

BLACK HILLS CORP /SD/  
Form 10-Q  
May 10, 2011

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 March 31, 2011.
- 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).

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.

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Class	Outstanding as of	April 29, 2011
Common stock, \$1.00 par value	39,409,489	shares

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## GLOSSARY OF TERMS AND ABBREVIATIONS AND ACCOUNTING STANDARDS

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

AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
Aquila	Aquila, Inc.
ASC	Accounting Standards Codification
ASC 820	ASC 820, "Fair Value Measurements and Disclosures"
Bbl	Barrel
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
BHC	Black Hills Corporation
BHCRPP	Black Hills Corporation Risk Policies and Procedures
BHEP	Black Hills Exploration and Production, Inc., representing our Oil and Gas segment, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, representing our Power Generation segment, 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
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 Service Company	Black Hills Service Company, 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
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
CFTC	Commodities Futures and Trading Commission
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of the Company
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
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
Colorado IPP	Black Hills Colorado IPP, a direct wholly-owned subsidiary of Black Hills Electric Generation
CPCN	Certificate of Public Convenience and Necessity
CPUC	Colorado Public Utilities Commission
De-designated interest rate swaps	The \$250.0 million notional amount interest rate swaps that were originally designated as cash flow hedges under accounting for derivatives and hedges but subsequently de-designated in December 2008
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act



Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
Enserco	Enserco Energy Inc., representing our Energy Marketing segment, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Forward Agreement	Equity Forward Agreement with J. P. Morgan connected to a public offering of 4,000,000 million shares of Black Hills Corporation common stock
GAAP	Generally Accepted Accounting Principles
Global Settlement	Global settlement with the utilities commission where the dollar figure is agreed upon, but the specific adjustments used by each party to arrive at the figure are not specified in public rate orders
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
IPP	Independent Power Producer
IRS	Internal Revenue Service
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
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	One thousand standard cubic feet
McfE	One thousand standard cubic feet equivalent
MDU	MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska
MMBtu	One million British thermal units
MSHA	Mine Safety and Health Administration
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
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
PGA	Purchase Gas Adjustment
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordability Care Act
PSCo	Public Service Company of Colorado
Revolving Credit Facility	Our \$500 million three-year revolving credit facility which commenced on April 15, 2010 and expires on April 14, 2013
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings



BLACK HILLS CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
 (unaudited)

	Three Months Ended March 31,	
	2011	2010
	(in thousands, except per share amounts)	
Operating revenues:		
Utilities	\$374,696	\$388,666
Non-regulated energy	28,604	37,834
Total operating revenues	403,300	426,500
Operating expenses:		
Utilities -		
Fuel, purchased power and cost of gas sold	210,511	236,314
Operations and maintenance	67,409	65,034
Gain on sale of operating assets	—	(2,683)
Non-regulated energy operations and maintenance	29,211	22,960
Depreciation, depletion and amortization	31,987	28,395
Taxes - property, production and severance	8,218	6,477
Other operating expenses	251	301
Total operating expenses	347,587	356,798
Operating income	55,713	69,702
Other income (expense):		
Interest charges -		
Interest expense (including amortization of debt issuance costs, premium and discount, realized settlements on interest rate swaps)	(29,735)	(25,120)
Allowance for funds used during construction - borrowed	3,363	3,148
Capitalized interest	2,434	206
Interest rate swaps - unrealized (loss) gain	5,465	(3,035)
Interest income	560	246
Allowance for funds used during construction - equity	295	2,028
Other income, net	731	418
Total other income (expense)	(16,887)	(22,109)
Income (loss) from continuing operations before equity in earnings	38,826	47,593
(loss) of unconsolidated subsidiaries and income taxes		
Equity in earnings (loss) of unconsolidated subsidiaries	993	317
Income tax benefit (expense)	(12,909)	(16,476)
Net income (loss)	\$26,910	\$31,434
Weighted average common shares outstanding:		
Basic	39,059	38,848



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Diluted	39,761	39,009
Total earnings (loss) per share - basic	\$0.69	\$0.81
Total earnings (loss) per share - diluted	\$0.68	\$0.81
Dividends paid per share of common stock	\$0.365	\$0.360

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)

	March 31, 2011 (in thousands)	December 31, 2010	March 31, 2010
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$44,016	\$32,438	\$136,023
Restricted cash	3,406	4,260	27,215
Accounts receivable, net	306,070	328,811	242,189
Materials, supplies and fuel	69,341	139,677	91,111
Derivative assets, current	49,295	56,572	54,773
Income tax receivable, net	23,665	—	—
Deferred income tax assets, current	18,362	17,113	5,610
Regulatory assets, current	36,834	66,429	42,876
Other current assets	60,804	25,571	26,189
Total current assets	611,793	670,871	625,986
Investments	17,088	17,780	18,466
Property, plant and equipment	3,461,559	3,359,762	3,045,126
Less accumulated depreciation and depletion	(889,031)	) (864,329	) (830,423
Total property, plant and equipment, net	2,572,528	2,495,433	2,214,703
Other assets:			
Goodwill	354,831	354,831	353,734
Intangible assets, net	4,011	4,069	4,248
Derivative assets, non-current	5,135	9,260	5,877
Regulatory assets, non-current	140,735	138,405	117,561
Other assets, non-current	20,907	20,860	18,064
Total other assets	525,619	527,425	499,484
<b>TOTAL ASSETS</b>	<b>\$3,727,028</b>	<b>\$3,711,509</b>	<b>\$3,358,639</b>

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  
(Continued)  
(unaudited)

	March 31, 2011	December 31, 2010	March 31, 2010
	(in thousands, except share amounts)		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$217,559	\$279,069	\$194,342
Accrued liabilities	141,184	170,301	140,939
Derivative liabilities, current	91,139	79,167	68,834
Accrued income taxes, net	—	779	10,568
Regulatory liabilities, current	15,004	3,943	9,850
Notes payable	287,000	249,000	223,000
Current maturities of long-term debt	4,254	5,181	24,426
Total current liabilities	756,140	787,440	671,959
Long-term debt, net of current maturities	1,184,830	1,186,050	993,514
Deferred credits and other liabilities:			
Deferred income tax liability, non-current	303,647	277,136	270,079
Derivative liabilities, non-current	15,554	21,361	12,081
Regulatory liabilities, non-current	90,923	84,611	44,788
Benefit plan liabilities	128,170	124,709	144,199
Other deferred credits and other liabilities	134,617	129,932	114,021
Total deferred credits and other liabilities	672,911	637,749	585,168
Stockholders' equity:			
Common stockholders' equity —			
Common stock \$1 par value; 100,000,000 shares authorized; Issued 39,434,304; 39,280,048 and 39,178,067 shares, respectively	39,434	39,280	39,178
Additional paid-in capital	601,021	598,805	593,589
Retained earnings	498,614	486,075	491,202
Treasury stock at cost – 26,075; 10,962 and 4,284 shares, respectively	(762	) (309	) (112
Accumulated other comprehensive loss	(25,160	) (23,581	) (15,859
Total stockholders' equity	1,113,147	1,100,270	1,107,998
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,727,028	\$3,711,509	\$3,358,639

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

BLACK HILLS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Operating activities:		
Net income (loss)	\$26,910	\$31,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	31,987	28,395
Derivative fair value adjustments	9,662	(1,579)
Gain on sale of operating assets	—	(2,683)
Stock compensation	2,370	989
Unrealized mark-to-market loss (gain) on interest rate swaps	(5,465)	) 3,035
Deferred income taxes	25,679	3,492
Equity in (earnings) loss of unconsolidated subsidiaries	(993)	) (317)
Allowance for funds used during construction - equity	(295)	) (2,028)
Employee benefit plans	3,642	3,940
Other adjustments	(1,599)	) 2,382
Change in operating assets and liabilities:		
Materials, supplies and fuel	79,717	21,755
Accounts receivable and other current assets	(35,605)	) 24,044
Accounts payable and other current liabilities	(73,302)	) (24,716)
Regulatory assets	33,966	3,277
Regulatory liabilities	9,984	2,834
Other operating activities	4,613	(5,335)
Net cash provided by operating activities	111,271	88,919
Investing activities:		
Property, plant and equipment additions	(122,544)	) (81,290)
Proceeds from sale of ownership interest in operating assets	—	6,105
Other investing activities	786	(2,865)
Net cash used in investing activities	(121,758)	) (78,050)
Financing activities:		
Dividends paid	(14,371)	) (14,089)
Common stock issued	605	1,522
Short-term borrowings - issuances	210,000	108,500
Short-term borrowings - repayments	(172,000)	) (50,000)
Long-term debt - repayments	(2,155)	) (33,217)
Other financing activities	(14)	) (463)
Net cash provided by (used in) financing activities	22,065	12,253
Net change in cash and cash equivalents	11,578	23,122
Cash and cash equivalents beginning of period	32,438	112,901
Cash and cash equivalents end of period	\$44,016	\$136,023

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 2010 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," or "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 2010 Annual Report on Form 10-K filed with the SEC.

Accounting methods historically employed require certain estimates as of interim dates. The information furnished in the accompanying condensed quarterly financial statements reflects all adjustments, including accruals, which are, in the opinion of management, necessary for a fair presentation of the March 31, 2011, December 31, 2010 and March 31, 2010 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 months ended March 31, 2011 and our financial condition as of March 31, 2011, December 31, 2010, and March 31, 2010 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.

Certain prior year data presented in the financial statements have been reclassified to conform to the current year presentation. Specifically, (a) the Company has reclassified revenue into two categories: utilities revenue and non-regulated revenues, (b) the categories of Fuel, purchased power and cost of gas sales and Operations and maintenance included in our Operating expenses have also been reclassified into utilities and non-regulated, and (c) the Taxes - property, production and severance line has been reclassified to show only those taxes. Any taxes other than income are now included in the respective utility or non-regulated operations and maintenance lines. These reclassifications had no effect on total assets, net income, cash flows or earnings per share.

Restatement - Subsequent to the issuance of the Company's 2010 financial statements, the Company's management determined that certain intercompany transactions with our rate regulated operations had not been properly eliminated in consolidation, resulting in an overstatement of Utility and Non-regulated revenue and Fuel, purchased power and cost of gas sold of \$15.8 million, in aggregate for the three months ended March 31, 2010, respectively. As such, the condensed consolidated financial statements have been restated for the correction of this error. The error did not have an impact on our gross margin, net income, total assets or cash flows.



(2) RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING STANDARDS AND LEGISLATION

Recently Adopted Accounting Standards

Fair Value Measurements, ASC 820

In January 2010, the FASB issued guidance related to improving disclosures about fair value measurements. The guidance requires separate disclosures of the amounts of transfers in and out of Level 1 and Level 2 fair value measurements, disclosure of inputs and techniques used in valuation and a description of the reason for such transfers. In the reconciliation for Level 3 fair value measurements using significant unobservable inputs, information about purchases, sales, issuances and settlements are required to be presented separately. These disclosures are required for interim and annual reporting periods and were effective for us on January 1, 2010, except for the disclosures related to the purchases, sales, issuances and settlements in the roll forward activity of Level 3 fair value measurements, which were effective on January 1, 2011. The guidance requires additional disclosures, but did not impact our financial position, results of operations or cash flows. The additional disclosures are included in Note 13.

Recently Issued Accounting Standards and Legislation

Patient Protection and Affordable Care Act

In March 2010, the President of the United States signed into law comprehensive healthcare reform legislation under the PPACA as amended by the Healthcare and Education Reconciliation Act. The potential impact on the Company, if any, cannot be determined until regulations are promulgated under the PPACA. Included among the provisions of the PPACA is a change in the tax treatment of the Medicare Part D subsidy (the "subsidy") which affects our Non-Pension Postretirement Benefit Plan. Internal Revenue Code Section 139A has been amended to eliminate the deduction of the subsidy in reducing income for years beginning after December 31, 2012. The impact of this change in the tax treatment of the subsidy had an immaterial effect on our financial position, results of operations and cash flows. The Company will continue to assess the accounting implications of the PPACA as related regulations and interpretations become available.

Dodd-Frank Wall Street Reform and Consumer Protection Act

In July 2010, the President of the United States signed into law comprehensive financial reform legislation under Dodd-Frank. Title VII of Dodd-Frank effectively regulates many derivative transactions in the United States that were previously unregulated, including swap transactions in the over-the-counter market. Among other things, Dodd-Frank (i) mandates the clearing of some swaps through regulated central clearing organizations and the trading of clearing swaps through regulated exchanges or swap execution facilities, in each case subject to certain key exemptions, and (ii) authorizes regulators to establish collateral and margin requirements for certain swap transactions that are not cleared. Dodd-Frank provides for a potential exception from these clearing and cash collateral requirements for commercial end-users, potentially including utilities, and it includes a number of defined terms that will be used in determining how this exception applies to particular derivative transactions and the parties to those transactions. Significant rule-making by numerous governmental agencies, particularly the CFTC with respect to non-security commodities, will be required over the next several months to implement the restrictions, limitations, and requirements contemplated by Dodd-Frank, and we will continue to evaluate the impact as these rules become available.

(3) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Three Months Ended



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	March 31, 2011 (in thousands)	March 31, 2010	
Non-cash investing activities—			
Property, plant and equipment acquired with accrued liabilities	\$32,419	\$23,473	
Cash (paid) refunded during the period for—			
Interest (net of amounts capitalized)	\$(11,817	) \$(10,182	)
Income taxes, net	\$(24	) \$44	

(4) MATERIALS, SUPPLIES AND FUEL

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

	March 31, 2011	December 31, 2010	March 31, 2010
Materials and supplies	\$34,341	\$31,749	\$32,200
Fuel - Electric Utilities	9,307	9,687	9,028
Natural gas in storage — Gas Utilities	2,199		