BLACK HILLS CORP /SD/
Form 10-Q
May 11, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009.

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number 001-31303

Black Hills Corporation
Incorporated in South Dakota IRS Identification Number 46-0458824
625 Ninth Street
Rapid City, South Dakota 57701

Registrant s telephone number (605) 721-1700

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

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

Yes x No o

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

Yes o No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	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, 2009
Common stock, $1.00 par value	38,798,483 shares

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

Acquisition Facility	Our $1.0 billion single-draw, senior unsecured facility from which a $383 million draw was used to provide part of the funding for our Aquila Transaction
AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income
ARB	Accounting Research Bulletin
ARB 51	ARB 51 Consolidated Financial Statements
Aquila	Aquila, Inc.
Aquila Transaction	Our July 14, 2008 acquisition of Aquila s regulated electric utility in Colorado and its regulated gas utilities in Colorado, Kansas, Nebraska and Iowa
Bbl	Barrel
BHCRPP	Black Hills Corporation Risk Policies and Procedures
BHEP	Black Hills Exploration and Production, Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, a direct wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Energy	The name used to conduct the business activities of Black Hills Utility Holdings, including the gas and electric utility properties acquired from Aquila
Black Hills Non-regulated Holdings	Black Hills Non-regulated Holdings, LLC, a direct, wholly-owned subsidiary of the Company that was formerly known as Black Hills Energy, Inc.
Black Hills Power	Black Hills Power, Inc., a direct, wholly-owned subsidiary of the Company
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of the Company formed to acquire and own the utility properties acquired from Aquila, all which are now doing business as Black Hills Energy
Black Hills Wyoming	Black Hills Wyoming, Inc., a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of the Company
Cheyenne Light Pension Plan	The Cheyenne Light, Fuel and Power Company Pension Plan
Colorado Electric	Black Hills Colorado Electric Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado electric utility properties acquired from Aquila
Colorado Gas	Black Hills Colorado Gas Utility Company, LP, (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Colorado gas utility properties acquired from Aquila
CPUC	Colorado Public Utilities Commission
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
EITF	Emerging Issues Task Force

EITF 02-3	EITF Issue No. 02-3, Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities
EITF 87-24	EITF Issue No. 87-24, Allocation of Interest to Discontinued Operations
EITF 99-2	EITF Issue No. 99-2, Accounting for Weather Derivatives
Enserco	Enserco Energy Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN	FASB Interpretations
FIN 39	FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts an Interpretation of APB Opinion No. 10 and FASB Statement No. 105
FIN 46(R)	FIN 46-(R), Consolidation of Variable Interest Entities (Revised December 2003) an interpretation of ARB No. 51
FIN 48	FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109
FSP	FASB Staff Position
FSP FAS 107-1	FSP FAS 107-1, Interim Disclosure About Fair Value of Financial Instruments
FSP FAS 132(R)-1	FSP FAS 132(R)-1, Employer s Disclosures about Pensions and Other Postretirement Benefits (Revised)
FSP FAS 157-2	FSP FAS 157-2, Effective Date of FASB Statement No. 157
FSP FAS 157-4	FSP FAS 157-4, Determining Whether a Market is Not Active and a Transaction is Not Distressed
FSP FIN 39-1	FSP FIN 39-1, Amendment of FASB Interpretation No. 39
GAAP	Generally Accepted Accounting Principles
GE	GE Packaged Power, Inc.
Hastings	Hastings Funds Management Ltd
IIF	IIF BH Investment LLC, a subsidiary of an investment entity advised by JPMorgan Asset Management
Iowa Gas	Black Hills Iowa Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Iowa gas utility properties acquired from Aquila
IPP	Independent Power Production
IPP Transaction	Our July 11, 2008 sale of seven of our IPP plants to affiliates of Hastings and IIF
IUB	Iowa Utilities Board
Kansas Gas	Black Hills Kansas Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Kansas gas utility properties acquired from Aquila
KCC	Kansas Corporation Commission
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	One thousand cubic feet
Mcfe	One thousand cubic feet equivalent
MDU	MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska

MMBtu	One million British thermal units
MW	Megawatt
MWh	Megawatt-hour
Nebraska Gas	Black Hills Nebraska Gas Utility Company, LLC, (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings, formed to hold the Nebraska gas utility properties acquired from Aquila
NPA	Nebraska Public Advocate
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
PGA	Purchase Gas Adjustment
SEC	United States Securities and Exchange Commission
SEC Release No. 33-8995	SEC Release No. 33-8995, Modernization of Oil and Gas Reporting
SFAS	Statement of Financial Accounting Standards
SFAS 71	SFAS 71, Accounting for the Effects of Certain Types of Regulation
SFAS 133	SFAS 133, Accounting for Derivative Instruments and Hedging Activities
SFAS 141(R)	SFAS 141(R), Business Combinations
SFAS 142	SFAS 142, Goodwill and Other Intangible Assets
SFAS 144	SFAS 144, Accounting for the Impairment or Disposal of Long-lived Assets
SFAS 157	SFAS 157, Fair Value Measurements
SFAS 160	SFAS 160, Non-controlling Interest in Consolidated Financial Statements an amendment of ARB No. 51
SFAS 161	SFAS 161, Disclosure about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings, LLC

BLACK HILLS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)

	Three Months Ended March 31, 2009	2008
	(in thousands, except per share amounts)	
Operating revenues	$ 437,943	$ 152,850
Operating expenses:		
Fuel and purchased power	261,020	52,395
Operations and maintenance	39,335	21,966
Gain on sale of assets	(25,971)	
Administrative and general	41,766	24,059
Depreciation, depletion and amortization	33,325	19,386
Taxes, other than income taxes	11,698	9,508
Impairment of long-lived assets	43,301	
	404,474	127,314
Operating income	33,469	25,536
Other income (expense):		
Interest expense	(18,901)	(9,194)
Interest rate swap unrealized gain	14,763	
Interest income	528	426
Allowance for funds used during construction equity	1,372	281
Other income, net	744	336
	(1,494)	(8,151)
Income from continuing operations before equity in (loss) earnings of unconsolidated subsidiaries and income taxes	31,975	17,385
Equity in (loss) earnings of unconsolidated subsidiaries	(327)	232
Income tax expense	(6,023)	(5,801)
Income from continuing operations	25,625	11,816
Income from discontinued operations, net of taxes	766	5,052
Net income	26,391	16,868
Net loss attributable to non-controlling interest		(77)
Net income available for common stock	$ 26,391	$ 16,791
Weighted average common shares outstanding:		
Basic	38,511	37,826
Diluted	38,563	38,399
Earnings per share:		
Basic		
Continuing operations	$ 0.67	$ 0.31
Discontinued operations	0.02	0.13
Total	$ 0.69	$ 0.44
Diluted		
Continuing operations	$ 0.66	$ 0.31
Discontinued operations	0.02	0.13

Total	$	0.68	$	0.44
Dividends paid per share of common stock	$	0.355	$	0.35

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)

	March 31, 2009	December 31, 2008	March 31, 2008
	(in thousands, except share amounts)		
ASSETS			
Current assets:			
Cash and cash equivalents	$ 121,562	$ 168,491	$ 71,027
Restricted cash			5,484
Short-term investments			7,290
Receivables (net of allowance for doubtful accounts of $7,832; $6,751 and $4,213, respectively)	233,921	357,404	254,178
Materials, supplies and fuel	59,139	118,021	80,533
Derivative assets	79,443	73,068	46,337
Income tax receivable		20,269	
Deferred income taxes	11,788	10,244	14,011
Regulatory assets	19,053	35,390	2,659
Other current assets	11,517	16,380	11,779
Assets of discontinued operations		246	590,687
	536,423	799,513	1,083,985
Investments	19,956	22,764	16,745
Property, plant and equipment	2,750,760	2,705,492	1,903,096
Less accumulated depreciation and depletion	(750,748)	(683,332)	(526,729)
	2,000,012	2,022,160	1,376,367
Other assets:			
Goodwill	359,093	359,290	14,000
Intangible assets, net	4,870	4,884	3
Derivative assets	11,606	9,799	1,360
Regulatory assets	137,108	143,705	18,553
Other	12,041	17,774	14,054
	524,718	535,452	47,970
	$ 3,081,109	$ 3,379,889	$ 2,525,067
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Accounts payable	$ 191,817	$ 288,907	$ 238,955
Accrued liabilities	129,405	134,940	84,597
Derivative liabilities	105,883	118,657	72,526
Accrued income taxes	19,794		303
Regulatory liabilities	14,939	5,203	4,804
Notes payable	479,800	703,800	73,000
Current maturities of long-term debt	32,082	2,078	130,330
Liabilities of discontinued operations		88	90,001
	973,720	1,253,673	694,516
Long-term debt, net of current maturities	471,226	501,252	503,279
Deferred credits and other liabilities:			
Deferred income taxes	222,157	223,607	209,272
Derivative liabilities	20,656	22,025	16,516
Regulatory liabilities	39,514	38,456	29,379
Benefit plan liabilities	160,397	159,034	42,244
Other	121,842	131,306	59,379
	564,566	574,428	356,790
Stockholders equity:			
Common stock equity			
Common stock $1 par value; 100,000,000 shares authorized; Issued 38,796,005; 38,676,054 and 38,425,006 shares, respectively	38,796	38,676	38,425
Additional paid-in capital	585,244	584,582	578,742
Retained earnings	460,091	447,453	400,909
Treasury stock at cost 4,725; 40,183 and 29,400			

shares, respectively	(119)	(1,392)	(1,050)
Accumulated other comprehensive loss	(12,415)	(18,783)	(51,788)
Total common stockholders equity	1,071,597	1,050,536	965,238
Non-controlling interest in subsidiaries			5,244
Total equity	1,071,597	1,050,536	970,482
	$ 3,081,109	$ 3,379,889	$ 2,525,067

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

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BLACK HILLS CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	Three Months Ended March 31, 2009	2008
	(in thousands)	
Operating activities:		
Net income	$ 26,391	$ 16,868
Income from discontinued operations, net of taxes	(766)	(5,052)
Income from continuing operations	25,625	11,816
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	33,325	19,386
Impairment of long-lived assets	43,301	
Net change in derivative assets and liabilities	6,154	7,745
Gain on sale of operating assets	(25,971)	
Unrealized mark-to-market gain on interest rate swaps	(14,763)	
Deferred income taxes	(5,427)	8,830
Distributed earnings in associated companies	2,687	1,241
Allowance for funds used during construction equity	(1,372)	(281)
Change in operating assets and liabilities:		
Materials, supplies and fuel	65,838	22,390
Accounts receivable and other current assets	123,993	(22,430)
Accounts payable and other current liabilities	(83,994)	(8,742)
Regulatory assets and liabilities	33,027	(266)
Other operating activities	(2,971)	(1,937)
Net cash provided by operating activities of continuing operations	199,452	37,752
Net cash provided by operating activities of discontinued operations	883	15,929
Net cash provided by operating activities	200,335	53,681
Investing activities:		
Property, plant and equipment additions	(71,272)	(56,547)
Proceeds from sale of business operations	51,878	
Working capital adjustment of purchase price allocation on acquisition	7,900	
Increase in short-term investments		(7,290)
Other investing activities	135	951
Net cash used in investing activities of continuing operations	(11,359)	(62,886)
Net cash used in investing activities of discontinued operations		(17,742)
Net cash used in investing activities	(11,359)	(80,628)
Financing activities:		
Dividends paid	(13,753)	(13,275)
Common stock issued	764	1,998
Increase (decrease) in short-term borrowings, net	(224,000)	36,000
Long-term debt repayments	(22)	(18)
Other financing activities	1,065	297
Net cash (used in) provided by financing activities of continuing operations	(235,946)	25,002
Net cash used in financing activities of discontinued operations		(3,214)
Net cash (used in) provided by financing activities	(235,946)	21,788
Decrease in cash and cash equivalents	(46,970)	(5,159)
Cash and cash equivalents:		
Beginning of period	168,532 [a]	81,255 [b]
End of period	$ 121,562	$ 76,096 [c]
Supplemental disclosure of cash flow information:		
Non-cash investing and financing activities-		
Property, plant and equipment acquired with accrued liabilities	$ 28,947	$ 18,939
Cash paid during the period for-		
Interest (net of amounts capitalized)	$ 10,177	$ 7,333
Income taxes paid (net of amounts refunded)	$ (24,495)	$ 1,500

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(a) Includes less than $0.1 million of cash included in the assets of discontinued operations.
(b) Includes approximately $4.4 million of cash included in the assets of discontinued operations.
(c) Includes approximately $5.1 million of cash included in the assets of discontinued operations.

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

BLACK HILLS CORPORATION

Notes to Condensed Consolidated Financial Statements

(unaudited)

(Reference is made to Notes to Consolidated Financial Statements

included in the Company s 2008 Annual Report on Form 10-K)

(1) MANAGEMENT S STATEMENT

The condensed consolidated financial statements included herein have been prepared by Black Hills Corporation (the Company, us , we , our) without audit, pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, we believe that the footnotes adequately disclose the information presented. These financial statements should be read in conjunction with the financial statements and the notes thereto, included in our 2008 Annual Report on Form 10-K filed with the SEC.

Accounting methods historically employed require certain estimates as of interim dates. The information furnished in the accompanying financial statements reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the March 31, 2009, December 31, 2008 and March 31, 2008 financial information and are of a normal recurring nature. Some of our operations are highly seasonal and revenues from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Demand for electricity and natural gas is sensitive to seasonal cooling, heating and industrial load requirements, as well as changes in market price. In particular, the normal peak usage season for gas utilities is November through March and significant earnings variances can be expected between the Gas Utilities segment s peak and off-peak seasons. The results of operations for the three months ended March 31, 2009, are not necessarily indicative of the results to be expected for the full year. All earnings per share amounts discussed refer to diluted earnings per share unless otherwise noted.

On July 11, 2008, we completed the sale of seven of our IPP plants. Amounts associated with the IPP plants divested in the IPP Transaction have been reclassified as discontinued operations for the quarter ended March 31, 2008. See Note 20 for additional information.

On July 14, 2008, we completed the acquisition of a regulated electric utility in Colorado and regulated gas utilities in Colorado, Kansas, Nebraska and Iowa from Aquila. Effective as of that date, the assets and liabilities, results of operations, and cash flows of the acquired utilities are included in our Condensed Consolidated Financial Statements. See Note 17 for additional information.

(2) RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

SFAS 157

During September 2006, the FASB issued SFAS 157. This Statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 does not expand the application of fair value accounting to any new circumstances, but applies the framework to other accounting pronouncements that require or permit fair value measurement. We apply fair value measurements to certain assets and liabilities, primarily commodity derivatives within our Energy Marketing and Oil and Gas segments, interest rate swap instruments, and other miscellaneous derivatives.

As a result of the adoption of SFAS 157 on January 1, 2008, we discontinued our use of a liquidity reserve in valuing the total forward positions within our energy marketing portfolio. This impact was accounted for prospectively as a change in accounting estimate and resulted in a $1.2 million after-tax benefit that was recorded within our unrealized marketing margins. Unrealized margins are presented as a component of Operating revenues on the accompanying Condensed Consolidated Statements of Income. SFAS 157 also required new disclosures regarding the level of pricing observability associated with instruments carried at fair value. These disclosures are provided in Note 13.

FSP FAS 157-2

In February 2008, the FASB issued FSP FAS 157-2, which permits a one-year deferral of the application of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We adopted FSP FAS 157-2 effective January 1, 2008. Accordingly, the provisions of SFAS 157 were not applied to non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, until January 1, 2009. We adopted the provisions of SFAS 157 for non-financial assets and non-financial liabilities upon the expiration of FSP FAS 157-2 and it did not have an impact on our consolidated financial statements.

SFAS 141(R)

In December 2007, the FASB issued SFAS 141(R). SFAS 141(R) requires an acquiring entity to recognize the assets acquired, the liabilities assumed and any non-controlling interests in the acquiree at the acquisition date to be measured at their fair values as of the acquisition date, with limited exceptions specified in the statement. Acquisition-related costs will be expensed in the periods in which the costs are incurred or services are rendered. If income tax liabilities are settled for an amount other than as previously recorded prior to the adoption of SFAS 141(R), the reversal of any remaining liability will affect goodwill. If such liabilities reverse subsequent to the adoption of SFAS 141(R), such reversals will affect expense including income tax expense in the period of reversal. Costs to issue debt or equity securities shall be accounted for under other applicable GAAP. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS 141(R) on January 1, 2009. Any impact that SFAS 141(R) will have on our consolidated financial statements will depend on the nature and magnitude of any future acquisitions we consummate.

SFAS 160

In December 2007, the FASB issued SFAS 160. SFAS 160 amends ARB 51 and requires:

Ownership interests in subsidiaries held by parties other than the parent be clearly identified on the consolidated statement of financial position within equity, but separate from the parent s equity;

Consolidated net income attributable to the parent and to the non-controlling interest be clearly identified on the face of the consolidated statement of income;

Changes in a parent s ownership interest while the parent retains a controlling financial interest be accounted for consistently as equity transactions;

When a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be initially measured at fair value; and

Sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interests of the non-controlling owners.

We applied the provisions of SFAS 160 on January 1, 2009. Non-controlling interest in the accompanying Condensed Consolidated Statement of Income and Balance Sheet represents the non-affiliated equity investors interest in Wygen Funding LP, a Variable Interest Entity as defined by FIN 46(R). In June 2008, we purchased the non-controlling share. Presentation of a non-controlling interest that we held until June 2008 was retrospectively applied as required, and had an immaterial effect overall.

SFAS 161

In March 2008, the FASB issued SFAS 161, which requires enhanced disclosures about how derivative and hedging activities affect an entity s financial position, financial performance and cash flows. SFAS 161 encourages, but does not require, disclosures for earlier periods presented for comparative purposes at initial adoption. SFAS 161 requires comparative disclosures only for periods subsequent to its initial adoption. We evaluated and applied the provisions of SFAS 161 on January 1, 2009. Our contracts do not include credit risk-related contingent features. The additional disclosures are provided in Note 12 and Note 14.

(3) RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

SEC Release No. 33-8995

On December 29, 2008, the SEC issued Release No. 33-8995, amending the existing Regulation S-K and Regulation S-X requirements for reporting the quantity and value of oil and gas reserves to align with current industry practices and technology advances. Key revisions include the ability to include non-traditional resources in reserves, the use of new technology for determining reserves, permitting disclosure of probable and possible reserves, and changes to the pricing used to determine reserves. Companies must use a 12-month average price. The average is calculated using unweighted average of the first-day-of-the-month price for each of the 12 months that make up the reporting period. The amendment is effective for annual reporting periods ending on December 31, 2009, and early adoption is not permitted. We are currently assessing the impact that the adoption will have on our disclosures, operating results, financial position and cash flows.

FSP FAS 132(R)-1

During December 2008, the FASB issued FSP FAS 132(R)-1, which provides guidance on an employer s disclosures about plan assets in a defined benefit pension or other postretirement plan to provide users of financial statements with an understanding of:

How investment allocation decisions are made, including the factors that are pertinent to an understanding of investment policies and strategies;

The major categories of plan assets;

The input and valuation techniques used to measure the fair value of plan assets;

The effect of fair value measurements using significant unobservable inputs (Level 3) on changes in plan assets for the period; and

Significant concentrations of risk within plan assets.

FSP FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009 and we will adopt as of January 1, 2010. We do not expect the adoption of FSP FAS 132(R)-1 to have a significant effect on our consolidated financial statements.

FSP FAS 157-4

In April 2009, the FASB approved FSP FAS 157-4 effective for interim and annual periods ending after June 15, 2009. This FSP amends FAS 157 which addresses inactive markets. This FSP includes a two step model with the first step determining whether factors exist that indicate a market for an asset is not active. If step one results in the conclusion that there is not an active market, step two evaluates whether the quoted price is not associated with a distressed transaction. Additional disclosures will be required.

We are currently assessing the impact that the adoption will have on our disclosures, operating results, financial position and cash flows.

FSP FAS 107-1

In April 2009, the FASB approved FSP FAS 107-1 effective for interim and annual periods ending after June 15, 2009. This FSP will require public companies to provide more frequent disclosures about the fair value of their financial instruments. We are currently assessing the impact that the adoption will have on our disclosures.

(4) MATERIALS, SUPPLIES AND FUEL

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

Major Classification	March 31, 2009	December 31, 2008	March 31, 2008
Materials and supplies	$ 34,574	$ 32,580	$ 28,384
Fuel Electric Utilities	7,270	10,058	1,749
Natural gas in storage Gas Utilities	7,590	59,529	
Gas and oil held by Energy Marketing*	9,705	15,854	50,400
Total materials, supplies and fuel	$ 59,139	$ 118,021	$ 80,533

* As of March 31, 2009, December 31, 2008 and March 31, 2008, market adjustments related to natural gas held by Energy Marketing and recorded in inventory were $(2.4) million, $(9.4) million and $4.6 million, respectively (see Note 12 for further discussion of Energy Marketing trading activities).

Gas and oil inventory held by Energy Marketing primarily consists of gas held in storage. Such gas is being held in inventory to capture the price differential between the time at which it was purchased and a sales date in the future.

(5) NOTES PAYABLE AND LONG-TERM DEBT

Acquisition Credit Facility

In May 2007, we entered into a senior unsecured $1 billion Acquisition Facility with ABN AMRO Bank N.V., as administrative agent, and other banks to fund the Aquila Transaction. On July 14, 2008, in conjunction with the completion of the purchase of the Aquila properties, we executed a single draw of $382.8 million under the Acquisition Facility. The loan was originally scheduled to mature on February 5, 2009. However, on December 18, 2008, we amended the facility to extend the maturity date to December 29, 2009. The March 31, 2009 outstanding balance of $382.8 million, is included in Notes payable in the accompanying Condensed Consolidated Balance Sheets. In April 2009, we received proceeds of $30.2 million for the partial sale of the Wygen III plant. These proceeds were used to pay down a portion of the Acquisition Facility (see Note 21).

(6) GUARANTEES

On January 19, 2009, we issued a guarantee for up to $37.9 million to GE for payment obligations arising from a contract to purchase one LMS100 natural gas turbine generator by Colorado Electric, which is expected to be used in meeting the needs of our Colorado Electric customers. It is a continuing guarantee which terminates upon payment in full of the purchase price to GE. Payments are scheduled based upon estimated milestone dates with the final payment due September 29, 2010. The purchase contract also gives us a short-term option for the purchase of two additional LMS100 turbine generators at the same pricing as the first generator.

On January 20, 2009, we guaranteed a surety bond for $9.2 million to MEAN to secure the operating performance obligations related to the Wygen I ownership agreement. Black Hills Wyoming and MEAN entered into the ownership agreement when MEAN acquired a 23.5% ownership interest in the Wygen I plant. The surety bond expires on December 31, 2009.

(7) EARNINGS PER SHARE

Basic earnings per share from continuing operations is computed by dividing income from continuing operations by the weighted-average number of common shares outstanding during the period. Diluted earnings per share from continuing operations gives effect to all dilutive common shares potentially outstanding during a period. A reconciliation of Income from continuing operations and basic and diluted share amounts is as follows (in thousands):

Period ended March 31, 2009	Three Months	
	Income	Average Shares
Income from continuing operations	$ 25,625	
Basic earnings	25,625	38,511
Dilutive effect of:		
Restricted stock		52
Diluted earnings	$ 25,625	38,563

Period ended March 31, 2008	Three Months	
	Income	Average Shares
Income from continuing operations	$ 11,816	
Basic earnings	11,816	37,826
Dilutive effect of:		
Stock options		80
Estimated contingent shares issuable for prior acquisition		397
Restricted stock		78
Others		18
Diluted earnings	$ 11,816	38,399

(8) OTHER COMPREHENSIVE INCOME

The following table presents the components of our other comprehensive income

(in thousands):

	Three Months Ended March 31, 2009	2008
Net income	$ 26,391	$ 16,868
Other comprehensive income (loss), net of tax:		
Fair value adjustment on derivatives designated as cash flow hedges (net of tax of $(1,144) and $14,951, respectively)	2,998	(27,433)
Reclassification adjustments on cash flow hedges settled and included in net income (net of tax of $(1,917) and $(152), respectively)	3,370	273
Unrealized loss on available for sale securities (net of tax of $65)		(120)
Total comprehensive income (loss)	32,759	(10,412)
Less comprehensive income attributable to non-controlling interest		(77)
Comprehensive income attributable to Black Hills Corporation	$ 32,759	$ (10,489)

Other comprehensive income from fair value adjustments on derivatives designated as cash flow hedges in the three months ended March 31, 2009 is primarily attributable to fluctuating oil and gas prices affecting the fair value of natural gas and crude oil swaps held in the Oil and Gas segment and a decrease in interest rates affecting the fair value of interest rate swaps on variable rate debt.

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

	Derivatives Designated as Cash Flow Hedges	Employee Benefit Plans	Amount from Equity-method Investees	Unrealized Loss on Available-for-Sale Securities	Total
As of March 31, 2009	$ 1,818	$ (14,127)	$ (106)	$	$ (12,415)
As of December 31, 2008	$ (4,522)	$ (14,127)	$ (134)	$	$ (18,783)
As of March 31, 2008	$ (45,379)	$ (6,115)	$ (174)	$ (120)	$ (51,788)

(9) COMMON STOCK

Other than the following transactions, we had no other material changes in our common stock, as reported in Note 10 of the Notes to Consolidated Financial Statements in our 2008 Annual Report on Form 10-K.

Equity Compensation Plans

We granted 78,136 target performance shares to certain officers and business unit leaders for the January 1, 2009 through December 31, 2011 performance period. Actual shares are not issued until the end of the Performance Plan period (December 31, 2011). Performance shares are awarded based on our total shareholder return over the designated performance period as measured against a selected peer group and can range from 0 to 175% of target. In addition, our stock price must also increase during the performance period. The final value of the performance shares will vary according to the number of shares of common stock that are ultimately granted based upon the actual level of attainment of the performance criteria. The performance awards are paid 50% in the form of cash and 50% in shares of common stock. The grant date fair value was $29.20 per share.

We issued 47,202 shares of common stock under the 2008 short-term incentive compensation plan during the three months ended March 31, 2009. Pre-tax compensation cost related to the award was approximately $1.6 million, which was accrued for in 2008.

We granted 78,877 restricted common shares during the three months ended March 31, 2009. The pre-tax compensation cost related to the awards of restricted stock and restricted stock units of approximately $2.1 million will be recognized over the three-year vesting period.

No stock options were exercised during the three months ended March 31, 2009.

Total compensation expense recognized for all equity compensation plans for the three months ended March 31, 2009 and 2008 was $0.4 million and $0.2 million, respectively.

As of March 31, 2009, total unrecognized compensation expense related to non-vested stock awards was $7.7 million and is expected to be recognized over a weighted-average period of 2.4 years.

Dividend Reinvestment and Stock Purchase Plan

We have a Dividend Reinvestment and Stock Purchase Plan under which shareholders may purchase additional shares of common stock through dividend reinvestment and/or optional cash payments at 100% of the recent average market price. We have the option of issuing new shares or purchasing the shares on the open market. We issued 39,833 open market shares at a weighted-average price of $17.07 during the three months ended March 31, 2009. At March 31, 2009, 399,482 shares of unissued common stock were available for future offering under the Plan.

(10) EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

We have three non-contributory defined benefit pension plans (Plans). One Plan covers employees of the following subsidiaries who meet certain eligibility requirements: Black Hills Service Company, Black Hills Power, WRDC and BHEP. The second Plan covers employees of our subsidiary, Cheyenne Light, who meet certain eligibility requirements. The third plan covers employees of the Black Hills Energy utilities who meet certain eligibility requirements.

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

	Three Months Ended March 31, 2009	2008
Service cost	$ 1,929	$ 754
Interest cost	3,679	1,230
Expected return on plan assets	(3,458)	(1,573)
Prior service cost	41	41
Net loss	752	
Net periodic benefit cost	$ 2,943	$ 452

We made a $0.1 million contribution to the Cheyenne Light Pension Plan and a $0.4 million contribution to the Black Hills Corporation Pension Plan in the first quarter of 2009; no contributions were made to the Black Hills Energy Plan during the first three months of 2009. Additional contributions anticipated to be made to the Plans for 2009 and 2010 are expected to be approximately $14.4 million and $16.7 million, respectively.

Supplemental Non-qualified Defined Benefit Plans

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

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

	Three Months Ended March 31, 2009	2008
Service cost	$ 117	$ 112

Interest cost	344	311
Prior service cost	1	3
Net loss	147	142
Net periodic benefit cost	$ 609	$ 568

We anticipate that we will make contributions to the Supplemental Plans for the 2009 fiscal year of approximately $1.0 million. The contributions are expected to be made in the form of benefit payments.

Non-pension Defined Benefit Postretirement Healthcare Plans

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

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

	Three Months Ended March 31, 2009	2008
Service cost	$ 260	$ 125
Interest cost	542	217
Expected return on asset	(56)	
Prior service cost	(22)	
Net transition obligation	15	15
Net gain	(8)	(20)
Net periodic benefit cost	$	