BLACK HILLS CORP /SD/
Form 10-Q
August 05, 2011

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 June 30, 2011.

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 x 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	Smaller reporting company o

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 July 29, 2011
Common stock, $1.00 par value	39,441,037 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)
ASC	Accounting Standards Codification
ASC 220	ASC 220, "Comprehensive Income"
ASC 820	ASC 820, "Fair Value Measurements and Disclosures"
ASU	Accounting Standards Update
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
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	United States Commodities Futures 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
CT	Combustion Turbine

De-designated interest rate swaps	The $250 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 4,413,519 shares of Black Hills Corporation common stock
GAAP	Generally Accepted Accounting Principles
Global Settlement	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
IFRS	International Financial Reporting Standards
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
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
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

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BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share amounts)			
Operating revenue:				
Utilities	$236,053	$220,168	$610,749	$608,834
Non-regulated energy	37,072	36,170	65,676	74,004
Total operating revenue	273,125	256,338	676,425	682,838
Operating expenses:				
Utilities -				
Fuel, purchased power and cost of gas sold	103,827	97,500	314,338	333,814
Operations and maintenance	58,689	66,029	126,098	131,063
Gain on sale of operating assets	—	—	—	(2,683)
Non-regulated energy operations and maintenance	28,359	25,106	57,570	48,066
Depreciation, depletion and amortization	32,334	30,260	64,321	58,655
Taxes - property, production and severance	7,242	6,239	15,460	12,716
Other operating expenses	52	369	303	670
Total operating expenses	230,503	225,503	578,090	582,301
Operating income	42,622	30,835	98,335	100,537
Other income (expense):				
Interest charges -				
Interest expense (including amortization of debt issuance costs, premium and discount, realized settlements on interest rate swaps)	(28,986)	(25,994)	(58,721)	(51,114)
Allowance for funds used during construction - borrowed	2,991	2,722	6,354	5,870
Capitalized interest	2,783	650	5,217	856
Interest rate swaps - unrealized (loss) gain	(7,827)	(24,918)	(2,362)	(27,953)
Interest income	475	84	1,035	330
Allowance for funds used during construction - equity	192	260	487	2,288
Other income, net	506	1,268	1,237	1,686
Total other income (expense)	(29,866)	(45,928)	(46,753)	(68,037)
Income (loss) before equity in earnings (loss) of unconsolidated subsidiaries and income taxes	12,756	(15,093)	51,582	32,500
Equity in earnings (loss) of unconsolidated subsidiaries	40	1,291	1,033	1,608
Income tax benefit (expense)	(5,044)	5,143	(17,953)	(11,333)
Net income (loss)	$7,752	$(8,659)	$34,662	$22,775
Weighted average common shares outstanding:				

Basic	39,109	38,902	39,084	38,875
Diluted	39,823	38,902	39,793	39,042
Earnings (loss) per share - basic	$0.20	$(0.22)	$0.89	$0.59
Earnings (loss) per share - diluted	$0.19	$(0.22)	$0.87	$0.58
Dividends paid per share of common stock	$0.365	$0.360	$0.730	$0.720

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, 2011	December 31, 2010	June 30, 2010
	(in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	$88,073	$32,438	$64,033
Restricted cash	3,710	4,260	16,169
Accounts receivable, net	244,829	328,811	208,185
Materials, supplies and fuel	105,608	139,677	135,049
Derivative assets, current	53,201	56,572	54,589
Income tax receivable, net	10,170	—	—
Deferred income tax assets, current	16,894	17,113	19,956
Regulatory assets, current	37,584	66,429	41,852
Other current assets	56,819	25,571	13,339
Total current assets	616,888	670,871	553,172
Investments	17,302	17,780	18,261
Property, plant and equipment	3,559,627	3,359,762	3,141,029
Less accumulated depreciation and depletion	(916,220)	(864,329)	(852,414)
Total property, plant and equipment, net	2,643,407	2,495,433	2,288,615
Other assets:			
Goodwill	354,831	354,831	353,734
Intangible assets, net	3,955	4,069	4,189
Derivative assets, non-current	14,630	9,260	9,726
Regulatory assets, non-current	139,309	138,405	121,026
Other assets, non-current	20,442	20,860	21,559
Total other assets	533,167	527,425	510,234
TOTAL ASSETS	$3,810,764	$3,711,509	$3,370,282

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 BALANCE SHEETS
(Continued)
(unaudited)

	June 30, 2011	December 31, 2010	June 30, 2010
	(in thousands, except share amounts)		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$218,356	$279,069	$206,422
Accrued liabilities	140,814	170,301	130,194
Derivative liabilities, current	92,549	79,167	91,259
Accrued income taxes, net	—	779	13,974
Regulatory liabilities, current	17,220	3,943	22,447
Notes payable	380,000	249,000	225,000
Current maturities of long-term debt	3,613	5,181	4,539
Total current liabilities	852,552	787,440	693,835
Long-term debt, net of current maturities	1,183,583	1,186,050	990,130
Deferred credits and other liabilities:			
Deferred income tax liabilities, non-current	307,549	277,136	271,684
Derivative liabilities, non-current	19,258	21,361	18,177
Regulatory liabilities, non-current	83,643	84,611	50,227
Benefit plan liabilities	131,169	124,709	148,190
Other deferred credits and other liabilities	124,941	129,932	115,656
Total deferred credits and other liabilities	666,560	637,749	603,934
Stockholders' equity:			
Common stockholders' equity —			
Common stock $1 par value; 100,000,000 shares authorized; issued 39,462,001, 39,280,048 and 39,204,231 shares, respectively	39,462	39,280	39,204
Additional paid-in capital	602,961	598,805	595,219
Retained earnings	491,208	486,075	468,430
Treasury stock at cost – 23,637, 10,962 and 1,021 shares, respectively	(691)	(309)	(27)
Accumulated other comprehensive income (loss)	(24,871)	(23,581)	(20,443)
Total stockholders' equity	1,108,069	1,100,270	1,082,383
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,810,764	$3,711,509	$3,370,282

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,	
	2011	2010
Operating activities:	(in thousands)	
Net income (loss)	$34,662	$22,775
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	64,321	58,655
Derivative fair value adjustments	(9,939)	(2,445)
Gain on sale of operating assets	—	(2,683)
Stock compensation	3,259	1,971
Unrealized mark-to-market loss (gain) on interest rate swaps	2,362	27,953
Deferred income taxes	31,709	(6,078)
Equity in (earnings) loss of unconsolidated subsidiaries	(1,033)	(1,608)
Allowance for funds used during construction - equity	(487)	(2,288)
Employee benefit plans	7,287	8,143
Other, net	3,704	3,380
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	42,547	(19,896)
Accounts receivable and other current assets	44,540	93,873
Accounts payable and other current liabilities	(77,826)	(50,011)
Regulatory assets	32,029	(2,806)
Regulatory liabilities	11,573	13,401
Contributions to defined pension plans	(550)	—
Other operating activities	(6,141)	1,654
Net cash provided by operating activities	182,017	143,990
Investing activities:		
Property, plant and equipment additions	(225,863)	(171,115)
Proceeds from sale of ownership interest in operating assets	—	6,105
Payment for acquisition of assets	—	(2,250)
Other investing activities	799	4,239
Net cash provided by (used in) investing activities	(225,064)	(163,021)
Financing activities:		
Dividends paid	(29,530)	(28,202)
Common stock issued	1,437	2,281
Short-term borrowings - issuances	564,000	268,500
Short-term borrowings - repayments	(433,000)	(208,000)
Long-term debt - repayments	(4,052)	(56,488)
Other financing activities	(173)	(7,928)
Net cash provided by (used in) financing activities	98,682	(29,837)

Net change in cash and cash equivalents	55,635	(48,868)
Cash and cash equivalents, beginning of period	32,438	112,901
Cash and cash equivalents, end of period	$88,073	$64,033

See Note 3 for supplemental disclosure of cash flow information.

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 June 30, 2011, December 31, 2010 and June 30, 2010 financial information and are of a normal recurring nature. Certain industries in which we operate are highly seasonal and revenue from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Demand for electricity and natural gas is sensitive to seasonal cooling, heating and industrial load requirements, as well as changes in market price. In particular, the normal peak usage season for gas utilities is November through March and significant earnings variances can be expected between the Gas Utilities segment's peak and off-peak seasons. Due to this seasonal nature, our results of operations for the three and six months ended June 30, 2011 and June 30, 2010, and our financial condition as of June 30, 2011, December 31, 2010, and June 30, 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 accompanying condensed consolidated 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 energy revenue, (b) the categories of Fuel, purchased power and cost of gas sold and Operations and maintenance included in our Operating expenses have been reclassified into Utilities and Non-regulated energy, and (c) the Taxes - property, production and severance line has been reclassified to show only those taxes. Any taxes other than property, production and severance are now included in the respective Utility or Non-regulated energy operations and maintenance lines. Income taxes remain as a separate line item. 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 consolidated 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 energy revenue and Fuel, purchased power and cost of gas sold of $15.0 million and $30.8 million, in aggregate for the three and six months ended June 30, 2010, respectively. As such, the condensed consolidated financial statements have been restated for the correction of this error. The correction did not have an impact on our gross margin, net income, total assets or cash flows.

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

Recently Adopted Accounting Standards and Legislation

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 is 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 required additional disclosures, but did not impact our financial position, results of operations or cash flows. The additional disclosures are included in Note 13 of these Notes to Condensed Consolidated Financial Statements.

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 total 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 implications on our financial statements of the PPACA as related regulations and interpretations become available.

Recently Issued Accounting Standards and Legislation

Other Comprehensive Income, ASU No. 2011-05

FASB issued an accounting standards update amending ASC 220 to improve the comparability, consistency and transparency of reporting of comprehensive income. The update amends existing guidance by allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU No. 2011-05 requires retrospective application, and it is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We believe the adoption of this update may change the order in which certain financial statements are presented and provide additional detail on those financial statements when applicable, but will not have any other impact on our financial statements.

Fair Value Measurement, ASU No. 2011-04

FASB issued an accounting standards update amending ASC 820 to achieve common fair value measurement and disclosure requirements between U.S. GAAP and IFRS. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements, quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a non-financial asset that is different from the asset's highest and best use, the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required, the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. ASU No. 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011, with early adoption permitted. We do not expect this amendment to have an impact on our financial position, results of operations, or cash flows.

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, and 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 in order to implement the restrictions, limitations, and requirements contemplated by Dodd-Frank. We will continue to evaluate the impact as these rules become available.

(3) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Six Months Ended June 30, 2011	June 30, 2010
	(in thousands)	
Non-cash investing activities—		
Property, plant and equipment acquired with accrued liabilities	$34,356	$32,207
Cash (paid) refunded during the period for—		
Interest (net of amounts capitalized)	$(49,909)	$(26,881)
Income taxes, net	$10,638	$(399)

(4) MATERIALS, SUPPLIES AND FUEL

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

	June 30, 2011	December 31, 2010	June 30, 2010
Materials and supplies	$36,685	$31,749	$32,361
Fuel - Electric Utilities	8,808	9,687	8,913
Natural gas in storage — Gas Utilities	15,914	21,691	15,513
Commodities held by Energy Marketing*	44,201	76,550	78,262
Total materials, supplies and fuel	$105,608	$139,677	$135,049

* As of June 30, 2011, December 31, 2010 and June 30, 2010, market adjustments related to natural gas held by Energy Marketing and recorded in inventory as part of fair value hedge transactions were $(0.6) million, $(9.1) million and $(8.5) million, respectively (see Note 12 for further discussion of Energy Marketing activities).

(5) ACCOUNTS RECEIVABLE

Trade Accounts Receivable

Our Accounts receivable represents primarily customer trade accounts at our Electric Utilities and Gas Utilities segments and counterparty trade accounts at our Energy Marketing segment. This balance fluctuates primarily due to the seasonality of our Gas Utilities and volume and commodity prices at our Energy Marketing segment. We maintain an allowance for doubtful accounts that reflects our best estimate of probable uncollectible trade receivables. We regularly review our trade receivable allowances by considering such factors as historical experience, credit worthiness, the age of the receivable balances and current economic conditions that may affect our ability to collect. Following is a summary of receivables (in thousands):

As of June 30, 2011	Accounts Receivable, Trade	Unbilled Revenue	Total Accounts Receivable	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric	$38,067	$16,535	$54,602	$(685)	$53,917
Gas	33,572	11,891	45,463	(1,420)	44,043
Oil and Gas	7,803	—	7,803	(161)	7,642
Coal Mining	1,652	—	1,652	—	1,652
Energy Marketing	136,799	—	136,799	(173)	136,626
Power Generation	106	—	106	—	106
Corporate	843	—	843	—	843
Total	$218,842	$28,426	$247,268	$(2,439)	$244,829

As of December 31, 2010	Accounts Receivable, Trade	Unbilled Revenue	Total Accounts Receivable	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric	$51,005	$19,572	$70,577	$(708)	$69,869
Gas	41,970	40,376	82,346	(1,425)	80,921
Oil and Gas	6,213	—	6,213	(161)	6,052
Coal Mining	2,420	—	2,420	—	2,420
Energy Marketing	157,064	—	157,064	(69)	156,995
Power Generation	307	—	307	—	307
Corporate	12,247	—	12,247	—	12,247
Total	$271,226	$59,948	$331,174	$(2,363)	$328,811

As of June 30, 2010	Accounts Receivable, Trade	Unbilled Revenue	Total Accounts Receivable	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric	$38,511	$16,060	$54,571	$(1,051)	$53,520
Gas	29,291	10,676	39,967	(2,324)	37,643
Oil and Gas	4,678	—	4,678	(176)	4,502
Coal Mining	2,965	—	2,965	—	2,965
Energy Marketing	109,755	—	109,755	(746)	109,009
Power Generation	346	—	346	—	346
Corporate	200	—	200	—	200
Total	$185,746	$26,736	$212,482	$(4,297)	$208,185

Income Tax Receivable

Income tax receivable is primarily comprised of estimated payments made at the federal, state and foreign levels. The estimated payments relate to multiple prior tax years and were included in taxes payable at both December 31, 2010 and June 30, 2010. During second quarter of 2011, a refund (including an estimate of after-tax interest income) was received as a result of a settlement reached with the IRS in mid-2010 and finalized in early 2011.

(6) NOTES PAYABLE

Our credit facilities and debt securities contain certain restrictive covenants including, among others, recourse leverage ratios and consolidated net worth covenants. As of June 30, 2011, we were in compliance with these covenants. Our credit facilities and debt securities do not contain default provisions pertaining to our credit ratings.

We had the following short-term debt outstanding as of the Condensed Consolidated Balance Sheet dates (in thousands):

	As of June 30, 2011		As of December 31, 2010		As of June 30, 2010	
	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit
Revolving Credit Facility	$130,000	$43,000	$149,000	$46,900	$225,000	$36,500
Enserco Credit Facility	—	118,700	—	166,900	—	141,400
Term Loan due 2011	100,000	—	100,000	—	—	—
Term Loan due 2012	150,000	—	—	—	—	—
Total	$380,000	$161,700	$249,000	$213,800	$225,000	$177,900

Revolving Credit Facility

Our $500.0 million Revolving Credit Facility expiring April 14, 2013 contains an accordion feature which allows us to increase the capacity of the facility to $600.0 million and can be used for the issuance of letters of credit, to fund working capital needs and other corporate purposes. Borrowings are available under a base rate option or a Eurodollar option. The cost of borrowings or letters of credit is determined based upon our credit ratings. At current ratings levels, the margins for base rate borrowings, Eurodollar borrowings and letters of credit were 1.75%, 2.75% and 2.75%, respectively at June 30, 2011. The facility contains a commitment fee to be charged on the unused amount of the Facility. Based upon current credit ratings, the fee is 0.5%.

Deferred financing costs are being amortized over the term of the facility. The amortization expense is included in Interest expense on the accompanying Condensed Consolidated Statements of Income as follows (in thousands):

	Deferred Financing Costs Remaining on Balance Sheet as of June 30, 2011	Amortization Expense Three Months Ended June 30,		Six Months Ended June 30,	
		2011	2010	2011	2010
Deferred Financing Costs	$2,443	$473	$385	$946	$385

The Revolving Credit Facility includes the following covenants that we must comply with at the end of each quarter (dollars, in thousands). We were in compliance with these covenants as of June 30, 2011.

	Actual	Covenant Requirement

Consolidated Net Worth	$1,108,069	$876,597
Recourse Leverage Ratio	59.3 %	65.0 %

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Enserco Credit Facility

Enserco's two-year $250.0 million committed credit facility expiring May 7, 2012 contains an accordion feature which allows, with the consent of the administrative agent, the commitment under the facility to increase to $350.0 million. Maximum borrowings under the facility are subject to a sub-limit of $50.0 million. Borrowings under this facility are available under a base rate option or a Eurodollar option. Margins for base rate borrowings are 1.75% and for Eurodollar borrowings are 2.50%. Enserco Credit Facility covenants include tangible net worth, net working capital and realized net working capital requirements. Enserco was in compliance with these covenants as of June 30, 2011.

Deferred financing costs for the Enserco Credit Facility are being amortized over the term of the Enserco Credit Facility. The amortization expense is included in Interest expense on the accompanying Condensed Consolidated Statements of Income as follows (in thousands):

		Amortization Expense			
	Deferred Financing Costs Remaining on Balance Sheet as of	Three Months Ended June 30,		Six Months Ended June 30,	
	June 30, 2011	2011	2010	2011	2010
Deferred Financing Costs	$1,117	$293	$449	$561	$982

Corporate Term Loan

In June 2011, we entered into a one-year $150.0 million unsecured, single draw, term loan with CoBank, the Bank of Nova Scotia and U.S. Bank due on June 24, 2012. The cost of borrowing under the loan is based on a spread of 125 basis points over LIBOR (1.44% at June 30, 2011). The covenants are substantially the same as those included in the Revolving Credit Facility and we were in compliance with these covenants as of June 30, 2011.

(7) EARNINGS PER SHARE

Basic earnings (loss) per share are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed by using all dilutive common shares potentially outstanding during a period. A reconciliation of share amounts, used to compute earnings (loss) per share, is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss)	$7,752	$(8,659)	$34,662	$22,775
Weighted average shares - basic	39,109	38,902	39,084	38,875
Dilutive effect of:				
Restricted stock	148	—	140	99
Stock options	20	—	20	5
Forward equity issuance	533	—	496	—
Other	13	—	53	63
Weighted average shares - diluted	39,823	38,902	39,793	39,042

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Stock options	102	137	81	228
Restricted stock	24	108	16	—
Other stock	31	64	15	—
	157	309	112	228

(8) COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended June 30, 2011	
Net income (loss)		$7,752
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustments	$—	
Taxes	—	
Minimum pension liability adjustments, net of tax		—
Fair value adjustment on derivatives designated as cash flow hedges	$(996)	
Taxes	231	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		(765)
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$1,617	
Taxes	(564)	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		1,053
Comprehensive income (loss)		$8,040

	Three Months Ended June 30, 2010	
Net income (loss)		$(8,659)
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustments	$(27)	
Taxes	—	
Minimum pension liability adjustments, net of tax		(27)
Fair value adjustment on derivatives designated as cash flow hedges	$(2,029)	
Taxes	746	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		(1,283)
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$(5,117)	
Taxes	1,843	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		(3,274)
Comprehensive income (loss)		$(13,243)

	Six Months Ended June 30, 2011	
Net income (loss)		$34,662
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustments	$—	
Taxes	—	
Minimum pension liability adjustments, net of tax		—
Fair value adjustment on derivatives designated as cash flow hedges	$(4,781)	
Taxes	1,868	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		(2,913)
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$2,478	
Taxes	(855)	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		1,623
Comprehensive income (loss)		$33,372

	Six Months Ended June 30, 2010	
Net income (loss)		$22,775
Other comprehensive income (loss), net of tax:		
Minimum pension liability adjustments	$(8)	
Taxes	(7)	
Minimum pension liability adjustments, net of tax		(15)
Fair value adjustment on derivatives designated as cash flow hedges	$(22)	
Taxes	155	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		133
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$(2,179)	
Taxes	782	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		(1,397)
Comprehensive income (loss)		$21,496

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

	June 30, 2011	December 31, 2010	June 30, 2010
Derivatives designated as cash flow hedges	$(13,729)	$(12,437)	$(10,751)
Employee benefit plans	(11,142)	(11,142)	(9,651)
Amount from equity-method investees	—	(2)	(41)
Total	$(24,871)	$(23,581)	$(20,443)

(9) COMMON STOCK

Other than the following transactions, we had no material changes in our common stock during the six months ended June 30, 2011 from the amount reported in Note 11 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K.

Equity Compensation Plans

- We granted 67,389 target performance shares to certain officers and business unit leaders for the January 1, 2011 through December 31, 2013 performance period during the six months ended June 30, 2011. Actual shares are issued after the end of the performance plan period. 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, certain stock price performance must be achieved for a payout to occur. 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 $25.91 per share.

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We issued 14,111 shares of common stock under the short-term incentive compensation plan during the six months ended June 30, 2011. Pre-tax compensation cost related to the awards was approximately $0.4 million, which was expensed in 2010.

- We granted 132,270 shares of restricted common stock and restricted stock units during the six months ended June 30, 2011. The pre-tax compensation cost related to the awards of restricted stock and restricted stock units of approximately $4.0 million will be recognized over the 3 year vesting period.

- We granted 99,000 stock options at a weighted-average exercise price of $32.04 during the six months ended June 30, 2011. The total fair value of approximately $0.6 million will be recognized over the 3 year vesting period.

- Stock options totaling 4,500 were exercised during the six months ended June 30, 2011 at a weighted-average exercise price of $31.01 per share provided $0.1 million of proceeds.

Total compensation expense recognized for all equity compensation plans for the three months ended June 30, 2011 and 2010 was $0.9 million and $1.1 million, respectively, and for the six months ended June 30, 2011 and 2010 was $3.3 million and $2.9 million, respectively.

As of June 30, 2011, total unrecognized compensation expense related to non-vested stock awards was $9.9 million and is expected to be recognized over a weighted-average period of 2.1 years.

Dividend Reinvestment and Stock Purchase Plan

We have a Dividend Reinvestment and Stock Purchase Plan ("DRIP") 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 50,724 new shares at a weighted-average price of $30.98 during the six months ended June 30, 2011. At June 30, 2011, 138,969 shares of unissued common stock were available for future offering under the DRIP Plan.

Dividend Restrictions

Our Revolving Credit Facility contains restrictions on the payment of cash dividends upon a default or event of default. An event of default would be deemed to have occurred if we did not meet certain financial covenants. The most restrictive financial covenants include the following: a recourse leverage ratio not to exceed 0.65 to 1.00 and a minimum consolidated net worth of $625 million plus 50.0% of aggregate consolidated net income, if positive, since January 1, 2005. As of June 30, 2011, we were in compliance with these covenants.

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. The following restrictions on distributions from our subsidiaries existed as of June 30, 2011:

- 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 be subject to further restrictions under the Federal Power Act. As of June 30, 2011, the restricted net assets at our Utilities Group were approximately $207.3 million.

- Our Enserco credit facility is a borrowing base credit facility, the structure of which requires certain levels of tangible net worth and net working capital to be maintained for a given borrowing base election level. In order to maintain a borrowing base election level, Enserco may be restricted from making dividend payments to its parent company. Enserco's restricted net assets at June 30, 2011 were $153.1 million.

- Pursuant to a covenant in the Black Hills Wyoming project financing, Black Hills Non-regulated Holdings has restricted assets of $100.0 million. Black Hills Non-regulated Holdings is the parent of Black Hills Electric Generation which is the parent of Black Hills Wyoming.

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Forward Equity Instrument

In November 2010, we entered into a Forward Equity Agreement in connection with a public offering of 4,000,000 shares of Black Hills Corporation common stock. In December 2010, the underwriters exercised the over-allotment option to purchase an additional 413,519 shares under the same terms as the original Forward Equity Agreement. We may settle the equity forward instrument at any time up to the maturity date of November 10, 2011. We may also unilaterally elect to cash or net share settle on any date up to maturity, for all or a portion of the equity forward shares. It is our intent to settle the equity forward with the physical delivery of shares in the fourth quarter of 2011.

At June 30, 2011, the equity forward instrument could have been settled with physical delivery of 4,413,519 shares in exchange for $123.2 million. Assuming required notices were given and actions taken, the forward instruments could also have been net settled at June 30, 2011 with delivery of cash of approximately $9.6 million or approximately 331,000 shares of common stock.

Based on the closing Black Hills Corporation common stock price on June 30, 2011, and the forward price on that date of the initial equity forward of $27.92 and over-allotment shares of $27.92, the fair value net cash settlement of the 4,413,519 shares was approximately $9.6 million.

(10) EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

We have non-contributory defined benefit pension plans (the "Pension Plans"). One covers certain eligible employees of the following subsidiaries: Black Hills Service Company, Black Hills Power, WRDC and BHEP; one covers certain eligible employees of Cheyenne Light, and the remaining Pension Plan covers certain eligible employees of Black Hills Energy. The Pension Plan benefits are based on years of service and compensation levels.

The total components of net periodic benefit cost for the Pension Plans were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$1,356	$1,533	$2,711	$3,066
Interest cost	3,732	3,773	7,464	7,546
Expected return on plan assets	(4,239)	(3,623)	(8,478)	(7,246)
Prior service cost	25	305	50	610
Net loss	1,135	500	2,270	1,000
Curtailment expense	—	—	—	—
Net periodic benefit cost	$2,009	$2,488	$4,017	$4,976

Non-pension Defined Benefit Postretirement Healthcare Plans

We sponsor the following retiree healthcare plans (the "Healthcare Plans"): the Black Hills Corporation Postretirement Healthcare Plan, the Healthcare Plan for Retirees of Cheyenne Light, and the Black Hills Energy Postretirement Healthcare Plan. Employees who participate in the Healthcare Plans and who retire on or after meeting certain eligibility requirements are entitled to postretirement healthcare benefits.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$375	$377	$750	$754
Interest cost	542	611	1,084	1,222
Expected return on plan assets	(41)	(52)	(82)	(104)
Prior service benefit	(120)	(77)	(240)	(154)
Net transition obligation	—	—	—	—
Net loss (gain)	169	159	338	318
Net periodic benefit cost	$925	$1,018	$1,850	$2,036

It has been determined that our post-65 retiree prescription drug plans are actuarially equivalent and qualify for the Medicare Part D subsidy.

Supplemental Non-qualified Defined Benefit Plans

We have various supplemental retirement plans for key executives (the "Supplemental Plans"). The Supplemental Plans are non-qualified defined benefit plans.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Service cost	$257	$171	$514	$342
Interest cost	325	321	649	642
Prior service cost	1	1	2	2
Net loss	128	71	255	142
Net periodic benefit cost	$711	$564	$1,420	$1,128

Contributions

We anticipate that we will make contributions to each of the benefit plans during 2011 and 2012. Contributions to the Healthcare Plans and the Supplemental Plans are expected to be made in the form of benefit payments. Contributions are as follows (in thousands):

	Contributions Made Three Months Ended June 30, 2011	Contributions Made Six Months Ended June 30, 2011	Contributions Remaining for 2011	Contributions Anticipated for 2012
Defined Benefit Pension Plans	$550	$550	$10,000	$13,431
Non-pension Defined Benefit Postretirement Healthcare Plans	$882	$1,764	$1,765	$3,765
Supplemental Non-qualified Defined Benefit Plans	$235	$470	$472	$896

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

Our reportable segments are based on our method of internal reporting, which generally segregates the strategic business groups due to differences in products, services and regulation. As of June 30, 2011, substantially all of our operations and assets were located within the United States.

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. Additionally, in 2009 our Power Generation segment entered into a 20-year PPA to supply Colorado Electric with 200 MW of capacity and energy from power plants under construction in Colorado, which are expected to be placed into service by December 31, 2011. In January 2011, we sold our ownership interests in the partnerships which owned the Idaho facilities;
- Coal Mining, which engages in the mining and sale of coal from our mine near Gillette, Wyoming; and
- Energy Marketing, which provides natural gas, crude oil, coal, power and environmental marketing and related services in the United States and Canada.

Segment information follows the accounting policies described in Note 1 of the Notes to Consolidated Financial Statements in our 2010 Annual Report on Form 10-K.

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

Three Months Ended June 30, 2011	External Operating Revenue	Inter-segment Operating Revenue	Net Income (Loss)
Utilities:			
Electric	$136,131	$3,410	$8,614
Gas	99,922	—	4,440
Non-regulated Energy:			
Oil and Gas	18,838	—	(79)
Power Generation	891	6,889	548
Coal Mining	6,266	9,274	(381)
Energy Marketing	11,077	1,399	3,695
Corporate [(a)]	—	—	(9,092)

Inter-segment eliminations	—	(20,972)	7
Total	$273,125	$—	$7,752

Three Months Ended June 30, 2010	External Operating Revenue	Inter-segment Operating Revenue	Net Income (Loss)
Utilities:			
Electric	$131,944	$4,321	$7,196
Gas	87,115	—	(886)
Non-regulated Energy:			
Oil and Gas	18,658	—	221
Power Generation	808	5,871	(416)
Coal Mining	7,805	7,244	3,074
Energy Marketing	8,881	14	1,327
Corporate [a]	—	—	(19,161)
Inter-segment eliminations	—	(16,323)	(14)
Total	$255,211	$1,127	$(8,659)

Six Months Ended June 30, 2011	External Operating Revenue	Inter-segment Operating Revenue	Net Income (Loss)
Utilities:			
Electric	$280,561	$7,249	$18,863
Gas	330,188	—	23,703
Non-regulated Energy:			
Oil and Gas	36,744	—	(794)
Power Generation	1,739	13,661	1,734
Coal Mining	13,880	17,155	(1,679)
Energy Marketing	13,313	1,628	1,054
Corporate [a]	—	—	(8,158)
Inter-segment eliminations	—	(39,693)	(61)
Total	$676,425	$—	$34,662

Six Months Ended June 30, 2010	External Operating Revenue	Inter-segment Operating Revenue [c]	Net Income (Loss)
Utilities:			
Electric	$276,331	$8,743	$17,048
Gas [b]	330,285	—	18,612
Non-regulated Energy:			
Oil and Gas	38,401	—	