

BLACK HILLS CORP /SD/
Form 10-Q
November 08, 2012

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

Form 10-Q

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2012
- OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number 001-31303

Black Hills Corporation
Incorporated in South Dakota
625 Ninth Street
Rapid City, South Dakota 57701

IRS Identification Number 46-0458824

Registrant's telephone number (605) 721-1700

Former name, former address, and former fiscal year if changed since last report
NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☒ Accelerated filer ☐
Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

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Class	Outstanding at October 31, 2012
Common stock, \$1.00 par value	44,180,030 shares

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GLOSSARY OF TERMS AND ABBREVIATIONS AND ACCOUNTING STANDARDS

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

AFUDC	Allowance for Funds Used During Construction
AltaGas	AltaGas Renewable Energy Colorado, LLC
AOCI	Accumulated Other Comprehensive Income (Loss)
ARO	Asset Retirement Obligation
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bbl	Barrel
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
BHC	Black Hills Corporation, the "Company"
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	Commodity 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
CVA	Credit Valuation Adjustment
CWIP	Construction Work-In-Progress
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 were subsequently de-designated.

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)

ECA

Energy Cost Adjustment

3

Enserco	Enserco Energy Inc., representing our Energy Marketing segment, sold Feb. 29, 2012
Equity Forward Instrument	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
FDIC	Federal Deposit Insurance Corporation
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
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. Natural gas liquid is converted by dividing gallons by 7. Crude oil is converted by multiplying barrels by 6.
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
NGL	Natural Gas Liquids
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OTC	Over-the-counter
PGA	Purchase Gas Adjustment
PPA	Power Purchase Agreement
REPA	Renewable Energy Purchase Agreement
Revolving Credit Facility	Our \$500 million five-year revolving credit facility which commenced on Feb. 1, 2012 and expires on Feb. 1, 2017
S&P	Standard and Poor's
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, representing our Coal Mining segment

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(unaudited)

	Three Months Ended Sept. 30,		Nine Months Ended Sept. 30,	
	2012	2011	2012	2011
	(in thousands, except per share amounts)			
Revenue:				
Utilities	\$214,716	\$223,714	\$766,317	\$834,463
Non-regulated energy	32,092	25,809	88,705	76,544
Total revenue	246,808	249,523	855,022	911,007
Operating expenses:				
Utilities -				
Fuel, purchased power and cost of gas sold	62,582	86,127	283,217	400,465
Operations and maintenance	59,398	58,313	183,721	184,411
Non-regulated energy operations and maintenance	22,466	22,813	65,774	69,438
Gain on sale of operating assets	(27,285)	)—	(27,285))—
Depreciation, depletion and amortization	41,408	33,278	121,398	97,434
Taxes - property, production and severance	10,213	9,161	31,201	24,598
Impairment of long-lived assets	—	—	26,868	—
Other operating expenses	216	259	1,679	562
Total operating expenses	168,998	209,951	686,573	776,908
Operating income	77,810	39,572	168,449	134,099
Other income (expense):				
Interest charges -				
Interest expense incurred (including amortization of debt issuance costs, premiums, discounts and realized settlements on interest rate swaps)	(27,475)	)(29,303	)(85,151	)(87,099)
Allowance for funds used during construction - borrowed	1,127	3,520	2,608	9,874
Capitalized interest	175	2,981	467	8,198
Unrealized gain (loss) on interest rate swaps, net	605	(38,246	)(2,902	)(40,608)
Interest income	364	536	1,428	1,547
Allowance for funds used during construction - equity	196	189	668	676
Other income (expense), net	(287	) 528	2,073	1,763
Total other income (expense)	(25,295	)(59,795	)(80,809	)(105,649)
Income (loss) before equity in earnings (loss) of unconsolidated subsidiaries and income taxes	52,515	(20,223	) 87,640	28,450
Equity in earnings (loss) of unconsolidated subsidiaries	22	43	(12	) 1,076
Income tax benefit (expense)	(17,914	) 9,017	(30,057	)(7,915)
Income (loss) from continuing operations	34,623	(11,163	) 57,571	21,611
Income (loss) from discontinued operations, net of tax	(166	) 638	(6,810	) 2,526
Net income (loss) available for common stock	\$34,457	\$(10,525	) \$50,761	\$24,137

Income (loss) per share, Basic -				
Income (loss) from continuing operations, per share	\$0.79	\$(0.29	)\$1.31	\$0.55
Income (loss) from discontinued operations, per share	—	0.02	(0.16	)0.07
Total income (loss) per share, Basic	\$0.79	\$(0.27	)\$1.15	\$0.62
Income (loss) per share, Diluted -				
Income (loss) from continuing operations, per share	\$0.78	\$(0.29	)\$1.31	\$0.54
Income (loss) from discontinued operations, per share	—	0.02	(0.16	)0.07
Total income (loss) per share, Diluted	\$0.78	\$(0.27	)\$1.15	\$0.61
Weighted average common shares outstanding:				
Basic	43,847	39,145	43,792	39,105
Diluted	44,108	39,145	44,026	39,792
Dividends paid per share of common stock	\$0.370	\$0.365	\$1.110	\$1.095

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 COMPREHENSIVE INCOME (LOSS)
 (unaudited)

	Three Months Ended Sept. 30, 2012 2011 (in thousands)		Nine Months Ended Sept. 30, 2012 2011	
Net income (loss) available for common stock	\$34,457	\$(10,525)	) \$50,761	\$24,137
Other comprehensive income (loss), net of tax:				
Fair value adjustment of derivatives designated as cash flow hedges (net of tax of \$1,204 and \$(1,215) for the three months ended 2012 and 2011 and \$1,092 and \$653 for the nine months ended 2012 and 2011, respectively)	(3,591	) 1,922	(3,004	) (991
Reclassification adjustments of cash flow hedges settled and included in net income (loss) (net of tax of \$13 and \$(129) for the three months ended 2012 and 2011 and \$890 and \$(985) for the nine months ended 2012 and 2011, respectively)	28	285	(1,333	) 1,907
Other comprehensive income (loss), net of tax	(3,563	) 2,207	(4,337	) 916
Comprehensive income (loss)	\$30,894	\$(8,318)	) \$46,424	\$25,053

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)

	Sept. 30, 2012 (in thousands)	Dec. 31, 2011	Sept. 30, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$247,192	\$21,628	\$30,198
Restricted cash and equivalents	7,302	9,254	4,080
Accounts receivable, net	104,482	156,774	102,673
Materials, supplies and fuel	80,900	84,064	84,607
Derivative assets, current	16,063	18,583	12,177
Income tax receivable, net	11,869	9,344	4,728
Deferred income tax assets, net, current	33,681	37,202	37,931
Regulatory assets, current	24,606	59,955	45,713
Other current assets	44,823	21,266	25,269
Assets of discontinued operations	—	340,851	332,503
Total current assets	570,918	758,921	679,879
Investments	16,273	17,261	17,338