

SALES SERVICE SCHEDULE OF RATES
DEMAND SIDE MANAGEMENT COST ADJUSTMENT

1. Demand-Side Management Cost Adjustment (DSMCA)

All sales rate schedules for natural gas service are subject to a Demand-Side Management Cost Adjustment ("DSMCA") designed to recover direct and indirect costs of gas Demand-Side Management Programs ("DSM Programs") in accordance with a Commission-approved gas Demand-Side Management Plan, Rules 4750 through 4760 of the Commission's Rules Regulating Gas Utilities and Pipeline Operators, 4 Code of Colorado Regulations 723-4 ("Gas DSM Rules") and these Sections 1-4. As specified in the Gas DSM Rules and these Sections 1-4, the DSMCA allows for prospective recovery of approved costs of DSM Programs within the expenditure target approved by the Commission, in order to provide for funding of the Company's DSM Programs, as well as recovery of Deferred DSMCA Costs and, if approved by the Commission, a DSM bonus. The DSMCA Factor shall be separately calculated and applied to the Company's base rates for all applicable rate schedules as set forth on Sheet Nos. 7 through 7I.

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2. DSMCA Filing

The DSMCA Factor is set on an annual basis, and collected from July 1 through June 30. Each April 1st, the Company will file an application or advice letter to revise the DSMCA Factor. The Company will include in its annual DSMCA filing all pertinent information and supporting documentation as required by the Commission's Rules, and as specifically set forth in the Gas DSM Rules.

If the projected DSM Program costs change from those used to calculate the currently effective DSMCA cost or if the Company's Deferred DSMCA Cost balance increases or decreases sufficiently, the Company may file an application to revise its currently effective DSMCA Factor to reflect such changes, provided that the resulting change to the DSMCA Factor equates to a base rate change of at least one cent (\$0.01) per Mcf or Dth. The Company has the burden of proof to justify any interim DSMCA filings and the Commission has the discretion to consolidate the interim DSMCA filing with the next regularly scheduled annual DSMCA filing.

3. Definitions

3.1 DSM Bonus. The amount of bonus approved by the Commission in the Company's annual DSM Bonus application, if any, as set forth in Gas DSM Rule 4760.

3.2 DSM Period. DSM Period means a calendar year of a DSM Plan. While the Company's DSM Plan generally covers three years, unless otherwise specified by the Commission, each calendar year of a DSM Plan is considered to be the DSM Period.

3.3 DSM Plan. DSM Plan means the Commission-approved DSM programs, goals, and budgets over a specified period, generally considered in one year increments, as may be proposed by the utility.

~~1. **APPLICABILITY.** All Sales Service rate schedules for natural gas service are subject to a Demand Side Management Cost Adjustment ("DSMCA") designed to prospectively recover prudently incurred costs of Demand Side Management Programs ("DSM Programs") in accordance with Gas Demand Side Management Rules 4750 through 4760 of the Commission's Rules Regulating Gas Utilities and Pipeline Operators, 4 Code of Colorado Regulations 723-4 ("Gas DSM Rules"). The DSMCA Factor shall be separately calculated and applied to the Company's base rates for all applicable rate schedules and are as set forth on Sheet Nos. 7 through 7I. The Company shall recover the annual expenditures projected for that year over a one year period with the DSMCA Factor for all years subsequent to the initial DSMCA Period ending June 30, 2010.~~

~~2. **DSMCA FILING.**~~

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~~Jerrad Hammer~~ Fredric C. Stoffel
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Black Hills Gas Distribution, LLC
d/b/a/ Black Hills Energy

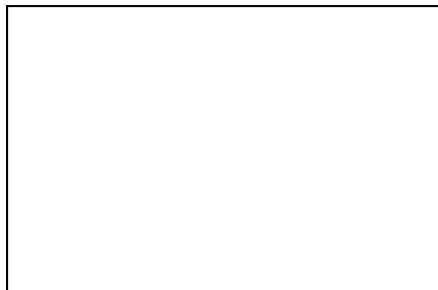
Colo. PUC No. 7
~~Fourth~~ ~~Third~~ Revised Sheet No. 13
Cancels ~~Third~~ ~~Second~~ Revised Sheet No. 13

~~2.1 — On or after February 6, 2009, the Company shall place into effect a new DSMCA tariff pursuant to the Commission's final order on Company's 2009-10 DSM Plan and shall include DSM Costs incurred on and after February 6, 2009, plus any related DSM costs incurred by Company prior to February 6, 2009.~~

~~2.2 — Beginning April 1, 2010 and April 1st thereafter, the Company shall submit its annual DSM report, application for bonus and DSMCA filing. The Company will include in its annual DSMCA filing all pertinent information and support documentation as is required by the Commission's Rules and as specifically set forth in Gas DSM Rules 4757 and 4758. The Company may make periodic DSM Plan Filings, iter alia, which propose different expenditure targets for DSM Programs pursuant to the Gas DSM rules.~~

~~2.3 — The Company shall file a request to adjust its DSMCA Factor either through an application or an advice letter and tariffs. Prudently incurred costs of DSM programs within the DSM program expenditure target approved by the Commission in order to provide funding of the utility's DSM programs, as well as recovery of deferred DSMCA costs, plus any DSM bonus approved by the Commission, shall be recovered through the DSMCA Factor that is set on an annual basis, and collected from July 1 through June 30, for all years subsequent to the initial DSMCA Period ending June 30, 2010.~~

~~2.4 — If the projected DSM program costs have changed from those used to calculate the currently effective DSMCA cost or if a Company's deferred DSMCA cost balance increases or decreases sufficiently, the Company may file an application to revise its currently effective DSMCA factor to reflect such changes, provided that the resulting change to the DSMCA factor equates to a base rate change of at least one tenth of one cent (\$0.001) per therm. The Company has the burden of proof to justify any interim DSMCA filing with the next regularly scheduled annual DSMCA filing.~~



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3. Definitions (cont.)

3.4 DSM Program. DSM Program means any combination of DSM measures, information and services offered to customers to reduce natural gas usage set forth in the Company's DSM Plan as approved by the Commission.

3.5 DSMCA Factor. The DSMCA Factor for each service class shall be a percentage adjustment applicable to all base rates for customers receiving service under the applicable rate schedules. The DSMCA factor shall be separately calculated and applied to the utility sales gas base rate schedules of residential and non-residential customers. The DSMCA Factor shall be calculated using the formula set forth in Section 4 below.

3.6 DSMCA Period. The DSMCA shall take effect July 1 of each year for a period of 12 months.

3.7 Interest on Under- or Over-Recovery. The amount of net interest accrued on the average monthly balance (whether positive or negative), is determined by multiplying the monthly balance by an interest rate equal to the Company's Commission-authorized after-tax weighted average costs of capital.

4. DSMCA Factor

4.1 DSMCA Factor Calculation. The DSMCA Factor shall be calculated consistent with Commission Rule 4758, using the following formula:

$$\frac{\text{DSMCA Factor} = (\text{Current DSMCA Costs} + \text{DSM Bonus} + \text{Deferred DSMCA Cost} + \text{LR Value})}{(\text{CFCST} * \text{CUSTSRV} + \text{SFCST} * \text{BASECOM})}$$

where

- CFCST is the forecast number of customers for the next DSM Period;
- CUSTSRV is the monthly service charge;
- SFCST is the forecasted gas sales quantity for the rate schedule in the next DSM Period; and
- BASECOM is the base commodity rate.
- The DSMCA Factor will also include the current DSM Bonus plus any adjustment necessary to previously approved DSM Bonuses.
- Current DSMCA Costs means budgeted costs of DSM Programs for the DSM Period at the time of the DSMCA annual filing, as approved by the Commission in order to provide for funding of the Company's DSM Programs.

~~3. DEFINITIONS AND TERMS~~

~~3.1 Deferred DSMCA Cost. Deferred DSMCA Cost means a rate component of the DSMCA Factor which is designed to amortize over the DSMCA Period, plus interest, the under or over recovery of costs accumulated during the previous DSMCA Period reflected in the Company's Account No. 186.~~

~~3.2 DSM Period. DSM Period means the effective period of an approved DSM Plan.~~

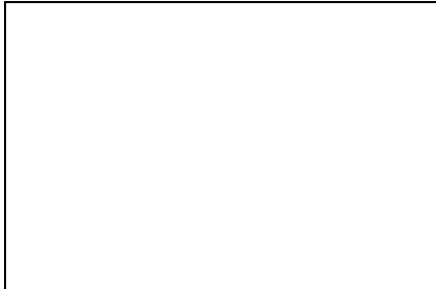
~~3.3 DSM Bonus. The amount of bonus approved by the Commission in the Company's annual DSM Bonus application as part of the annual report submitted to the Commission. Accounting for DSM bonus shall follow what has been prescribed for DSMCA costs, specifically in regard to interest on over and under recovery. A separate sub account in Account No. 186 shall be created for any deferred DSM bonus amount.~~

~~3.4 Current DSM Costs. Prudently incurred costs of DSM programs within the DSM program expenditure target approved by the Commission in order to provide for funding of the utility's DSM programs.~~

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- ~~3.5 — DSM Interest. The amount of net interest accrued on the average monthly balance in gas DSM subaccounts of Account No. 186, whether positive or negative, as determined by multiplying the average monthly balance by an interest rate equal to the Company's Commission authorized after tax weighted average cost of capital.~~
- ~~3.6 — DSM Program. DSM Program means any combination of DSM measures, information and services offered to customers to reduce natural gas usage as approved by the Commission in the Company's DSM plan filings as required under the Gas DSM Rule 4753.~~
- ~~3.7 — DSMCA Factor. The DSMCA Factor for each service class shall be a percentage adjustment applicable to all base rates for customers receiving service under the applicable rate schedules. A separate DSMCA Factor shall be calculated for the Residential Class and a Non-Residential Class consisting of all other rate schedules. The DSMCA Factor shall be calculated using the formula shown on Tariff Sheet No. 15 for both the Residential DSMCA Factor and the Non-Residential DSMCA Factor.~~
- ~~3.8 — DSMCA Period. The DSMCA shall take effect July 1 of each year for a period of 12 months for all periods subsequent to the initial DSMCA Period ending June 30, 2010.~~
- ~~3.9 — Interest on under or over recovery. The amount of net interest accrued on the average monthly balance in sub-accounts of Account No. 186 (whether positive or negative), is determined by multiplying the monthly balance by an interest rate equal to the Commission authorized after tax weighted average cost of capital.~~
- ~~3.10 — Prudence review and adjustment of DSM bonus. If the Commission finds that the actual performance varies from performance values used to calculate the DSM bonus, then an adjustment shall be made to the amount of DSM bonus award. Any true-up in DSM bonus will be implemented on a prospective basis.~~



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4. DSMCA Factor (cont.)

- Deferred DSMCA Cost is the positive or negative difference between the actual cost of DSM Programs, including interest, and the amounts collected from customers under the applicable rate schedules during the prior DSMCA Period.
- LR Value is the sum of multiplying the dollar per therm value, as approved by the Commission, times the annual therms lost from all programs executed during the program year under consideration plus the LR amounts from previous DSM Periods since the last approved base rate proceeding.

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4.2 Prudence review and adjustment of DSM bonus. The DSMCA factor includes the current DSM bonus plus any adjustment necessary to previously approved DSM bonuses. If the Commission finds that the actual performance varies from performance values used to calculate the DSM bonus, then an adjustment shall be made to the amount of DSM bonus award. Any true-up in the DSM bonus will be implemented on a prospective basis.

~~4. DSMCA Factor.~~

~~The DSMCA Factor shall be a percentage adjustment applicable to all base rates for customers receiving service under each rate schedule and shall be calculated as follows:~~

$$\frac{\text{DSMCA Factor} = \text{DSM Cost} + \text{Deferred DSM Cost} + \text{DSM Bonus}}{\text{CCount} * \text{CCharge} + \text{Sales} * \text{Rate}}$$

~~Where :~~

- ~~1) Current DSM Cost is the forecasted cost of DSM Programs for applicable rate schedules in the DSMCA Period~~
- ~~2) Deferred DSM Cost is the positive or negative difference between the actual cost of DSM Programs and amounts collected from customers under the applicable rate schedules during the prior DSMCA Period~~
- ~~3) DSM Bonus is the allocated portion of the total DSM Bonus to the applicable rate schedules from the previous DSMCA Period~~
- ~~4) CCount is the Company's forecasted customer count under the applicable rate schedules for the DSMCA Period~~
- ~~5) CCharge is the Customer Charges applicable for the applicable rate schedules effective on the April 1 filing date~~
- ~~6) Sales is the Company's forecasted usage in therms for the applicable rate schedules in the following DSMCA Period~~
- ~~7) Rate is the Distribution Charge per therm applicable for the applicable rate schedules effective on the April 1 filing date~~
- ~~8) The DSMCA Factor will also include the current DSM bonus plus any adjustment necessary to previously approved DSM bonuses~~
- ~~9) Deferred DSMCA Cost includes sub-accounts of deferred amounts for DSM bonus and current DSM Cost for the applicable rate schedules~~