

BLACK HILLS CORP /SD/  
Form 10-K  
February 29, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-31303

BLACK HILLS CORPORATION

Incorporated in South Dakota

625 Ninth Street

Rapid City, South Dakota 57701

IRS Identification Number

46-0458824

Registrant's telephone number, including area code  
(605) 721-1700

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange  
on which registered

Common stock of \$1.00 par value

New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Yes  No

State the aggregate market value of the voting stock held by non-affiliates of the Registrant.

At June 30, 2011 \$1,169,775,169

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

Class	Outstanding at January 31, 2012
Common stock, \$1.00 par value	43,929,272 shares

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement being prepared for the solicitation of proxies in connection with the 2012 Annual Meeting of Stockholders to be held on May 23, 2012, are incorporated by reference in Part III of this Form 10-K.

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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
Aquila	Aquila, Inc.
Aquila Transaction	Our July 14, 2008 acquisition of five utilities from Aquila
ARO	Asset Retirement Obligations
Basin Electric	Basin Electric Power Cooperative
Bbl	Barrel
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
BHC	Black Hills Corporation; the Company
BHCCP	Black Hills Corporation Credit Policy
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 Colorado IPP	Black Hills Colorado IPP, LLC a direct wholly-owned subsidiary of Black Hills Electric Generation
Black Hills Energy	The name used to conduct the business of Black Hills Utility Holdings, Inc., and its subsidiaries
Black Hills Electric Generation	Black Hills Electric Generation, LLC, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
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
BLM	United States Bureau of Land Management
Btu	British thermal unit
CFTC	United States Commodity Futures Trading Commission
CG&A	Cawley, Gillespie & Associates, Inc., an independent consulting and engineering firm
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of Black Hills Corporation
Cheyenne Light Pension Plan	The Cheyenne Light, Fuel and Power Company Pension Plan

City of Gillette	The City of Gillette, Wyoming, affiliate of the JPB. The JPB financed the purchase of 23% of Wygen III power plant for the City of Gillette
CO <sub>2</sub>	Carbon dioxide
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
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.
CPCN	Certificate of Public Convenience and Necessity
CPUC	Colorado Public Utilities Commission
CT	Combustion turbine
DC	Direct current
De-designated interest rate swaps	The \$250 million notional amount interest rate swaps that were originally designated as cash flow hedges under the accounting for derivatives and hedges but subsequently de-designated in December 2008
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOE	United States Department of Energy
Dth	Dekatherms
EBITDA	Earnings before interest, taxes, depreciation and amortization, a Non-GAAP measurement
ECA	Energy Cost Adjustment
Enserco	Enserco Energy Inc., a wholly-owned subsidiary of Black Hills Non-regulated Holdings, which is presented in discontinued operations throughout this Annual Report filed on Form 10-K
EPA	United States Environmental Protection Agency
EPA Region VIII	EPA Region VIII (Mountains and Plains) located in Denver, Colorado serving Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming and 27 Tribal Nations
Equity Forward Agreement	Equity Forward Agreement with J. P. Morgan connected to a public offering of 4,413,519 million shares of Black Hills Corporation common stock, including the over-allotment shares
ERISA	Employee Retirement Income Security Act
EWG	Exempt Wholesale Generator
FASB	Financial Accounting Standards Board
FERC	United States Federal Energy Regulatory Commission
Fitch	Fitch Ratings
FTC	Federal Trade Commission
GAAP	Accounting principles generally accepted in the United States of America
GCA	Gas Cost Adjustment
GE	General Electric Company
GHG	Greenhouse gases
Global Settlement	

Settlement with a utilities commission where the dollar figure is agreed upon, but the specific adjustments used by each party to arrive at the figure are not specified in public rate orders

Happy Jack  
Hastings

Happy Jack Wind Farm, LLC, owned by Duke Energy Generation Services  
Hastings Fund Management Ltd

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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.
IGCC	Integrated Gasification Combined Cycle
IIF	IIF BH Investment LLC, a subsidiary of an investment entity advised by J.P. Morgan 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
IPP	Independent power producer
IPP Transaction	The July 11, 2008 sale of seven of our IPP plants to affiliates of Hastings and IIF
IRS	United States Internal Revenue Service
IUB	Iowa Utilities Board
J.P. Morgan	J.P. Morgan Securities LLC
JPB	Consolidated Wyoming Municipalities Electric Power System Joint Powers Board. The JPB exists for the purpose of, among other things, financing the electrical system of the City of Gillette.
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
KCC	Kansas Corporation Commission
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt-hour
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
MACT	Maximum Achievable Control Technology
MAPP	Mid-Continent Area Power Pool
MATS	Utility Mercury and Air Toxics Rules under the United States EPA National Emissions Standards for Hazardous Air Pollutants from Coal and Oil Fired Electric Utility Steam Generating Units
Mbbl	Thousand barrels of oil
Mcf	Thousand cubic feet
Mcfe	Thousand cubic feet equivalent
MDU	Montana Dakota Utilities Co., a regulated utility division of MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMcfe	Million cubic feet equivalent
Moody's	Moody's Investors Service, Inc.
MSHA	Mine Safety and Health Administration
MTPSC	Montana Public Service Commission
MW	Megawatts
MWh	Megawatt-hours
Native load	Energy required to serve customers within our service territory
Nebraska Gas	



NERC  
NGL  
NO<sub>x</sub>

Black Hills Nebraska Gas Utility Company, LLC (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings  
North American Electric Reliability Corporation  
Natural Gas Liquids  
Nitrogen oxide

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NOL	Net operating loss
NPA	Nebraska Power Association
NPDES	National Pollutant Discharge Elimination System
NPSC	Nebraska Public Service Commission
NQDC	Non-Qualified Deferred Compensation Plan initially adopted in 1999
NYMEX	New York Mercantile Exchange
OCA	Office of Consumer Advocate
OPEC	Organization of the Petroleum Exporting Countries
OSHA	Occupational Safety & Health Administration
PCA	Power Cost Adjustment
Peak demand	Peak demand represents the highest point of customer usage for a single hour
PGA	Purchased Gas Adjustment
PPA	Power Purchase Agreement
PPACA	Patient Protection and Affordable Care Act of 2010
PSCo	Public Service Company of Colorado
PUD	Proved undeveloped reserves
PUHCA 2005	Public Utility Holding Company Act of 2005
PURPA	Public Utility Regulatory Policies Act of 1978
RCRA	Resource Conservation and Recovery Act
Revolving Credit Facility	Our \$500 million credit facility used to fund working capital needs, letters of credit and other corporate purposes, originally expiring April 14, 2013. We entered into a new facility in February 2012 which expires in 2017.
S&S	Significant and Substantial as defined by Mine Safety Act
SCADA	Supervisory Control and Data Acquisition
SDPUC	South Dakota Public Utilities Commission
SEC	U. S. Securities and Exchange Commission
Silver Sage	Silver Sage Windpower, LLC, owned by Duke Energy Generation Services
SO <sub>2</sub>	Sulfur dioxide
S&P	Standard & Poor's, a division of The McGraw-Hill Companies, Inc.
TCA	Transmission Cost Adjustment
Twin Eagle	Twin Eagle Resource Management, LLC
VEBA	Voluntary Employee Benefit Association
VIE	Variable Interest Entity
WDEQ	Wyoming Department of Environmental Quality
WECC	Western Electricity Coordinating Council
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings

ACCOUNTING PRONOUNCEMENTS

ASC	Accounting Standards Codification
ASC 220	ASC 220, "Comprehensive Income"
ASC 820	ASC 820, "Fair Value Measurements and Disclosures"
ASC 932-10-S99	ASC 932-10-S99, "Extractive Activities - Oil and Gas, SEC Materials"
ASU	Accounting Standards Update
ASU 2011-04	ASU 2011-04, "Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS"
ASU 2011-05	ASU 2011-05, "Comprehensive Income: Presentation of Comprehensive Income"
ASU 2011-08	ASU 2011-08, "Intangibles - Goodwill and Other: Testing Goodwill for Impairment"
ASU 2011-12	ASU 2011-12, "Comprehensive Income: Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05"
IFRS	International Financial Reporting Standards

### Website Access to Reports

The reports we file with the SEC are available free of charge at our website [www.blackhillscorp.com](http://www.blackhillscorp.com) as soon as reasonably practicable after they are filed. In addition, the charters of our Audit, Governance and Compensation Committees are located on our website along with our Code of Business Conduct, Code of Ethics for our Chief Executive Officer and Senior Finance Officers, Corporate Governance Guidelines of the Board of Directors and Policy for Director Independence. The information contained on our website is not part of this document.

### Forward-Looking Information

This Annual Report on Form 10-K includes "forward-looking statements" as defined by the SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that we expect, believe or anticipate will or may occur in the future are forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expects," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "potential," or "continue" or the negative of these terms or other similar terminology. These forward-looking statements are based on assumptions that we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. Whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the Risk Factors set forth in Item 1A of this Form 10-K and the other reports we file with the SEC from time to time, and the following:

Macro- and micro-economic changes in the economy and energy industry, including the impact of (i) consolidations and changes in competition, and (ii) general economic and political conditions, including tax rates or policies and inflation rates;

The timing, volatility and extent of changes in energy and commodity prices, supply or volume, the cost and availability of transportation of commodities, changes in interest rates, and the demand for our services, any of which can affect our earnings, our financial liquidity and the underlying value of our assets;

Our ability to comply, or to make expenditures required to comply, with changes in laws and regulations, particularly those relating to energy markets, taxation, safety and protection of the environment, and our ability to recover those expenditures in customer rates, where applicable;

Federal and state laws concerning climate change and air emissions, including emission reduction mandates, carbon emissions and renewable energy portfolio standards, which may materially increase our generation and production costs and could render some of our generating units uneconomical to operate and maintain, or which could require closure of one or more of our generating units;

Changes in business, regulatory compliance and financial reporting practices and subsequent rules and regulations;

The effect of Dodd-Frank and the regulations to be adopted thereunder on our use of derivative instruments in connection with our activities to hedge our expected production of crude oil and natural gas and on our use of interest rate derivative instruments;

Changes in state laws or regulations that could cause us to curtail our business activities;

Our ability to successfully integrate and profitably operate any future acquisitions;

Our ability to successfully complete the sale of Enserco Energy Inc. to Twin Eagle Resource Management, LLC for net cash proceeds of approximately \$160 million to \$170 million, subject to working capital and other closing adjustments;

Our ability to obtain adequate cost recovery for our utility operations through regulatory proceedings and receive favorable rulings in periodic applications to recover costs for fuel, transportation, transmission and purchased power in our regulated utilities;

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• Our ability to receive regulatory approval to recover in rate base our expenditures for new power generation facilities or other utility infrastructure;

• Our ability to recover our borrowing costs, including debt service costs, in our customer rates;

• The extent of our success in connecting natural gas supplies to gathering, processing and pipeline systems;

• Our ability to minimize losses related to defaults on amounts due from customers and counterparties, including counterparties to trading and other commercial transactions;

• The timing and extent of scheduled and unscheduled outages of power generation facilities;

• Our ability to complete the permitting, construction, start-up and operation of power generating facilities in a cost-effective and timely manner;

• Our ability to accurately estimate demand from our customers for natural gas;

• Weather and other natural phenomena;

• Our ability to meet forecasted production volumes for our oil and gas properties, which may be dependent upon issuance by federal, state and tribal governments, or agencies thereof, of drilling, environmental and other permits, and the availability of specialized contractors, work force and equipment, or the possibility of reductions in our drilling program resulting from the current economic climate and commodity prices, which also may prevent us from maintaining production rates and replacing reserves for our oil and gas properties;

• The amount of collateral required to be posted from time to time in our transactions;

• Our ability to effectively use derivative financial instruments to hedge commodity and interest rate risks;

• Our ability to provide accurate estimates of proved oil and gas reserves, coal reserves and future production rates and associated costs;

• Price risk due to marketable securities held as investments in employee benefit plans;

• Our ability to successfully maintain our corporate credit rating;

• The impact of the pending sale of Enserco Energy Inc., our non-regulated energy marketing business, on reducing our risk profile, improving our credit metrics and enhancing our ability to produce more stable cash flows and earnings;

• Our ability to access revolving credit capacity and comply with loan covenants;

• Capital market conditions and market uncertainties related to interest rates, which may affect our ability to raise capital on favorable terms;

• The amount and timing of capital deployment in new investment opportunities or for the repurchase of debt or stock;

• Our ability to continue paying our regular quarterly dividend;

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Our ability to obtain permanent financing for capital expenditures on reasonable terms either through long-term debt or issuance of equity;

•The effect of accounting policies issued periodically by accounting standard-setting bodies;

•The accounting treatment and earnings impact associated with interest rate swaps;

•The possibility that we may be required to take impairment charges to reduce the carrying value of some of our long-lived assets when indicators of impairment emerge;

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- The possibility that we may be required to take impairment charges under the SEC's full cost ceiling test for the accumulated costs of our natural gas and oil reserves;
- The outcome of any ongoing or future litigation or similar disputes and the impact of any such outcome or related settlements on our financial condition or results of operations;
- Additional liabilities for environmental conditions, including remediation and reclamation obligations, under environmental laws;
- Our ability to successfully complete labor negotiations with labor unions with which we have collective bargaining agreements and for which we are currently in, or are soon to be in, contract renewal negotiations; and
- The cost and effect on our business, including insurance, resulting from terrorist actions and cyber-attacks or responses to such actions or events.

New factors that could cause actual results to differ materially from those described in forward-looking statements emerge from time to time, and it is not possible for us to predict all such factors, or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.



PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

History and Organization

Black Hills Corporation, a South Dakota corporation (together with its subsidiaries, referred to herein as the "Company," "we," "us" and "our"), is a diversified energy company headquartered in Rapid City, South Dakota. Our predecessor company, Black Hills Power and Light Company, was incorporated and began providing electric utility service in 1941. It was formed through the purchase and combination of several existing electric utilities and related assets, some of which had served customers in the Black Hills region since 1883. In 1956, the Company began producing, selling and marketing various forms of energy through its non-regulated business.

We operate principally in the United States with two major business groups: Utilities and Non-regulated Energy. Our Utilities Group is comprised of our regulated Electric Utilities and regulated Gas Utilities segments, and our Non-regulated Energy Group is comprised of our Oil and Gas, Power Generation, and Coal Mining segments.

For more than 15 years, we have also owned and operated an energy marketing business, Enserco, which engages in natural gas, crude oil, coal, power and environmental marketing and trading in the United States and Canada. In the fourth quarter of 2011, we made the decision to sell Enserco, which constitutes our entire non-regulated Energy Marketing segment. On January 18, 2012, we entered into a definitive agreement to sell all of the outstanding stock of Enserco, which resulted in the Energy Marketing segment being reported as discontinued operations. This transaction is expected to close in the first quarter of 2012. For comparative purposes, all prior periods presented have been restated to reflect the reclassification of this segment to discontinued operations on a consistent basis. See Note 23 in the accompanying Notes to Consolidated Financial Statements in this Annual Report on Form 10-K for further details.

Business Group	Financial Segment
Utilities	Electric Utilities Gas Utilities
Non-regulated Energy	Oil and Gas Power Generation Coal Mining

Our Electric Utilities segment generates, transmits and distributes electricity to approximately 201,500 electric customers in South Dakota, Wyoming, Colorado and Montana and includes the operations of Cheyenne Light, a combination electric and gas utility, and its approximately 34,800 gas utility customers in Wyoming. Our Gas Utilities segment serves approximately 528,800 natural gas utility customers in Colorado, Nebraska, Iowa and Kansas. Our Electric Utilities own 865 MWs of generation and 8,496 miles of electric transmission and distribution lines, and our Gas Utilities own 624 miles of intrastate gas transmission pipelines and 19,747 miles of gas distribution mains and service lines. Our Electric and Gas Utilities generated net income of \$81.9 million for the year ended December 31, 2011 and had total assets of \$3.0 billion at December 31, 2011.

Our Oil and Gas segment engages in the exploration, development and production of crude oil and natural gas, primarily in the Rocky Mountain region. Our Power Generation segment produces electric power from our generating plants and sells the electric capacity and energy primarily to other utilities under long-term contracts. Our Coal Mining segment produces coal at our coal mine near Gillette, Wyoming. Our Non-regulated Energy Group generated net income of \$0.9 million for the year ended December 31, 2011 and had total assets of \$0.6 billion at December 31,

2011.

#### Segment Financial Information

We discuss our business strategy and other prospective information in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. Financial information regarding our business segments is incorporated herein by reference to Item 8 - Financial Statements and Supplementary Data, and particularly Note 17 to the Consolidated Financial Statements, in this Annual Report on Form 10-K.

Discontinued Operations in the accompanying financial information includes the results of our Energy Marketing segment.

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## Business Group Overview

### Utilities Group

We conduct electric utility operations and combination electric and gas utility operations through three subsidiaries: Black Hills Power (South Dakota, Wyoming and Montana), Cheyenne Light (Wyoming), and Colorado Electric (Colorado). Our Electric Utilities generate, transmit and distribute electricity to approximately 201,500 customers in South Dakota, Wyoming, Colorado and Montana. Additionally, Cheyenne Light distributes natural gas to approximately 34,800 natural gas utility customers in Wyoming. Our electric generating facilities and power purchase agreements provide for the supply of electricity principally to our own distribution systems. Additionally, we sell excess power to other utilities and marketing companies, including our affiliates.

We conduct natural gas utility operations on a state-by-state basis through our Colorado Gas, Nebraska Gas, Iowa Gas and Kansas Gas subsidiaries. Our Gas Utilities distribute and transport natural gas through our distribution network to approximately 528,800 customers in Colorado, Nebraska, Iowa and Kansas. Additionally, we sell temporarily-available, contractual pipeline capacity and gas commodities to other utilities and marketing companies, including our affiliates.

In addition to our regulated operations, we also provide non-regulated services through our Service Guard and Tech Services product lines. Service Guard primarily provides appliance repair services to approximately 63,000 residential customers through company technicians and third party service providers in Colorado, Iowa, Kansas and Nebraska most typically through on-going monthly service agreements. Tech Services primarily serves gas transportation customers throughout our service territory by constructing customer-owned gas infrastructure facilities, typically through one-time contracts, with a limited number of on-going monthly maintenance agreements.

### Electric Utilities Segment

#### Capacity and Demand

System peak demands for the Electric Utilities for each of the last three years are listed below:

	System Peak Demand (in MW)					
	2011		2010		2009	
	Summer	Winter	Summer	Winter	Summer	Winter
Black Hills Power	452	408	396	377	387	392
Cheyenne Light	181	175	176	164	169	171
Colorado Electric	392	297	384	289	365	296
Total Electric Utilities Peak Demands	1,025	880	956	830	921	859

## Regulated Power Plants

As of December 31, 2011, our Electric Utilities' ownership interests in electric generation plants were as follows:

Unit	Fuel Type	Location	Ownership Interest %	Owned/Leased Capacity (MW)	Year Installed
Black Hills Power:					
Wygen III <sup>(1)</sup>	Coal	Gillette, WY	52.0%	57.2	2010
Neil Simpson II	Coal	Gillette, WY	100.0%	90.0	1995
Wyodak <sup>(2)</sup>	Coal	Gillette, WY	20.0%	72.4	1978
Osage <sup>(3)</sup>	Coal	Osage, WY	100.0%	34.5	1948-1952
Ben French	Coal	Rapid City, SD	100.0%	25.0	1960
Neil Simpson I	Coal	Gillette, WY	100.0%	21.8	1969
Neil Simpson CT	Gas	Gillette, WY	100.0%	40.0	2000
Lange CT	Gas	Rapid City, SD	100.0%	40.0	2002
Ben French Diesel #1-5	Oil	Rapid City, SD	100.0%	10.0	1965
Ben French CTs #1-4 <sup>(4)</sup>	Gas/Oil	Rapid City, SD	100.0%	100.0	1977-1979
Cheyenne Light:					
Wygen II	Coal	Gillette, WY	100.0%	95.0	2008
Colorado Electric:					
Pueblo Airport Generation	Gas	Pueblo, CO	100.0%	180.0	2011
Capital Lease - Colorado IPP <sup>(5)</sup>	Gas	Pueblo, CO	—%	200.0	2011
W.N. Clark #1-2 <sup>(6)</sup>	Coal	Canon City, CO	100.0%	40.0	1955, 1959
Pueblo #6	Gas	Pueblo, CO	100.0%	20.0	1949
Pueblo #5	Gas	Pueblo, CO	100.0%	9.0	1941, 2001
AIP Diesel	Oil	Pueblo, CO	100.0%	10.0	2001
Diesel #1-5	Oil	Pueblo, CO	100.0%	10.0	1964
Diesel #1-5	Oil	Rocky Ford, CO	100.0%	10.0	1964
Total MW Owned Capacity				1,064.9	

Wygen III, a 110 MW mine-mouth coal-fired power plant, is operated by Black Hills Power. Black Hills Power (1) has a 52% ownership interest in Wygen III, MDU owns 25% and the City of Gillette owns the remaining 23% interest. Our WRDC coal mine furnishes all of the fuel supply for the plant.

Wyodak, a 362 MW mine-mouth coal-fired power plant, is owned 80% by PacifiCorp and 20% by Black Hills (2) Power. This baseload plant is operated by PacifiCorp and our WRDC coal mine furnishes all of the fuel supply for the plant.

(3) Operations at the Osage plant were suspended October 1, 2010 due to the availability of more economical generation alternatives.

(4) Upon expiration of the contract with PacifiCorp in June 2012 (see below), the capacity of these units will be decreased to 80 MW.

Colorado Electric entered into a 20-year PPA with Black Hills Colorado IPP for 200 MW of power from their (5) gas-fired plants. This PPA, accounted for as a capital lease, was effective on January 1, 2012 upon completion of construction of the plants.

(6) In December 2010, Colorado Electric received a final order from the CPUC that approved the retirement of its W.N. Clark coal-fired generation facility by December 31, 2013.

The following table shows the Electric Utilities' annual average cost of fuel utilized to generate electricity and the average price paid for purchased power (excluding contracted capacity) per MWh (dollars per MWh):

Fuel Source	2011	2010	2009
Coal	\$ 15.89	\$ 12.77	\$ 13.99
Gas and Oil	\$ 150.00	\$ 131.28	\$ 85.52
Total Average Fuel Cost	\$ 16.77	\$ 13.57	\$ 15.22
Purchased Power - Coal, Gas and Oil	\$ 28.80	\$ 29.57	\$ 28.44
Purchased Power - Renewable Sources	\$ 46.71	\$ 45.76	\$ 43.66

The following table shows our Electric Utilities' power supply, by resource as a percent of the total power supply for our energy needs:

Power Supply	2011	2010	2009	
Coal-fired	38	%42	%39	%
Gas and Oil	—	—	1	
Total Generated	38	42	40	
Purchased	62	58	60	
Total	100	%100	%100	%

Purchased Power. Various agreements have been executed to support our Electric Utilities' capacity and energy needs beyond our regulated power plants' generation. Key contracts include:

- Black Hills Power's PPA with PacifiCorp expiring in 2023, which provides for the purchase of 50 MW of coal-fired baseload power;

- Black Hills Power's reserve capacity integration agreement with PacifiCorp expiring in June 2012, which makes available 100 MW of reserve capacity in connection with the utilization of the Ben French CT units;

- Colorado Electric's PPA with Black Hills Colorado IPP expiring in 2031, which provides 200 MW of power to Colorado Electric from Black Hills Colorado IPP's combined-cycle turbines;

- Colorado Electric's PPA with PSCo expiring at December 31, 2012, whereby Colorado Electric purchases 50 MW of economy energy;

- Colorado Electric's PPA with Cargill expiring at December 31, 2013, whereby Colorado Electric purchases 50 MW of economy energy;

- Cheyenne Light's PPA with Black Hills Wyoming expiring in August 2014, whereby Black Hills Wyoming provides 40 MW of energy and capacity from its Gillette CT;

- Cheyenne Light's PPA with Black Hills Wyoming expiring December 31, 2022, whereby Black Hills Wyoming provides 60 MW of unit-contingent capacity and energy from its Wygen I facility. The PPA includes an option for Cheyenne Light to purchase Black Hills Wyoming's ownership interest in the Wygen I facility between 2013 and 2019. The purchase price related to the option is \$2.55 million per MW. This option price is reduced annually by an amount of annual depreciation assuming a facility life of 35 years;

Cheyenne Light's 20-year PPA with Duke Energy expiring in 2028, which provides up to 29.4 MW of wind energy from the Happy Jack Wind Farm to Cheyenne Light. Under a separate intercompany agreement, Cheyenne Light sells 50% of the facility's output to Black Hills Power;

Cheyenne Light and Black Hills Power's Generation Dispatch Agreement requires Black Hills Power to purchase all of Cheyenne Light's excess energy; and

Cheyenne Light's 20-year PPA with Duke Energy expiring in 2029, which provides up to 30 MW of wind energy from the Silver Sage wind farm to Cheyenne Light. Under a separate intercompany agreement, Cheyenne Light sells 20 MW of energy from Silver Sage to Black Hills Power.

**Power Sales Agreements.** Our Electric Utilities have various long-term power sales agreements. Key agreements include:

MDU owns a 25% ownership interest in Wygen III's net generating capacity for the life of the plant. During periods of reduced production at Wygen III, or during periods when Wygen III is off-line, Black Hills Power will provide MDU with 25 MW from our other generation facilities or from system purchases with reimbursement of costs by MDU;

The City of Gillette owns a 23% ownership interest in Wygen III's net generating capacity for the life of the plant. During periods of reduced production at Wygen III, or during periods when Wygen III is off-line, Black Hills Power will provide the City of Gillette with its first 23 MW from our other generation facilities or from system purchases with reimbursement of costs by the City of Gillette. Under this agreement, Black Hills Power will also provide the City of Gillette their operating component of spinning reserves;

Black Hills Power's agreement to supply up to 20 MW of energy and capacity to MEAN under a contract that expires in 2023. This contract is unit-contingent based on the availability of our Neil Simpson II and Wygen III plants, with decreasing capacity purchase over the term of the agreement. The unit-contingent capacity amounts from Wygen III and Neil Simpson II are as follows:

2012-2017	20 MW - 10 MW contingent on Wygen III and 10 MW contingent on Neil Simpson II
2018-2019	15 MW - 10 MW contingent on Wygen III and 5 MW contingent on Neil Simpson II
2020-2021	12 MW - 6 MW contingent on Wygen III and 6 MW contingent on Neil Simpson II
2022-2023	10 MW - 5 MW contingent on Wygen III and 5 MW contingent on Neil Simpson II;

Black Hills Power's PPA with MEAN, whereby MEAN will purchase 5 MW of unit-contingent capacity from Neil Simpson II and 5 MW of unit-contingent capacity from Wygen III through May 2015; and

Cheyenne Light's agreement with Basin Electric, whereby Cheyenne Light will supply 40 MW of capacity and energy through March 31, 2013 and a separate agreement whereby Cheyenne Light will receive 40 MW of capacity and energy from Basin Electric through March 31, 2013.

**Transmission and Distribution.** Through our Electric Utilities, we own electric transmission systems composed of high voltage transmission lines (greater than 69 kV) and low voltage lines (69 or fewer kV). We also jointly own high voltage lines with Basin Electric and Powder River Energy Corporation.

At December 31, 2011, our Electric Utilities owned or leased the electric transmission and distribution lines shown below:

Utility	State	Transmission (in Line Miles)	Distribution (in Line Miles)
Black Hills Power	SD, WY	618	2,999
Black Hills Power - Jointly Owned <sup>(1)</sup>	SD, WY	47	—
Cheyenne Light	SD, WY	25	1,235
Colorado Electric	CO	243	3,329

(1) Through Black Hills Power, we own 35% of a DC transmission tie that interconnects the Western and Eastern transmission grids, which are independently-operated transmission grids serving the western United States and eastern United States, respectively. This transmission tie, which is 65% owned by Basin Electric, provides transmission access to both the WECC region in the West and the MAPP region in the East. The transfer capacity of the tie is 200 MW from West to East, and 200 MW from East to West. Black Hills Power's electric system is located in the WECC region. This transmission tie allows us to buy and sell energy in the Eastern grid without having to isolate and physically reconnect load or generation between the two transmission grids, thus enhancing the reliability of our system. It accommodates scheduling transactions in both directions simultaneously, provides additional opportunities to sell excess generation or to make economic purchases to serve our native load and contract obligations, and enables us to take advantage of power price differentials between the two grids.

Black Hills Power has firm point-to-point transmission access to deliver up to 50 MW of power on PacifiCorp's transmission system to wholesale customers in the Western region through 2023.

Black Hills Power also has firm network transmission access to deliver power on PacifiCorp's system to Sheridan, Wyoming to serve our power sales contract with MDU through 2017, with the right to renew pursuant to the terms of PacifiCorp's transmission tariff.

In order to serve Cheyenne Light's existing load, Cheyenne Light has a network transmission agreement with Loveland Area Project.

Shared Services Agreement. Black Hills Power, Cheyenne Light, and Black Hills Wyoming are parties to a shared facilities agreement, whereby each entity charges for the use of assets by the affiliate entity. Black Hills Colorado IPP and Colorado Electric are also parties to a facility fee agreement, whereby Colorado Electric charges Black Hills Colorado IPP for the use of Colorado Electric assets.



## Operating Statistics

The following tables summarize sales revenue, quantities and customers for our Electric Utilities:

Revenue - Electric (in thousands)	2011	2010	2009
<b>Residential:</b>			
Black Hills Power	\$59,826	\$53,549	\$48,586
Cheyenne Light	31,287	29,506	29,198
Colorado Electric	84,646	76,596	66,548
Total Residential	175,759	159,651	144,332
<b>Commercial:</b>			
Black Hills Power	72,889	65,997	59,897
Cheyenne Light	55,331	52,765	51,280
Colorado Electric	73,355	66,490	56,002
Total Commercial	201,575	185,252	167,179
<b>Industrial:</b>			
Black Hills Power	25,723	22,621	20,014
Cheyenne Light	11,629	10,542	11,121
Colorado Electric	33,332	28,812	31,067
Total Industrial	70,684	61,975	62,202
<b>Municipal:</b>			
Black Hills Power	3,172	3,029	2,735
Cheyenne Light	1,765	1,293	932
Colorado Electric	12,912	10,443	4,408
Total Municipal	17,849	14,765	8,075
Subtotal Retail Revenue - Electric	465,867	421,643	381,788
<b>Contract Wholesale:</b>			
Black Hills Power	18,105	22,996	25,358
<b>Off-system Wholesale:</b>			
Black Hills Power	34,889	36,354	32,212
Cheyenne Light	9,371	9,750	8,565
Colorado Electric *	13,018	10,859	14,008
Total Off-system Wholesale	57,278	56,963	54,785
<b>Other Revenue:</b>			
Black Hills Power	31,027	25,217	18,277
Cheyenne Light	2,449	3,230	718
Colorado Electric	2,787	2,374	4,226
Total Other Revenue	36,263	30,821	23,221
Total Revenue - Electric	\$577,513	\$532,423	\$485,152

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\*

Off-system sales revenue had been deferred by Colorado Electric from August 2010 until December 2011, when the CPUC approved a sharing mechanism as part of the rate case settlement allowing Colorado Electric a 25% share of off-system sales operating income. Revenue in 2011 represents off-system sales from August 2010 through December 2011.

Quantities Generated and Purchased (MWh)	2011	2010	2009
Generated -			
Coal-fired:			
Black Hills Power	1,717,008	1,987,037	1,721,074
Cheyenne Light	674,518	734,241	766,943
Colorado Electric	268,317	257,896	252,603
Total Coal	2,659,843	2,979,174	2,740,620
Gas and Oil-fired:			
Black Hills Power	15,221	19,269	46,723
Cheyenne Light	—	—	—
Colorado Electric	2,342	930	2,705
Total Gas and Oil	17,563	20,199	49,428
Total Generated:			
Black Hills Power	1,732,229	2,006,306	1,767,797
Cheyenne Light	674,518	734,241	766,943
Colorado Electric	270,659	258,826	255,308
Total Generated	2,677,406	2,999,373	2,790,048
Purchased -			
Black Hills Power	1,720,640	1,440,579	1,686,455
Cheyenne Light	745,983	696,756	651,201
Colorado Electric	1,948,321	1,969,896	1,991,058
Total Purchased <sup>(a)</sup>	4,414,944	4,107,231	4,328,714
Total Generated and Purchased	7,092,350	7,106,604	7,118,762

(a) Includes 189,255 MWh, 167,520 MWh, and 105,830 MWh in 2011, 2010 and 2009, respectively of wind power purchased.

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Quantities (MWh)	2011	2010	2009
<b>Residential:</b>			
Black Hills Power	550,935	547,193	529,825
Cheyenne Light	264,492	261,607	255,134
Colorado Electric	629,752	628,553	589,526
Total Residential	1,445,179	1,437,353	1,374,485
<b>Commercial:</b>			
Black Hills Power	720,978	720,119	723,360
Cheyenne Light	601,162	603,323	583,986
Colorado Electric	720,060	726,005	666,563
Total Commercial	2,042,200	2,049,447	1,973,909
<b>Industrial:</b>			
Black Hills Power	408,337	382,562	353,041
Cheyenne Light	172,840	161,082	174,792
Colorado Electric	351,862	347,673	452,584
Total Industrial	933,039	891,317	980,417
<b>Municipal:</b>			
Black Hills Power	34,235	33,908	33,948
Cheyenne Light	9,827	6,477	3,456
Colorado Electric	126,320	113,689	37,244
Total Municipal	170,382	154,074	74,648
Subtotal Retail Quantities Sold	4,590,800	4,532,191	4,403,459
<b>Contract Wholesale:</b>			
Black Hills Power	349,520	468,782	645,297
<b>Off-system Wholesale:</b>			
Black Hills Power	1,226,548	1,163,058	1,009,574
Cheyenne Light	278,528	311,524	309,122
Colorado Electric	282,929	274,942	373,495
Total Off-system Wholesale	1,788,005	1,749,524	1,692,191
<b>Total Quantity Sold:</b>			
Black Hills Power	3,290,553	3,315,622	3,295,045
Cheyenne Light	1,326,849	1,344,013	1,326,490
Colorado Electric	2,110,923	2,090,862	2,119,412
Total Quantity Sold	6,728,325	6,750,497	6,740,947
<b>Losses and Company Use:</b>			
Black Hills Power	162,316	131,263	159,207
Cheyenne Light	93,652	86,984	91,654
Colorado Electric	108,057	137,860	126,954
Total Losses and Company Use	364,025	356,107	377,815

Total Energy	7,092,350	7,106,604	7,118,762
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Customers at End of Year	2011	2010	2009
Residential:			
Black Hills Power	54,955	54,811	54,470
Cheyenne Light	35,159	34,913	35,943
Colorado Electric	81,811	81,902	81,622
Total Residential	171,925	171,626	172,035
Commercial:			
Black Hills Power	12,864	12,779	12,261
Cheyenne Light	4,277	4,132	4,932
Colorado Electric	11,206	11,185	11,101
Total Commercial	28,347	28,096	28,294
Industrial:			
Black Hills Power	45	40	38
Cheyenne Light	2	2	2
Colorado Electric	68	63	90
Total Industrial	115	105	130
Other Electric Customers:			
Black Hills Power	311	309	143
Cheyenne Light	243	254	13
Colorado Electric	506	510	499
Total Other Electric Customers	1,060	1,073	655
Subtotal Retail Customers	201,447	200,900	201,114
Contract Wholesale:			
Black Hills Power	3	3	3
Total Customers:			
Black Hills Power	68,178	67,942	66,915
Cheyenne Light	39,681	39,301	40,890
Colorado Electric	93,591	93,660	93,312
Total Customers at Year-End	201,450	200,903	201,117

Degree Days	2011	2010		2009		
	Actual	Variance from 30-Year Average	Actual	Variance from 30-Year Average	Actual	Variance from 30-Year Average
Heating Degree Days:						
Black Hills Power	7,579	5%	7,272	1%	7,753	8%
Cheyenne Light	7,321	(1)%	7,033	(5)%	7,411	—%
Colorado Electric	5,749	3%	5,518	(1)%	5,546	(1)%
Cooling Degree Days:						
Black Hills Power	700	17%	532	(11)%	354	(41)%
Cheyenne Light	431	58%	345	26%	203	(26)%
Colorado Electric	1,259	37%	1,074	16%	804	(13)%

#### Cheyenne Light Natural Gas Distribution

Cheyenne Light's natural gas distribution system serves natural gas customers in Cheyenne and other portions of Laramie County, Wyoming. The following table summarizes certain operating information:

	2011	2010	2009
Revenue - Gas (in thousands):			
Residential	\$22,044	\$22,562	\$21,495
Commercial	10,264	10,801	9,821
Industrial	3,597	3,425	3,537
Other Sales Revenue	913	803	760
Total Revenue - Gas	\$36,818	\$37,591	\$35,613
Gross Margin (in thousands):			
Residential	\$10,426	\$10,004	\$10,219
Commercial	3,345	3,376	3,266
Industrial	504	427	509
Other Gross Margin	545	720	760
Total Gross Margin	\$14,820	\$14,527	\$14,754
Volumes Sold (Dth):			
Residential	2,585,056	2,636,839	2,516,699
Commercial	1,538,616	1,572,638	1,502,002
Industrial	689,935	667,062	722,776
Total Volumes Sold	4,813,607	4,876,539	4,741,477
Customers at Year-End	34,807	34,461	33,942

Gas Utilities Segment

At December 31, 2011, our Gas Utilities owned the gas transmission and distribution lines by state shown below (in line miles):

	Intrastate Gas Transmission Pipelines	Gas Distribution Mains	Gas Distribution Service Lines
Colorado	124	2,987	886
Nebraska	44	3,432	3,481
Iowa	170	2,762	2,321
Kansas	286	2,582	1,296
Total	624	11,763	7,984



## Operating Statistics

The following tables summarize revenue, gross margin, volumes, degree days and customers for our Gas Utilities:

Revenue (in thousands)	2011	2010	2009
<b>Residential:</b>			
Colorado	\$58,102	\$55,211	\$62,732
Nebraska	125,493	120,365	127,120
Iowa	106,292	105,255	113,781
Kansas	65,185	69,859	70,848
Total Residential	355,072	350,690	374,481
<b>Commercial:</b>			
Colorado	12,172	11,880	13,357
Nebraska	40,659	40,720	43,472
Iowa	46,179	46,762	54,587
Kansas	20,362	21,953	22,629
Total Commercial	119,372	121,315	134,045
<b>Industrial:</b>			
Colorado	2,063	1,409	1,348
Nebraska	860	3,126	3,425
Iowa	2,521	2,243	2,191
Kansas	19,571	14,312	11,057
Total Industrial	25,015	21,090	18,021
<b>Other Sales Revenue:</b>			
Colorado	96	97	100
Nebraska	1,971	1,960	2,077
Iowa	550	836	1,073
Kansas	3,031	3,451	3,213
Total Other Sales Revenue	5,648	6,344	6,463
<b>Total Distribution:</b>			
Colorado	72,433	68,597	77,537
Nebraska	168,983	166,171	176,094
Iowa	155,542	155,096	171,632
Kansas	108,149	109,575	107,747
Total Distribution	505,107	499,439	533,010
<b>Transportation:</b>			
Colorado	846	784	732
Nebraska	11,175	11,289	10,569
Iowa	3,935	3,708	3,876
Kansas	5,909	5,471	5,389
Total Transportation	21,865	21,252	20,566
<b>Total Regulated:</b>			
Colorado	73,279	69,381	78,269

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Nebraska	180,158	177,460	186,663
Iowa	159,477	158,804	175,508
Kansas	114,058	115,046	113,136
Total Regulated Revenue	526,972	520,691	553,576
Non-regulated Services	27,612	30,016	26,736
Total Revenue	\$554,584	\$550,707	\$580,312

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Gross Margin (in thousands)	2011	2010	2009
Residential:			
Colorado	\$17,711	\$18,153	\$17,443
Nebraska	51,640	49,074	44,638
Iowa	47,491	44,269	42,734
Kansas	29,701	29,591	28,999
Total Residential	146,543	141,087	133,814
Commercial:			
Colorado	2,960	3,215	3,176
Nebraska	11,643	11,965	11,785
Iowa	11,702	11,616	12,749
Kansas	6,603	6,544	6,484
Total Commercial	32,908	33,340	34,194
Industrial:			
Colorado	450	360	375
Nebraska	217	379	431
Iowa	288	235	244
Kansas	2,373	1,878	1,766
Total Industrial	3,328	2,852	2,816
Other Sales Margins:			
Colorado	96	97	101
Nebraska	1,971	1,960	2,077
Iowa	549	836	1,073
Kansas	2,455	2,722	2,312
Total Other Sales Margins	5,071	5,615	5,563
Total Distribution:			
Colorado	21,217	21,825	21,095
Nebraska	65,471	63,378	58,931
Iowa	60,030	56,956	56,800
Kansas	41,132	40,735	39,561
Total Distribution	187,850	182,894	176,387
Transportation:			
Colorado	846	784	732
Nebraska	11,175	11,289	10,569
Iowa	3,935	3,708	3,876
Kansas	5,909	5,470	5,389
Total Transportation	21,865	21,251	20,566
Total Regulated:			
Colorado	22,063	22,609	21,827
Nebraska	76,646	74,667	69,500
Iowa	63,965	60,664	60,676

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Kansas	47,041	46,205	44,950
Total Regulated Gross Margin	209,715	204,145	196,953
Non-regulated Services	12,908	12,845	11,643
Total Gross Margin	\$222,623	\$216,990	\$208,596

Volumes (in Dth)	2011	2010	2009
Residential:			