BLACK HILLS CORP /SD/
Form 10-Q
November 04, 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 September 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 October 31, 2011
Common stock, $1.00 par value	39,468,273 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 350	ASC 350, "Intangibles - Goodwill and Other"
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
Equity 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
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles of the United States
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
PSCo	Public Service Company of Colorado
Revolving Credit Facility	Our $500 million three-year revolving credit facility which commenced on April 15, 2010 and expires on April 14, 2013
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings

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BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands, except per share amounts)			
Operating revenue:				
Utilities	$223,714	$212,193	$834,463	$821,027
Non-regulated energy	32,746	37,301	98,422	111,305
Total operating revenue	256,460	249,494	932,885	932,332
Operating expenses:				
Utilities -				
Fuel, purchased power and cost of gas sold	86,127	86,933	400,465	420,747
Operations and maintenance	58,313	57,294	184,411	188,357
Gain on sale of operating assets	—	(6,238)	—	(8,921)
Non-regulated energy operations and maintenance	27,898	26,018	85,468	74,084
Depreciation, depletion and amortization	33,374	30,036	97,695	88,691
Taxes - property, production and severance	9,050	7,426	24,510	20,142
Other operating expenses	259	83	562	753
Total operating expenses	215,021	201,552	793,111	783,853
Operating income	41,439	47,942	139,774	148,479
Other income (expense):				
Interest charges -				
Interest expense incurred (including amortization of debt issuance costs, premium and discount, realized settlements on interest rate swaps)	(29,697)	(27,827)	(88,418)	(78,941)
Allowance for funds used during construction - borrowed	3,520	1,934	9,874	7,804
Capitalized interest	2,981	1,614	8,198	2,470
Interest rate swaps - unrealized (loss) gain	(38,246)	(13,710)	(40,608)	(41,663)
Interest income	563	199	1,598	529
Allowance for funds used during construction - equity	189	375	676	2,663
Other income, net	524	539	1,761	2,225
Total other income (expense)	(60,166)	(36,876)	(106,919)	(104,913)
Income (loss) before equity in earnings (loss) of unconsolidated subsidiaries and income taxes	(18,727)	11,066	32,855	43,566
Equity in earnings (loss) of unconsolidated subsidiaries	43	(137)	1,076	1,471
Income tax benefit (expense)	8,159	1,461	(9,794)	(9,872)
Net income (loss)	$(10,525)	$12,390	$24,137	$35,165
Weighted average common shares outstanding:				

Basic	39,145	38,933	39,105	38,895
Diluted	39,145	39,133	39,792	39,052
Earnings (loss) per share - basic	$(0.27)	$0.32	$0.62	$0.90
Earnings (loss) per share - diluted	$(0.27)	$0.32	$0.61	$0.90
Dividends paid per share of common stock	$0.365	$0.360	$1.095	$1.080

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, 2011	December 31, 2010	September 30, 2010
	(in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	$74,779	$32,438	$58,975
Restricted cash	4,080	4,260	17,082
Accounts receivable, net	241,831	328,811	234,480
Materials, supplies and fuel	134,463	139,677	145,251
Derivative assets, current	48,727	56,572	71,688
Income tax receivable, net	10,958	—	25,156
Deferred income tax assets, current	39,628	17,113	15,073
Regulatory assets, current	45,713	66,429	55,941
Other current assets	65,889	25,571	20,932
Total current assets	666,068	670,871	644,578
Investments	17,338	17,780	17,981
Property, plant and equipment	3,664,967	3,359,762	3,243,641
Less accumulated depreciation and depletion	(934,112)	(864,329)	(880,938)
Total property, plant and equipment, net	2,730,855	2,495,433	2,362,703
Other assets:			
Goodwill	354,831	354,831	353,734
Intangible assets, net	3,899	4,069	4,129
Derivative assets, non-current	17,215	9,260	12,762
Regulatory assets, non-current	142,267	138,405	124,134
Other assets, non-current	20,894	20,860	20,216
Total other assets	539,106	527,425	514,975
TOTAL ASSETS	$3,953,367	$3,711,509	$3,540,237

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

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Continued)
(unaudited)

	September 30, 2011	December 31, 2010	September 30, 2010
	(in thousands, except share amounts)		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$219,167	$279,069	$201,072
Accrued liabilities	168,640	170,301	166,977
Derivative liabilities, current	129,163	79,167	108,318
Accrued income taxes, net	—	779	—
Regulatory liabilities, current	10,568	3,943	12,368
Notes payable	359,000	249,000	145,000
Current maturities of long-term debt	2,893	5,181	5,314
Total current liabilities	889,431	787,440	639,049
Long-term debt, net of current maturities	1,282,194	1,186,050	1,188,293
Deferred credits and other liabilities:			
Deferred income tax liabilities, non-current	329,833	277,136	279,315
Derivative liabilities, non-current	26,603	21,361	25,892
Regulatory liabilities, non-current	85,074	84,611	79,393
Benefit plan liabilities	124,214	124,709	122,178
Other deferred credits and other liabilities	128,013	129,932	125,710
Total deferred credits and other liabilities	693,737	637,749	632,488
Stockholders' equity:			
Common stockholders' equity —			
Common stock $1 par value; 100,000,000 shares authorized; issued 39,491,616, 39,280,048 and 39,243,257 shares, respectively	39,492	39,280	39,243
Additional paid-in capital	604,945	598,805	597,108
Retained earnings	467,043	486,075	466,691
Treasury stock at cost – 28,041, 10,962 and 7,905 shares, respectively	(810)	(309)	(226)
Accumulated other comprehensive income (loss)	(22,665)	(23,581)	(22,409)
Total stockholders' equity	1,088,005	1,100,270	1,080,407
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,953,367	$3,711,509	$3,540,237

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,	
	2011	2010
Operating activities:	(in thousands)	
Net income (loss)	$24,137	$35,165
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	97,695	88,691
Derivative fair value adjustments	9,605	(10,690)
Gain on sale of operating assets	—	(8,921)
Stock compensation	4,931	2,908
Unrealized mark-to-market loss (gain) on interest rate swaps	40,608	41,663
Deferred income taxes	26,280	32,366
Equity in (earnings) loss of unconsolidated subsidiaries	(1,076)	(1,471)
Allowance for funds used during construction - equity	(676)	(2,663)
Employee benefit plans	10,930	12,214
Other, net	9,702	6,663
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	12,592	(40,344)
Accounts receivable and other current assets	29,631	8,754
Accounts payable and other current liabilities	(73,489)	(21,295)
Regulatory assets	22,357	(2,205)
Regulatory liabilities	5,041	7,176
Contributions to defined pension plans	(11,050)	(30,015)
Other operating activities	(691)	7,765
Net cash provided by operating activities	206,527	125,761
Investing activities:		
Property, plant and equipment additions	(328,496)	(323,883)
Proceeds from sale of operating assets	583	68,105
Payment for acquisition of assets	—	(2,250)
Other investing activities	1,051	4,273
Net cash provided by (used in) investing activities	(326,862)	(253,755)
Financing activities:		
Dividends paid	(43,169)	(42,331)
Common stock issued	2,199	3,073
Short-term borrowings - issuances	770,000	451,500
Short-term borrowings - repayments	(560,000)	(471,000)
Long-term debt - issuances	—	200,000
Long-term debt - repayments	(6,169)	(57,550)
Other financing activities	(185)	(9,624)
Net cash provided by (used in) financing activities	162,676	74,068

Net change in cash and cash equivalents	42,341	(53,926)
Cash and cash equivalents, beginning of period	32,438	112,901
Cash and cash equivalents, end of period	$74,779	$58,975

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 together with our subsidiaries (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 September 30, 2011, December 31, 2010 and September 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 nine months ended September 30, 2011 and September 30, 2010, and our financial condition as of September 30, 2011, December 31, 2010, and September 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 has 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 $14.8 million and $45.6 million, in aggregate for the three and nine months ended September 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

Intangibles - Goodwill and Other, ASU No. 2011-08

The FASB issued an accounting standards update amending ASC 350 which permits entities to first assess qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative two-step goodwill impairment test is required. An entity has the unconditional option to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed in fiscal years beginning after December 15, 2011 with early adoption permitted.

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. 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 consolidated 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 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

	Nine Months Ended	
	September 30, 2011	September 30, 2010
	(in thousands)	
Non-cash investing activities—		
Property, plant and equipment acquired with accrued liabilities	$49,566	$37,661
Cash (paid) refunded during the period for—		
Interest (net of amounts capitalized)	$(61,461)	$(62,740)
Income taxes, net	$11,826	$(488)

(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):

	September 30, 2011	December 31, 2010	September 30, 2010
Materials and supplies	$37,611	$31,749	$31,192
Fuel - Electric Utilities	8,639	9,687	9,056
Natural gas in storage — Gas Utilities	38,641	21,691	36,782
Commodities held by Energy Marketing*	49,572	76,550	68,221
Total materials, supplies and fuel	$134,463	$139,677	$145,251

* As of September 30, 2011, December 31, 2010 and September 30, 2010, market adjustments related to natural gas held by Energy Marketing and recorded in inventory as part of fair value hedge transactions were $(1.7) million, $(9.1) million and $(18.7) 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 September 30, 2011	Accounts Receivable, Trade	Unbilled Revenue	Total Accounts Receivable	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric	$41,889	$16,401	$58,290	$(590)	$57,700
Gas	21,168	12,518	33,686	(789)	32,897
Oil and Gas	8,820	—	8,820	(161)	8,659
Coal Mining	1,845	—	1,845	—	1,845
Energy Marketing	139,332	—	139,332	(174)	139,158
Power Generation	119	—	119	—	119
Corporate	1,453	—	1,453	—	1,453
Total	$214,626	$28,919	$243,545	$(1,714)	$241,831

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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 (a)	12,247	—	12,247	—	12,247
Total	$271,226	$59,948	$331,174	$(2,363)	$328,811

As of September 30, 2010	Accounts Receivable, Trade	Unbilled Revenue	Total Accounts Receivable	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric	$41,955	$17,959	$59,914	$(927)	$58,987
Gas	19,611	11,107	30,718	(830)	29,888
Oil and Gas	6,112	—	6,112	(161)	5,951
Coal Mining	2,201	—	2,201	—	2,201
Energy Marketing	99,850	—	99,850	(375)	99,475
Power Generation	463	—	463	—	463
Corporate [(a)] [(b)]	37,515	—	37,515	—	37,515
Total	$207,707	$29,066	$236,773	$(2,293)	$234,480

(a) During the third quarter of 2010 we reached a settlement with the IRS and received a refund relating to this settlement during 2011 of $12.0 million, excluding interest income.
(b) includes cash collateral receivable on de-designated interest rate swaps. See Note 12 for further information.

(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 September 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 issued and outstanding as of the Condensed Consolidated Balance Sheet dates (in thousands):

	As of September 30, 2011		As of December 31, 2010		As of September 30, 2010	
	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit
Revolving Credit Facility	$209,000	$42,355	$149,000	$46,900	$145,000	$15,500
Enserco Credit Facility	—	132,625	—	166,900	—	131,500
Term Loan due 2011	—	—	100,000	—	—	—
Term Loan due 2012	150,000	—	—	—	—	—
Total	$359,000	$174,980	$249,000	$213,800	$145,000	$147,000

Revolving Credit Facility

Our $500.0 million Revolving Credit Facility expiring April 14, 2013 contains an accordion feature which allows us, with the consent of the administrative agent, 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 for 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 September 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 September 30, 2011	Amortization Expense			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Deferred Financing Costs - Revolving Credit Facility	$1,970	$473	$481	$1,419	$866

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 September 30, 2011.

As of September 30, 2011	Actual	Covenant Requirement
Consolidated Net Worth	$1,088,000	$871,300
Recourse Leverage Ratio	61.3 %	65.0 %

Enserco Credit Facility

Enserco's $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 September 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):

	Deferred Financing Costs Remaining on Balance Sheet as of September 30, 2011	Amortization Expense			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2011	2010	2011	2010
Deferred Financing Costs - Enserco Credit Facility	$812	$305	$263	$866	$1,245

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Corporate Term Loans

On September 30, 2011, we extended our $100.0 million term loan for two-years under the existing terms. This term loan is now due on September 30, 2013.

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 (1.63% at September 30, 2011). The covenants are substantially the same as those included in the Revolving Credit Facility. We were in compliance with these covenants as of September 30, 2011.

(7) EARNINGS PER SHARE

Basic earnings (loss) per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share is 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss)	$(10,525)	$12,390	$24,137	$35,165
Weighted average shares - basic	39,145	38,933	39,105	38,895
Dilutive effect of:				
Restricted stock	—	131	147	110
Stock options	—	12	16	9
Forward equity issuance	—	—	473	—
Other	—	57	51	38
Weighted average shares - diluted	39,145	39,133	39,792	39,052

Below is a discussion of our potentially dilutive shares that were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive.

Due to the Company's net loss in the quarter ending September 30, 2011, potentially dilutive securities, consisting of outstanding stock options, restricted common stock, restricted stock units, non-vested performance-based share awards, warrants and forward equity instruments were excluded from the diluted loss per share calculation due to their anti-dilutive effect. In computing diluted net loss per share, 11,880 options to purchase shares of common stock, 159,873 vested and non-vested restricted stock shares, 31,408 warrants and other performance shares and 424,715 forward equity instruments were excluded from the computations for the three months ended September 30, 2011.

In addition to these potentially dilutive shares, 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,	
	2011	2010	2011	2010
Stock options	176	128	119	169

Restricted stock	20	2	17	2
Other stock	27	1	19	1
Anti-dilutive shares	223	131	155	172

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(8) COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended September 30, 2011	
Net income (loss)		$(10,525)
Other comprehensive income (loss), net of tax:		
Benefit plan liability adjustments	$—	
Taxes on benefit plan liability adjustments	—	
Benefit plan liability adjustments, net of tax		—
Fair value adjustment on derivatives designated as cash flow hedges	$3,137	
Taxes on fair value adjustment on derivatives designated as cash flow hedges	(1,215)	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		1,922
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$414	
Taxes on reclassification adjustment on cash flow hedges settled and included in net income (loss)	(129)	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		285
Comprehensive income (loss)		$(8,318)

	Three Months Ended September 30, 2010	
Net income (loss)		$12,390
Other comprehensive income (loss), net of tax:		
Benefit plan liability adjustments	$—	
Taxes on benefit plan liability adjustments	—	
Benefit plan liability adjustments, net of tax		—
Fair value adjustment on derivatives designated as cash flow hedges	$517	
Taxes on fair value adjustment on derivatives designated as cash flow hedges	486	
Fair value adjustment on derivatives designated as cash flow hedges, net of tax		1,003
Reclassification adjustments on cash flow hedges settled and included in net income (loss)	$(4,730)	
Taxes on reclassification adjustment on cash flow hedges settled and included in net income (loss)	1,761	
Reclassification adjustments on cash flow hedges settled and included in net income (loss), net of tax		(2,969)
Comprehensive income (loss)		$10,424

	Nine Months Ended September 30, 2011
Net income (loss)	$24,137
Other comprehensive income (loss), net of tax:	