

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 Enserco	EITF Issue No. 99-2, Accounting for Weather Derivatives 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:		