiary. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified subsidiary. This means that the costs indirectly support all companies or directly support the operation of the Service Company. In other words, costs that would be directly charged to the Service Company using the definition and examples above would be classified as indirect costs. Here are some examples:

- The Internal Audit department is completing a BHC consolidated financial statement audit. Since all entities indirectly affect the financial statements of BHC consolidated, this charge would be considered an indirect cost.
- An Environmental representative attends an industry training event. This charge cannot be directly attributable to any specifically identified company; therefore, this charge would be considered an indirect cost.
- A Help Desk technician orders a replacement computer monitor for an employee of the Service Company. This hardware cost incurred is specifically associated with the Service Company. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Can the costs that are coded to a specific company or group of companies be substantiated; and (2) Can it be substantiated that a utility-based entity is not subsidizing the operations of non-utility based company with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant Service Company expenses that follow these rules:

Always considered direct costs:

- Capitalized costs for non-BHSC Service Company projects (including capitalized labor)
- Corporate development project costs
- Retiree healthcare costs


Always considered indirect costs:

- Board of Directors' fees and expenses
- General Office Corporate Headquarters Rapid City Horizon Point rent
- Depreciation of Service Company BHSC assets
- Directors' and officers' insurance
- Investor relations expenses
- Shareholder expenses
- Intercompany interest expense and income

Transaction Coding

The Service Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.

GL BU	OpUnit	Dept.	Acct.	Resource	Product
-------	--------	-------	-------	----------	---------



General Ledger Business Unit (GLBU):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions.
- The GLBU field will default based on the operating unit (Op Unit), as described below.

GL BU	OpUnit	Dept.	Acct.	Resource	Product
-------	--------	-------	-------	----------	---------



Operating Unit (OpUnit):

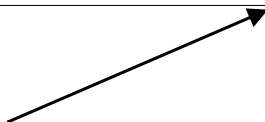
- Six (6) character numeric field.
- The OpUnit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the OpUnit field will be populated using the OpUnit code for the company being directly charged.
- The Op Unit field will be populated using one of the [BHUIH-Service Company](#) Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the [Utility Holding Company-Service Company](#).

Formatted: Font: 12 pt

Formatted: Font: 12 pt

Formatted: Font: 12 pt

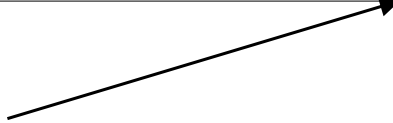
GL BU	OpUnit	Dept.	Acct.	Resource	Product
-------	--------	-------	-------	----------	---------



Department (Dept):

- Four (4) character numeric field.
- The Department field is used to identify where the cost(s) originated.
- The Department field is required on all income statement and capital transactions.
- Every Department is assigned to a GLBU.

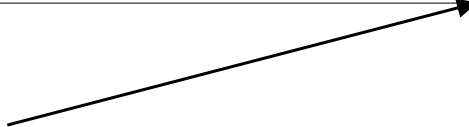
____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct.		Resource		Product



Account (Acct)

- Six (6) character numeric field.
- The Account field is required on all accounting transactions.
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.

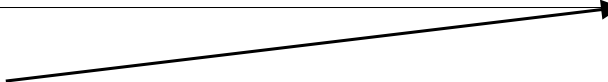
____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct		Resource		Product



Resource:

- Four (4) character numeric field.
- A Resource is used to identify types of costs.
- The Resource field is required for all income statement and capital accounting transactions.

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct		Resource		Product



Product:

- Three (3) character numeric field.

- A Product code is used to identify business lines.
- Examples of the product line include electric, gas, coal and non-regulated

GL BU	OpUnit	Dept.	Acct	Resource	Product	Work Order
-------	--------	-------	------	----------	---------	------------

Work Order:

- Alpha or numeric field.
- Represents the collection of costs to allow the monitoring of a job or group of costs.
- The Work Order field is required on all construction work in progress transactions

Timekeeping

All Service Company employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the code block, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the remainder of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- **Compensated Absences:** including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- **Payroll Taxes:** including but not limited to FICA, FUTA SUTA and city taxes

- Employee Benefits: including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees ~~and Pension audit fees~~
- Incentives: including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense

Supplemental loadings:

- Officer short term incentive plans
- Officer supplemental retirement
- Officer performance plan

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, Service Company costs are either directly charged to a subsidiary, or indirectly allocated when the cost is not associated with a specific subsidiary. Indirect costs are allocated using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio is selected based on the specific cost driver of that department. For instance, the expenses incurred by a Human Resources department are primarily related to their support of all company employees. In this example, the cost driver for the Human Resources department indirect costs is employees. Therefore, their indirect costs will be allocated based upon the Employee Ratio.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used, which is referred to as the Blended Ratio. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These factors were chosen to be included in the Blended Ratio because they best allocate costs based on the diverse nature of BHC operations.

In addition, some departments utilize a Holding Company Blended Ratio. The difference between the Blended Ratio and the Holding Company Blended Ratio is that the Holding Company Blended Ratio allocates a percentage of costs to BHC Holding Company. For example, the Corporate Governance department will allocate indirect costs using the Holding Company Blended Ratio because certain costs incurred, such as New York Stock Exchange fees and Board of Directors costs, relate to both the Holding Company and the subsidiary companies.

One additional item to note is that pooled benefits, primarily health care costs, are allocated differently due to the pooling method for benefits such as self-insured health care. ~~BHC~~~~Black Hills Corporation~~ has chosen to pool certain benefit costs and spread the risk amongst all

subsidiaries equally. All pooled benefit costs of BHC are paid by the Service Company and allocated to subsidiaries based on employee counts.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the trailing twelve months ending September 30th for prior year. Assets, utility assets, employee counts, and power generation capacity are based on values as of previous period ending September 30th. Gross margin, utility gross margin, payroll dollars, and utility payroll dollars are based on values for the trailing twelve months ending September 30th.

Certain events may occur during the year that are deemed to be significant to ~~BHC~~[Black Hills Corporation](#) that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, [discontinued operations](#), divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of the Service Company to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Subsidiary companies would see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of the Service Company to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to the Service Company by the end of the following month. The Service Company will monitor

payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

The Service Company maintains certain fixed assets that are used by and benefit multiple ~~Black Hills Corporation~~BHC subsidiaries. These fixed assets primarily consist of computer hardware and software that form the corporate-wide information technology network. Because these fixed assets support multiple ~~Black Hills Corporation~~BHC subsidiaries, they are allocated to the appropriate subsidiaries monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so that they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used for fixed assets and accumulated depreciation is the Blended Ratio, except as otherwise noted. Depreciation expense is also allocated using the Blended Ratio.

Appendix 1 – BHSC Departments

The following departments are included in BHSC as of 01/01/2017 and are subject to changes as required to support evolving business requirements.

SC-ACCOUNTING SYSTEMS (4700)

Description: Maintains the corporate- wide accounting systems of Black Hills Corporation, most notably the general ledger and financial statement preparation systems. (Blended)

SC-CORP DEVELOPMENT (4702)

Description: Facilitates the development of the corporate strategy, prepares strategic plans, and evaluates potential business opportunities. Department also assists various subsidiaries with financial analysis and special projects. (HoldCo Blended)

SC-CORP GOV AND SHAREHOLDER SERV (4703)

Description: Develops and enforces corporate governance policies and procedures in accordance with applicable laws and regulations. Provides oversight of compliance with Securities and Exchange Commission rules and regulations. Oversees the administrative duties to the Board of Directors. Provides various recordkeeping and administrative services related to shareholder services. Assists in the administration of equity-based compensation plans. (HoldCo Blended)

SC-TAX (4704)

Description: Prepares quarterly and annual tax provisions of all Black Hills Corporation subsidiaries. Maintains and reconciles all current and deferred income tax general ledger accounts. Prepares tax filings and ensures compliance with applicable laws and regulations. Oversees various tax planning projects. (Blended)

SC-CREDIT AND RISK (4705)

Description: Provides risk management, risk evaluation, and risk analysis services. Provides support to the Executive Risk Committee. Evaluates contract risks. (Blended)

SC-LEGAL - CORPORATE (4706)

Description: Provides legal counsel and services related to general business operations, including labor and employment law, finance, litigation, contracts, utility rates and regulation, financial reporting, Securities and Exchange Commission, Federal Energy Regulatory Commission and other state and federal compliance, environmental matters, real estate and other legal matters. Oversees the hiring and administration of external counsel. Provides legal support to various corporate development projects. Facilitates physical risk management strategies through the

purchase and evaluation of various types of insurance coverage. Provides claims management services. (Blended)

SC-ENVIRONMENTAL SERVICES (4709)

Description: Establishes policies and procedures for compliance with environmental laws and regulations. Researches emerging environmental issues and monitors compliance with environmental requirements. Oversees environmental clean-up projects. Obtains permits to support the business operations of Black Hills Corporation and its subsidiaries. (Asset Cost)

SC-EXECUTIVE MGMT (4710)

Description: Provides overall oversight of Black Hills Corporation and its subsidiaries. Provides the Board of Directors information for decision making purposes. (HoldCo Blended)

SC-SAFETY (4711)

Description: Develops and implements safety planning activities and provides employee safety education. Administers the corporate safety program. Assists with compliance with DOT, OSHA, and MSHA regulations. (Employee)

SC-FINANCE AND TREASURY (4712)

Description: Coordinates activities related to securities issuance, including maintaining relationships with financial institutions, debt holders, rating agencies, equity analysts and equity investors. Performs accounting, cash management, debt compliance, and investing activities. Monitors capital markets to support financial planning for all subsidiaries. Oversees the administration of corporate pension and 401(k) plans. (HoldCo Blended)

Commented [MM3]: which dept is overseeing these now, we should include it somewhere.

SC-F&A LEADERSHIP (4715)

Description: Provides management and administrative support for accounting and finance functions of the Company's regulated and non-regulated businesses including external audit coordination. Oversees the corporate consolidation of subsidiary financial statements. Prepares monthly internal financial reports for management. Prepares quarterly and annual financial reports to the Securities and Exchange Commission, financial statements to banks and quarterly and annual financial statements filed with FERC. Researches emerging accounting issues and assists with the compliance of new accounting rules and regulations. (Blended)

SC-CORPORATE ACCOUNTING (4716)

Description: Responsible for closing the general ledger for the Company's regulated and non-regulated businesses (excluding BHEP and WRDC) on a monthly basis and assists in the compliance of all accounting rules and regulations. Analyzes balance sheet accounts and assists the financial management team with monthly analysis. Maintains the accounting records for

Black Hills Service Company and Black Hills Corporation. Provides oversight of the Accounts Payable and Property Accounting departments. Processes payments to vendors and prepares 1099s and applicable documentation for the majority of Black Hills Corporation subsidiaries. (Blended)

SC-FINANCIAL MANAGEMENT (4717)

Description: Provides financial management to the Company's regulated and non-regulated businesses ~~(excluding BHEP)~~. Oversees the accumulation of subsidiary financial budgets and forecasts. Provides the consolidation of the corporate wide—budget and forecast. Guides the preparation of strategic plans. (Blended)

SC-HUMAN RESOURCES (4720)

Description: Provides general Human Resources support services to the subsidiaries through the administration of policies and labor contracts for all facets of Human Resources, including employee relations, labor relations, talent management, recruiting and employment staffing, compensation and benefits administration. Processes payroll including but not limited to time reporting, calculation of salaries and wages, payroll tax reporting and compliance reports for Black Hills Corporation and its subsidiaries. (Employee)

SC-COMPENSATION AND BENEFITS (4721)

Description: Administers policies related to compensation and benefits. Oversees the self-insured medical benefits plans and other pooled benefits and provides support to the third party administrators of the plans. (Employee)

SC-ORGANIZATIONAL DEVELOPMENT AND TRAINING (4722)

Description: Provides for employee and leadership development, succession planning, performance management, goal alignment, employee engagement, strategic workforce planning, talent assessment and general HR support for Black Hills Corporation and its subsidiaries. (Employee)

SC-INTERNAL AUDIT (4725)

Description: Reviews internal controls and procedures to ensure assets are safeguarded and transactions are properly authorized and recorded. Oversees the Sarbanes Oxley compliance efforts. (Blended)

SC-IN-HOUSE CORPORATE SOLUTIONS (4726)

Description: Develops strategies and implements programs for effective communication with internal and external stakeholders. Develops and manages measured, and coordinated

advertising. Designs and develops communication strategies and materials for the company. (Blended)

SC-POWER DELIVERY MGMT (4728)

Description: Performs resource planning, power delivery management, strategic planning, and construction management for the corporation's power generation assets. (Generation Capacity)

SC-PROPERTY ACCOUNTING (4729)

Description: Maintains the accounting records for property, plant and equipment for the majority of subsidiaries of the corporation. Assists in compliance with regulatory accounting requirements as it relates to property. Prepares various operating and financial reports for management. (Asset Cost)

SC-RECORDS MGMT (4730)

Description: Administers and maintains the records retention policies and procedures of the corporation. Manages and maintains the content management software. (Blended)

SC-SUPPLY CHAIN MGMT (4731)

Description: Manages contracts, including drafting, negotiating, reviewing and interpreting contracts. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. Manages inventory, obsolescence and scrap. Ensure availability of proper materials. (Blended)

SC-SUPPLY CHAIN (4732)

Description: Manages contracts, including drafting, negotiating, reviewing and interpreting contracts. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. Manages inventory, obsolescence and scrap. Ensure availability of proper materials. Pull, restock and stage materials. Executes the procurement process including, purchasing activities, managing vendor relationships, and issue resolution and tracking and expediting orders. (Blended)

SC-FLEET SERV (4734)

Description: Manages fleet expense cards, fleet contracts, vehicle purchasing, replacement, disposal, licensing/registration and titling. Advises on vehicle maintenance and repairs, alternative fuel selections and implementations. (Blended)

SC-FACILITIES (4736)

Description: Provides facility, construction, and real estate management services for corporate-wide facilities. Supports disaster recovery and business continuation planning. (Blended)

SC-GOVERNMENTAL AFFAIRS (4741)

Description: Advances corporate objectives by initiating, influencing, monitoring, and researching government legislation and policies. Acts as a liaison with legislators and other governmental officials. Maintains relationships with federal, state and other governmental bodies. (Blended)

SC-IT ADMINISTRATION (4742)

Description: Provides guidance, governance, and strategic planning to the overall information technology operations. (Blended)

SC-IT BUSINESS APPLICATIONS-FIN&HR SYSTEMS (4743)

Description: Manages, maintains, and enhances the finance, human resource, web-based service and enterprise wide business applications. (Blended)

SC-IT BUSINESS APPLICATIONS-CUSTOMER SYSTEMS (4744)

Description: Manages, maintains, and enhances business applications within the utility companies. (Blended)

SC-IT BUSINESS APPLICATIONS-WEB & ECM (4745)

Description: Manages, maintains, and enhances the web-based and ECM service business applications of the company. (Blended)

SC-IT BUSINESS APPLICATIONS-UTILITY SYSTEMS (4746)

Description: Manages, maintains, and enhances the wholesale and utility business applications of the company. (Blended)

SC-IT INFRASTRUCTURE (4747)

Description: Manages, maintains, and enhances data center operations, infrastructure servers, storage, system software, enterprise architecture and corporate databases. Supports the data and voice communication needs for the company and provides telecommunication expense management services as well as technology support services and field service support for the company. (Blended)

SC-IT COMPLIANCE (4751)

Description: Responsible for internal and external audit compliance, disaster recovery, change management and legal compliance related to technology. (Blended)

SC-GENERATION PLANT OPERATIONS (4754)

Description: Operates and manages the generation for BHCOE and BHCIPP. (NamePlate Generation Capacity)

SC-IT ~~HELPDESK / TECHNOLOGY INTEGRATION~~ BUSINESS APPLICATIONS - PMO (4755)

Description: Provides IT telephone support, technology training and technology integration services. (Blended)

SC-CPGS PLANT OPERATIONS (4756)

Description: Operates and manages the new generation for the Cheyenne Prairie Generation Station. (NamePlate Generation Capacity)

SC – ASSET BLENDED (4793)

Description: Records depreciation for the Service Company assets. (Blended)

SC-BENEFIT POOLED (4794)

Description: Records pooled benefit costs, primarily related to health and welfare for Black Hills Corporation and its subsidiaries. (Employee)

SC-ACCOUNTING ACCRUAL ENTRIES (4795)

Description: Records accrual of certain charges not related to specific departments or not significant enough to allocate to each department. (Blended)

SC-BENEFITS LOADING (4796)

Description: Records overhead benefit costs loaded to labor costs (Blended)

CATCH-ALL

Description: Departments at Black Hills Corporation and subsidiaries that are not specifically listed in the Cost Allocation Manual ~~CAM~~ or included in the master allocation design that charge BHSC will be allocated using the Blended Allocation Ratio.

Appendix 2 – Allocation Ratios

Asset Cost Ratio – Based on the net cost of assets as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

The Environmental Services and Property Accounting departments utilize this ratio, and it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the trailing twelve months ending September 30th, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Payroll Dollars Ratio – Based on the total payroll dollars for the trailing twelve months ending September 30th, the numerator of which is the direct payroll charges from all BHC subsidiaries charging the applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums over \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio and the Holding Company Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted. This ratio is sometimes referred to as the general allocation ratio.

Departments that utilize this ratio include Accounting Systems, Tax, Credit and Risk, F&A Leadership, Internal Audit, Legal, Corporate Accounting, In-House Corporate Solutions, Records Management, Supply Chain Management, Supply Chain, Fleet Services, Facilities, Governmental Affairs, Information Technology Administration, Information Technology Business Applications Information Technology Infrastructure, Information Technology Compliance, Information Technology Helpdesk / Technology Integration, Assets Blended, Accounting Accruals, Benefits and BHSC portion of the Rapid City Plant Street Facility, Midlands Data Facility and Cheyenne Data Center Facility.

Holding Company Blended Ratio – 5% of costs allocated to the Holding Company, with the remaining 95% of costs allocated using a composite ratio comprised of an average of the Asset

Cost Ratio, the Payroll Dollars Ratio, and the Gross Margin Ratio. These ratios are equally weighted.

Departments that utilize this ratio include Corporate Development, Corporate Governance and Shareholder Services, Executive Management, Finance and Treasury and .

Employee Ratio – Based on the number of employees as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

Departments that utilize this ratio include Safety, Human Resources, Compensation and Benefits, and Organizational Development and Training. Health and welfare costs for BHC will be in a pool and allocated to subsidiaries based on the Employee Ratio.

Power Generation Capacity Ratio – Based on the total power generation capacity as of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Power generation includes capacity in service and capacity under construction.

Departments that use this ratio include Power Delivery Management .

Nameplate Generation Capacity Ratio – Based on the total facility's power generation capacity at the end of September 30th for the prior year, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries. Nameplate generation includes capacity in service and capacity under construction at the facility.

The Generation Plant Operations and CPGS Plant Operations departments utilize this ratio.

Square Footage Ratio – The total square footage of a given facility, the numerator of which is for an applicable BHC subsidiary and the denominator of which is for all applicable BHC subsidiaries.

The Corporate Headquarters Rapid City, Rapid City Plant Street Facility, Baken Park Facility, Fayetteville and ~~the~~ Denver Office Facilities utilize this ratio.

Commented [MM4]: I would recommend the reference be Corporate Headquarters in Rapid City (for all HP references)

Black Hills Utility Holdings, Inc.

Cost Allocation Manual

Effective Date: July 14, 2008

Amended: August 1, 2009

Amended: January 1, 2011

Amended: January 1, 2012

Amended: January 1, 2013

Amended: December 1, 2013

Amended: December 1, 2014

Amended: December 1, 2015

Amended: February 12, 2016

Amended: December 1, 2016

Amended: December 1, 2017

Black Hills Utility Holdings, Inc. Cost Allocation Manual

Table of Contents

Introduction.....	4
BHUH Organization	4
Direct Costs versus Indirect Costs	4
Transaction Coding.....	6
General Ledger Business Unit	6
Operating Unit	7
Department (“Dept.”).....	7
Account (“Acct.”)	8
Resource.....	8
Product	9
Work Order	9
Timekeeping	9
Loadings.....	10
Allocation Ratios	10
Changing Allocation Ratios.....	11
Subsidiary Payment for Direct and Indirect Charges.....	12
Allocating Fixed Assets	12
Allocating Capitalized Inventory	13
Appendix 1- BHUH Departments.....	14
Appendix 2- Allocation Ratios	20

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Utility Holdings, Inc. (BHUH), from recording the original transaction through the allocation of costs to entities receiving services from BHUH. Various topics to be addressed include the organization of BHUH, the recording of transactions, calculating and assigning allocation ratios, and recording allocation transactions.

BHUH began formal operations in July 2008. The company was formed in anticipation of the purchase of certain gas and electric utility operating companies from Aquila, Inc. BHUH is a wholly owned subsidiary of Black Hills Corporation (BHC). BHUH is the parent company of each of the acquired Aquila and SourceGas operating companies. In addition, BHUH also supports the operations of BHC's utility and utility like operating companies, together the "operating companies". These costs are allocated to the operating companies requesting service using formal cost allocation methodologies. Departments that provide other support services to the operating companies as well as other BHC subsidiaries are held at Black Hills Service Company, LLC (BHSC). BHSC cost allocation methodologies are discussed in a separate cost allocation manual.

BHUH Organization

BHUH is organized into operating departments based upon the services that those departments provide to the operating companies. A list of each department, as well as a brief description of the services they provide, is attached hereto as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing BHUH costs is distinguishing between direct costs and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified operating company. This means that it is known exactly to which operating company these costs relate. Here are some examples:

- Advertising is prepared for a new customer information and instructional advertising campaign in the state of Nebraska. The advertising costs incurred are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- The Vice President of Utilities attends a meeting on the proposed budget for the state of Iowa. The labor costs incurred in attending this meeting are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- A trainer from Gas Engineering travels to various Black Hills Kansas Gas field offices to conduct training. These travel costs are specifically associated with an identified operating company. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified operating company. This means that the costs indirectly support all companies or directly support the operation of BHUH. In other words, costs that would be directly charged to BHUH using the definition and examples above would be classified as indirect costs. Here are some examples:

- Advertising is prepared for all customers to inform them of changes to electronic payment processes. These advertising costs incurred apply to all operating companies. Therefore, this would be an indirect cost.
- The Vice President of Utilities attends a meeting to present the consolidated budget for all gas utilities to the Board of Directors. The labor costs incurred in attending this meeting are not specifically associated with an identified operating company. Therefore, this would be an indirect cost.
- A trainer from Gas Engineering travels to Rapid City to present a training program to operating company executives. These travel costs are specifically associated with BHUH. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Can the costs coded to a specific operating company or group of operating companies be substantiated, and (2) Can it be substantiated that a utility-based subsidiary is not subsidizing the operations of a non-utility based subsidiary with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant BHUH expenses that follow these rules:

Always considered direct costs:

- Capitalized costs for non-BHUU projects (including capitalized labor)
- Retiree healthcare costs

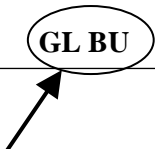
Always considered indirect costs:

- Depreciation of BHUU and BHSC assets
- Intercompany interest expense and income related to the BHUU balance payable or receivable from the Utility Money Pool

Transaction Coding

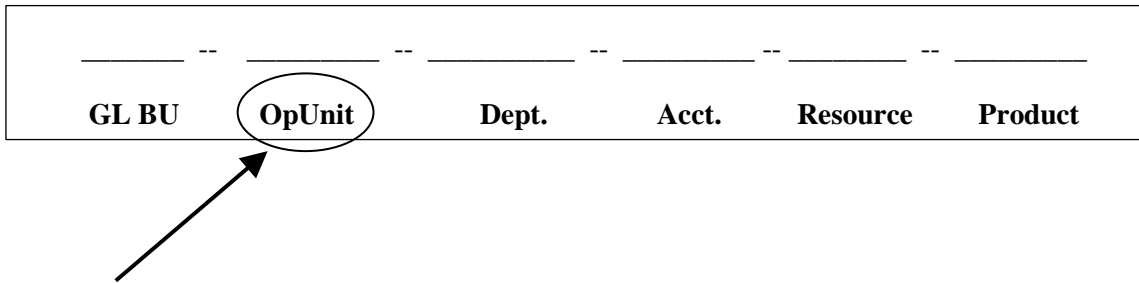
The Holding Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct.		Resource		Product



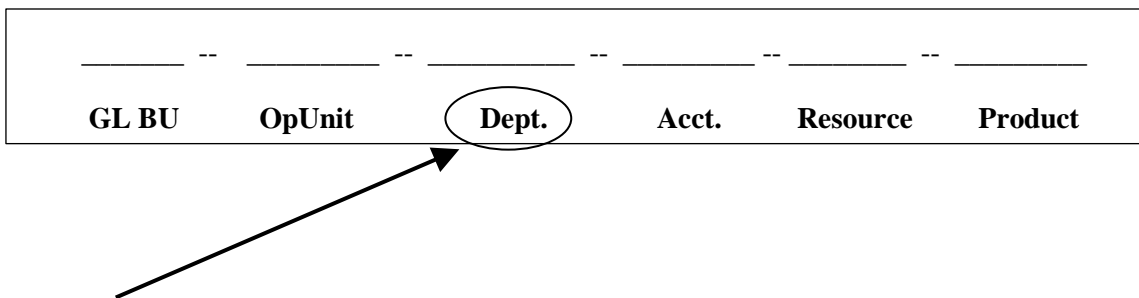
General Ledger Business Unit (**GLBU**):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions
- The GLBU field will default based on the operating unit (Op Unit), as described below.



Operating Unit (OpUnit):

- Six (6) character numeric field.
- The Op Unit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the Op Unit field will be populated using an Op Unit at the specific company being charged.
- The Op Unit field will be populated using one of the BHUH Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Utility Holding Company.



Department (Dept.):

- Four (4) character numeric field
- The Department field is used to identify where the cost(s) originated
- The Department field is required on all income statement and capital transactions
- Every Department is assigned to a GLBU

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct.		Resource		Product

Account (**Acct.**):

- Six (6) character numeric field
- The account field is required on all accounting transactions
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product

Resource:

- Four (4) character numeric field
- A Resource is used to identify types of costs
- The Resource field is required for all income statement and capital accounting transactions

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product

Product:

- Three (3) character numeric field
- A Product is used to identify business lines
- Examples of the product line include electric, gas, and non-regulated

_____	--	_____	--	_____	--	_____	--	_____	--	_____
GL BU		OpUnit		Dept.		Acct		Resource		Product
										Work Order

Work Order:

- Alpha or numeric field
- Represents the collection of costs to allow the monitoring of a job or group of costs
- The work order field is required on all construction work in progress transactions

Timekeeping

All BHUH employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the coding string, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the remainder

of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- Compensated Absences: including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- Payroll Taxes: including but not limited to FICA, FUTA SUTA and city taxes.
- Employee Benefits: including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees.
- Incentives: including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense.

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, BHUH costs are either directly charged to an operating company, or indirectly allocated when the cost is not associated with a specific operating company. Indirect costs are allocated

using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio was selected based on the specific cost driver of that department. For instance, the expenses incurred by the Customer Service - Rapid City department are primarily related to the support of all utility customers. In this example, the cost driver for the Customer Service - Rapid City department indirect costs is the number of customers. Therefore, the indirect costs will be allocated based upon the Customer Count Ratio.

When determining how the assigned ratio should be applied, consideration is given to the operating companies or segments that are supported by the department. For instance, the Appliance Technical Training department was determined to have a cost driver of number of Service Guard customers. Therefore, the indirect costs will be allocated based on the Customer Count Ratio using Service Guard customers whereas the Customer Service – Rapid City department used in the previous example would be allocated based on the Customer Count Ratio using Regulated Utility customers.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used. This ratio equally weights three different general ratios: Gross Margin, Asset Cost (net plant), and Payroll Dollars (direct payroll). These factors were chosen to be included in the Blended Allocator Ratio because they best allocate costs based on the diverse nature of BHUH operations.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the trailing twelve months ending September 30th for the prior year. The ratios for Asset Cost and Customer Count are based on values as of the previous period ending September 30th for the prior year. The ratios for Gross Margin and Payroll Dollars, are based on values for the trailing twelve months ended September 30th for the prior year.

Certain events may occur during the year that are deemed to be significant to BHUH that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of BHUH to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Operating companies would normally see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of BHUH to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to BHUH by the end of the following month. BHUH will monitor payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

BHUH maintains certain fixed assets that are used by and benefit all operating companies. These fixed assets primarily consist of computer hardware and software and shared office facilities. Because these fixed assets support all operating companies, they are allocated monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used to allocate assets and accumulated depreciation will vary depending on the type of asset being allocated, and will be based on the function the asset is serving. For instance, customer service software is allocated based on the Customer Count Ratio, while general office space is allocated using the Blended Allocator Ratio.

Allocating Capitalized Inventory

The gas and electric meter shops are BHUH departments serving the utility operating companies. As meters are purchased, they are recorded as capitalized inventory (charged to plant-in-service) by BHUH, as the meters are issued out of inventory to the specific operating company those assets are transferred from BHUH to the specific utility operating companies. All unassigned gas and electric meter investment and accumulated depreciation reserve is held at BHUH, and is allocated to the applicable utilities monthly. The Customer Count Ratio is used for this allocation.

Appendix 1- BHUH Departments

The following departments are included in BHUH as of 01/01/2017 and are subject to changes as required to support evolving business requirements.

UHC-GAS ASSET OPTIMIZATION (2301)

Description: Provides for the development and execution of the gas supply portfolio plans for all gas distribution operating companies and regulated power plants fueled by natural gas. This plan includes purchasing strategies for the commodity and optimization and procurement of pipeline capacity and services. (Customer Count Ratio)

UHC-ASSETS-LINCOLN CCTR/CAD (4247)

Description: The assets invested for the Computer Aided Dispatch system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to service multiple utilities. Depreciation expense and maintenance expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC-BENEFITS LOADINGS (4470)

Description: Utilized for charging out benefits, including medical costs, to the operating departments. Provided that all labor is loaded with overhead loadings, only the residual charges are to the operating companies. (Blended)

UHC-REVENUE AND COGS (4471)

Description: Utilized for revenue and cost of goods sold within the customer billing system, CIS+, relating to charges within customer accounts that do not relate to a specific operating unit. (Blended)

UHC-ACCOUNTING ACCRUAL ENTRIES (4474)

Description: Created to facilitate the accrual of certain charges not related to specific departments. (Blended)

UHC-ASSETS-BLENDED-ALL (4478)

Description: The assets invested and centrally located for gas and electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-ELECTRIC (4479)

Description: The assets invested and centrally located for electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-GAS (4480)

Description: The assets invested and centrally located for gas operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-CUSTOMERS (4481)

Description: The assets invested and centrally located for gas and electric companies where the Customer Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC- ASSET PLANNING & DATA MANAGEMENT (5104)

Description: Provide expertise in collecting, managing and utilizing operations data to make decisions regarding investment strategy. Department consists of the Utility Systems (responsible for work asset management “WAM” system), GIS, Land Rights and Asset Planning (system project management) functions. (Blended)

UHC-DESIGN ENGINEERING GAS (5105)

Description: Provides engineering support of gas transmission, distribution facilities, storage, gas processing, and compression facilities including planning, monitoring, and analyses. Provides project management support to operations, business development, gas control and tech services activities. (Blended)

UHC- PIPELINE SAFETY AND COMPLIANCE SUPPORT (5106)

Description: Responsible for enhancing pipeline safety by monitoring and evaluating federal, state, and local regulations, implementing new processes related to regulations, maintaining company standards documentation, ensuring compliance data integrity, facilitating regulatory audits and general regulatory communication, preparing required state and federal reports, overseeing required gas utility programs, and working on pipeline safety initiatives. (Blended)

UHC-TRANSMISSION PLANNING (5107)

Description: Performs near and long-term (1-20 year) transmission planning to determine cost-effective transmission additions needed to reliably serve projected customer load. Performs studies in support of large customer requests and the FERC Tariff; and supports operational studies for planned outages. Provides support in meeting compliance with NERC Standards; and represents the corporation in regional and sub-regional planning groups. (Transmission)

UHC-NERC COMPLIANCE (5108)

Description: Develops, coordinates and oversees the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-FERC TARIFF AND COMPLIANCE (5109)

Description: Develops, coordinates, and oversees the Electric Utilities Group's compliance with the Federal Energy Regulatory Commission (FERC) requirements pertaining to electric transmission; and administers the Company's Open Access Transmission Tariff (OATT) and Open Access Same-time Information System (OASIS). Administration of the Tariff, which outlines the "rules of the road" for transmission providers, the rates we charge, and the procedures and timelines in addressing customer requests (new load, new generators, or other requests to wheel power across the system). (Transmission)

UHC-T AND D RELIABILITY CTR (5110)

Description: Operates the Company's transmission and distribution systems on a 24/7 basis; and plans and directs switching and outage restoration efforts for both emergency and planned outages. (Transmission)

UHC-NERC TRANSMISSION AND TECH SUPPORT (5111)

Description: Develops, coordinates and oversees the technical support piece of the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-TRANSMISSION SERVICES MGMT (5112)

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), Transmission Services directs the 24/7 Reliability Centers in Rapid City and Pueblo, Transmission Planning, NERC Compliance, FERC Compliance, Vegetation Management, and Transmission Tariff Administration. (Transmission)

UHC-T&D ENGINEERING (5113)

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), T&D Engineering provides engineering support of electric transmission and distribution facilities including planning, monitoring, and analyses. (Transmission)

UHC-SUBSTATION/PROTECTION ENG (5114)

Description: Designs, coordinates, and oversees the electric substation infrastructure for all Black Hills Energy electric utilities. This includes substation designs, standards, protective relaying, and NERC compliance associated with the same. Will include work with Transmission and Distribution assets. (Transmission)

UHC-ENGINEERING RESOURCES (5115)

Description: Working with other departments coordinates talent development of engineers responsible for all Black Hills Energy electric utilities. Includes identifying project assignments in other groups, training opportunities, and rotational positions. (Transmission)

UHC-ELEC OPS COMMUNICATIONS (5117)

Description: Manages and supports the Electric Utilities radio, fiber and microwave based communication needs for the electric operating companies. Provides telecommunication expense management for the electric operating companies. (Blended)

UHC-ELEC MAINT SERVICES (5118)

Description: Maintenance Services supports the maintenance of the substation, line, control, and protective relaying equipment within the Electric Utilities. (Transmission)

UHC-VEGETATION MANAGEMENT (5119)

Description: Vegetation Management supports the vegetation management programs across all Electric Utilities. (Transmission)

UHC-ELEC ENGINEERING SERV (5120)

Description: Engineering Services supports transmission and distribution activities within the Electric Utilities group including engineering, distribution planning, T&D asset management, metering, substation maintenance, GIS/drafting and outage management systems. (Blended)

UHC-PWR SUPPLY AND RENEWABLES (5121)

Description: Provides for the planning, development, and management of power supply and renewable strategies for electric operating companies. (Blended)

UHC-REGULATORY (5122)

Description: provides regulatory financial support for all electric and gas utility regulatory filings including: rates reviews, class cost of service, rate design, reporting, adjustment clauses, riders, trackers and other regulatory issues. (Blended)

UHC-HR ROTATION PROGRAM (5125)

Description: Provides a rotation program to develop staff for critical need areas within the utility operating companies of Black Hills Corporation. (Blended)

UHC-TECHNICAL TRAINING (5254)

Description: Provides technical training support for gas and electric utilities. (Customer-Regulated)

UHC-GIS SUPPORT (5305)

Description: Researches, builds and implements utility software solutions for the benefit of electric operations. This department supports, STORMS/WAM work management, PowerOn outage management, GIS mapping & modeling, and Korterra line locates. (Customer Count Ratio)

UHC-GAS MEASURING (5490)

Description: Manages and provides gas measurement support to field operations located in gas service states. (Customer-Regulated)

UHC-EXEC MGMT-UTILITIES (5682)

Description: Provides guidance, direction and management to overall utility operations and support services. (Blended)

UHC-BUSINESS DEVELOPMENT (5688)

Description: Provides program management for the development and marketing of customer energy solutions. (Blended)

UHC-COMMUNITY AFFAIRS (5690)

Description: Aligns business objectives with the integrated communications provided to our stakeholders. Including: media relations, coordination of community involvement programs, developing and managing a consistent communications program, and leading economic development for community growth (Customer Count Ratio)

UHC-ELECTRIC METER SERVICES (5691)

Description: Manages and provides electric measurement support to field operations located in electric service states. Also manages AMI system for all electric entities. (Customer-Regulated)

UHC-CUSTOMER SERV CALL CENTERS (5701)

Description: Provides direct support to the operations of the all Black Hills customer service centers. Answers and resolves customer inquiries, requests for services, for both regulated and non-regulated customers. Provides analysis on employee staffing, monitoring service metrics, projects, and planning. (Customer Count Ratio)

UHC-CUSTOMER SERV SUPP (5703)

Description: Provides support to customer services areas through customer information system project management and process control for customer information system changes, revenue assurance analysis, quality analysis, training, and customer and community communication. Manages and maintains regulated and non-regulated billing for electric and gas utility customers as well as the sales and billing of gas to large volume customers. Prepares prints, inserts and mails regulated and non-regulated letters and bills for BHC utility customers. Processes payments for regulated and non-regulated services for BHC utility customers. Assists customers with payment and collection issues. (Customer Count Ratio)

UHC-FIELD RESOURCE CENTER (5715)

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

UHC-REPAIR BUSINESS MARKETING (6005)

Description: Provides and manages the non-regulated repair business program which includes: consumer marketing, new service development and employee repair training. (Customers-Service Guard, CAPP, HomeServe)

UHC- PIPELINE AND SYSTEM INTEGRITY (6183)

Description: Provides engineering and land rights support of storage, mid-stream gas processing, gas transmission, compression and distribution facilities including design, planning, monitoring, and design analyses. Provides capital project management support to operations, business development, gas control and tech services activities with emphasis on land rights, reliability, customer service, compliance and safety. (Blended)

UHC-ENERGY EFFICIENCY/DSM (6373)

Description: Supports the energy efficiency programs across the utilities supported by BHUH (Customer Count Ratio)

CATCH-ALL

Description: Departments of Black Hills Corporation that are not specifically listed in the Cost Allocation Manual or included in the master allocation design that charge BHUH will be allocated using the Blended Allocator Ratio or Customer Count Ratio.

Appendix 2- Allocation Ratios

Any asset ratios and employee and customer count ratios are calculated as of period-end dates, while revenue and expense ratios are calculated for twelve months ended as of period-end dates.

Asset Cost Ratio – Based on the net cost of assets as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is all applicable operating companies. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

No departments utilize this ratio, but it is a component in the Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the trailing twelve months ending September 30th, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Payroll Dollar Ratio –Based on the total payroll dollars for the trailing twelve months ending September 30th, the numerator of which is the direct payroll charges from all BHC subsidiaries charging an applicable operating company and the denominator of which is for all applicable operating companies. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums of \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, Payroll Dollar Ratio and the Gross Margin Ratio. These factors are equally weighted. This factor is sometimes referred to as the general allocation factor.

There are currently several variations of the Blended ratio that are specific to the segment that are appropriate for which charges are being allocated. For example, charges for electric engineering department labor would utilize an electric blended ratio whereby no allocations would be charged to a gas utility.

BHUH is utilizing the following segment variations and additional variations may be added if additional product lines are added or in the event that additional segmentation is deemed appropriate to most effectively allocate costs from a specific department

All Blended

Electric Blended

Gas Blended

BHE Blended

BHGD Blended

Departments that utilize this ratio include BHUH Benefits Loading, Revenue and COGS, BHUH Accounting Accruals, All Blended Assets, Electric Blended Assets, Gas Blended Assets, Asset Planning and Data Management, Design Engineering Gas, Pipeline Safety and Compliance Support, Electric Engineering Services, Regulatory, HR Rotation Program, Executive Management Utilities, Business Development, Power Supply and Renewables, Electric Ops Communications, and Pipeline and System Integrity.

Any department at Black Hills Corp that appropriately charges a BHUH operating unit but is not part of the predefined allocation design will also utilize the Blended Allocator Ratio. For example if a BHSC IT department provides maintenance on the SCADA system supporting the regulated electric companies they would charge BHUH operating unit 201900 and these costs would be allocated using the Blended Ratio across the regulated electric companies.

Customer Count Ratio – Based on the number of customers as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

There are currently several variations of the Customer Count ratio that are specific to the type of customers that are appropriate to the department for which charges are being allocated. For example a department that supports gas engineering would be allocated based on gas customers only whereas a general customer service department would be allocated based on total customers.

BHUH is utilizing the following customer counts to calculate customer count ratios additional variations may be added if additional product lines are added or in the event that additional segmentation of customers are deemed appropriate to most effectively allocate costs from a specific department

Customers

Electric Customers

Gas Customers

BHE Customers

BHGD Customers

Non-Regulated Customers

Departments that utilize these ratios include Gas Asset Optimization, Computer Aided Dispatch, Regulated Generation Assets, Customer Blended Assets, Technical Training, GIS Support, Gas Measuring, Community Affairs, Electric Meter Services, Customer Serv Call Centers, Customer Serv Supp,, Field Resource Center, Repair Business Marketing, and Energy Efficiency/DSM.

Transmission Ratio – Based on a simple average of a multiple of cross-sectional drivers for the transmission function as of September 30th for the prior year that includes customer counts, peak load, number of substations, number of feeders, number of distribution and transmission miles, and

number of remote terminal units. The numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

The departments that utilize this ratio include Transmission Planning, T&D Engineering, NERC Compliance, FERC Tariff and Compliance, Transmission and Distribution Reliability, NERC Transmission and Tech Support, Transmission Service Management, Substation/Protection Eng, Engineering Resources, Elec Maint Services, and Vegetation Management.

Black Hills Utility Holdings, Inc.

Cost Allocation Manual

Effective Date: July 14, 2008

Amended: August 1, 2009

Amended: January 1, 2011

Amended: January 1, 2012

Amended: January 1, 2013

Amended: December 1, 2013

Amended: December 1, 2014

Amended: December 1, 2015

Amended: February 12, 2016

Amended: December 1, 2016

Amended: December 1, 2017

Black Hills Utility Holdings, Inc. Cost Allocation Manual

Table of Contents

Introduction.....	43
BHUH Organization.....	43
Direct Costs versus Indirect Costs.....	43
Transaction Coding	65
General Ledger Business Unit.....	65
Operating Unit.....	76
Department (“Dept.”)	76
Account (“Acct.”).....	87
Resource	87
Product.....	98
Work Order	98
Timekeeping	98
Loadings	109
Allocation Ratios.....	109
Changing Allocation Ratios.....	114
Subsidiary Payment for Direct and Indirect Charges	124
Allocating Fixed Assets.....	124
Allocating Capitalized Inventory	134
Appendix 1- BHUH Departments	144
Appendix 2- Allocation Ratios.....	214

Introduction

The purpose of this cost allocation manual is to document the allocation processes of Black Hills Utility Holdings, Inc. (“BHUH”), from recording the original transaction through the allocation of costs to entities receiving services from BHUH. Various topics to be addressed include the organization of BHUH, the recording of transactions, calculating and assigning allocation ratios, and recording allocation transactions.

BHUH began formal operations in July 2008. The company was formed in anticipation of the purchase of certain gas and electric utility operating companies from Aquila, Inc. BHUH is a wholly owned subsidiary of Black Hills Corporation (“BHC”). BHUH is the parent company of each of the acquired Aquila and SourceGas operating companies. In addition, BHUH also supports the operations of BHC’s utility and utility like operating companies, together the “operating companies”. These costs are allocated to the operating companies requesting service using formal cost allocation methodologies. Departments that provide other support services to the operating companies as well as other BHC subsidiaries are held at Black Hills Service Company, LLC (“BHSC”). BHSC cost allocation methodologies are discussed in a separate cost allocation manual.

BHUH Organization

BHUH is organized into operating departments based upon the services that those departments provide to the operating companies. A list of each department, as well as a brief description of the services they provide, is attached hereto as Appendix 1.

Direct Costs versus Indirect Costs

A key issue in distributing BHUH costs is distinguishing between direct costs and indirect costs. The account coding will change depending on whether the cost is a direct or indirect cost. Below is a summary of each of these types of costs and examples of these costs.

Direct costs are those costs that are specifically associated with an identified operating company. This means that it is known exactly to which operating company these costs relate. Here are some examples:

- Advertising is prepared for a new customer information and instructional advertising campaign in the state of Nebraska. The advertising costs incurred are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- The Vice President of Utilities attends a meeting on the proposed budget for the state of Iowa. The labor costs incurred in attending this meeting are specifically associated with an identified operating company. Therefore, this would be a direct cost.
- A trainer from Gas Engineering travels to various Black Hills Kansas Gas field offices to conduct training. These travel costs are specifically associated with an identified operating company. Therefore, this would be a direct cost.

Indirect costs are those costs that are not associated with an identified operating company. This means that the costs indirectly support all companies or directly support the operation of BHUH. In other words, costs that would be directly charged to BHUH using the definition and examples above would be classified as indirect costs. Here are some examples:

- Advertising is prepared for all customers to inform them of changes to electronic payment processes. These advertising costs incurred apply to all operating companies. Therefore, this would be an indirect cost.
- The Vice President of Utilities attends a meeting to present the consolidated budget for all gas utilities to the Board of Directors. The labor costs incurred in attending this meeting are not specifically associated with an identified operating company. Therefore, this would be an indirect cost.
- A trainer from Gas Engineering travels to Rapid City to present a training program to operating company executives. These travel costs are specifically associated with BHUH. Therefore, this would be an indirect cost.

It is important to consider two things when determining if a cost is a direct cost or an indirect cost: (1) Can the costs coded to a specific operating company or group of operating companies be substantiated, and (2) Can it be substantiated that a utility-based subsidiary is not subsidizing the operations of a non-utility based subsidiary with the time and expenses that have been charged to them. A certain level of judgment will be involved when deciding whether a particular cost should be directly charged or indirectly allocated.

There are certain costs that will always be considered either direct or indirect costs. Below is a list of significant BHUH expenses that follow these rules:

Always considered direct costs:

- Capitalized costs for non-BHUH projects (including capitalized labor)
- Retiree healthcare costs

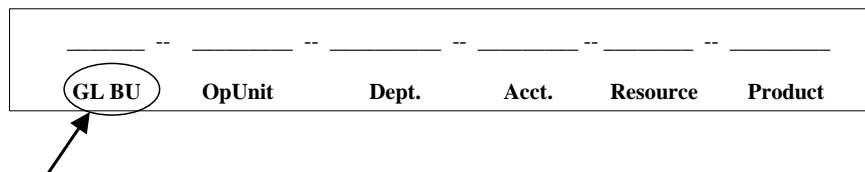
Always considered indirect costs:

- Depreciation of BHUH and BHSC assets
- Intercompany interest expense and income related to the BHUH balance payable or receivable from the Utility Money Pool

Transaction Coding

The Holding Company uses an accounting software system to accumulate and distribute both direct costs and indirect costs. It is important to have costs properly classified as direct or indirect. Direct costs will be directly charged to the subsidiaries, while indirect costs will be allocated to the subsidiaries using pre-defined allocation factors. Below is a description of the coding.

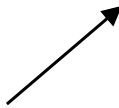
____	--	____	--	____	--	____	--	____		
GL BU		OpUnit		Dept.		Acct.		Resource		Product



General Ledger Business Unit (**GLBU**):

- Five (5) character numeric field.
- The GLBU field is used to identify the company that will be receiving the charges, either as a direct cost or an indirect cost.
- The GLBU field is required on all accounting transactions
- The GLBU field will default based on the operating unit (Op Unit), as described below.

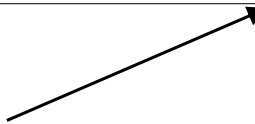
____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct.		Resource
								Product



Operating Unit (OpUnit):

- Six (6) character numeric field.
- The Op Unit field is used to identify the code block as either a direct cost or an indirect cost.
- If the cost is a direct cost, the Op Unit field will be populated using an Op Unit at the specific company being charged.
- The Op Unit field will be populated using one of the BHUH Op Units for indirect costs. Indirect costs also include costs from other areas of the company that are directly related to the Utility Holding Company.

____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct.		Resource
								Product



Department (Dept.):

- Four (4) character numeric field
- The Department field is used to identify where the cost(s) originated
- The Department field is required on all income statement and capital transactions
- Every Department is assigned to a GLBU

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct.		Resource		Product

Account (**Acct.**):

- Six (6) character numeric field
- The account field is required on all accounting transactions
- All companies will generally use the same Chart of Accounts although some values will be specific to certain companies.

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct		Resource		Product

Resource:

- Four (4) character numeric field
- A Resource is used to identify types of costs
- The Resource field is required for all income statement and capital accounting transactions

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct		Resource		Product

Product:

- Three (3) character numeric field
- A Product is used to identify business lines
- Examples of the product line include electric, gas, and non-regulated

____	--	____	--	____	--	____	--	____	--	____
GL BU		OpUnit		Dept.		Acct		Resource		Product
										Work Order

Work Order:

- Alpha or numeric field
- Represents the collection of costs to allow the monitoring of a job or group of costs
- The work order field is required on all construction work in progress transactions

Timekeeping

All BHUH employees are required to complete a timesheet for each two week pay period. Timesheets of appropriate employees must be approved by a supervisor.

Employees must complete the coding string, as previously discussed, for each time record. The timesheet will default the department and resource. However, the employee is responsible for providing the remainder

of the code block. Employees are encouraged to enter their time in one half hour increments, although they may use smaller increments if they so choose.

Loadings

Certain benefits that are provided to employees become an inherent cost of labor. To account for these benefits and allow for them to be charged to the appropriate subsidiary, they become part of a loading rate that is added on to each payroll dollar.

The loading rates are calculated at the beginning of the year based on budgeted benefit expenses and budgeted labor. Benefit costs and loading rates are reviewed, and updated as needed. Below is a list of components of the loading rates:

General labor loadings:

- Compensated Absences: including but not limited to paid time off (PTO), Holiday, Jury duty, Funeral pay, United Way day, Short-term Disability and Annual Physical appointment.
- Payroll Taxes: including but not limited to FICA, FUTA SUTA and city taxes.
- Employee Benefits: including but not limited to health and medical, 401K match and fees, Pension, Retiree healthcare and associated fees ~~and Pension audit fees.~~
- Incentives: including but not limited to Non-officer incentive plans, Restricted Stock and Stock Option expense.

Loadings calculated on payroll are based on estimated benefit costs, therefore, differences between actual benefits will be inherent to this process. After the difference is calculated and reviewed for reasonableness, it is recorded to a separate department, and indirectly allocated to Black Hills Corporation subsidiaries.

Allocation Ratios

As previously stated, BHUH costs are either directly charged to an operating company, or indirectly allocated when the cost is not associated with a specific operating company. Indirect costs are allocated

using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio was selected based on the specific cost driver of that department. For instance, the expenses incurred by the Customer Service - Rapid City department are primarily related to the support of all utility customers. In this example, the cost driver for the Customer Service - Rapid City department indirect costs is the number of customers. Therefore, the indirect costs will be allocated based upon the Customer Count Ratio.

When determining how the assigned ratio should be applied, consideration is given to the operating companies or segments that are supported by the department. For instance, the Appliance Technical Training department was determined to have a cost driver of number of Service Guard customers. Therefore, the indirect costs will be allocated based on the Customer Count Ratio using Service Guard customers whereas the Customer Service – Rapid City department used in the previous example would be allocated based on the Customer Count Ratio using Regulated Utility customers.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used. This ratio equally weights three different general ratios: Gross Margin, Asset Cost (net plant), and Payroll Dollars (direct payroll). These factors were chosen to be included in the Blended Allocator Ratio because they best allocate costs based on the diverse nature of BHUH operations.

A list of all allocation ratios, including a brief description of the ratio, the basis for the calculation of the ratio, and the department to which that ratio has been assigned, is attached hereto as Appendix 2.

Changing Allocation Ratios

Allocation ratios are set at the first of the year, based upon financial information from the trailing twelve months ending September 30th for the prior year. The ratios for Asset Cost and Customer Count are based on values as of the previous period ending September 30th for the prior year. The ratios for Gross Margin and Payroll Dollars, are based on values for the trailing twelve months ended September 30th for the prior year.

Certain events may occur during the year that are deemed to be significant to BHUH that will require corresponding adjustments be made to the allocation ratios. Examples of these types of events include acquisitions, divestitures, new generation, significant change in asset base, significant staffing changes or new, significant revenue streams.

When these events occur, indirect allocation ratios will be adjusted. When adjusting allocation ratios, it is the policy of BHUH to not recalculate all allocation ratios. Rather, allocation ratios will be adjusted with pro forma adjustments for the subsidiary with a significant change in a specific allocation ratio base. For example, if an acquisition occurs during the middle of the year, pro forma values will be loaded. Asset values at the time of the acquisition would be used, as well as pro forma gross margin and payroll dollars for a 12 month period. It should be noted that estimations may be required, especially when significant additions or changes are expected as a result of the acquisition.

It should also be noted that asset values, gross margin, and payroll dollars for the other companies will not be changed. However, the ratios will change because the base against which the ratios are calculated will change. Operating companies would normally see decreased ratio values with acquisitions, and increased ratio values with divestitures. Changes will be effective as of the beginning of the month following the significant event, and will apply to all transactions for the month.

Subsidiary Payment for Direct and Indirect Charges

It is the policy of BHUH to insure payments are made by the subsidiary companies for direct and indirect charges. All payments for direct and indirect charges must be remitted to BHUH by the end of the following month. BHUH will monitor payments received during the month to insure that all subsidiary companies make payment in a timely manner.

Allocating Fixed Assets

BHUH maintains certain fixed assets that are used by and benefit all operating companies. These fixed assets primarily consist of computer hardware and software and shared office facilities. Because these fixed assets support all operating companies, they are allocated monthly as part of the month-end close process, along with the allocation of these assets' accumulated depreciation. Construction Work in Process balances are not allocated.

Allocated assets and accumulated depreciation are maintained in separate general ledger accounts at the subsidiary level so they are not intermingled with regular subsidiary fixed assets, and for ease of reconciliation.

The allocation ratio used to allocate assets and accumulated depreciation will vary depending on the type of asset being allocated, and will be based on the function the asset is serving. For instance, customer service software is allocated based on the Customer Count Ratio, while general office space is allocated using the Blended Allocator Ratio.

Allocating Capitalized Inventory

The gas and electric meter shops are BHUH departments serving the utility operating companies. As meters are purchased, they are recorded as capitalized inventory (charged to plant-in-service) by BHUH, as the meters are issued out of inventory to the specific operating company those assets are transferred from BHUH to the specific utility operating companies. All unassigned gas and electric meter investment and accumulated depreciation reserve is held at BHUH, and is allocated to the applicable utilities monthly. The Customer Count Ratio is used for this allocation.

Appendix 1- BHUH Departments

The following departments are included in BHUH as of 01/01/2017 and are subject to changes as required to support evolving business requirements.

~~UHC-GSS ADMINISTRATION AS ASSET OPTIMIZATION (2301)~~

Description: Provides for the development and execution of the gas supply portfolio plans for all gas distribution operating companies and regulated power plants fueled by natural gas. This plan includes purchasing strategies for the commodity and optimization and procurement of pipeline capacity and services. (Customer Count Ratio)

~~UHC-ASSETS-LINCOLN CCTR/CAD (4247)~~

Description: The assets invested for the Computer Aided Dispatch system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to service multiple utilities. Depreciation expense and maintenance expense on this group of assets is also charged from here. (Customer Count Ratio)

~~UHC-ASSETS-FAME (4251)~~

Description: The assets invested for the Facilitated Asset Mapping Enterprise system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

~~UHC-ASSETS-WORK MGMT (4257)~~

Description: The assets invested for the Work Management system for Black Hills Energy. This includes capitalized and centrally located hardware and software costs to serve multiple utilities. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

~~UHC-ASSETS-REG GENERATION (4258)~~

Description: The assets for electric utilities specifically. This includes capitalized and centrally located hardware and software costs to serve multiple electric utilities. Depreciation expense on this group of assets is also charged from here. (Customer Regulated)

~~UHC-BENEFITS LOADINGS (4470)~~

Description: Utilized for charging out benefits, including medical costs, to the operating departments. Provided that all labor is loaded with overhead loadings, only the residual charges are to the operating companies. (Blended)

~~UHC-REVENUE AND COGS (4471)~~

Description: Utilized for revenue and cost of goods sold within the customer billing system, CIS+, relating to charges within customer accounts that do not relate to a specific operating unit. (Blended)

UHC-ACCOUNTING ACCRUAL ENTRIES (4474)

Description: Created to facilitate the accrual of certain charges not related to specific departments.
(Blended)

UHC-ASSETS-BLENDED-ALL (4478)

Description: The assets invested and centrally located for gas and electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-ELECTRIC (4479)

Description: The assets invested and centrally located for electric operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-GAS (4480)

Description: The assets invested and centrally located for gas operating companies where the Blended Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Blended)

UHC-ASSETS-BLENDED-CUSTOMERS (4481)

Description: The assets invested and centrally located for gas and electric companies where the Customer Ratio is determined to be the best form of allocation. Depreciation expense on this group of assets is also charged from here. (Customer Count Ratio)

UHC- ASSET PLANNING & DATA MANAGEMENT (5104)

Description: Provide expertise in collecting, managing and utilizing operations data to make decisions regarding capital-investment strategy. Department consists of the Utility Systems (responsible for work asset management “WAM” system), GIS, Land Rights and Asset Planning (system project management) functions. The focus is on assets, data and systems and some of our organizational goals. (Blended)

UHC-DESIGN ENGINEERING GAS (5105)

Description: Provides engineering support of gas transmission, and distribution facilities, storage, gas processing, and compression facilities including planning, monitoring, and analyses. Provides capital

project management support to operations, business development, gas control and tech services activities.
(CustomersBlended)

UHC- PIPELINE SAFETY AND COMPLIANCE SUPPORT STANDARDS AND COMPLIANCE GAS (5106)

Description: Responsible for enhancing pipeline safety by monitoring and evaluating federal, state, and local regulations, implementing new processes related to regulations, maintaining company standards documentation, ensuring compliance data integrity, facilitating regulatory audits and general regulatory communication, preparing required state and federal reports, overseeing required gas utility programs, and working on promoting a culture of pipeline safety initiatives. Responsible for implementing and reporting DOT regulatory requirements, maintaining standards, and supporting GIS Smallworld and ERSI mapping systems as well as implementing and supporting pipeline integrity programs, and asset management. (BlendedCustomers)

UHC-TRANSMISSION PLANNING (5107)

Description: Performs near and long-term (1-20 year) transmission planning to determine cost-effective transmission additions needed to reliably serve projected customer load. Performs studies in support of large customer requests and the FERC Tariff; and supports operational studies for planned outages. Provides support in meeting compliance with NERC Standards; and represents the corporation in regional and sub-regional planning groups. (Transmission)

UHC-NERC COMPLIANCE (5108)

Description: Develops, coordinates and oversees the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-FERC TARIFF AND COMPLIANCE (5109)

Description: Develops, coordinates, and oversees the Electric Utilities Group's compliance with the Federal Energy Regulatory Commission (FERC) requirements pertaining to electric transmission; and administers the Company's Open Access Transmission Tariff (OATT) and Open Access Same-time Information System (OASIS). Administration of the Tariff, which outlines the "rules of the road" for transmission providers, the rates we charge, and the procedures and timelines in addressing customer requests (new load, new generators, or other requests to wheel power across the system). (Transmission)

UHC-T AND D RELIABILITY CTR (5110)

Description: Operates the Company's transmission and distribution systems on a 24/7 basis; and plans and directs switching and outage restoration efforts for both emergency and planned outages. (Transmission)

UHC-NERC TRANSMISSION AND TECH SUPPORT (5111)

Description: Develops, coordinates and oversees the technical support piece of the Electric Utilities Group's compliance with mandatory North American Electric Reliability Corporation (NERC) Reliability Standards, which standards are enforceable through financial sanctions and are intended to ensure a reliable Bulk Electric System. (Transmission)

UHC-TRANSMISSION SERVICES MGMT (5112)

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), Transmission Services directs the 24/7 Reliability Centers in Rapid City and Pueblo, Transmission Planning, NERC Compliance, FERC Compliance, Vegetation Management, and Transmission Tariff Administration. (Transmission)

UHC-T&D ENGINEERING (5113)

Description: For all three electric utilities (BHP, CLFP and Colorado Electric), T&D Engineering provides engineering support of electric transmission and distribution facilities including planning, monitoring, and analyses. (Transmission)

UHC-SUBSTATION/PROTECTION ENG (5114)

Description: Designs, coordinates, and oversees the electric substation infrastructure for all Black Hills Energy electric utilities. This includes substation designs, standards, protective relaying, and NERC compliance associated with the same. Will include work with Transmission and Distribution assets. (Transmission)

UHC-ENGINEERING RESOURCES (5115)

Description: Working with other departments coordinates talent development of engineers responsible for all Black Hills Energy electric utilities. Includes identifying project assignments in other groups, training opportunities, and rotational positions. (Transmission)

UHC-ELEC OPS COMMUNICATIONS (5117)

Description: Manages and supports the Electric Utilities radio, fiber and microwave based communication needs for the electric operating companies. Provides telecommunication expense management for the electric operating companies. (Blended)

UHC-ELEC MAINT SERVICES (5118)

Description: Maintenance Services supports the maintenance of the substation, line, control, and protective relaying equipment within the Electric Utilities. (Transmission)

UHC-VEGETATION MANAGEMENT (5119)

Description: Vegetation Management supports the vegetation management programs across all Electric Utilities. (Transmission)

UHC-ELEC ENGINEERING SERV (5120)

Description: Engineering Services supports transmission and distribution activities within the Electric Utilities group including engineering, distribution planning, T&D asset management, metering, substation maintenance, GIS/drafting and outage management systems. (Blended)

UHC-PWR SUPPLY AND RENEWABLES (5121)

Description: Provides for the planning, development, and management of power supply and renewable strategies for electric operating companies. (Blended)

UHC-REGULATORY ~~SERV~~ (5122)

Description: provides regulatory financial support for all electric and gas utility regulatory filings including: rates ~~cases~~ reviews, class cost of service, rate design, reporting, adjustment clauses, riders, trackers and other regulatory issues. (Blended)

UHC-HR ROTATION PROGRAM (5125)

Description: Provides a rotation program to develop staff for critical need areas within the utility operating companies of Black Hills Corporation. (Blended)

UHC-TECHNICAL TRAINING (5254)

Description: Provides technical training support for gas and electric utilities. (Customer-Regulated)

UHC-GIS SUPPORT (5305)

Description: Researches, builds and implements utility software solutions for the benefit of electric operations. This department supports, STORMS/WAM work management, PowerOn outage management, GIS mapping & modeling, and Korterra line locates. (Customer Count Ratio)

UHC-GAS ~~MEASURING~~METERING ~~SERV~~ (5490)

Description: Manages and provides gas measurement support to field operations located in gas service states. (Customer-Regulated)

UHC-EXEC MGMT-UTILITIES (5682)

Description: Provides guidance, direction and management to overall utility operations and support services. (Blended)

UHC-BUSINESS DEVELOPMENT (5688)

Description: Provides program management for the development and marketing of customer energy solutions. (Blended)

UHC-COMMUNITY AFFAIRS (5690)

Description: Aligns business objectives with the integrated communications provided to our stakeholders. Including: media relations, coordination of community involvement programs, developing and managing a consistent communications program, and leading economic development for community growth (Customer Count Ratio)

UHC-ELECTRIC METER SERVICES (5691)

Description: Manages and provides electric measurement support to field operations located in electric service states. Also manages AMI system for all electric entities. (Customer-Regulated)

UHC-CUSTOMER SERV CALL CENTERS (5701)

Description: Provides direct support to the operations of the all Black Hills customer service centers. Answers and resolves customer inquiries, requests for services, for both regulated and non-regulated customers. Provides analysis on employee staffing, monitoring service metrics, projects, and planning. (Customer Count Ratio)

UHC-CUSTOMER SERV SUPP ~~/LV BILLING~~ (5703)

Description: Provides support to customer services areas through customer information system project management and process control for customer information system changes, revenue assurance analysis, quality analysis, training, and customer and community communication. Manages and maintains regulated and non-regulated billing for electric and gas utility customers as well as the sales and billing of gas to large volume customers. Prepares prints, inserts and mails regulated and non-regulated letters and bills for BHC utility customers. Processes payments for regulated and non-regulated services for BHC utility customers. Assists customers with payment and collection issues. (Customer Count Ratio)

~~UHC-CUSTOMER SERV BILLING / COLLECTIONS (5704)~~

~~Description: Prepares prints, inserts and mails regulated and non-regulated letters and bills for BHC utility customers. Processes payments for regulated and non-regulated services for BHC utility customers. Assists customers with payment and collection issues. (Customer Count Ratio)~~

UHC-FIELD RESOURCE CENTER (5715)

Description: Plans work, and schedules and dispatches premise service activities to both regulated and non-regulated customers. (Customer Count Ratio)

UHC-REPAIR BUSINESS MARKETING (6005)

Description: Provides and manages the non-regulated repair business program which includes: consumer marketing, new service development and employee repair training. (Customers-Service Guard, CAPP, HomeServe)

UHC- PIPELINE AND SYSTEM INTEGRITY GAS ENGINEERING AND LAND MANAGEMENT (6183)

Description: Provides engineering and land rights support of storage, ~~M~~mid-stream gas processing, gas transmission, compression and distribution facilities including design, planning, monitoring, and design analyses. Provides capital project management support to operations, business development, gas control and tech services activities with emphasis on land rights, reliability, customer service, compliance and safety. (Blended)

UHC-ENERGY EFFICIENCY/DSM (6373)

Description: Supports the energy efficiency programs across the utilities supported by BHUH (Customer Count Ratio)

CATCH-ALL

Description: Departments ~~at~~of Black Hills Corporation that are not specifically listed in the Cost Allocation Manual or included in the master allocation design that charge BHUH will be allocated using the Blended Allocator Ratio or Customer Count Ratio.

Appendix 2- Allocation Ratios

Formatted: Normal, Centered

Any asset ratios and employee and customer count ratios are calculated as of period-end dates, while revenue and expense ratios are calculated for twelve months ended as of period-end dates.

Asset Cost Ratio – Based on the net cost of assets as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is all applicable operating companies. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

No departments utilize this ratio, but it is a component in the Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the trailing twelve months ending September 30th, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Payroll Dollar Ratio –Based on the total payroll dollars for the trailing twelve months ending September 30th, the numerator of which is the direct payroll charges from all BHC subsidiaries charging ~~the for~~ an applicable operating company and the denominator of which is for all applicable operating companies. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums of \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, Payroll Dollar Ratio and the Gross Margin Ratio. These factors are equally weighted. This factor is sometimes referred to as the general allocation factor.

There are currently several variations of the Blended ratio that are specific to the segment that are appropriate for which charges are being allocated. For example, charges for electric engineering department labor would utilize an electric blended ratio whereby no allocations would be charged to a gas utility.

BHUH is utilizing the following segment variations and additional variations may be added if additional product lines are added or in the event that additional segmentation is deemed appropriate to most effectively allocate costs from a specific department

All Blended

Electric Blended

Gas Blended

BHE Blended

BHGD Blended

Departments that utilize this ratio include BHUH Benefits Loading, Revenue and COGS, BHUH Accounting Accruals, All Blended Assets, Electric Blended Assets, Gas Blended Assets, Asset Planning and Data Management, Design Engineering Gas, Pipeline Safety and Compliance Support, Electric Engineering Services, Regulatory ~~Services~~, HR Rotation Program, Utility Operations Management, Executive Management Utilities, Business Development, Power Supply and Renewables, Electric Ops Communications, and Gas Engineering Management Pipeline and System Integrity.

Any department at Black Hills Corp that appropriately charges a BHUH operating unit but is not part of the predefined allocation design will also utilize the Blended Allocator Ratio. For example if a BHSC IT department provides maintenance on the SCADA system supporting the regulated electric companies they would charge BHUH operating unit 201900 and these costs would be allocated using the Blended Ratio across the regulated electric companies.

Customer Count Ratio – Based on the number of customers as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

There are currently several variations of the Customer Count ratio that are specific to the type of customers that are appropriate to the department for which charges are being allocated. For example a department that supports gas engineering would be allocated based on gas customers only whereas a general customer service department would be allocated based on total customers.

BHUH is utilizing the following customer counts to calculate customer count ratios additional variations may be added if additional product lines are added or in the event that additional segmentation of customers are deemed appropriate to most effectively allocate costs from a specific department

Customers

Electric Customers

Gas Customers

BHE Customers

BHGD Customers

Non-Regulated Customers

Departments that utilize these ratios include Gas ~~Supply Services Administration~~Asset Optimization, Computer Aided Dispatch, ~~FAME Assets, Work Management Assets, Regulated~~ Generation Assets, Customer Blended Assets, Technical Training, Gas Engineering Services, GIS Support, ~~General Meter Shop~~Gas Measuring, Community Affairs, Electric Meter Services, Customer Serv Call Centers, Customer Serv Supp.p / ~~LV Billing, Customer Serv Billing/Collections, Customer Serv~~ Field Resource Center, Repair Business Marketing, ~~Regulatory Affairs~~, and Energy Efficiency/DSM.

Transmission Ratio – Based on a simple average of a multiple of cross-sectional drivers for the transmission function as of September 30th for the prior year that includes customer counts, peak load, number of substations, number of feeders, number of distribution and transmission miles, and number of remote terminal units. The numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

The departments that utilize this ratio include Transmission Planning, T&D Engineering, NERC Compliance, FERC Tariff and Compliance, Transmission and Distribution Reliability, NERC Transmission and Tech Support, Transmission Service Management, Substation/Protection Eng, Engineering Resources, Elec Maint Services, and Vegetation Management.



Black Hills Energy
1102 E 1st Street
Papillion, NE 68046

May 23, 2018

Ms. Lynn M. Retz
Secretary
Kansas Corporation Commission
1500 S.W. Arrowhead Road
Topeka, KS 66604-4027

RE: 11-BHCG-800-CPL

Dear Ms. Retz:

Pursuant to compliance requirements in Docket No. 06-GIMX-181-GIV, this correspondence serves to inform there have been no changes to the following items as filed in the Black Hills Energy Kansas Ring Fencing Compliance Filing dated May 31, 2011 in Docket No. 11-BHCG-800-CPL:

- Service Agreement with Black Hills Utility Holdings, Inc. ("BHUH")
- Service Agreement with Black Hills Service Company, LLC ("BHSC")

Amended BHUH and BHSC Cost Allocation Manuals ("CAMs") are included in this year-ended 2017 filing and follow this letter. According to submission information requirements, changes made to the amended BHUH CAM and BHSC CAM follow in red-lined Word documents.

Sincerely,

Ann Stichler
Regulatory Affairs

THIS FILING IS

Item 1: ☒ An Initial (Original)
SubmissionOR ☐ Resubmission No. _____Form 60 Approved
OMB No. 1902-0215
Expires 05/31/2019

FERC FINANCIAL REPORT

FERC FORM No. 60: Annual Report of Centralized Service Companies

This report is mandatory under the Public Utility Holding Company Act of 2005, Section 1270, Section 309 of the Federal Power Act and 18 C.F.R. § 366.23. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Black Hills Service Company, LLC

Year of Report

Dec 31, 2017

GENERAL INSTRUCTIONS FOR FILING FERC FORM NO. 60

I. Purpose

Form No. 60 is an annual regulatory support requirement under 18 CFR 369.1 for centralized service companies. The report is designed to collect financial information from centralized service companies subject to the jurisdiction of the Federal Energy Regulatory Commission. The report is considered to be a non-confidential public use form.

II. Who Must Submit

Unless the holding company system is exempted or granted a waiver by Commission rule or order pursuant to §§ 18 CFR 366.3 and 366.4 of this chapter, every centralized service company (see § 367.2) in a holding company system must prepare and file electronically with the Commission the FERC Form No. 60 then in effect pursuant to the General Instructions set out in this form.

III. How to Submit

Submit FERC Form No. 60 electronically through the Form No. 60 Submission Software. Retain one copy of each report for your files. For any resubmissions, submit the filing using the Form No. 60 Submission Software including a justification. Respondents must submit the Corporate Officer Certification electronically.

IV. When to Submit

Submit FERC Form No. 60 according to the filing date contained § 18 CFR 369.1 of the Commission's regulations.

V. Preparation

Prepare this report in conformity with the Uniform System of Accounts (18 CFR 367) (USof A). Interpret all accounting words and phrases in accordance with the USof A.

VI. Time Period

This report covers the entire calendar year.

VII. Whole Dollar Usage

Enter in whole numbers (dollars) only, except where otherwise noted. The amounts shown on all supporting pages must agree with the amounts entered on the statements that they support. When applying thresholds to determine significance for reporting purposes, use for balance sheet accounts the balances at the end of the current reporting period, and use for statement of income accounts the current year's amounts.

VIII. Accurateness

Complete each question fully and accurately, even if it has been answered in a previous report. Enter the word "None" where it truly and completely states the fact.

IX. Applicability

For any page(s) that is not applicable to the respondent, enter "NONE," or "Not Applicable" in column (c) on the List of Schedules, page 2.

X. Date Format

Enter the month, day, and year for all dates. Use customary abbreviations. The "Resubmission Date" included in the header of each page is to be completed only for resubmissions (see III. above).

XI. Number Format

Generally, except for certain schedules, all numbers, whether they are expected to be debits or credits, must be reported as positive. Numbers having a sign that is different from the expected sign must be reported by use of a minus sign.

XII. Required Entries

Do not make references to reports of previous years or to other reports instead of required entries, except as specifically authorized.

XIII. Prior Year References

Wherever (schedule) pages refer to figures from a previous year, the figures reported must be based upon those shown by the report of the previous year, or an appropriate explanation given as to why the different figures were used.

XIV. Where to Send Comments on Public Reporting Burden

The public reporting burden for the Form No. 60 collection of information is estimated to average 75 hours per response, including

- the time for reviewing instructions, searching existing data sources,
- gathering and maintaining the data-needed, and
- completing and reviewing the collection of information.

Send comments regarding these burden estimates or any aspect of this collection of information, including suggestions for reducing burden, to:

Federal Energy Regulatory Commission, (Attention: Information Clearance Officer, CIO),
888 First Street NE,
Washington, DC 20426
or by email to DataClearance@ferc.gov

And to:

Office of Information and Regulatory Affairs,
Office of Management and Budget, Washington, DC 20503 (Attention: Desk Office for the Federal
Energy Regulatory Commission).
Comments to OMB should be submitted by email to: oir_submission@omb.eop.gov

No person shall be subject to any penalty if any collection of information does not display a valid control number (44 U.S.C. 3512(a)).

DEFINITIONS
I. Respondent -- The person, corporation, or other legal entity in whose behalf the report is made.

ANNUAL REPORT FOR SERVICE COMPANIES

IDENTIFICATION		
01 Exact Legal Name of Respondent Black Hills Service Company, LLC		02 Year of Report Dec 31, <u>2017</u>
03 Previous Name (If name changed during the year)		04 Date of Name Change / /
05 Address of Principal Office at End of Year (Street, City, State, Zip Code) 7001 Mt. Rushmore Rd., Rapid City, SD 57702		06 Name of Contact Person Esther Newbrough
07 Title of Contact Person Vice President and Corporate Controller		08 Address of Contact Person 7001 Mt. Rushmore Rd., Rapid City, SD 57702
09 Telephone Number of Contact Person (605) 721-2398		10 E-mail Address of Contact Person Esther.Newbrough@blackhillscorp.com
11 This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		12 Resubmission Date (Month, Day, Year) / /
13 Date of Incorporation 12/30/2004	14 If Not Incorporated, Date of Organization / /	
15 State or Sovereign Power Under Which Incorporated or Organized SOUTH DAKOTA		
16 Name of Principal Holding Company Under Which Reporting Company is Organized: Black Hills Corporation		
CORPORATE OFFICER CERTIFICATION		
<p>The undersigned officer certifies that:</p> <p>I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.</p>		
17 Name of Signing Officer Esther Newbrough	19 Signature of Signing Officer Esther Newbrough	20 Date Signed (Month, Day, Year) 05/01/2018
18 Title of Signing Officer Vice President and Corporate Controller		

1. Enter in Column (c) the terms “None” or “Not Applicable” as appropriate, where no information or amounts have been reported for certain pages.

Line No.	Description (a)	Page Reference (b)	Remarks (c)
1	Schedule I - Comparative Balance Sheet	101-102	
2	Schedule II - Service Company Property	103	
3	Schedule III - Accumulated Provision for Depreciation and Amortization of Service Company Property	104	
4	Schedule IV - Investments	105	
5	Schedule V - Accounts Receivable from Associate Companies	106	
6	Schedule VI - Fuel Stock Expenses Undistributed	107	None
7	Schedule VII - Stores Expense Undistributed	108	None
8	Schedule VIII - Miscellaneous Current and Accrued Assets	109	None
9	Schedule IX - Miscellaneous Deferred Debits	110	
10	Schedule X - Research, Development, or Demonstration Expenditures	111	None
11	Schedule XI - Proprietary Capital	201	
12	Schedule XII - Long-Term Debt	202	None
13	Schedule XIII - Current and Accrued Liabilities	203	
14	Schedule XIV - Notes to Financial Statements	204	
15	Schedule XV - Comparative Income Statement	301-302	
16	Schedule XVI - Analysis of Charges for Service - Associate and Nonassociate Companies	303-306	
17	Schedule XVII - Analysis of Billing – Associate Companies (Account 457)	307	
18	Schedule XVIII – Analysis of Billing – Non-Associate Companies (Account 458)	308	None
21	Schedule XIX - Miscellaneous General Expenses - Account 930.2	307	
23	Schedule XX - Organization Chart	401	
24	Schedule XXI - Methods of Allocation	402	

Schedule I - Comparative Balance Sheet

1. Give balance sheet of the Company as of December 31 of the current and prior year.

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
1		Service Company Property			
2	101	Service Company Property	103	0	0
3	101.1	Property Under Capital Leases	103		
4	106	Completed Construction Not Classified		0	0
5	107	Construction Work In Progress	103	1,749,651	2,237,235
6		Total Property (Total Of Lines 2-5)		1,749,651	2,237,235
7	108	Less: Accumulated Provision for Depreciation of Service Company Property	104	(952)	(952)
8	111	Less: Accumulated Provision for Amortization of Service Company Property			
9		Net Service Company Property (Total of Lines 6-8)		1,750,603	2,238,187
10		Investments			
11	123	Investment In Associate Companies	105		
12	124	Other Investments	105		
13	128	Other Special Funds	105	7,043,640	6,622,248
14		Total Investments (Total of Lines 11-13)		7,043,640	6,622,248
15		Current And Accrued Assets			
16	131	Cash			
17	134	Other Special Deposits			
18	135	Working Funds			
19	136	Temporary Cash Investments			
20	141	Notes Receivable			
21	142	Customer Accounts Receivable			
22	143	Accounts Receivable		348,142	926,552
23	144	Less: Accumulated Provision for Uncollectible Accounts			
24	146	Accounts Receivable From Associate Companies	106	57,222,843	66,231,331
25	152	Fuel Stock Expenses Undistributed	107		
26	154	Materials And Supplies		4,703	14,659
27	163	Stores Expense Undistributed	108		
28	165	Prepayments		8,082,068	7,169,650
29	171	Interest And Dividends Receivable			
30	172	Rents Receivable			
31	173	Accrued Revenues			
32	174	Miscellaneous Current and Accrued Assets			
33	175	Derivative Instrument Assets	109		
34	176	Derivative Instrument Assets – Hedges			
35		Total Current and Accrued Assets (Total of Lines 16-34)		65,657,756	74,342,192
36		Deferred Debits			
37	181	Unamortized Debt Expense			
38	182.3	Other Regulatory Assets			
39	183	Preliminary Survey And Investigation Charges			
40	184	Clearing Accounts			110
41	185	Temporary Facilities			
42	186	Miscellaneous Deferred Debits		568,730	916,600
43	188	Research, Development, or Demonstration Expenditures	110		
44	189	Unamortized loss on reacquired debt	111		
45	190	Accumulated Deferred Income Taxes			
46		Total Deferred Debits (Total of Lines 37-45)		568,730	916,710
47		TOTAL ASSETS AND OTHER DEBITS (TOTAL OF LINES 9, 14, 35 and 46)		75,020,729	84,119,337

Schedule I - Comparative Balance Sheet (continued)

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
48		Proprietary Capital			
49	201	Common Stock Issued	201		
50	204	Preferred Stock Issued	201		
51	211	Miscellaneous Paid-In-Capital	201	100,000	100,000
52	215	Appropriated Retained Earnings	201		
53	216	Unappropriated Retained Earnings	201	(778,368)	(778,368)
54	219	Accumulated Other Comprehensive Income	201	(20,235,039)	(19,390,990)
55		Total Proprietary Capital (Total of Lines 49-54)		(20,913,407)	(20,069,358)
56		Long-Term Debt			
57	223	Advances From Associate Companies	202		
58	224	Other Long-Term Debt	202		
59	225	Unamortized Premium on Long-Term Debt			
60	226	Less: Unamortized Discount on Long-Term Debt-Debit			
61		Total Long-Term Debt (Total of Lines 57-60)			
62		Other Non-current Liabilities			
63	227	Obligations Under Capital Leases-Non-current			
64	228.2	Accumulated Provision for Injuries and Damages		564,447	492,129
65	228.3	Accumulated Provision For Pensions and Benefits		52,327,179	51,868,747
66	230	Asset Retirement Obligations			
67		Total Other Non-current Liabilities (Total of Lines 63-66)		52,891,626	52,360,876
68		Current and Accrued Liabilities			
69	231	Notes Payable			
70	232	Accounts Payable		7,043,017	12,689,127
71	233	Notes Payable to Associate Companies	203	6,342,725	3,503,513
72	234	Accounts Payable to Associate Companies	203	5,112,025	5,038,781
73	236	Taxes Accrued		994,373	1,061,036
74	237	Interest Accrued			
75	241	Tax Collections Payable		523,559	539,212
76	242	Miscellaneous Current and Accrued Liabilities	203	14,420,093	18,653,437
77	243	Obligations Under Capital Leases – Current			
78	244	Derivative Instrument Liabilities			
79	245	Derivative Instrument Liabilities – Hedges			
80		Total Current and Accrued Liabilities (Total of Lines 69-79)		34,435,792	41,485,106
81		Deferred Credits			
82	253	Other Deferred Credits		8,606,718	10,342,713
83	254	Other Regulatory Liabilities			
84	255	Accumulated Deferred Investment Tax Credits			
85	257	Unamortized Gain on Reacquired Debt			
86	282	Accumulated deferred income taxes-Other property			
87	283	Accumulated deferred income taxes-Other			
88		Total Deferred Credits (Total of Lines 82-87)		8,606,718	10,342,713
89		TOTAL LIABILITIES AND PROPRIETARY CAPITAL (TOTAL OF LINES 55, 61, 67, 80, AND 88)		75,020,729	84,119,337

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 101 Line No.: 2 Column: d

Service Company Property is allocated monthly to subsidiaries.

Schedule Page: 101 Line No.: 2 Column: e

Service Company Property is allocated monthly to subsidiaries.

Schedule Page: 101 Line No.: 4 Column: d

Service Company Property is allocated monthly to subsidiaries.

Schedule Page: 101 Line No.: 4 Column: e

Service Company Property is allocated monthly to subsidiaries.

Schedule Page: 101 Line No.: 5 Column: d

Construction Work in Progress is not allocated.

Schedule Page: 101 Line No.: 5 Column: e

Construction Work in Progress is not allocated.

Schedule Page: 101 Line No.: 7 Column: d

Service Company Accumulated Provision is allocated monthly to subsidiaries. Retirement Work in Progress is not allocated.

Schedule Page: 101 Line No.: 7 Column: e

Service Company Accumulated Provision is allocated monthly to subsidiaries. Retirement Work in Progress is not allocated.

Schedule Page: 101 Line No.: 24 Column: d

Service Company Property (lines 2 & 4) and Accumulated Provision for Depreciation (line 7) are allocated to the subsidiaries. The associated receivable from the allocation is included in account 146.

Schedule Page: 101 Line No.: 24 Column: e

Service Company Property (lines 2 & 4) and Accumulated Provision for Depreciation (line 7) are allocated to the subsidiaries. The associated receivable from the allocation is included in account 146.

1. Provide an explanation of Other Changes recorded in Column (f) considered material in a footnote.
2. Describe each construction work in progress on lines 18 through 30 in Column (b).

Page 103

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 103 Line No.: 16 Column: c

The true property beginning balance is zero. The beginning balance activity in column C is the reversal of the entry which allocated all property at 12/31/16. Presented in this format to show the flow of activity and the amount of property that is allocated by Service Company.

Schedule Page: 103 Line No.: 16 Column: f

Includes the allocation of Service Company Property, which is allocated monthly to subsidiaries, and miscellaneous adjustments.

Schedule Page: 103 Line No.: 31 Column: g

Construction Work in Progress is not allocated.

1. Provide an explanation of Other Charges in Column (f) considered material in a footnote.

FERC FORM NO. 60 (NEW 12-05) Page 104

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 104 Line No.: 16 Column: c

The true Accumulated Provision beginning balance is zero, with the exception of Retirement Work in Progress. The beginning balance activity in column C is the reversal of the entry which allocated all Accumulated Provisions at 12/31/16. Presented in this format to show the flow of activity and the amount of Accumulated Provision that is allocated by Service Company.

Schedule Page: 104 Line No.: 16 Column: f

Includes the allocation of Service Company's Accumulated Provision which is allocated to subsidiaries on a monthly basis, and miscellaneous adjustments.

Schedule IV – Investments

1. For other investments (Account 124) and other special funds (Account 128), in a footnote state each investment separately, with description including the name of issuing company, number of shares held or principal investment amount.
2. For temporary cash investments (Account 136), list each investment separately in a footnote.
3. Investments less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	123	Investment In Associate Companies		
2	124	Other Investments		
3	128	Other Special Funds	6,622,248	7,043,640
4	136	Temporary Cash Investments		
5		(Total of Lines 1-4)	6,622,248	7,043,640

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 105 Line No.: 3 Column: c

PEP Insurance Cash Surrender Values.

Schedule Page: 105 Line No.: 3 Column: d

PEP Insurance Cash Surrender Values.

<ol style="list-style-type: none"> 1. List the accounts receivable from each associate company. 2. If the service company has provided accommodation or convenience payments for associate companies, provide in a separate footnote a listing of total payments for each associate company.
--

Page 106

Schedule VII – Stores Expense Undistributed

1. List the amount of labor in Column (c) and expenses in Column (d) incurred with respect to stores expense during the year and indicate amount attributable to each associate company.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	163	Stores Expense Undistributed			
2		Associate Company:			
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40	Total				

Schedule VIII - Miscellaneous Current and Accrued Assets

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	174	Miscellaneous Current and Accrued Assets		
2		Item List:		
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40	Total			

1. Provide detail of items in this account. Items less than \$50,000 may be grouped, showing the number of items in each group.

FERC FORM NO. 60 (REVISED 12-07) Page 110

1. Describe each material research, development, or demonstration project that incurred costs by the service corporation during the year. Items less than \$50,000 may be grouped, showing the number of items in each group.

Page 111

Schedule XI - Proprietary Capital

1. For miscellaneous paid-in capital (Account 211) and appropriate retained earnings (Account 215), classify amounts in each account, with a brief explanation, disclosing the general nature of transactions which give rise to the reported amounts.
2. For the unappropriated retained earnings (Account 216), in a footnote, give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentages, amount of dividend, date declared and date paid.

[illegible]

1. For the advances from associate companies (Account 223), describe in a footnote the advances on notes and advances on open accounts. Names of associate companies from which advances were received shall be shown under the class and series of obligation in Column (c).
2. For the deductions in Column (h), please give an explanation in a footnote.
3. For other long-term debt (Account 224), list the name of the creditor company or organization in Column (b).

FERC FORM NO. 60 (REVISED 12-07) Page 202

Schedule XIII – Current and Accrued Liabilities

1. Provide the balance of notes and accounts payable to each associate company (Accounts 233 and 234).
2. Give description and amount of miscellaneous current and accrued liabilities (Account 242). Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	233	Notes Payable to Associates Companies		
2		Non-Utility Money Pool	3,503,513	6,342,726
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24	234	Accounts Payable to Associate Companies	5,038,781	5,112,025
25		See attached schedule		
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41	242	Miscellaneous Current and Accrued Liabilities	18,653,437	14,420,093
42		See attached schecule		
43				
44				
45				
46				
47				
48				
49				
50		(Total)	27,195,731	25,874,844

Name of Respondent	This Report is:	Resubmission Date	Year of Report
Black Hills Service Company, LLC	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2017
FOOTNOTE DATA			

Schedule Page: 203 Line No.: 24 Column: c

Schedule XIII - Lines 24-40 - Page 203

BU	Company	2016
10102	Wyodak Resources Development Corp	45,702
10103	Black Hills Wyoming LLC	10,922
10109	Black Hills Electric Generation LLC	21,569
10110	Black Hills Non-Regulated Holdings LLC	667
10111	Black Hills Colorado IPP LLC	722
10197	Black Hills Explorations & Production LLC	76,539
50501	Black Hills Power Inc.	643,745
50502	Cheyenne Light Fuel And Power Company	138,633
50503	Black Hills Utility Holdings Inc.	2,321,589
50504	Black Hills Kansas Gas Utility Company LLC	109,943
50505	Black Hills Iowa Gas Utility Company LLC	52,835
50506	Black Hills Nebraska Gas Utility Company LLC	117,740
50507	Black Hills Colorado Electric Utility Company LP	119,456
50508	Black Hills Colorado Gas Utility Company LP	21,482
50509	Black Hills Northwest Wyoming Gas Utility Co	6,983
50510	Black Hills Shoshone Pipeline LLC	266
50511	Black Hills Energy Arkansas Inc.	128,048
50512	Black Hills Gas Distribution Colorado	31,470
50513	Black Hills Gas Distribution Nebraska	85,103
50514	Black Hills Gas Distribution Wyoming	41,694
50515	Rocky Mountain Natural Gas LLC	13,146
50516	Black Hills Energy Services Co	2,320
80801	Black Hills Corporation	1,048,207
Total		5,038,781

Schedule Page: 203 Line No.: 24 Column: d

Schedule XIII - Lines 24-40 - Page 203

BU	Company	2017
10102	Wyodak Resources Development Corp	26,115
10103	Black Hills Wyoming LLC	13,680
10109	Black Hills Electric Generation LLC	49,769
10110	Black Hills Non-Regulated Holdings LLC	62
10111	Black Hills Colorado IPP LLC	218
10112	Generation Development Co LLC	161
10114	N780BH LLC	181,209
10197	Black Hills Explorations & Production LLC	68,367
50501	Black Hills Power Inc.	1,578,575
50502	Cheyenne Light Fuel And Power Company	71,538
50503	Black Hills Utility Holdings Inc.	1,323,834
50504	Black Hills Kansas Gas Utility Company LLC	36,399
50505	Black Hills Iowa Gas Utility Company LLC	42,243
50506	Black Hills Nebraska Gas Utility Company LLC	73,612
50507	Black Hills Colorado Electric Utility Company LP	177,863
50508	Black Hills Colorado Gas Utility Company LP	17,478
50509	Black Hills Northwest Wyoming Gas Utility Co	10,930
50510	Black Hills Shoshone Pipeline LLC	200
50511	Black Hills Energy Arkansas Inc.	81,997
50512	Black Hills Gas Distribution Colorado	70,002
50513	Black Hills Gas Distribution Nebraska	46,167

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
Black Hills Service Company, LLC			2017
FOOTNOTE DATA			

50514	Black Hills Gas Distribution Wyoming	37,899
50515	Rocky Mountain Natural Gas LLC	19,763
50516	Black Hills Energy Services Co	13,255
80801	Black Hills Corporation	1,170,689

Total **5,112,025**

Schedule Page: 203 Line No.: 41 Column: c

Account and Description	2016
242001 ACCRUED AUDIT FEES	1,237,094
242003 ACCRUED BENEFITS COMP ABSENCES	1,748,821
242008 ACCRUED SERP OBLIG CURRENT	69,000
242009 SFAS 106 CURRENT PORTIONS	490,000
242010 ACCRUED PEP ST	1,101,000
242012 ACCRUED BOD CSE'S - CURRENT	640,300
242013 ACCRUED BENEFITS 401K	787,495
242028 ACCRD UNCL CHECKS/ESCHEATS	159
242041 ACCRUED INCENTIVE	9,724,323
242045 ACCRUED PAYROLL	1,142,046
242046 ACCRUED EE REIMBURSED EXP	59,771
242052 ACCRUED LT PERFORMANCE PLAN	1,135,790
242053 ACCRUED WORKER'S COMPENSATION	67,367
242999 ACCRUED OTHER	450,271
MISC CURRENT & ACCRUED LIAB	18,653,437

Schedule Page: 203 Line No.: 41 Column: d

Account and Description	2017
242001 ACCRUED AUDIT FEES	826,898
242003 ACCRUED BENEFITS COMP ABSENCES	1,873,199
242008 ACCRUED SERP OBLIG CURRENT	69,000
242009 SFAS 106 CURRENT PORTIONS	483,000
242010 ACCRUED PEP ST	891,000
242012 ACCRUED BOD CSE'S - CURRENT	589,440
242013 ACCRUED BENEFITS 401K	680,507
242041 ACCRUED INCENTIVE	6,793,828
242045 ACCRUED PAYROLL	1,165,522
242046 ACCRUED EE REIMBURSED EXP	46,569
242052 ACCRUED LT PERFORMANCE PLAN	717,448
242053 ACCRUED WORKER'S COMPENSATION	62,439
242560 ACCRUED LIAB ST NEG BAL RECLASS	18,286
242999 ACCRUED OTHER	202,957
MISC CURRENT & ACCRUED LIAB	14,420,093

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XIV- Notes to Financial Statements			

1. Use the space below for important notes regarding the financial statements or any account thereof.
2. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year.
3. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year.
4. Furnish particulars as to any amounts recorded in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.
5. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.
6. Describe the annual statement supplied to each associate service company in support of the amount of interest on borrowed capital and compensation for use of capital billed during the calendar year. State the basis for billing of interest to each associate company. If a ratio, describe in detail how ratio is computed. If more than one ratio explain the calculation. Report the amount of interest borrowed and/or compensation for use of capital billed to each associate company.

Organization

Black Hills Service Company, LLC (BHSC) is a wholly-owned subsidiary of Black Hills Corporation (BHC), a public utility holding company subject to the regulation of the Public Utility Holding Company Act of 2005 (PUHCA 2005). BHSC began operations effective January 1, 2006 as a service company under the Public Utility Holding Company Act of 1935, as amended (35 Act) to provide support and administrative services to BHC and its subsidiaries. The 35 Act was repealed with the enactment of PUHCA 2005.

Nature of Operations

BHSC provides services at cost. The cost of services are determined on a direct charge basis to the extent practicable and where not practicable, on a reasonable basis of allocation for indirect costs. The charges for services include no compensation for the use of capital.

Use of Estimates and Basis of Presentation

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or additional information may result in revised estimates and actual results could differ materially from those estimates.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Equivalents

We maintain cash accounts for various specified purposes. Therefore, we classify these amounts as restricted cash.

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Included in the cost of regulated construction projects is AFUDC, when applicable, which represents the approximate composite cost of borrowed funds and a return on equity used to finance a regulated utility project. We also capitalize interest, when applicable, on undeveloped leasehold costs and certain non-regulated construction projects. In addition, asset retirement costs associated with tangible long-lived regulated utility assets are recognized as liabilities with an increase to the carrying amounts of the related long-lived regulated utility assets in the period incurred. The amounts capitalized are included in Property, plant and equipment on the accompanying Consolidated Balance Sheets. We also classify our base or "cushion gas" as property, plant and equipment. Cushion gas is the portion of natural gas necessary to force saleable gas from a storage field into the

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XIV- Notes to Financial Statements			

transmission system and for system balancing, representing a permanent investment necessary to use storage facilities and maintain reliability.

The cost of regulated utility property, plant and equipment retired, or otherwise disposed of in the ordinary course of business, less salvage plus retirement costs, is charged to accumulated depreciation. Estimated removal costs associated with non-legal obligations related to our regulated properties are reclassified from accumulated depreciation and reflected as regulatory liabilities. Retirement or disposal of all other assets, except for crude oil and natural gas properties as described below, result in gains or losses recognized as a component of operating income. Ordinary repairs and maintenance of property, except as allowed under rate regulations, are charged to operations as incurred.

Depreciation provisions for property, plant and equipment are generally computed on a straight-line basis based on the applicable estimated service life of the various class of property. Capitalized coal mining costs and coal leases are amortized on a unit-of-production method based on volumes produced and estimated reserves. For certain non-utility power plant components, depreciation is computed on a unit-of-production methodology based on plant hours run.

Regulatory Accounting

Our Electric Utilities and Gas Utilities follow accounting standards for regulated operations and reflect the effects of the numerous rate-making principles followed by the various state and federal agencies regulating the utilities. The accounting policies followed are generally subject to the Uniform System of Accounts of the FERC. These accounting policies differ in some respects from those used by our non-regulated businesses. If rate recovery becomes unlikely or uncertain due to competition or regulatory action, these accounting standards may no longer apply which would require these net assets to be charged to current income or OCI. Our regulatory assets represent amounts for which we will recover the cost, but generally are not allowed a return, except as described below. In the event we determine that our regulated net assets no longer meet the criteria for following accounting standards for regulated operations, the accounting impact to us could be an extraordinary non-cash charge to operations, which could be material.

Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. As a result of the SourceGas transaction, certain subsidiaries acquired file as a separate consolidated group. Where applicable, each tax-paying entity records income taxes as if it were a separate taxpayer and consolidating adjustments are allocated to the subsidiaries based on separate company computations of taxable income or loss.

We use the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized at currently enacted income tax rates, to reflect the tax effect of temporary differences between the financial and tax basis of assets and liabilities as well as operating loss and tax credit carry forwards. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements.

It is our policy to apply the flow-through method of accounting for investment tax credits. Under the flow-through method, investment tax credits are reflected in net income as a reduction to income tax expense in the year they qualify. An exception to this general policy is the deferral method, which applies to our regulated businesses. Such a method results in the investment tax credit being amortized as a reduction to income tax expense over the estimated

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XIV- Notes to Financial Statements			

useful lives of the underlying property that generated the credit.

We recognize interest income or interest expense and penalties related to income tax matters in Income tax (expense) benefit on the Consolidated Statements of Income (Loss).

We account for uncertainty in income taxes recognized in the financial statements in accordance with the accounting standards for income taxes. The unrecognized tax benefit is classified in Other deferred credits and other liabilities on the accompanying Consolidated Balance Sheets.

Acquisition

On February 12, 2016, Black Hills Corporation acquired SourceGas, pursuant to the purchase and sale agreement executed on July 12, 2015 for approximately \$1.89 billion, including the assumption of \$760 million in debt at closing. The purchase price was subject to post-closing adjustments for capital expenditures, indebtedness and working capital. Post-closing adjustments of approximately \$11 million were agreed to and received from the sellers in June 2016. SourceGas is a 100% owned subsidiary of Black Hills Utility Holdings, Inc., a wholly-owned subsidiary of Black Hills Corporation and has been renamed Black Hills Gas Holdings, LLC. Black Hills Gas Holdings primarily operates four regulated natural gas utilities serving approximately 429,000 customers in Arkansas, Colorado, Nebraska and Wyoming, and a 512-mile regulated intrastate natural gas transmission pipeline in Colorado.

Employee Benefit Plans

On February 12, 2016, as disclosed in Note 2, we completed the acquisition of SourceGas, adding an additional defined benefit pension plan, two additional defined benefit healthcare postretirement plans and a 401K retirement savings plan to cover employees of the utilities acquired. Benefits under these plans are determined based on each employee's compensation, years of service, and/or age at retirement, among other factors.

In accordance with accounting standards, the SourceGas benefit liabilities were re-measured as of February 11, 2016. In addition, prior service costs not previously expensed were reclassified to a Regulatory asset and will be amortized over the average remaining service life of the plans.

Defined Contribution Plans

We sponsor 401(k) retirement savings plans (the 401(k) Plans). Participants in the 401(k) Plans may elect to invest a portion of their eligible compensation in the 401(k) Plans up to the maximum amounts established by the IRS. The 401(k) Plans provide employees the opportunity to invest up to 50% of their eligible compensation on a pre-tax or after-tax basis.

The 401(k) Plans provide either a Company Matching Contribution or a Non-Elective Safe Harbor Contribution for all eligible participants, depending upon the Plan in which the employee participates. Certain eligible participants receive a Company Retirement Contribution based on the participant's age and years of service or a Company Discretionary Contribution, depending upon the pension plan in which the employee participates. Vesting of all Company contributions ranges from immediate vesting to graduated vesting at 20% per year with 100% vesting when the participant has 5 years of service with the Company.

The SourceGas Retirement Savings Plan was merged into the Black Hills Corporation Retirement Savings Plan effective

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XIV- Notes to Financial Statements			

December 31, 2017. The plan design of the Black Hills Corporation 401(k) Plan will apply to all employees as of January 1, 2018.

Defined Benefit Pension Plans (Pension Plans)

At December 31, 2016 our three previous defined benefit pension plans consisting of the Black Hills Corporation Pension Plan, the Black Hills Utility Holding, Inc. Pension Plan and the SourceGas Retirement Plan were merged into one single plan, the Black Hills Retirement Plan (Pension Plan). The Pension Plan covers certain eligible employees of the Company. The benefits for the Pension Plan are based on years of service and calculations of average earnings during a specific time period prior to retirement. The Pension Plan is closed to new employees and frozen for certain employees who did not meet age and service based criteria.

The Pension Plan assets are held in a Master Trust. Due to the plan merger on December 31, 2016, reporting beginning in 2017 no longer represents an undivided interest in the Master Trust. Our Board of Directors has approved the Pension Plan's investment policy. The objective of the investment policy is to manage assets in such a way that will allow the eventual settlement of our obligations to the Pension Plan's beneficiaries. To meet this objective, our pension assets are managed by an outside adviser using a portfolio strategy that will provide liquidity to meet the Pension Plan's benefit payment obligations. The Pension Plan's assets consist primarily of equity, fixed income and hedged investments.

The expected rate of return on the Pension Plan assets is based on a targeted asset allocation range determined by the funded ratio of the plan. As of December 31, 2017, the expected rate of return on pension plan assets was based on the targeted asset allocation range of 37% to 45% equity securities and 55% to 63% fixed-income securities and the expected rate of return from these asset categories. The expected rate of return on other postretirement plan assets was based on the targeted asset allocation range of 15% to 25% equity securities and 75% to 85% fixed-income securities and the expected rate of return from these asset categories.

The expected long-term rate of return for investments was 6.25% and 6.75% for the Pension Plan 2017 and 2016 plan years, respectively. Our Pension Plan is funded in compliance with the federal government's funding requirements.

Supplemental Non-qualified Defined Benefit Plans

We have various supplemental retirement plans for key executives of the Company. The plans are non-qualified defined benefit and defined contribution plans (Supplemental Plans). The Supplemental Plans are subject to various vesting schedules and are not funded by the Company.

Non-pension Defined Benefit Postretirement Healthcare Plans

BHC sponsors retiree healthcare plans (Healthcare Plans) for employees who meet certain age and service requirements at retirement. Healthcare Plan benefits are subject to premiums, deductibles, co-payment provisions and other limitations. A portion of the Healthcare Plans for participating business units are pre-funded via VEBAs. Pre-65 retirees as well as a grandfathered group of post-65 Cheyenne Light, Fuel and Power ("CLFP") retirees and a grandfathered group of post-65 former SourceGas employees who retired prior to January 1, 2017 receive their retiree medical benefits through the Black Hills self-insured retiree medical plans.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XIV- Notes to Financial Statements			

Healthcare coverage for Medicare-eligible BHC and Black Hills Utility Holdings retirees is provided through an individual market healthcare exchange. Medicare-eligible SourceGas employees who retired after December 31, 2016 also receive retiree medical coverage through an individual market healthcare exchange.

Legal Proceedings

In the normal course of business, we are subject to various lawsuits, actions, proceedings, claims and other matters asserted under laws and regulations. We believe the amounts provided in the consolidated financial statements to satisfy alleged liabilities are adequate in light of the probable and estimable contingencies. However, there can be no assurance that the actual amounts required to satisfy alleged liabilities from various legal proceedings, claims and other matters discussed, and to comply with applicable laws and regulations will not exceed the amounts reflected in the consolidated financial statements.

In the normal course of business, we enter into agreements that include indemnification in favor of third parties, such as information technology agreements, purchase and sale agreements and lease contracts. We have also agreed to indemnify our directors, officers and employees in accordance with our articles of incorporation, as amended. Certain agreements do not contain any limits on our liability and therefore, it is not possible to estimate our potential liability under these indemnifications. In certain cases, we have recourse against third parties with respect to these indemnities. Further, we maintain insurance policies that may provide coverage against certain claims under these indemnities.

Schedule XV- Comparative Income Statement				
Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
1		SERVICE COMPANY OPERATING REVENUES		
2	400	Service Company Operating Revenues	164,512,654	193,114,889
3		SERVICE COMPANY OPERATING EXPENSES		
4	401	Operation Expenses	142,897,950	172,623,798
5	402	Maintenance Expenses	10,797,447	11,483,620
6	403	Depreciation Expenses	8,601,461	7,194,280
7	403.1	Depreciation Expense for Asset Retirement Costs		
8	404	Amortization of Limited-Term Property		
9	405	Amortization of Other Property		
10	407.3	Regulatory Debits		
11	407.4	Regulatory Credits		
12	408.1	Taxes Other Than Income Taxes, Operating Income	268,198	107,077
13	409.1	Income Taxes, Operating Income		
14	410.1	Provision for Deferred Income Taxes, Operating Income		
15	411.1	Provision for Deferred Income Taxes – Credit , Operating Income		
16	411.4	Investment Tax Credit, Service Company Property		
17	411.6	Gains from Disposition of Service Company Plant		
18	411.7	Losses from Disposition of Service Company Plant		
19	411.10	Accretion Expense		
20	412	Costs and Expenses of Construction or Other Services		
21	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work	189,408	145,048
22		TOTAL SERVICE COMPANY OPERATING EXPENSES (Total of Lines 4-21)	162,754,464	191,553,823
23		NET SERVICE COMPANY OPERATING INCOME (Total of Lines 2 less 22)	1,758,190	1,561,066
24		OTHER INCOME		
25	418.1	Equity in Earnings of Subsidiary Companies		
26	419	Interest and Dividend Income	6,530	
27	419.1	Allowance for Other Funds Used During Construction		
28	421	Miscellaneous Income or Loss	265,237	611,126
29	421.1	Gain on Disposition of Property		
30		TOTAL OTHER INCOME (Total of Lines 25-29)	271,767	611,126
31		OTHER INCOME DEDUCTIONS		
32	421.2	Loss on Disposition of Property		
33	425	Miscellaneous Amortization		
34	426.1	Donations	95,177	980,544
35	426.2	Life Insurance		
36	426.3	Penalties	1,074	13,361
37	426.4	Expenditures for Certain Civic, Political and Related Activities	586,328	502,859
38	426.5	Other Deductions	1,257,669	532,519
39		TOTAL OTHER INCOME DEDUCTIONS (Total of Lines 32-38)	1,940,248	2,029,283
40		TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS		

Schedule XV- Comparative Income Statement (continued)

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
41	408.2	Taxes Other Than Income Taxes, Other Income and Deductions		
42	409.2	Income Taxes, Other Income and Deductions		
43	410.2	Provision for Deferred Income Taxes, Other Income and Deductions		
44	411.2	Provision for Deferred Income Taxes – Credit, Other Income and Deductions		
45	411.5	Investment Tax Credit, Other Income Deductions		
46		TOTAL TAXES APPLICABLE TO OTHER INCOME AND DEDUCTIONS (Total of Lines 41-45)		
47		INTEREST CHARGES		
48	427	Interest on Long-Term Debt		
49	428	Amortization of Debt Discount and Expense		
50	429	(less) Amortization of Premium on Debt- Credit		
51	430	Interest on Debt to Associate Companies	115,508	247,240
52	431	Other Interest Expense	(25,799)	(104,331)
53	432	(less) Allowance for Borrowed Funds Used During Construction-Credit		
54		TOTAL INTEREST CHARGES (Total of Lines 48-53)	89,709	142,909
55		NET INCOME BEFORE EXTRAORDINARY ITEMS (Total of Lines 23, 30, minus 39, 46, and 54)		
56		EXTRAORDINARY ITEMS		
57	434	Extraordinary Income		
58	435	(less) Extraordinary Deductions		
59		Net Extraordinary Items (Line 57 less Line 58)		
60	409.4	(less) Income Taxes, Extraordinary		
61		Extraordinary Items After Taxes (Line 59 less Line 60)		
62		NET INCOME OR LOSS/COST OF SERVICE (Total of Lines 55-61)		

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 301 Line No.: 36 Column: c

\$1,074 is tax return penalites.

Schedule Page: 301 Line No.: 36 Column: d

\$3,161 is tax return penalites. \$10,200 is penalty on foreign insurance excise tax.

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies								
1. Total cost of service will equal for associate and nonassociate companies the total amount billed under their separate analysis of billing schedules.								
Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
1	403-403.1	Depreciation Expense	(69,515)	8,670,976	8,601,461			
2	404-405	Amortization Expense						
3	407.3-407.4	Regulatory Debits/Credits – Net						
4	408.1-408.2	Taxes Other Than Income Taxes	(32,465)	300,662	268,197			
5	409.1-409.3	Income Taxes						
6	410.1-411.2	Provision for Deferred Taxes						
7	411.1-411.2	Provision for Deferred Taxes – Credit						
8	411.6	Gain from Disposition of Service Company Plant						
9	411.7	Losses from Disposition of Service Company Plant						
10	411.4-411.5	Investment Tax Credit Adjustment						
11	411.10	Accretion Expense						
12	412	Costs and Expenses of Construction or Other Services						
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies	189,408		189,408			
14	418	Non-operating Rental Income						
15	418.1	Equity in Earnings of Subsidiary Companies						
16	419	Interest and Dividend Income	690	5,840	6,530			
17	419.1	Allowance for Other Funds Used During Construction						
18	421	Miscellaneous Income or Loss		265,237	265,237			
19	421.1	Gain on Disposition of Property						
20	421.2	Loss on Disposition Of Property						
21	425	Miscellaneous Amortization						
22	426.1	Donations	27,355	67,822	95,177			
23	426.2	Life Insurance						
24	426.3	Penalties	1,074		1,074			
25	426.4	Expenditures for Certain Civic, Political and Related Activities	175,164	411,164	586,328			
26	426.5	Other Deductions		1,257,669	1,257,669			
27	427	Interest On Long-Term Debt						
28	428	Amortization of Debt Discount and Expense						
29	429	Amortization of Premium on Debt – Credit						
30	430	Interest on Debt to Associate Companies		115,508	115,508			
31	431	Other Interest Expense	(39,822)	14,023	(25,799)			
32	432	Allowance for Borrowed Funds Used During Construction						
33	500-509	Total Steam Power Generation Operation Expenses	976	26,863	27,839			
34	510-515	Total Steam Power Generation Maintenance Expenses	2,360,337	(100)	2,360,237			

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
35	517-525	Total Nuclear Power Generation Operation Expenses						
36	528-532	Total Nuclear Power Generation Maintenance Expenses						
37	535-540.1	Total Hydraulic Power Generation Operation Expenses						
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses						
39	546-550.1	Total Other Power Generation Operation Expenses	3,443,860	38,417	3,482,277			
40	551-554.1	Total Other Power Generation Maintenance Expenses	1,209,142		1,209,142			
41	555-557	Total Other Power Supply Operation Expenses	68,621		68,621			
42	560	Operation Supervision and Engineering						
43	561.1	Load Dispatch-Reliability						
44	561.2	Load Dispatch-Monitor and Operate Transmission System	25,730		25,730			
45	561.3	Load Dispatch-Transmission Service and Scheduling						
46	561.4	Scheduling, System Control and Dispatch Services						
47	561.5	Reliability Planning and Standards Development	495,942		495,942			
48	561.6	Transmission Service Studies						
49	561.7	Generation Interconnection Studies						
50	561.8	Reliability Planning and Standards Development Services						
51	562	Station Expenses (Major Only)						
52	563	Overhead Line Expenses (Major Only)						
53	564	Underground Line Expenses (Major Only)						
54	565	Transmission of Electricity by Others (Major Only)						
55	566	Miscellaneous Transmission Expenses (Major Only)	252,183		252,183			
56	567	Rents						
57	567.1	Operation Supplies and Expenses (Nonmajor Only)						
58		Total Transmission Operation Expenses	773,855		773,855			
59	568	Maintenance Supervision and Engineering (Major Only)						
60	569	Maintenance of Structures (Major Only)						
61	569.1	Maintenance of Computer Hardware						
62	569.2	Maintenance of Computer Software						
63	569.3	Maintenance of Communication Equipment						
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant						
65	570	Maintenance of Station Equipment (Major Only)						
66	571	Maintenance of Overhead Lines (Major Only)						
67	572	Maintenance of Underground Lines (Major Only)						
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)						

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
69	574	Maintenance of Transmission Plant (Nonmajor Only)						
70		Total Transmission Maintenance Expenses						
71	575.1-575.8	Total Regional Market Operation Expenses						
72	576.1-576.5	Total Regional Market Maintenance Expenses						
73	580-589	Total Distribution Operation Expenses	28,479		28,479			
74	590-598	Total Distribution Maintenance Expenses	1,704		1,704			
75		Total Electric Operation and Maintenance Expenses	8,137,483	10,631,927	18,769,410			
76	700-798	Production Expenses (Provide selected accounts in a footnote)	4,752		4,752			
77	800-813	Total Other Gas Supply Operation Expenses	12		12			
78	814-826	Total Underground Storage Operation Expenses						
79	830-837	Total Underground Storage Maintenance Expenses						
80	840-842.3	Total Other Storage Operation Expenses						
81	843.1-843.9	Total Other Storage Maintenance Expenses						
82	844.1-846.2	Total Liquefied Natural Gas Terminaling and Processing Operation Expenses						
83	847.1-847.8	Total Liquefied Natural Gas Terminaling and Processing Maintenance Expenses						
84	850	Operation Supervision and Engineering	233		233			
85	851	System Control and Load Dispatching.						
86	852	Communication System Expenses						
87	853	Compressor Station Labor and Expenses						
88	854	Gas for Compressor Station Fuel						
89	855	Other Fuel and Power for Compressor Stations						
90	856	Mains Expenses						
91	857	Measuring and Regulating Station Expenses						
92	858	Transmission and Compression of Gas By Others						
93	859	Other Expenses						
94	860	Rents						
95		Total Gas Transmission Operation Expenses	233		233			
96	861	Maintenance Supervision and Engineering						
97	862	Maintenance of Structures and Improvements						
98	863	Maintenance of Mains	464		464			
99	864	Maintenance of Compressor Station Equipment						
100	865	Maintenance of Measuring And Regulating Station Equipment						
101	866	Maintenance of Communication Equipment						
102	867	Maintenance of Other Equipment						
103		Total Gas Transmission Maintenance Expenses	464		464			
104	870-881	Total Distribution Operation Expenses	53,775		53,775			

[illegible]

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)					
Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
1	403-403.1	Depreciation Expense	(69,515)	8,670,976	8,601,461
2	404-405	Amortization Expense			
3	407.3-407.4	Regulatory Debits/Credits – Net			
4	408.1-408.2	Taxes Other Than Income Taxes	(32,465)	300,662	268,197
5	409.1-409.3	Income Taxes			
6	410.1-411.2	Provision for Deferred Taxes			
7	411.1-411.2	Provision for Deferred Taxes – Credit			
8	411.6	Gain from Disposition of Service Company Plant			
9	411.7	Losses from Disposition of Service Company Plant			
10	411.4-411.5	Investment Tax Credit Adjustment			
11	411.10	Accretion Expense			
12	412	Costs and Expenses of Construction or Other Services			
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies	189,408		189,408
14	418	Non-operating Rental Income			
15	418.1	Equity in Earnings of Subsidiary Companies			
16	419	Interest and Dividend Income	690	5,840	6,530
17	419.1	Allowance for Other Funds Used During Construction			
18	421	Miscellaneous Income or Loss		265,237	265,237
19	421.1	Gain on Disposition of Property			
20	421.2	Loss on Disposition Of Property			
21	425	Miscellaneous Amortization			
22	426.1	Donations	27,355	67,822	95,177
23	426.2	Life Insurance			
24	426.3	Penalties	1,074		1,074
25	426.4	Expenditures for Certain Civic, Political and Related Activities	175,164	411,164	586,328
26	426.5	Other Deductions		1,257,669	1,257,669
27	427	Interest On Long-Term Debt			
28	428	Amortization of Debt Discount and Expense			
29	429	Amortization of Premium on Debt – Credit			
30	430	Interest on Debt to Associate Companies		115,508	115,508
31	431	Other Interest Expense	(39,822)	14,023	(25,799)
32	432	Allowance for Borrowed Funds Used During Construction			
33	500-509	Total Steam Power Generation Operation Expenses	976	26,863	27,839
34	510-515	Total Steam Power Generation Maintenance Expenses	2,360,337	(100)	2,360,237

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
35	517-525	Total Nuclear Power Generation Operation Expenses			
36	528-532	Total Nuclear Power Generation Maintenance Expenses			
37	535-540.1	Total Hydraulic Power Generation Operation Expenses			
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses			
39	546-550.1	Total Other Power Generation Operation Expenses	3,443,860	38,417	3,482,277
40	551-554.1	Total Other Power Generation Maintenance Expenses	1,209,142		1,209,142
41	555-557	Total Other Power Supply Operation Expenses	68,621		68,621
42	560	Operation Supervision and Engineering			
43	561.1	Load Dispatch-Reliability			
44	561.2	Load Dispatch-Monitor and Operate Transmission System	25,730		25,730
45	561.3	Load Dispatch-Transmission Service and Scheduling			
46	561.4	Scheduling, System Control and Dispatch Services			
47	561.5	Reliability Planning and Standards Development	495,942		495,942
48	561.6	Transmission Service Studies			
49	561.7	Generation Interconnection Studies			
50	561.8	Reliability Planning and Standards Development Services			
51	562	Station Expenses (Major Only)			
52	563	Overhead Line Expenses (Major Only)			
53	564	Underground Line Expenses (Major Only)			
54	565	Transmission of Electricity by Others (Major Only)			
55	566	Miscellaneous Transmission Expenses (Major Only)	252,183		252,183
56	567	Rents			
57	567.1	Operation Supplies and Expenses (Nonmajor Only)			
58		Total Transmission Operation Expenses	773,855		773,855
59	568	Maintenance Supervision and Engineering (Major Only)			
60	569	Maintenance of Structures (Major Only)			
61	569.1	Maintenance of Computer Hardware			
62	569.2	Maintenance of Computer Software			
63	569.3	Maintenance of Communication Equipment			
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant			
65	570	Maintenance of Station Equipment (Major Only)			
66	571	Maintenance of Overhead Lines (Major Only)			
67	572	Maintenance of Underground Lines (Major Only)			
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)			

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)					
Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
69	574	Maintenance of Transmission Plant (Nonmajor Only)			
70		Total Transmission Maintenance Expenses			
71	575.1-575.8	Total Regional Market Operation Expenses			
72	576.1-576.5	Total Regional Market Maintenance Expenses			
73	580-589	Total Distribution Operation Expenses	28,479		28,479
74	590-598	Total Distribution Maintenance Expenses	1,704		1,704
75		Total Electric Operation and Maintenance Expenses	8,137,483	10,631,927	18,769,410
76	700-798	Production Expenses (Provide selected accounts in a footnote)	4,752		4,752
77	800-813	Total Other Gas Supply Operation Expenses	12		12
78	814-826	Total Underground Storage Operation Expenses			
79	830-837	Total Underground Storage Maintenance Expenses			
80	840-842.3	Total Other Storage Operation Expenses			
81	843.1-843.9	Total Other Storage Maintenance Expenses			
82	844.1-846.2	Total Liquefied Natural Gas Terminaling and Processing Operation Expenses			
83	847.1-847.8	Total Liquefied Natural Gas Terminaling and Processing Maintenance Expenses			
84	850	Operation Supervision and Engineering	233		233
85	851	System Control and Load Dispatching.			
86	852	Communication System Expenses			
87	853	Compressor Station Labor and Expenses			
88	854	Gas for Compressor Station Fuel			
89	855	Other Fuel and Power for Compressor Stations			
90	856	Mains Expenses			
91	857	Measuring and Regulating Station Expenses			
92	858	Transmission and Compression of Gas By Others			
93	859	Other Expenses			
94	860	Rents			
95		Total Gas Transmission Operation Expenses	233		233
96	861	Maintenance Supervision and Engineering			
97	862	Maintenance of Structures and Improvements			
98	863	Maintenance of Mains	464		464
99	864	Maintenance of Compressor Station Equipment			
100	865	Maintenance of Measuring And Regulating Station Equipment			
101	866	Maintenance of Communication Equipment			
102	867	Maintenance of Other Equipment			
103		Total Gas Transmission Maintenance Expenses	464		464
104	870-881	Total Distribution Operation Expenses	53,775		53,775

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)					
Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
105	885-894	Total Distribution Maintenance Expenses	2,073		2,073
106		Total Natural Gas Operation and Maintenance Expenses	61,309		61,309
107	901	Supervision	15,636		15,636
108	902	Meter reading expenses	15,097		15,097
109	903	Customer records and collection expenses	17,494		17,494
110	904	Uncollectible accounts			
111	905	Miscellaneous customer accounts expenses	1,955		1,955
112	906	Total Customer Accounts Operation Expenses	50,182		50,182
113	907	Supervision			
114	908	Customer assistance expenses	862		862
115	909	Informational And Instructional Advertising Expenses	311		311
116	910	Miscellaneous Customer Service And Informational Expenses	32,038		32,038
117		Total Service and Informational Operation Accounts	33,211		33,211
118	911	Supervision			
119	912	Demonstrating and Selling Expenses	1,514		1,514
120	913	Advertising Expenses	1,384		1,384
121	916	Miscellaneous Sales Expenses			
122		Total Sales Operation Expenses	2,898		2,898
123	920	Administrative and General Salaries	13,748,393	37,319,616	51,068,009
124	921	Office Supplies and Expenses	9,644,769	8,869,863	18,514,632
125	923	Outside Services Employed	6,568,945	9,749,994	16,318,939
126	924	Property Insurance	2,098,823	4,774	2,103,597
127	925	Injuries and Damages	658,035	7,279,233	7,937,268
128	926	Employee Pensions and Benefits	376,667	34,013,392	34,390,059
129	928	Regulatory Commission Expenses	1,921		1,921
130	930.1	General Advertising Expenses	23,890	97,879	121,769
131	930.2	Miscellaneous General Expenses	125,850	1,810,711	1,936,561
132	931	Rents	459,934	5,519,125	5,979,059
133		Total Administrative and General Operation Expenses	33,707,227	104,664,587	138,371,814
134	935	Maintenance of Structures and Equipment	1,990,259	5,233,571	7,223,830
135		Total Administrative and General Maintenance Expenses	35,783,777	109,898,158	145,681,935
136		Total Cost of Service	43,982,569	120,530,085	164,512,654

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 304 Line No.: 13 Column: e

416000 EXP MERCH JOBBING & CONTRACT	3,478.00
417000 NONUTILITY REVENUES	-
417100 NONUTILITY EXPENSES - COS	48,302.00
417101 NONUTILITY EXP - OTHER O&M	96,254.00
417158 NONUTILITY OPS EXPENSE OTHER	1,092.00
417160 NONUTILITY SELLING EXPENSE	20,448.00
417161 NONUTILITY ADMIN & GENERAL.	19,834.00
	<u>189,408.00</u>

Schedule Page: 304 Line No.: 76 Column: e

759000 NG PROD GATH OTHER EXPENSES \$4,752

Schedule Page: 304 Line No.: 123 Column: c

This amount includes the A&G loading offset, account 922000.

Schedule XVII - Analysis of Billing – Associate Companies (Account 457)

1. For services rendered to associate companies (Account 457), list all of the associate companies.

Line No.	Name of Associate Company	Account 457.1 Direct Costs Charged	Account 457.2 Indirect Costs Charged	Account 457.3 Compensation For Use of Capital	Total Amount Billed
	(a)	(b)	(c)	(d)	(e)
1	Wyodak Resources Dev Corp	1,215,896	3,409,464		4,625,360
2	Black Hills Wyoming LLC	497,727	1,700,758		2,198,485
3	Black Hills Electric Generation LLC	389,762	35,883		425,645
4	Black Hills Non-Regulated Holdings LLC	1,016			1,016
5	Black Hills Colorado IPP, LLC	2,239,899	3,124,837		5,364,736
6	Generation Development Co LLC	92			99
7	N780BH LLC	63,463			63,463
8	Black Hills Exploration & Production LLC	940,409	(949,705)		(9,296)
9	Black Hills Power Inc	3,941,878	17,839,483		21,781,361
10	Cheyenne Light Fuel and Power	3,725,162	8,625,539		12,350,701
11	Black Hills Utility Holdings Inc	19,834,390	18,285,334		38,119,724
12	Black Hills Kansas Gas Utility Co LLC	810,496	5,787,104		6,597,600
13	Black Hills Iowa Gas Utility Co LLC	725,473	6,706,040		7,431,513
14	Black Hills Nebraska Gas Utility Co LLC	687,580	8,162,057		8,849,637
15	Black Hills Colorado Electric Utility Co LP	2,930,750	12,462,676		15,393,426
16	Black Hills Colorado Gas Utility Co LP	668,404	2,702,896		3,371,300
17	Black Hills Northwest Wyoming Gas Utility Co	140,168	596,452		736,620
18	Black Hills Shoshone Pipeline LLC	50,128	15,132		65,260
19	Black Hills Energy Arkansas, Inc	1,144,173	11,590,521		12,734,694
20	Black Hills Gas Distribution Colorado	453,140	4,881,420		5,334,560
21	Black Hills Gas Distribution Nebraska	190,653	7,346,835		7,537,488
22	Black Hills Gas Distribution Wyoming	360,993	4,832,671		5,193,664
23	Rocky Mountain Natural Gas LLC	298,672	2,185,407		2,484,079
24	Black Hills Energy Services Company	297,080	648,569		945,649
25	Black Hills Corporation	2,375,165	540,712		2,915,877
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40	Total	43,982,569	120,530,085		164,512,654

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
FOOTNOTE DATA			

Schedule Page: 307 Line No.: 8 Column: c

Black Hills Exploration & Production LLC was classified as discontinued operations November 2017. All Service Company allocations were reversed.

Resubmission Date (Mo, Da, Yr) / /
--

Year/Period of Report
Dec 31, <u>2017</u>

Schedule XVIII – Analysis of Billing – Non-Associate Companies (Account 458)

1. For services rendered to nonassociate companies (Account 458), list all of the nonassociate companies. In a footnote, describe the services rendered to each respective nonassociate company.

Line No.	Name of Non-associate Company	Account 458.1 Direct Costs Charged	Account 458.2 Indirect Costs Charged	Account 458.3 Compensation For Use of Capital	Account 458.4 Excess or Deficiency on Servicing Non-associate Utility Companies	Total Amount Billed
	(a)	(b)	(c)	(d)	(e)	(f)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						
38						
39						
40	Total					

1. Provide a listing of the amount included in Account 930.2, "Miscellaneous General Expenses" classifying such expenses according to their nature. Amounts less than \$50,000 may be grouped showing the number of items and the total for the group.
2. Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. 441(b)(2)) shall be separately classified.

FERC FORM NO. 60 (REVISED 12-07) Page 309

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XX - Organization Chart			

1. Provide a graphical presentation of the relationships and inter relationships within the service company that identifies lines of authority and responsibility in the organization.

OFFICER	TITLE
David R. Emery	Chairman and Chief Executive Officer
Linden R. Evans	President and Chief Operating Officer
Richard W. Kinzley	Senior Vice President and Chief Financial Officer
Brian G. Iverson	Senior Vice President and General Counsel (also Chief Compliance Officer and Assistant Secretary)
Robert A. Myers	Senior Vice President - (a)
Scott A. Buchholz	Senior Vice President – Chief Information Officer
Jennifer C. Landis	Senior Vice President – Chief Human Resources Officer – (b)
Roxann R. Basham	Vice President – Governance and Corporate Secretary
Esther J. Newbrough	Vice President – Corporate Controller
Kimberly F. Nooney	Vice President – Treasurer
Jeffrey B. Berzina	Vice President – Strategic Planning and Development
Melinda Lee Watkins	Vice President – Tax
Amy K. Koenig	Assistant Corporate Secretary
Kyle D. White	Vice President – Regulatory Strategy
Marne M. Jones	Vice President – Regulatory – (c)
Perry S. Krush	Vice President – Facilities
Karen Beachy	Vice President – Supply Chain
Mark L. Lux	Vice President – Power Generation, Safety and Environmental

BOARD OF DIRECTORS

No Directors

MEMBERS/MANAGERS

Sole Member	Black Hills Corporation
Manager	David R. Emery
Manager	Linden R. Evans
Manager	Richard W Kinzley
Manager	Brian G. Iverson

(a) Robert A. Myers' title changed from Senior Vice President – Chief Human Resources Officer to

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XX - Organization Chart			

Senior Vice President effective February 1, 2017; he subsequently retired on April 1, 2017

(b) Jennifer C. Landis' title changed from Vice President – Human Resources to Senior Vice President – Chief Human Resources Officer effective February 1, 2017

(c) Marne M. Jones was appointed Vice President – Regulatory effective February 1, 2017

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XXI - Methods of Allocation			

1. Indicate the service department or function and the basis for allocation used when employees render services to more than one department or functional group. If a ratio, include the numerator and denominator.

2. Include any other allocation methods used to allocate costs.

Black Hills Service Company costs are either directly charged to a subsidiary, or indirectly allocated when the cost is not associated with a specific subsidiary. Indirect costs are allocated using one of several pre-defined allocation ratios. Each department has been assigned one of these allocation ratios. All indirect costs of that department are then allocated using that ratio. When determining which allocation ratio should be assigned to each department, a ratio is selected based on the specific cost driver of that department. For instance, the expenses incurred by a Human Resources department are primarily related to their support of all company employees. In this example, the cost driver for the Human Resources department indirect costs is employees. Therefore, their indirect costs will be allocated based upon the Employee Ratio.

For certain departments, a specific cost driver may not be clearly identifiable or the driver may not be cost effective to compute on a continuing basis. In these instances, a three-pronged general allocation ratio is used, which is referred to as the Blended Ratio. This ratio equally weights three different general ratios: Gross Margin, Asset Cost, and Payroll Dollars. These factors were chosen to be included in the Blended Ratio because they best allocate costs based on the diverse nature of Black Hills Corporation (BHC) operations.

In addition, some departments utilize a Holding Company Blended Ratio. The difference between the Blended Ratio and the Holding Company Blended Ratio is that the Holding Company Blended Ratio allocates a percentage of costs to BHC Holding Company. For example, the Corporate Governance department will allocate indirect costs using the Holding Company Blended Ratio because certain costs incurred, such as New York Stock Exchange fees and Board of Directors costs, relate to both the Holding Company and the subsidiary companies.

One additional item to note is that pooled benefits, primarily health care costs, are allocated differently due to the pooling method for benefits such as self-insured health care. Black Hills Corporation has chosen to pool certain benefit costs and spread the risk amongst all subsidiaries equally. All pooled benefit costs of BHC are paid by the Service Company and allocated to subsidiaries based on employee counts. (Black Hills Service Company Cost Allocation Manual 2017.)

Service Department or Function	Basis of Allocation
Corporate Pooled Health & Welfare Costs Allocation: Environmental Services Property Accounting BHSC Indirect Allocations: Accounting Systems Accounts Payable Tax Credit and Risk General Accounting Insurance Internal Audit Legal Corporate Affairs Budget and Forecast Accounting-Central Services Engineering Rotation Program Internal Audit	Asset Cost

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XXI - Methods of Allocation			

In-House Creative Solutions
 Records Management
 Supply Chain Management
 Contract Management
 Strategic Sourcing
 Fleet Services
 Facilities
 Governmental Affairs
 IT Administration
 IT Business Applications Wholesale & Enterprise
 IT Business Applications Web Service Support
 IT Business Applications Financial & HR Systems
 IT Infrastructure Services
 IT Communications
 IT User Services
 Corporate Security
 IT Compliance
 Material Management
 Continuous Improvement
 IT Helpdesk/Technology Integration
 Procurement
 Assets Blended
 Accounting Accruals
 Benefits
 BHSC portion of the Rapid city Plant Street Facility, Midlands Data Facility, and Bellevue Data Center Facility
 Catch-All

Blended Ratio

Corporate Development
 Corporate Governance
 Shareholder Services
 Executive Management
 Finance & Treasury
 Financial Reporting

Holding Company Blended Ratio

Safety
 Human Resources Regulated
 Compensation & Benefits
 Organizational Development & Training

Employee Ratio

Power Delivery Management
 Accounting-Generations Services

Power Generation Capacity Ratio

IT Business Applications Regulated

Utility Blended Ratio

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XXI - Methods of Allocation			

Generation Plant Operations
CPGS Plant Operations

Nameplate Generation Capacity Ratio

Rapid City Plant Street Facility
Baken Park Facility
Denver Office Facility

Square Footage Ratio

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Service Company, LLC			
Schedule XXI - Methods of Allocation			

--	--

Document Content(s)

Form6020171200026.PDF.....1-52

THIS FILING IS

Item 1: ☒ An Initial (Original)
Submission

OR ☐ Resubmission No. _____

Form 60 Approved
OMB No. 1902-0215
Expires 05/31/2019



FERC FINANCIAL REPORT

FERC FORM No. 60: Annual Report of Centralized Service Companies

This report is mandatory under the Public Utility Holding Company Act of 2005, Section 1270, Section 309 of the Federal Power Act and 18 C.F.R. § 366.23. Failure to report may result in criminal fines, civil penalties, and other sanctions as provided by law. The Federal Energy Regulatory Commission does not consider this report to be of a confidential nature.

Exact Legal Name of Respondent (Company)

Black Hills Utility Holdings, Inc.

Year of Report

Dec 31, 2017

**FERC FORM NO. 60
ANNUAL REPORT FOR SERVICE COMPANIES**

IDENTIFICATION		
01 Exact Legal Name of Respondent Black Hills Utility Holdings, Inc.		02 Year of Report Dec 31, <u>2017</u>
03 Previous Name (If name changed during the year)		04 Date of Name Change / /
05 Address of Principal Office at End of Year (Street, City, State, Zip Code) 7001 Mt. Rushmore Rd. Rapid City, SD 57702		06 Name of Contact Person Esther J. Newbrough
07 Title of Contact Person Vice President and Corporate Controller		08 Address of Contact Person 7001 Mt. Rushmore Rd. Rapid City, SD 57702
09 Telephone Number of Contact Person (605) 721-2398		10 E-mail Address of Contact Person esther.newbrough@blackhillscorp.com
11 This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		12 Resubmission Date (Month, Day, Year) / /
13 Date of Incorporation 06/09/2008		14 If Not Incorporated, Date of Organization / /
15 State or Sovereign Power Under Which Incorporated or Organized SOUTH DAKOTA		
16 Name of Principal Holding Company Under Which Reporting Company is Organized: Black Hills Corporation		
CORPORATE OFFICER CERTIFICATION		
<p>The undersigned officer certifies that:</p> <p>I have examined this report and to the best of my knowledge, information, and belief all statements of fact contained in this report are correct statements of the business affairs of the respondent and the financial statements, and other financial information contained in this report, conform in all material respects to the Uniform System of Accounts.</p>		
17 Name of Signing Officer Esther Newbrough	19 Signature of Signing Officer Esther Newbrough	20 Date Signed (Month, Day, Year) 04/30/2018
18 Title of Signing Officer Vice President and Corporate Controller		

1. Enter in Column (c) the terms "None" or "Not Applicable" as appropriate, where no information or amounts have been reported for certain pages.

--	--	--	--

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule I - Comparative Balance Sheet

1. Give balance sheet of the Company as of December 31 of the current and prior year.

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
1		Service Company Property			
2	101	Service Company Property	103	964,445,486	963,814,606
3	101.1	Property Under Capital Leases	103		
4	106	Completed Construction Not Classified			
5	107	Construction Work In Progress	103	4,624,149	9,737,310
6		Total Property (Total Of Lines 2-5)		969,069,635	973,551,916
7	108	Less: Accumulated Provision for Depreciation of Service Company Property	104	2,783	(40,394)
8	111	Less: Accumulated Provision for Amortization of Service Company Property			
9		Net Service Company Property (Total of Lines 6-8)		969,066,852	973,592,310
10		Investments			
11	123	Investment In Associate Companies	105	1,188,451,401	1,077,568,753
12	124	Other Investments	105		
13	128	Other Special Funds	105	10,000	10,000
14		Total Investments (Total of Lines 11-13)		1,188,461,401	1,077,578,753
15		Current And Accrued Assets			
16	131	Cash		5,304,755	179,101
17	134	Other Special Deposits			
18	135	Working Funds			
19	136	Temporary Cash Investments			
20	141	Notes Receivable		304,000,000	279,000,000
21	142	Customer Accounts Receivable			
22	143	Accounts Receivable		747,496	1,301,826
23	144	Less: Accumulated Provision for Uncollectible Accounts		50	
24	146	Accounts Receivable From Associate Companies	106	218,682,143	227,141,177
25	152	Fuel Stock Expenses Undistributed	107		
26	154	Materials And Supplies		65,347	1,292
27	163	Stores Expense Undistributed	108		
28	165	Prepayments		7,891,248	8,957,825
29	171	Interest And Dividends Receivable			
30	172	Rents Receivable			
31	173	Accrued Revenues			
32	174	Miscellaneous Current and Accrued Assets			
33	175	Derivative Instrument Assets	109	54,405	1,498,548
34	176	Derivative Instrument Assets – Hedges			
35		Total Current and Accrued Assets (Total of Lines 16-34)		536,745,344	518,079,769
36		Deferred Debits			
37	181	Unamortized Debt Expense			
38	182.3	Other Regulatory Assets		32,998,162	27,323,143
39	183	Preliminary Survey And Investigation Charges			
40	184	Clearing Accounts		2,033	
41	185	Temporary Facilities			
42	186	Miscellaneous Deferred Debits		187,693,268	185,215,154
43	188	Research, Development, or Demonstration Expenditures	110		
44	189	Unamortized loss on reacquired debt	111		
45	190	Accumulated Deferred Income Taxes		18,987,706	31,543,738
46		Total Deferred Debits (Total of Lines 37-45)		239,681,169	244,082,035
47		TOTAL ASSETS AND OTHER DEBITS (TOTAL OF LINES 9, 14, 35 and 46)		2,933,954,766	2,813,332,867

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule I - Comparative Balance Sheet (continued)

Line No.	Account Number (a)	Description (b)	Reference Page No. (c)	As of Dec 31 Current (d)	As of Dec 31 Prior (e)
48		Proprietary Capital			
49	201	Common Stock Issued	201	1,000	1,000
50	204	Preferred Stock Issued	201		
51	211	Miscellaneous Paid-In-Capital	201	865,635,522	777,481,676
52	215	Appropriated Retained Earnings	201		
53	216	Unappropriated Retained Earnings	201	655,752,111	596,226,542
54	219	Accumulated Other Comprehensive Income	201	(375,657)	(324,293)
55		Total Proprietary Capital (Total of Lines 49-54)		1,521,012,976	1,373,384,925
56		Long-Term Debt			
57	223	Advances From Associate Companies	202	1,133,000,000	1,108,000,000
58	224	Other Long-Term Debt	202		
59	225	Unamortized Premium on Long-Term Debt			
60	226	Less: Unamortized Discount on Long-Term Debt-Debit			
61		Total Long-Term Debt (Total of Lines 57-60)		1,133,000,000	1,108,000,000
62		Other Non-current Liabilities			
63	227	Obligations Under Capital Leases-Non-current			
64	228.2	Accumulated Provision for Injuries and Damages		955,527	571,876
65	228.3	Accumulated Provision For Pensions and Benefits		23,920,629	24,302,028
66	230	Asset Retirement Obligations			
67		Total Other Non-current Liabilities (Total of Lines 63-66)		24,876,156	24,873,904
68		Current and Accrued Liabilities			
69	231	Notes Payable			
70	232	Accounts Payable		6,856,768	6,199,971
71	233	Notes Payable to Associate Companies	203	64,563,014	56,611,359
72	234	Accounts Payable to Associate Companies	203	42,875,112	63,883,438
73	236	Taxes Accrued		13,455,844	16,363,825
74	237	Interest Accrued			
75	241	Tax Collections Payable		519,937	523,197
76	242	Miscellaneous Current and Accrued Liabilities	203	9,899,811	8,678,664
77	243	Obligations Under Capital Leases - Current			
78	244	Derivative Instrument Liabilities		287,240	379,356
79	245	Derivative Instrument Liabilities - Hedges			
80		Total Current and Accrued Liabilities (Total of Lines 69-79)		138,457,726	152,639,810
81		Deferred Credits			
82	253	Other Deferred Credits		11,775	421,665
83	254	Other Regulatory Liabilities		21,441,872	11,313,947
84	255	Accumulated Deferred Investment Tax Credits			
85	257	Unamortized Gain on Reacquired Debt			
86	282	Accumulated deferred income taxes-Other property		21,639,555	24,942,892
87	283	Accumulated deferred income taxes-Other		73,514,706	117,755,725
88		Total Deferred Credits (Total of Lines 82-87)		116,607,908	154,434,229
89		TOTAL LIABILITIES AND PROPRIETARY CAPITAL (TOTAL OF LINES 55, 61, 67, 80, AND 88)		2,933,954,766	2,813,332,868

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 101 Line No.: 24 Column: d

BHUH Property and Accumulated Provision (lines 2, 4, 7 and 8) are allocated to subsidiaries. The associated receivable from the allocation is included in account 146 along with other intercompany receivables, including interest related to notes receivable from associated companies.

Schedule Page: 101 Line No.: 26 Column: d

Increase in is due to addition of IT inventory in 2017.

Schedule Page: 101 Line No.: 33 Column: d

The decrease is due to fewer outstanding derivative contracts and lower gas prices at December 31, 2017.

Schedule Page: 101 Line No.: 45 Column: d

Decrease due to 2017 tax reform.

Schedule Page: 101 Line No.: 83 Column: d

Increase is due to 2017 tax reform.

Schedule Page: 101 Line No.: 87 Column: d

Decrease due to 2017 tax reform.

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule II - Service Company Property

1. Provide an explanation of Other Changes recorded in Column (f) considered material in a footnote.
2. Describe each construction work in progress on lines 18 through 30 in Column (b).

Line No.	Acct # (a)	Title of Account (b)	Balance at Beginning of Year (c)	Additions (d)	Retirements or Sales (e)	Other Changes (f)	Balance at End of Year (g)
1	301	Organization	963,814,605	630,881			964,445,486
2	303	Miscellaneous Intangible Plant					
3	306	Leasehold Improvements					
4	389	Land and Land Rights	646,324			(646,324)	
5	390	Structures and Improvements	8,575,054	48,075	195,181	(8,427,948)	
6	391	Office Furniture and Equipment	204,300,893	14,363,036	68,000,487	(150,663,442)	
7	392	Transportation Equipment	1,349,189	334,857		(1,684,046)	
8	393	Stores equipment					
9	394	Tools, Shop and Garage Equipment	988,399	66,695	60,429	(994,665)	
10	395	Laboratory Equipment	183,083	(2,153)		(180,930)	
11	396	Power Operated Equipment	17,192			(17,192)	
12	397	Communications Equipment	432,277	56,252	24,161	(464,368)	
13	398	Miscellaneous Equipment	32,324			(32,324)	
14	399	Other Tangible Property	6,434,139	12,198,093		(18,632,232)	
15	399.1	Asset Retirement Costs					
16		Total Service Company Property (Total of Lines 1-15)	1,186,773,479	27,695,736	68,280,258	(181,743,471)	964,445,486
17	107	Construction Work in Progress:					
18		Accounting Accruals	(116,432)	1,017,303		(657,873)	242,998
19		AMI Hardware	233,845	238,313			472,158
20		Software Conversions	9,158,848	3,755,092		(11,010,524)	1,903,416
21		SCADA Systems					
22		Communications Equipment					
23		Office Furniture and Equipment		5,756,403		(3,750,828)	2,005,575
24		Tools, Shop and Garage Equipment					
25		Vehicles		368,766		(368,766)	
26		Filed Collection System		10,072,100		(10,072,100)	
27		Facilities	461,049	(2,944,923)		2,483,876	2
28							
29							
30							
31		Total Account 107 (Total of Lines 18-30)	9,737,310	18,263,054		(23,376,215)	4,624,149
32		Total (Lines 16 and Line 31)	1,196,510,788	45,958,790			969,069,635

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 103 Line No.: 1 Column: g

Plant acquisition is not allocated to the subsidiaries.

Schedule Page: 103 Line No.: 16 Column: c

The true beginning property balance is \$963,814,605 that is not allocated. The other beginning balances in column c are the reversal of the entry which allocated all property at 12/31/16. Information is presented in this format to show the flow of activity and the amount of property allocated by BHUH.

Schedule Page: 103 Line No.: 31 Column: g

Construction Work In Progress is not allocated to the subsidiaries.

Page 104

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 104 Line No.: 16 Column: c

The beginning balances in column c are the reversal of the entry which allocated all property at 12/31/16. Information is presented in this format to show the flow of activity and the amount of property allocated by BHUH.

Schedule Page: 104 Line No.: 16 Column: g

The balance of RWIP (Retirement Work In Progress) remains on BHUH, since this does not allocate out.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 105 Line No.: 3 Column: c

This line item holds the loss deposit and prefunding fee for Specialty Services, a third party administrator.

Line No.	Account Number (a)	Title of Account (b)	Labor (c)	Expenses (d)	Total (e)
1	152	Fuel Stock Expenses Undistributed			
2		Associate Company:			
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
26					
27					
28					
29					
30					
31					
32					
33					
34					
35					
36					
37					
38					
39					
40	Total				

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 110 Line No.: 6 Column: d

The balance represents the unrecovered purchase gas costs, realized and unrealized; this account can have a debit or a credit balance, depending on our recovery position. (When the balance is in a credit position, it will be reclassified to account 182.3, other regulatory assets).

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XI - Proprietary Capital

1. For miscellaneous paid-in capital (Account 211) and appropriate retained earnings (Account 215), classify amounts in each account, with a brief explanation, disclosing the general nature of transactions which give rise to the reported amounts.

2. For the unappropriated retained earnings (Account 216), in a footnote, give particulars concerning net income or (loss) during the year, distinguishing between compensation for the use of capital owed or net loss remaining from servicing nonassociates per the General Instructions of the Uniform System of Accounts. For dividends paid during the year in cash or otherwise, provide rate percentages, amount of dividend, date declared and date paid.

Line No.	Account Number (a)	Title of Account (b)	Description (c)	Amount (d)
1	201	Common Stock Issued	Number of Shares Authorized	1,000,000
2			Par or Stated Value per Share	1.00
3			Outstanding Number of Shares	1,000
4			Close of Period Amount	1,000
5		Preferred Stock Issued	Number of Shares Authorized	
6			Par or Stated Value per Share	
7			Outstanding Number of Shares	
8			Close of Period Amount	
9	211	Miscellaneous Paid-In Capital		865,635,522
10	215	Appropriated Retained Earnings		
11	219	Accumulated Other Comprehensive Income		(375,657)
12	216	Unappropriated Retained Earnings	Balance at Beginning of Year	596,226,543
13			Net Income or (Loss)	136,513,665
14			Dividend Paid	(76,988,097)
15			Balance at Close of Year	655,752,111

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 201 Line No.: 14 Column: d

Includes a non-cash dividend to BHC (parent company of BHUH) of \$77,000,000.

Subsidiary Companies:	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Black Hills Kansas Gas Utility LLC	(7,000,000)	(1,000,000)		(2,000,000)
Black Hills Iowa Gas Utility LLC	(13,000,000)	(2,000,000)		(5,000,000)
Black Hills Nebraska Gas Utility LLC	(15,000,000)	(1,500,000)		(5,000,000)
Black Hills Colorado Electric Utility LP			(8,500,000)	(5,000,000)
Black Hills Colorado Gas Utility LP	(3,500,000)	(500,000)		(1,000,000)
Black Hills Energy Service Company		(7,000,000)		
	(38,500,000)	(12,000,000)	(8,500,000)	(18,000,000)
Total Non-Cash Distributions				(77,000,000)
Miscellaneous Adjustments				11,903
Non-Cash Distribution to BHC				\$ (76,988,097)

[illegible]

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 202 Line No.: 3 Column: e

Interest rate listed includes applicable financing costs.

Schedule Page: 202 Line No.: 4 Column: b

This amount is made up of 4 tranches of debt, all of which are included under one Note Payable with the credit facility:

\$250M 2.5% Note due 2019

\$300M 3.95% Note due 2026

\$300M 4.20% Note due 2046

\$400M 3.15% Note due 2026

The weighted average of this debt is used for the interest rate for allocation.

Schedule Page: 202 Line No.: 4 Column: d

A note as of 1/1/2017 is in place through the maturity date of the \$250M note, due in 2019.

Schedule Page: 202 Line No.: 4 Column: e

Interest rate listed includes applicable financing costs.

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XIII – Current and Accrued Liabilities

1. Provide the balance of notes and accounts payable to each associate company (Accounts 233 and 234).
2. Give description and amount of miscellaneous current and accrued liabilities (Account 242). Items less than \$50,000 may be grouped, showing the number of items in each group.

Line No.	Account Number (a)	Title of Account (b)	Balance at Beginning of Year (c)	Balance at Close of Year (d)
1	233	Notes Payable to Associates Companies		
2		Total Notes Payable to Associate Companies	56,611,359	64,563,014
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24	234	Accounts Payable to Associate Companies		
25		Total Accounts Payable to Associate Companies	51,030,822	30,787,702
26				
27		Accounts Payable to Non Associate Companies	12,852,616	12,087,410
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41	242	Miscellaneous Current and Accrued Liabilities		
42		Total Miscellaneous Current and Accrued Liabilities	8,678,664	9,899,811
43				
44				
45				
46				
47				
48				
49				

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 203 Line No.: 2 Column: d

	Balance at Beginning of Year	Balance at Close of Year
233 Notes Payable to Associate Companies		
BLACK HILLS POWER INC	56,611,359	
BLACK HILLS UTILITY MONEY POOL CO		64,563,014
Total Notes Payable to Associate Companies	56,611,359	64,563,014

Note: In 2017 a new business unit was established to hold the money pool, previously the money pool resided on Black Hills Power Inc.

Schedule Page: 203 Line No.: 25 Column: d

	Balance at Beginning of Year	Balance at Close of Year
234 Accounts Payable to Associate Companies		
BLACK HILLS POWER INC	428,110	606,703
CHEYENNE LIGHT FUEL AND POWER	617,635	584,366
BH KANSAS GAS UTILITY CO LLC	676,581	1,893,008
BH IOWA GAS UTILITY CO LLC	1,059,776	3,121,392
BH NEBRASKA GAS UTILITY CO LLC	1,353,734	3,144,028
BH COLORADO ELEC UTILITY CO LP	337,461	1,555,316
BH COLORADO GAS UTILITY CO LP	523,006	493,468
BH - NORTHWEST WYOMING	842	584,745
BH - SHOSHONE PIPELINE	36	42
BH ENERGY ARKANSAS	2,681,402	206,459
BH GAS DIST COLORADO	1,774,869	251,005
BH GAS DIST NEBRASKA	4,566,141	1,182,364
BH GAS DIST WYOMING	1,280,476	652,991
ROCKY MOUNTAIN NATURAL GAS	57,759	5,774
BH ENERGY SERVICES COMPANY	670,272	520,382
BH GAS SUPPLY CONTRACT INC	59,268	-
BLACK HILLS INTERNATIONAL INC	82,947	-
BLACK HILLS GAS HOLDINGS, LLC	15,829,072	15,831,065
BLACK HILLS GAS DISTRIBUTION, LLC	4,822,488	-
BLACK HILLS GAS, LLC	14,208,947	416
BLACK HILLS UTILITY MONEY POOL CO		154,178
	51,030,822	30,787,702

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 203 Line No.: 27 Column: d

Balance at Beginning of Year Balance at Close of Year

234 Accounts Payable to Non Associate Companies

WYODAK RESOURCES DEV CORP	11,546	5,611
BLACK HILLS WYOMING LLC	51	0
BLACK HILLS COLORADO IPP, LLC	314,781	448
N780BH, LLC		12,008
BLACK HILLS EXPLORATION & PRODUCTION INC	164,012	5,545
BLACK HILLS CORP	4,616,490	4,655,699
BH SERVICE COMPANY LLC	7,745,736	7,408,099
	<u>12,852,616</u>	<u>12,087,410</u>

Schedule Page: 203 Line No.: 42 Column: d

Balance at Beginning of Year

Balance at Close of Year

242 Miscellaneous Current and Accrued Liabilities

Misc Crnt & Accrued Liab	72,268	156,475
Gas contracts - Accrued Liab	76,812	672,219
Accrued Benefits Comp Abs	1,481,201	1,551,638
Accrued Incentive and Bonus	4,471,132	4,958,386
Accrued Payroll	1,308,313	1,086,928
SFAS 106 Current Portions	669,000	888,000
Accrued LT Performance Plan	178,022	119,184
Accrued Benefits 401K	421,916	466,981
	<u>8,678,664</u>	<u>9,899,811</u>

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

1. Use the space below for important notes regarding the financial statements or any account thereof.
2. Furnish particulars as to any significant contingent assets or liabilities existing at the end of the year.
3. Furnish particulars as to any significant increase in services rendered or expenses incurred during the year.
4. Furnish particulars as to any amounts recorded in Account 434, Extraordinary Income, or Account 435, Extraordinary Deductions.
5. Notes relating to financial statements shown elsewhere in this report may be indicated here by reference.
6. Describe the annual statement supplied to each associate service company in support of the amount of interest on borrowed capital and compensation for use of capital billed during the calendar year. State the basis for billing of interest to each associate company. If a ratio, describe in detail how ratio is computed. If more than one ratio explain the calculation. Report the amount of interest borrowed and/or compensation for use of capital billed to each associate company.

BHUH Notes to Financial Statements

These notes have been taken from the 10K general footnotes of the Black Hills Corporation. The notes included below are notes that are applicable to Black Hills Utility Holding Company.

Organization

Black Hills Utility Holdings, Inc. (the "Company," "BHUH") is a direct wholly-owned subsidiary of Black Hills Corporation ("BHC"), a public utility holding company subject to the regulation of the Public Utility Holding Company Act of 2005 ("PUHCA 2005").

Nature of Operations

BHUH provides services at cost. The cost of services are determined on a direct charge basis to the extent practicable and where not practicable, on a reasonable basis of allocation for indirect costs. The charges for services include no compensation for the use of capital.

Use of Estimates and Basis of Presentation

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Changes in facts and circumstances or additional information may result in revised estimates and actual results could differ materially from those estimates.

Cash and Cash Equivalents

We consider all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Restricted Cash and Equivalents

We maintain cash accounts for various specified purposes. Therefore, we classify these amounts as restricted cash.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable for our Electric and Gas Utilities business segments primarily consists of sales to residential, commercial, industrial, municipal and other customers, all of which do not bear interest. These accounts receivable are stated at billed and estimated unbilled amounts net of write-offs and allowance for doubtful accounts.

We maintain an allowance for doubtful accounts which reflects our estimate of uncollectible trade receivables. We regularly review our trade receivable allowance by considering such factors as historical experience, credit worthiness, the age of the receivable balances and current economic conditions that may affect collectability.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

In specific cases where we are aware of a customer's inability or reluctance to pay, we record an allowance for doubtful accounts to reduce the net receivable balance to the amount we reasonably expect to collect. However, if circumstances change, our estimate of the recoverability of accounts receivable could be affected. Circumstances which could affect our estimates include, but are not limited to, customer credit issues, the level of commodity prices, customer deposits and general economic conditions. Accounts are written off once they are deemed to be uncollectible or the time allowed for dispute under the contract has expired.

We utilize master netting agreements which consist of an agreement between two parties who have multiple contracts with each other that provide for the net settlement of all contracts in the event of default on or termination of any one contract. When the right of offset exists, accounting standards permit the netting of receivables and payables under a legally enforceable master netting agreement between counterparties. Accounting standards also permit offsetting of fair value amounts recognized for the right to reclaim, or the obligation to return, cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty.

Revenue Recognition

Revenue is recognized when there is persuasive evidence of an arrangement with a fixed or determinable price and delivery has occurred or services have been rendered. Sales and franchise taxes collected from our customers are recorded on a net basis (excluded from Revenue).

Utility revenues are based on authorized rates approved by the state regulatory agencies and the FERC. Revenues related to the sale, transmission and distribution of energy, and delivery of service are generally recorded when service is rendered or energy is delivered to customers. To the extent that deliveries have occurred but a bill has not been issued, our utilities accrue an estimate of the revenue since the latest billing. This estimate is calculated based upon several factors including billings through the last billing cycle in a month and prices in effect in our jurisdictions. Each month the estimated unbilled revenue amounts are trued-up and recorded in Accounts receivable, net on the accompanying Consolidated Balance Sheets.

For long-term non-regulated power sales agreements, revenue is recognized either in accordance with accounting standards for revenue recognition, or in accordance with accounting standards for leases, as appropriate. Under accounting standards for revenue recognition, revenue is generally recognized as the lesser of the amount billed or the average rate expected over the life of the agreement.

Materials, Supplies and Fuel

Materials and supplies represent parts and supplies for all of our business segments. Fuel - Electric Utilities represents oil, gas and coal on hand used to produce power. Natural gas in storage primarily represents gas purchased for use by our gas customers. All of our Materials, supplies and fuel are recorded using the weighted-average cost method and are valued at the lower-of-cost or net realizable value. The value of our natural gas in storage fluctuates with seasonal volume requirements of our business and the commodity price of natural gas.

Property, Plant and Equipment

Additions to property, plant and equipment are recorded at cost. Included in the cost of regulated construction projects is AFUDC, when applicable, which represents the approximate composite cost of borrowed funds and a return on equity used to finance a

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

regulated utility project. We also capitalize interest, when applicable, on undeveloped leasehold costs and certain non-regulated construction projects. In addition, asset retirement costs associated with tangible long-lived regulated utility assets are recognized as liabilities with an increase to the carrying amounts of the related long-lived regulated utility assets in the period incurred. The amounts capitalized are included in Property, plant and equipment on the accompanying Consolidated Balance Sheets. We also classify our base or "cushion gas" as property, plant and equipment. Cushion gas is the portion of natural gas necessary to force saleable gas from a storage field into the transmission system and for system balancing, representing a permanent investment necessary to use storage facilities and maintain reliability.

The cost of regulated utility property, plant and equipment retired, or otherwise disposed of in the ordinary course of business, less salvage plus retirement costs, is charged to accumulated depreciation. Estimated removal costs associated with non-legal retirement obligations related to our regulated properties are reclassified from accumulated depreciation and reflected as regulatory liabilities. Retirement or disposal of all other assets, except for crude oil and natural gas properties as described below, result in gains or losses recognized as a component of operating income. Ordinary repairs and maintenance of property, except as allowed under rate regulations, are charged to operations as incurred.

Depreciation provisions for property, plant and equipment are generally computed on a straight-line basis based on the applicable estimated service life of the various classes of property. Capitalized coal mining costs and coal leases are amortized on a unit-of-production method based on volumes produced and estimated reserves. For certain non-utility power plant components, depreciation is computed on a unit-of-production methodology based on plant hours run.

Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite lives are not amortized, but the carrying values are reviewed upon an indicator of impairment or at least annually. Intangible assets with a finite life continue to be amortized over their estimated useful lives.

We perform a goodwill impairment test on an annual basis or upon the occurrence of events or changes in circumstances that indicate that the asset might be impaired. Beginning in 2016, we changed our annual goodwill impairment testing date from November 30 to October 1 to better align the testing date with our financial planning process. We believe that the change in the date of the annual goodwill impairment test from November 30 to October 1 is not a material change in the application of an accounting principle. The new and old testing dates are close in proximity and both are in the fourth quarter of the year. We would not expect a materially different outcome as a result of testing on October 1 as compared to November 30. The change in assessment date does not have a material effect on the financial statements.

We estimated the fair value of the goodwill using discounted cash flow methodology, EBITDA multiple method and an analysis of comparable transactions. This analysis required the input of several critical assumptions, including future growth rates, cash flow projections, operating cost escalation rates, rates of return, a risk-adjusted discount rate, timing and level of success in regulatory rate proceedings, the cost of debt and equity capital and long-term earnings and merger multiples for comparable companies.

The Company has determined that the reporting units for its goodwill impairment test are its operating segments, or components of an operating segment, that constitute a business for which discrete financial information is available and for which segment management regularly reviews the operating results.

Asset Retirement Obligations

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

Accounting standards for asset retirement obligations associated with long-lived assets require that the present value of retirement costs for which we have a legal obligation be recorded as liabilities with an equivalent amount added to the asset cost and depreciated over an appropriate period. The associated ARO accretion expense for our non-regulated operations is included within Depreciation, depletion and amortization on the accompanying Consolidated Statements of Income (Loss). The accounting for the obligation for regulated operations has no income statement impact due to the deferral of the adjustments through the establishment of a regulatory asset or a regulatory liability.

We initially record liabilities for the present value of retirement costs for which we have a legal obligation, with an equivalent amount added to the asset cost. The asset is then depreciated or depleted over the appropriate useful life and the liability is accreted over time by applying an interest method of allocation. Any difference in the actual cost of the settlement of the liability and the recorded amount is recognized as a gain or loss in the results of operations at the time of settlement for our non-regulated operations. For oil and gas liabilities classified as held for sale, differences in the settlement of the liability and the recorded amount are generally reflected as adjustments to the capitalized cost of oil and gas properties and prior to held-for-sale classification were depleted pursuant to the use of the full cost method of accounting.

Fair Value Measurements

Derivative Financial Instruments

Assets and liabilities are classified and disclosed in one of the following fair value categories:

Level 1 — Unadjusted quoted prices available in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities. This level primarily consists of financial instruments such as exchange-traded securities or listed derivatives.

Level 2 — Pricing inputs include quoted prices for identical or similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels. We record transfers, if necessary, between levels at the end of the reporting period for all of our financial instruments.

Transfers into Level 3, if any, occur when significant inputs used to value the derivative instruments become less observable such as a significant decrease in the frequency and volume in which the instrument is traded, negatively impacting the availability of observable pricing inputs. Transfers out of Level 3, if any, occur when the significant inputs become more observable such as the time between the valuation date and the delivery date of a transaction becomes shorter, positively impacting the availability of observable pricing inputs.

Valuation Methodologies for Derivatives

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

Electric Utilities and Gas Utilities Segments:

- The commodity contracts for the Electric and Gas Utilities, valued using the market approach, include exchange-traded futures, options, basis swaps and over-the-counter swaps (Level 2) for natural gas contracts. For exchanged-traded futures, options and basis swap Level 2 assets and liabilities, fair value was derived using broker quotes validated by the Chicago Mercantile Exchange pricing for similar instruments. For over-the-counter swaps and option Level 2 assets and liabilities, fair value was derived from, or corroborated by, observable market pricing data. In addition, the fair value for the over-the-counter swaps and option derivatives include a CVA component. The CVA considers the fair value of the derivative and the probability of default based on the life of the contract. For the probability of a default component, we utilize observable inputs supporting Level 2 disclosure by using our credit default spread, if available, or a generic credit default spread curve that takes into account our credit ratings.

Corporate Segment:

- Interest rate swaps are valued using the market valuation approach. We establish fair value by obtaining price quotes directly from the counterparty which are based on the floating three-month LIBOR curve for the term of the contract. The fair value obtained from the counterparty is then validated by utilizing a nationally recognized service that obtains observable inputs to compute fair value for the same instrument. In addition, the fair value for the interest rate swap derivatives includes a CVA component. The CVA considers the fair value of the interest rate swap and the probability of default based on the life of the contract. For the probability of a default component, we utilize observable inputs supporting Level 2 disclosure by using our credit default spread, if available, or a generic credit default spread curve that takes into account our credit ratings. We have no interest rate swaps as of December 31, 2017.

Derivatives and Hedging Activities

The accounting standards for derivatives and hedging require that derivative instruments be recorded on the balance sheet as either an asset or liability measured at its fair value and changes in the derivative instrument's fair value be recognized currently in earnings unless specific hedge accounting criteria are met and designated accordingly, if they qualify for certain exemptions, including the normal purchases and normal sales exemption, or if regulatory rulings require a different accounting treatment. Changes in the fair value for derivative instruments that do not meet any of these criteria are recognized in the income statement as they occur. Each Consolidated Balance Sheet reflects the offsetting of net derivative positions with fair value amounts for cash collateral with the same counterparty when a legal right of offset exists.

Revenues and expenses on contracts that qualify as derivatives may be elected under the normal purchases and normal sales exception and are recognized when the underlying physical transaction is completed under the accrual basis of accounting. Normal purchases and normal sales are contracts where physical delivery is probable, quantities are expected to be used or sold in the normal course of business over a reasonable amount of time, and price is not tied to an unrelated underlying derivative. As part of our electric and gas utility operations, we enter into contracts to buy and sell energy to meet the requirements of our customers. These contracts include short-term and long-term commitments to purchase and sell energy in the retail and wholesale markets with the intent and ability to deliver or take delivery. If it was determined that a transaction designated as a normal purchase or normal sale no longer met the exceptions, the fair value of the related contract would be reflected as either an asset or liability, under the accounting standards for derivatives and hedging.

We utilize master netting agreements which consist of an agreement between two parties who have multiple contracts with each other that provide for the net settlement of all contracts in the event of default on or termination of any one contract. When the right of

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

offset exists, accounting standards permit the netting of receivables and payables under a legally enforceable master netting agreement between counterparties. Accounting standards also permit offsetting of fair value amounts recognized for the right to reclaim, or the obligation to return, cash collateral against fair value amounts recognized for derivative instruments executed with the same counterparty.

Deferred Financing Costs

Deferred financing costs are amortized over the estimated useful life of the related debt. Deferred financing costs are presented on the balance sheet as an adjustment to the related debt liabilities.

Regulatory Accounting

Our Electric Utilities and Gas Utilities follow accounting standards for regulated operations and reflect the effects of the numerous rate-making principles followed by the various state and federal agencies regulating the utilities. The accounting policies followed are generally subject to the Uniform System of Accounts of the FERC. These accounting policies differ in some respects from those used by our non-regulated businesses. If rate recovery becomes unlikely or uncertain due to competition or regulatory action, these accounting standards may no longer apply which could require these net regulatory assets to be charged to current income or OCI. Our regulatory assets represent amounts for which we will recover the cost, but generally are not allowed a return, except as described below. In the event we determine that our regulated net assets no longer meet the criteria for accounting standards for regulated operations, the accounting impact to us could be an extraordinary non-cash charge to operations, which could be material.

Deferred Energy and Fuel Cost Adjustments - Current - Deferred energy and fuel cost adjustments represent the cost of electricity delivered to our electric utility customers that is either higher or lower than the current rates and will be recovered or refunded in future rates. Deferred energy and fuel cost adjustments are recorded and recovered or amortized as approved by the appropriate state commission. Our electric and gas utilities file periodic quarterly, semi-annual and/or annual filings to recover these costs based on the respective cost mechanisms approved by their applicable state utility commissions.

Deferred Gas Cost Adjustment - Our regulated gas utilities have GCA provisions that allow them to pass the cost of gas on to their customers. The GCA is based on forecasts of the upcoming gas costs and recovery or refund of prior under-recovered or over-recovered costs. To the extent that gas costs are under-recovered or over-recovered, they are recorded as a regulatory asset or liability, respectively. Our Gas Utilities file periodic estimates of future gas costs based on market forecasts with state utility commissions.

Gas Price Derivatives - Our regulated utilities, as allowed or required by state utility commissions, have entered into certain exchange-traded natural gas futures and options to reduce our customers' underlying exposure to fluctuations in gas prices. Gas price derivatives represent our unrealized positions on our commodity contracts supporting our utilities. The 3-year term represents the maximum forward term hedged.

Deferred Taxes on AFUDC - The equity component of AFUDC is considered a permanent difference for tax purposes with the tax benefit being flowed through to customers as prescribed or allowed by regulators. If, based on a regulator's action, it is probable the utility will recover the future increase in taxes payable represented by this flow-through treatment through a rate revenue increase, a regulatory asset is recognized. This regulatory asset is a temporary difference for which a deferred tax liability must be recognized. Accounting standards for income taxes specifically address AFUDC-equity and require a gross-up of such amounts to reflect the revenue requirement associated with a

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

rate-regulated environment.

Employee Benefit Plans - Employee benefit plans include the unrecognized prior service costs and net actuarial loss associated with our defined benefit pension plan and post-retirement benefit plans in regulatory assets rather than in AOCI, including costs being amortized from the Aquila and SourceGas Transactions.

Environmental - Environmental expenditures are costs associated with manufactured gas plant sites. The amortization of this asset is first offset by recognition of insurance proceeds and settlements with other third parties. Any remaining recovery will be requested in future rate filings. Recovery has not yet been approved by the applicable commission or board and therefore, the recovery period is unknown.

Asset Retirement Obligations - Asset retirement obligations represent the estimated recoverable costs for legal obligations associated with the retirement of a tangible long-lived asset. See Note 8 for additional details.

Loss on Reacquired Debt - Loss on reacquired debt is recovered over the remaining life of the original issue or, if refinanced, over the life of the new issue.

Renewable Energy Standard Adjustment - The renewable energy standard adjustment is associated with incentives for our Colorado Electric customers to install renewable energy equipment at their location. These incentives are recovered over time with an additional rider charged on customers' bills.

Deferred Taxes on Flow-Through Accounting - Under flow-through accounting, the income tax effects of certain tax items are reflected in our cost of service for the customer in the year in which the tax benefits are realized and result in lower utility rates. A regulatory asset was established to reflect that future increases in income taxes payable will be recovered from customers as the temporary differences reverse. As a result of this regulatory treatment, we continue to record a tax benefit for costs considered currently deductible for tax purposes, but are capitalized for book purposes.

Decommissioning Costs - South Dakota Electric and Colorado Electric received approval in 2014 for recovery of the remaining net book values and decommissioning costs of their decommissioned coal plants.

Gas Supply Contract Termination - Black Hills Gas Holdings had agreements under the previous ownership that required the Company to purchase all of the natural gas produced over the productive life of specific leaseholds in the Bowdoin Field in Montana. The majority of these purchases were committed to distribution customers in Nebraska, Colorado, and Wyoming, which are subject to cost recovery mechanisms. The prices to be paid under these agreements varied, ranging from \$6 to \$8 per MMBtu at the time of acquisition, and exceeded market prices. We recorded a liability for this contract in our purchase price allocation. We were granted approval to terminate these agreements from the NPSC, CPUC and WPSC, on the basis that these agreements are not beneficial to customers over the long term. We received written orders allowing us to create a regulatory asset for the net buyout costs associated with the contract termination, and recover the majority of costs from customers over a period of five years. We terminated the contract and settled the liability on April 29, 2016.

Regulatory liabilities represent items we expect to refund to customers through probable future decreases in rates.

Deferred Energy and Gas Costs - Deferred energy costs and gas costs related to over-recovery of purchased power, transmission and natural gas costs.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

Employee Benefit Plan Costs and Related Deferred Taxes - Employee benefit plans represent the cumulative excess of pension and retiree healthcare costs recovered in rates over pension expense recorded in accordance with accounting standards for compensation - retirement benefits. In addition, this regulatory liability includes the income tax effect of the adjustment required under accounting for compensation - defined benefit plans, to record the full pension and post-retirement benefit obligations. Such income tax effect has been grossed-up to account for the revenue requirement associated with a rate regulated environment.

Cost of Removal - Cost of removal represents the estimated cumulative net provisions for future removal costs for which there is no legal obligation for removal included in depreciation expense.

Excess Deferred Income Taxes - The revaluation of the regulated utilities' deferred tax assets and liabilities due to the passage of the TCJA is recorded as an excess deferred income tax to be refunded to customers primarily using the normalization principles as prescribed in the TCJA.

Income Taxes

The Company and its subsidiaries file consolidated federal income tax returns. As a result of the SourceGas transaction, certain subsidiaries acquired file as a separate consolidated group. Where applicable, each tax-paying entity records income taxes as if it were a separate taxpayer and consolidating adjustments are allocated to the subsidiaries based on separate company computations of taxable income or loss.

We use the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized at currently enacted income tax rates, to reflect the tax effect of temporary differences between the financial and tax basis of assets and liabilities as well as operating loss and tax credit carryforwards. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the TCJA. The TCJA makes broad and complex changes to the U.S. tax code, including, but not limited to reducing the U.S. federal corporate tax rate from 35% to 21%. The Company uses the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred income taxes are recognized at currently enacted income tax rates, to reflect the tax effect of temporary differences between the financial and tax basis of assets and liabilities as well as operating loss and tax credit carryforwards. Such temporary differences are the result of provisions in the income tax law that either require or permit certain items to be reported on the income tax return in a different period than they are reported in the financial statements. As such, the Company has remeasured the deferred income taxes at the 21% federal tax rate as of December 31, 2017.

It is our policy to apply the flow-through method of accounting for investment tax credits as allowed by our rate-regulated jurisdictions. Under the flow-through method, investment tax credits are reflected in net income as a reduction to income tax expense in the year they qualify. An exception to this general policy is the deferral method, which applies to our regulated businesses. Such a method results in the investment tax credit being amortized as a reduction to income tax expense over the estimated useful lives of the underlying property that gave rise to the credit.

We recognize interest income or interest expense and penalties related to income tax matters in Income tax (expense) benefit on the Consolidated Statements of Income (Loss).

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

We account for uncertainty in income taxes recognized in the financial statements in accordance with the accounting standards for income taxes. The unrecognized tax benefit is classified in Other deferred credits and other liabilities on the accompanying Consolidated Balance Sheets. See Note 15 for additional information.

ACQUISITION

Acquisition of SourceGas

On February 12, 2016, Black Hills Corporation acquired SourceGas, pursuant to the purchase and sale agreement executed on July 12, 2015 for approximately \$1.89 billion, including the assumption of \$760 million in debt at closing. The purchase price was subject to post-closing adjustments for capital expenditures, indebtedness and working capital. Post-closing adjustments of approximately \$11 million were agreed to and received from the sellers in June 2016. SourceGas is a 100% owned subsidiary of Black Hills Utility Holdings, Inc., a wholly-owned subsidiary of Black Hills Corporation and has been renamed Black Hills Gas Holdings, LLC. Black Hills Gas Holdings primarily operates four regulated natural gas utilities serving approximately 429,000 customers in Arkansas, Colorado, Nebraska and Wyoming, and a 512-mile regulated intrastate natural gas transmission pipeline in Colorado.

Cash consideration of \$1.135 billion paid on February 12, 2016 to close the SourceGas Acquisition included net proceeds of approximately \$536 million from the November 23, 2015 issuance of 6.325 million shares of our common stock, 5.98 million equity units, and \$546 million in net proceeds from our debt offerings on January 13, 2016. We funded the cash consideration and out-of-pocket expenses payable with the SourceGas Acquisition using the proceeds listed above, cash on hand, and draws under our revolving credit facility.

In connection with the acquisition, the Company recorded pre-tax, incremental acquisition costs of approximately \$45 million and \$10 million for the years ending December 31, 2016 and 2015, respectively. These costs consisted of transaction costs, professional fees, employee-related expenses and other miscellaneous costs. The costs are recorded primarily in Other operating expenses and Interest expense on the Consolidated Statements of Income (Loss).

Our consolidated operating results for the year ended December 31, 2016 include revenues of \$348 million and net income (loss) of \$15 million, attributable to SourceGas for the period from February 12 through December 31, 2016. The SourceGas operating results are reported in our Gas Utilities segment. We believe the SourceGas Acquisition enhances Black Hills Corporation's utility growth strategy, providing greater operating scale, driving more efficient delivery of services and benefiting customers.

We accounted for the SourceGas Acquisition in accordance with ASC 805, *Business Combinations*, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. Substantially all of SourceGas' operations are subject to the rate-setting authority of state regulatory commissions, and are accounted for in accordance with GAAP for regulated operations. SourceGas' assets and liabilities subject to rate setting provisions provide revenues derived from costs, including a return on investment of assets and liabilities included in rate base. As such, the fair value of these assets and liabilities equal their historical net book values.

The final purchase price allocation of the fair value of the assets acquired and liabilities assumed is included in the table below. The cash consideration paid of \$1.124 billion, net of long-term debt assumed of \$760 million and a working capital adjustment received of approximately \$11 million, resulted in goodwill of \$940 million. We had up to one year from the acquisition date to finalize the purchase price allocation. The working capital adjustment received in 2016 of \$11 million reflected changes in valuation estimates for

Name of Respondent	This Report is:	Resubmission Date	Year of Report
Black Hills Utility Holdings, Inc.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2017
Schedule XIV- Notes to Financial Statements			

intangible assets, accrued liabilities and deferred taxes. Approximately \$252 million of the goodwill balance is amortizable for tax purposes, relating to the partnership interests that were directly acquired in the transaction. The remainder of the goodwill balance is not amortizable for tax purposes. Goodwill generated from the acquisition reflects the benefits of increased operating scale and organic growth opportunities.

RISK MANAGEMENT ACTIVITIES

Our activities in the regulated and non-regulated energy sectors expose us to a number of risks in the normal operations of our businesses. Depending on the activity, we are exposed to varying degrees of market risk and credit risk. To manage and mitigate these identified risks, we have adopted the Black Hills Corporation Risk Policies and Procedures. Valuation methodologies for our derivatives are detailed within Note 1.

Market Risk

Market risk is the potential loss that may occur as a result of an adverse change in market price or rate. We are exposed to the following market risks, including, but not limited to:

- Commodity price risk associated with our retail natural gas marketing activities and our fuel procurement for certain of our gas-fired generation assets; and
- Interest rate risk associated with our variable rate debt.

Credit Risk

Credit risk is the risk of financial loss resulting from non-performance of contractual obligations by a counterparty.

For production and generation activities, we attempt to mitigate our credit exposure by conducting business primarily with high credit quality entities, setting tenor and credit limits commensurate with counterparty financial strength, obtaining master netting agreements and mitigating credit exposure with less creditworthy counterparties through parental guarantees, prepayments, letters of credit and other security agreements.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by review of their current credit information. We maintain a provision for estimated credit losses based upon historical experience and any specific customer collection issue that is identified.

Utilities

The operations of our utilities, including natural gas sold by our Gas Utilities and natural gas used by our Electric Utilities' generation plants or those plants under PPAs where our Electric Utilities must provide the generation fuel (tolling agreements) expose our utility customers to volatility in natural gas prices. Therefore, as allowed or required by state utility commissions, we have entered into commission-approved hedging programs utilizing natural gas futures, options, over-the-counter swaps and basis swaps to reduce our customers' underlying exposure to these fluctuations. These transactions are considered derivatives, and in accordance with accounting standards for derivatives and hedging, mark-to-market adjustments are recorded as Derivative assets or Derivative liabilities on the accompanying Consolidated Balance Sheets, net of balance sheet offsetting as permitted by GAAP.

Name of Respondent	This Report is:	Resubmission Date	Year of Report
Black Hills Utility Holdings, Inc.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	2017
Schedule XIV- Notes to Financial Statements			

For our regulated utilities' hedging plans, unrealized and realized gains and losses, as well as option premiums and commissions on these transactions are recorded as Regulatory assets or Regulatory liabilities in the accompanying Consolidated Balance Sheets in accordance with the state utility commission guidelines. When the related costs are recovered through our rates, the hedging activity is recognized in the Consolidated Statements of Income (Loss).

We buy, sell and deliver natural gas at competitive prices by managing commodity price risk. As a result of these activities, this area of our business is exposed to risks associated with changes in the market price of natural gas. We manage our exposure to such risks using over-the-counter and exchange traded options and swaps with counterparties in anticipation of forecasted purchases and/or sales during time frames ranging from January 2018 through May 2020. A portion of our over-the-counter swaps have been designated as cash flow hedges to mitigate the commodity price risk associated with deliveries under fixed price forward contracts to deliver gas to our Choice Gas Program customers. The effective portion of the gain or loss on these designated derivatives is reported in AOCI in the accompanying Consolidated Balance Sheets and the ineffective portion, if any is reported in Fuel, purchased power and cost of natural gas sold. Effectiveness of our hedging position is evaluated at least quarterly.

The contract or notional amounts and terms of the natural gas derivative commodity instruments held by our Utilities are comprised of both short and long positions. We had the following net long positions as of:

FAIR VALUE MEASUREMENTS

Recurring Fair Value Measurements

There have been no significant transfers between Level 1 and Level 2 derivative balances during 2017 or 2016.

Cash and Cash Equivalents

Included in cash and cash equivalents is cash, money market mutual funds, and term deposits. As part of our cash management process, excess operating cash is invested in money market mutual funds with our bank. Money market mutual funds are not deposits and are not insured by the U.S. Government, the FDIC, or any other government agency and involve investment risk including possible loss of principal. We believe however, that the market risk arising from holding these financial instruments is minimal.

Restricted Cash and Equivalents

Restricted cash and cash equivalents represent restricted cash and uninsured term deposits.

Electric Utilities Rate Activity

South Dakota Electric Common Use System (CUS): The annual rate determination process is governed by the FERC formula rate protocols established in the filed FERC joint-access transmission tariff. Effective January 1, 2018 the annual revenue requirement increased by \$3.3 million and included estimated weighted average capital additions of \$45 million for 2017 and 2018. The annual transmission revenue requirement has a true up mechanism that is posted in June of each year.

South Dakota Electric Settlement: On June 16, 2017, South Dakota Electric received approval from the SDPUC on a settlement reached with the SDPUC staff agreeing to a 6-year moratorium period effective July 1, 2017. As part of this agreement, South Dakota Electric will not increase base rates, absent an extraordinary event. The moratorium period also includes suspension of both the Transmission Facility Adjustment and the Environmental Improvement Adjustment, and a \$1.0 million increase to the annual power

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

marketing margin guarantee during this period. Additionally, existing regulatory asset balances of approximately \$13 million related to decommissioning and Winter Storm Atlas are being amortized over the moratorium period. These balances were previously being amortized over a 10-year period ending September 30, 2024. The vegetation management regulatory asset of \$14 million, previously unamortized, is also being amortized over the moratorium period. The change in amortization periods for these costs increased annual amortization expense by approximately \$2.7 million. The June 16, 2017 settlement had no impact to base rates.

Colorado Electric Rate Case filing: On December 19, 2016, Colorado Electric received approval from the CPUC to increase its annual revenues by \$1.2 million to recover investments in a \$63 million, 40 MW natural gas-fired combustion turbine and normal increases in operating expenses. This increase is in addition to approximately \$5.9 million in annualized revenue being recovered under the Clean Air Clean Jobs Act construction financing rider. This turbine was completed in the fourth quarter of 2016, achieving commercial operation on December 29, 2016. The approval allowed a return on rate base of 6.02% for this turbine, with a 9.37% return on equity and a capital structure of 67.34% debt and 32.66% equity. Whereas, an authorized return on rate base of 7.4% was received for the remaining system investments, with a return on equity of 9.37% and an approved capital structure of 47.6% debt and 52.4% equity.

On January 9, 2017, we filed an application with the CPUC for rehearing, reargument or reconsideration of the Commission's December 19, 2016 decision which reduced our proposed \$8.9 million annual revenue increase to \$1.2 million. Concurrent with this application, we filed a motion for a Commissioner to recuse themselves from continuing to participate in any further proceedings in the rate review. On October 4, 2017, the Company filed an Opening Brief. The Company filed a Reply Brief on November 22, 2017. The matter is pending.

We believe the CPUC made errors in their December decision by demonstrating bias, making decisions not supported by evidence, making findings inconsistent with cost-recovery provisions of the Colorado Clean Air-Clean Jobs Act and the Commission's own prior decisions, and treating Colorado Electric differently than other regulated utilities in Colorado have been treated in similar situations.

Gas Utilities Rate Activity

On December 15, 2017, Arkansas Gas filed a rate review application with the APSC requesting an annual increase in revenue of approximately \$30 million. The annual increase is based on a return on equity of 10.2% and a capital structure of 45.3% debt and 54.7% equity. This rate review was driven by approximately \$160 million of investments made since 2016 to replace, upgrade and maintain Arkansas Gas' approximately 5,500 miles of natural gas transmission and distribution pipelines. If approved, new rates would be implemented in the fourth quarter of 2018. We are reviewing the impact of tax reform as it applies to the filing.

On November 17, 2017, Wyoming Gas filed a rate review application with the WPSC requesting an annual increase in revenue of approximately \$1.4 million for natural gas system improvements supporting its Northwest Wyoming customers. The annual increase is based on a return on equity of 10.2% and a capital structure of 46.0% debt and 54.0% equity. This rate review was driven by approximately \$6 million of investments made since 2015 to replace, upgrade and maintain approximately 620 miles of natural gas transmission and distribution pipelines. If approved, new rates would be implemented in mid-2018. We are reviewing the impact of tax reform as it applies to the filing.

On November 1, 2017, RMNG filed a rate review with the CPUC requesting recovery of \$3.1 million, which includes \$0.2 million of new revenue related to system safety and integrity expenditures on projects for the period of 2014 through 2018. This SSIR request was approved by the CPUC in December 2017, and is effective January 1, 2018.

On October 3, 2017, RMNG filed a rate review application with the CPUC requesting an annual increase in revenue of \$2.2 million and an extension of the SSIR to recover costs from 2018 through 2022. The annual increase is based on a return on equity of 12.25%

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

and a capital structure of 53.37% debt and 46.63% equity. This rate review was driven by the impending expiration of the SSIR on May 31, 2018; this application requests a continuation of the SSIR through 2022. We are reviewing the impact of tax reform as it applies to the filing.

Monthly, Arkansas Gas files for recovery of projects related to the replacement of eligible mains (MRP) and projects for the relocation of certain at risk meters (ARMRP). On February 1, 2018, Arkansas Gas requested MRP revenue of \$2.8 million and ARMPR revenue of \$0.5 million for assets placed in service between April 1, 2016 and December 31, 2017. Pursuant to the Arkansas Gas Tariff, the filed rates are effective the date filed.

Annually, Arkansas Gas files for recovery of Stockton Storage revenue requirement through the Stockton Storage Acquisition Rates regulatory mechanism. On November 16, 2017 Arkansas Gas filed a request for recovery of \$3.3 million for the revenue requirement year ended September 30, 2017. Rates were effective January 1, 2017.

On October 2, 2017, Nebraska Gas Distribution filed with the NPSC requesting recovery of \$6.8 million, which includes \$0.3 million of increased annual revenue related to system safety and integrity expenditures on projects for the period of 2012 through 2017. This SSIR tariff was approved by the NPSC in January 2018, and went into effect on February 1, 2018.

In February 2016, Arkansas Gas implemented new base rates resulting in a revenue increase of \$8.0 million. The APSC modified a stipulation reached between the APSC Staff and all intervenors except the Attorney General and Arkansas Gas in its order issued on January 28, 2016. The modified stipulation revised the capital structure to 52% debt and 48% equity and also limited recovery of portions of cost related to incentive compensation.

EMPLOYEE BENEFIT PLANS

Defined Contribution Plans

We sponsor 401(k) retirement savings plans (the 401(k) Plans). Participants in the 401(k) Plans may elect to invest a portion of their eligible compensation in the 401(k) Plans up to the maximum amounts established by the IRS. The 401(k) Plans provide employees the opportunity to invest up to 50% of their eligible compensation on a pre-tax or after-tax basis.

The 401(k) Plans provide either a Company Matching Contribution or a Non-Elective Safe Harbor Contribution for all eligible participants, depending upon the Plan in which the employee participates. Certain eligible participants receive a Company Retirement Contribution based on the participant's age and years of service or a Company Discretionary Contribution, depending upon the pension plan in which the employee participates. Vesting of all Company contributions ranges from immediate vesting to graduated vesting at 20% per year with 100% vesting when the participant has 5 years of service with the Company.

The SourceGas Retirement Savings Plan was merged into the Black Hills Corporation Retirement Savings Plan effective December 31, 2017. The plan design of the Black Hills Corporation 401(k) Plan will apply to all employees as of January 1, 2018.

Defined Benefit Pension Plan (Pension Plan)

At December 31, 2016 our three previous defined benefit pension plans consisting of the Black Hills Corporation Pension Plan, the Black Hills Utility Holding, Inc. Pension Plan and the SourceGas Retirement Plan were merged into one single plan, the Black Hills Retirement Plan (Pension Plan). The Pension Plan covers certain eligible employees of the Company. The benefits for the Pension Plan are based on years of service and calculations of average earnings during a specific time period prior to retirement. The Pension

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

Plan is closed to new employees and frozen for certain employees who did not meet age and service based criteria.

The Pension Plan assets are held in a Master Trust. Due to the plan merger on December 31, 2016, reporting beginning in 2017 no longer represents an undivided interest in the Master Trust. Our Board of Directors has approved the Pension Plan's investment policy. The objective of the investment policy is to manage assets in such a way that will allow the eventual settlement of our obligations to the Pension Plan's beneficiaries. To meet this objective, our pension assets are managed by an outside adviser using a portfolio strategy that will provide liquidity to meet the Pension Plan's benefit payment obligations. The Pension Plan's assets consist primarily of equity, fixed income and hedged investments.

The expected rate of return on the Pension Plan assets is based on a targeted asset allocation range determined by the funded ratio of the plan. As of December 31, 2017, the expected rate of return on pension plan assets was based on the targeted asset allocation range of 37% to 45% equity securities and 55% to 63% fixed-income securities and the expected rate of return from these asset categories. The expected rate of return on other postretirement plan assets was based on the targeted asset allocation range of 15% to 25% equity securities and 75% to 85% fixed-income securities and the expected rate of return from these asset categories.

The expected long-term rate of return for investments was 6.25% and 6.75% for the Pension Plan 2017 and 2016 plan years, respectively. Our Pension Plan is funded in compliance with the federal government's funding requirements.

Supplemental Non-qualified Defined Benefit Plans

We have various supplemental retirement plans for key executives of the Company. The plans are non-qualified defined benefit and defined contribution plans (Supplemental Plans). The Supplemental Plans are subject to various vesting schedules and are not funded by the Company.

Plan Assets

We do not fund our Supplemental Plans. We fund on a cash basis as benefits are paid.

Non-pension Defined Benefit Postretirement Healthcare Plans

BHC sponsors retiree healthcare plans (Healthcare Plans) for employees who meet certain age and service requirements at retirement. Healthcare Plan benefits are subject to premiums, deductibles, co-payment provisions and other limitations. A portion of the Healthcare Plans for participating business units are pre-funded via VEBAs. Pre-65 retirees as well as a grandfathered group of post-65 Cheyenne Light, Fuel and Power ("CLFP") retirees and a grandfathered group of post-65 former SourceGas employees who retired prior to January 1, 2017 receive their retiree medical benefits through the Black Hills self-insured retiree medical plans.

Healthcare coverage for Medicare-eligible BHC and Black Hills Utility Holdings retirees is provided through an individual market healthcare exchange. Medicare-eligible SourceGas employees who retired after December 31, 2016 also receive retiree medical coverage through an individual market healthcare exchange.

Plan Assets

We fund the Healthcare Plans on a cash basis as benefits are paid. The Black Hills Utility Holding and SourceGas Postretirement - AWG Plans provide for partial pre-funding via VEBAs and a Grantor Trust. Assets related to this pre-funding are held in trust and are for the benefit of the union and non-union employees located in the states of Arkansas, Kansas and Iowa. We do not pre-fund the

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XIV- Notes to Financial Statements			

Healthcare Plans for those employees outside Arkansas, Kansas and Iowa.

RELATED PARTY TRANSACTIONS

Parent and Affiliate Note Payables & Receivables — Financing for us and our utility subsidiaries is obtained at the parent level (BHC) and assigned to the utilities through intercompany notes. We are able to obtain more favorable financing terms by obtaining external debt at the parent level (BHC) than by obtaining external debt at the utility holding company or utility subsidiary level.

Non-cash Contribution to/from Parent — We record non-cash dividend to and non-cash contributions from our Parent company, which increases or decreases the utility money pool note receivable.

Accounts Receivable/Payable — We have accounts receivable balances related to transactions with affiliates.

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XV- Comparative Income Statement

Line No.	Account Number (a)	Title of Account (b)	Current Year (c)	Prior Year (d)
1		SERVICE COMPANY OPERATING REVENUES		
2	400	Service Company Operating Revenues	180,173,518	154,374,912
3		SERVICE COMPANY OPERATING EXPENSES		
4	401	Operation Expenses	115,125,467	107,147,198
5	402	Maintenance Expenses	15,363,328	18,741,961
6	403	Depreciation Expenses	11,945,985	15,307,874
7	403.1	Depreciation Expense for Asset Retirement Costs		
8	404	Amortization of Limited-Term Property		
9	405	Amortization of Other Property		
10	407.3	Regulatory Debits		
11	407.4	Regulatory Credits		
12	408.1	Taxes Other Than Income Taxes, Operating Income	321,950	665
13	409.1	Income Taxes, Operating Income	(13,414,943)	(24,255,043)
14	410.1	Provision for Deferred Income Taxes, Operating Income	57,602,259	54,877,818
15	411.1	Provision for Deferred Income Taxes – Credit , Operating Income	(82,432,600)	(35,547,639)
16	411.4	Investment Tax Credit, Service Company Property		
17	411.6	Gains from Disposition of Service Company Plant		
18	411.7	Losses from Disposition of Service Company Plant		
19	411.10	Accretion Expense		
20	412	Costs and Expenses of Construction or Other Services		
21	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work	2,848,057	2,568,297
22		TOTAL SERVICE COMPANY OPERATING EXPENSES (Total of Lines 4-21)	107,359,503	138,841,131
23		NET SERVICE COMPANY OPERATING INCOME (Total of Lines 2 less 22)	72,814,015	15,533,781
24		OTHER INCOME		
25	418.1	Equity in Earnings of Subsidiary Companies	98,268,381	77,103,891
26	419	Interest and Dividend Income	249,184	
27	419.1	Allowance for Other Funds Used During Construction		
28	421	Miscellaneous Income or Loss	30,811	88,706
29	421.1	Gain on Disposition of Property		
30		TOTAL OTHER INCOME (Total of Lines 25-29)	98,548,376	77,192,597
31		OTHER INCOME DEDUCTIONS		
32	421.2	Loss on Disposition of Property		
33	425	Miscellaneous Amortization		
34	426.1	Donations	380,622	378,652
35	426.2	Life Insurance		
36	426.3	Penalties	640	21,634
37	426.4	Expenditures for Certain Civic, Political and Related Activities	265,481	131,075
38	426.5	Other Deductions	215,820	76,779
39		TOTAL OTHER INCOME DEDUCTIONS (Total of Lines 32-38)	862,563	608,140

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 301 Line No.: 62 Column: c

BHUH does not have any true income as all of BHUH's cost is allocated to the subsidiaries. As a parent company, BHUH holds the earnings from it's subsidiaries, which is Equity in Earnings of Subsidiary Companies and the related income taxes.

418.1 Equity in Earnings of Subsidiary Companies \$ 98,268,381

(LESS)

409.1 Income Taxes, Operating Income \$ (13,414,943)

410.1 Provision for Deferred Income Taxes, Operating Income \$ 57,602,259

411.1 Provision for Deferred Income Taxes - Credit, Operating Income \$ (82,432,600)

Total

\$ 136,513,665

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies

1. Total cost of service will equal for associate and nonassociate companies the total amount billed under their separate analysis of billing schedules.

Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)
1	403-403.1	Depreciation Expense		11,945,997	11,945,997			
2	404-405	Amortization Expense						
3	407.3-407.4	Regulatory Debits/Credits – Net						
4	408.1-408.2	Taxes Other Than Income Taxes	70,483	324,904	395,387			
5	409.1-409.3	Income Taxes						
6	410.1-411.2	Provision for Deferred Taxes						
7	411.1-411.2	Provision for Deferred Taxes – Credit						
8	411.6	Gain from Disposition of Service Company Plant						
9	411.7	Losses from Disposition of Service Company Plant						
10	411.4-411.5	Investment Tax Credit Adjustment						
11	411.10	Accretion Expense						
12	412	Costs and Expenses of Construction or Other Services						
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies	1,328,674	1,445,947	2,774,621			
14	418	Non-operating Rental Income						
15	418.1	Equity in Earnings of Subsidiary Companies						
16	419	Interest and Dividend Income		2,563	2,563			
17	419.1	Allowance for Other Funds Used During Construction						
18	421	Miscellaneous Income or Loss		30,811	30,811			
19	421.1	Gain on Disposition of Property						
20	421.2	Loss on Disposition Of Property						
21	425	Miscellaneous Amortization						
22	426.1	Donations	350,903	29,719	380,622			
23	426.2	Life Insurance						
24	426.3	Penalties		640	640			
25	426.4	Expenditures for Certain Civic, Political and Related Activities	157,134	107,090	264,224	1,257		1,257
26	426.5	Other Deductions	236	211,048	211,284	4,536		4,536
27	427	Interest On Long-Term Debt						
28	428	Amortization of Debt Discount and Expense						
29	429	Amortization of Premium on Debt – Credit						
30	430	Interest on Debt to Associate Companies		33,924,178	33,924,178			
31	431	Other Interest Expense	7,655	(193,698)	(186,043)			
32	432	Allowance for Borrowed Funds Used During Construction						
33	500-509	Total Steam Power Generation Operation Expenses	448		448			
34	510-515	Total Steam Power Generation Maintenance Expenses	40,530	6,815	47,345			

Name of Respondent Black Hills Utility Holdings, Inc.				This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Resubmission Date (Mo, Da, Yr) / /		Year/Period of Report Dec 31, 2017	
Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)	
35	517-525	Total Nuclear Power Generation Operation Expenses							
36	528-532	Total Nuclear Power Generation Maintenance Expenses							
37	535-540.1	Total Hydraulic Power Generation Operation Expenses							
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses							
39	546-550.1	Total Other Power Generation Operation Expenses	14	634	648				
40	551-554.1	Total Other Power Generation Maintenance Expenses	1,671	352	2,023	29,013		29,013	
41	555-557	Total Other Power Supply Operation Expenses	22,650	210,819	233,469				
42	560	Operation Supervision and Engineering	496,498	1,373,450	1,869,948				
43	561.1	Load Dispatch-Reliability		2,983	2,983				
44	561.2	Load Dispatch-Monitor and Operate Transmission System	417,734	2,167,356	2,585,090				
45	561.3	Load Dispatch-Transmission Service and Scheduling	290,482	186,932	477,414				
46	561.4	Scheduling, System Control and Dispatch Services	286,421		286,421				
47	561.5	Reliability Planning and Standards Development	193,640	1,769,671	1,963,311				
48	561.6	Transmission Service Studies	19,775		19,775				
49	561.7	Generation Interconnection Studies	81,896		81,896				
50	561.8	Reliability Planning and Standards Development Services	541,611	4,520	546,131				
51	562	Station Expenses (Major Only)	60,847	37	60,884				
52	563	Overhead Line Expenses (Major Only)	97,082	41,265	138,347				
53	564	Underground Line Expenses (Major Only)							
54	565	Transmission of Electricity by Others (Major Only)							
55	566	Miscellaneous Transmission Expenses (Major Only)	354,559	44,555	399,114				
56	567	Rents							
57	567.1	Operation Supplies and Expenses (Nonmajor Only)							
58		Total Transmission Operation Expenses	2,840,545	5,590,769	8,431,314				
59	568	Maintenance Supervision and Engineering (Major Only)		9,974	9,974				
60	569	Maintenance of Structures (Major Only)							
61	569.1	Maintenance of Computer Hardware							
62	569.2	Maintenance of Computer Software							
63	569.3	Maintenance of Communication Equipment							
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant							
65	570	Maintenance of Station Equipment (Major Only)	125,754		125,754				
66	571	Maintenance of Overhead Lines (Major Only)	432,658		432,658				
67	572	Maintenance of Underground Lines (Major Only)							
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	257	(683)	(426)				

Name of Respondent Black Hills Utility Holdings, Inc.			This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission			Resubmission Date (Mo, Da, Yr) / /		Year/Period of Report Dec 31, 2017	
Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)	
69	574	Maintenance of Transmission Plant (Nonmajor Only)							
70		Total Transmission Maintenance Expenses	558,669	9,291	567,960				
71	575.1-575.8	Total Regional Market Operation Expenses							
72	576.1-576.5	Total Regional Market Maintenance Expenses							
73	580-589	Total Distribution Operation Expenses	2,616,159	1,582,949	4,199,108				
74	590-598	Total Distribution Maintenance Expenses	9,102,962	273,122	9,376,084				
75		Total Electric Operation and Maintenance Expenses	17,098,733	55,437,202	72,535,935	34,806		34,806	
76	700-798	Production Expenses (Provide selected accounts in a footnote)	22,673	3,175	25,848				
77	800-813	Total Other Gas Supply Operation Expenses	(21)	(11,921)	(11,942)				
78	814-826	Total Underground Storage Operation Expenses	(40,976)	103,022	62,046	1,179		1,179	
79	830-837	Total Underground Storage Maintenance Expenses	(34,744)	46,438	11,694				
80	840-842.3	Total Other Storage Operation Expenses	(133)	551	418				
81	843.1-843.9	Total Other Storage Maintenance Expenses							
82	844.1-846.2	Total Liquefied Natural Gas Terminating and Processing Operation Expenses							
83	847.1-847.8	Total Liquefied Natural Gas Terminating and Processing Maintenance Expenses							
84	850	Operation Supervision and Engineering	167,488	345,658	513,146				
85	851	System Control and Load Dispatching	51,251		51,251				
86	852	Communication System Expenses	15,715	139	15,854				
87	853	Compressor Station Labor and Expenses							
88	854	Gas for Compressor Station Fuel							
89	855	Other Fuel and Power for Compressor Stations							
90	856	Mains Expenses	4,517	61,291	65,808				
91	857	Measuring and Regulating Station Expenses							
92	858	Transmission and Compression of Gas By Others							
93	859	Other Expenses	1,419,370	18,722	1,438,092				
94	860	Rents	44,621	(4,034)	40,587				
95		Total Gas Transmission Operation Expenses	1,702,962	421,776	2,124,738				
96	861	Maintenance Supervision and Engineering	(6,108)	92,795	86,687				
97	862	Maintenance of Structures and Improvements							
98	863	Maintenance of Mains	4,004	1,171	5,175				
99	864	Maintenance of Compressor Station Equipment	(1)		(1)				
100	865	Maintenance of Measuring And Regulating Station Equipment	(40)	35	(5)				
101	866	Maintenance of Communication Equipment	2,339		2,339				
102	867	Maintenance of Other Equipment	(3)		(3)				
103		Total Gas Transmission Maintenance Expenses	191	94,001	94,192				
104	870-881	Total Distribution Operation Expenses	2,230,156	5,083,065	7,313,221	69,045		69,045	

Name of Respondent Black Hills Utility Holdings, Inc.				This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission		Resubmission Date (Mo, Da, Yr) / /		Year/Period of Report Dec 31, 2017	
Line No.	Account Number (a)	Title of Account (b)	Associate Company Direct Cost (c)	Associate Company Indirect Cost (d)	Associate Company Total Cost (e)	Nonassociate Company Direct Cost (f)	Nonassociate Company Indirect Cost (g)	Nonassociate Company Total Cost (h)	
105	885-894	Total Distribution Maintenance Expenses	62,519	906,975	969,494	44		44	
106		Total Natural Gas Operation and Maintenance Expenses	3,942,627	6,647,082	10,589,709	70,268		70,268	
107	901	Supervision		1,456,314	1,456,314				
108	902	Meter reading expenses	6,482	89,984	96,466				
109	903	Customer records and collection expenses	5,562,790	19,092,700	24,655,490	45,841		45,841	
110	904	Uncollectible accounts	4,229,900		4,229,900				
111	905	Miscellaneous customer accounts expenses	26,015	541,613	567,628	36,950		36,950	
112	906	Total Customer Accounts Operation Expenses	9,825,187	21,180,611	31,005,798	82,791		82,791	
113	907	Supervision	347	132,133	132,480				
114	908	Customer assistance expenses	614,663	889,967	1,504,630				
115	909	Informational And Instructional Advertising Expenses	45,956	10,975	56,931				
116	910	Miscellaneous Customer Service And Informational Expenses	2,555	207,885	210,440				
117		Total Service and Informational Operation Accounts	663,521	1,240,960	1,904,481				
118	911	Supervision	574	96,413	96,987				
119	912	Demonstrating and Selling Expenses	346,246	59,707	405,953				
120	913	Advertising Expenses	73,486	586,316	659,802	9,024		9,024	
121	916	Miscellaneous Sales Expenses	55	13,841	13,896				
122		Total Sales Operation Expenses	420,361	756,277	1,176,638	9,024		9,024	
123	920	Administrative and General Salaries	7,678,852	30,811,061	38,489,913	677,851		677,851	
124	921	Office Supplies and Expenses	(2,712,280)	6,675,381	3,963,101	198,720		198,720	
125	923	Outside Services Employed	409,539	4,886,620	5,296,159	140,901		140,901	
126	924	Property Insurance		1,135	1,135				
127	925	Injuries and Damages	372	1,990,472	1,990,844				
128	926	Employee Pensions and Benefits	1,706	377,904	379,610				
129	928	Regulatory Commission Expenses	3,728,194		3,728,194	230		230	
130	930.1	General Advertising Expenses	7,346	135,820	143,166				
131	930.2	Miscellaneous General Expenses	104,081	838,494	942,575	2,578		2,578	
132	931	Rents	5	2,524,407	2,524,412				
133		Total Administrative and General Operation Expenses	9,217,815	48,241,294	57,459,109	1,020,280		1,020,280	
134	935	Maintenance of Structures and Equipment	9,941	4,274,738	4,284,679				
135		Total Administrative and General Maintenance Expenses	20,136,825	75,693,880	95,830,705	1,112,095		1,112,095	
136		Total Cost of Service	41,178,185	137,778,164	178,956,349	1,217,169		1,217,169	

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
1	403-403.1	Depreciation Expense		11,945,997	11,945,997
2	404-405	Amortization Expense			
3	407.3-407.4	Regulatory Debits/Credits – Net			
4	408.1-408.2	Taxes Other Than Income Taxes	70,483	324,904	395,387
5	409.1-409.3	Income Taxes			
6	410.1-411.2	Provision for Deferred Taxes			
7	411.1-411.2	Provision for Deferred Taxes – Credit			
8	411.6	Gain from Disposition of Service Company Plant			
9	411.7	Losses from Disposition of Service Company Plant			
10	411.4-411.5	Investment Tax Credit Adjustment			
11	411.10	Accretion Expense			
12	412	Costs and Expenses of Construction or Other Services			
13	416	Costs and Expenses of Merchandising, Jobbing, and Contract Work for Associated Companies	1,328,674	1,445,947	2,774,621
14	418	Non-operating Rental Income			
15	418.1	Equity in Earnings of Subsidiary Companies			
16	419	Interest and Dividend Income		2,563	2,563
17	419.1	Allowance for Other Funds Used During Construction			
18	421	Miscellaneous Income or Loss		30,811	30,811
19	421.1	Gain on Disposition of Property			
20	421.2	Loss on Disposition Of Property			
21	425	Miscellaneous Amortization			
22	426.1	Donations	350,903	29,719	380,622
23	426.2	Life Insurance			
24	426.3	Penalties		640	640
25	426.4	Expenditures for Certain Civic, Political and Related Activities	158,391	107,090	265,481
26	426.5	Other Deductions	4,772	211,048	215,820
27	427	Interest On Long-Term Debt			
28	428	Amortization of Debt Discount and Expense			
29	429	Amortization of Premium on Debt – Credit			
30	430	Interest on Debt to Associate Companies		33,924,178	33,924,178
31	431	Other Interest Expense	7,655	(193,698)	(186,043)
32	432	Allowance for Borrowed Funds Used During Construction			
33	500-509	Total Steam Power Generation Operation Expenses	448		448
34	510-515	Total Steam Power Generation Maintenance Expenses	40,530	6,815	47,345

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
35	517-525	Total Nuclear Power Generation Operation Expenses			
36	528-532	Total Nuclear Power Generation Maintenance Expenses			
37	535-540.1	Total Hydraulic Power Generation Operation Expenses			
38	541-545.1	Total Hydraulic Power Generation Maintenance Expenses			
39	546-550.1	Total Other Power Generation Operation Expenses	14	634	648
40	551-554.1	Total Other Power Generation Maintenance Expenses	30,684	352	31,036
41	555-557	Total Other Power Supply Operation Expenses	22,650	210,819	233,469
42	560	Operation Supervision and Engineering	496,498	1,373,450	1,869,948
43	561.1	Load Dispatch-Reliability		2,983	2,983
44	561.2	Load Dispatch-Monitor and Operate Transmission System	417,734	2,167,356	2,585,090
45	561.3	Load Dispatch-Transmission Service and Scheduling	290,482	186,932	477,414
46	561.4	Scheduling, System Control and Dispatch Services	286,421		286,421
47	561.5	Reliability Planning and Standards Development	193,640	1,769,671	1,963,311
48	561.6	Transmission Service Studies	19,775		19,775
49	561.7	Generation Interconnection Studies	81,896		81,896
50	561.8	Reliability Planning and Standards Development Services	541,611	4,520	546,131
51	562	Station Expenses (Major Only)	60,847	37	60,884
52	563	Overhead Line Expenses (Major Only)	97,082	41,265	138,347
53	564	Underground Line Expenses (Major Only)			
54	565	Transmission of Electricity by Others (Major Only)			
55	566	Miscellaneous Transmission Expenses (Major Only)	354,559	44,555	399,114
56	567	Rents			
57	567.1	Operation Supplies and Expenses (Nonmajor Only)			
58		Total Transmission Operation Expenses	2,840,545	5,590,769	8,431,314
59	568	Maintenance Supervision and Engineering (Major Only)		9,974	9,974
60	569	Maintenance of Structures (Major Only)			
61	569.1	Maintenance of Computer Hardware			
62	569.2	Maintenance of Computer Software			
63	569.3	Maintenance of Communication Equipment			
64	569.4	Maintenance of Miscellaneous Regional Transmission Plant			
65	570	Maintenance of Station Equipment (Major Only)	125,754		125,754
66	571	Maintenance of Overhead Lines (Major Only)	432,658		432,658
67	572	Maintenance of Underground Lines (Major Only)			
68	573	Maintenance of Miscellaneous Transmission Plant (Major Only)	257	(683)	(426)

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
69	574	Maintenance of Transmission Plant (Nonmajor Only)			
70		Total Transmission Maintenance Expenses	558,669	9,291	567,960
71	575.1-575.8	Total Regional Market Operation Expenses			
72	576.1-576.5	Total Regional Market Maintenance Expenses			
73	580-589	Total Distribution Operation Expenses	2,616,159	1,582,949	4,199,108
74	590-598	Total Distribution Maintenance Expenses	9,102,962	273,122	9,376,084
75		Total Electric Operation and Maintenance Expenses	17,133,539	55,437,202	72,570,741
76	700-798	Production Expenses (Provide selected accounts in a footnote)	22,673	3,175	25,848
77	800-813	Total Other Gas Supply Operation Expenses	(21)	(11,921)	(11,942)
78	814-826	Total Underground Storage Operation Expenses	(39,797)	103,022	63,225
79	830-837	Total Underground Storage Maintenance Expenses	(34,744)	46,438	11,694
80	840-842.3	Total Other Storage Operation Expenses	(133)	551	418
81	843.1-843.9	Total Other Storage Maintenance Expenses			
82	844.1-846.2	Total Liquefied Natural Gas Terminating and Processing Operation Expenses			
83	847.1-847.8	Total Liquefied Natural Gas Terminating and Processing Maintenance Expenses			
84	850	Operation Supervision and Engineering	167,488	345,658	513,146
85	851	System Control and Load Dispatching.	51,251		51,251
86	852	Communication System Expenses	15,715	139	15,854
87	853	Compressor Station Labor and Expenses			
88	854	Gas for Compressor Station Fuel			
89	855	Other Fuel and Power for Compressor Stations			
90	856	Mains Expenses	4,517	61,291	65,808
91	857	Measuring and Regulating Station Expenses			
92	858	Transmission and Compression of Gas By Others			
93	859	Other Expenses	1,419,370	18,722	1,438,092
94	860	Rents	44,621	(4,034)	40,587
95		Total Gas Transmission Operation Expenses	1,702,962	421,776	2,124,738
96	861	Maintenance Supervision and Engineering	(6,108)	92,795	86,687
97	862	Maintenance of Structures and Improvements			
98	863	Maintenance of Mains	4,004	1,171	5,175
99	864	Maintenance of Compressor Station Equipment	(1)		(1)
100	865	Maintenance of Measuring And Regulating Station Equipment	(40)	35	(5)
101	866	Maintenance of Communication Equipment	2,339		2,339
102	867	Maintenance of Other Equipment	(3)		(3)
103		Total Gas Transmission Maintenance Expenses	191	94,001	94,192
104	870-881	Total Distribution Operation Expenses	2,299,201	5,083,065	7,382,266

Name of Respondent	This Report Is:	Resubmission Date	Year/Period of Report
Black Hills Utility Holdings, Inc.	(1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	(Mo, Da, Yr) / /	Dec 31, <u>2017</u>

Schedule XVI- Analysis of Charges for Service- Associate and Non-Associate Companies (continued)

Line No.	Account Number (a)	Title of Account (b)	Total Charges for Services Direct Cost (i)	Total Charges for Services Indirect Cost (j)	Total Charges for Services Total Cost (k)
105	885-894	Total Distribution Maintenance Expenses	62,563	906,975	969,538
106		Total Natural Gas Operation and Maintenance Expenses	4,012,895	6,647,082	10,659,977
107	901	Supervision		1,456,314	1,456,314
108	902	Meter reading expenses	6,482	89,984	96,466
109	903	Customer records and collection expenses	5,608,631	19,092,700	24,701,331
110	904	Uncollectible accounts	4,229,900		4,229,900
111	905	Miscellaneous customer accounts expenses	62,965	541,613	604,578
112	906	Total Customer Accounts Operation Expenses	9,907,978	21,180,611	31,088,589
113	907	Supervision	347	132,133	132,480
114	908	Customer assistance expenses	614,663	889,967	1,504,630
115	909	Informational And Instructional Advertising Expenses	45,956	10,975	56,931
116	910	Miscellaneous Customer Service And Informational Expenses	2,555	207,885	210,440
117		Total Service and Informational Operation Accounts	663,521	1,240,960	1,904,481
118	911	Supervision	574	96,413	96,987
119	912	Demonstrating and Selling Expenses	346,246	59,707	405,953
120	913	Advertising Expenses	82,510	586,316	668,826
121	916	Miscellaneous Sales Expenses	55	13,841	13,896
122		Total Sales Operation Expenses	429,385	756,277	1,185,662
123	920	Administrative and General Salaries	8,356,703	30,811,061	39,167,764
124	921	Office Supplies and Expenses	(2,513,560)	6,675,381	4,161,821
125	923	Outside Services Employed	550,440	4,886,620	5,437,060
126	924	Property Insurance		1,135	1,135
127	925	Injuries and Damages	372	1,990,472	1,990,844
128	926	Employee Pensions and Benefits	1,706	377,904	379,610
129	928	Regulatory Commission Expenses	3,728,424		3,728,424
130	930.1	General Advertising Expenses	7,346	135,820	143,166
131	930.2	Miscellaneous General Expenses	106,659	838,494	945,153
132	931	Rents	5	2,524,407	2,524,412
133		Total Administrative and General Operation Expenses	10,238,095	48,241,294	58,479,389
134	935	Maintenance of Structures and Equipment	9,941	4,274,738	4,284,679
135		Total Administrative and General Maintenance Expenses	21,248,920	75,693,880	96,942,800
136		Total Cost of Service	42,395,354	137,778,164	180,173,518

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 304 Line No.: 13 Column: e

The following activity is included in account 416:

417100 NONUTILITY EXPENSES - COS	39,541
417101 NONUTILITY EXP - OTHER O&M	43,643
417158 NONUTILITY OPS EXPENSE OTHER	3,772
417160 NONUTILITY SELLING EXPENSE	1,746,992
417161 NONUTILITY ADMIN & GENERAL	360,721
417162 ADMIN AND GEN-EMPL BENEFITS	120,639
417165 EXP FOR UNCOLLECT ACCT NONREG	459,313
Total	2,774,621

Schedule Page: 304 Line No.: 40 Column: e

The following activity is included in 551-554:

604203 CONTRACTOR CONSULTING	(276)
551000 OTHR GEN MAINT SUPERV & ENG	2,045
553000 OTHR GEN MAINT OF GENR PLANT	79
554000 OTHR GEN MAINT MSC OTH PWR GEN	175
Total	2,023

Schedule Page: 304 Line No.: 40 Column: h

The following activity is included in 551-554:

604230 NREG POWER GEN O&M	29,013
Total	29,013

Schedule Page: 304 Line No.: 76 Column: e

The following activity is included in 700-798:

750000 GATHER OPER SUPERV & ENGIN	15,993
754000 FIELD COMPRESSOR STATION EXP	1,097
759000 NG PROD GATH OTHER EXPENSES	8,758
Total	25,848

Schedule Page: 304 Line No.: 77 Column: e

The following activity is included in 800-813:

487000 FORFEITED DISC/LATE PMT GAS	1,172
812000 GAS USED FOR OTHER UTILITY OPS	(13,114)
Total	(11,942)

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
FOOTNOTE DATA			

Schedule Page: 304 Line No.: 124 Column: e

The following activity is included in 921:

921000 OFFICE SUPPLIES & EXPENSE	7,060,757
922000 ADMIN EXP TRANS CREDIT	(3,097,656)
Total	3,963,101

Name of Respondent Black Hills Utility Holdings, Inc.	This Report Is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year/Period of Report Dec 31, 2017
--	---	--	---------------------------------------

Schedule XIX - Miscellaneous General Expenses - Account 930.2

1. Provide a listing of the amount included in Account 930.2, "Miscellaneous General Expenses" classifying such expenses according to their nature. Amounts less than \$50,000 may be grouped showing the number of items and the total for the group.
2. Payments and expenses permitted by Section 321 (b)(2) of the Federal Election Campaign Act, as amended by Public Law 94-283 in 1976 (2 U.S.C. 441(b)(2)) shall be separately classified.

Line No.	Title of Account (a)	Amount (b)
1	Industry Association Dues for Company Membership	630,908
2	Market Research Data Subscription (Section 321 (b)(2))	5,086
3	Director Retainers & Fees	104,098
4	Handout & Brochures (Section 321 (b)(2))	34,772
5	Materials Purchased Non-Inventory	87,910
6	Other	82,379
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40	Total	945,153

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XX - Organization Chart			

1. Provide a graphical presentation of the relationships and inter relationships within the service company that identifies lines of authority and responsibility in the organization.

BLACK HILLS UTILITY HOLDINGS, INC. LIST OF OFFICERS AND DIRECTORS

OFFICER	TITLE
David R. Emery	Chairman and Chief Executive Officer
Linden R. Evans	President and Chief Operating Officer
Richard W. Kinzley	Senior Vice President and Chief Financial Officer
Brian G. Iverson	Senior Vice President and General Counsel (also Chief Compliance Officer and Assistant Secretary)
Robert A. Myers	Senior Vice President – (a)
Scott A. Buchholz	Senior Vice President – Chief Information Officer
Jennifer C. Landis	Senior Vice President – Chief Human Resources Officer – (b)
Roxann R. Basham	Vice President – Governance and Corporate Secretary
Esther J. Newbrough	Vice President – Corporate Controller
Kimberly F. Nooney	Vice President – Treasurer
Jeffrey B. Berzina	Vice President – Strategic Planning and Development
Melinda Lee Watkins	Vice President – Tax
Amy K. Koenig	Assistant Corporate Secretary
Stuart A. Wevik	Group Vice President – Electric Utilities
Ivan Vancas	Group Vice President – Natural Gas Utilities
Kyle D. White	Vice President – Regulatory Strategy
Marne M. Jones	Vice President – Regulatory – (c)
Perry S. Krush	Vice President – Facilities
Karen Beachy	Vice President – Supply Chain
Mark L. Lux	Vice President – Power Generation, Safety and Environmental
Mark E. Stege	Vice President – Customer Service
Jodi Culp	Vice President – Gas Asset Optimization
John A. Hill, Jr.	Vice President – Gas Engineering

BOARD OF DIRECTORS

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report
Black Hills Utility Holdings, Inc.			2017
Schedule XX - Organization Chart			

David R. Emery	Chairman
Linden R. Evans	Director
Richard W. Kinzley	Director
Brian G. Iverson	Director

- (a) Robert A. Myers' title changed from Senior Vice President – Chief Human Resources Officer to Senior Vice President effective February 1, 2017; he subsequently retired on April 1, 2017
- (b) Jennifer C. Landis' title changed from Vice President – Human Resources to Senior Vice President – Chief Human Resources Officer effective February 1, 2017
- (c) Marne M. Jones was appointed Vice President – Regulatory effective February 1, 2017

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XXI - Methods of Allocation			

- | |
|---|
| <p>1. Indicate the service department or function and the basis for allocation used when employees render services to more than one department or functional group. If a ratio, include the numerator and denominator.</p> <p>2. Include any other allocation methods used to allocate costs.</p> |
|---|

Any asset ratios and employee and customer count ratios are calculated as of period-end dates, while revenue and expense ratios are calculated for twelve months ended as of period-end dates.

Asset Cost Ratio – Based on the net cost of assets as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is all applicable operating companies. Assets are limited to property, plant, and equipment, and include construction or work in process less accumulated depreciation, depletion and amortization (compliance with GAAP).

No departments utilize this ratio, but it is a component in the Blended Ratio.

Gross Margin Ratio – Based on the total gross margin for the trailing twelve months ending September 30th, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies. Gross margin is defined as revenue less cost of sales. Certain intercompany transactions may be excluded from gross margin if they would not have occurred if the revenue relationship was with a third party instead of a related party.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Payroll Dollar Ratio –Based on the total payroll dollars for the trailing twelve months ending September 30th, the numerator of which is the direct payroll charges from all BHC subsidiaries charging the for an applicable operating company and the denominator of which is for all applicable operating companies. Payroll dollars include all bonuses and compensation paid to employees, but do not include items that are only included on an employee's W-2 for gross-up and income tax purposes, such as life insurance premiums of \$50,000.

No departments utilize this ratio, but it is a component in the Blended Ratio.

Blended Ratio – A composite ratio comprised of an average of the Asset Cost Ratio, Payroll Dollar Ratio and the Gross Margin Ratio. These factors are equally weighted. This factor is sometimes referred to as the general

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XXI - Methods of Allocation			

allocation factor.

There are currently several variations of the Blended ratio that are specific to the segment that are appropriate for which charges are being allocated. For example, charges for electric engineering department labor would utilize an electric blended ratio whereby no allocations would be charged to a gas utility.

BHUH is utilizing the following segment variations and additional variations may be added if additional product lines are added or in the event that additional segmentation is deemed appropriate to most effectively allocate costs from a specific department

All Blended

Electric Blended

Gas Blended

BHE Blended

BHGD Blended

Departments that utilize this ratio include BHUH Benefits Loading, BHUH Accounting Accruals, All Blended Assets, Electric Blended Assets, Gas Blended Assets, Electric Engineering Services, Regulatory Services, Utility Operations Management, Business Development, Power Supply and Renewables, Electric Ops Communications, and Gas Engineering Management.

Any department at Black Hills Corp that appropriately charges a BHUH operating unit but is not part of the predefined allocation design will also utilize the Blended Allocator Ratio. For example if a BHSC IT department provides maintenance on the SCADA system supporting the regulated electric companies they would charge BHUH operating unit 201900 and these costs would be allocated using the Blended Ratio across the regulated electric companies.

Customer Count Ratio – Based on the number of customers as of September 30th for the prior year, the numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XXI - Methods of Allocation			

There are currently several variations of the Customer Count ratio that are specific to the type of customers that are appropriate to the department for which charges are being allocated. For example a department that supports gas engineering would be allocated based on gas customers only whereas a general customer service department would be allocated based on total customers.

BHUH is utilizing the following customer counts to calculate customer count ratios additional variations may be added if additional product lines are added or in the event that additional segmentation of customers are deemed appropriate to most effectively allocate costs from a specific department

Customers

Electric Customers

Gas Customers

BHE Customers

BHGD Customers

Non-Regulated Customers

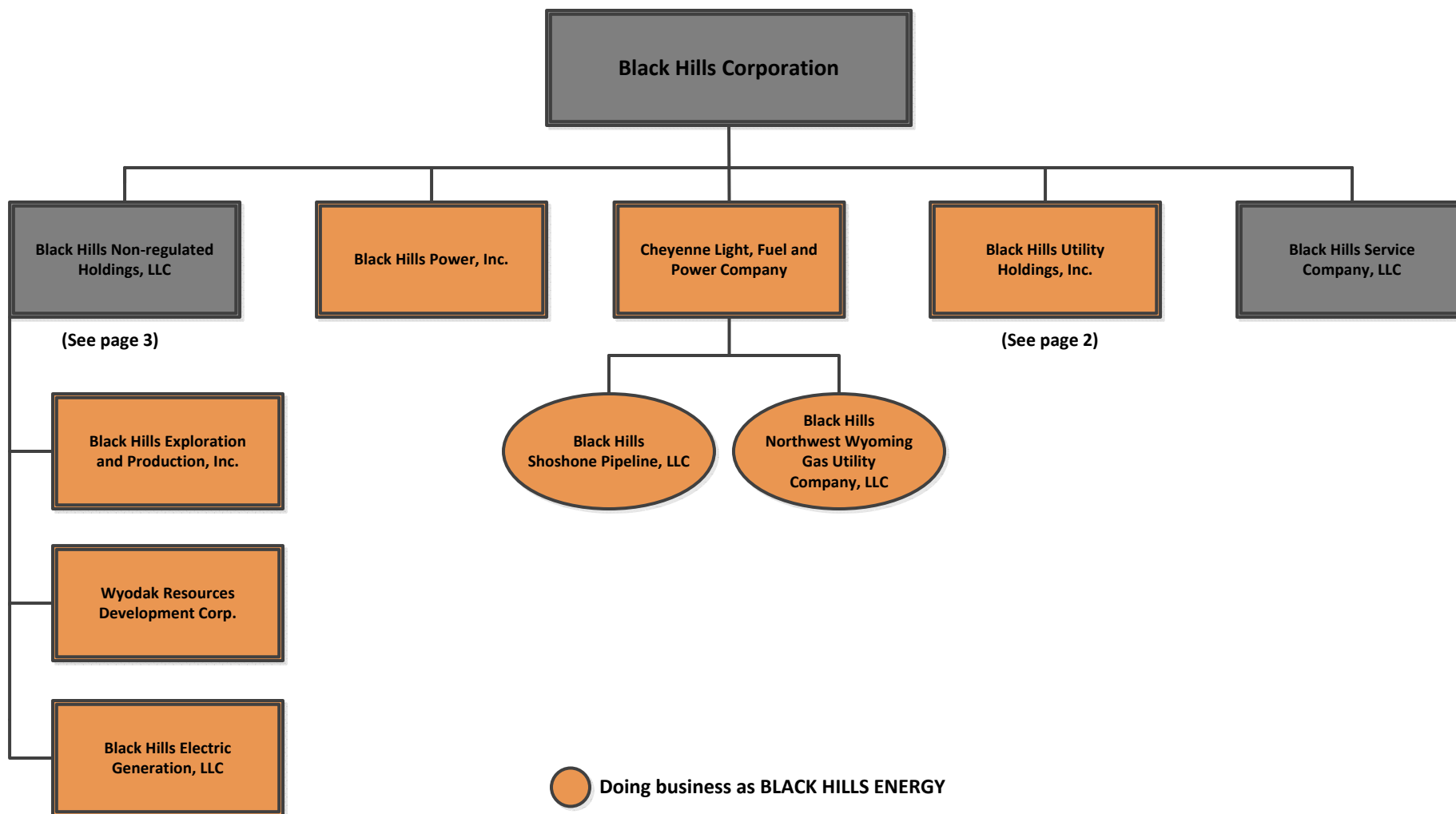
Departments that utilize these ratios include Gas Supply Services Administration, Computer Aided Dispatch, FAME Assets, Work Management Assets, Regulated Generation Assets, Customer Blended Assets, Gas Engineering Services, GIS Support, General Meter Shop, Customer Serv Call Centers, Customer Serv Supp / LV Billing, Customer Serv Billing/Collections, Customer Serv Field Resource Center, Repair Business Marketing, Regulatory Affairs, and Energy Efficiency/DSM.

Transmission Ratio – Based on a simple average of a multiple of cross-sectional drivers for the transmission function as of September 30th for the prior year that includes customer counts, peak load, number of substations, number of feeders, number of distribution and transmission miles, and number of remote terminal units. The numerator of which is for an applicable operating company and the denominator of which is for all applicable operating companies.

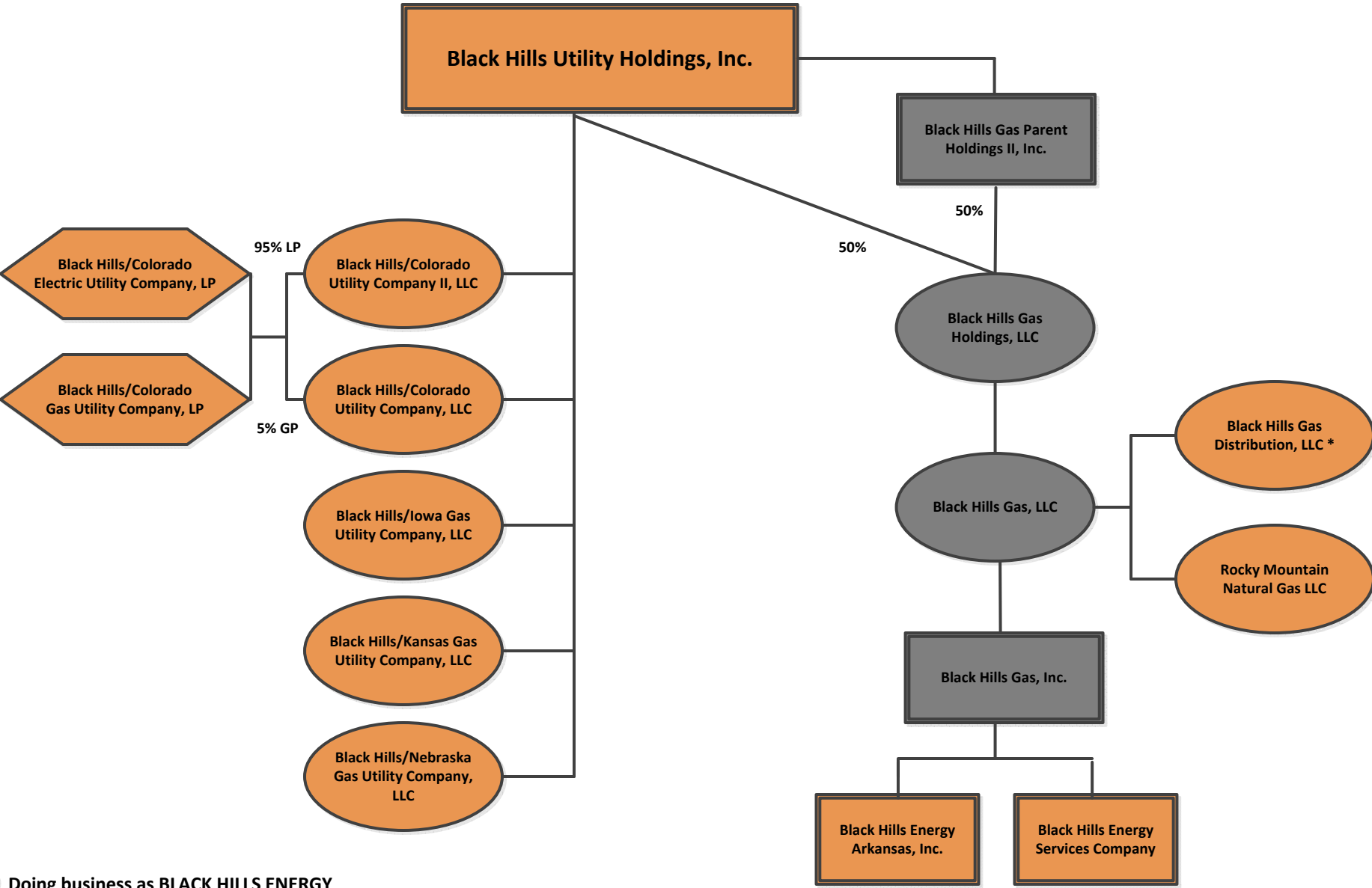
Name of Respondent	This Report is: (1) <input checked="" type="checkbox"/> An Original (2) <input type="checkbox"/> A Resubmission	Resubmission Date (Mo, Da, Yr) / /	Year of Report 2017
Black Hills Utility Holdings, Inc.			
Schedule XXI - Methods of Allocation			

The departments that utilize this ratio include Transmission Planning, T&D Engineering, NERC Compliance, FERC Tariff and Compliance, Transmission and Distribution Reliability, NERC Transmission and Tech Support, Transmission Service Management, Substation/Protection Eng, Engineering Resources, Elec Maint Services, and Vegetation Management.

BLACK HILLS CORPORATION LEGAL ORGANIZATIONAL CHART



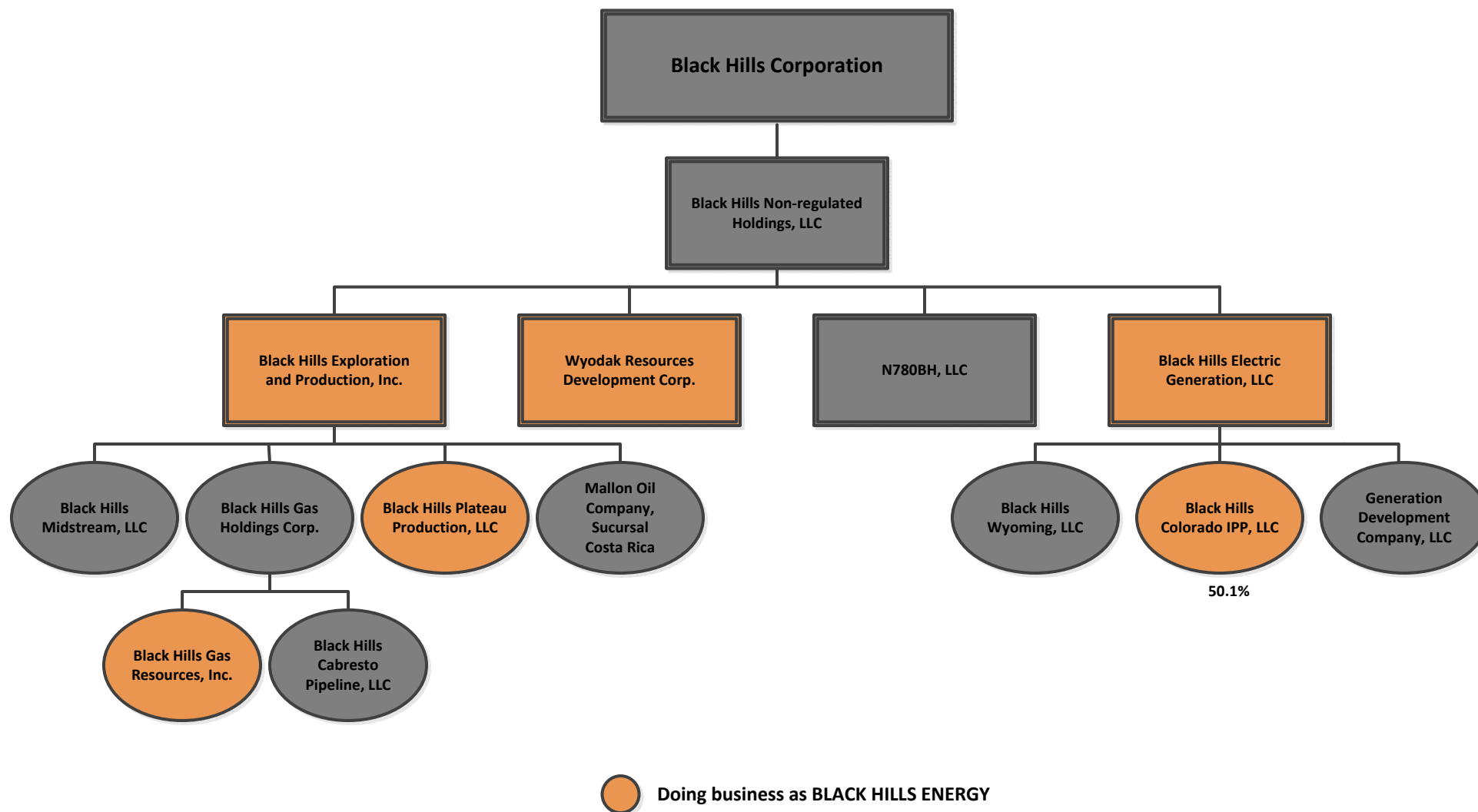
BLACK HILLS CORPORATION LEGAL ORGANIZATIONAL CHART



 Doing business as BLACK HILLS ENERGY

* Represents state gas divisions in CO, NE and WY

BLACK HILLS CORPORATION LEGAL ORGANIZATIONAL CHART



**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-31303

BLACK HILLS CORPORATION

Incorporated in South Dakota

7001 Mount Rushmore Road

IRS Identification Number

Rapid City, South Dakota 57702

46-0458824

Registrant's telephone number, including area code
(605) 721-1700

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock of \$1.00 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

At June 30, 2017 \$3,563,087,139

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at January 31, 2018</u>
Common stock, \$1.00 par value	53,544,761 shares

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement being prepared for the solicitation of proxies in connection with the 2018 Annual Meeting of Stockholders to be held on April 24, 2018, are incorporated by reference in Part III of this Form 10-K.

FORM 10-K

Website Access to Reports

The reports we file with the SEC are available free of charge at our website www.blackhillscorp.com as soon as reasonably practicable after they are filed. In addition, the charters of our Audit, Governance and Compensation Committees are located on our website along with our Code of Business Conduct, Code of Ethics for our Chief Executive Officer and Senior Finance Officers, Corporate Governance Guidelines of the Board of Directors and Policy for Director Independence. The information contained on our website is not part of this document.

Forward-Looking Information

This Form 10-K contains forward-looking statements as defined by the SEC. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words “anticipates,” “estimates,” “expects,” “intends,” “plans,” “predicts” and similar expressions, and include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements that are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature, including statements contained within Item 7 - Management’s Discussion & Analysis of Financial Condition and Results of Operations.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company’s expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management’s examination of historical operating trends, data contained in the Company’s records and other data available from third parties. Nonetheless, the Company’s expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements in this Form 10-K, including statements contained within Item 1A - Risk Factors.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

History and Organization

Black Hills Corporation, a South Dakota corporation (together with its subsidiaries, referred to herein as the “Company,” “we,” “us” or “our”), is a customer-focused, growth-oriented, vertically-integrated utility company headquartered in Rapid City, South Dakota. Our predecessor company, Black Hills Power and Light Company, was incorporated and began providing electric utility service in 1941. It was formed through the purchase and combination of several existing electric utilities and related assets, some of which had served customers in the Black Hills region since 1883. In 1956, with the purchase of the Wyodak Coal Mine, we began producing and selling energy through non-regulated businesses.

We operate our business in the United States, reporting our operating results through our regulated Electric Utilities, regulated Gas Utilities, Power Generation and Mining segments. Certain unallocated corporate expenses that support our operating segments are presented as Corporate and Other.

Our Electric Utilities segment generates, transmits and distributes electricity to approximately 210,000 electric customers in South Dakota, Wyoming, Colorado and Montana. Our Electric Utilities own 941 MW of generation and 8,839 miles of electric transmission and distribution lines. For additional information, see the Key Elements of our Business Strategy in Item 7.

Our Gas Utilities segment serves approximately 1,042,000 natural gas utility customers in Arkansas, Colorado, Iowa, Nebraska, Kansas and Wyoming. Our Gas Utilities own and operate 4,656 miles of intrastate gas transmission pipelines and 40,455 miles of gas distribution mains and service lines, seven natural gas storage sites, over 45,000 horsepower of compression and nearly 600 miles of gathering lines. On February 12, 2016, we acquired SourceGas Holdings, LLC, adding four regulated natural gas utilities serving approximately 431,000 customers in Arkansas, Colorado, Nebraska and Wyoming. For additional information

on this acquisition, see the Key Elements of our Business Strategy in Item 7 and Note 2 in the Notes to Consolidated Financial Statements in Item 8.

Our Power Generation segment produces electric power from its generating plants and sells the electric capacity and energy primarily to our utilities under long-term contracts. Our Mining segment produces coal at our mine near Gillette, Wyoming, and sells the coal primarily under long-term contracts to mine-mouth electric generation facilities including our own regulated and non-regulated generating plants. For additional information, see the Key Elements of our Business Strategy in Item 7.

Our segments generated the following income from continuing operations available for common stock for the year ended December 31, 2017 and had the following total assets at December 31, 2017 (excluding Corporate and Other):

	Income (loss) from continuing operations available for common stock for the year ended December 31, 2017	Total Assets as of December 31, 2017
	(in thousands)	
Electric Utilities	\$110,082	\$2,906,275
Gas Utilities	\$65,795	\$3,426,466
Power Generation	\$46,479	\$60,852
Mining	\$14,386	\$65,455

On November 1, 2017, the BHC board of directors approved a complete divestiture of our Oil and Gas segment. As of February 23, 2018, we have either closed transactions or signed contracts to sell more than 90 percent of our oil and gas properties. We have executed agreements to sell all our operated properties and have only non-operated assets with minimal value left to divest. We plan to conclude the sale of all of our remaining assets by mid-year 2018. The results of our Oil and Gas segment are reflected in discontinued operations, other than certain general and administrative and interest costs. BHEP's assets and liabilities are classified as held for sale. See Note 21 in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Segment Financial Information

We discuss our business strategy and other prospective information in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. Financial information regarding our business segments is incorporated herein by reference to Item 8 - Financial Statements and Supplementary Data, and particularly Note 5 in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

Electric Utilities Segment

We conduct electric utility operations through our South Dakota, Wyoming and Colorado subsidiaries. Our Electric Utilities generate, transmit and distribute electricity to approximately 210,000 customers in South Dakota, Wyoming, Colorado and Montana. Our electric generating facilities and power purchase agreements provide for the supply of electricity principally to our own distribution systems. Additionally, we sell excess power to other utilities and marketing companies, including our affiliates. We also provide non-regulated services through our Tech Services product lines.

Capacity and Demand. System peak demands for the Electric Utilities for each of the last three years are listed below:

	System Peak Demand (in MW)					
	2017		2016		2015	
	Summer	Winter	Summer	Winter	Summer	Winter
South Dakota Electric	447	402	438	389	424	369
Wyoming Electric ^(a)	249	230	236	230	212	202
Colorado Electric ^(b)	398	299	412	302	392	303
Total Electric Utilities' Peak Demands	1,094	931	1,086	921	1,028	874

(a) The July 2017 summer peak load of 249 surpassed previous summer peak record load of 236 set in July 2016. The winter peak record of 230 was set in December 2016.

(b) The July 2016 summer peak load of 412 surpassed previous summer peak record load of 406 set in June 2016.

Federal Regulation

Energy Policy Act. Black Hills Corporation is a holding company whose assets consist primarily of investments in our subsidiaries, including subsidiaries that are public utilities and holding companies regulated by FERC under the Federal Power Act and PUHCA 2005.

Federal Power Act. The Federal Power Act gives FERC exclusive rate-making jurisdiction over wholesale sales of electricity and the transmission of electricity in interstate commerce. Pursuant to the Federal Power Act, all public utilities subject to FERC's jurisdiction must maintain tariffs and rate schedules on file with FERC that govern the rates, terms and conditions for the provision of FERC-jurisdictional wholesale power and transmission services. Public utilities are also subject to accounting, record-keeping and reporting requirements administered by FERC. FERC also places certain limitations on transactions between public utilities and their affiliates. Our public Electric Utility subsidiaries provide FERC-jurisdictional services subject to FERC's oversight.

Our Electric Utilities, Black Hills Colorado IPP and Black Hills Wyoming are authorized by FERC to make wholesale sales of electric capacity and energy at market-based rates under tariffs on file with FERC. As a condition of their market-based rate authority, each files Electric Quarterly Reports with FERC. South Dakota Electric owns and operates FERC-jurisdictional interstate transmission facilities and provides open access transmission service under tariffs on file with FERC. Our Electric Utilities are subject to routine audit by FERC with respect to their compliance with FERC's regulations.

The Federal Power Act authorizes FERC to certify and oversee a national electric reliability organization with authority to promulgate and enforce mandatory reliability standards applicable to all users, owners and operators of the bulk-power system. FERC has certified NERC as the electric reliability organization. NERC has promulgated mandatory reliability standards and NERC, in conjunction with regional reliability organizations that operate under FERC's and NERC's authority and oversight, enforces those mandatory reliability standards.

PUHCA 2005. PUHCA 2005 gives FERC authority with respect to the books and records of a utility holding company. As a utility holding company with centralized service company subsidiaries, BHSC and Black Hills Utility Holdings, we are subject to FERC's authority under PUHCA 2005.

Power Generation Segment

Our Power Generation segment, which operates through Black Hills Electric Generation and its subsidiaries, acquires, develops and operates our non-regulated power plants. As of December 31, 2017, we held varying interests in independent power plants operating in Wyoming and Colorado with a total net ownership of approximately 269 MW.

We produce electric power from our generating plants and sell the electric capacity and energy, primarily to affiliates under a combination of mid- to long-term contracts, which mitigates the impact of a potential downturn in future power prices. We currently sell a substantial majority of our non-regulated generating capacity under contracts having terms greater than one year.

As of December 31, 2017, the power plant ownership interests held by our Power Generation segment included:

Power Plants	Fuel Type	Location	Ownership Interest	Owned Capacity (MW)	In Service Date
Wygen I	Coal	Gillette, Wyoming	76.5%	68.9	2003
Pueblo Airport Generation ^(a)	Gas	Pueblo, Colorado	50.1%	200.0	2012
				<u>268.9</u>	

(a) Black Hills Colorado IPP owns and operates this facility. This facility provides capacity and energy to Colorado Electric under a 20-year PPA with Colorado Electric. This PPA is accounted for as a capital lease on the accompanying Consolidated Financial Statements.

Black Hills Wyoming - Wygen I. The Wygen I generation facility is a mine-mouth, coal-fired power plant with a total capacity of 90 MW located at our Gillette, Wyoming energy complex. We own 76.5% of the plant and MEAN owns the remaining 23.5%. We sell 60 MW of unit-contingent capacity and energy from this plant to Wyoming Electric under a PPA that expires on December 31, 2022. The PPA includes an option for Wyoming Electric to purchase Black Hills Wyoming's ownership interest in the Wygen I facility through 2019. The purchase price related to the option is \$2.6 million per MW (65 MWs),

adjusted for all depreciated capital additions since 2009, and reduced by depreciation (approximately \$5 million per year) over a 35-year life beginning January 1, 2009. The net book value of Wygen I at December 31, 2017 was \$69 million and if Wyoming Electric had exercised the purchase option at year-end 2017, the estimated purchase price would have been approximately \$133 million. We sell excess power from our generating capacity into the wholesale power markets when it is available and economical to do so.

Black Hills Colorado IPP - Pueblo Airport Generation. The Pueblo Airport Generating Station consists of two 100 MW combined-cycle gas-fired power generation plants located at a site shared with Colorado Electric. The plants commenced operation on January 1, 2012 and the assets are accounted for as a capital lease under a 20-year PPA with Colorado Electric, which expires on December 31, 2031. Under the PPA with Colorado Electric, any excess capacity and energy shall be for the benefit of Colorado Electric.

Sale of Noncontrolling Interest in Subsidiary

On April 14, 2016, Black Hills Electric Generation sold a 49.9%, noncontrolling interest in Black Hills Colorado IPP for \$216 million to a third party buyer. FERC approval of the sale was received on March 29, 2016. Black Hills Electric Generation is the operator of the facility, which is contracted to provide capacity and energy through 2031 to Black Hills Colorado Electric. Proceeds from the sale were used to pay down short-term debt and for other general corporate purposes. The operating results for Black Hills Colorado IPP remain consolidated with Black Hills Electric Generation, as Black Hills Colorado IPP has been determined to be a variable interest entity (VIE) in which the Company has a variable interest.

The following table summarizes MWh for our Power Generation segment:

Quantities Sold, Generated and Purchased (MWh) ^(a)	2017	2016	2015
Sold			
Black Hills Colorado IPP ^(b)	943,618	1,223,949	1,133,190
Black Hills Wyoming ^(c)	645,810	644,564	663,052
Total Sold	1,589,428	1,868,513	1,796,242
Generated			
Black Hills Colorado IPP ^(b)	943,618	1,223,949	1,133,190
Black Hills Wyoming	577,124	543,546	561,930
Total Generated	1,520,742	1,767,495	1,695,120
Purchased			
Black Hills Wyoming ^(b)	69,377	85,993	68,744
Total Purchased	69,377	85,993	68,744

(a) Company use and losses are not included in the quantities sold, generated and purchased.

(b) The decrease in 2017 is driven by the joint dispatch agreement Colorado Electric joined in 2017. See details of this agreement above in the Electric Utilities segment.

(c) Under the 20-year economy energy PPA with the City of Gillette, effective September 2014, Black Hills Wyoming purchases energy on behalf of the City of Gillette and sells that energy to the City of Gillette.

Operating Agreements. Our Power Generation segment has the following material operating agreements:

- Economy Energy PPA and other ancillary agreements
 - Black Hills Wyoming sold its CTII 40 MW natural gas-fired generating unit to the City of Gillette, Wyoming on September 3, 2014. Under the terms of the sale, Black Hills Wyoming entered into ancillary agreements to operate CTII, and provide use of shared facilities including a ground lease and dispatch generation services. In addition, the agreement includes a 20-year economy energy PPA that contains a sharing arrangement in which the parties share the savings of wholesale power purchases made when market power prices are less than the cost of operating the generating unit.

- Operating and Maintenance Services Agreement
 - In conjunction with the sale of the noncontrolling interest on April 14, 2016, an operating and maintenance services agreement was entered into between Black Hills Electric Generation and Black Hills Colorado IPP. This agreement sets forth the obligations and responsibilities of Black Hills Electric Generation as the operator of the generating facility owned by Black Hills Colorado IPP. This agreement is in effect from the date of the noncontrolling interest purchase and remains effective as long as the operator or one of its affiliates is responsible for managing the generating facilities in accordance with the noncontrolling interest agreement, or until termination by owner or operator.
- Shared Services Agreements
 - South Dakota Electric, Wyoming Electric and Black Hills Wyoming are parties to a shared facilities agreement, whereby each entity charges for the use of assets by the affiliate entity.
 - Black Hills Colorado IPP and Colorado Electric are parties to a facility fee agreement, whereby Colorado Electric charges Black Hills Colorado IPP for the use of Colorado Electric assets.
 - Black Hills Colorado IPP, Wyoming Electric and South Dakota Electric are parties to a Spare Turbine Use Agreement, whereby Black Hills Colorado IPP charges South Dakota Electric and Wyoming Electric a monthly fee for the availability of a spare turbine to support the operation of Cheyenne Prairie Generating Station.
 - Black Hills Colorado IPP and Black Hills Wyoming receive certain staffing and management services from BHSC.
- Jointly Owned Facilities
 - Black Hills Wyoming and MEAN are parties to a shared joint ownership agreement, whereby Black Hills Wyoming charges MEAN for administrative services, plant operations and maintenance on their share of the Wygen I generating facility over the life of the plant.

Competition. The independent power industry consists of many strong and capable competitors, some of which may have more extensive operations or greater financial resources than we possess.

With respect to the merchant power sector, FERC has taken steps to increase access to the national transmission grid by utility and non-utility purchasers and sellers of electricity and foster competition within the wholesale electricity markets. Our Power Generation business could face greater competition if utilities are permitted to robustly invest in power generation assets. Conversely, state regulatory rules requiring utilities to competitively bid generation resources may provide opportunity for independent power producers in some regions.

The Energy Policy Act of 1992. The passage of the Energy Policy Act of 1992 encouraged independent power production by providing certain exemptions from regulation for EWGs. EWGs are exclusively in the business of owning or operating, or both owning and operating, eligible power facilities and selling electric energy at wholesale. EWGs are subject to FERC regulation, including rate regulation. We own two EWGs: Wygen I and 200 MW (two 100 MW combined-cycle gas-fired units) at the Pueblo Airport Generating Station. Our EWGs were granted market-based rate authority, which allows FERC to waive certain accounting, record-keeping and reporting requirements imposed on public utilities with cost-based rates.

Mining Segment

Our Mining segment operates through our WRDC subsidiary. We surface mine, process and sell primarily low-sulfur sub-bituminous coal at our mine near Gillette, Wyoming. The WRDC coal mine, which we acquired in 1956 from Homestake Gold Mining Company, is located in the Powder River Basin. The Powder River Basin contains one of the largest coal reserves in the United States. We produced approximately 4.2 million tons of coal in 2017.

During our surface mining operations, we strip and store the topsoil. We then remove the overburden (earth and rock covering the coal) with heavy equipment. Removal of the overburden typically requires drilling and blasting. Once the coal is exposed, we drill, fracture and systematically remove it, using front-end loaders and conveyors to transport the coal to the mine-mouth generating facilities. We reclaim disturbed areas as part of our normal mining activities by back-filling the pit with overburden removed during the mining process. Once we have replaced the overburden and topsoil, we re-establish vegetation and plant life in accordance with our approved post-mining topography plan.

In a basin characterized by thick coal seams, our overburden ratio, a comparison of the cubic yards of dirt removed to a ton of coal uncovered, has in recent years trended upwards. The overburden ratio at December 31, 2017 was 2.16, which increased from the prior year as we continued mining in areas with higher overburden. We expect our stripping ratio to be approximately 2.15 by the end of 2018 as we mine in areas with comparable overburden.

Mining rights to the coal are based on four federal leases and one state lease. The federal leases expire between April 30, 2019 and September 30, 2025 and the state lease expires on August 1, 2023. The duration of the leases varies; however, the lease terms generally are extended to the exhaustion of economically recoverable reserves, as long as active mining continues. We pay federal and state royalties of 12.5% of the selling price of all coal. As of December 31, 2017, we estimated our recoverable coal reserves to be approximately 195 million tons, based on a life-of-mine engineering study utilizing currently available drilling data and geological information prepared by internal engineering studies. The recoverable coal reserve life is equal to approximately 47 years at the current production levels. Our recoverable coal reserve estimates are periodically updated to reflect past coal production and other geological and mining data. Changes in mining methods or the utilization of new technologies may increase or decrease the recovery basis for a coal seam. Our recoverable coal reserves include reserves that can be economically and legally extracted at the time of their determination. We use various assumptions in preparing our estimate of recoverable coal reserves. See Risk Factors under Mining for further details.

Substantially all of our coal production is currently sold under contracts to:

- South Dakota Electric for use at the 90 MW Neil Simpson II plant. This contract is for the life of the plant;
- Wyoming Electric for use at the 95 MW Wygen II plant. This contract is for the life of the plant;
- The 362 MW Wyodak power plant owned 80% by PacifiCorp and 20% by South Dakota Electric. PacifiCorp is obligated to purchase a minimum of 1.5 million tons of coal each year of the contract term, subject to adjustments for planned outages. South Dakota Electric is also obligated to purchase a minimum of 0.375 million tons of coal per year for its 20% share of the power plant. This contract expires December 31, 2022;
- The 110 MW Wygen III power plant owned 52% by South Dakota Electric, 25% by MDU and 23% by the City of Gillette to which we sell approximately 600,000 tons of coal each year. This contract expires June 1, 2060;
- The 90 MW Wygen I power plant owned 76.5% by Black Hills Wyoming and 23.5% by MEAN to which we sell approximately 500,000 tons of coal each year. This contract expires June 30, 2038; and
- Certain regional industrial customers served by truck to which we sell a total of approximately 150,000 tons of coal each year. These contracts have terms of one to five years.

Our Mining segment sells coal to South Dakota Electric and Wyoming Electric for all of their requirements under cost-based agreements that regulate earnings from these affiliate coal sales to a specified return on our coal mine's cost-depreciated investment base. The return calculated annually is 400 basis points above A-rated utility bonds applied to our Mining investment base. South Dakota Electric made a commitment to the SDPUC, the WPSC and the City of Gillette that coal for South Dakota Electric's operating plants would be furnished and priced as provided by that agreement for the life of the Neil Simpson II plant and through June 1, 2060, for Wygen III. The agreement with Wyoming Electric provides coal for the life of the Wygen II plant.

The price of unprocessed coal sold to PacifiCorp for the Wyodak plant is determined by the coal supply agreement described above. The agreement includes a price adjustment in 2019. The price adjustment essentially allows us to retain the full economic advantage of the mine's location adjacent to the plant. The price adjustment is based on the market price of coal plus considerations for the avoided costs of rail transportation and a coal unloading facility, which PacifiCorp would have to incur if it purchased coal from another mine. In addition, the agreement also provides for the monthly escalation of coal price based on an escalation factor.

WRDC supplies coal to Black Hills Wyoming for the Wygen I generating facility for requirements under an agreement using a base price that includes price escalators and quality adjustments through June 30, 2038 and includes actual cost per ton plus a margin equal to the yield for Moody's A-Rated 10-Year Corporate Bond Index plus 400 basis points with the base price being adjusted on a 5-year interval. The agreement stipulates that WRDC will supply coal to the 90 MW Wygen I plant through June 30, 2038.

Competition. Our primary strategy is to sell the majority of our coal production to on-site, mine-mouth generation facilities under long-term supply contracts. Historically, off-site sales have been to consumers within a close proximity to the mine. Rail transport market opportunities for WRDC coal are limited due to the lower heating value (Btu) of the coal, combined with the fact that the WRDC coal mine is served by only one railroad, resulting in less competitive transportation rates. Management continues to explore the limited market opportunities for our product through truck transport.

Additionally, coal competes with other energy sources, such as natural gas, wind, solar and hydropower. Costs and other factors relating to these alternative fuels, such as safety, environmental considerations and availability affect the overall demand for coal as a fuel.

Environmental Matters. We are subject to federal, state and local laws and regulations providing for air, water and solid waste pollution control; state facility-siting regulations; zoning and planning regulations of certain state and local authorities; federal health and safety regulations; and state hazard communication standards. See Environmental Matters section for further information.

Mine Reclamation. Reclamation is required during production and after mining has been completed. Under applicable law, we must submit applications to, and receive approval from, the WDEQ for any mining and reclamation plan that provides for orderly mining, reclamation and restoration of the WRDC mine. We have approved mining permits and are in compliance with other permitting programs administered by various regulatory agencies. The WRDC coal mine is permitted to operate under a five-year mining permit issued by the State of Wyoming. In 2016, that five-year permit was re-issued. Based on extensive reclamation studies, we have accrued approximately \$12 million for reclamation costs as of December 31, 2017. Mining regulatory requirements continue to increase, which impose additional cost on the mining process.

Environmental Matters

At Black Hills, we deliver energy to our customers and communities guided by our commitment to environmental stewardship; to sustain environmental compliance which results in healthier communities.

South Dakota and Wyoming Power Generation. Based on current regulations, technology and plans, the following table contains our current estimates of capital expenditures expected to be incurred over the next three years to comply with current environmental laws and regulations as described below, including regulations that cover water, air, soil and other pollutants, but excluding plant closures and the cost of new generation. The ultimate cost could be significantly different from the amounts estimated.

Environmental Expenditure Estimates	Total (in thousands)
2018	\$ 3,086
2019	1,674
2020	611
Total	<u>\$ 5,371</u>

Methane Rules (Greenhouse Gas Emissions). The EPA and the State of Colorado have implemented strict regulatory requirements on fugitive methane emissions associated with oil and natural gas exploration and production operations and from natural gas gathering and transmission systems. Additionally, the BLM issued a new rule referred to as the Methane Rule (aka Venting and Flaring rule) with the intent to capture methane leaks and lost royalties from companies that operate on federal land.

The rule has been postponed for one year by the BLM, but continues to be legally contested. While this risk is substantially reduced through the divestiture of BHEP, it continues to impact our remaining natural gas gathering and transmission operations. It is anticipated that regulatory control in this area may continue to expand, affecting a larger portion of Black Hills’ natural gas operations, including storage and distribution. Presently, we have seven compressor stations in our natural gas transmission operations affected by the rule (one in Arkansas, three in Colorado, and three in Wyoming).

Our operations are currently in compliance with both EPA and BLM rules. Although the BLM rule has been postponed, non-compliance would expose us to both enforcement action and civil suits. We will continue to monitor the litigation until the BLM’s rule status is clarified through the resolution of legal challenges. Additionally, we are developing a corporate-wide methane control strategy to address GHG emissions from our natural gas operations.

Water Issues. Our facilities are subject to a variety of state and federal regulations governing existing and potential water/wastewater discharges and protection of surface waters from oil pollution. Generally, such regulations are promulgated under the Clean Water Act and govern overall water/wastewater discharges through EPA’s surface water discharge and storm water permits. All of our facilities that are required to have such permits have those permits in place and are in compliance with discharge limitations and plan implementation requirements. The EPA proposed effluent limitation guidelines and standards on June 7, 2013 and published the final rule on November 3, 2015. This rule will have an impact on the Wyodak Plant. The terms of this new regulation impact the next permit renewal, which will be in 2020. Additionally, the EPA regulates surface water oil pollution through its oil pollution prevention regulations. All of our facilities subject to these regulations have compliant prevention plans in place.

Short-term Emission Limits. The EPA and State Air Quality Programs implemented short-term emission limits for coal and natural gas-fired generating units during normal and start-up operating scenarios for Sulfur Dioxide (SO₂), Nitrogen Oxide (NO_x) and Opacity. The limits pertain to emissions during start-up periods and upset conditions such as mechanical malfunctions. State and federal regulatory agencies typically excuse short-term emissions exceedances if they are reported and corrected immediately or if it occurs during start-up.

We proactively manage this requirement through maintenance efforts and installing additional pollution control systems to control SO₂ emission short-term excursions during start-up. These actions have nearly eliminated our short-term emission limit compliance risk while plant availability remained above 90% for all four of our coal-fired plants at the Neil Simpson Complex. To eliminate the remaining potential for exceedances, an innovative trip logic mechanism was implemented to shut the power plant down if a predicted emission limit is to be exceeded. Similar efforts have been taken and similar results achieved with our natural gas fired combustion turbine sites as well.

Regional Haze (Impacts to the Wyodak Power Plant). The EPA Regional Haze rule was promulgated to improve visibility in our National Parks and Wilderness Areas. The State of Wyoming proposed controls in its Regional Haze State Implementation Plan (SIP) which allowed PacifiCorp to install low-NO_x burners in its Wyodak Plant. The EPA did not agree with the State of Wyoming's determination and overruled it in a Federal Implementation Plan (FIP). The State of Wyoming and other interested parties are challenging the EPA's determination. If the challenge is unsuccessful, additional capital investment would be necessary to bring the Wyodak Plant into compliance. Our share of this capital investment would be approximately \$40 million.

Mining. Operations at the WRDC mine must regularly address issues related to the proximity of the mine disturbance boundary to the City of Gillette, and to residential and industrial properties. Homeowner complaints and challenges to the permits may occur as mining operations move closer to residential areas. Specific concerns could include damage to wells, fugitive dust emissions, vibration and an emissions cloud from blasting.

Former Manufactured Gas Plants (FMGP). Federal and state laws authorize the EPA and other agencies to issue orders compelling potentially responsible parties to clean up sites that are determined to present an actual or potential threat to human health or the environment. Our gas utilities are managing FMGP sites in Iowa, Nebraska and Colorado. We are currently in discussions with EPA, state regulators, and/or other third-parties to determine the ultimate resolution to these sites.

Clean Power Plan. The EPA was directed to repeal, revise, and replace the Clean Power Plan rule. The EPA issued two public notices in the Federal Register late in 2017. The first identified the EPA's intent to repeal the rule and the second was issued to seek public input on proposals to replace the CPP with an Advanced Notice of Proposed Rule Making (ANPRM). Natural gas and renewable generation industries are pushing the EPA to replace the current rule. We will continue to monitor and comment on the proposals and take appropriate action related to any new or modified rules.

OSM Coal Combustion Residual Rule (CCR). The EPA issued the CCR that is currently effective and established requirements to protect surface and groundwater from impacts of coal ash impoundments. WRDC is exempt from the EPA CCR because coal ash is used for backfill reclamation in the areas previously mined. We would be subject to any proposed OSM CCR.

During the development of the OSM rule, it was anticipated that placing ash below groundwater levels would be disallowed. While our mining operations place ash below groundwater levels, the State of Wyoming gave us approval to grandfather this ash disposal in the Peerless Pit, with the Mine Plan Permit 232-T8, as a potential preventative measure to a new rule. As such, any risks associated with having to construct a new ash disposal site above groundwater and then complete backfilling the existing ash pit area to required reclamation levels are not applicable at this time.

Oil and Gas Segment Divestiture. Regulatory agencies placed a significant emphasis on regulating oil and gas activities over the past few years to address GHG and climate change concerns mainly due to the associated methane emissions. The regulatory activity significantly increased compliance risk. We will see relief in our compliance risk concerns with the divestiture of our oil and gas segment in 2018.

Environmental risk changes constantly with the implementation of new or modified regulations, changing stakeholder interests and needs, and through the introduction of innovative work practices and technologies. We assess risk annually and develop mitigation strategies to successfully and responsibly manage and ensure compliance across the enterprise. For additional information on environmental matters, see Item 1A and Note 19 of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K.

LIST OF OFFICERS
BLACK HILLS/KANSAS GAS UTILITY COMPANY, LLC

OFFICER	TITLE	AREA OF RESPONSIBILITY
David R. Emery	Chairman and Chief Executive Officer	Oversees all company operations
Linden R. Evans	President and Chief Operating Officer	Oversees all utility operations, customer service
Richard W. Kinzley	Senior Vice President and Chief Financial Officer	Oversees finance, accounting
Brian G. Iverson	Senior Vice President and General Counsel	Oversees legal, regulatory, compliance, internal audit
Scott A. Buchholz	Senior Vice President – Chief Information Officer	Oversees Information technology, billing systems
Jennifer C. Landis	Senior Vice President – Chief Human Resources Officer	Oversees compensation, benefits
Roxann R. Basham	Vice President – Governance and Corporate Secretary	Governance, company records, compliance
Esther J. Newbrough	Vice President – Corporate Controller	Accounting
Kimberly F. Nooney	Vice President – Treasurer	Financing, cash management
Melinda Lee Watkins	Vice President – Tax	Tax
Jeffrey B. Berzina	Vice President – Strategic Planning and Development	Planning, strategy
Amy K. Koenig	Assistant Corporate Secretary	Governance
Ivan Vancas	Group Vice President – Natural Gas Utilities	Gas utility operations
Perry S. Krush	Vice President – Facilities	Facilities
Karen Beachy	Vice President – Supply Chain	Supply Chain
Kyle D. White	Vice President – Regulatory Strategy	Regulatory strategy
Marne M. Jones	Vice President – Regulatory	Regulatory
Mark L. Lux	Vice President – Power Generation, Safety and Environmental	Power generation, safety, environmental
Mark E. Stege	Vice President – Customer Service	Customer service
Jodi Culp	Vice President – Gas Asset Optimization	Gas supply services
John A. Hill, Jr.	Vice President – Gas Engineering	Gas utility operations

A NEW HORIZON

Annual Report | Proxy Statement | Form 10K



BKH 2017



Board of Directors



David R. Emery, age 55, was elected Chairman in 2005 and has been our CEO and a member of our Board since 2004. He also served as President from 2004 through 2015, and previously served as President and COO, Retail Business Segment from 2003 to 2004, and Vice President of Fuel Resources from 1997 to 2003.



Michael H. Madison, age 69, was elected to the Board in 2012 and chairs the Compensation Committee. He was President, CEO and a Director of Cleco Corp., a public utility holding company, from 2005 to 2011, President and COO of Cleco Power, LLC, from 2003 to 2005, and State President, Louisiana-Arkansas with American Electric Power, from 2000 to 2003.



Linda K. Massman, age 51, was elected to the Board in 2015. She is President, CEO and a Director of Clearwater Paper Corp., a premier supplier of private label tissue to major retailers and a producer of bleached paperboard, since 2013. She previously served as Clearwater's President and COO from 2011 to 2013, and CFO from 2008 to 2011. Prior to that, she was Group Vice President of Finance and Corporate Planning for SUPERVALU Inc., and a business strategy consultant for Accenture. She also serves on the Board of Tree House Foods, Inc.



Steven R. Mills, age 62, was elected to the Board in 2011 and chairs the Audit Committee. He has been a Financial Consultant and Advisor in the private equity, agribusiness, renewable products and financial services fields since 2013. He previously served as CFO of Amyris, Inc., an integrated renewable products company, from 2012 to 2013. Prior to that, he held several executive positions, including Senior Executive Vice President of Performance and Growth and CFO at Archer Daniels Midland Co., a processor, transporter, buyer and marketer of agricultural products.



Robert P. Otto, age 58, was elected to the Board in 2017. He has been the owner of Bob Otto Consulting, LLC, providing services in cyber security, intelligence and reconnaissance since 2017. He retired from the U.S. Air Force in 2016 as a lieutenant general. He served as a general officer since 2008, culminating as the Deputy Chief of Staff for Intelligence, Surveillance and Reconnaissance.



Rebecca B. Roberts, age 65, was elected to the Board in 2011 and chairs the Governance Committee. She was President of Chevron Pipe Line Co., a transporter of crude oil, refined petroleum products, liquefied petroleum gas, natural gas and chemicals within the U.S. from 2006 to 2011, and President of Chevron Global Power Generation from 2003 to 2006. She also serves on the Board of Enbridge, Inc., and MSA Safety Inc.



Mark A. Schober, age 62, was elected to the Board in 2015. He was Senior Vice President and CFO of ALLETE, Inc., a public energy company, from 2006 to 2014. He previously held several positions in accounting and finance.



Teresa A. Taylor, age 54, was elected to the Board in 2016. She has been CEO of Blue Valley Advisors, LLC, since 2011. She previously served as COO of Qwest Communications, Inc., a telecommunications carrier, from 2009 to 2011. She also served in other leadership roles at Qwest and the former U.S. West beginning in 1987, including Executive Vice President and Chief Administrative Officer. She also serves on the Board of T-Mobile USA, Inc., and First Interstate BancSystem, Inc.



John B. Vering, age 68, was elected to the Board in 2005 and serves as our Lead Director. He has been Managing Director of Lone Mountain Investments, Inc., an oil and gas investment firm, since 2002. He previously held several executive positions in the oil and gas industry.



Thomas J. Zeller, age 70, was elected to the Board in 1997. He was CEO of RESPEC in 2011, a technical consulting and services firm with expertise in engineering, information technologies and water and natural resources, specializing in emerging environmental protection protocols, and served as its President from 1995 to 2011.

CORPORATE GOVERNANCE

Corporate Governance Guidelines

Our Board of Directors has adopted corporate governance guidelines titled “Corporate Governance Guidelines of the Board of Directors,” which guide the operation of our Board and assist the Board in fulfilling its obligations to shareholders and other constituencies. The guidelines lay the foundation for the Board’s responsibilities, operations, leadership, organization and committee matters. The Governance Committee reviews the guidelines annually, and the guidelines may be amended at any time, upon recommendation by the Governance Committee and approval of the Board. These guidelines can be found in the “Governance” section of our website (www.blackhillscorp.com/investor-relations/corporate-governance).

Board Independence

In accordance with NYSE rules, the Board of Directors through its Governance Committee affirmatively determines the independence of each director and director nominee in accordance with guidelines it has adopted, which include all elements of independence set forth in the NYSE listing standards. These guidelines are contained in our Policy for Director Independence, which can be found in the “Governance” section of our website (www.blackhillscorp.com/investor-relations/corporate-governance). Based on these standards, the Governance Committee determined that each of the following non-employee directors is independent and has no relationship with us, except as a director and shareholder:

Michael H. Madison Linda K. Massman Steven R. Mills Robert P. Otto Rebecca B. Roberts	90% INDEPENDENT	Mark A. Schober Teresa A. Taylor John B. Vering Thomas J. Zeller
---	--------------------	---

In addition, based on such standards, the Governance Committee determined that Mr. Emery is not independent because he is our Chairman and Chief Executive Officer (“CEO”).

Board Leadership Structure

Mr. Emery has served as our Chairman of the Board and CEO since 2005 and has been a member of our Board since 2004. Mr. Emery provides strategic, operational, and technical expertise and context for the matters considered by our Board. After considering alternative board leadership structures, our Board chose to retain the ability to balance an independent Board structure with the designation of an independent Lead Director and to appoint as Chairman a CEO-Director with knowledge of and experience in the operations of our Company. At this time, our Board believes that having a single person serve as Chairman and CEO provides unified and responsible leadership for our Company and, in conjunction with the Lead Director, provides the proper balance to ensure the Board receives the information, experience and direction it needs to effectively govern.

Our Board has and continues to value a high degree of Board independence. As a result, our corporate governance structure and practices promote a strong, independent Board and include several independent oversight mechanisms. Only independent directors serve on our Audit, Compensation and Governance Committees. Our Board believes these practices ensure that experienced and independent directors will continue to effectively oversee management and critical issues related to financial and operating plans, long-range strategic issues, enterprise risk and corporate integrity. All of our Board committees may seek legal, financial or other expert advice from a source independent of management.

Our Board annually appoints an independent Lead Director. John B. Vering is our current Lead Director and has served in this role since March 2016. The responsibilities of Lead Director, as provided in the Corporate Governance Guidelines of the Board of Directors, are to chair executive sessions of the independent directors and communicate the Board’s annual evaluation of the CEO. The Lead Director, together with the independent directors, establishes the agenda for executive sessions, which are held at each regular Board meeting. The Lead Director serves as a liaison between the independent members of the Board and the CEO and discusses, to the extent appropriate, matters raised by the independent directors in executive session. The Lead Director also consults with the Chairman regarding meeting agendas and presides over regular meetings of the Board in the

absence of the Chairman. This leadership structure provides consistent and effective oversight of our management and our Company.

Risk Oversight

Our Board oversees an enterprise approach to risk management that supports our operational and strategic objectives. The Corporate Governance Guidelines of the Board of Directors provide that the Board will review major risks facing our Company and the options for risk mitigation presented by management. Our Board delegates oversight of certain risk considerations to its committees within each of their respective areas of responsibility; however, the full Board monitors risk relating to strategic planning and execution, as well as executive succession. Financial risk oversight falls within the purview of our Audit Committee. Our Compensation Committee oversees compensation and benefit plan risks. Each committee reports to the full Board.

Our Board reviews any material changes in our key enterprise risk management ("ERM") issues, including cyber security, with management at each quarterly Board meeting in conjunction with the presentation of quarterly financial results. In addition, the Board will review a deep dive enterprise risk topic at most quarterly meetings. In so doing, our Board seeks to ensure appropriate risk mitigation strategies are implemented by management on an ongoing basis. Operational and strategic plan presentations by management to our Board include consideration of the challenges and risks to our business. Our Board and management actively engage in discussions of these topics and utilize outside consultants as needed. Our Board oversees the assessment of our strategic plan risks as part of our strategic planning process. In addition, our Board periodically receives safety performance, environmental, legal and compliance reports.

Our Audit Committee oversees management's strategy and performance relative to our significant financial risks. In consultation with management, the independent auditors and the internal auditors, the Audit Committee discusses our risk assessment, risk management and credit policies and reviews significant financial risk exposures, along with steps management has taken to monitor, mitigate and report such exposures. At least twice a year, our Chief Risk Officer provides a Risk and Credit Report to the Audit Committee. We adopted a Credit Policy that establishes guidelines, controls and limits to manage and mitigate credit risk within established risk tolerances.

Our Compensation Committee adopted an executive compensation philosophy that provides the foundation for our executive compensation program. The executive compensation philosophy states that the executive pay program should be market-based and maintain an appropriate and competitive balance between fixed and variable pay elements, short-term and long-term compensation and cash and stock-based compensation. The Compensation Committee establishes company-specific performance goals with potential incentive payouts for our executive officers to motivate and reward performance, consistent with our long-term success. The target compensation for our senior officers is heavily weighted in favor of long-term incentives, aligning performance incentives with long-term results for our shareholders. Our Compensation Committee also sets minimum performance thresholds and maximum payouts in the incentive programs and maintains the discretion to reduce awards if excessive risk is taken. Stock ownership guidelines established for all of our officers require our executives to hold 100 percent of all shares awarded to them (net of share withholding for taxes and, in the case of cashless stock option exercises, net of the exercise price and withholding for taxes) until the established stock ownership guidelines are achieved. Our Compensation Committee also instituted "clawback" provisions in our incentive plans, which may require an executive to return incentives received, if the Compensation Committee determines, in its discretion, that the executive engaged in specified misconduct or wrongdoing or in the event of certain financial restatements.

In addition, in 2017 management conducted and our Compensation Committee reviewed a risk assessment of the Company's compensation policies and practices for all employees. Key members of human resources, legal, risk, finance, audit and operations departments were included in the review to ensure accuracy and completeness of the scope and findings. The assessment demonstrated that our compensation programs are designed to minimize financial and reputational risks and do not create risks that are reasonably likely to have a material adverse effect on the Company.

Our management is responsible for day-to-day risk management and operates under an ERM program that addresses strategic, operational, financial and compliance risks. The ERM program includes practices to identify risks, assesses the impact and probability of occurrence, and develops action plans to prevent the occurrence or mitigate the impact of the risk. The ERM program includes regular reporting to our senior management team and includes monitoring and testing by Risk Management, Compliance and Internal Audit groups. The overall ERM program is reviewed with the Board of Directors on a regular basis.

We believe the division of risk management responsibilities described above is an effective approach for addressing the risks facing our Company.

Director Nominees

The Governance Committee uses a variety of methods for identifying and evaluating nominees for director. The Governance Committee regularly assesses the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event vacancies are anticipated, or otherwise arise, the Governance Committee considers various potential candidates for director. Board candidates are considered based upon various criteria, including diverse business, administrative and professional skills or experiences; an understanding of relevant industries, technologies and markets; financial literacy; independence status; the ability and willingness to contribute time and special competence to Board activities; personal integrity and independent judgment; and a commitment to enhancing shareholder value. The Governance Committee considers these and other factors as it deems appropriate, given the needs of the Board. Our goal is a balanced and diverse Board, with members whose skills, background and experience are complementary and, together, cover the spectrum of areas that impact our business. The Governance Committee considers candidates for Board membership suggested by a variety of sources, including current or past Board members, the use of third-party executive search firms, members of management and shareholders. Any shareholder may make recommendations for consideration by the Governance Committee for membership on the Board by sending a written statement of the qualifications of the recommended individual to the Corporate Secretary. There are no differences in the manner by which the Committee evaluates director candidates recommended by shareholders from those recommended by other sources.

Shareholders who intend to nominate persons for election to the Board of Directors must provide timely written notice of the nomination in accordance with Article I, Section 9 of our Bylaws. Generally, our Corporate Secretary must receive the written notice at our executive offices at 7001 Mount Rushmore Road, P.O. Box 1400, Rapid City, South Dakota 57709, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. For the 2019 shareholder meeting, those dates are January 24, 2019 and December 25, 2018. The notice must set forth at a minimum the information set forth in Article I, Section 9 of our Bylaws, including the shareholder's identity and status, contingent ownership interests, description of any agreement made with others acting in concert with respect to the nomination, specific information about the nominee and certain representations by the nominee to us.

Communications with the Board

Shareholders and others interested in communicating directly with the Lead Director, with the independent directors as a group, or the Board of Directors may do so in writing to the Lead Director, Black Hills Corporation, 7001 Mount Rushmore Road, P.O. Box 1400, Rapid City, South Dakota 57709.

Corporate Governance Documents

The charters of the Audit, Compensation and Governance Committees, as well as the Corporate Governance Guidelines of the Board of Directors, Policy for Director Independence, Code of Business Conduct and the Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller, and certain other persons performing similar functions can be found in the "Governance" section of our website (www.blackhillscorp.com/investor-relations/corporate-governance). We intend to disclose any amendments to, or waivers of, the Code of Ethics on our website. Please note that none of the information contained on our website is incorporated by reference in this proxy statement.

The Corporate Governance Guidelines include a plurality plus voting policy. Pursuant to the policy, any nominee for election as a director in an uncontested election who receives a greater number of votes "Withheld" from his or her election than votes "For" his or her election will promptly tender his or her resignation as a director to the Chairman of the Board following certification of the election results. Broker non-votes will not be deemed to be votes "For" or "Withheld" from a director's election for purposes of the policy. The Governance Committee (without the participation of the affected director) will consider each resignation tendered under the policy and recommend to the Board whether to accept or reject it. The Board will then take the appropriate action on each tendered resignation, taking into account the Governance Committee's recommendation. The Governance Committee in making its recommendation, and the Board in making its decision, may consider any factors or other information that it considers appropriate, including the reasons why the Governance Committee believes shareholders "Withheld" votes for election from such director and any other circumstances surrounding the "Withheld" votes, any alternatives for curing the underlying cause of the "Withheld" votes, the qualifications of the tendering director, his or her past and expected future contributions to us and the Board, and the overall composition of the Board, including whether accepting the resignation would cause us to fail to meet any applicable SEC or NYSE requirements. The Board will publicly disclose by filing with the SEC on Form 8-K its decision and, if applicable, its rationale within 90 days after receipt of the tendered resignation.

Certain Relationships and Related Party Transactions

We recognize related party transactions can present potential or actual conflicts of interest and create the appearance that decisions are based on considerations other than the best interests of us and our shareholders. Accordingly, as a general matter, it is our preference to avoid related party transactions. Nevertheless, we recognize that there are situations where related party transactions may be in, or may not be inconsistent with, the best interests of us and our shareholders, including but not limited to situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when we provide products or services to related parties on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. Therefore, our Board of Directors has adopted a policy for the review of related party transactions. This policy requires directors and officers to promptly report to our Vice President – Governance all proposed or existing transactions in which the Company and they, or persons related to them, are parties or participants. Our Vice President – Governance presents to our Governance Committee those transactions that may require disclosure pursuant to Item 404 of Regulation S-K (typically, those transactions that exceed \$120,000). Our Governance Committee reviews the material facts presented and either approves or disapproves entry into the transaction. In reviewing the transaction, the Governance Committee considers the following factors, among other factors it deems appropriate: (i) whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances; (ii) the extent of the related party's interest in the transaction; and (iii) the impact on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely upon a review of our records and copies of reports on Form 3, 4 and 5 furnished to us, we believe that during and with respect to 2017, all persons subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, filed the required reports on a timely basis.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-31303

BLACK HILLS CORPORATION

Incorporated in South Dakota

7001 Mount Rushmore Road
Rapid City, South Dakota 57702

IRS Identification Number
46-0458824

Registrant's telephone number, including area code
(605) 721-1700

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock of \$1.00 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

At June 30, 2017 \$3,563,087,139

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at January 31, 2018</u>
Common stock, \$1.00 par value	53,544,761 shares

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement being prepared for the solicitation of proxies in connection with the 2018 Annual Meeting of Stockholders to be held on April 24, 2018, are incorporated by reference in Part III of this Form 10-K.

FORM 10-K

(6) LONG-TERM DEBT

Long-term debt outstanding was as follows (dollars in thousands):

	Due Date	Interest Rate at December 31, 2017	Balance Outstanding	
			December 31, 2017	December 31, 2016
<u>Corporate</u>				
Senior unsecured notes due 2023	November 30, 2023	4.25%	\$ 525,000	\$ 525,000
Senior unsecured notes due 2020	July 15, 2020	5.88%	200,000	200,000
Remarketable junior subordinated notes ^(b)	November 1, 2028	3.50%	299,000	299,000
Senior unsecured notes due 2019	January 11, 2019	2.50%	250,000	250,000
Senior unsecured notes due 2026	January 15, 2026	3.95%	300,000	300,000
Senior unsecured notes due 2027	January 15, 2027	3.15%	400,000	400,000
Senior unsecured notes, due 2046	September 15, 2046	4.20%	300,000	300,000
Corporate term loan due 2019 ^(a)	August 9, 2019	2.55%	300,000	400,000
Corporate term loan due 2021	June 7, 2021	2.32%	18,664	24,406
Total Corporate debt			2,592,664	2,698,406
Less unamortized debt discount			(3,808)	(4,413)
Total Corporate debt, net			2,588,856	2,693,993
<u>Electric Utilities</u>				
First Mortgage Bonds due 2044	October 20, 2044	4.43%	85,000	85,000
First Mortgage Bonds due 2044	October 20, 2044	4.53%	75,000	75,000
First Mortgage Bonds due 2032	August 15, 2032	7.23%	75,000	75,000
First Mortgage Bonds due 2039	November 1, 2039	6.13%	180,000	180,000
First Mortgage Bonds due 2037	November 20, 2037	6.67%	110,000	110,000
Industrial development revenue bonds due 2021 ^(c)	September 1, 2021	1.78%	7,000	7,000
Industrial development revenue bonds due 2027 ^(c)	March 1, 2027	1.78%	10,000	10,000
Series 94A Debt, variable rate ^(c)	June 1, 2024	1.83%	2,855	2,855
Total Electric Utilities debt			544,855	544,855
Less unamortized debt discount			(90)	(94)
Total Electric Utilities debt, net			544,765	544,761
Total long-term debt			3,133,621	3,238,754
Less current maturities			5,743	5,743
Less deferred financing costs ^(d)			18,478	21,822
Long-term debt, net of current maturities and deferred financing costs			\$ 3,109,400	\$ 3,211,189

(a) Variable interest rate, based on LIBOR plus a spread.

(b) See Note 12 for RSN details.

(c) Variable interest rate.

(d) Includes deferred financing costs associated with our Revolving Credit Facility of \$1.7 million and \$2.3 million as of December 31, 2017 and December 31, 2016, respectively.

Scheduled maturities of long-term debt, excluding amortization of premiums or discounts, for future years are (in thousands):

2018	\$	5,743
2019	\$	555,742
2020	\$	205,743
2021	\$	8,436
2022	\$	—
Thereafter	\$	2,361,855

Our debt securities contain certain restrictive financial covenants, all of which the Company and its subsidiaries were in compliance with at December 31, 2017.

Substantially all of the tangible utility property of South Dakota Electric and Wyoming Electric is subject to the lien of indentures securing their first mortgage bonds. First mortgage bonds of South Dakota Electric and Wyoming Electric may be issued in amounts limited by property, earnings and other provisions of the mortgage indentures. The first mortgage bonds issued by South Dakota Electric and Wyoming Electric are callable, but are subject to make-whole provisions which would eliminate any economic benefit for us to call the bonds.

Assumption of Long-Term Debt

At the closing of the SourceGas Acquisition on February 12, 2016, we assumed \$760 million in long-term debt, consisting of the following:

- \$325 million, 5.9% senior unsecured notes with an original issue date of April 16, 2007, due April 1, 2017.
- \$95 million, 3.98% senior secured notes with an original issue date of September 29, 2014, due September 29, 2019.
- \$340 million unsecured corporate term loan due June 30, 2017. Interest under this term loan was LIBOR plus a margin of 0.875%.

The \$760 million in long-term debt assumed in the SourceGas Acquisition was repaid in August 2016.

Debt Transactions

On May 16, 2017, we paid down \$50 million on our Corporate term loan due August 9, 2019. On July 17, 2017, we paid down an additional \$50 million on the same term loan. Short-term borrowings from our CP program were used to fund the payments on the Corporate term loan.

On August 19, 2016, we completed a public debt offering of \$700 million principal amount of senior unsecured notes. The debt offering consisted of \$400 million of 3.15% 10-year senior notes due January 15, 2027 and \$300 million of 4.20% 30-year senior notes due September 15, 2046 (together the "Notes"). The proceeds of the Notes were used for the following:

- Repay the \$325 million 5.9% senior unsecured notes assumed in the SourceGas Acquisition;
- Repay the \$95 million, 3.98% senior secured notes assumed in the SourceGas Acquisition;
- Repay \$100 million on the \$340 million unsecured term loan assumed in the SourceGas Acquisition;
- Pay down \$100 million of the \$500 million three-year unsecured term loan discussed below;
- Payment of \$29 million for the settlement of \$400 million notional interest rate swap; and
- Remainder was used for general corporate purposes.

On August 9, 2016, we entered into a \$500 million, three-year, unsecured term loan expiring on August 9, 2019. The proceeds of this term loan were used to pay down \$240 million of the \$340 million unsecured term loan assumed in the SourceGas

Acquisition and the \$260 million term loan expiring on April 12, 2017. This new term loan has substantially similar terms and covenants as the amended and restated Revolving Credit Facility.

In accordance with regulatory orders related to the early termination and settlement of the gas supply contract described in Note 1, on June 7, 2016, we entered into a 2.32%, \$29 million term loan, due June 7, 2021. Proceeds from this term loan were used to finance the early termination of the gas supply contract, resulting in a regulatory asset. Principal and interest are payable quarterly at approximately \$1.6 million.

On January 13, 2016, we completed a public debt offering of \$550 million principal amount of senior unsecured notes. The debt offering consisted of \$300 million of 3.95%, ten-year senior notes due 2026, and \$250 million of 2.50%, three-year senior notes due 2019. After discounts and underwriter fees, net proceeds from the offering totaled \$546 million and were used as funding for the SourceGas Acquisition. The discounts are amortized over the life of each respective note.

Amortization Expense

Our deferred financing costs and associated amortization expense included in Interest expense on the accompanying Consolidated Statements of Income (Loss) were as follows (in thousands):

	Deferred Financing Costs Remaining at December 31, 2017	Amortization Expense for the years ended December 31,		
		2017	2016	2015
Revolving Credit Facility	\$ 1,703	\$ 638	\$ 537	\$ 504
Senior unsecured notes due 2023	2,427	494	494	494
Senior unsecured notes due 2019	59	704	643	—
Senior unsecured notes due 2020	425	167	167	167
Senior unsecured notes due 2026	2,031	287	262	—
Senior unsecured notes due 2027	2,918	363	121	—
Senior unsecured notes due 2046	3,082	111	37	—
Corporate term loan due 2019	86	201	144	—
Bridge Term Loan	—	—	843	4,213
RSNs due 2028	1,326	122	122	10
First mortgage bonds due 2044 (South Dakota Electric)	639	24	24	24
First mortgage bonds due 2044 (Wyoming Electric)	591	22	23	22
First mortgage bonds due 2032	485	33	33	33
First mortgage bonds due 2039	1,657	76	76	76
First mortgage bonds due 2037	613	31	31	31
Other	436	76	304	43
Total	\$ 18,478	\$ 3,349	\$ 3,861	\$ 5,617

Dividend Restrictions

Our credit facility and other debt obligations contain restrictions on the payment of cash dividends when a default or event of default occurs. In addition, the agreements governing our equity units contain restrictions on the payment of cash dividends upon any time we have exercised our right to defer payment of contract adjustment payments under the purchase contracts or interest payments under the RSNs included in such equity units. As of December 31, 2017, we were in compliance with these covenants.

Due to our holding company structure, substantially all of our operating cash flows are provided by dividends paid or distributions made by our subsidiaries. The cash to pay dividends to our shareholders is derived from these cash flows. As a result, certain statutory limitations or regulatory or financing agreements could affect the levels of distributions allowed to be made by our subsidiaries. The following restrictions on distributions from our subsidiaries existed at December 31, 2017:

- Our utilities are generally limited to the amount of dividends allowed to be paid to our utility holding company under the Federal Power Act and settlement agreements with state regulatory jurisdictions. As of December 31, 2017, the restricted net assets at our Electric and Gas Utilities were approximately \$257 million.

(7) NOTES PAYABLE

Our Revolving Credit Facility and debt securities contain certain restrictive financial covenants. As of December 31, 2017, we were in compliance with all of these financial covenants.

We had the following short-term debt outstanding at the Consolidated Balance Sheets date (in thousands):

	Balance Outstanding at	
	December 31, 2017	December 31, 2016
Revolving Credit Facility	\$ —	\$ 96,600
CP Program	211,300	—
Total	\$ 211,300	\$ 96,600

Revolving Credit Facility

On August 9, 2016, we amended and restated our corporate Revolving Credit Facility to increase total commitments to \$750 million from \$500 million and extend the term through August 9, 2021 with two one-year extension options (subject to consent from the lenders). This facility is similar to the former agreement, which includes an accordion feature that allows us, with the consent of the administrative agent and issuing agents and subject to receipt of additional commitments from existing or new lenders, to increase total commitments of the facility up to \$1.0 billion. Borrowings continue to be available under a base rate or various Eurodollar rate options. The interest costs associated with the letters of credit or borrowings and the commitment fee under the Revolving Credit Facility are determined based upon our most favorable Corporate credit rating from either S&P or Moody's for our unsecured debt. Based on our credit ratings, the margins for base rate borrowings, Eurodollar borrowings, and letters of credit were 0.250%, 1.250%, and 1.250%, respectively, at December 31, 2017. A 0.200% commitment fee is charged on the unused amount of the Revolving Credit Facility.

On December 22, 2016, we implemented a \$750 million, unsecured CP Program that is backstopped by the Revolving Credit Facility. Amounts outstanding under the Revolving Credit Facility and the CP Program, either individually or in the aggregate, cannot exceed \$750 million. The notes issued under the CP Program may have maturities not to exceed 397 days from the date of issuance and bear interest (or are sold at par less a discount representing an interest factor) based on, among other things, the size and maturity date of the note, the frequency of the issuance and our credit ratings. Under the CP Program, any borrowings rank equally with our unsecured debt. Notes under the CP Program are not registered and are offered and issued pursuant to a registration exemption. Our net amount borrowed under the CP Program during 2017 and our notes outstanding as of December 31, 2017 were \$211 million. We did not borrow under the CP Program in 2016 and did not have any notes outstanding as of December 31, 2016. As of December 31, 2017, the weighted average interest rate on CP Program borrowings was 1.76%.

As of December 31, 2017 and 2016, we had outstanding letters of credit totaling approximately \$27 million and approximately \$36 million, respectively.

Deferred financing costs on the Revolving Credit Facility of \$5.4 million are being amortized over its estimated useful life and included in Interest expense on the accompanying Consolidated Statements of Income (Loss).

Debt Covenants

On December 7, 2016, we amended our Revolving Credit Facility and term loan agreements, allowing the exclusion of the Remarketable Junior Subordinated Notes (RSNs) from our Consolidated Indebtedness to Capitalization Ratio covenant calculation. Under the amended and restated Revolving Credit Facility and term loan agreements, we are required to maintain a Consolidated Indebtedness to Capitalization Ratio not to exceed 0.65 to 1.00. Our Consolidated Indebtedness to

Capitalization Ratio is calculated by dividing (i) Consolidated Indebtedness, which includes letters of credit, certain guarantees issued and excludes RSNs by (ii) Capital, which includes Consolidated Indebtedness plus Net Worth, which excludes noncontrolling interests in subsidiaries and includes the aggregate outstanding amount of the RSNs.

Our Revolving Credit Facility and our Term Loans require compliance with the following financial covenant at the end of each quarter:

	At December 31, 2017	Covenant Requirement at December 31, 2017	
Consolidated Indebtedness to Capitalization Ratio	61%	Less than	65%

(8) ASSET RETIREMENT OBLIGATIONS

We have identified legal retirement obligations related to reclamation of coal mining sites in the Mining segment and removal of fuel tanks, asbestos, transformers containing polychlorinated biphenyls, an evaporation pond and wind turbines at the regulated Electric Utilities segment, retirement of gas pipelines at our Gas Utilities and asbestos at our Electric and Gas Utilities. We periodically review and update estimated costs related to these asset retirement obligations. The actual cost may vary from estimates because of regulatory requirements, changes in technology and increased costs of labor, materials and equipment.

The following tables present the details of AROs which are included on the accompanying Consolidated Balance Sheets in Other deferred credits and other liabilities (in thousands):

	December 31, 2016	Liabilities Incurred	Liabilities Settled	Accretion	Liabilities Acquired	Revisions to Prior Estimates ^(b)	December 31, 2017
Electric Utilities	\$ 4,661	\$ —	\$ (4)	\$ 268	\$ —	\$ 1,362	\$ 6,287
Gas Utilities	29,775	—	—	1,142	—	2,321	33,238
Mining	12,440	—	(107)	651	—	(485)	12,499
Total	\$ 46,876	\$ —	\$ (111)	\$ 2,061	\$ —	\$ 3,198	\$ 52,024

	December 31, 2015	Liabilities Incurred	Liabilities Settled	Accretion	Liabilities Acquired ^(a)	Revisions to Prior Estimates ^{(b)(c)}	December 31, 2016
Electric Utilities	\$ 4,462	\$ —	\$ —	\$ 191	\$ —	\$ 8	\$ 4,661
Gas Utilities	136	—	—	791	22,412	6,436	29,775
Mining	18,633	—	(105)	822	—	(6,910)	12,440
Total	\$ 23,231	\$ —	\$ (105)	\$ 1,804	\$ 22,412	\$ (466)	\$ 46,876

(a) Represents our legal liability for retirement of gas pipelines, specifically to purge and cap these lines in accordance with Federal regulations. Approximately \$22 million was recorded with the purchase price allocation of SourceGas.

(b) The Gas Utilities Revision to Prior Estimates represents our legal liability for retirement of gas pipelines, specifically to purge and cap these lines in accordance with Federal regulations.

(c) The 2016 Mining Revision to Prior Estimates reflects an approximately 33% reduction in equipment costs as promulgated by the State of Wyoming.

We also have legally required AROs related to certain assets within our electric transmission and distribution systems. These retirement obligations are pursuant to an easement or franchise agreement and are only required if we discontinue our utility service under such easement or franchise agreement. Accordingly, it is not possible to estimate a time period when these obligations could be settled and therefore, a liability for the cost of these obligations cannot be measured at this time.

We have identified legal retirement obligations related to plugging and abandonment of natural gas and oil wells. These obligations are classified as held for sale at December 31, 2017. See Note 21.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
Form 10-K**

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File Number 001-31303

BLACK HILLS CORPORATION

Incorporated in South Dakota

7001 Mount Rushmore Road
Rapid City, South Dakota 57702

IRS Identification Number
46-0458824

Registrant's telephone number, including area code
(605) 721-1700

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common stock of \$1.00 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)
Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

At June 30, 2017 \$3,563,087,139

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at January 31, 2018</u>
Common stock, \$1.00 par value	53,544,761 shares

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement being prepared for the solicitation of proxies in connection with the 2018 Annual Meeting of Stockholders to be held on April 24, 2018, are incorporated by reference in Part III of this Form 10-K.

FORM 10-K

BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Year ended	December 31, 2017	December 31, 2016	December 31, 2015
	(in thousands, except per share amounts)		
Revenue	\$ 1,680,266	\$ 1,538,916	\$ 1,261,322
Operating expenses:			
Fuel, purchased power and cost of natural gas sold	563,288	499,132	456,887
Operations and maintenance	454,605	426,603	323,809
Depreciation, depletion and amortization	188,246	175,533	126,533
Taxes - property and production	51,578	46,160	40,060
Other operating expenses	5,813	55,307	13,613
Total operating expenses	1,263,530	1,202,735	960,902
Operating income	416,736	336,181	300,420
Other income (expense):			
Interest charges -			
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts)	(140,756)	(139,447)	(86,226)
Allowance for funds used during construction - borrowed	2,415	2,981	1,250
Capitalized interest	223	356	326
Interest income	1,016	1,429	1,621
Allowance for funds used during construction - equity	2,321	3,270	897
Other expense	(1,559)	(626)	(158)
Other income	1,346	1,750	2,075
Total other income (expense)	(134,994)	(130,287)	(80,215)
Income before income taxes	281,742	205,894	220,205
Income tax benefit (expense)	(73,367)	(59,101)	(78,657)
Income from continuing operations	208,375	146,793	141,548
Net (loss) from discontinued operations	(17,099)	(64,162)	(173,659)
Net income (loss)	191,276	82,631	(32,111)
Net income attributable to noncontrolling interest	(14,242)	(9,661)	—
Net income (loss) available for common stock	\$ 177,034	\$ 72,970	\$ (32,111)
Amounts attributable to common shareholders:			
Net income from continuing operations	\$ 194,133	\$ 137,132	\$ 141,548
Net (loss) from discontinued operations	(17,099)	(64,162)	(173,659)
Net income (loss) available for common stock	\$ 177,034	\$ 72,970	\$ (32,111)
Earnings (loss) per share of common stock, Basic -			
Earnings from continuing operations	\$ 3.65	\$ 2.64	\$ 3.12
(Loss) from discontinued operations	\$ (0.32)	\$ (1.23)	\$ (3.83)
Total earnings (loss) per share of common stock, Basic	\$ 3.33	\$ 1.41	\$ (0.71)
Earnings (loss) per share of common stock, Diluted -			
Earnings from continuing operations	\$ 3.52	\$ 2.57	\$ 3.12
(Loss) from discontinued operations	\$ (0.31)	\$ (1.20)	\$ (3.83)
Total earnings (loss) per share of common stock, Diluted	\$ 3.21	\$ 1.37	\$ (0.71)
Weighted average common shares outstanding:			
Basic	53,221	51,922	45,288
Diluted	55,120	53,271	45,288

The accompanying Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Year ended	December 31, 2017	December 31, 2016	December 31, 2015
	(in thousands)		
Net income (loss)	\$ 191,276	\$ 82,631	\$ (32,111)
Other comprehensive income (loss), net of tax:			
Benefit plan liability adjustments - net gain (loss) (net of tax of \$1,030, \$757 and \$(1,375), respectively)	(1,890)	(1,738)	2,657
Benefit plan liability adjustments - prior service (costs) (net of tax of \$0, \$107 and \$0, respectively)	—	(247)	—
Reclassification adjustment of benefit plan liability - net gain (loss) (net of tax of \$(585), \$(600) and \$(972), respectively)	1,072	1,378	1,850
Reclassification adjustment of benefit plan liability - prior service cost (net of tax of \$69, \$67 and \$88, respectively)	(128)	(154)	(150)
Derivative instruments designated as cash flow hedges:			
Net unrealized gains (losses) on interest rate swaps (net of tax of \$0, \$10,920 and \$(598), respectively)	—	(20,302)	2,290
Reclassification of net realized (gains) losses on settled/ amortized interest rate swaps (net of tax of \$(1,029), \$(1,365) and \$(1,348), respectively)	1,912	2,534	2,299
Net unrealized gains (losses) on commodity derivatives (net of tax of \$(135), \$212 and \$(3,898), respectively)	231	(361)	5,884
Reclassification of net realized (gains) losses on settled commodity derivatives (net of tax of \$154, \$4,067 and \$5,619, respectively)	(516)	(6,938)	(8,841)
Other comprehensive income (loss), net of tax	681	(25,828)	5,989
Comprehensive income (loss)	191,957	56,803	(26,122)
Less: comprehensive income attributable to non-controlling interest	(14,242)	(9,661)	—
Comprehensive income (loss) available for common stock	\$ 177,715	\$ 47,142	\$ (26,122)

See Note 16 for additional disclosures related to Comprehensive Income.

The accompanying Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

BLACK HILLS CORPORATION
CONSOLIDATED BALANCE SHEETS

As of
December 31, 2017 December 31, 2016

(in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$ 15,420	\$ 13,518
Restricted cash and equivalents	2,820	2,274
Accounts receivable, net	248,330	259,311
Materials, supplies and fuel	113,283	103,606
Derivative assets, current	304	3,985
Regulatory assets, current	81,016	49,260
Other current assets	25,367	23,928
Current assets held for sale	84,242	10,932
Total current assets	<u>570,782</u>	<u>466,814</u>

Investments

	<u>13,090</u>	<u>12,561</u>
--	---------------	---------------

Property, plant and equipment

Less accumulated depreciation and depletion	5,567,518	5,315,296
Total property, plant and equipment, net	<u>(1,026,088)</u>	<u>(929,119)</u>
	<u>4,541,430</u>	<u>4,386,177</u>

Other assets:

Goodwill	1,299,454	1,299,454
Intangible assets, net	7,559	8,392
Derivative assets, non-current	—	222
Regulatory assets, non-current	216,438	246,882
Other assets, non-current	10,149	11,508
Noncurrent assets held for sale	—	109,763
Total other assets, non-current	<u>1,533,600</u>	<u>1,676,221</u>

TOTAL ASSETS

	<u>\$ 6,658,902</u>	<u>\$ 6,541,773</u>
--	---------------------	---------------------

The accompanying Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

BLACK HILLS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Continued)

As of
December 31, 2017 December 31, 2016
(in thousands, except share amounts)

LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY

Current liabilities:

Accounts payable	\$ 160,887	\$ 152,129
Accrued liabilities	219,462	235,548
Derivative liabilities, current	2,081	1,104
Accrued income tax, net	1,022	12,552
Regulatory liabilities, current	6,832	13,067
Notes payable	211,300	96,600
Current maturities of long-term debt	5,743	5,743
Current liabilities held for sale	41,774	11,189
Total current liabilities	<u>649,101</u>	<u>527,932</u>

Long-term debt, net of current maturities

3,109,400 3,211,189

Deferred credits and other liabilities:

Deferred income tax liabilities, net	336,520	561,935
Regulatory liabilities, non-current	478,294	193,689
Benefit plan liabilities	159,646	173,682
Other deferred credits and other liabilities	105,735	115,883
Noncurrent liabilities held for sale	—	23,034
Total deferred credits and other liabilities	<u>1,080,195</u>	<u>1,068,223</u>

Commitments and contingencies (See Notes 6, 7, 8, 9, 14, 18, 19, and 20)

Redeemable noncontrolling interest — 4,295

Equity:

Stockholders' equity -

Common stock \$1 par value; 100,000,000 shares authorized; issued: 53,579,986 and 53,397,467, respectively	53,580	53,397
Additional paid-in capital	1,150,285	1,138,982
Retained earnings	548,617	457,934
Treasury stock at cost - 39,064 and 15,258, respectively	(2,306)	(791)
Accumulated other comprehensive income (loss)	(41,202)	(34,883)
Total stockholders' equity	<u>1,708,974</u>	<u>1,614,639</u>

Noncontrolling interest

111,232 115,495

 Total equity 1,820,206 1,730,134

TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND TOTAL EQUITY

\$ 6,658,902 \$ 6,541,773

The accompanying Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

FORM 10K

BLACK HILLS CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended	December 31, 2017	December 31, 2016	December 31, 2015
	(in thousands)		
Operating activities:			
Net income (loss)	\$ 191,276	\$ 82,631	\$ (32,111)
(Income) loss from discontinued operations, net of tax	17,099	64,162	173,659
Income (loss) from continuing operations	208,375	146,793	141,548
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation, depletion and amortization	188,246	175,533	126,533
Deferred financing cost amortization	8,261	6,180	6,364
Stock compensation	7,626	10,885	4,076
Deferred income taxes	80,992	82,704	74,704
Employee benefit plans	10,141	14,291	20,616
Other adjustments, net	(4,773)	(5,519)	(4,872)
Change in certain operating assets and liabilities:			
Materials, supplies and fuel	(10,089)	1,211	7,216
Accounts receivable, unbilled revenues and other current assets	4,534	(27,172)	33,255
Accounts payable and other current liabilities	(28,222)	(33,023)	(74,748)
Regulatory assets	(15,407)	3,614	21,883
Regulatory liabilities	(4,536)	(14,082)	1,675
Contributions to defined benefit pension plans	(27,700)	(14,200)	(10,200)
Interest rate swap settlement	—	(28,820)	—
Other operating activities, net	(8,418)	(660)	(9,033)
Net cash provided by operating activities of continuing operations	409,030	317,735	339,017
Net cash provided by (used in) operating activities of discontinued operations	19,231	2,744	85,366
Net cash provided by operating activities	428,261	320,479	424,383
Investing activities:			
Property, plant and equipment additions	(326,010)	(454,952)	(266,375)
Acquisition of net assets, net of long-term debt assumed	—	(1,124,238)	(21,970)
Other investing activities	465	(1,139)	(444)
Net cash (used in) investing activities of continuing operations	(325,545)	(1,580,329)	(288,789)
Net cash provided by (used in) investing activities of discontinued operations	7,881	(8,413)	(187,600)
Net cash provided by (used in) investing activities	(317,664)	(1,588,742)	(476,389)
Financing activities:			
Dividends paid on common stock	(96,744)	(87,570)	(72,604)
Common stock issued	4,408	121,619	248,759
Net increase (decrease) in commercial paper and short-term borrowings	114,700	19,800	1,800
Long-term debt - issuance	—	1,767,608	300,000
Long-term debt - repayments	(105,743)	(1,164,308)	(275,000)
Sale of noncontrolling interest	—	216,370	—
Distributions to noncontrolling interests	(18,397)	(9,561)	—
Equity units - issuance	—	—	290,030
Other financing activities	(6,919)	(22,960)	(9,283)
Net cash provided by (used in) financing activities	(108,695)	840,998	483,702
Net change in cash and cash equivalents	1,902	(427,265)	431,696
Cash and cash equivalents beginning of year	13,518	440,783	9,087
Cash and cash equivalents end of year	\$ 15,420	\$ 13,518	\$ 440,783

See Note 17 for supplemental disclosure of cash flow information.

The accompanying Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements.

Balance Sheet CY & PY and PY Dec w Chg Amt (All Products)
Business Unit: BH KANSAS GAS UTILITY CO LLC
HTD December, 2017

Run For: Scenario, All Resource Codes, All Allocation Types

Data from the PSGLFERC Essbase Cube

Account Description	Y2017	Y2016	Change from Prior Year End
	I-T-D(December)	I-T-D(December)	
<u>ASSETS:</u>			
<u>UTILITY PLANT:</u>			
101000 PLANT IN SERVICE	254,317,172	245,902,568	8,414,604
101001 PLANT IN SERVICE INTANGIBLES	3,205,293	3,205,293	0
101304 PLANT IN SERVICE ARO	0	256,812	(256,812)
101340 NON UTILITY PLANT	(2,127,678)	(1,844,085)	(283,593)
101999 GAAP TO FERC PLANT	1,475,469	1,475,469	0
106000 COMPLETE NOT CLASSIFIED IN CPR	5,640,023	3,232,753	2,407,270
114000 PLANT ACQUISITION ADJUSTMENTS	5,234,286	5,234,286	0
114003 PLANT ACQUISITION ADJ - OTHER	(124,688)	(124,688)	0
114005 PLANT ACQ ADJ - BHP	0	0	0
114999 GAAP TO FERC ACQ ADJ	(792,564)	(472,605)	(319,959)
118990 BHUHC UTILITY PLANT ALLOC	11,586,204	13,772,222	(2,186,018)
118999 COMMON UTILITY PLANT ALLOC	3,459,213	3,394,144	65,069
UTILITY PLANT	281,872,730	274,032,169	7,840,561
107000 CONSTRUCTION WORK IN-PROGRESS	2,661,477	1,541,968	1,119,509
CWIP Construction Work In Progress	2,661,477	1,541,968	1,119,509
TOTAL UTILITY PLANT	284,534,207	275,574,137	8,960,070
108000 PLT IN SERV-ACCUM DEPREC-ORIG	(57,385,286)	(54,548,285)	(2,837,001)
108001 RETIREMENT WORK IN PROGRESS	44,506	(50,755)	95,261
108002 PLT IN SERV-ACCUM DEPR-REM COS	(2,957,867)	(1,267,488)	(1,690,379)
108003 PLT IN SERV-ACCUM DEPREC-SALV	(851,940)	(851,940)	0
108004 ACCUM DEPR/RET/REM/SALV	(30,358,548)	(30,358,548)	0
108005 ACCUM DEPR/RET/REM/SALVT&WE	(825,152)	(825,152)	0
108006 ACCUM AMORT - INTANGIBLES	(2,075,913)	(1,973,915)	(101,998)
108304 ACCUMULATED DEPR-LEGAL ARO	0	(65,255)	65,255
108305 ACCUMULATED DEPR-NON LEGAL ARO	0	(856,264)	856,264
108340 PLT IN SERV_ACC AMORT NONUTILITY	594,058	466,970	127,088
108999 GAAP TO FERC ACCUM DEPR	(156,864)	(156,864)	0
111000 PLT IN SERV-ACC AMORT -REGUTIL	(46,244)	(46,460)	216
119990 BHUHC ACCUM DEPR-ALLOC	(4,742,473)	(6,328,975)	1,586,502
119998 UHC ACC DEPR CUR ALLOC	(997,126)	(1,341,936)	344,810
119999 COMMON UTIL-ACC DEPR-ALLOC	(1,815,054)	(1,714,700)	(100,354)
ACCUM DEPRECIATION	(101,573,903)	(99,919,567)	(1,654,336)
NET UTILITY PLANT	182,960,304	175,654,570	7,305,734
<u>OTHER PROPERTY AND INVESTMENTS:</u>			
121990 BHUHC NON UTILITY PLANT ALLOC	440,230	523,041	(82,811)
121999 NON UTILITY PLANT ALLOC	166,796	159,933	6,863
121000 NONUTILITY PROPERTY	2,127,678	1,844,085	283,593
NON UTILITY PROPERTY	2,734,705	2,527,059	207,646
122000 NON-UTIL PLT-ACCUM DEPR-ORIG	(594,058)	(466,970)	(127,088)
122990 BHUHC ACCUM DEPR-NON UTIL PLT	(267,611)	(355,169)	87,558
122999 NON UTIL-ACCDEPR-ALLOC	(87,518)	(80,797)	(6,721)
ACCUM PROV DEPREC ACCUM PROV FOR DEPRECIATION	(949,188)	(902,936)	(46,252)
TTL OTH PROPERTY & INVESTMENT	1,785,517	1,624,124	161,393
<u>CURRENT AND ACCRUED ASSETS:</u>			
131148 WELLS FARGO OPER CASH	0	435,926	(435,926)
131149 WELLS FARGO OPER CASH - DISBUR	0	0	0

Balance Sheet CY & PY and PY Dec w Chg Amt (All Products)
Business Unit: BH KANSAS GAS UTILITY CO LLC
HTD December, 2017

Run For: Scenario, All Resource Codes, All Allocation Types

Data from the PSGLFERC Essbase Cube

Account Description	Y2017	Y2016	Change from Prior Year End
	I-T-D(December)	I-T-D(December)	
131150 WELLS FARGO UTIL DEPOSITORY	606,332	0	606,332
131152 WELLS FARGO WFED LOCK BOX	0	23,509	(23,509)
131154 WF BHE RM	27,102	73	27,029
131221 WELLS FARGO PMT SVCS	111,522	51,842	59,680
131230 WESTERN UNION	0	0	0
131232 WELLS FARGO OTHER MANUAL	0	14,430	(14,430)
131233 WELLS FARGO EFT/CHECKLINE	0	0	0
131335 WELLS FARGO EBPP	0	11	(11)
131427 FIRSTIER BANK OF WYOMING	0	451	(451)
131430 FIRST NATIONAL BANK NWL	0	144	(144)
CASH ACCOUNTS	744,956	526,386	218,570
142006 CUSTOMER A/R INSTALL	288,791	250,239	38,552
142003 CUSTOMER A/R FINANCE PROGRAM	0	2,982	(2,982)
142002 CUSTOMER A/R MERC	288,316	216,492	71,824
142000 CUSTOMER ACCTS RECEIVABLE CIS	7,053,521	7,021,493	32,028
CUST ACCT RECEIVABLE CUSTOMER ACCOUNTS RECEIVABLE	7,630,629	7,491,206	139,423
143000 A/R MISCELLANEOUS	0	4,440	(4,440)
143003 A/R CONTRIB IN AID OF CONSTRUC	50,157	60,858	(10,701)
143008 A/R DAMAGE CLAIMS	41,248	73,614	(32,366)
143012 A/R OTHER EMPLOYEE LOANS	5,080	7,709	(2,629)
143028 A/R TO BE COLLECTED FOR OTHERS	1,101	1,101	0
143060 A/R SHORT TERM NEG BAL RECLASS	86,093	0	86,093
OTHER ACCTS RECVBL OTHER ACCOUNTS RECEIVABLE	183,679	147,722	35,957
144000 ACCUM PROV FOR UNCOLL ACCTS	(315,094)	(241,185)	(73,909)
ACCUM PROV-UNCOLL ACCUM PROV FOR UNCOLLECTIBLE	(315,094)	(241,185)	(73,909)
146000 I/C ACCOUNTS RECEIVABLE	1,987,808	828,389	1,159,419
ACCTS REC INTER CO ACCTS RECEIVABLE INTER COMPANY	1,987,808	828,389	1,159,419
154000 MATERIALS AND SUPPLIES GENERAL	822,657	676,279	146,378
154003 INVENTORY MANUAL	34,490	44,008	(9,518)
154007 INVENTORY-TRANSFERS IN TRANSIT	0	0	0
PLANT MATERIAL & OP PLANT MATERIALS & OP SUPPLIES	857,147	720,288	136,859
163000 STORES EXPENSE UNDISTRIBUTED-	263,084	184,928	78,156
STORES EXP UNDIST STORES EXPENSE UNDISTRIBUTED	263,084	184,928	78,156
164100 GAS STORED UNDERGROUND-	(934,913)	(954,360)	19,447
164110 GAS STORED UNDERGROUND	4,409,633	4,168,942	240,691
GAS STORED UG CRNT GAS STORED UNDERGROUND CRNT	3,474,721	3,214,583	260,138
165002 PREPAID INSURANCE	26,845	31,549	(4,704)
165007 PREPAID FEDERAL TAXES	296,825	297,710	(885)
165012 PREPAID OTHR	0	21,329	(21,329)
165180 PREPAID STATE TAXES	15,690	15,690	0
PREPAYMENTS	339,360	366,278	(26,918)
173000 ACCRUED UNBILLED REVENUES	7,521,819	8,925,579	(1,403,760)
ACCD UTILITY REVENUE ACCRUED UTILITY REVENUES	7,521,819	8,925,579	(1,403,760)
174000 EXCHANGE GAS RECEIVABLE	21,108	82,856	(61,748)
MISC CRNT ACCD ASSTS MISC CURRENT & ACCURED ASSETS	21,108	82,856	(61,748)
TTL CURRENT & ACCRUED ASSETS	22,709,217	22,247,030	462,187
DEFFERED DEBITS:			
182300 REG ASSET OTHER	169,831	1,620,026	(1,450,195)
182305 REG ASSET ARO	1	1	0

Balance Sheet CY & PY and PY Dec w Chg Amt (All Products)
Business Unit: BH KANSAS GAS UTILITY CO LLC
HTD December, 2017

Run For: Scenario, All Resource Codes, All Allocation Types

Data from the PSGLFERC Essbase Cube

Account Description	Y2017	Y2016	Change from Prior Year End
	I-T-D(December)	I-T-D(December)	
182310 REG ASSET PENSION PRIOR SVC	257,757	474,218	(216,461)
182315 REG ASSET RETIREE HC	672,084	719,660	(47,576)
182316 REG ASSET PENSION	4,625,583	4,352,438	273,145
182333 REG ASSET ENERGY EFFICIENCY ST	0	254,037	(254,037)
182361 REG ASSET ST RECLASS	1,868,138	0	1,868,138
182375 REG ASSET LT OTHER INC TAX	564,209	368,887	195,322
OTHER REG ASSETS OTHER REGULATORY ASSETS	8,157,602	7,789,267	368,335
183200 PRELIM SURVEY CHARGES GENERAL	226,221	175,644	50,577
PRELIM SURV & INVEST PRELIM SURVEY & INVESTIGATION	226,221	175,644	50,577
184003 FIELD ENGINEERING CLEARING	176,391	163,621	12,770
184004 Field Eng Clearing Transmission	996	0	996
184000 FLEET/TRANSPORTATION CLEARING	54,715	40,715	14,000
CLEARING ACCOUNTS	232,101	204,336	27,765
186001 MISC DEFERRED DEBITS-IN PROCES	76,618	76,618	0
186998 DEFERRED ASSETS - OTHER	0	3,025	(3,025)
MISC DEFERRED DEBITS	76,618	79,643	(3,025)
190520 DEFERRED TAX ASSET LT	3,388,703	(323,903)	3,712,606
190599 DEF TAX ASSET STATE INC TAX LT	1,699	421,874	(420,175)
ACCUM DEF INC TAXES ACCUM DEFERRED INCOME TAXES	3,390,403	97,970	3,292,433
191100 UNREC PGA ACT-GEN SYSTEM REAL	0	67,026	(67,026)
191300 UNREC PGA CST UNBILLED	(4,438,838)	(5,393,112)	954,274
191541 UNREC PGA CST PND KS	311,735	2,282,260	(1,970,525)
191549 UNREC PGA CAPACITY RELEASE	(364,365)	(317,276)	(47,089)
191560 UNREC PGA CAP REL-SH SHAREDREV	182,182	158,638	23,544
191600 UNREC PGA CST EST-GEN SYS	3,484,529	3,202,464	282,065
DEFERRED DEBITS	11,258,188	8,346,860	2,911,328
TOTAL ASSETS AND OTHER DEBITS:	218,713,226	207,872,583	2,911,328
<u>LIABILITIES AND SHAREHOLDERS EQUITY:</u>			
<u>PROPRIETARY CAPITAL:</u>			
211001 ADDL PAID IN CAPITAL	55,514,021	55,514,021	0
OTH PAID IN CAPITAL OTHER PAID IN CAPITAL	55,514,021	55,514,021	0
216000 RETAINED EARNINGS GENERAL	1,356,601	4,543,003	(3,186,402)
216999 GAAP TO FERC RETAINED EARNINGS	66,297	66,297	0
RETAINED EARNINGS	1,422,898	4,609,300	(3,186,402)
TOTAL PROPRIETARY CAPITAL	56,936,919	60,123,321	(3,186,402)
<u>LONG-TERM DEBT:</u>			
<u>OTHER NON-CURRENT LIABILITIES:</u>			
228204 RESERVE MEDICAL	114,845	114,845	0
228202 RESERVE WORKERS' COMPENSATION	1,020,581	1,030,406	(9,825)
228200 RESERVE GENERAL LIABILITY	0	120,250	(120,250)
ACCUM PROV INJRY DAM ACCUM PROV INJURIES & DAMAGES	1,135,426	1,265,501	(130,075)
228300 BENEFITS ACCRUAL RETIREE HEALTH CARE	0	6,568	(6,568)
228302 BENEFITS ACCRUAL PENSION	3,237,860	4,233,531	(995,671)
ACCUM PROV PEN & BEN ACCUM PROV PENSIONS & BENFITS	3,237,860	4,240,099	(1,002,239)
229001 BILLINGS COLL SUBJECT TO REFUN	0	44,000	(44,000)
ACCUM PROV RATE RFND ACCUM PROV FOR RATE REFUNDS	0	44,000	(44,000)

Balance Sheet CY & PY and PY Dec w Chg Amt (All Products)
Business Unit: BH KANSAS GAS UTILITY CO LLC
HTD December, 2017

Run For: Scenario, All Resource Codes, All Allocation Types

Data from the PSGLFERC Essbase Cube

Account Description	Y2017	Y2016	Change from Prior Year End
	I-T-D(December)	I-T-D(December)	
230304 ACCUM RESV OBLIGATION ARO	0	491,185	(491,185)
ASSET RETIRE OBLIG ASSET RETIREMENT OBLIGATIONS	0	491,185	(491,185)
TTL OTR NONCRNT LIAB TTL OTHER NONCRNT LIABILITIES	4,373,286	6,040,785	(1,667,499)
<u>CURRENT AND ACCRUED LIABILITIES:</u>			
232000 AP PEOPLESFT SUBLEDGER	690,541	276,074	414,467
232001 A/P INVENTORY ACCRUAL	0	12,093	(12,093)
232005 A/P PO ACCRUAL	12,471	27,943	(15,472)
232006 A/P GAS PURCHASES ESTIMATED	7,525,273	7,508,477	16,796
232009 A/P MANUAL	1,275,227	330,116	945,111
232014 A/P WH FLEX 125 DEPENDENT	1,998	1,815	183
232016 A/P WH HEALTH INSURANCE	13,263	13,858	(595)
232017 A/P WH PAC	37	70	(33)
232019 A/P WH UNION DUES	0	1,177	(1,177)
232021 A/P WH EMPL DONATIONS	870	952	(82)
232022 A/P WH GARNISHMENTS	3,107	2,755	352
232023 A/P WH LIFE INSURANCE	4,158	4,258	(100)
232026 A/P CUSTOMER CARE	1,245	0	1,245
ACCTS PAYABLE ACCOUNTS PAYABLE	9,528,190	8,179,589	1,348,601
233000 I/C NOTES PAYABLE TO UMP	20,543,790	11,481,299	9,062,491
233053 I/C NOTES PAYABLE AFFILIATE	65,000,000	65,000,000	0
233100 I/C INTEREST PAYABLE TO UMP	28,663	16,064	12,599
233153 I/C INTEREST PAYABLE AFFILIATE	258,638	265,175	(6,537)
NOTE PAY INTER CO NOTES PAYABLE INTER COMPANY	85,831,091	76,762,538	9,068,553
234222 CIS+ ACCOUNT BALANCE TRANSFERS	208	25	183
234000 I/C ACCOUNTS PAYABLE	13,907,165	13,430,266	476,899
ACCT PAY INTER CO ACCOUNTS PAYABLE INTER COMPANY	13,907,374	13,430,291	477,083
235000 CUSTOMER DEPOSITS-	1,385,757	1,429,255	(43,498)
CUSTOMER DEPOSITS	1,385,757	1,429,255	(43,498)
236004 ACCRUED PROPERTY TAXES	2,204,281	2,182,826	21,455
236010 ACCRUED FICA TAX EMPLOYER	89,123	78,799	10,324
236011 ACCRUED FUTA TAX	613	398	215
236012 ACCRUED SUTA TAX	88	504	(416)
TAXES ACCRUED	2,294,105	2,262,527	31,578
237002 ACCRUED INT CUSTOMER DEPO	0	0	0
INTEREST ACCRUED	0	0	0
241006 STATE WITHHOLDING TAXES PAYABL	14,392	11,384	3,008
241004 STATE SALES AND USE TAX	190,390	176,699	13,691
241002 TAX COLLECTION PAY CITY FRANCH	561,295	538,376	22,919
241001 FEDERAL WITHHOLDING TAXES PAYB	46,948	39,400	7,548
241000 FICA WITHHOLDING TAXES PAYABLE	25,923	24,256	1,667
TAX COLLECTED PAY TAX COLLECTIONS PAYABLE	838,948	790,114	48,834
242003 ACCRUED BENEFITS COMP ABSENCES	266,536	260,588	5,948
242013 ACCRUED BENEFITS 401K	81,727	82,249	(522)
242019 ACCRUED ENERGY AID ASSISTANCE	29,496	43,133	(13,637)
242020 ACCRUED CUSTOMER IMBALANCES	30,751	0	30,751
242028 ACCRD UNCL CHECKS/ESCHEATS	271	321	(50)
242041 ACCRUED INCENTIVE	666,627	680,197	(13,570)
242045 ACCRUED PAYROLL	191,166	211,344	(20,178)

Balance Sheet CY & PY and PY Dec w Chg Amt (All Products)
Business Unit: BH KANSAS GAS UTILITY CO LLC
HTD December, 2017

Run For: Scenario, All Resource Codes, All Allocation Types

Data from the PSGLFERC Essbase Cube

Account Description	Y2017	Y2016	Change from Prior Year End
	I-T-D(December)	I-T-D(December)	
242046 ACCRUED EE REIMBURSED EXP	19,873	13,756	6,117
242052 ACCRUED LT PERFORMANCE PLAN	7,171	5,857	1,314
242500 ACCRUED LONG TERM LIABILITIES	161,836	160,116	1,720
242999 ACCRUED OTHER	1,269,723	2,196,110	(926,387)
MISC CRNT ACCD LIAB MISC CURRENT & ACCRUED LIAB	2,725,176	3,653,671	(928,495)
TOTAL CURRENT & ACCRUED LIAB	116,510,641	106,507,985	10,002,656
DEFERRED CREDITS:			
252000 CUSTOMER ADVANCES FOR CONST	208,633	235,719	(27,086)
252001 CUST ADVANCE FOR CONST CURRENT	82,397	92,020	(9,623)
CUST ADV FOR CONSTR CUSTOMER ADVANCE CONSTRUCTION	291,030	327,739	(36,709)
253520 FIN 48 LIABILITY	1	1	0
253700 OTH DEF CR ENERGY ASST PRGM	129,438	209,076	(79,638)
253999 OTH DEF CR OTHER	250,000	250,000	0
OTH DEFERRED CREDITS OTHER DEFERRED CREDITS	379,439	459,077	(79,638)
254000 REG LIAB OTHER LT	1,624,410	487,516	1,136,894
254001 REG LIAB EMISSIONS	0	0	0
254004 REG LIAB ACL PIPE REPL RIDR KS	0	0	0
254015 REG LIAB FLOWBACK EXCESS DEFTX	15,163,687	0	15,163,687
254020 REG LIAB PGA CR BAL RECLASS	0	67,026	(67,026)
254100 REG LIAB LT RETIREE HC INC TAX	204,515	421,164	(216,649)
254200 REG LIABILITY LT PENSION INC TAX	1,485,999	2,824,684	(1,338,685)
254386 REG LIAB RETIREE MED TRACKER	229,713	142,817	86,896
OTH REGULATORY LIAB OTHER REGULATORY LIABILITIES	18,708,325	3,943,207	14,765,118
282100 DEF TAX PROPERTY LT	19,141,147	30,147,731	(11,006,584)
282599 DEF TAX LIAB STATE PROP LT	2,770,607	2,618,261	152,346
ACCUM DEF INC TAX PR ACCUM DEF INCOME TAXES PROPTY	21,911,754	32,765,992	(10,854,238)
283440 DEFERRED TAX LIAB LT	(5,848,332)	(8,686,780)	2,838,448
283534 DEF TAX LIAB STATE INC TAX LT	(831,721)	(755,331)	(76,390)
283998 GAAP TO FERC-DEF TAX LT LIAB	290,178	290,178	0
283999 GAAP TO FERC-DEFTX LIAB-STATE	16,920	16,920	0
ACCUM DEF INC TAX OT ACCUM DEF INCOME TAX OTHER	(6,372,955)	(9,135,013)	2,762,058
TOTAL DEFERRED CREDITS	34,917,593	28,361,001	6,556,592
UNDIST YTD NET INCOME	5,974,788	6,839,493	(864,705)
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY:	218,713,227	207,872,585	10,840,642
Balance Sheet Tie Out (Assets=Liabilities)	(1)	(2)	0

Report: Bal Sheet - Detail w Totals YTD & LYD FERC

Printed: Jan 30, 2018 09:44 AM

Data from the PSGLFERC Essbase Cube

Includes topsided corrections and adjustments

Income Statement - Prior Year Comparison - FERC Reporting Acct Detail
 Business Unit: BH KANSAS GAS UTILITY CO LLC
 December, 2017 QTD & YTD

Run For: All Products, All Resource Codes, All Allocation Types

	Year-To-Date	Year-To-Date	Year-To-Date
	2017	2016	Variance
480000 RESIDENTIAL GAS SALES	60,169,683	55,445,504	4,724,179
480001 RESIDENTIAL UNBILLED GAS	(717,196)	838,529	(1,555,724)
480005 RESIDENTIAL GAS ALT REV	2,323,815	0	2,323,815
481000 COMMERCIAL FIRM GAS REVENUE	19,824,869	17,060,835	2,764,034
481001 COMMERCIAL FIRM UNBIL GAS REV	(460,300)	626,920	(1,087,220)
481005 COMMERCIAL GAS ALT REV	661,220	0	661,220
481010 COMMERCIAL INTERR GAS REVENUE	793,189	552,862	240,327
481100 INDUSTRIAL FIRM GAS REVENUE	349,927	306,145	43,782
481101 INDUSTRIAL FIRM UNBIL GAS REV	(325,894)	318,782	(644,675)
481105 INDUSTRIAL GAS ALT REV	1,256	0	1,256
481110 INDUSTRIAL INTERR GAS REVENUE	8,441,992	8,267,168	174,824
487000 FORFEITED DISC/LATE PMT GAS	368,791	342,475	26,316
488000 MISC SERVICE REV GAS	759,874	742,325	17,549
489301 COMM FIRM TRANSPORT REV-DISTRB	2,516,366	2,549,088	(32,721)
489302 IND FIRM TRANSPORT REV-DISTRB	796,767	873,792	(77,025)
489303 COMM INTER TRANSPRT REV-DISTRB	254,228	261,984	(7,756)
489304 IND INTER TRANSPRT REV-DISTRB	2,824,516	2,920,758	(96,242)
489305 UNBILLED TRANSPORT REV-DISTRB	101,000	5,000	96,000
495000 Other Revenue And Royalties	189,898	3,092,012	(2,902,114)
TOTAL OPERATING REVENUE	98,874,002	94,204,179	4,669,823
546000 OTHR GEN OPS SUPERV & ENG	0	0	0
556000 SYS CONTROL AND LOAD DISPATCHI	0	0	0
560000 TRANS OPS SUPERV & ENGINEERING	0	0	0
850000 TRANS OPS SUPERV & ENG	119,579	92,045	27,534
851000 TRANS SYS CONTR & LOAD DISPATCH	0	426	(426)
856000 TRANS MAINS EXPENSE	72,734	83,348	(10,614)
857000 TRANS MEAS & REGUL STATION EXP	20,431	32,896	(12,466)
563000 TRANS OPS OH LINE EXP	0	0	0
580000 DIST OPS SUPERV & ENG	0	0	0
583000 DIST OPS OVERHEAD LINE EXPENSE	0	0	0
870000 DIST OPS SUPERVISION AND ENGIN	994,167	1,008,118	(13,951)
874002 ROUTINE LEAK SURV MAINS & SVCS	593,010	675,713	(82,704)
874001 PERF DISTRIB MAIN LOCATES-GAS	753,746	745,943	7,802
874000 OPER/INSPECT UG DIST MAINS-GAS	830,103	959,341	(129,238)
875001 OPERATE/INSPECT FARM TAPS(O&M)	96,381	46,100	50,281
877000 DIST MEAS & REG STAT - CITY GA	46,580	8,185	38,394
876000 DIST MEAS & REG STAT - INDUS	103,288	157,533	(54,245)
875000 DIST MEAS & REG STAT - GENERAL	128,026	26,040	101,986
878001 PERF CONNECTS/DISCON/RECON-GAS	755,981	1,020,798	(264,817)
878000 OPER/INSP MTRS COLLECT DATAGAS	359,485	516,931	(157,446)
871000 DIST LOAD DISPATCHING	11	667	(657)
879000 DIST CUSTOMER INSTALLATIONS	476,988	581,713	(104,726)
881000 DIST OPER RENTS	7,157	4,580	2,577
880001 CO USED GAS O&M OFFSET	15,135	11,684	3,451
880000 DIST OPS OTHER EXPENSE	2,882,318	2,309,566	572,752
873000 DISTR FUEL/POWER COMPR STATION	353	0	353
872000 DIST COMPR STAT LABR & EXP	1,340	171	1,169
750000 GATHER OPER SUPERV & ENGIN	0	0	0

Income Statement - Prior Year Comparison - FERC Reporting Acct Detail
Business Unit: BH KANSAS GAS UTILITY CO LLC
December, 2017 QTD & YTD

Run For: All Products, All Resource Codes, All Allocation Types

	Year-To-Date	Year-To-Date	Year-To-Date
	2017	2016	Variance
754000 FIELD COMPRESSOR STATION EXP	0	98	(98)
816000 STORAGE WELLS EXP	0	0	0
817000 STORAGE LINES EXP	0	539	(539)
818000 STORAGE COMPRESSOR STATION EXP	0	52	(52)
820000 COMPRESSOR STATION FUEL	0	0	0
840000 OPER SUPERV & ENG	0	27	(27)
852000 COMMUNICATION SYS EXP	15	385	(370)
859000 OTHER TRANS OPS EXP	114,531	98,500	16,031
860000 TRANSM RENT	(479)	2,459	(2,939)
804000 NATURAL GAS CITY GATE PURCHASE	48,630,919	42,758,752	5,872,167
805000 OTHER GAS PURCHASES	269	618	(349)
805001 COST OF UNBILLED REVENUE	(954,274)	1,578,941	(2,533,215)
805100 PURCHASED GAS COST ADJUSTMENTS	1,532,528	(559,371)	2,091,899
805200 FINANCIAL GAS COST ADJ	(508,858)	(952,182)	443,324
808100 GAS WITHDRAWN FROM STORAGE DR	4,668,450	4,699,912	(31,463)
808200 GAS DELIVERED TO STORAGE CR	(4,928,588)	(4,330,467)	(598,120)
812000 GAS USED FOR OTHER UTILITY OPS	(12,526)	(11,400)	(1,126)
813000 OTHER GAS SUPPLY EXPENSES	(1,348)	0	(1,348)
814000 UG STORAGE OPS SUPERV & ENG	0	87	(87)
TOTAL ELECTRIC/GAS OPERATING EXPENSE	56,797,452	51,568,751	5,228,701
901000 CUST ACCTS SUPERVISION	394,982	394,220	762
902002 OTHER METER READING EXPENSES	25,460	20,251	5,209
902001 RE-READ METERS	12,233	13,337	(1,104)
902000 READ METERS	313,643	304,436	9,207
903002 PROC/COLLECT DELINQUENT ACCTS	195,309	222,898	(27,589)
903001 PROCESS CUSTOMER REMITTANCES	56,097	77,529	(21,433)
903000 CUST ACCTS RECORDS & COLLECTIO	2,379,433	2,547,411	(167,978)
904000 UNCOLLECTIBLE ACCOUNTS	619,709	396,173	223,536
905000 MISC CUSTOMER ACCOUNTS	130,077	102,487	27,590
907000 CUSTOMER SERVICE SUPERVISION	60,178	49,723	10,455
908000 CUSTOMER ASSISTANCE EXP	83,368	268,146	(184,778)
909000 INFORMATIONAL & INSTRUCT ADS	10,784	23,916	(13,132)
910000 MISC CUST SERVICE & INFO	42,955	88,699	(45,744)
912000 SALES DEMONSTRATING & SELLING	41,105	182,847	(141,742)
916000 MISCELLANEOUS SALES EXPENSES	1,366	989	377
911000 SALES SUPERVERION	17,179	37,147	(19,968)
913000 SALES ADVERTISING EXPENSES	68,930	29,451	39,479
920000 ADMIN AND GENERAL SALARIES	9,814,855	10,449,704	(634,848)
920999 LABOR OVERHEAD OFFSET	(3,592,797)	(3,677,879)	85,082
921000 OFFICE SUPPLIES & EXPENSE	1,763,544	1,645,282	118,262
922000 ADMIN EXP TRANS CREDIT	(1,054,326)	(1,029,092)	(25,234)
923000 OUTSIDE SERVICES	1,049,140	1,650,927	(601,787)
924000 PROPERTY INSURANCE	3,967	4,511	(543)
925000 INJURIES AND DAMAGES	639,181	795,887	(156,706)
926000 EMPLOYEE PENSIONS & BENEFITS	5,507,224	5,560,726	(53,503)
926999 BENEFIT OVERHEAD OFFSET	(5,074,544)	(5,253,030)	178,486
928000 REGULATORY COMMISSION EXP	361,327	473,246	(111,919)
930100 GENERAL ADVERTISING	41,375	70,832	(29,456)

Income Statement - Prior Year Comparison - FERC Reporting Acct Detail
Business Unit: BH KANSAS GAS UTILITY CO LLC
December, 2017 QTD & YTD

Run For: All Products, All Resource Codes, All Allocation Types

	Year-To-Date	Year-To-Date	Year-To-Date
	2017	2016	Variance
930200 MISCELLANEOUS GENERAL EXP	207,934	355,142	(147,208)
930299 GAAP TO FERC BANK FEES	155,828	134,386	21,442
931000 A & G RENTS	197,946	151,396	46,550
931001 I/C RENT EXPENSE	98,775	40,292	58,483
TOTAL A&G & OTHER EXPENSES	14,572,236	16,131,990	(1,559,754)
TOTAL OPERATING EXPENSE	71,369,688	67,700,741	3,668,947
510000 STEAM MAINT SUPERVISION & ENG	0	0	0
514000 MAINT OF MISC STEAM PLANT	0	0	0
830000 STORAGE MAINT SUPERV & ENG	0	0	0
832000 STORAGE MAINT RESERVOIR & WELL	0	228	(228)
834000 STORAGE MAINT COMPR STAT EQUIP	0	(113)	113
862000 MNT STRUCTURES & IMPRVMTS	0	578	(578)
863000 TRANS MAINT OF MAINS	121,648	109,929	11,719
865000 TRANS MNT MEAS & REG STAT EQU	33,513	48,523	(15,010)
866000 MNT COMM EQUIP	0	2	(2)
867000 TRANS MAINT OF OTHER EQUIP	2,614	0	2,614
861000 TRANS MAINT SUPERV & ENGIN	83,503	80,140	3,363
593000 DIST MAINT OF OVERHEAD LINES	0	0	0
888000 DIST MAINT COMPR STATION EQUIP	3,399	7,770	(4,371)
885000 DIST MAINT SUPER & ENG	206,589	248,984	(42,395)
889001 MAINTAIN FARM TAPS (O&M)	7,429	32,746	(25,317)
891000 DS MNT MS & REG STAT EQ-CITY G	212,335	189,161	23,174
890000 DS MNT MEAS & REG STAT EQ-IND	35,012	24,409	10,604
889000 DS MNT MEAS & REG STAT EQ-GEN	157,384	169,107	(11,722)
894000 DIST MAINT OF OTHER EQUIP	5,908	6,874	(966)
892000 DIST MAINT OF SERVICES	121,045	119,955	1,090
887001 PERFMANT_3RDPRTYDMG-UGDISTGAS	(982)	2,877	(3,859)
887000 PERF UG DISTRIB LINE MAINT-GAS	519,873	581,852	(61,979)
886000 DIST MAINT STRUCT & IMPROVE	5,977	20,641	(14,664)
893000 DIST MAINT METERS & HSE REGS	306,721	223,341	83,380
TOTAL MAINTENANCE EXPENSES	1,821,969	1,867,001	(45,032)
935000 MAINTENANCE GENERAL PLANT	569,222	466,619	102,603
TOTAL A&G MAINTENANCE EXPENSES	569,222	466,619	102,603
TOTAL MAINTENANCE EXPENSE	2,391,191	2,333,620	57,571
403000 DEPRECIATION	6,456,230	6,222,569	233,661
403340 DEPRECIATION NONREG	(42,331)	(38,996)	(3,336)
DEPREC EXPENSE DEPRECIATION EXPENSE	6,413,899	6,183,573	230,326
405000 AMORTIZATION EXPENSE	101,997	102,288	(291)
404300 AMORT-LTD TERM GAS PLANT	0	722	(722)
AMORT & DEPL UTILTY AMORT & DEPL OF UTILITY PLANT	101,997	103,010	(1,013)
406000 AMORTIZATION PLANT ACQUIS ADJ	37,613	37,614	0
AMORT UTILITY PLT AQ AMORT UTILITY PLANT ACQ ADJ	37,613	37,614	0
408100 Taxes Oth-Than Income Taxes	1,203,810	1,106,800	97,010
408130 TOTI-PROPERTY TAXES	3,786,334	5,498,887	(1,712,553)
408199 TAXES OTI CAPITAL OFFSET	(1,135,957)	(1,151,121)	15,165
TAXES OTHER THAN INC TAXES OTHER THAN INCOME	3,854,187	5,454,566	(1,600,378)
409100 CURRENT FED INC TAX	4,823,300	(686,090)	5,509,390

Income Statement - Prior Year Comparison - FERC Reporting Acct Detail
Business Unit: BH KANSAS GAS UTILITY CO LLC
December, 2017 QTD & YTD

Run For: All Products, All Resource Codes, All Allocation Types

	Year-To-Date	Year-To-Date	Year-To-Date
	2017	2016	Variance
INC TAXES FEDERAL INCOME TAXES FEDERAL	4,823,300	(686,090)	5,509,390
409101 CURRENT STATE INC TAX	(73,920)	(58,213)	(15,706)
INC TAXES OTHER INCOME TAXES OTHER	(73,920)	(58,213)	(15,706)
410101 DEFERRED CURRENT STATE INC TAX	1,163,098	1,226,252	(63,153)
410100 DEFERRED CURRENT FED INC TAX	19,677,427	11,723,963	7,953,465
PROV DEF INC TAX PROVISION FOR DEF INCOME TAX	20,840,526	12,950,214	7,890,312
411101 DEF INC TAX ST CR OPERATING	(754,445)	(834,277)	79,831
411100 DEF INC TAX FED CR OPERATING	(18,057,661)	(8,051,866)	(10,005,795)
LESS PROV DEF INC TX LESS PROV DEF INCOME TAX CRED	(18,812,106)	(8,886,143)	(9,925,963)
OTHER OPERATING EXPENSES	17,185,497	15,098,529	2,086,967
TOTAL UTILITY OPERATING EXPENS	90,946,377	85,132,891	5,813,486
NET UTILITY OPERATING INCOME	7,927,626	9,071,288	(1,143,662)
415000 MERCHANDISE REVENUES	847,633	987,437	(139,805)
REV MERCH JOBBING REVENUE MERCH JOBBING CONTRACT	847,633	987,437	(139,805)
416000 EXP MERCH JOBBING & CONTRACT	433,609	481,121	(47,512)
LESS COST & EXP MERC LESS COST & EXPENSE MERCH JOB	433,609	481,121	(47,512)
417000 NONUTILITY REVENUES	4,834,576	4,632,558	202,018
417057 OTHER REVENUE AND ROYALTIES NR	1,019,230	844,878	174,352
REV NON UTILITY OPS REVENUE NON UTILITY OPERATIONS	5,853,806	5,477,436	376,370
417100 NONUTILITY EXPENSES - COS	2,874,529	2,757,789	116,740
417101 NONUTILITY EXP - OTHER O&M	512,777	552,680	(39,903)
417110 NONUTILITY PURCH - CHOICE GAS	0	206	(206)
417158 NONUTILITY OPS EXPENSE OTHER	41,952	59,451	(17,499)
417160 NONUTILITY SELLING EXPENSE	168,198	239,836	(71,637)
417161 NONUTILITY ADMIN & GENERAL	(102,064)	(103,116)	1,051
417162 ADMIN AND GEN-EMPL BENEFITS	19,764	32,567	(12,803)
417165 EXP FOR UNCOLLECT ACCT NONREG	63,783	41,696	22,087
417180 NONUTILITY DEPRECIATION EXP	75,067	70,527	4,540
LESS EXP NON UTILITY LESS EXPENSE NON UTILITY OPS	3,654,005	3,651,635	2,370
419000 INTEREST INCOME - 3RD PARTY	780	770	10
419050 I/C INTEREST INCOME FROM UMP	0	4,089	(4,089)
419052 I/C INT INC ALLOC FROM BHSC	293	0	293
419053 I/C UMP INT INC FROM AFFILIATE	56,494	0	56,494
419055 I/C INTEREST INCOME AFFILIATE	(2,812)	0	(2,812)
INT & DIVIDEND INC INTEREST & DIVIDEND INCOME	54,755	4,859	49,897
421000 Misc Nonoperating Income	13,614	29,475	(15,861)
MISC NON OP INCOME MISC NON OPERATING INCOME	13,614	29,475	(15,861)
421198 O&M GAIN ON SALE OF ASSET OP	304,428	(2,825)	307,252
421999 GAAP TO FERC GN ON ASSET SALE	(319,959)	0	(319,959)
GAIN DISPO PROPERTY GAIN ON DISPOSITION PROPERTY	(15,531)	(2,825)	(12,707)
TOTAL OTHER INCOME	2,666,662	2,363,626	303,036
426100 MISC NONOPER DONATIONS	164,611	171,418	(6,807)
DONATIONS	164,611	171,418	(6,807)
426300 MISC NONOPER PENALTIES	529	978	(449)
PENALTIES	529	978	(449)
426400 MISC NONOPER CIVIC & POLITICAL	98,788	78,023	20,764
EXP CIVIC POLITICAL EXP CIVIC POLITICAL & RELATED	98,788	78,023	20,764

Income Statement - Prior Year Comparison - FERC Reporting Acct Detail
 Business Unit: BH KANSAS GAS UTILITY CO LLC
 December, 2017 QTD & YTD

Run For: All Products, All Resource Codes, All Allocation Types

426500 MISC NONOPER OTHER
 426501 MISC OPERATING
 OTHER DEDUCTIONS
 TTL OTH INC DEDUCT TOTAL OTHER INCOME DEDUCTIONS
 408200 TAXES OTHR TN INCTAX NON UTIL
 TAXES OTHER TAXES ON OTHER INCOME
 409200 CURR INC TAX FED NONOPERATING
 INC TAX FED OTHER FED INC TAX OTHER INC DED
 409201 CURR INC TAX ST NONOPERATING
 INC TAX STATE OTHER STATE INC TAX OTHER INC & DED
 TAXES OTH INC & DED TAXES OTHER INCOME & DEDUCTION
 NET OTH INC & DED NET OTHER INCOME & DEDUCTIONS
TOTAL OTHER INCOME & DEDUCTIONS

 430000 I/C INTEREST EXPENSE TO UMP
 430002 I/C INT EXP ALLOC FROM BHSC
 430003 I/C UMP INT EXP TO AFFILIATE
 430005 I/C INTEREST EXPENSE AFFILIATE
 430999 GAAP TO FERC - BANK FEES
 INT DEBT ASSOC COMP INTEREST ON DEBT ASSOC COMPANY
 431000 INTEREST EXPENSE - 3RD PARTY
 431001 INTEREST ON CUSTOMER DEPOSITS
 431002 CURR INC TAX - UTP INTEREST EXP
 431500 CAPITALIZED INTEREST
 OTH INTEREST EXPENSE OTHER INTEREST EXPENSE
 432000 AFUDC DEBT
 LESS AFUDC BORROWED
 NET INTEREST CHRGS NET INTEREST CHARGES
NET INTEREST CHARGES

NI BEFORE EXTRAORDINARY ITEMS

 EXTRAORDINARY ITEMS

TOTAL NET INCOME

Year-To-Date	Year-To-Date	Year-To-Date
2017	2016	Variance
71,136	28,839	42,298
0	6	(6)
71,136	28,845	42,291
335,064	279,264	55,800
56,902	55,612	1,290
56,902	55,612	1,290
792,858	682,207	110,651
792,858	682,207	110,651
73,920	58,214	15,706
73,920	58,214	15,706
923,679	796,033	127,646
1,407,919	1,288,330	119,589
1,407,919	1,288,330	119,589
197,836	220,764	(22,929)
5,826	9,255	(3,430)
56,811	0	56,811
3,317,700	3,465,113	(147,413)
(155,828)	(134,386)	(21,442)
3,422,344	3,560,747	(138,402)
10,792	4,061	6,732
11,164	7,299	3,865
0	(819)	819
(18,279)	(32,111)	13,832
3,677	(21,570)	25,247
(65,265)	(19,053)	(46,212)
(65,265)	(19,053)	(46,212)
3,360,757	3,520,124	(159,368)
3,360,757	3,520,124	(159,368)
5,974,788	6,839,493	(864,705)
0	0	0
5,974,788	6,839,493	(864,705)

Kansas Ring Fencing Compliance
Financial Ratios
Total Debt to Total Capitalization

Black Hills Corporation
(in thousands)

Attachment

06-GIMX-181-GIV

	<u>2017</u>
<i>Numerator</i>	
Notes payable	211,300
+ Commercial paper	-
+ Current maturities	5,743
+ Current capitalized lease obligations	-
+ Long term debt	3,109,400
+ Capitalized lease obligations	-
+ Total OBS Debt	58,221
	<u>3,384,664</u>
 <i>Denominator</i>	
Notes payable	211,300
+ Commercial paper	-
+ Current maturities	5,743
+ Current capitalized lease obligations	-
+ Long Term debt	3,109,400
+ Capitalized lease obligations	-
+ Common equity	1,820,206
+ Total OBS Debt	58,221
	<u>5,204,870</u>
	(1) 65.03%

Source: 2017 Black Hills Corporation Form 10-K

(1) The level of debt within Black Hills Corporation capital structure relates to the SourceGas debt assumed and refinanced, and the debt and Equity Unit instruments utilized in the acquisition of SourceGas. As of December 31, 2017, \$299 million of Equity Units are currently categorized as debt within the capital structure. These Equity Units will convert to common shares in the later part of 2018. With the conversion of the Equity Units, the anticipated reduction of short-term notes payable, and the projected earnings of consolidated Black Hills Corporation, we anticipate our capital structure will return to a more utility-like capital structure in the next few years.

Kansas Ring Fencing Compliance
Financial Ratios
Funds From Operations Interest Coverage

Black Hills Corporation
(in thousands)

Attachment

06-GIMX-181-GIV

	<u>2017</u>
<i>Numerator</i>	
Net income from continuing operations	177,034
+ Depreciation, depletion & amortization	188,246
+ Deferred income taxes (net)	81,037
+ Investment tax credit amortization	(45)
- AFUDC - debt	2,415
- AFUDC - equity	2,321
+ (Income) loss from equity investments	-
+ (Gain) loss on property	-
+ Deferred income taxes adjusted	-
Total Funds from operations (FFO)	<u>441,536</u>
+ Cash interest paid (net of interest capitalized)	132,428
+ AFUDC - debt	2,415
- Interest expense adjustment	-
+ Interest on OBS debt	-
	<u>576,379</u>
<i>Denominator</i>	
Interest expense (net)	140,533
- Interest expense adjustment	-
+ AFDC - debt	2,415
+ Interest on OBS debt	-
	<u>142,948</u>
	4.0321

Source: 2017 Black Hills Corporation Form 10-K

Kansas Ring Fencing Compliance
Financial Ratios
Funds From Operations as a % of Total Debt

Black Hills Corporation
(in thousands)

Attachment

06-GIMX-181-GIV

	<u>2017</u>
<i>Numerator</i>	
Net income from continuing operations	177,034
+ Depreciation, depletion & amortization	188,246
+ Deferred income taxes (net)	81,037
+ Investment tax credit amortization	(45)
- AFUDC - debt	2,415
- AFUDC - equity	2,321
+ (Income) loss from equity investments	-
+ (Gain) loss on property	-
+ Deferred income taxes adjusted	-
Total Funds from operations (FFO)	441,536
+ Depreciation adjustment for Operating Leases	-
	441,536
<i>Denominator</i>	
Notes payable	211,300
+ Commercial paper	-
+ Current maturities	5,743
+ Current capitalized lease obligation	-
+ Long term debt	3,109,400
+ (1)	-
+ Total OBS Debt	58,221
	3,384,664
	13.05%

Source: 2017 Black Hills Corporation Form 10-K

BLACK HILLS CORPORATION
LIST OF CREDIT RATING AGENCIES AND EQUITY ANALYST REPORTS RECEIVED
(May 17, 2017 to May 21, 2018)

Bank	Analyst	Date
Credit Suisse Securities	Michael Weinstein	5/25/2017
RBC Capital Markets	Insoo Kim	6/6/2017
Williams Capital	Christopher Ellinghaus	6/19/2017
Williams Capital	Christopher Ellinghaus	6/19/2017
Gabelli & Company	Timothy Winter	7/7/2017
RBC Capital Markets	Insoo Kim	7/18/2017
Credit Suisse Securities	Michael Weinstein	7/24/2017
RBC Capital Markets	Insoo Kim	7/25/2017
Credit Suisse Securities	Michael Weinstein	8/3/2017
RBC Capital Markets	Insoo Kim	8/3/2017
BMO Capital Markets	Michael Worms	8/4/2017
Credit Suisse Securities	Michael Weinstein	8/7/2017
Gabelli & Company	Timothy Winter	8/7/2017
Williams Capital	Christopher Ellinghaus	8/7/2017
Credit Suisse Securities	Michael Weinstein	8/11/2017
Credit Suisse Securities	Michael Weinstein	9/29/2017
Fitch		10/4/2017
Credit Suisse Securities	Michael Weinstein	10/6/2017
Gabelli & Company	Timothy Winter	10/6/2017
Williams Capital	Christopher Ellinghaus	10/6/2017
BMO Capital Markets	Michael Worms	10/11/2017
Bank of America Merrill Lynch	Julien Dumoulin-Smith	10/23/2017
Wells Fargo Capital Markets	Sarah Akers	10/27/2017
Credit Suisse Securities	Michael Weinstein	11/3/2017
Credit Suisse Securities	Michael Weinstein	11/3/2017
RBC Capital Markets	Insoo Kim	11/3/2017
Gabelli & Company	Timothy Winter	11/6/2017
RBC Capital Markets	Insoo Kim	11/6/2017
RBC Capital Markets	Insoo Kim	11/6/2017
Credit Suisse Securities	Michael Weinstein	11/8/2017
Bank of America Merrill Lynch	Julien Dumoulin-Smith	11/9/2017
Bank of America Merrill Lynch	Julien Dumoulin-Smith	11/10/2017
Bank of America Merrill Lynch	Julien Dumoulin-Smith	11/13/2017
RBC Capital Markets	Insoo Kim	11/14/2017
Moody's		12/12/2017
Bank of America Merrill Lynch	Julien Dumoulin-Smith	1/2/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	1/9/2018
Credit Suisse Securities	Michael Weinstein	1/9/2018
Credit Suisse Securities	Michael Weinstein	1/9/2018
Williams Capital	Christopher Ellinghaus	1/10/2018
Credit Suisse Securities	Michael Weinstein	2/1/2018
RBC Capital Markets	Insoo Kim	2/2/2018
Wells Fargo Capital Markets	Sarah Akers	2/2/2018
Credit Suisse Securities	Michael Weinstein	2/4/2018
Gabelli & Company	Timothy Winter	2/5/2018
Williams Capital	Christopher Ellinghaus	2/5/2018
RBC Capital Markets	Insoo Kim	2/6/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	2/7/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	2/7/2018
JP Morgan	Christopher Turner	2/7/2018
Credit Suisse Securities	Michael Weinstein	2/15/2018
S&P		3/8/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	3/13/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	3/13/2018
Gabelli & Company	Timothy Winter	5/3/2018
RBC Capital Markets	Insoo Kim	5/3/2018
Wells Fargo Capital Markets	Sarah Akers	5/4/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	5/7/2018
Wells Fargo Capital Markets	Sarah Akers	5/14/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	5/18/2018
Credit Suisse Securities	Michael Weinstein	5/18/2018
Credit Suisse Securities	Michael Weinstein	5/18/2018
Wells Fargo Capital Markets	Sarah Akers	5/18/2018
Bank of America Merrill Lynch	Julien Dumoulin-Smith	5/21/2018
Credit Suisse Securities	Michael Weinstein	5/21/2018