BLACK HILLS CORP /SD/
Form 10-Q
May 03, 2013

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 March 31, 2013

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 April 30, 2013	
Common stock, $1.00 par value	44,442,886	shares

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ASU	Accounting Standards Update
Basin Electric	Basin Electric Power Cooperative
Bbl	Barrel
BHC	Black Hills Corporation; the Company
BHEP	Black Hills Exploration and Production, Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, 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 of Black Hills Utility Holdings, Inc., and its subsidiaries
Black Hills Non-regulated Holdings	Black Hills Non-regulated Holdings, LLC, a direct, wholly-owned subsidiary of Black Hills Corporation
Black Hills Power	Black Hills Power, Inc., a direct, wholly-owned subsidiary of Black Hills Corporation
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of Black Hills Corporation
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of Black Hills Corporation
Cheyenne Prairie	Cheyenne Prairie Generating Station currently being constructed in Cheyenne, Wyo. by Cheyenne Light and Black Hills Power. Construction is expected to be completed for this 132 megawatt facility in 2014.
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, LLC a direct wholly-owned subsidiary of Black Hills Electric Generation
Cooling degree day	A cooling degree day is equivalent to each degree that the average of the high and low temperature for a day is above 65 degrees. The warmer the climate, the greater the number of cooling degree days. Cooling degree days are used in the utility industry to measure the relative warmth of weather and to compare relative temperatures between one geographic area and another. Normal degree days are based on the National Weather Service data for selected locations over a 30-year average.
Conflict Mineral	As defined by the Dodd-Frank, conflict minerals are cassiterite, columbite-tantalite, gold and wolframite that are mined in the Democratic Republic of the Congo or surrounding countries
CPCN	Certificate of Public Convenience and Necessity
CPUC	Colorado Public Utilities Commission
CVA	Credit Valuation Adjustment
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)
Enserco	Enserco Energy Inc., representing our Energy Marketing segment, sold Feb. 29, 2012
FASB	Financial Accounting Standards Board

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FERC	United States Federal Energy Regulatory Commission
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
Heating Degree Day	A heating degree day is equivalent to each degree that the average of the high and the low temperatures for a day is below 65 degrees. The colder the climate, the greater the number of heating degree days. Heating degree days are used in the utility industry to measure the relative coldness of weather and to compare relative temperatures between one geographic area and another. Normal degree days are based on the National Weather Service data for selected locations over a 30-year average.
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	United States 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	Thousand cubic feet
Mcfe	Thousand cubic feet equivalent. Natural gas liquid is converted by dividing gallons by 7. Crude oil is converted by multiplying barrels by 6.
MMBtu	Million British thermal units
Moody’s	Moody’s Investors Service, Inc.
MWh	Megawatt-hour
NGL	Natural Gas Liquids. One gallon equals 7 Mcfe
OTC	Over-the-counter
PPA	Power Purchase Agreement
PSCo	Public Service Company of Colorado
Revolving Credit Facility	Our $500 million credit facility used to fund working capital needs, letters of credit and other corporate purposes, which matures in 2017
SDPUC	South Dakota Public Utilities Commission
SEC	U. S. Securities and Exchange Commission
S&P	Standard and Poor’s, a division of The McGraw-Hill Companies, Inc.
WPSC	Wyoming Public Service Commission

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands, except per share amounts)	
Revenue	$380,671	$365,851
Operating expenses:		
Utilities -		
Fuel, purchased power and cost of gas sold	168,173	157,183
Operations and maintenance	65,690	64,760
Non-regulated energy operations and maintenance	21,329	22,595
Depreciation, depletion and amortization	34,781	38,559
Taxes - property, production and severance	10,380	11,510
Other operating expenses	472	1,196
Total operating expenses	300,825	295,803
Operating income	79,846	70,048
Other income (expense):		
Interest charges -		
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts and realized settlements on interest rate swaps)	(23,672)	(29,914)
Allowance for funds used during construction - borrowed	74	518
Capitalized interest	266	161
Unrealized gain (loss) on interest rate swaps, net	7,456	12,045
Interest income	285	437
Allowance for funds used during construction - equity	200	277
Other income (expense), net	405	1,472
Total other income (expense)	(14,986)	(15,004)
Income (loss) from continuing operations before earnings (loss) of unconsolidated subsidiaries and income taxes	64,860	55,044
Equity in earnings (loss) of unconsolidated subsidiaries	(86)	(56)
Income tax benefit (expense)	(21,577)	(19,717)
Income (loss) from continuing operations	43,197	35,271
Income (loss) from discontinued operations, net of tax	—	(5,484)
Net income (loss) available for common stock	$43,197	$29,787
Earnings (loss) per share, Basic -		
Income (loss) from continuing operations, per share	$0.98	$0.81
Income (loss) from discontinued operations, per share	—	(0.13)
Total income (loss) per share, Basic	$0.98	$0.68

Earnings (loss) per share, Diluted -		
Income (loss) from continuing operations, per share	$0.97	$0.80
Income (loss) from discontinued operations, per share	—	(0.12)
Total income (loss) per share, Diluted	$0.97	$0.68
Weighted average common shares outstanding:		
Basic	44,053	43,731
Diluted	44,312	43,969
Dividends paid per share of common stock	$0.380	$0.370

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 COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Net income (loss) available for common stock	$43,197	$29,787
Other comprehensive income (loss), net of tax:		
Fair value adjustment on derivatives designated as cash flow hedges (net of tax (expense) benefit of $1,117 and $55, respectively)	(1,661)	576
Reclassification adjustments related to defined benefit plan (net of tax of $(175) and $0)	457	—
Reclassification adjustments of cash flow hedges settled and included in net income (loss) (net of tax (expense) benefit of $(236) and $445, respectively)	468	(742)
Other comprehensive income (loss), net of tax	(736)	(166)
Comprehensive income (loss) available for common stock	$42,461	$29,621

See Note 8 for additional disclosures.

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)

	As of March 31, 2013 (in thousands)	Dec. 31, 2012	March 31, 2012
ASSETS			
Current assets:			
Cash and cash equivalents	$12,397	$15,462	$56,132
Restricted cash and equivalents	6,846	7,916	8,960
Accounts receivable, net	168,783	163,698	143,987
Materials, supplies and fuel	64,189	77,643	63,236
Derivative assets, current	1,630	3,236	17,877
Income tax receivable, net	—	—	10,399
Deferred income tax assets, net, current	38,196	77,231	23,710
Regulatory assets, current	23,422	31,125	56,282
Other current assets	28,260	28,795	26,546
Total current assets	343,723	405,106	407,129
Investments	16,545	16,402	16,451
Property, plant and equipment	3,977,704	3,930,772	3,800,011
Less accumulated depreciation and depletion	(1,210,833)	(1,188,023)	(980,944)
Total property, plant and equipment, net	2,766,871	2,742,749	2,819,067
Other assets:			
Goodwill	353,396	353,396	353,396
Intangible assets, net	3,565	3,620	3,787
Derivative assets, non-current	—	510	881
Regulatory assets, non-current	181,119	188,268	186,093
Other assets, non-current	21,367	19,420	21,132
Total other assets, non-current	559,447	565,214	565,289
TOTAL ASSETS	$3,686,586	$3,729,471	$3,807,936

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)

	As of March 31, 2013	Dec. 31, 2012	March 31, 2012
	(in thousands, except share amounts)		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$82,437	$84,422	$59,793
Accrued liabilities	140,230	154,389	151,130
Derivative liabilities, current	89,112	96,541	76,389
Accrued income tax, net	1,157	4,936	—
Regulatory liabilities, current	19,020	13,628	35,414
Notes payable	245,000	277,000	225,000
Current maturities of long-term debt	104,637	103,973	8,977
Total current liabilities	681,593	734,889	556,703
Long-term debt, net of current maturities	936,477	938,877	1,272,016
Deferred credits and other liabilities:			
Deferred income tax liabilities, net, non-current	367,502	385,908	317,369
Derivative liabilities, non-current	15,237	16,941	43,169
Regulatory liabilities, non-current	126,573	127,656	112,516
Benefit plan liabilities	172,353	167,397	157,623
Other deferred credits and other liabilities	125,958	125,294	123,848
Total deferred credits and other liabilities	807,623	823,196	754,525
Commitments and contingencies (See Notes 6, 9, 11 and 14)			
Stockholders' equity:			
Common stock equity —			
Common stock $1 par value; 100,000,000 shares authorized; issued 44,482,304; 44,278,189; and 44,151,428 shares, respectively	44,482	44,278	44,151
Additional paid-in capital	735,000	733,095	725,512
Retained earnings	519,184	492,869	490,114
Treasury stock, at cost – 41,606; 71,782; and 65,015 shares, respectively	(1,549)	(2,245)	(2,041)
Accumulated other comprehensive income (loss)	(36,224)	(35,488)	(33,044)
Total stockholders' equity	1,260,893	1,232,509	1,224,692
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,686,586	$3,729,471	$3,807,936

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)

	Three Months Ended March 31,	
	2013	2012
	(in thousands)	
Operating activities:		
Net income (loss) available to common stock	$43,197	$29,787
(Income) loss from discontinued operations, net of tax	—	5,484
Income (loss) from continuing operations	43,197	35,271
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	34,781	38,559
Deferred financing cost amortization	1,095	2,719
Derivative fair value adjustments	3,673	1,594
Stock compensation	3,778	1,817
Unrealized mark-to-market (gain) loss on interest rate swaps	(7,456)	(12,045)
Deferred income taxes	20,541	18,083
Allowance for funds used during construction - equity	(200)	(277)
Employee benefit plans	5,548	5,246
Other adjustments, net	3,614	2,243
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	18,519	20,828
Accounts receivable, unbilled revenues and other current assets	(9,166)	9,439
Accounts payable and other current liabilities	(13,637)	(42,368)
Regulatory assets	9,463	(776)
Regulatory liabilities	374	18,938
Contributions to defined benefit pension plans	—	(25,000)
Other operating activities, net	(4,892)	610
Net cash provided by operating activities of continuing operations	109,232	74,881
Net cash provided by (used in) operating activities of discontinued operations	—	21,184
Net cash provided by operating activities	109,232	96,065
Investing activities:		
Property, plant and equipment additions	(63,939)	(67,652)
Other investing activities	1,030	1,105
Net cash provided by (used in) investing activities of continuing operations	(62,909)	(66,547)
Proceeds from sale of discontinued business operations	—	108,837
Net cash provided by (used in) investing activities of discontinued operations	—	(824)
Net cash provided by (used in) investing activities	(62,909)	41,466
Financing activities:		
Dividends paid on common stock	(16,882)	(16,276)
Common stock issued	1,231	764
Short-term borrowings - issuances	78,500	56,453
Short-term borrowings - repayments	(110,500)	(176,453)
Long-term debt - repayments	(1,737)	(1,897)
Other financing activities	—	(2,758)
Net cash provided by (used in) financing activities of continuing operations	(49,388)	(140,167)

Net cash provided by (used in) financing activities of discontinued operations	—	—
Net cash provided by (used in) financing activities	(49,388)	(140,167)
Net change in cash and cash equivalents	(3,065)	(2,636)
Cash and cash equivalents, beginning of period*	15,462	58,768
Cash and cash equivalents, end of period	$12,397	$56,132

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*Includes cash of discontinued operations of $37.1 million at Dec. 31, 2011.

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.

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BLACK HILLS CORPORATION

Notes to Condensed Consolidated Financial Statements
(unaudited)
(Reference is made to Notes to Consolidated Financial Statements
included in the Company's 2012 Annual Report on Form 10-K)

(1) MANAGEMENT'S STATEMENT

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by Black Hills Corporation (together with our subsidiaries the "Company," "us," "we," or "our"), 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 Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our 2012 Annual Report on Form 10-K filed with the SEC.

We conduct our operations through the following reportable segments: Electric Utilities, Gas Utilities, Power Generation, Coal Mining and Oil and Gas. 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. All of our operations and assets are located within the United States.

Accounting methods historically employed require certain estimates as of interim dates. The information furnished in the accompanying Condensed Consolidated Financial Statements reflects all adjustments, including accruals, which are, in the opinion of management, necessary for a fair presentation of the March 31, 2013, Dec. 31, 2012 and March 31, 2012 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 electric utilities is June through August while 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 months ended March 31, 2013 and March 31, 2012, and our financial condition as of March 31, 2013, Dec. 31, 2012, and March 31, 2012 are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period. All earnings per share amounts discussed refer to diluted earnings per share unless otherwise noted.

On Feb. 29, 2012, we sold our Energy Marketing segment, which resulted in this segment being classified as discontinued operations.

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

Recently Adopted Accounting Standards

Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income, ASU 2013-02

In February 2013, the FASB issued ASU 2013-02 which requires new disclosures for items reclassified out of AOCI. ASU 2013-02 requires disclosure of (1) changes in components of other comprehensive income, (2) for items reclassified out of AOCI and into net income in their entirety, the effect of the reclassification on each affected net income line item and (3) cross references to other disclosures that provide additional detail for components of other comprehensive income that are not reclassified in their entirety to net income. Disclosures are required either on the face of the statements of income or as a separate disclosure in the notes to the financial statements. The new disclosure requirements are effective for interim and annual periods beginning after Dec. 15, 2012. The adoption of this standard did not have an impact on our financial position, results of operations or cash flows. See additional disclosures in Note 8.

Balance Sheet: Disclosure about Offsetting Assets and Liabilities, ASU 2011-11

In December 2011, the FASB issued revised accounting guidance to amend disclosure requirements for offsetting financial assets and liabilities to enhance current disclosures, as well as to improve comparability of balance sheets prepared under GAAP and IFRS. The revised disclosure guidance affects all companies that have financial instruments and derivative instruments that are either offset in the balance sheet (i.e., presented on a net basis) or subject to an enforceable master netting and/or similar arrangement. In addition, the revised guidance requires that certain enhanced quantitative and qualitative disclosures are made with respect to a company's netting arrangements and/or rights of offset associated with its financial instruments and/or derivative instruments. The revised disclosure guidance is effective on a retrospective basis for interim and annual periods beginning Jan. 1, 2013. The adoption of this standard did not have an impact on our financial position, results of operations or cash flows. See additional disclosures in Note 12.

Recently Issued Accounting Pronouncements and Legislation

Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date, ASU 2013-04

In March 2013, the FASB issued new disclosure requirements for recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements including disclosure of the nature and amount of the obligations. The new disclosure requirements are effective for interim and annual periods beginning after Dec. 15, 2013. The amendment requires additional details in the notes to financial statements, but will not have any other impact on our financial statements.

Dodd-Frank Wall Street Reform and Consumer Protection Act, SEC Final Rule No. 34-67716

In Aug. 2012, under Dodd-Frank, the SEC adopted new requirements for companies that manufacture or contract to manufacture products that contain certain minerals and metals, known as conflict minerals. The final rules requires all issuers that file reports with the SEC to report supply chain and sourcing information for companies that use conflict minerals on an annual basis. These new requirements will require due diligence efforts in fiscal 2013, with initial disclosure requirements beginning in May 2014. Based on our preliminary analysis, we do not believe that our products contain conflict minerals as defined by the rule; however, our assessment process to determine whether conflict minerals are necessary to the functionality or production of any of our products is not complete.

(3) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	Three Months Ended	
	March 31, 2013	March 31, 2012
	(in thousands)	
Non-cash investing and financing activities from continuing operations—		
Property, plant and equipment acquired with accrued liabilities	$31,780	$31,644
Increase (decrease) in capitalized assets associated with asset retirement obligations	$—	$2,826
Cash (paid) refunded during the period for continuing operations—		
Interest (net of amounts capitalized)	$(12,768)	$(16,799)
Income taxes, net	$(4,656)	$(1,838)

(4) MATERIALS, SUPPLIES AND FUEL

The following amounts by major classification are included in Materials, supplies and fuel in the accompanying Condensed Consolidated Balance Sheets (in thousands) as of:

	March 31, 2013	Dec. 31, 2012	March 31, 2012
Materials and supplies	$50,401	$43,397	$44,361
Fuel - Electric Utilities	8,445	8,589	7,812
Natural gas in storage held for distribution	5,343	25,657	11,063
Total materials, supplies and fuel	$64,189	$77,643	$63,236

(5) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Following is a summary of Accounts receivable, net included in the accompanying Condensed Consolidated Balance Sheets (in thousands) as of:

March 31, 2013	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric Utilities	$47,896	$21,591	$(623)	$68,864
Gas Utilities	59,024	28,439	(751)	86,712
Power Generation	3	—	—	3
Coal Mining	1,857	—	—	1,857
Oil and Gas	10,340	—	(19)	10,321
Corporate	1,026	—	—	1,026
Total	$120,146	$50,030	$(1,393)	$168,783

Dec. 31, 2012	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric Utilities	$54,482	$23,843	$(527)	$77,798
Gas Utilities	31,495	39,962	(222)	71,235
Power Generation	16	—	—	16
Coal Mining	2,247	—	—	2,247
Oil and Gas	11,622	—	(19)	11,603
Corporate	799	—	—	799
Total	$100,661	$63,805	$(768)	$163,698

March 31, 2012	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
Electric Utilities	$44,356	$19,381	$(585)	$63,152
Gas Utilities	44,287	18,502	(936)	61,853
Power Generation	265	—	—	265
Coal Mining	2,578	—	—	2,578
Oil and Gas	15,014	—	(105)	14,909
Corporate	1,230	—	—	1,230
Total	$107,730	$37,883	$(1,626)	$143,987

(6) NOTES PAYABLE

Our Revolving Credit Facility and debt securities contain certain restrictive financial covenants. As of March 31, 2013, we were in compliance with all of these covenants.

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

	March 31, 2013		Dec. 31, 2012		March 31, 2012	
	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit
Revolving Credit Facility	$95,000	$36,500	$127,000	$36,300	$75,000	$41,200
Term Loan due June 2013	150,000	—	150,000	—	150,000	—
Total	$245,000	$36,500	$277,000	$36,300	$225,000	$41,200

Debt Covenants

Certain debt obligations require compliance with the following covenants at the end of each quarter (dollars in thousands):

	As of March 31, 2013		Covenant Requirement		
Consolidated Net Worth	$1,260,893		Greater than	$946,493	
Recourse Leverage Ratio	52.2	%	Less than	65.0	%

(7) EARNINGS PER SHARE

A reconciliation of share amounts used to compute Earnings (loss) per share is as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Income (loss) from continuing operations	$43,197	$35,271
Weighted average shares - basic	44,053	43,731
Dilutive effect of:		
Restricted stock	155	147
Stock options	13	18
Other dilutive effects	91	73
Weighted average shares - diluted	44,312	43,969

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 March 31,	
	2013	2012
Stock options	6	127
Restricted stock	34	31
Other stock	—	16
Anti-dilutive shares	40	174

(8) OTHER COMPREHENSIVE INCOME

The components of the reclassification adjustments for the period, net of tax, included in Other Comprehensive Income were as follows (in thousands):

	Location on the Condensed Consolidated Statements of Income	Amount Reclassified from AOCI Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Gains and losses on cash flow hedges:			
Interest rate swaps	Interest expense	$1,796	$1,822
Commodity contracts	Revenue	(1,092)	(3,009)
		704	(1,187)
Income tax	Income tax benefit (expense)	(236)	445
Total reclassification adjustments related to cash flow hedges, net of tax		$468	$(742)
Amortization of defined benefit plans:			
Prior service cost	Utilities - Operations and maintenance	$(31)	$—
	Non-regulated energy operations and maintenance	(32)	—
Actuarial gain (loss)	Utilities - Operations and maintenance	421	—
	Non-regulated energy operations and maintenance	274	—
		632	—
Income tax	Income tax benefit (expense)	(175)	—
Total reclassification adjustments related to defined benefit plans, net of tax		$457	$—

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

	Derivatives Designated as Cash Flow Hedges	Employee Benefit Plans	Total
Balance as of December 31, 2011	$(13,802)	$(19,076)	$(32,878)
Other comprehensive income (loss), net of tax	(166)	—	(166)
Ending Balance March 31, 2012	$(13,968)	$(19,076)	$(33,044)
Balance as of December 31, 2012	$(15,713)	$(19,775)	$(35,488)
Other comprehensive income (loss), net of tax	(1,193)	457	(736)
Ending Balance March 31, 2013	$(16,906)	$(19,318)	$(36,224)

(9) EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

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

	Three Months Ended March 31,	
	2013	2012
Service cost	$1,608	$1,430
Interest cost	3,825	3,687
Expected return on plan assets	(4,654)	(4,084)
Prior service cost	16	22
Net loss (gain)	3,062	2,408
Net periodic benefit cost	$3,857	$3,463

Non-pension Defined Benefit Postretirement Healthcare Plans

The components of net periodic benefit cost for the Non-pension Defined Benefit Postretirement Healthcare Plans were as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Service cost	$419	$402
Interest cost	417	523
Expected return on plan assets	(20)	(19)
Prior service cost (benefit)	(125)	(125)
Net loss (gain)	121	222
Net periodic benefit cost	$812	$1,003

Supplemental Non-qualified Defined Benefit and Defined Contribution Plans

The components of net periodic benefit cost for the Supplemental Non-qualified Defined Benefit and Defined Contribution Plans were as follows (in thousands):

	Three Months Ended March 31,	
	2013	2012
Service cost	$348	$246
Interest cost	332	331
Prior service cost	1	1
Net loss (gain)	198	202
Net periodic benefit cost	$879	$780

Contributions

We anticipate that we will make contributions to the benefit plans during 2013 and 2014. Contributions to the Pension Plans are cash contributions made directly to the Pension Plan Trust accounts. Healthcare and Supplemental Plan contributions are made in the form of benefit payments. Contributions and anticipated contributions are as follows (in thousands):

	Contributions Made Three Months Ended March 31, 2013	Additional Contributions Anticipated for 2013	Contributions Anticipated for 2014
Defined Benefit Pension Plans	$—	$8,787	$19,922
Non-pension Defined Benefit Postretirement Healthcare Plans	$784	$2,352	$3,350
Supplemental Non-qualified Defined Benefit and Defined Contribution Plans	$322	$965	$1,463

(10) BUSINESS SEGMENT INFORMATION

Segment information and Corporate activities included in the accompanying Condensed Consolidated Statements of Income and Condensed Consolidated Balance Sheets are below.

On Feb. 29, 2012, we sold our Energy Marketing segment, Enserco, which resulted in this segment being classified as discontinued operations. Indirect corporate costs and inter-segment interest expense related to Enserco that have not been classified as discontinued operations have been reclassified to Corporate activity.

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

Three Months Ended March 31, 2013	External Operating Revenue	Intercompany Operating Revenue	Income (Loss) from Continuing Operations
Utilities:			
Electric	$158,483	$4,147	$12,356
Gas	199,812	—	18,483
Non-regulated Energy:			
Power Generation	1,022	19,338	5,644
Coal Mining	6,010	7,573	1,065
Oil and Gas	15,344	—	(53)
Corporate activities [a]	—	—	5,699
Intercompany eliminations	—	(31,058)	3
Total	$380,671	$—	$43,197

Three Months Ended March 31, 2012	External Operating Revenue	Intercompany Operating Revenue	Income (Loss) from Continuing Operations
Utilities:			
Electric	$156,133	$3,036	$8,746
Gas	180,522	—	15,207
Non-regulated Energy:			
Power Generation	1,178	18,449	6,914
Coal Mining	6,373	8,616	1,000
Oil and Gas	21,645	—	13
Corporate activities [a][b]	—	—	3,391
Intercompany eliminations	—	(30,101)	—
Total	$365,851	$—	$35,271

(a) Income (loss) from continuing operations includes a $4.8 million and a $7.8 million net after-tax non-cash mark-to-market gain for the three months ended March 31, 2013 and 2012, respectively.

(b) Certain indirect corporate costs and inter-segment interest expense after-tax totaling $1.6 million for the three months ended March 31, 2012 were included in the Corporate activities in continuing operations and were not reclassified as discontinued operations.

Segment information and Corporate balances included in the accompanying Condensed Consolidated Balance Sheets was as follows (in thousands):

Total Assets (net of inter-company eliminations) as of:	March 31, 2013	Dec. 31, 2012	March 31, 2012
Utilities:			
Electric [(a)]	$2,367,014	$2,387,458	$2,268,524
Gas	752,468	765,165	717,185
Non-regulated Energy:			
Power Generation [(a)]	115,708	119,170	128,225
Coal Mining	82,839	83,810	87,139
Oil and Gas	255,786	258,460	430,851
Corporate activities	112,771	115,408	176,012
Total assets	$3,686,586	$3,729,471	$3,807,936

(a) The PPA under which the Pueblo Airport Generation site owned by Colorado IPP supports Colorado customers is accounted for as a capital lease. Therefore, assets owned by the Power Generation segment are included in Total Assets of Electric Utilities Segment under this accounting for a capital lease.

(11) RISK MANAGEMENT ACTIVITIES

Our activities in the regulated and non-regulated energy sectors expose us to a number of risks in the normal operation of our businesses. Depending on the activity, we are exposed to varying degrees of market risk and credit risk. To manage and mitigate these identified risks, we have adopted the Black Hills Corporation Risk Policies and Procedures as discussed in our 2012 Annual Report on Form 10-K.

Market Risk

Market risk is the potential loss that might occur as a result of an adverse change in market price or rate. We are exposed to the following market risks including, but not limited to:

- Commodity price risk associated with our natural long position with crude oil and natural gas reserves and production and fuel procurement for certain of our gas-fired generation assets; and

- Interest rate risk associated with our variable rate credit facility, project financing floating rate debt and our other long-term debt instruments.

Credit Risk

Credit risk is the risk of financial loss resulting from non-performance of contractual obligations by a counterparty.

For production and generation activities, we attempt to mitigate our credit exposure by conducting business primarily with high credit quality entities, setting tenor and credit limits commensurate with counterparty financial strength, obtaining master netting agreements, and mitigating credit exposure with less creditworthy counterparties through parental guarantees, prepayments, letters of credit, and other security agreements.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and the customer’s current creditworthiness, as determined by review of their current credit information. We maintain a provision for estimated credit losses based upon historical experience and any specific customer collection issue that is identified.

As of March 31, 2013, our credit exposure included a $2.3 million exposure to a non-investment grade energy marketing company. The remainder of our credit exposure was concentrated primarily among retail utility customers, investment grade companies, cooperative utilities and federal agencies. Our derivative and hedging activities included in the accompanying Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Income and Condensed Consolidated Statements of Comprehensive Income (Loss) are detailed below and within Note 12.

Oil and Gas

We produce natural gas and crude oil through our exploration and production activities. Our natural "long" positions, or unhedged open positions, result in commodity price risk and variability to our cash flows.

To mitigate commodity price risk and preserve cash flows, we primarily use over-the-counter swaps, exchange traded futures and related options to hedge portions of our crude oil and natural gas production. We elect hedge accounting on these instruments. These transactions were designated at inception as cash flow hedges, documented under accounting standards for derivatives and hedging, and initially met prospective effectiveness testing. Effectiveness of our hedging position is evaluated at least quarterly.

The derivatives were marked to fair value and were recorded as Derivative assets or Derivative liabilities on the accompanying Condensed Consolidated Balance Sheets. The effective portion of the gain or loss on these derivatives for which we have elected cash flow hedge accounting is reported in AOCI on the accompanying Condensed Consolidated Balance Sheets and the ineffective portion, if any, is reported in Revenue on the accompanying Condensed Consolidated Statements of Income.

We had the following derivatives and related balances for our Oil and Gas segment (dollars in thousands) as of:

	March 31, 2013		Dec. 31, 2012		March 31, 2012	
	Crude oil futures, swaps and options	Natural gas futures and swaps	Crude oil futures, swaps and options	Natural gas futures and swaps	Crude oil futures, swaps and options	Natural gas futures and swaps
Notional [(a)]	522,000	10,633,000	528,000	8,215,500	522,000	5,001,750
Maximum terms in years [(b)]	0.75	0.5	1	0.75	1.25	1.5
Derivative assets, current	$821	$287	$1,405	$1,831	$406	$8,256
Derivative assets, non-current	$—	$—	$297	$170	$46	$808
Derivative liabilities, current	$250	$1,188	$847	$507	$2,904	$—
Derivative liabilities, non-current	$—	$—	$—	$—	$1,084	$—
Pre-tax accumulated other comprehensive income (loss)	$10	$(2,781)	$206	$873	$(3,566)	$9,064
Cash collateral receivable (payable) included in derivatives	$730	$1,880	$786	$620	$—	$—
Cash collateral included in Other current assets	$723	$2,102	$1,078	$709	$—	$—

(a) Crude oil in Bbls, natural gas in MMBtus.

(b) Refers to the term of the derivative instrument. Assets and liabilities are classified as current/non-current based on the term of the hedged transaction and the corresponding settlement of the derivative instrument.

Based on March 31, 2013 market prices, a $0.2 million loss would be reclassified from AOCI during the next 12 months. Estimated and actual realized gains or losses will change during future periods as market prices fluctuate.

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Utilities

The operations of our utilities, including tolling arrangements, expose our utility customers to volatility in natural gas prices; therefore, as allowed or required by state utility commissions, we have entered into commission approved hedging programs utilizing natural gas futures, options and basis swaps to reduce our customers' underlying exposure to these fluctuations. These transactions are considered derivatives and in accordance with accounting standards for derivatives and hedging, mark-to-market adjustments are recorded as Derivative assets or Derivative liabilities on the accompanying Condensed Consolidated Balance Sheets. Unrealized and realized gains and losses, as well as option premiums and commissions on these transactions are recorded as Regulatory assets or Regulatory liabilities in accordance with state commission guidelines. Accordingly, the hedging activity is recognized in the Condensed Consolidated Statements of Income or the Condensed Consolidated Statements of Comprehensive Income (Loss) when the related costs are recovered through our rates.

The contract or notional amounts and terms of the natural gas derivative commodity instruments held at our Gas Utilities were as follows, as of:

	March 31, 2013		Dec. 31, 2012		March 31, 2012	
	Notional (MMBtus)	Maximum Term (months)	Notional (MMBtus)	Maximum Term (months)	Notional (MMBtus)	Maximum Term (months)
Natural gas futures purchased	13,180,000	80	15,350,000	83	11,550,000	81
Natural gas options purchased	440,000	5	2,430,000	2	670,000	12
Natural gas basis swaps purchased	11,350,000	69	12,020,000	72	7,640,000	81

We had the following derivative balances related to the hedges in our Utilities (in thousands) as of:

	March 31, 2013	Dec. 31, 2012	March 31, 2012
Derivative assets, current	$522	$—	$9,215
Derivative assets, non-current	$—	$43	$27
Derivative liabilities, non-current	$—	$—	$6,407
Net unrealized (gain) loss included in Regulatory assets or Regulatory liabilities	$4,315	$9,596	$15,223
Cash collateral receivable (payable) included in derivatives	$4,487	$8,576	$17,651
Cash collateral included in Other current assets	$3,295	$4,354	$—
Option premiums and commissions included in derivatives	$350	$1,063	$407

Financing Activities

We have entered into floating-to-fixed interest rate swap agreements to reduce our exposure to interest rate fluctuations associated with our floating rate debt obligations. Our interest rate swaps and related balances were as follows (dollars in thousands) as of:

	March 31, 2013		Dec. 31, 2012		March 31, 2012	
	Designated Interest Rate Swaps [(a)]	De-designated Interest Rate Swaps [(b)]	Designated Interest Rate Swaps [(a)]	De-designated Interest Rate Swaps [(b)]	Designated Interest Rate Swaps [(a)]	De-designated Interest Rate Swaps [(b)]
Notional	$150,000	$250,000	$150,000	$250,000	$150,000	$250,000
Weighted average fixed interest rate	5.04 %	5.67 %	5.04 %	5.67 %	5.04 %	5.67 %
Maximum terms in years	3.75	0.75	4.00	1.00	4.75	1.75
Derivative liabilities, current	$6,982	$80,692	$7,039	$88,148	$6,777	$66,708
Derivative liabilities, non-current	$15,237	$—	$16,941	$—	$18,441	$17,237
Pre-tax accumulated other comprehensive income (loss)	$(22,219)	$—	$(23,980)	$—	$(25,218)	$—
Pre-tax gain (loss)	$—	$7,456	$—	$1,882	$—	$12,045
Cash collateral receivable (payable) included in derivatives	$—	$5,960	$—	$5,960	$—	$—

(a) These swaps have been designated to $75.0 million of borrowings on our Revolving Credit Facility and $75.0 million of borrowings on our project financing debt at Black Hills Wyoming. The swaps transferred to Black Hills Wyoming such that BHC and Black Hills Wyoming are both jointly and severally liable for the amount of those obligations. These swaps are priced using three-month LIBOR, matching the floating portion of the related swaps.

(b) Maximum terms in years reflect the amended early termination dates. If the early termination dates are not extended, the swaps will require cash settlement based on the swap value on the termination date. If extended, de-designated swaps totaling $100.0 million notional terminate in 6 years and de-designated swaps totaling $150.0 million notional terminate in 16 years.

Collateral requirements based on our corporate credit rating apply to $50.0 million of our de-designated swaps. At our current credit ratings, we are required to post collateral for any amount by which the swaps' negative mark-to-market fair value exceeds $20.0 million. If our senior unsecured credit rating drops to BB+ or below by S&P, or to Ba1 or below by Moody's, we would be required to post collateral for the entire amount of the swaps' negative mark-to-market fair value. We had $6.0 million cash collateral posted at March 31, 2013.

Based on March 31, 2013 market interest rates and balances related to our designated interest rate swaps, a loss of approximately $7.0 million would be realized, reported in pre-tax earnings and reclassified from AOCI during the next 12 months. Estimated and actual realized gains or losses will change during future periods as market interest rates change.

(12) FAIR VALUE MEASUREMENTS

Derivative Financial Instruments

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels. We record transfers, if necessary, between levels at the end of the reporting period for all of our financial instruments. For additional information see Notes 1, 3 and 4 included in our 2012 Annual Report on Form 10-K filed with the SEC.

Transfers into Level 3, if any, occur when significant inputs used to value the derivative instruments become less observable such as a significant decrease in the frequency and volume in which the instrument is traded, negatively impacting the availability of observable pricing inputs. Transfers out of Level 3, if any, occur when the significant inputs become more observable such as the time between the valuation date and the delivery date of a transaction becomes shorter, positively impacting the availability of observable pricing inputs.

Valuation Methodologies for Derivatives

Oil and Gas Segment:

- The commodity option contracts for our Oil and Gas segment are valued under the market approach and include calls and puts. Fair value was derived using quoted prices from third party brokers for similar instruments as to quantity and timing. The prices are then validated through third party sources and therefore support Level 2 disclosure.

- The commodity basis swaps for our Oil and Gas segment are valued under the market approach using the instrument's current forward price strip hedged for the same quantity and date and discounted based on the three-month LIBOR. We utilize observable inputs which support Level 2 disclosure.

Utilities Segment:

- The commodity contracts for our Utilities, valued using the market approach, include exchange-traded futures, options and basis swaps (Level 2) and OTC basis swaps (Level 3) for natural gas contracts. For Level 2 assets and liabilities, fair value was derived using broker quotes validated by the Chicago Mercantile Exchange pricing for similar instruments. For Level 3 assets and liabilities, fair value was derived using average price quotes from the OTC contract broker and an independent third party market participant since these instruments are not traded on an exchange.

Corporate Activities:

- The interest rate swaps are valued using the market approach. We establish fair value by obtaining price quotes directly from the counterparty which are based on the floating three-month LIBOR curve for the term of the contract. The fair value obtained from the counterparty is then validated by utilizing a nationally recognized service that obtains observable inputs to compute fair value for the same instrument. In addition, the fair value for the interest rate swap derivatives includes a CVA component. The CVA considers the fair value of the interest rate swap and the probability of default based on the life of the contract. For the probability of a default component, we utilize observable inputs supporting Level 2 disclosure by using our credit default spread, if available, or a generic credit default spread curve that takes into account our credit ratings.

Recurring Fair Value Measurements

There have been no significant transfers between Level 1 and Level 2 derivative balances. The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis (in thousands):

	As of March 31, 2013				
	Level 1	Level 2	Level 3	Cash Collateral and Counterparty Netting	Total
Assets:					
Commodity derivatives — Oil and Gas					
Options -- Oil	$—	$71	$—	$(11)	$60
Basis Swaps -- Oil	—	836	—	(75)	761
Options -- Gas	—	—	—	—	—
Basis Swaps -- Gas	—	435	—	(148)	287
Commodity derivatives — Utilities	—	1,897	—	(1,375)	522
Cash equivalents [(a)]	12,397	—	—	—	12,397
Total	$12,397	$3,239	$—	$(1,609)	$14,027
Liabilities:					
Commodity derivatives — Oil and Gas					
Options -- Oil	$—	$396	$—	$(204)	$192
Basis Swaps -- Oil	—	670	—	(612)	58
Options -- Gas	—	—	—	—	—
Basis Swaps -- Gas	—	3,216	—	(2,028)	1,188
Commodity derivatives — Utilities	—	5,862	—	(5,862)	—
Interest rate swaps	—	108,871	—	(5,960)	102,911
Total	$—	$119,015	$—	$(14,666)	$104,349

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(a) Level 1 assets and liabilities are described in Note 13.

	As of Dec. 31, 2012				
	Level 1	Level 2	Level 3	Cash Collateral and Counterparty Netting	Total
Assets:					
Commodity derivatives — Oil and Gas					
Options -- Oil	$—	$378	$—	$—	$378
Basis Swaps -- Oil	—	1,325	—	—	1,325
Options -- Gas	—	—	—	—	—
Basis Swaps -- Gas	—	2,000	—	—	2,000
Commodity derivatives —Utilities	—	—	43 (b)	—	43
Cash equivalents (a)	15,462	—	—	—	15,462
Total	$15,462	$3,703	$43	$—	$19,208
Liabilities:					
Commodity derivatives — Oil and Gas					
Options -- Oil	$—	$1,131	$—	$(336)	$795
Basis Swaps -- Oil	—	502	—	(450)	52
Options -- Gas	—	—	—	—	—
Basis Swaps -- Gas	—	1,127	—	(620)	507
Commodity derivatives — Utilities	—	10,162	—	(10,162)	—
Interest rate swaps	—	118,088	—	(5,960)	112,128
Total	$—	$131,010	$—	$(17,528)	$113,482

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(a) Level 1 assets and liabilities are described in Note 13.

(b) The significant unobservable inputs used in the fair value measurement of the long-term OTC contracts are based on the average of price quotes from an independent third party market participant and the OTC contract broker. The unobservable inputs are long-term natural gas prices. Significant changes to these inputs along with the contract term would impact the derivative asset/liability and regulatory asset/liability, but will not impact the results of operations until the contract is settled under the original terms of the contract. The contracts will be classified as Level 2 once settlement is within 60 months of maturity and quoted market prices from a market exchange are available.

	As of March 31, 2012					
	Level 1	Level 2	Level 3		Cash Collateral and Counterparty Netting	Total
Assets:						
Commodity derivatives — Oil and Gas						
Options -- Oil	$—	$404	$—		$—	$404
Basis Swaps -- Oil	—	48	—		—	48
Options -- Gas	—	—	—		—	—
Basis Swaps -- Gas	—	9,064	—		—	9,064
Commodity derivatives — Utilities	—	(8,412)	3	(b)	17,651	9,242
Cash equivalents [(a)]	55,919	—	—		—	55,919
Total	$55,919	$1,104	$3		$17,651	$74,677
Liabilities:						
Commodity derivatives — Oil and Gas						
Options -- Oil	$—	$1,347	$—		$—	$1,347
Basis Swaps -- Oil	—	2,641	—		—	2,641
Options -- Gas	—	—	—		—	—
Basis Swaps -- Gas	—	—	—		—	—
Commodity derivatives — Utilities	—	6,359	48	(b)	—	6,407
Interest rate swaps	—	109,163	—		—	109,163
Total	$—	$119,510	$48		$—	$119,558

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(a) Level 1 assets and liabilities are described in Note 13.

(b) The significant unobservable inputs used in the fair value measurement of the long-term OTC contracts are based on the average of price quotes from an independent third party market participant and the OTC contract broker. The unobservable inputs are long-term natural gas prices. Significant changes to these inputs along with the contract term would impact the derivative asset/liability and regulatory asset/liability, but will not impact the results of operations until the contract is settled under the original terms of the contract. The contracts will be classified as Level 2 once settlement is within 60 months of maturity and quoted market prices from a market exchange are available.

Fair Value Measures By Balance Sheet Classification

As required by accounting standards for derivatives and hedges, fair values within the following tables are presented on a gross basis and reflect the netting of asset and liability positions permitted in accordance with accounting standards for offsetting and under terms of our master netting agreements and the amounts do not include net cash collateral on deposit in margin accounts at March 31, 2013, Dec. 31, 2012, and March 31, 2012, to collateralize certain financial instruments, which are included in Derivative assets and/or Derivative liabilities. Therefore, the balances are not indicative of either our actual credit exposure or net economic exposure. Additionally, the amounts below will not agree with the amounts presented on our Condensed Consolidated Balance Sheets, nor will they correspond to the fair value measurements presented in Note 11.

The following tables present the fair value and balance sheet classification of our derivative instruments (in thousands):

As of March 31, 2013

	Balance Sheet Location	Fair Value of Asset Derivatives	Fair Value of Liability Derivatives
Derivatives designated as hedges:			
Commodity derivatives	Derivative assets — current	$832	$—
Commodity derivatives	Derivative assets — non-current	206	—
Commodity derivatives	Derivative liabilities — current	—	3,110
Commodity derivatives	Derivative liabilities — non-current	—	1,114
Interest rate swaps	Derivative liabilities — current	—	6,982
Interest rate swaps	Derivative liabilities — non-current	—	15,237
Total derivatives designated as hedges		$1,038	$26,443
Derivatives not designated as hedges:			
Commodity derivatives	Derivative assets — current	$2,201	$—
Commodity derivatives	Derivative assets — non-current	—	—
Commodity derivatives	Derivative liabilities — current	—	58
Commodity derivatives	Derivative liabilities — non-current	—	5,862
Interest rate swaps	Derivative liabilities — current	—	86,652
Interest rate swaps	Derivative liabilities — non-current	—	—
Total derivatives not designated as hedges		$2,201	$92,572

As of Dec. 31, 2012

	Balance Sheet Location	Fair Value of Asset Derivatives	Fair Value of Liability Derivatives
Derivatives designated as hedges:			
Commodity derivatives	Derivative assets — current	$2,874	$—
Commodity derivatives	Derivative assets — non-current	510	—
Commodity derivatives	Derivative liabilities — current	—	1,993
Commodity derivatives	Derivative liabilities — non-current	—	821
Interest rate swaps	Derivative liabilities — current	—	7,038
Interest rate swaps	Derivative liabilities — non-current	—	16,941
Total derivatives designated as hedges		$3,384	$26,793
Derivatives not designated as hedges:			
Commodity derivatives	Derivative assets — current	$362	$—
Commodity derivatives	Derivative assets — non-current	—	—
Commodity derivatives	Derivative liabilities — current	1,180	4,957
Commodity derivatives	Derivative liabilities — non-current	406	5,153
Interest rate swaps	Derivative liabilities — current	—	94,108
Interest rate swaps	Derivative liabilities — non-current	—	—
Total derivatives not designated as hedges		$1,948	$104,218

As of March 31, 2012

	Balance Sheet Location	Fair Value of Asset Derivatives	Fair Value of Liability Derivatives
Derivatives designated as hedges:			
Commodity derivatives	Derivative assets — current	$8,662	$—
Commodity derivatives	Derivative assets — non-current	854	—
Commodity derivatives	Derivative liabilities — current	—	2,904
Commodity derivatives	Derivative liabilities — non-current	—	1,084
Interest rate swaps	Derivative liabilities — current	—	6,777
Interest rate swaps	Derivative liabilities — non-current	—	18,441
Total derivatives designated as hedges		$9,516	$29,206
Derivatives not designated as hedges:			
Commodity derivatives	Derivative assets — current	$—	$8,436
Commodity derivatives	Derivative assets — non-current	—	(27)
Commodity derivatives	Derivative liabilities — current	—	—
Commodity derivatives	Derivative liabilities — non-current	—	6,407
Interest rate swaps	Derivative liabilities — current	—	66,708
Interest rate swaps	Derivative liabilities — non-current	—	17,237
Total derivatives not designated as hedges		$—	$98,761

Derivatives Offsetting

It is our policy to offset in our Condensed Consolidated Balance Sheets contracts which provide for legally enforceable netting for our accounts receivable and payable and derivative activities. The tables below do not reflect accounts receivable or accounts payable subject to master netting agreements.

As required by accounting standards for derivatives and hedges, fair values within the following tables are presented on a gross basis and reflect the netting of asset and liability positions permitted in accordance with accounting standards for offsetting and under the terms of our master netting agreements. Additionally, the amounts reflect cash collateral on deposit in margin accounts at March 31, 2013, Dec. 31, 2012, and March 31, 2012, to collateralize certain financial instruments, which are included in Derivative assets and/or Derivative liabilities. Therefore, the gross balances are not indicative of either our actual credit exposure or net economic exposure.

Offsetting of derivative assets and derivative liabilities as of March 31, 2013 (in thousands):

Derivative Assets	Gross Amounts of Derivative Assets	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Assets on Condensed Consolidated Balance Sheets
Subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$75	$—	$(75)	$—
Oil and Gas - Crude Options	11	—	(11)	—
Oil and Gas - Natural Gas Basis Swaps	148	—	(148)	—
Utilities	1,897	(1,375)	—	522
Total derivative assets subject to a master netting agreement or similar arrangement	2,131	(1,375)	(234)	522
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	761	—	—	761
Oil and Gas - Crude Options	60	—	—	60
Oil and Gas - Natural Gas Basis Swaps	287	—	—	287
Utilities	—	—	—	—
Total derivative assets not subject to a master netting agreement or similar arrangement	1,108	—	—	1,108
Total derivative assets	$3,239	$(1,375)	$(234)	$1,630

Derivative Liabilities	Gross Amounts of Derivative Liabilities	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Liabilities on Condensed Consolidated Balance Sheets
Subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$612	$—	$(612)	$—
Oil and Gas - Crude Options	204	—	(204)	—
Oil and Gas - Natural Gas Basis Swaps	2,028	—	(2,028)	—
Utilities	5,862	(1,375)	(4,487)	—
Interest Rate Swaps	—	—	—	—
Total derivative liabilities subject to a master netting agreement or similar arrangement	8,706	(1,375)	(7,331)	—
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	58	—	—	58

Oil and Gas - Crude Options	192	—	—	192
Oil and Gas - Natural Gas Basis Swaps	1,188	—	—	1,188
Utilities	—	—	—	—
Interest Rate Swaps	108,871	—	(5,960)	102,911
Total derivative liabilities not subject to a master netting agreement or similar arrangement	110,309	—	(5,960)	104,349
Total derivative liabilities	$119,015	$(1,375)	$(13,291)	$104,349

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Offsetting of derivative assets and derivative liabilities as of Dec. 31, 2012 (in thousands):

Derivative Assets	Gross Amounts of Derivative Assets	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Assets on Condensed Consolidated Balance Sheets
Subject to master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$76	$—	$—	$76
Oil and Gas - Crude Options	93	—	—	93
Oil and Gas - Natural Gas Basis Swaps	172	—	—	172
Utilities	1,629	(1,586)	—	43
Total derivative assets subject to a master netting agreement or similar arrangement	1,970	(1,586)	—	384
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	1,249	—	—	1,249
Oil and Gas - Crude Options	285	—	—	285
Oil and Gas - Natural Gas Basis Swaps	1,828	—	—	1,828
Utilities	—	—	—	—
Total derivative assets not subject to a master netting agreement or similar arrangement	3,362	—	—	3,362
Total derivative assets	$5,332	$(1,586)	$—	$3,746

Derivative Liabilities	Gross Amounts of Derivative Liabilities	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Liabilities on Condensed Consolidated Balance Sheets
Subject to a master netting agreement or similar arrangement				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$449	$—	$(449)	$—
Oil and Gas - Crude Options	337	—	(337)	—
Oil and Gas - Natural Gas Basis Swaps	620	—	(620)	—
Utilities	10,162	(1,586)	(8,576)	—
Interest Rate Swaps	—	—	—	—
Total derivative liabilities subject to a master netting agreement or similar arrangement	11,568	(1,586)	(9,982)	—
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	52	—	—	52

Oil and Gas - Crude Options	795	—	—	795
Oil and Gas - Natural Gas Basis Swaps	507	—	—	507
Utilities	—	—	—	—
Interest Rate Swaps	118,088	—	(5,960	)112,128
Total derivative liabilities not subject to a master netting agreement or similar arrangement	119,442	—	(5,960	)113,482
Total derivative liabilities	$131,010	$(1,586	)$(15,942	)$113,482

Offsetting of derivative assets and derivative liabilities as of March 31, 2012 (in thousands):

Derivative Assets	Gross Amounts of Derivative Assets	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Assets on Condensed Consolidated Balance Sheets
Subject to master netting agreements or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$—	$—	$—	$—
Oil and Gas - Crude Options	—	—	—	—
Oil and Gas - Natural Gas Basis Swaps	—	—	—	—
Utilities	(8,409)	—	17,651	9,242
Total derivative assets subject to a master netting agreement or similar arrangement	(8,409)	—	17,651	9,242
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	48	—	—	48
Oil and Gas - Crude Options	404	—	—	404
Oil and Gas - Natural Gas Basis Swaps	9,064	—	—	9,064
Utilities	—	—	—	—
Total derivative assets not subject to a master netting agreement or similar arrangement	9,516	—	—	9,516
Total derivative assets	$1,107	$—	$17,651	$18,758

Derivative Liabilities	Gross Amounts of Derivative Liabilities	Gross Amounts Offset on Condensed Consolidated Balance Sheets	Cash Collateral included in Derivatives	Net Amount of Total Derivative Liabilities on Condensed Consolidated Balance Sheets
Subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	$—	$—	$—	$—
Oil and Gas - Crude Options	—	—	—	—
Oil and Gas - Natural Gas Basis Swaps	—	—	—	—
Utilities	6,407	—	—	6,407
Interest Rate Swaps	—	—	—	—
Total derivative liabilities subject to a master netting agreement or similar arrangement	6,407	—	—	6,407
Not subject to a master netting agreement or similar arrangement:				
Commodity derivative:				
Oil and Gas - Crude Basis Swaps	2,641	—	—	2,641

Oil and Gas - Crude Options	1,347	—	—	1,347
Oil and Gas - Natural Gas Basis Swaps	—	—	—	—
Utilities	—	—	—	—
Interest Rate Swaps	109,163	—	—	109,163
Total derivative liabilities not subject to a master netting agreement or similar arrangement	113,151	—	—	113,151
Total derivative liabilities	$119,558	$—	$—	$119,558

Derivative assets and derivative liabilities and collateral held by counterparty as of March 31, 2013 (in thousands):

Contract Type		Net Amount of Total Derivative Assets	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Received	Net Amount with Counterparty
Asset:				
Oil and Gas	Counterparty A	$—	$—	$—
Oil and Gas	Counterparty B	1,108	—	1,108
Utilities	Counterparty A	522	—	522
		$1,630	$—	$1,630

Contract Type		Net Amount of Total Derivative Liabilities	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Paid	Net Amount with Counterparty
Liabilities				
Oil and Gas	Counterparty A	$—	$(2,825)	$(2,825)
Oil and Gas	Counterparty B	1,438	—	1,438
Utilities	Counterparty A	—	(3,295)	(3,295)
Interest Rate Swap	Counterparty D	4,266	—	4,266
Interest Rate Swap	Counterparty E	26,754	—	26,754
Interest Rate Swap	Counterparty F	11,841	—	11,841
Interest Rate Swap	Counterparty G	24,905	—	24,905
Interest Rate Swap	Counterparty H	14,625	—	14,625
Interest Rate Swap	Counterparty I	20,520	—	20,520
		$104,349	$(6,120)	$98,229

Derivative assets and derivative liabilities and collateral held by counterparty as of Dec. 31, 2012 (in thousands):

Contract Type		Net Amount of Total Derivative Assets	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Received	Net Amount with Counterparty
Assets:				
Oil and Gas	Counterparty A	$341	$—	$341
Oil and Gas	Counterparty B	3,362	—	3,362
Utilities	Counterparty A	43	—	43
		$3,746	$—	$3,746

Contract Type		Net Amount of Total Derivative Liabilities	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Paid	Net Amount with Counterparty
Liabilities:				
Oil and Gas	Counterparty A	$—	$(1,787)	$(1,787)
Oil and Gas	Counterparty B	1,354	—	1,354
Utilities	Counterparty A	—	(4,354)	(4,354)
Interest Rate Swap	Counterparty D	4,588	—	4,588
Interest Rate Swap	Counterparty E	29,245	—	29,245
Interest Rate Swap	Counterparty F	12,721	—	12,721
Interest Rate Swap	Counterparty G	26,520	—	26,520
Interest Rate Swap	Counterparty H	16,809	—	16,809
Interest Rate Swap	Counterparty I	22,245	—	22,245
		$113,482	$(6,141)	$107,341

Derivative assets and derivative liabilities and collateral held by counterparty as of March 31, 2012 (in thousands):

Contract Type		Net Amount of Total Derivative Assets	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Received	Net Amount with Counterparty
Assets:				
Oil and Gas	Counterparty A	$—	$—	$—
Oil and Gas	Counterparty B	9,516	—	9,516
Utilities	Counterparty A	9,242	—	9,242
		$18,758	$—	$18,758

Contract Type		Net Amount of Total Derivative Liabilities	Gross Amounts Not Offset on Condensed Consolidated Balance Sheets Cash Collateral Paid	Net Amount with Counterparty
Liabilities:				
Oil and Gas	Counterparty A	$—	$—	$—
Oil and Gas	Counterparty B	3,988	—	3,988
Utilities	Counterparty A	6,407	—	6,407
Interest Rate Swap	Counterparty D	4,810	—	4,810
Interest Rate Swap	Counterparty E	27,137	—	27,137
Interest Rate Swap	Counterparty F	13,027	—	13,027
Interest Rate Swap	Counterparty G	24,617	—	24,617
Interest Rate Swap	Counterparty H	19,808	—	19,808
Interest Rate Swap	Counterparty I	19,764	—	19,764
		$119,558	$—	$119,558

A description of our derivative activities is included in Note 11. The following tables present the impact that derivatives had on our Condensed Consolidated Statements of Income.

Cash Flow Hedges

The impact of cash flow hedges on our Condensed Consolidated Statements of Income was as follows (in thousands):
Three Months Ended March 31, 2013

Derivatives in Cash Flow Hedging Relationships	Amount of Gain/(Loss) Recognized in AOCI Derivative (Effective Portion)	Location of Gain/(Loss) Reclassified from AOCI into Income (Effective Portion)	Amount of Reclassified Gain/(Loss) from AOCI into Income (Effective Portion)	Location of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion)	Amount of Gain/(Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate swaps	$(19)	Interest expense	$(1,796)		$—
Commodity derivatives	(2,759)				