

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

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number 001-31303

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

IRS Identification Number 46-0458824

Registrant's telephone number (605) 721-1700

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

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Class	Outstanding at 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

Dodd-Frank	were subsequently de-designated 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

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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.

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