

ATTACHMENT DJN-1

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

IN THE MATTER OF BLACK HILLS/)
NEBRASKA GAS UTILITY COMPANY, LLC)
D/B/A BLACK HILLS ENERGY, OMAHA,) DOCKET NO. NG ___
SEEKING A PIPELINE REPLACEMENT CHARGE)
FOR BLACK HILLS ENERGY'S RATE AREAS)
ONE, TWO AND THREE (CONSOLIDATED))

Capitalization Policy

BLACK HILLS CORPORATION COMPANY POLICY

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| Policy Name: PROPERTY, PLANT AND EQUIPMENT CAPITALIZATION POLICY | DATE ISSUED December 30, 2011 | POLICY NO. CORP-ACCT-04 |
| | DATE EFFECTIVE January 1, 2012 | PAGE NO. 1 of 4 |
| POLICY NO. DATED SUPERSEDES | DEPARTMENT ACCOUNTING | APPROVED |
| | REVIEWED BY <i>Rick Kelly</i> | REVIEW DATE 6-13-13 |

I. Scope:

This Policy applies to BHC (the Company), its subsidiaries and affiliates.

II. Purpose:

The purpose of this policy is to outline the Company's plan for capitalizing property, plant and equipment for financial reporting purposes, including establishing capitalization thresholds for all property, plant and equipment. All thresholds are on a per item basis, except bulk purchases, and include all applied overhead charges.

Property, plant and equipment are capitalized according to authoritative guidance issued by the Financial Accounting Standards Board (FASB), specifically US GAAP ASC 360, Property, Plant and Equipment, and ASC 980, Regulated Operations, and as it relates to the Company's regulated business units in accordance with Federal Energy Regulatory Commission (FERC) guidance.

This policy does not apply to intangible assets or inventory, including spare parts for major maintenance.

III. Definitions

Property, plant and equipment means tangible property used in a productive capacity that will benefit the company for a period exceeding one year.

Assets that do not have physical existence are considered **intangible assets**. Intangible asset capitalization requirements are beyond the scope of this policy. Some common examples of intangible assets are easements, rights-of-way and goodwill.

Applied overhead charges may include loadings related to use of company vehicles, inventory, labor, benefits, administrative and general, and field engineering. All overhead charges are calculated and applied by applicable business unit Accounting personnel. Applied overhead

| | | |
|--|---------------|-------------------|
| Policy Name: | PAGE | POLICY NO. |
| Property, Plant and Equipment Capitalization Policy | 2 of 4 | |

charges also include Allowance for Funds Used During Construction (AFUDC) and capitalized interest as discussed below.

IV. Regulated Companies' (including BHUH) Asset Capitalization

1. Capitalize all electric, natural gas, generation, distribution and transmission units of property (with the exception of general plant assets which are discussed below), as defined in the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts that meet the following criteria:
 - a. not acquired for resale, and
 - b. expected to be in service for / has a useful life of greater than one year, regardless of cost

The components of capital costs are defined in the Electric Plant Instructions and Gas Plant Instructions found in the Code of Federal Regulations (CFR) Title 18-Conservation of Power and Water Resources

The Electric Plant Instructions can be found within:

- Chapter 1-Federal Energy Regulatory Commission, Department of Energy; Subchapter C-Accounts, Federal Electric Act; Part 101-Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to the Provision of the Federal Power Act; Electric Plant Instructions.

The Gas Plant Instructions can be found within:

- Chapter 1-Federal Energy Regulatory Commission, Department of Energy; Subchapter F-Accounts; Part 201-Uniform System of Accounts prescribed for natural gas companies subject to the provision of the Natural Gas Act; Gas Plant Instructions.

2. Capitalize all general plant assets as defined in the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts that meet the following criteria:
 - a. not acquired for resale
 - b. expected to be in service for / has a useful life of greater than one year
 - c. will remain intact as one unit during its useful life and
 - d. cost including applied overheads is at least \$2,000

General plant assets include structures and improvements, office furniture and equipment, vehicles, tools, computer hardware and software and other miscellaneous equipment acquired for the operation and maintenance of BHC properties.

Bulk purchases are defined as homogeneous items that individually cost less than \$2,000, are purchased all at the same time, and in the aggregate exceed \$25,000. Bulk purchases that meet the following criteria may be capitalized in accordance with this policy upon consultation with and approval by the BHSC Fixed Asset Accounting Manager:

- a. items are individually identifiable,
- b. items do not have a high likelihood of being damaged or replaced during their useful life,

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|--|---------------|-------------------|
| Policy Name: | PAGE | POLICY NO. |
| Property, Plant and Equipment Capitalization Policy | 3 of 4 | |

- c. items will be maintained together over their useful life, and
- d. items will be retired together

3. Allowance for Funds Used During Construction (AFUDC) shall be capitalized during the period of construction and will be calculated in accordance with the Electric and Gas Plant Instructions described above. The BHSC Property department is responsible for the calculation and recording of AFUDC.

V. Non-regulated Companies and Black Hills Service Company (BHSC) Asset Capitalization

1. Capitalize all assets acquired for the operation and maintenance of BHC properties that meet the following criteria
 - a. not acquired for resale,
 - b. will remain intact as one unit during its useful life,
 - c. expected to be in service for / has a useful life of greater than one year, and
 - d. cost including applied overheads is equal to or greater than the following amounts:

- Non-Regulated* \$10,000
- BHC, BHSC \$ 2,000

*All oil and gas assets accounted for using the full cost methodology will be capitalized regardless of cost. The coal mine may capitalize some assets with an individual cost less than \$10,000 if they are part of a larger project that meets above criteria.

2. Bulk purchases are defined as homogeneous items that individually cost less than \$2,000, are purchased all at the same time and in the aggregate exceed \$25,000. Bulk purchases that meet the following criteria may be capitalized in accordance with this policy upon consultation with and approval by the BHSC Fixed Asset Accounting Manager.
 - a. items are individually identifiable,
 - b. items do not have a high likelihood of being damaged or replaced during their useful life,
 - c. items will be maintained together over their useful life and
 - d. items will be retired together
3. Interest shall be capitalized during the period of construction and will be calculated in accordance with GAAP. Interest shall be calculated and recorded by the applicable accounting department for each non-regulated subsidiary.

VI. Items Not Considered Property Plant and Equipment

1. The following do not meet the criteria for capitalization and shall be expensed:
 - a. All items expected to be in service for / have a useful life of less than one year.
 - b. All items below the capital thresholds documented above, unless such item is maintained as an inventory item; inventory items are beyond the scope of this policy.
 - c. All repairs and maintenance to assets which do not:
 - i. extend the remaining useful life beyond the original estimated useful life,

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|--|---------------|-------------------|
| Policy Name: | PAGE | POLICY NO. |
| Property, Plant and Equipment Capitalization Policy | 4 of 4 | |

- ii. significantly increase the quantity of services provided, or
- iii. significantly increase the quality of services provided.
- d. Start-up costs which include non-recurring costs associated with setting up a business such as accounting fees, legal fees, advertising, employee training etc.

VII. Responsibility

It is the responsibility of all BHC employees to adhere to this policy. The BHSC Fixed Asset Accounting Manager and Property Technicians are responsible for providing guidance on the policy as well as interpretation of the guidelines and definitions of property, plant and equipment established by the FASB and FERC.

This policy will be reviewed periodically, specifically when there is a significant change in the structure of the overall Company or significant changes in the economy that could potentially have a material impact on this capitalization policy.

VIII. REVISION HISTORY

| Rev. | Revision Date | Description | Revised By |
|--|---------------|--|--|
| 1 | 6-1-13 | Added further clarification regarding bulk purchases, added exception to capitalization threshold for certain oil and gas assets accounted for using full cost methodology and coal mine assets which are part of a larger project | Mary Lappe, Fixed Asset Accounting Manager |
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| (List every instance of the document being changed and reissued). | | | |