

BLACK HILLS CORP /SD/  
Form 10-Q  
August 10, 2009  
UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2009.
  - OR
  - 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  
625 Ninth Street  
Rapid City, South Dakota 57701

IRS Identification Number 46-0458824

Registrant's telephone number (605) 721-1700

Former name, former address, and former fiscal year if changed since last report  
NONE

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 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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

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Large accelerated filer            Accelerated filer        
Non-accelerated filer            Smaller reporting company     

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes            No     

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

Class	Outstanding at July 31, 2009
Common stock, \$1.00 par value	38,842,133 shares

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**GLOSSARY OF TERMS AND ABBREVIATIONS**

The following terms and abbreviations appear in the text of this report and have the definitions described below:

Acquisition Facility	Our \$1.0 billion single-draw, senior unsecured facility from which a \$383 million draw was used to provide part of the funding for our Aquila Transaction
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ARB	Accounting Research Bulletin
ARB 51	ARB 51, Consolidated Financial Statements
Aquila	Aquila, Inc.
Aquila Transaction	Our July 14, 2008 acquisition of Aquila's regulated electric utility in Colorado and its regulated gas utilities in Colorado, Kansas, Nebraska and Iowa
Bbl	Barrel
BHCRPP	Black Hills Corporation Risk Policies and Procedures
BHEP	Black Hills Exploration and Production, Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Energy	The name used to conduct the business activities of Black Hills Utility Holdings, including the gas and electric utility properties acquired from Aquila
Black Hills Non-regulated Holdings	Black Hills Non-regulated Holdings, LLC, a direct, wholly-owned subsidiary of the Company that was formerly known as Black Hills Energy, Inc.
Black Hills Power	Black Hills Power, Inc., a direct, wholly-owned subsidiary of the Company
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of the Company formed to acquire and own the utility properties acquired from Aquila, all which are now doing business as Black Hills Energy
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of the Company
Cheyenne Light Pension Plan	The Cheyenne Light, Fuel and Power Company Pension Plan
Colorado Electric	Black Hills Colorado Electric Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado electric utility properties acquired from Aquila
Colorado Gas	Black Hills Colorado Gas Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado gas utility properties acquired from Aquila
Corporate Credit Facility	Our unsecured \$525 million revolving line of credit
CPUC	Colorado Public Utilities Commission
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)

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EITF	Emerging Issues Task Force
EITF 02-3	EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities
EITF 87-24	EITF Issue No. 87-24, Allocation of Interest to Discontinued Operations
EITF 99-2	EITF Issue No. 99-2, Accounting for Weather Derivatives
Enserco	Enserco Energy Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretations
FIN 39	FIN 39, Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105
FIN 46(R)	FIN 46-(R), Consolidation of Variable Interest Entities (Revised December 2003) an interpretation of ARB No. 51
FSP	FASB Staff Position
FSP EITF 03-6-1	FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities
FSP FAS 107-1	FSP FAS 107-1, Interim Disclosure About Fair Value of Financial Instruments
FSP FAS 132(R)-1	FSP FAS 132(R)-1, Employer s Disclosures about Pensions and Other Postretirement Benefits (Revised)
FSP FAS 157-4	FSP FAS 157-4, Determining Whether a Market is Not Active and a Transaction is Not Distressed
FSP FIN 39-1	FSP FIN 39-1, Amendment of FASB Interpretation No. 39
GAAP	Generally Accepted Accounting Principles
GE	GE Packaged Power, Inc.
GSRS	Gas Safety and Reliability Surcharge
Hastings	Hastings Funds Management Ltd
IIF	IIF BH Investment LLC, a subsidiary of an investment entity advised by JPMorgan Asset Management
Iowa Gas	Black Hills Iowa Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Iowa gas utility properties acquired from Aquila
IPP	Independent Power Production
IPP Transaction	Our July 11, 2008 sale of seven of our IPP plants to affiliates of Hastings and IIF
IUB	Iowa Utilities Board
Kansas Gas	Black Hills Kansas Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Kansas gas utility properties acquired from Aquila
KCC	Kansas Corporation Commission
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	One thousand cubic feet

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Mcf	One thousand cubic feet equivalent
MDU	MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska
MMBtu	One million British thermal units
MW	Megawatt
MWh	Megawatt-hour
Nebraska Gas	Black Hills Nebraska Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Nebraska gas utility properties acquired from Aquila
NPA	Nebraska Public Advocate
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
PGA	Purchase Gas Adjustment
PPA	Power Purchase Agreement
PSCo	Public Service Company of Colorado
SEC	United States Securities and Exchange Commission
SEC Release No. 33-8995	SEC Release No. 33-8995, Modernization of Oil and Gas Reporting
SFAS	Statement of Financial Accounting Standards
SFAS 71	SFAS 71, Accounting for the Effects of Certain Types of Regulation
SFAS 133	SFAS 133, Accounting for Derivative Instruments and Hedging Activities
SFAS 141(R)	SFAS 141(R), Business Combinations
SFAS 142	SFAS 142, Goodwill and Other Intangible Assets
SFAS 144	SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets
SFAS 157	SFAS 157, Fair Value Measurements
SFAS 160	SFAS 160, Non-controlling Interest in Consolidated Financial Statements an amendment of ARB No. 51
SFAS 161	SFAS 161, Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133
SFAS 165	SFAS 165, Subsequent Events
SFAS 167	SFAS 167, Amendment to FASB Interpretation No. 46(R)
SFAS 168	SFAS 168, FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Standard No. 162
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings, LLC

## BLACK HILLS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(in thousands, except per share amounts)			
Operating revenues	\$ 257,349	\$ 153,273	\$ 695,292	\$ 306,123
Operating expenses:				
Fuel and purchased power	112,169	46,948	373,189	99,343
Operations and maintenance	40,461	24,320	79,795	46,285
Gain on sale of assets			(25,971)	
Administrative and general	37,708	25,222	79,474	49,281
Depreciation, depletion and amortization	29,386	20,788	62,712	40,174
Taxes, other than income taxes	11,811	10,472	23,509	19,980
Impairment of long-lived assets			43,301	
	231,535	127,750	636,009	255,063
Operating income	25,814	25,523	59,283	51,060
Other income (expense):				
Interest expense	(23,338)	(9,564)	(42,239)	(18,758)
Interest rate swap unrealized gain	31,706		46,469	
Interest income	329	373	856	799
Allowance for funds used during construction equity	1,314	617	2,686	898
Other income, net	893	65	1,637	400
	10,904	(8,509)	9,409	(16,661)
Income from continuing operations before equity in earnings of unconsolidated subsidiaries and income taxes	36,718	17,014	68,692	34,399
Equity in earnings of unconsolidated subsidiaries	1,576	2,064	1,249	2,297
Income tax expense	(13,713)	(5,875)	(19,735)	(11,676)
Income from continuing operations	24,581	13,203	50,206	25,020
Income from discontinued operations, net of taxes		9,046	766	14,098
Net income	24,581	22,249	50,972	39,118
Net loss attributable to non - controlling interest		(53)		(130)
Net income available for common stock	\$ 24,581	\$ 22,196	\$ 50,972	\$ 38,988
Weighted average common shares outstanding:				
Basic	38,598	38,299	38,554	38,062
Diluted	38,658	38,425	38,611	38,412
Earnings per share:				
Basic				
Continuing operations	\$ 0.64	\$ 0.34	\$ 1.30	\$ 0.65
Discontinued operations		0.24	0.02	0.37
Total	\$ 0.64	\$ 0.58	\$ 1.32	\$ 1.02
Diluted				
Continuing operations	\$ 0.64	\$ 0.34	\$ 1.30	\$ 0.65
Discontinued operations		0.24	0.02	0.36

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Total	\$ 0.64	\$ 0.58	\$ 1.32	\$ 1.01
Dividends paid per share of common stock	\$ 0.355	\$ 0.350	\$ 0.710	\$ 0.700

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.



## BLACK HILLS CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, <u>2009</u>	December 31, <u>2008</u>	June 30, <u>2008</u>
	(in thousands, except share amounts)		
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 122,351	\$ 168,491	\$ 36,912
Restricted cash			5,498
Short-term investments			7,309
Receivables (net of allowance for doubtful accounts of \$7,010; \$6,751 and \$3,417, respectively)	181,250	357,404	252,508
Materials, supplies and fuel	88,672	118,021	147,169
Derivative assets	75,600	73,068	70,769
Income tax receivable, net		20,269	
Deferred income taxes	17,640	10,244	20,674
Regulatory assets	14,086	35,390	3,402
Other current assets	31,917	16,380	12,283
Assets of discontinued operations		246	598,294
	531,516	799,513	1,154,818
Investments	20,316	22,764	18,782
Property, plant and equipment	2,819,510	2,705,492	1,972,489
Less accumulated depreciation and depletion	(773,278)	(683,332)	(544,018)
	2,046,232	2,022,160	1,428,471
Other assets:			
Goodwill	359,288	359,290	14,000
Intangible assets, net	4,784	4,884	
Derivative assets	5,029	9,799	14,042
Regulatory assets	133,386	143,705	18,413
Other	11,189	17,774	13,708
	513,676	535,452	60,163
	\$ 3,111,740	\$ 3,379,889	\$ 2,662,234
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable	\$ 175,190	\$ 288,907	\$ 269,095
Accrued liabilities	133,291	134,940	87,099
Derivative liabilities	69,347	118,657	89,790
Accrued income taxes, net	27,152		4,601
Regulatory liabilities	36,943	5,203	3,865
Notes payable	270,500	703,800	283,000
Current maturities of long-term debt	32,086	2,078	2,070
Liabilities of discontinued operations		88	77,202
	744,509	1,253,673	816,722
Long-term debt, net of current maturities	719,243	501,252	501,301
Deferred credits and other liabilities:			
Deferred income taxes	233,592	223,607	218,104
Derivative liabilities	12,098	22,025	23,158
Regulatory liabilities	39,967	38,456	30,448
Benefit plan liabilities	160,712	159,034	43,337
Other	121,519	131,306	60,447
	567,888	574,428	375,494
Stockholders equity:			
Common stock equity			
Common stock \$1 par value; 100,000,000 shares authorized; Issued 38,836,918; 38,676,054 and 38,439,339 shares, respectively			
	38,837	38,676	38,439
Additional paid-in capital	586,879	584,582	579,725
Retained earnings	470,883	447,453	409,651
Treasury stock at cost 3,549; 40,183 and 31,604			

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shares, respectively	(84)	(1,392)	(1,132)
Accumulated other comprehensive loss	(16,415)	(18,783)	(58,098)
Total common stockholders' equity	1,080,100	1,050,536	968,585
Non-controlling interest in subsidiaries			132
Total equity	1,080,100	1,050,536	968,717
	\$ 3,111,740	\$ 3,379,889	\$ 2,662,234

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

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## BLACK HILLS CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Six Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
	(in thousands)	
Operating activities:		
Net income	\$ 50,972	\$ 39,118
Income from discontinued operations, net of taxes	(766)	(14,098)
Income from continuing operations	50,206	25,020
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	62,712	40,174
Impairment of long-lived assets	43,301	
Derivative fair value adjustments	12,780	(515)
Gain on sale of operating assets	(25,971)	
Unrealized mark-to-market gain on interest rate swaps	(46,469)	
Deferred income taxes	(21)	14,827
Distributed (undistributed) earnings of associated companies	3,234	(655)
Allowance for funds used during construction equity	(2,686)	(898)
Change in operating assets and liabilities:		
Materials, supplies and fuel	31,938	(42,490)
Accounts receivable and other current assets	164,718	(32,520)
Accounts payable and other current liabilities	(112,073)	22,963
Regulatory assets and liabilities	62,562	(1,900)
Other operating activities	1,126	(5,859)
Net cash provided by operating activities of continuing operations	245,357	18,147
Net cash provided by operating activities of discontinued operations	883	23,113
Net cash provided by operating activities	246,240	41,260
Investing activities:		
Property, plant and equipment additions	(163,608)	(127,036)
Proceeds from sale of ownership interest in plants	84,199	
Working capital adjustment of purchase price allocation on Aquila acquisition	7,658	
Purchase of short-term investments		(7,475)
Other investing activities	(4,963)	994
Net cash used in investing activities of continuing operations	(76,714)	(133,517)
Net cash used in investing activities of discontinued operations		(33,375)
Net cash used in investing activities	(76,714)	(166,892)
Financing activities:		
Dividends paid	(27,542)	(26,730)
Common stock issued	1,553	2,384
(Decrease) increase in short-term borrowings, net	(433,300)	246,000
Long-term debt issuances	248,500	
Long-term debt repayments	(2,001)	(130,256)
Other financing activities	(2,917)	215
Net cash (used in) provided by financing activities of continuing operations	(215,707)	91,613
Net cash used in financing activities of discontinued operations		(6,428)
Net cash (used in) provided by financing activities	(215,707)	85,185
Decrease in cash and cash equivalents	(46,181)	(40,447)
Cash and cash equivalents:		
Beginning of period	168,532 <sup>(a)</sup>	81,255 <sup>(c)</sup>
End of period	\$ 122,351	\$ 40,808 <sup>(b)</sup>
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities-		
Property, plant and equipment acquired with accrued liabilities	\$ 40,053	\$ 20,053
Cash paid during the period for-		
Interest (net of amounts capitalized)	\$ 41,969	\$ 18,665

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Income taxes paid (net of amounts refunded)	\$ (23,861)	\$ 2,293
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- (a) Includes less than \$0.1 million of cash included in the assets of discontinued operations.
- (b) Includes approximately \$3.9 million of cash included in the assets of discontinued operations.
- (c) Includes approximately \$4.4 million of cash included in the assets of discontinued operations.

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements.

BLACK HILLS CORPORATION

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Reference is made to Notes to Consolidated Financial Statements

included in the Company's 2008 Annual Report on Form 10-K)

(1) MANAGEMENT'S STATEMENT

The condensed consolidated financial statements included herein have been prepared by Black Hills Corporation (the Company, us, we, our) without audit, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, we believe that the footnotes adequately disclose the information presented. These condensed quarterly financial statements should be read in conjunction with the financial statements and the notes thereto, included in our 2008 Annual Report on Form 10-K filed with the SEC. These financial statements include consideration of events through August 10, 2009.

Accounting methods historically employed require certain estimates as of interim dates. The information furnished in the accompanying condensed quarterly financial statements reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the June 30, 2009, December 31, 2008 and June 30, 2008 financial information and are of a normal recurring nature. Certain industries in which we operate are highly seasonal and revenues from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Demand for electricity and natural gas is sensitive to seasonal cooling, heating and industrial load requirements, as well as changes in market price. In particular, the normal peak usage season for gas utilities is November through March and significant earnings variances can be expected between the Gas Utilities segment's peak and off-peak seasons. Due to this seasonal nature, our results of operations for the three and six months ended June 30, 2009, and our financial condition as of June 30, 2009 and December 31, 2008, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period. All earnings per share amounts discussed refer to diluted earnings per share unless otherwise noted.

On July 11, 2008, we completed the sale of seven of our IPP plants. Amounts associated with the IPP plants divested in the IPP Transaction have been reclassified as discontinued operations for the quarter ended June 30, 2008. See Note 18 for additional information.

On July 14, 2008, we completed the acquisition of a regulated electric utility in Colorado and regulated gas utilities in Colorado, Kansas, Nebraska and Iowa from Aquila. Effective as of that date, the assets and liabilities, results of operations, and cash flows of the acquired utilities are included in our Condensed Consolidated Financial Statements. See Note 16 for additional information.

(2) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

SFAS 141(R)

In December 2007, the FASB issued SFAS 141(R). SFAS 141(R) requires an acquiring entity to recognize the assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at the acquisition date to be measured at their fair values as of the acquisition date, with limited exceptions specified in the statement. Acquisition-related costs will be expensed in the periods in which the costs are incurred or services are rendered. If income tax liabilities were settled for an amount other than as previously recorded prior to the adoption of SFAS 141(R), the reversal of any remaining liability would have affected goodwill. If such liabilities reverse subsequent to the adoption of SFAS 141(R), such reversals will affect expense including income tax expense in the period of reversal. Costs to issue debt or equity securities shall be accounted for under other applicable GAAP. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS 141(R) on January 1, 2009. Any impact that SFAS 141(R) will have on our consolidated financial statements will depend on the nature and magnitude of any future acquisitions we consummate and the resolution of certain tax contingencies.

SFAS 157

During September 2006, the FASB issued SFAS 157. This Statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 does not expand the application of fair value accounting to any new circumstances, but applies the framework to other accounting pronouncements that require or permit fair value measurement. We apply fair value measurements to certain assets and liabilities, primarily commodity derivatives within our Energy Marketing and Oil and Gas segments, interest rate swap instruments, and other miscellaneous derivatives.

As a result of the adoption of SFAS 157 on January 1, 2008, we discontinued our use of a liquidity reserve in valuing the total forward positions within our energy marketing portfolio. This impact was accounted for prospectively as a change in accounting estimate and resulted in a \$1.2 million after-tax benefit that was recorded within our unrealized marketing margins. Unrealized margins are presented as a component of Operating revenues on the accompanying Condensed Consolidated Statements of Income. SFAS 157 also required new disclosures regarding the level of pricing observability associated with instruments carried at fair value. These disclosures are provided in Note 14.

SFAS 160

In December 2007, the FASB issued SFAS No. 160, which establishes accounting and reporting standards for ownership interests in subsidiaries held by parties other than the parent, the amount of consolidated net income attributable to the parent and to the non-controlling interest, changes in a parent's ownership interest, and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. SFAS 160 also establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. This statement was effective for us beginning January 1, 2009.

We applied the provisions of SFAS 160 on January 1, 2009. Non-controlling interest in the accompanying Condensed Consolidated Statements of Income and Balance Sheets represents the non-affiliated equity investors' interest in Wygen Funding LP, a Variable Interest Entity as defined by FIN 46(R). In June 2008, we purchased the non-controlling share. Presentation of a non-controlling interest that we held until June 2008 was retrospectively applied as required, and had an immaterial overall effect.



SFAS 161

In March 2008, the FASB issued SFAS 161, which requires enhanced disclosures about derivative and hedging activities and their affect on an entity's financial position, financial performance and cash flows. SFAS 161 encourages, but does not require, disclosures for earlier periods presented for comparative purposes at initial adoption. SFAS 161 requires comparative disclosures only for periods subsequent to its initial adoption. We adopted the provisions of SFAS 161 on January 1, 2009. The additional disclosures are provided in Note 12 and Note 13.

SFAS 165

In May 2009, the FASB issued SFAS 165, which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. We adopted and applied the provisions of SFAS 165 for our financial statements issued after June 15, 2009.

FSP FAS 107-1

In April 2009, the FASB approved FSP FAS 107-1 effective for interim and annual periods ending after June 15, 2009. This FSP requires public companies to provide more frequent disclosures about the fair value of their financial instruments. These disclosures are included in Note 14.

FSP FAS 157-4

In April 2009, the FASB approved FSP FAS 157-4 effective for interim and annual periods ending after June 15, 2009. This FSP amends FAS 157 which addresses inactive markets. This FSP includes a two step model with the first step determining whether factors exist that indicate a market for an asset is not active. If step one results in the conclusion that there is not an active market, step two evaluates whether the quoted price is not associated with a distressed transaction. Additional disclosures required include interim disclosure of valuation techniques. The adopted FSP FAS 157-4 had no overall effect on our financial statements and any additional disclosures are included in Note 14.

FSP EITF 03-6-1

In June 2008, the FASB issued FSP EITF 03-6-1 which states that unvested share-based payment awards that contain non-forfeitable rights to dividends are participating securities as defined under EITF 03-6 and therefore should be included in computing EPS using the two-class method. The two-class method is an earnings allocation method for computing EPS and determines EPS based on dividends declared on common stock and participating securities in any undistributed earnings. We adopted FSP EITF 03-6-1 on January 1, 2009. We prepared our current and prior period EPS computation in accordance with FSP EITF 03-6-1, and there was no impact on our EPS as a result of the adoption.



(3) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SEC Release No. 33-8995

On December 29, 2008, the SEC issued Release No. 33-8995, amending the existing Regulation S-K and Regulation S-X requirements for reporting the quantity and value of oil and gas reserves to align with current industry practices and technology advances. Key revisions include the ability to include non-traditional resources in reserves, the use of new technology for determining reserves, permitting disclosure of probable and possible reserves, and changes to the pricing used to determine reserves. Companies must use a 12-month average price. The average is calculated using unweighted average of the first-day-of-the-month price for each of the 12 months that make up the reporting period. The amendment is effective for annual reporting periods ending on December 31, 2009, and early adoption is prohibited. We are currently assessing the impact that the adoption will have on our disclosures, operating results, financial position and cash flows.

SFAS 167

In June 2009, the FASB issued SFAS 167, a revision to FASB Interpretation No. 46(R). This Statement amends the analysis performed by a Company in determining whether an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. It will require additional disclosures about the involvement with variable interest entities and any significant changes in risk exposure due to that involvement. This Statement is effective for annual periods that begin after November 15, 2009. We are currently assessing the impact that the adoption of this Statement will have on our financial condition, results of operations, and cash flows.

SFAS 168

On July 1, 2009, the FASB Accounting Standards Codification<sup>TM</sup> will become the source of authoritative GAAP recognized by the FASB to be applied by non-governmental entities. On the effective date of this Statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification will become non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009. We will update GAAP references for financial statements issued after September 15, 2009.

Following this Statement, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The FASB will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the basis for conclusions on the change(s) in the Codification.

FSP FAS 132(R)-1

During December 2008, the FASB issued FSP FAS 132(R)-1, which provides guidance on an employer's disclosures about plan assets in a defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of:

How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;

The major categories of plan assets;

The input and valuation techniques used to measure the fair value of plan assets;

The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period; and

Significant concentrations of risk within plan assets.

FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009. We do not expect the adoption of FSP FAS 132(R)-1 to have a significant effect on our consolidated financial statements.

(4) MATERIALS, SUPPLIES AND FUEL

The amounts of materials, supplies and fuel included on the accompanying Condensed Consolidated Balance Sheets, by major classification, are provided as follows (in thousands):

<u>Major Classification</u>	<u>June 30,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>	<u>June 30,</u> <u>2008</u>
Materials and supplies	\$ 32,145	\$ 32,580	\$ 28,350
Fuel - Electric Utilities	7,264	10,058	6,098
Natural gas in storage - Gas Utilities	13,109	59,529	
Gas and oil held by Energy Marketing*	36,154	15,854	112,721
Total materials, supplies and fuel	\$ 88,672	\$ 118,021	\$ 147,169

\* As of June 30, 2009, December 31, 2008 and June 30, 2008, market adjustments related to natural gas held by Energy Marketing and recorded in inventory were \$(3.8) million, \$(9.4) million and \$6.3 million, respectively (see Note 12 for further discussion of Energy Marketing trading activities).

Gas and oil inventory held by Energy Marketing primarily consists of gas held in storage. Such gas is being held in inventory to capture the price differential between the time at which it was purchased and a subsequent sales date in the future.



(5) NOTES PAYABLE AND LONG-TERM DEBT

Public Debt Offering

On May 14, 2009, we issued a \$250 million aggregate principal amount of senior unsecured notes due in 2014 pursuant to a public offering. The notes were priced at par and carry a fixed interest rate of 9%. We received proceeds of \$248.5 million, net of underwriting fees. Proceeds were used to pay down the Acquisition Facility. Estimated deferred financing costs related to the offering of \$2.2 million were capitalized and will be amortized over the life of the debt. Amortization expense for the three months ended June 30, 2009 was approximately \$0.1 million.

Acquisition Facility

In May 2007, we entered into a senior unsecured \$1 billion Acquisition Facility with ABN AMRO Bank N.V., as administrative agent, and other banks to fund the Aquila Transaction. On July 14, 2008, in conjunction with the completion of the purchase of the Aquila properties, we executed a single draw of \$382.8 million under the Acquisition Facility. The loan was originally scheduled to mature on February 5, 2009. However, on December 18, 2008, we amended the facility to extend the maturity date to December 29, 2009. The Acquisition Facility was repaid in the second quarter of 2009 using: (1) net proceeds from the sale of a 25% ownership interest in the Wygen III plant of \$30.2 million; (2) proceeds from the \$250 million public debt offering; and (3) \$104.6 million from borrowings under the Corporate Credit Facility. Amortization expense for the three and six months ended June 30, 2009 was \$0.7 million and \$1.9 million, respectively. The remaining balance of \$2.9 million of deferred financing costs was written off as Interest expense on the accompanying Condensed Consolidated Statements of Income as the loan was repaid.

Enserco Credit Facility

On May 8, 2009, Enserco entered into an agreement for a \$240 million committed credit facility. Societe Generale, Fortis Capital Corp., and BNP Paribas were co-lead arranger banks. On May 27, 2009, Enserco entered into an agreement for an additional \$60 million of Commitments under the credit facility with three new participating banks: Calyon, Rabobank and RZB Finance. This credit facility expires on May 7, 2010. The facility is a borrowing rate line of credit, which allows for the issuance of letters of credit and for borrowings. Maximum borrowings under the facility are subject to a sublimit of \$50 million. Borrowings under this facility are available under a base rate option or a Eurodollar option. The base rate option borrowing rate is 2.75% plus the higher of: (i) 0.5% above the Federal Funds Rate, or (ii) the prime rate established by Fortis Bank S.A./N.V. The Eurodollar option borrowing rate is 2.75% plus the higher of the Eurodollar Rate or the reference bank cost of funds. Our Enserco credit facility is a borrowing base credit facility, the structure of which requires certain levels of tangible net worth and net working capital to be maintained for a given borrowing base election level. In order to maintain a borrowing base election level, we may be restricted from making dividends from Enserco to the parent company of Enserco. At June 30, 2009, \$73.6 million of letters of credit were issued and outstanding under this facility and there were no cash borrowings outstanding. Deferred financing costs of \$1.9 million were capitalized and will be amortized over the life of the facility.

## (6) GUARANTEES

Guarantees with GE

We issued two guarantees for up to \$37.9 million each to GE for payment obligations arising from a contract to purchase two LMS100 natural gas turbine generators by Colorado Electric, which are expected to be used in meeting a portion of the capacity and energy needs of our Colorado Electric customers. They are continuing guarantees which terminate upon payment in full of the purchase price to GE. Payments are scheduled based upon estimated construction milestone dates with the final payment due October 27, 2010.

Guarantees to MEAN

On January 20, 2009, we guaranteed a surety bond for \$9.2 million to MEAN to secure operating performance obligations related to the Wygen I ownership agreement. Black Hills Wyoming and MEAN entered into the ownership agreement when MEAN acquired a 23.5% ownership interest in the Wygen I plant. The surety bond expires on December 31, 2009.

## (7) EARNINGS PER SHARE

Basic earnings per share from continuing operations is computed by dividing income from continuing operations by the weighted-average number of common shares outstanding during the period. Diluted earnings per share from continuing operations gives effect to all dilutive common shares potentially outstanding during a period. A reconciliation of Income from continuing operations and basic and diluted share amounts is as follows (in thousands):

<u>Period ended June 30, 2009</u>	<u>Three Months</u>		<u>Six Months</u>	
	<u>Income</u>	Average <u>Shares</u>	<u>Income</u>	Average <u>Shares</u>
Income from continuing operations	\$ 24,581		\$ 50,206	
Basic earnings	24,581	38,598	50,206	38,554
Dilutive effect of:				
Restricted stock		60		57
Diluted earnings	\$ 24,581	38,658	\$ 50,206	38,611

<u>Period ended June 30, 2008</u>	<u>Three Months</u>		<u>Six Months</u>	
	<u>Income</u>	Average <u>Shares</u>	<u>Income</u>	Average <u>Shares</u>
Income from continuing operations	\$ 13,203		\$ 25,020	
Basic earnings	13,203	38,299	25,020	38,062
Dilutive effect of:				
Stock options		62		71
Estimated contingent shares issuable for prior acquisition				198

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Restricted stock		61		69
Others		3		12
Diluted earnings	\$ 13,203	38,425	\$ 25,020	38,412

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The following outstanding securities were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Options to purchase common stock	435	78	435	78

(8) OTHER COMPREHENSIVE INCOME

The following table presents the components of our other comprehensive income

(in thousands):

	Three Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
Net income	\$ 24,581	\$ 22,249
Other comprehensive income (loss), net of tax:		
Fair value adjustment on derivatives designated as cash flow hedges (net of tax of \$4,072 and \$5,510, respectively)	(7,793)	(10,359)
Reclassification adjustments on cash flow hedges settled and included in net income (net of tax of \$(2,143) and \$(2,261), respectively)	3,793	4,037
Unrealized gain on available for sale securities (net of tax of \$0 and \$(7), respectively)		12
Total comprehensive income	20,581	15,939
Comprehensive loss attributable to non-controlling interest		(53)
Comprehensive income attributable to Black Hills Corporation	\$ 20,581	\$ 15,886

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	Six Months Ended June 30,	
	<u>2009</u>	<u>2008</u>
Net income	\$ 50,972	\$ 39,118

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Other comprehensive income (loss), net of tax:		
Fair value adjustment on derivatives designated as cash flow hedges (net of tax of \$2,928 and \$20,462, respectively)	(4,795)	(37,792)
Reclassification adjustments on cash flow hedges settled and included in net income (net of tax of \$(4,060) and \$(2,413), respectively)	7,163	4,310
Unrealized loss on available for sale securities (net of tax of \$58)		(108)
Total comprehensive income	53,340	5,528
Comprehensive loss attributable to non-controlling interest		(130)
Comprehensive income attributable to Black Hills Corporation	\$ 53,340	\$ 5,398

Other comprehensive income from fair value adjustments on derivatives designated as cash flow hedges in the six months ended June 30, 2008 is primarily attributable to fluctuating oil and gas prices affecting the fair value of natural gas and crude oil swaps held in the Oil and Gas segment in 2008, and a decrease in interest rates affecting the fair value of interest rate swaps on variable rate debt.

Balances by classification included within Accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets are as follows (in thousands):

	Derivatives Designated as Cash Flow <u>Hedges</u>	Employee Benefit <u>Plans</u>	Amount from Equity-method <u>Investees</u>	Unrealized Loss on Available-for- <u>Sale Securities</u>	<u>Total</u>
As of June 30, 2009	\$ (2,191)	\$ (14,127)	\$ (97)	\$	\$ (16,415)
As of December 31, 2008	\$ (4,522)	\$ (14,127)	\$ (134)	\$	\$ (18,783)
As of June 30, 2008	\$ (51,709)	\$ (6,115)	\$ (166)	\$ (108)	\$ (58,098)



(9) COMMON STOCK

Other than the following transactions, we had no material changes in our common stock, as reported in Note 10 of the Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K.

Equity Compensation Plans

We granted 78,136 target performance shares to certain officers and business unit leaders for the January 1, 2009 through December 31, 2011 performance period. Actual shares are not issued until the end of the Performance Plan period (December 31, 2011). Performance shares are awarded based on our total stockholder return over the designated performance period as measured against a selected peer group and can range from 0 to 175% of target. In addition, our stock price must also increase during the performance period. The final value of the performance shares will vary according to the number of shares of common stock that are ultimately granted based upon the actual level of attainment of the performance criteria. The performance awards are paid 50% in the form of cash and 50% in shares of common stock. The grant date fair value was \$29.20 per share.

We issued 47,331 shares of common stock under the 2008 short-term incentive compensation plan during the six months ended June 30, 2009. Pre-tax compensation cost related to the award was approximately \$1.6 million, which was accrued for in 2008.

We granted 81,877 restricted common shares during the six months ended June 30, 2009. The pre-tax compensation cost related to the awards of restricted stock and restricted stock units of approximately \$2.2 million will be recognized over the three-year vesting period.

Total compensation expense recognized for all equity compensation plans for the three months ended June 30, 2009 and 2008 was \$1.4 million and \$0.5 million, respectively, and for the six months ended June 30, 2009 and 2008 was \$1.8 million and \$0.7 million, respectively.

As of June 30, 2009, total unrecognized compensation expense related to non-vested stock awards was \$6.8 million and is expected to be recognized over a weighted-average period of 2.2 years.

Dividend Reinvestment and Stock Purchase Plan

We have a Dividend Reinvestment and Stock Purchase Plan under which stockholders may purchase additional shares of common stock through dividend reinvestment and/or optional cash payments at 100% of the recent average market price. We have the option of issuing new shares or purchasing the shares on the open market. We issued 80,746 new shares at a weighted-average price of \$19.23 during the six months ended June 30, 2009. At June 30, 2009, 358,569 shares of unissued common stock were available for future offering under the Plan.

## (10) EMPLOYEE BENEFIT PLANS

We have three non-contributory defined benefit pension plans ( Plans ) and three Postretirement Healthcare Plans ( Healthcare Plans ). One Plan covers employees of the following subsidiaries who meet certain eligibility requirements: Black Hills Service Company, Black Hills Power, WRDC and BHEP. The second Plan covers employees of our subsidiary, Cheyenne Light, who meet certain eligibility requirements. The third Plan covers employees of the Black Hills Energy utilities who meet certain eligibility requirements.

Defined Benefit Pension Plans

The components of net periodic benefit cost for the three Defined Benefit Pension Plans are as follows (in thousands):

	Three Months Ended June 30, <u>2009</u>		Six Months Ended June 30, <u>2009</u>	
		<u>2008</u>		<u>2008</u>
Service cost	\$ 1,929	\$ 754	\$ 3,858	\$ 1,508
Interest cost	3,679	1,230	7,358	2,460
Expected return on plan assets	(3,458)	(1,573)	(6,916)	(3,146)
Prior service cost	41	41	82	82
Net loss	752		1,504	
Net periodic benefit cost	\$ 2,943	\$ 452	\$ 5,886	\$ 904

We made a \$1.4 million contribution to the Cheyenne Light Pension Plan and a \$2.5 million contribution to the Black Hills Energy Pension Plan in the second quarter of 2009; no contributions were made to the Black Hills Corporation Pension Plan during the second quarter of 2009. Additional contributions anticipated to be made to the Plans for 2009 and 2010 are expected to total approximately \$9.5 million and \$16.7 million, respectively.

Non-pension Defined Benefit Postretirement Healthcare Plans

Employees who are participants in our Healthcare Plans and who meet certain eligibility requirements are entitled to postretirement healthcare benefits.

The components of net periodic benefit cost for the Healthcare Plans are as follows (in thousands):

	Three Months Ended June 30, <u>2009</u>		Six Months Ended June 30, <u>2009</u>	
		<u>2008</u>		<u>2008</u>
Service cost	\$ 260	\$ 125	\$ 520	\$ 250

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Interest cost	542	217	1,084	434
Expected return on asset	(56)		(112)	
Prior service (benefit)	(22)		(44)	
Net transition obligation	15	15	30	30
Net gain	(8)	(20)	(16)	(40)
Net periodic benefit cost	\$ 731	\$ 337	\$ 1,462	\$ 674

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We anticipate that we will make contributions to the Healthcare Plans for the 2009 fiscal year of approximately \$3.3 million. The contributions are expected to be made in the form of benefits payments.

It has been determined that our post-65 retiree prescription drug plans are actuarially equivalent and qualify for the Medicare Part D subsidy. The decrease in net periodic postretirement benefit cost due to the subsidy was approximately \$0.1 million and \$0.2 million for the three and six month periods ended June 30, 2009 and 2008, respectively.

### Supplemental Non-qualified Defined Benefit Plans

Additionally, we have various supplemental retirement plans for key executives ( Supplemental Plans ). The Supplemental Plans are non-qualified defined benefit plans.

The components of net periodic benefit cost for the Supplemental Plans are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, <u>2009</u>	<u>2008</u>	June 30, <u>2009</u>	<u>2008</u>
Service cost	\$ 117	\$ 112	\$ 234	\$ 224
Interest cost	344	311	688	622
Prior service cost	1	3	2	6
Net loss	147	142	294	284
Net periodic benefit cost	\$ 609	\$ 568	\$ 1,218	\$ 1,136

We anticipate that we will make contributions to the Supplemental Plans for the 2009 fiscal year of approximately \$1.0 million. The contributions are expected to be made in the form of benefit payments.

(11) SUMMARY OF INFORMATION RELATING TO SEGMENTS OF OUR BUSINESS

Our reportable segments are based on our method of internal reporting, which generally segregates the strategic business groups due to differences in products, services and regulation. As of June 30, 2009, substantially all of our operations and assets are located within the United States.

The Utilities Group includes two reportable segments: Electric Utilities and Gas Utilities. We manage our electric and gas utility businesses predominantly by state; however, because our electric utilities and our gas utilities have similar economic characteristics, we aggregate our electric (and combination) utility businesses in the Electric Utilities reporting segment and our gas utility businesses in the Gas Utilities reporting segment. Electric Utilities include the operating results of the regulated electric utility operations of Black Hills Power and Colorado Electric, and the regulated electric and natural gas utility operations of Cheyenne Light. The natural gas operations within our combination utility, Cheyenne Light, provide relatively stable gross margins and overall financial results. Periodic variances are therefore rarely expected to significantly impact the operating results discussions for the Electric Utilities segment. Presentation of prior periods has been adjusted to reflect the combination of Black Hills Power and Cheyenne Light within the Electric Utilities segment. Gas Utilities, acquired on July 14, 2008, consists of the operating results of the regulated natural gas utility operations of Colorado Gas, Iowa Gas, Kansas Gas, and Nebraska Gas.

We conduct our operations through the following six reportable segments:

Utilities Group

Electric Utilities, which supplies electric utility service to areas in South Dakota, Wyoming, Montana and Colorado and natural gas utility service to Cheyenne, Wyoming and vicinity; and

Gas Utilities, which supplies natural gas utility service in Colorado, Iowa, Kansas and Nebraska.

Non-regulated Energy Group

Oil and Gas, which produces, explores and operates oil and natural gas interests located in the Rocky Mountain region and other states;

Power Generation, which produces and sells power and capacity to wholesale customers from power plants located in Wyoming and Idaho;

Coal Mining, which engages in the mining and sale of coal from our mine near Gillette, Wyoming; and

Energy Marketing, which markets natural gas, crude oil and related services primarily in the western and central regions of the United States and Canada.

Segment information follows the same accounting policies as described in Note 1 of the Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K. In accordance with the provisions of SFAS 71, intercompany fuel sales to the regulated utilities are not eliminated.



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Segment information included in the accompanying Condensed Consolidated Statements of Income and Balance Sheets is as follows (in thousands):

Three Month Period Ended <u>June 30, 2009</u>	<u>External Operating Revenues</u>	<u>Inter-segment Operating Revenues</u>	<u>Income (Loss) from Continuing Operations</u>
Utilities:			
Electric Utilities	\$ 118,606	\$ 215	\$ 4,541
Gas Utilities	93,338		442
Non-regulated Energy:			
Oil and Gas	17,829		129
Power Generation	7,215		758
Coal Mining	7,746	5,747	(499)
Energy Marketing	7,738		2,210
Corporate			16,780
Inter-segment eliminations		(1,085)	220
Total	\$ 252,472	\$ 4,877	\$ 24,581

Three Month Period Ended <u>June 30, 2008</u>	<u>External Operating Revenues</u>	<u>Inter-segment Operating Revenues</u>	<u>Income (Loss) from Continuing Operations</u>
Utilities:			
Electric Utilities	\$ 93,567	\$ 363	\$ 9,553
Gas Utilities			
Non-regulated Energy:			
Oil and Gas	34,209		7,197
Power Generation	2,135	6,376	(472)
Coal Mining	7,987	4,660	496
Energy Marketing	5,150		365
Corporate			(3,897)
Inter-segment eliminations		(1,174)	(39)
Total	\$ 143,048	\$ 10,225	\$ 13,203

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Six Month Period Ended <u>June 30, 2009</u>	External Operating <u>Revenues</u>	Inter-segment Operating <u>Revenues</u>	Income (Loss) from Continuing <u>Operations</u>
Utilities:			
Electric Utilities	\$ 255,665	\$ 430	\$ 13,858
Gas Utilities	349,676		17,708
Non-regulated Energy:			
Oil and Gas	34,340		(25,591) <sup>(a)</sup>
Power Generation	14,834		17,911
Coal Mining	15,683	12,212	319
Energy Marketing	14,557		3,247
Corporate			22,316
Inter-segment eliminations		(2,105)	438
Total	\$ 684,755	\$ 10,537	\$ 50,206

- (a) As a result of lower natural gas prices at March 31, 2009, we recorded a non-cash ceiling test impairment of oil and gas assets included in the Oil and Gas segment in the first quarter of 2009. The lower prices at March 31, 2009 resulted in a \$43.3 million pre-tax decrease in the full cost accounting method's ceiling limit for capitalized oil and gas property costs. The write-down in the net carrying value of our natural gas and crude oil properties was recorded as Impairment of long-lived assets and was based on the March 31, 2009 NYMEX price of \$3.63 per Mcf, adjusted to \$2.23 per Mcf at the wellhead, for natural gas; and NYMEX price of \$49.66 per barrel, adjusted to \$45.32 per barrel at the wellhead, for crude oil.

Six Month Period Ended <u>June 30, 2008</u>	External Operating <u>Revenues</u>	Inter-segment Operating <u>Revenues</u>	Income (Loss) from Continuing <u>Operations</u>
Utilities:			
Electric Utilities	\$ 192,868	\$ 670	\$ 19,720
Gas Utilities			
Non-regulated Energy:			
Oil and Gas	60,331		9,749
Power Generation	4,449	12,926	(1,368)
Coal Mining	15,876	10,018	2,124
Energy Marketing	11,269		664
Corporate			(5,830)
Inter-segment eliminations		(2,284)	(39)
Total	\$ 284,793	\$ 21,330	\$ 25,020

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Three Months Ended June 30, <u>2009</u>	Three Months Ended June 30, <u>2008</u>	Six Months Ended June 30, <u>2009</u>	Six Months Ended June 30, <u>2008</u>
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Depreciation, depletion and amortization



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Utilities:				
Electric Utilities	\$ 10,967	\$ 7,892	\$ 21,925	\$ 15,639
Gas Utilities	7,499		15,680	
Non-regulated Energy:				
Oil and Gas	6,197	8,446	15,138	16,360
Power Generation	945	1,216	1,851	2,394
Coal Mining	3,588	2,186	7,574	3,852
Energy Marketing	129	185	262	368
Corporate	61	863	282	1,561
Total	\$ 29,386	\$ 20,788	\$ 62,712	\$ 40,174

	June 30, <u>2009</u>	December 31, <u>2008</u>	June 30, <u>2008</u>
<u>Total assets</u>			
Utilities:			
Electric Utilities	\$ 1,558,525	\$ 1,485,040	\$ 908,112
Gas Utilities	628,152	733,377	
Non-regulated Energy:			
Oil and Gas	347,198	403,583	454,433
Power Generation	119,876	155,819	148,262
Coal Mining	75,647	75,872	66,012
Energy Marketing	299,374	339,543	435,612
Corporate	82,968	186,409	51,509
Discontinued operations		246	598,294
Total	\$ 3,111,740	\$ 3,379,889	\$ 2,662,234

(12) RISK MANAGEMENT ACTIVITIES

Our activities in the regulated and unregulated energy sector expose us to a number of risks in the normal operation of our businesses. Depending on the activity, we are exposed to varying degrees of market risk and counterparty risk. We have developed policies, processes, systems, and controls to manage and mitigate these risks.

Market risk is the potential loss that might occur as a result of an adverse change in market price or rate. We are exposed to the following market risks:

Commodity price risk associated with our marketing businesses, our natural long position with crude oil and natural gas reserves and production, and fuel procurement for certain of our gas-fired generation assets;

Interest rate risk associated with variable rate credit facilities;

Interest rate risk associated with changes in forward interest rates used to determine the mark-to-market adjustment on our interest rate swaps; and

Foreign currency exchange risk associated with natural gas marketing transacted in Canadian dollars.

Our exposure to these market risks is affected by a number of factors including the size, duration, and composition of our energy portfolio, the absolute and relative levels of interest rates, currency exchange rates and commodity prices, the volatility of these prices and rates, and the liquidity of the related interest rate and commodity markets.

We actively manage our exposure to certain market risks as described in Note 2 of the Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K. Our derivative and hedging activities included in the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income are detailed in this Note and Note 13 and Note 14.

## Trading Activities

### Natural Gas and Crude Oil Marketing

We have a natural gas and crude oil marketing business specializing in producer services, end-use origination and wholesale marketing that conducts business in the western and mid-continent regions of the United States and Canada.

Contracts and other activities at our natural gas and crude oil marketing operations are accounted for under the provisions of EITF 02-3 and SFAS 133. As such, all of the contracts and other activities at our natural gas and crude oil marketing operations that meet the definition of a derivative under SFAS 133 are accounted for at fair value. The fair values are recorded as either Derivative assets or Derivative liabilities on the accompanying Condensed Consolidated Balance Sheets. The net gains or losses are recorded as Operating revenues in the accompanying Condensed Consolidated Statements of Income. EITF 02-3 precludes mark-to-market accounting for energy trading contracts that are not derivatives pursuant to SFAS 133. As part of our natural gas and crude oil marketing operations, we often employ strategies that include derivative contracts along with inventory, storage and transportation positions to accomplish the objectives of our producer services, end-use origination and wholesale marketing groups. Except in limited circumstances when we are able to designate transportation, storage or inventory positions as part of a fair value hedge, SFAS 133 generally does not allow us to mark inventory, transportation or storage positions to market. The result is that while a significant majority of our natural gas and crude oil marketing positions are economically hedged, we are required to mark some parts of our overall strategies (the derivatives) to market value, but are generally precluded from marking the rest of our economic hedges (transportation, inventory or storage) to market. Volatility in reported earnings and derivative positions result from these accounting requirements.

To effectively manage our portfolios, we enter into forward physical commodity contracts, financial derivative instruments including over-the-counter swaps and options and storage and transportation agreements. The business activities of our Energy Marketing segment are conducted within the parameters as defined and allowed in the BHCRPP and further delineated in the gas marketing Risk Management Policies and Procedures as approved by our Executive Risk Committee. Our contracts do not include credit risk-related contingent features.

We use a number of quantitative tools to measure, monitor and limit our exposure to market risk in our natural gas and oil marketing portfolio. We limit and monitor our market risk through established limits on the nominal size of positions based on type of trade, location and duration. Such limits include those on fixed price, basis, index, storage, transportation and foreign exchange positions.

Daily risk management activities include reviewing positions in relation to established position limits, assessing changes in daily mark-to-market and other non-statistical risk management techniques.

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The contract or notional amounts and terms of our natural gas and crude oil marketing activities and derivative commodity instruments are as follows:

	Outstanding at <u>June 30, 2009</u>		Outstanding at <u>December 31, 2008</u>		Outstanding at <u>June 30, 2008</u>	
	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>
(in thousands of MMBtus)						
Natural gas basis swaps purchased	289,140	28	187,368	34	209,344	40
Natural gas basis swaps sold	302,324	28	186,710	34	212,498	40
Natural gas fixed - for - float swaps purchased	90,974	21	85,412	24	50,707	24
Natural gas fixed - for - float swaps sold	100,088	18	90,171	24	65,093	24
Natural gas physical purchases	168,381	18	131,937	16	130,253	22
Natural gas physical sales	184,873	21	145,706	21	168,938	22
Natural gas options purchased			1,440	3	7,650	9
Natural gas options sold			1,440	3	7,650	9

	Outstanding at <u>June 30, 2009</u>		Outstanding at <u>December 31, 2008</u>		Outstanding at <u>June 30, 2008</u>	
	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>	<u>Notional Amounts</u>	<u>Latest Expiration (months)</u>
(in thousands of Bbls)						
Crude oil physical purchases	5,595	6	7,446	12	6,713	18
Crude oil physical sales	4,925	6	6,251	12	5,084	18
Crude oil swaps/options purchased	42	3	435	24	515	6
Crude oil swaps/options sold	111	3	502	24	565	6

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Derivatives and certain natural gas and crude oil marketing activities were marked to fair value on June 30, 2009, December 31, 2008 and June 30, 2008, and the related gains and/or losses recognized in earnings. The amounts included in the accompanying Condensed Consolidated Balance Sheets and Statements of Income are as follows (in thousands):

	Current Derivative <u>Assets</u>	Non-current Derivative <u>Assets</u>	Current Derivative <u>Liabilities</u>	Non-current Derivative <u>Liabilities</u>	Cash Collateral Included in Derivative Assets/ <u>Liabilities</u> <sup>(a)</sup>	Unrealized <u>(Loss)/Gain</u>
June 30, 2009	\$					