BLACK HILLS CORP /SD/
Form 10-Q
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2009.

OR

o 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 IRS Identification Number 46-0458824

625 Ninth Street
Rapid City, South Dakota 57701

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 x No o

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 o No o

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	x	Accelerated filer	o
Non-accelerated filer	o		o

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 o No x

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 October 30, 2009
Common stock, $1.00 par value	38,866,236 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 the Aquila Transaction
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
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
Bcf	Billions cubic feet
Bcfe	Billion cubic feet equivalents
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 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 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)
Enserco	Enserco Energy Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
EPA	Environmental Protection Agency
EPS	Earnings per share
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles
GE	GE Packaged Power, Inc.
GHG	Greenhouse gases
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
Mcfe	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

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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
PGA	Purchase Gas Adjustment
PPA	Power Purchase Agreement
PSCo	Public Service Company of Colorado
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
Silver Sage	Silver Sage Windpower LLC, a subsidiary of Duke Energy Corporation
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings

ACCOUNTING STANDARDS

ASC	Accounting Standards Codification
ASC 105	ASC 105, "FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162
ASC 260	ASC 260, "Earnings Per Share"
ASC 715	ASC 715, "Compensation – Retirement Benefits"
ASC 805	ASC 805, "Business Combinations"
ASC 810	ASC 810, "Consolidations"
ASC 810-10-15	ASC 810-10-15, "Consolidation of Variable Interest Entities"
ASC 815	ASC 815, "Derivatives and Hedging"
ASC 820	ASC 820, "Fair Value Measurements and Disclosures"
ASC 825	ASC 825, "Financial Instruments"
ASC 855	ASC 855, "Subsequent Events"
ASC 940-325-S99	ASC 940-325-S99, "SEC Materials"
EITF	Emerging Issues Task Force
FASB	Financial Accounting Standards Board
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"
SEC Release No. 33-8995	SEC Release No. 33-8995, "Modernization of Oil and Gas Reporting"
SFAS	Statement of Financial Accounting Standards
SFAS 141(R)	SFAS 141(R), "Business Combinations"
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"

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands, except per share amounts)			
Operating revenues	$ 225,799	$ 291,892	$ 921,090	$ 598,015
Operating expenses:				
Fuel and purchased power	94,120	131,300	467,309	230,643
Operations and maintenance	35,431	34,477	115,226	80,762
Gain on sale of assets	—	—	(25,971)	—
Administrative and general	38,344	40,993	117,817	90,273
Depreciation, depletion and amortization	29,824	30,825	92,535	70,999
Taxes, other than income taxes	11,171	11,609	34,680	31,590
Impairment of long-lived assets	—	—	43,301	—
	208,890	249,204	844,897	504,267
Operating income	16,909	42,688	76,193	93,748
Other income (expense):				
Interest expense	(20,691)	(16,402)	(62,930)	(35,160)
Interest rate swap – unrealized (loss) gain	(8,694)	—	37,775	—
Interest income	327	628	1,184	1,427
Allowance for funds used during construction – equity	2,598	1,390	5,284	2,287
Other income, net	2,142	171	3,779	573
	(24,318)	(14,213)	(14,908)	(30,873)
(Loss) income from continuing operations before equity in earnings of unconsolidated subsidiaries and income taxes	(7,409)	28,475	61,285	62,875
Equity in earnings of unconsolidated subsidiaries	119	1,359	1,368	3,656
	3,437	(10,312)	(16,300)	(21,989)

Income tax benefit (expense)										
(Loss) income from continuing operations		(3,853	)		19,522		46,353		44,542	
Income from discontinued operations, net of taxes		1,673			145,389		2,439		159,486	
Net (loss) income		(2,180	)		164,911		48,792		204,028	
Net loss attributable to non-controlling interest		—			—		—		(130	)
Net (loss) income available for common stock	$	(2,180	)	$	164,911	$	48,792	$	203,898	
Weighted average common shares outstanding:										
Basic		38,643			38,307		38,584		38,145	
Diluted		38,643			38,425		38,646		38,430	
Earnings (loss) per share:										
Basic–										
Continuing operations	$	(0.10	)	$	0.51	$	1.20	$	1.16	
Discontinued operations		0.04			3.79		0.06		4.18	
Total	$	(0.06	)	$	4.30	$	1.26	$	5.34	
Diluted–										
Continuing operations	$	(0.10	)	$	0.51	$	1.20	$	1.16	
Discontinued operations		0.04			3.78		0.06		4.15	
Total	$	(0.06	)	$	4.29	$	1.26	$	5.31	
Dividends declared per share of common stock	$	0.355		$	0.350	$	1.065	$	1.050	

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)

	September 30, 2009	December 31, 2008	September 30, 2008
	(in thousands, except share amounts)		
ASSETS			
Current assets:			
Cash and cash equivalents	$137,681	$168,491	$152,457
Restricted cash	6	—	5,514
Short-term investments	—	—	6,310
Receivables, net	208,563	357,404	227,862
Materials, supplies and fuel	99,952	118,021	173,734
Derivative assets	56,951	73,068	84,758
Income tax receivable, net	—	20,269	—
Deferred income taxes	13,221	10,244	—
Regulatory assets	12,775	35,390	17,360
Other current assets	31,565	16,380	15,064
Assets of discontinued operations	—	246	322
	560,714	799,513	683,381
Investments	19,462	22,764	21,911
Property, plant and equipment	2,891,102	2,705,492	2,615,627
Less accumulated depreciation and depletion	(795,378)	(683,332)	(566,191)
	2,095,724	2,022,160	2,049,436
Other assets:			
Goodwill	353,734	359,290	400,959
Intangible assets, net	4,725	4,884	—
Derivative assets	5,438	9,799	1,500
Regulatory assets	120,677	143,705	51,122
Other	7,861	17,774	18,390
	492,435	535,452	471,971
	$3,168,335	$3,379,889	$3,226,699
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$184,208	$288,907	$234,647
Accrued liabilities	150,042	134,940	140,981
Derivative liabilities	68,634	118,657	62,409
Deferred income taxes	—	—	592
Accrued income taxes, net	15,734	—	48,360
Regulatory liabilities	30,120	5,203	3,787
Notes payable	350,500	703,800	627,800
Current maturities of long-term debt	32,091	2,078	2,074
Liabilities of discontinued operations	—	88	124
	831,329	1,253,673	1,120,774
Long-term debt, net of current maturities	719,215	501,252	501,277

Deferred credits and other liabilities:			
Deferred income taxes	228,715	223,607	240,654
Derivative liabilities	27,824	22,025	6,792
Regulatory liabilities	40,168	38,456	37,824
Benefit plan liabilities	135,027	159,034	44,465
Other	123,527	131,306	125,552
	555,261	574,428	455,287
Stockholders' equity:			
Common stock equity –			
Common stock $1 par value; 100,000,000 shares authorized;			
Issued 38,872,925; 38,676,054 and 38,490,315 shares, respectively	38,873	38,676	38,490
Additional paid-in capital	588,556	584,582	580,601
Retained earnings	454,907	447,453	561,102
Treasury stock at cost – 7,605; 40,183 and 40,059 shares, respectively	(197)	(1,392)	(1,419)
Accumulated other comprehensive loss	(19,609)	(18,783)	(29,545)
Total common stockholders' equity	1,062,530	1,050,536	1,149,229
Non-controlling interest in subsidiaries	—	—	132
Total equity	1,062,530	1,050,536	1,149,361
	$3,168,335	$3,379,889	$3,226,699

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)

	Nine Months Ended September 30, 2009	2008
	(in thousands)	
Operating activities:		
Net income	$48,792	$204,028
Income from discontinued operations, net of taxes	(2,439)	(159,486)
Income from continuing operations	46,353	44,542
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	92,535	70,999
Impairment of long-lived assets	43,301	—
Derivative fair value adjustments	19,647	(26,853)
Gain on sale of operating assets	(25,971)	—
Unrealized mark-to-market gain on interest rate swaps	(37,775)	—
Deferred income taxes	5,164	76,546
Distributed (undistributed) earnings of associated companies	3,424	(1,988)
Allowance for funds used during construction – equity	(5,284)	(2,287)
Other non-cash adjustments	(4,782)	(4,295)
Change in operating assets and liabilities:		
Materials, supplies and fuel, net of market adjustments	23,210	(47,382)
Accounts receivable and other current assets	157,118	111,595
Accounts payable and other current liabilities	(101,902)	(118,369)
Regulatory assets and liabilities	54,272	(30,204)
Other operating activities	(939)	(10,403)
Net cash provided by operating activities of continuing operations	268,371	61,901
Net cash provided by operating activities of discontinued operations	2,556	18,184
Net cash provided by operating activities	270,927	80,085
Investing activities:		
Property, plant and equipment additions	(245,114)	(219,350)
Proceeds from sale of business operations	—	835,316
Proceeds from sale of ownership interest in plants	84,661	—
Payment for acquisition of net assets, net of cash acquired	—	(937,606)
Working capital adjustment of purchase price allocation on Aquila assets	7,098	—
Purchase of short-term investments	—	(6,525)
Other investing activities	1,933	(698)
Net cash used in investing activities of continuing operations	(151,422)	(328,863)
Net cash used in investing activities of discontinued operations	—	(28,966)
Net cash used in investing activities	(151,422)	(357,829)
Financing activities:		
Dividends paid	(41,338)	(40,189)
Common stock issued	2,338	2,611
(Decrease) increase in short-term borrowings, net	(353,300)	590,800

Long-term debt – issuances	248,500		—	
Long-term debt – repayments	(2,024	)	(130,276	)
Other financing activities	(4,532	)	(72	)
Net cash (used in) provided by financing activities of continuing operations	(150,356	)	422,874	
Net cash used in financing activities of discontinued operations	—		(73,928	)
Net cash (used in) provided by financing activities	(150,356	)	348,946	
(Decrease) increase in cash and cash equivalents	(30,851	)	71,202	
Cash and cash equivalents:				
Beginning of period	168,532	(a)	81,255	(b)
End of period	$137,681		$152,457	
Supplemental disclosure of cash flow information:				
Non-cash investing and financing activities-				
Property, plant and equipment acquired with accrued liabilities	$31,202		$25,549	
Cash paid during the period for-				
Interest (net of amounts capitalized)	$50,311		$29,748	
Income taxes (refunded) paid	$(23,311	)	$2,984	

(a) Includes less than $0.1 million of cash included in the assets of discontinued operations.
(b) 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 November 6, 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 September 30, 2009, December 31, 2008 and September 30, 2008 financial information and are of a normal recurring nature. Certain reclassifications have been made to prior period presentations to conform to the current year presentation but have no affect over the results of the prior period numbers. 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 nine months ended September 30, 2009, and our financial condition as of September 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 September 30, 2008. See Note 19 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 17 for additional information.

(2) RECENTLY ADOPTED ACCOUNTING STANDARDS

FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Standard No. 162, ASC 105 (SFAS 168)

On July 1, 2009, the FASB Accounting Standards CodificationTM became 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 superseded all then-existing non-SEC accounting and reporting standards. All other non-SEC accounting literature not included or grandfathered in the Codification became non-authoritative. This Statement is effective for financial statements issued for interim and annual periods ending 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.

Business Combinations, ASC 805 (SFAS 141(R))

The ASC for Business Combinations requires an acquiring entity to recognize the assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at the acquisition date be measured at their fair values as of the acquisition date, with limited exceptions. Acquisition-related costs will be expensed in the periods in which the costs are incurred or services are rendered. If income tax liabilities are settled for an amount other than as previously recorded, the adjustment of any remaining liability would affect goodwill. If such liabilities are adjusted subsequent to December 31, 2008, such adjustments will affect expense including income tax expense in the period of adjustment. Costs to issue debt or equity securities shall be accounted for under other applicable GAAP. These requirements apply 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. Effective January 1, 2009, any impact a business combination 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.

Fair Value Measurements and Disclosures, ASC 820 (SFAS 157 and FSP FAS 157-4)

The ASC for Fair Value Measurements and Disclosures defines fair value, establish a framework for measuring fair value in GAAP and expand disclosures about fair value measurements. This does not expand the application of fair value accounting to any new circumstances, but applies the framework to other applicable GAAP that requires or permits 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.

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. Disclosures regarding the level of pricing observability associated with instruments carried at fair value are provided in Note 15.

Consolidation of Non-Controlling Interest, ASC 810 (SFAS 160)

The ASC for Consolidation of Non-Controlling Interest 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. The ASC establishes disclosure requirements that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners. These standards and disclosure requirements were effective 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 ASC 810. 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.

Derivative and Hedging Disclosures, ASC 815 (SFAS 161)

The ASC for Derivative and Hedging Disclosures requires enhanced disclosures about derivative and hedging activities and their affect on an entity's financial position, financial performance and cash flows. ASC 815 encourages, but does not require, disclosures for earlier periods presented for comparative purposes at initial adoption. Required disclosures for periods subsequent to January 1, 2009 are provided in Note 13 and Note 14.

Subsequent Events, ASC 855 (SFAS 165)

The ASC for Subsequent Events 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. These standards and disclosures were applied to our financial statements issued after June 15, 2009.

Financial Instruments, ASC 825 (FSP FAS 107-1)

The ASC for Financial Instruments requires public companies to provide more frequent disclosures about the fair value of their financial instruments for interim and annual periods ending after June 15, 2009. These disclosures are included in Note 15.

Earnings Per Share, ASC 260 (FSP EITF 03-6-1)

The ASC for Earnings per share states that unvested share-based payment awards that contain non-forfeitable rights to dividends are "participating securities" as defined and 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. As of January 1, 2009, we prepared our current and prior period EPS computation in accordance with the guidance in ASC 260 and there was no impact on our EPS.

(3) RECENTLY ISSUED ACCOUNTING STANDARDS

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.

Consolidation of Variable Interest Entities, ASC 810-10-15 (SFAS 167)

In June 2009, the FASB issued a revision regarding consolidations. The amendment requires a Company to consider 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 standard is effective for annual periods that begin after November 15, 2009. We are currently assessing the impact that the adoption of this standard will have on our financial condition, results of operations, and cash flows.

Compensation – Retirement Benefits, ASC 715 (FSP FAS 132(R)-1)

The ASC for Compensation – Retirement Benefits 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 on changes in plan assets for the period; and

· Significant concentrations of risk within plan assets.

These disclosures are effective for fiscal years ending after December 15, 2009.

(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):

Major Classification	September 30, 2009	December 31, 2008	September 30, 2008
Materials and supplies	$31,650	$32,580	$32,565
Fuel – Electric Utilities	7,234	10,058	11,497
Natural gas in storage – Gas Utilities	29,943	59,529	74,407
Gas and oil held by Energy Marketing*	31,125	15,854	55,265
Total materials, supplies and fuel	$99,952	$118,021	$173,734

* As of September 30, 2009, December 31, 2008 and September 30, 2008, market adjustments related to natural gas held by Energy Marketing and recorded in inventory were $(1.3) million, $(9.4) million and $(15.1) million, respectively (see Note 13 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. Natural gas volumes held as of September 30, 2009, December 31, 2008 and September 30, 2008 include 8.2 Bcf, 3.6 Bcf, and 7.9 Bcf. Crude oil volumes held as of September 30, 2009, December 31, 2008 and September 30, 2008 include 71,000 Bbl, 54,000 Bbl, and 64,000 Bbl, respectively.

Natural gas in storage at our Gas Utilities represents primarily gas purchased for use by our customers. The natural gas in storage fluctuates with the seasonality of our business and the commodity price of natural gas. Although volumes held in storage by us have varied due to season, there has been a notable price decrease during 2009 and 2008. Volumes held as of September 30, 2009, December 31, 2008 and September 30, 2009 include 8.6 Bcf, 7.3 Bcf and 8.6 Bcf, respectively.

(5) ALLOWANCE FOR DOUBTFUL ACCOUNTS

Our Accounts receivable represents primarily customer trade accounts at our Electric Utilities and Gas Utilities and counterparty trade accounts at our Energy Marketing segment. This balance fluctuates due to the seasonality of our regulated Gas Utilities and volumes and commodity prices at our Energy Marketing segment. We maintain an allowance for doubtful accounts which reflects our best estimate of potentially uncollectible trade receivables. We regularly review our trade receivables allowances by considering such factors as historical experience, credit-worthiness, the age of the receivable balances and current economic conditions that may affect the ability to pay.

Following is a summary of receivables (in thousands):

	September 30, 2009	December 31, 2008	September 30, 2008

Accounts receivable	$214,065	$364,155	$233,939
Less allowance for doubtful accounts	5,502	6,751	6,077
Net accounts receivable	$208,563	$357,404	$227,862

(6) NOTES PAYABLE AND LONG-TERM DEBT

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. Deferred financing costs related to the offering of $2.3 million were capitalized and will be amortized over the life of the debt. Amortization of these deferred financing costs is included in interest expense and for the three and nine months ended September 30, 2009 was approximately $0.1 million and $0.2 million, respectively.

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) net proceeds from the $250 million public debt offering; and (3) $104.6 million from borrowings under the Corporate Credit Facility. Approximately $3.6 million of unamortized deferred financing costs were fully expensed in the second quarter of 2009 in conjunction with the repayment of this facility. Therefore, amortization of the deferred financing costs associated with this facility is included in Interest expense on the accompanying Condensed Consolidated Statements of Income and for the nine months ended September 30, 2009 was $4.8 million.

Corporate Credit Facility

Our consolidated net worth was $1,062.5 million at September 30, 2009, which was approximately $254.0 million in excess of the net worth we are required to maintain under the Corporate Credit Facility. At September 30, 2009, our long-term debt ratio was 40.4%, our total debt coverage leverage ratio (long-term debt and short-term debt) was 50.9%, and our recourse leverage ratio was approximately 55.2%. Our interest expense coverage ratio for the twelve month period ended September 30, 2009 was 3.7 to 1.0. We were in compliance with our covenants as of September 30, 2009.

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 and is a borrowing base 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.

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At September 30, 2009, $71.7 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 are amortized over the life of the facility. Amortization of these deferred financing costs is included in interest expense and for the three and nine months ended September 30, 2009 was approximately $0.1 million and $0.9 million, respectively.

Industrial Development Revenue Bonds

Cheyenne Light completed a $17 million weekly variable rate refunding bond issuance on September 3, 2009. The new issue replaces existing debt and the bond credit support structure from an AMBAC Financial Group insurance policy to a direct-pay letter of credit issued by Wells Fargo Bank. Laramie County, Wyoming was the tax-exempt conduit issuer for this transaction. The bonds were issued in two series: a $10.0 million series maturing March 1, 2027 and a $7.0 million series maturing September 1, 2021. The principal amounts and maturity dates did not change from the original financing. The initial variable weekly rate was set at 0.4%. Excluding the letter of credit fees and other issuance costs, the current all-in rate is approximately 2.65%.

(7) GUARANTEES

Guarantees to 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 will be used in meeting a portion of the capacity and energy needs of our Colorado Electric customers. These 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.

Surety Bonds Issued to MEAN

On January 20, 2009, we issued 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 and guarantees expire on December 31, 2009.

Enserco

We have guaranteed up to $7.0 million of the obligations of Enserco under an agency agreement whereby Enserco provides services to structure certain transactions involving the buying, selling, transportation and storage of natural gas on behalf of another energy company. The guarantee expires in July 2010.

(8) 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 are computed by using 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):

Period ended September 30, 2009	Three Months		Nine Months	
	Income	Average Shares	Income	Average Shares
(Loss) income from continuing operations	$(3,853)		$46,353	
Basic earnings	(3,853)	38,643	46,353	38,584
Dilutive effect of:				
Restricted stock	—	—	—	60
Other	—	—	—	2
Diluted earnings	$(3,853)	38,643	$46,353	38,646

Period ended September 30, 2008	Three Months		Nine Months	
	Income	Average Shares	Income	Average Shares
Income from continuing operations	$19,522		$44,542	
Basic earnings	19,522	38,307	44,542	38,145
Dilutive effect of:				
Stock options	—	42	—	62
Estimated contingent shares issuable for prior acquisition	—	—	—	132
Restricted stock	—	72	—	70
Other	—	4	—	21
Diluted earnings	$19,522	38,425	$44,542	38,430

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Options to purchase common stock	374	151	484	99

(9) OTHER COMPREHENSIVE INCOME

The following table presents the components of our other comprehensive (loss) income (in thousands):

	Three Months Ended September 30,	
	2009	2008
Net (loss) income	$(2,180)	$164,911
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustments (net of tax of $(1,999))	3,671	—
Fair value adjustment on derivatives designated as cash flow hedges (net of tax of $5,670 and $(14,030), respectively)	(10,311)	25,824
Reclassification adjustments on cash flow hedges settled and included in net income (net of tax of $(1,948) and $(1,539), respectively)	3,446	2,761
Unrealized gain on available for sale securities (net of tax of $17 in 2008)	—	(32)
Comprehensive (loss) income attributable to Black Hills Corporation	$(5,374)	$193,464

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income	$48,792	$204,028
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustment (net of tax of $(1,999))	3,671	—
Fair value adjustment on derivatives designated as cash flow hedges (net of tax of $8,598 and $6,449, respectively)	(15,106)	(11,951)
Reclassification adjustments on cash flow hedges settled and included in net income (net of tax of $(6,008) and $(3,952), respectively)	10,609	7,071
Unrealized loss on available for sale securities (net of tax of $58)	—	(157)
Total comprehensive income	47,966	198,991
Comprehensive loss attributable to non-controlling interest	—	(130)
Comprehensive income attributable to Black Hills Corporation	$47,966	$198,861

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

	September 30, 2009	December 31, 2008	September 30, 2008
Derivatives designated as cash flow hedges	$(9,037)	$(4,522)	$(23,168)
Employee benefit plans	(10,456)	(14,127)	(6,115)
Amount from equity-method investees	(116)	(134)	(122)
Unrealized loss on available-for-sale securities	—	—	(140)
Total	$(19,609)	$(18,783)	$(29,545)

(10) 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 nine months ended September 30, 2009. Pre-tax compensation cost related to the award was approximately $1.6 million, which was accrued for in 2008.

· We granted 84,376 restricted common shares during the nine months ended September 30, 2009. The pre-tax compensation cost related to the awards of restricted stock and restricted stock units of approximately $2.3 million will be recognized over the three-year vesting period.

· 5,000 stock options were exercised during the nine months ended September 30, 2009 at a weighted-average exercise price of $24.06 per share providing $0.1 million of proceeds to the Company.

Total compensation expense recognized for all equity compensation plans for the three months ended September 30, 2009 and 2008 was $1.1 million and $0.3 million, respectively, and for the nine months ended September 30, 2009 and 2008 was $2.9 million and $1.0 million, respectively.

As of September 30, 2009, total unrecognized compensation expense related to non-vested stock awards was $5.8 million and is expected to be recognized over a weighted-average period of 2.0 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 111,753 new shares at a weighted-average price of $20.91 during the nine months ended September 30, 2009. At September 30, 2009, 327,562 shares of unissued common stock were available for future offering under the Plan.

Dividend Restrictions

Due to our holding company structure, substantially all of our operating cash flows are provided by dividends paid or distributions made by our subsidiaries. The cash to pay dividends to our shareholders is derived from these cash flows. As a result, certain statutory limitations or regulatory or financing agreements could affect the levels of distributions allowed to be made by our subsidiaries.

Our utility subsidiaries are generally limited to the amount of dividends allowed by state regulatory authorities to be paid to us as a utility holding company and also may have further restrictions under the Federal Power Act. As of September 30, 2009, the restricted net assets at our Electric and Gas Utilities were approximately $79.2 million.

In August 2009, one of the covenants to the Enserco Credit Facility was amended to temporarily increase the allowable rolling twelve month Net Cumulative Loss as calculated on a Non-GAAP basis and temporarily restrict all dividends or loans to the Company. In addition to the borrowing base structure which requires Enserco to maintain certain levels of tangible net worth and net working capital, 100% of Enserco’s net assets are now restricted. The Company expects this to be the case through November 30, 2009. Therefore, upon review of these covenants at September 30, 2009, restricted net assets at Enserco total $214.3 million for this stand-alone Enserco Credit Facility.

(11) 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

In July 2009, the Board of Directors approved a resolution to freeze two of our Defined Benefit Pension Plans to new participants and to transfer certain existing participants to an age and service based defined contribution plan, effective January 1, 2010. The first plan covers employees of Black Hills Service Company, Black Hills Power, WRDC and BHEP and the second plan covers employees of Black Hills Energy. Plan assets and obligations were revalued July 31, 2009 in conjunction with the curtailment of these plans and we recognized a pre-tax curtailment expense of approximately $0.3 million in the three months ended September 30, 2009.

The following table sets forth the projected benefit obligation as of December 31, 2008 and July 31, 2009. The July 31, 2009 projected benefit obligation reflects the curtailment of the two plans and includes the Cheyenne Light pension plan projected benefit obligation as of its December 31, 2008 measurement date:

	Defined Benefit Pension Plans at July 31, 2009 (in thousands)
Change in benefit obligation:	
Projected benefit obligation at December 31, 2008	$242,545
Service cost	4,743
Interest cost	8,713
Actuarial loss	453
Amendments	20
Benefits paid	(5,159)
Benefits curtailed	(8,033)
Change in discount rate	(1,613)
Net increase (decrease)	(876)
Projected benefit obligation at July 31, 2009	$241,669

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	$1,877	$1,547	$5,736	$3,055
Interest cost	3,679	3,165	11,036	5,625
Expected return on plan assets	(3,638)	(3,644)	(10,553)	(6,790)
Prior service cost	25	41	108	123
Net loss	637	—	2,140	—
Curtailment expense	320	—	320	—
Net periodic benefit cost	$2,900	$1,109	$8,787	$2,013

We made a $0.5 million contribution to the Plans in the first quarter of 2009, a $3.9 million contribution to the Plans in the second quarter of 2009, and a $12.5 million contribution to the Plans during the third quarter of 2009. There are no additional contributions anticipated to be made to the Plans for 2009. We anticipate additional contributions totaling approximately $7.7 million in 2010.

Non-pension Defined Benefit Postretirement Healthcare Plans

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	$260	$226	$780	$476
Interest cost	542	503	1,626	937
Expected return on plan assets	(56)	(43)	(168)	(43)
Prior service benefit	(22)	—	(66)	—
Net transition obligation	15	15	45	45
Net gain	(8)	(20)	(24)	(60)
Net periodic benefit cost	$731	$681	$2,193	$1,355

We anticipate that we will make aggregate contributions to the Healthcare Plans for the 2009 and 2010 fiscal years of approximately $2.8 million and $3.0 million, respectively. 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 $0.3 million for the three and nine month periods ended September 30, 2009.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Service cost	$117	$112	$351	$336
Interest cost	344	311	1,032	933
Prior service cost	1	3	3	9
Net loss	147	142	441	426
Net periodic benefit cost	$609	$568	$1,827	$1,704

We anticipate that we will make aggregate 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.

(12) 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 September 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, have historically provided relatively stable gross margins and overall financial results. Periodic variances are therefore rarely expected to significantly impact the operating results 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, Colorado and Montana 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. Our Power Generation segment has also entered into a 20-year PPA to supply Colorado Electric with 200 MW of capacity and energy from power plants to be constructed in Colorado and which are expected to be placed into service by December 31, 2011;

· 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 accounting standards for regulated operations, intercompany fuel sales to the regulated utilities are not eliminated.

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

Three Months Ended
September 30,