

BLACK HILLS CORP /SD/
Form 10-Q
May 04, 2012

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

Form 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission File Number 001-31303

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

IRS Identification Number 46-0458824

Registrant's telephone number (605) 721-1700

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

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

Yes No

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

Yes No

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

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

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

Yes No

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

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Class	Outstanding at April 30, 2012
Common stock, \$1.00 par value	44,089,428 shares

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GLOSSARY OF TERMS AND ABBREVIATIONS
AND ACCOUNTING STANDARDS

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

AFUDC	Allowance for Funds Used During Construction
AOCI	Accumulated Other Comprehensive Income (Loss)
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bbl	Barrel
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
BHC	Black Hills Corporation
BHEP	Black Hills Exploration and Production, Inc., representing our Oil and Gas segment, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Electric Generation	Black Hills Electric Generation, LLC, representing our Power Generation segment, a direct wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Energy	The name used to conduct the business activities of Black Hills Utility Holdings
Black Hills Non-regulated Holdings	Black Hills Non-regulated Holdings, LLC, a direct, wholly-owned subsidiary of the Company
Black Hills Power	Black Hills Power, Inc., a direct, wholly-owned subsidiary of the Company
Black Hills Service Company	Black Hills Service Company, a direct wholly-owned subsidiary of the Company
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of the Company
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of the Company
Colorado Electric	Black Hills Colorado Electric Utility Company, LP (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings
Colorado Gas	Black Hills Colorado Gas Utility Company, LP (doing business as Black Hills Energy), an indirect, wholly-owned subsidiary of Black Hills Utility Holdings
Colorado IPP	Black Hills Colorado IPP, a direct wholly-owned subsidiary of Black Hills Electric Generation
CPCN	Certificate of Public Convenience and Necessity
CPUC	Colorado Public Utilities Commission
CT	Combustion Turbine
CVA	Credit Valuation Adjustment
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 subsequently de-designated.
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DRIP	Dividend Reinvestment and Stock Purchase Plan
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)

ECA	Energy Cost Adjustment
Enserco	Enserco Energy Inc., representing our Energy Marketing segment, sold February 29, 2012
Equity Forward Instrument	Equity Forward Agreement with J.P. Morgan connected to a public offering of 4,413,519 shares of Black Hills Corporation common stock

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FASB	Financial Accounting Standards Board
FDIC	Federal Deposit Insurance Corporation
FERC	Federal Energy Regulatory Commission
GAAP	Generally Accepted Accounting Principles of the United States
Global Settlement	Settlement with the utilities commission where the dollar figure is agreed upon, but the specific adjustments used by each party to arrive at the figure are not specified in public rate orders
IFRS	International Financial Reporting Standards
Iowa Gas	Black Hills Iowa Gas Utility Company, LLC (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings
IPP	Independent Power Producer
IRS	Internal Revenue Service
Kansas Gas	Black Hills Kansas Gas Utility Company, LLC (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	One thousand standard cubic feet
Mcfe	One thousand standard cubic feet equivalent. Natural gas liquid is converted by dividing gallons by 7. Crude oil is converted by multiplying by 6.
MMBtu	One million British thermal units
MSHA	Mine Safety and Health Administration
MW	Megawatt
MWh	Megawatt-hour
Nebraska Gas	Black Hills Nebraska Gas Utility Company, LLC (doing business as Black Hills Energy), a direct, wholly-owned subsidiary of Black Hills Utility Holdings
NGL	Natural Gas Liquids
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
OTC	Over-the-counter
PGA	Purchase Gas Adjustment
PPA	Power Purchase Agreement
Revolving Credit Facility	Our \$500 million five-year revolving credit facility which commenced on February 1, 2012 and expires on February 1, 2017
S&P	Standard and Poor's
SEC	United States Securities and Exchange Commission
Twin Eagle	Twin Eagle Resource Management, LLC
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(unaudited)

	Three Months Ended March 31,	
	2012	2011
	(in thousands, except per share amounts)	
Revenue:		
Utilities	\$336,655	\$374,696
Non-regulated energy	29,196	26,139
Total revenue	365,851	400,835
Operating expenses:		
Utilities -		
Fuel, purchased power and cost of gas sold	157,183	210,511
Operations and maintenance	64,760	67,409
Non-regulated energy operations and maintenance	22,595	23,474
Depreciation, depletion and amortization	38,559	31,910
Taxes - property, production and severance	11,510	8,198
Other operating expenses	1,196	966
Total operating expenses	295,803	342,468
Operating income	70,048	58,367
Other income (expense):		
Interest charges -		
Interest expense incurred (including amortization of debt issuance costs, premium, discount and realized settlements on interest rate swaps)	(29,914)	)(29,203)
Allowance for funds used during construction - borrowed	518	3,363
Capitalized interest	161	2,434
Unrealized gain (loss) on interest rate swaps, net	12,045	5,465
Interest income	437	548
Allowance for funds used during construction - equity	277	295
Other income, net	1,472	731
Total other income (expense)	(15,004)	)(16,367)
Income (loss) before equity in earnings (loss) of unconsolidated subsidiaries and income taxes	55,044	42,000
Equity in earnings (loss) of unconsolidated subsidiaries	(56)	)993
Income tax benefit (expense)	(19,717)	)(13,925)
Income (loss) from continuing operations	35,271	29,068
Income (loss) from discontinued operations, net of tax	(5,484)	)(2,158)
Net income available for common stock	29,787	26,910
Other comprehensive income (loss), net of tax	(166)	)(1,579)
Comprehensive income (loss)	\$29,621	\$25,331

Income (loss) per share, Basic -			
Income (loss) from continuing operations, per share	\$0.81	\$0.74	
Income (loss) from discontinued operations, per share	(0.13	)(0.05)
Total income (loss) per share, Basic	\$0.68	\$0.69	
Income (loss) per share, Diluted -			
Income (loss) from continuing operations, per share	\$0.80	\$0.73	
Income (loss) from discontinued operations, per share	(0.12	)(0.05)
Total income (loss) per share, Diluted	\$0.68	\$0.68	
Weighted average common shares outstanding:			
Basic	43,731	39,059	
Diluted	43,969	39,761	
Dividends paid per share of common stock	\$0.37	\$0.365	

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, 2012 (in thousands)	December 31, 2011	March 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$56,132	\$21,628	\$26,418
Restricted cash	8,960	9,254	3,406
Accounts receivable, net	143,987	156,774	151,524
Materials, supplies and fuel	63,236	84,064	45,635
Derivative assets, current	17,877	18,583	7,812
Income tax receivable, net	10,399	9,344	20,173
Deferred income tax assets, net, current	23,710	37,202	20,491
Regulatory assets, current	56,282	59,955	36,834
Other current assets	26,546	21,266	17,486
Assets of discontinued operations	—	340,851	295,724
Total current assets	407,129	758,921	625,503
Investments	16,451	17,261	17,088
Property, plant and equipment	3,800,011	3,724,016	3,454,179
Less accumulated depreciation and depletion	(980,944)	) (934,441	) (886,401
Total property, plant and equipment, net	2,819,067	2,789,575	2,567,778
Other assets:			
Goodwill	353,396	353,396	353,396
Intangible assets, net	3,787	3,843	4,011
Derivative assets, non-current	881	1,971	1,184
Regulatory assets, non-current	186,093	182,175	140,735
Other assets, non-current	21,132	19,941	19,655
Total other assets	565,289	561,326	518,981
TOTAL ASSETS	\$3,807,936	\$4,127,083	\$3,729,350

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)

	March 31, 2012	December 31, 2011	March 31, 2011
	(in thousands, except share amounts)		
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$59,793	\$104,748	\$104,742
Accrued liabilities	151,130	151,319	127,235
Derivative liabilities, current	76,389	84,367	59,972
Regulatory liabilities, current	35,414	16,231	15,004
Notes payable	225,000	345,000	287,000
Current maturities of long-term debt	8,977	2,473	4,254
Liabilities of discontinued operations	—	173,929	163,293
Total current liabilities	556,703	878,067	761,500
Long-term debt, net of current maturities	1,272,016	1,280,409	1,184,830
Deferred credits and other liabilities:			
Deferred income tax liabilities, net, non-current	317,369	300,988	301,097
Derivative liabilities, non-current	43,169	49,033	15,790
Regulatory liabilities, non-current	112,516	108,217	90,923
Benefit plan liabilities	157,623	177,480	128,170
Other deferred credits and other liabilities	123,848	123,553	133,893
Total deferred credits and other liabilities	754,525	759,271	669,873
Stockholders' equity:			
Common stockholders' —			
Common stock \$1 par value: 100,000,000 shares authorized: issued 44,151,428; 43,957,502 and 39,434,304 shares, respectively	44,151	43,958	39,434
Additional paid-in capital	725,512	722,623	601,021
Retained earnings	490,114	476,603	498,614
Treasury stock at cost – 65,015; 32,766 and 26,075 shares, respectively	(2,041	) (970	) (762
Accumulated other comprehensive income (loss)	(33,044	) (32,878	) (25,160
Total stockholders' equity	1,224,692	1,209,336	1,113,147
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$3,807,936	\$4,127,083	\$3,729,350

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these Condensed Consolidated Financial Statements.

BLACK HILLS CORPORATION
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

	Three Months Ended	
	March 31,	
	2012	2011
	(in thousands)	
Operating activities:		
Net income (loss)	\$29,787	\$26,910
(Income) loss from discontinued operations, net of tax	5,484	2,158
Income (loss) from continuing operations	35,271	29,068
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation, depletion and amortization	38,559	31,910
Deferred financing cost amortization	2,719	1,528
Derivative fair value adjustments	1,594	2,010
Stock compensation	1,817	2,289
Unrealized mark-to-market (gain) loss on interest rate swaps	(12,045)	(5,465)
Deferred income taxes	18,083	25,844
Equity in (earnings) loss of unconsolidated subsidiaries	56	(993)
Allowance for funds used during construction - equity	(277)	(295)
Employee benefit plans	5,246	3,642
Other adjustments, net	2,187	(3,440)
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	20,828	17,280
Accounts receivable and other current assets	9,439	(5,591)
Accounts payable and other current liabilities	(42,368)	(44,617)
Regulatory assets	(776)	33,966
Regulatory liabilities	18,938	9,984
Contributions to defined benefit pension plans	(25,000)	—
Other operating activities, net	610	5,301
Net cash provided by operating activities of continuing operations	74,881	102,421
Net cash provided by (used in) operating activities of discontinued operations	21,184	8,850
Net cash provided by operating activities	96,065	111,271
Investing activities:		
Property, plant and equipment additions	(67,652)	(121,615)
Other investing activities	1,105	786
Net cash provided by (used in) investing activities of continuing operations	(66,547)	(120,829)
Proceeds from sale of business operations	108,837	—
Net cash provided by (used in) investing activities of discontinued operations	(824)	(929)
Net cash provided by (used in) investing activities	41,466	(121,758)
Financing activities:		
Dividends paid on common stock	(16,276)	(14,371)
Common stock issued	764	605
Short-term borrowings - issuances	56,453	210,000
Short-term borrowings - repayments	(176,453)	(172,000)
Long-term debt - repayments	(1,897)	(2,155)
Other financing activities	(2,758)	(14)

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Net cash provided by (used in) financing activities of continuing operations	(140,167) 22,065
Net cash provided by (used in) financing activities of discontinued operations	—	—
Net cash provided by (used in) financing activities	(140,167	) 22,065
Net change in cash and cash equivalents	(2,636	) 11,578
Cash and cash equivalents, beginning of period*	58,768	32,438
Cash and cash equivalents, end of period*	\$56,132	\$44,016

* Cash and cash equivalents include cash of discontinued operations of \$37.1 million, \$17.6 million and \$16.0 million at December 31, 2011, March 31, 2011 and December 31, 2010, respectively.

See Note 3 for supplemental disclosure of cash flow information.

The accompanying Notes to Condensed Consolidated Financial Statements are an integral part of these Condensed Consolidated Financial Statements.

BLACK HILLS CORPORATION

Notes to Condensed Consolidated Financial Statements
(unaudited)

(Reference is made to Notes to Consolidated Financial Statements
included in the Company's 2011 Annual Report on Form 10-K)

(1) MANAGEMENT'S STATEMENT

The unaudited Condensed Consolidated Financial Statements included herein have been prepared by Black Hills Corporation together with our subsidiaries (the "Company," "us," "we," or "our"), pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations; however, we believe that the footnotes adequately disclose the information presented. These Condensed Consolidated Financial Statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our 2011 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 Condensed Consolidated Financial Statements reflects all adjustments, including accruals, which are, in the opinion of management, necessary for a fair presentation of the March 31, 2012, December 31, 2011 and March 31, 2011 financial information and are of a normal recurring nature. Certain industries in which we operate are highly seasonal and revenue from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Demand for electricity and natural gas is sensitive to seasonal cooling, heating and industrial load requirements, as well as changes in market price. In particular, the normal peak usage season for gas utilities is November through March and significant earnings variances can be expected between the Gas Utilities segment's peak and off-peak seasons. Due to this seasonal nature, our results of operations for the three months ended March 31, 2012 and March 31, 2011, and our financial condition as of March 31, 2012, December 31, 2011, and March 31, 2011 are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period. All earnings per share amounts discussed refer to diluted earnings per share unless otherwise noted.

On February 29, 2012, we sold our Energy Marketing segment, which resulted in this segment being classified as discontinued operations. For comparative purposes, all prior periods presented have been restated to reflect the classification of this segment as discontinued operations. For further information see Note 17.

Certain prior year data presented in the financial statements have been reclassified to conform to the current year presentation. Specifically, the Company has reclassified deferred financing cost amortization into a separate line on the Condensed Consolidated Statements of Cash Flow. This reclassification had no effect on total assets, net income, cash flows or earnings per share.

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

Recently Adopted Accounting Standards and Legislation

Other Comprehensive Income: Presentation of Comprehensive Income, ASU 2011-05 and ASU 2011-12

FASB issued an accounting standards update amending ASC 220, Comprehensive Income, to improve the comparability, consistency and transparency of reporting of comprehensive income. It amends existing guidance by

allowing only two options for presenting the components of net income and other comprehensive income: (1) in a single continuous financial statement, statement of comprehensive income or (2) in two separate but consecutive financial statements, consisting of an income statement followed by a separate statement of other comprehensive income. Also, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. ASU 2011-05 requires retrospective application, and it is effective for the fiscal years, and interim periods within those years beginning after December 15, 2011. In December 2011, FASB issued ASU 2011-12 which indefinitely deferred the provisions of ASU 2011-05 requiring the presentation of reclassification adjustments on the face of the financial statements for items reclassified from other comprehensive income to net income.

At December 31, 2011, we elected to early adopt the provisions of ASU 2011-05 as amended by ASU 2011-12. The adoption changed our presentation of certain financial statements and provided additional details in the notes to the financial statements, but did not have any other impact on our financial statements.

Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements, ASU 2011-04

FASB issued an accounting standards update amending ASC 820, Fair Value Measurements and Disclosures, to achieve common fair value measurement and disclosure requirements between GAAP and IFRS. Additional disclosure requirements in the update include: (1) for Level 3 fair value measurements - quantitative information about unobservable inputs used, a description of the valuation processes used by the entity, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs; (2) for an entity's use of a non-financial asset that is different from the asset's highest and best use - the reason for the difference; (3) for financial instruments not measured at fair value but for which disclosure of fair value is required - the fair value hierarchy level in which the fair value measurements were determined; and (4) the disclosure of all transfers between Level 1 and Level 2 of the fair value hierarchy. ASU 2011-04 is effective for fiscal years, and interim periods within those years, beginning after December 31, 2011. The amendment required additional details in notes to financial statements, but did not have any other impact on our financial statements. Additional disclosures are included in Notes 14 and 15.

Intangibles - Goodwill and Other: Testing Goodwill for Impairment, ASU 2011-08

In September 2011, the FASB issued an amendment to ASC 350, Intangibles - Goodwill and Other, to provide an option to perform a qualitative assessment to determine whether further impairment testing of goodwill is necessary. Specifically, an entity has the option to first assess qualitative factors to determine whether it is necessary to perform the current two-step test. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. This standard is effective for annual and interim goodwill impairment testing performed for fiscal years beginning after December 15, 2011. We perform our annual impairment testing in November of each year. The adoption of this standard will not have an impact on our financial statements.

Recently Issued Accounting Standards and Legislation

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

In December 2011, the FASB issued revised accounting guidance to amend ASC 210, Balance Sheet, related to the existing disclosure requirements for offsetting financial assets and liabilities to enhance current disclosures, as well as to improve comparability of balance sheets prepared under GAAP and IFRS. The revised disclosure guidance affects all companies that have financial instruments and derivative instruments that are either offset in the balance sheet (i.e., presented on a net basis) or subject to an enforceable master netting and/or similar arrangement. In addition, the revised guidance requires that certain enhanced quantitative and qualitative disclosures are made with respect to a company's netting arrangements and/or rights of offset associated with its financial instruments and/or derivative instruments. The revised disclosure guidance is effective on a retrospective basis for interim and annual periods beginning January 1, 2013. Management does not believe that the adoption of this standard will have an impact on the Company's financial position, results of operations or cash flows.

(3) SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Three Months Ended

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	March 31, 2012	March 31, 2011
	(in thousands)	
Non-cash investing activities from continuing operations—		
Property, plant and equipment acquired with accrued liabilities	\$31,644	\$32,220
Capitalized assets associated with retirement obligations	\$2,826	\$—
Cash (paid) refunded during the period for continuing operations—		
Interest (net of amounts capitalized)	\$(16,799) \$(11,572
Income taxes, net	\$(1,838) \$48

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(4) MATERIALS, SUPPLIES AND FUEL

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

	March 31, 2012	December 31, 2011	March 31, 2011
Materials and supplies	\$44,361	\$40,838	\$34,129
Fuel - Electric Utilities	7,812	8,201	9,307
Natural gas in storage - gas utilities	11,063	35,025	2,199
Total materials, supplies and fuel	\$63,236	\$84,064	\$45,635

(5) ACCOUNTS RECEIVABLE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Accounts receivable consists primarily of customer trade accounts. The Gas Utilities balance fluctuates primarily due to seasonality. We maintain an allowance for doubtful accounts that reflects our best estimate of probable uncollectible trade receivables. We regularly review our trade receivable allowances by considering such factors as historical experience, credit worthiness, the age of the receivable balances and current economic conditions that may affect our ability to collect.

Following is a summary of receivables (in thousands) as of:

	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Accounts Doubtful Accounts	Accounts Receivable, net
March 31, 2012				
Electric	\$44,356	\$19,381	\$(585)	)\$63,152
Gas	44,287	18,502	(936)	)61,853
Oil and Gas	15,014	—	(105)	)14,909
Coal Mining	2,578	—	—	2,578
Power Generation	265	—	—	265
Corporate	1,230	—	—	1,230
Total	\$107,730	\$37,883	\$(1,626)	)\$143,987
December 31, 2011				
Electric	\$42,773	\$21,151	\$(545)	)\$63,379
Gas	39,353	38,992	(1,011)	)77,334
Oil and Gas	11,282	—	(105)	)11,177
Coal Mining	4,056	—	—	4,056
Power Generation	282	—	—	282
Corporate	546	—	—	546
Total	\$98,292	\$60,143	\$(1,661)	)\$156,774

	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Accounts Doubtful Accounts Receivable, net	
March 31, 2011				
Electric	\$46,077	\$16,196	\$(728)	)\$61,545
Gas	58,665	21,620	(1,763)	)78,522
Oil and Gas	7,503	—	(161)	)7,342
Coal Mining	982	—	—	982
Power Generation	2,050	—	—	2,050
Corporate	1,083	—	—	1,083
Total	\$116,360	\$37,816	\$(2,652)	)\$151,524

(6) NOTES PAYABLE

Our credit facility and debt securities contain certain restrictive financial covenants. As of March 31, 2012, we were in compliance with all of these covenants.

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

	March 31, 2012		December 31, 2011		March 31, 2011	
	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit	Balance Outstanding	Letters of Credit
Revolving Credit Facility	\$75,000	\$41,200	\$195,000	\$43,700	\$187,000	\$51,000
Term Loan due 2011*	—	—	—	—	100,000	—
Term Loan due 2012	150,000	—	150,000	—	—	—
Total	\$225,000	\$41,200	\$345,000	\$43,700	\$287,000	\$51,000

* The short-term loan was renegotiated to a longer term note, maturing in 2013.

Revolving Credit Facility

On February 1, 2012, we entered into a new \$500 million Revolving Credit Facility expiring February 1, 2017 which contains an accordion feature allowing us, with the consent of the administrative agent, to increase the capacity of the facility to \$750 million. The Revolving Credit Facility can be used for the issuance of letters of credit, to fund working capital needs and for other corporate purposes. Borrowings are available under a base rate option or a Eurodollar option. The cost of borrowings or letters of credit is determined based upon our credit ratings. At current credit ratings levels, the margins for base rate borrowings, Eurodollar borrowings and letters of credit were 0.50%, 1.50% and 1.50%, respectively, at March 31, 2012. The facility contains a commitment fee that is to be charged on the unused amount of the Revolving Credit Facility. Based upon current credit ratings, the fee is 0.25%.

Deferred financing costs on the new facility of \$2.8 million are being amortized over the estimated useful life of the Revolving Credit Facility and are included in Interest expense on the accompanying Condensed Consolidated Statements of Income and Comprehensive Income. Upon entering into the new facility, \$1.5 million of deferred financing costs relating to the previous credit facility were written off through Interest expense.

Debt Covenants

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

As of	Covenant
-------	----------

	March 31, 2012	Requirement		
Consolidated Net Worth	\$1,224,692	\$899,024		
Recourse Leverage Ratio	56.4	% 65.0		%

(7) LONG TERM DEBT

Pollution Control Revenue Bonds

On March 28, 2012, Black Hills Power provided notice to the trustee of its intent to call the Pollution Control Refund Revenue Bonds which were originally due to mature on October 1, 2014. The principal amount due on the bonds has been reclassified to Current maturities of long-term debt on the accompanying Condensed Consolidated Balance Sheets. Repayment of \$6.5 million principal and accrued interest will be made on May 15, 2012.

(8) EARNINGS PER SHARE

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

	Three Months Ended March 31,	
	2012	2011
Income (loss) from continuing operations	\$35,271	\$29,068
Weighted average shares - basic	43,731	39,059
Dilutive effect of:		
Restricted stock	147	132
Stock options	18	17
Equity forward instruments	—	460
Other dilutive effects	73	93
Weighted average shares - diluted	43,969	39,761

The following outstanding securities were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive (in thousands):

	Three Months Ended March 31,	
	2012	2011
Stock options	127	83
Restricted stock	31	7
Other stock	16	—
Anti-dilutive shares	174	90

(9) COMPREHENSIVE INCOME (LOSS)

The following table presents the components of our comprehensive income (loss) (in thousands):

Three Months Ended March 31, 2012	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
Fair value adjustment of derivatives designated as cash flow hedges	\$521	\$55	\$576

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Reclassification adjustments of cash flow hedges settled and included in net income (loss)	(1,187) 445	(742)
Other comprehensive income (loss)	\$(666) \$500	\$(166)

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Three Months Ended March 31, 2011	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
Fair value adjustment of derivatives designated as cash flow hedges	\$ (3,785	) \$ 1,637	\$ (2,148
Reclassification adjustments of cash flow hedges settled and included in net income (loss)	861	(292	) 569
Other comprehensive income (loss)	\$ (2,924	) \$ 1,345	\$ (1,579

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

	Derivatives Designated as Cash Flow Hedges	Employee Benefit Plans	Total
Balance as of December 31, 2011	\$ (13,802	) \$ (19,076	) \$ (32,878
Other comprehensive income (loss)	(166	) —	(166
Ending Balance March 31, 2012	\$ (13,968	) \$ (19,076	) \$ (33,044

	Derivatives Designated as Cash Flow Hedges	Employee Benefit Plans	Total
Balance as of December 31, 2010	\$ (12,439	) \$ (11,142	) \$ (23,581
Other comprehensive income (loss)	(1,579	) —	(1,579
Ending Balance March 31, 2011	\$ (14,018	) \$ (11,142	) \$ (25,160

(10) COMMON STOCK

Other than the following transactions, we had no material changes in our common stock during the three months ended March 31, 2012 from the amount reported in Note 11 of the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

Equity Compensation Plans

We granted 66,690 target performance shares to certain officers and business unit leaders for the January 1, 2012 through December 31, 2014 performance period during the three months ended March 31, 2012. Actual shares are issued after the end of the performance plan period. Performance shares are awarded based on our total stockholder return over the designated performance period as measured against a selected peer group and can range from 0% to 200% of target. In addition, certain stock price performance must be achieved for a payout to occur. 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 \$32.26 per share.

We granted 139,550 shares of restricted common stock and restricted stock units during the three months ended March 31, 2012. The pre-tax compensation cost related to the awards of restricted stock and restricted stock units of approximately \$4.9 million will be recognized over the vesting period.

- Stock options totaling 41,206 shares were exercised during the three months ended March 31, 2012 at a weighted-average exercise price of \$28.28 per share, providing \$1.2 million of proceeds.

We issued 3,690 shares of common stock under our short-term incentive compensation plan during the three months ended March 31, 2012. Pre-tax compensation cost related to the awards was approximately \$0.1 million, which was expensed in 2011.

Stock-based compensation expense for the three months ended March 31, 2012 and 2011 was \$1.8 million and \$2.3 million, respectively.

As of March 31, 2012, total unrecognized compensation expense related to non-vested stock awards was \$12.2 million and is expected to be recognized over a weighted-average period of 2.3 years.

Dividend Reinvestment and Stock Purchase Plan

We have a DRIP under which stockholders 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 are issuing new shares. We issued 27,155 new shares at a weighted-average price of \$33.20 during the three months ended March 31, 2012. Unissued common stock totaling 426,109 shares was available for future offering under the DRIP at March 31, 2012.

Dividend Restrictions

Our Revolving Credit Facility and other debt obligations contain restrictions on the payment of cash dividends upon a default or event of default. As of March 31, 2012, we were in compliance with these covenants.

Due to our holding company structure, substantially all of our operating cash flows are provided by dividends paid or distributions made by our subsidiaries. The cash to pay dividends to our stockholders is derived from these cash flows. As a result, certain statutory limitations or regulatory or financing agreements could affect the levels of distributions allowed to be made by our subsidiaries. The following restrictions on distributions from our subsidiaries existed at March 31, 2012:

Our utilities are generally limited to the amount of dividends allowed to be paid to us as a utility holding company under the Federal Power Act and settlement agreements with state regulatory jurisdictions. As of March 31, 2012, the restricted net assets at our Utilities Group were approximately \$81.4 million.

As required by the covenant in the Black Hills Wyoming project financing, Black Hills Non-regulated Holdings has maintained restricted equity of at least \$100.0 million.

(11) EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plans

We have three non-contributory defined benefit pension plans (the "Pension Plans"). One covers certain eligible employees of the following subsidiaries: Black Hills Service Company, Black Hills Power, WRDC and BHEP, one covers certain eligible employees of Cheyenne Light, and one covers certain eligible employees of Black Hills Energy. The Pension Plan benefits are based on years of service and compensation levels.

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

	Three Months Ended March 31,	
	2012	2011
Service cost	\$1,430	\$1,355
Interest cost	3,687	3,732
Expected return on plan assets	(4,084)	(4,239)

Prior service cost	22	25
Net loss (gain)	2,408	1,135
Net periodic benefit cost	\$3,463	\$2,008

Non-pension Defined Benefit Postretirement Healthcare Plans

We sponsor the following retiree healthcare plans (the "Healthcare Plans"): the Black Hills Corporation Postretirement Healthcare Plan, the Healthcare Plan for Retirees of Cheyenne Light, and the Black Hills Energy Postretirement Healthcare Plan. Employees who participate in the Healthcare Plans and who retire on or after meeting certain eligibility requirements are

entitled to postretirement healthcare benefits.

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

	Three Months Ended	
	March 31,	
	2012	2011
Service cost	\$402	\$375
Interest cost	523	542
Expected return on plan assets	(19	)(41
Prior service cost (benefit)	(125	)(120
Net loss (gain)	222	169
Net periodic benefit cost	\$1,003	\$925

Supplemental Non-qualified Defined Benefit Plans

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

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

	Three Months Ended	
	March 31,	
	2012	2011
Service cost	\$246	\$257
Interest cost	331	324
Prior service cost	1	1
Net loss (gain)	202	127
Net periodic benefit cost	\$780	\$709

Contributions

We anticipate that we will make contributions to the benefit plans during 2012 and 2013. Contributions to the Defined Benefit Plans will be made in cash and contributions to the Healthcare Plans and the Supplemental Plans are expected to be made in the form of benefit payments. Contributions are as follows (in thousands):

	Contributions		
	Three Months	Additional	Contributions
	Made	Contributions	Anticipated for
	Ended	Anticipated for	2013
	March 31,	2012	
	2012		
Defined Benefit Pension Plans	\$25,000	\$—	\$4,500
Non-pension Defined Benefit Postretirement Healthcare Plans	\$1,063	\$3,188	\$4,380
Supplemental Non-qualified Defined Benefit Plans	\$278	\$833	\$1,090

(12) BUSINESS SEGMENTS INFORMATION

Our reportable segments are based on our method of internal reporting, which generally segregates the strategic business groups due to differences in products, services and regulation. All of our operations and assets are located within the United States.

On February 29, 2012, we sold our Energy Marketing segment, Enserco, which resulted in this segment being classified as discontinued operations. For comparative purposes, all prior periods presented have been restated to reflect the classification of this segment as discontinued operations. Indirect corporate costs and inter-segment interest expense related to Enserco that have not been classified as discontinued operations reclassified to our Corporate segment. For further information see Note 17.

We conduct our operations through the following five reportable segments:

Utilities Group —

Electric Utilities, which supplies electric utility service to areas in South Dakota, Wyoming, Colorado and Montana and natural gas utility service to Cheyenne, Wyoming and vicinity; and

Gas Utilities, which supplies natural gas utility service to areas in Colorado, Iowa, Kansas and Nebraska.

Non-regulated Energy Group —

Oil and Gas, which acquires, explores for, develops and produces crude oil and natural gas interests located in the Rocky Mountain region and other states;

Power Generation, which produces and sells power and capacity to wholesale customers from power plants located in Wyoming and Colorado; and

Coal Mining, which engages in the mining and sale of coal from our mine near Gillette, Wyoming.

Segment information follows the accounting policies described in Note 1 of the Notes to Consolidated Financial Statements in our 2011 Annual Report on Form 10-K.

Segment information included in the accompanying Condensed Consolidated Statements of Income and Comprehensive Income and Condensed Consolidated Balance Sheets was as follows (in thousands):

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

Three Months Ended March 31, 2011	External Operating Revenues	Intercompany Operating Revenues	Income (Loss) from Continuing Operations
Utilities:			
Electric	\$144,430	\$3,839	\$10,249
Gas	230,266	—	19,263
Non-regulated Energy:			
Oil and Gas	17,906	—	(715)
Power Generation	687	6,933	1,186
Coal Mining	7,614	7,881	(1,298)
Corporate ^{(a)(b)}	—	—	451
Intercompany eliminations	—	(18,721)	(68)
Total	\$400,903	\$(68)	\$29,068

(a) Income (loss) from continuing operations includes \$7.8 million and \$3.6 million net after-tax mark-to-market gain on interest rate swaps for the three months ended March 31, 2012 and March 31, 2011, respectively.

Certain direct corporate costs and inter-segment interest expense previously allocated to our Energy Marketing (b) segment were not classified as discontinued operations but were included in the Corporate segment. See Note 17 for further information.

Total Assets (net of inter-company eliminations)	March 31, 2012	December 31, 2011	March 31, 2011
Utilities:			
Electric ^(a)	\$2,268,524	\$2,254,914	\$1,868,600
Gas	717,185	746,444	683,927
Non-regulated Energy:			
Oil and Gas	430,851	425,970	355,357
Power Generation ^(a)	128,225	129,121	336,827
Coal Mining	87,139	88,704	94,416
Corporate ^(b)	176,012	141,079	94,499
Discontinued operations ^(c)	—	340,851	295,724
Total assets	\$3,807,936	\$4,127,083	\$3,729,350

The PPA under which the new generating facility was constructed at our Pueblo Airport Generation site by Colorado IPP to support Colorado Electric customers is accounted for as a capital lease. Therefore, commencing (a) December 31, 2011, assets previously at Power Generation are now accounted for at Colorado Electric under accounting for a capital lease.

(b) Assets of the Corporate segment were restated due to deferred taxes that were not classified as discontinued operations.

(c) See Note 17 for further information relating to discontinued operations.

(13) RISK MANAGEMENT ACTIVITIES

Our activities in the regulated and non-regulated energy sectors expose us to a number of risks in the normal operation of our businesses. Depending on the activity, we are exposed to varying degrees of market risk and credit risk. To manage and mitigate these identified risks, we have adopted the Black Hills Corporation Risk Policies and Procedures as discussed in our 2011 Annual Report on Form 10-K filed with the SEC.

Market Risk

Market risk is the potential loss that might occur as a result of an adverse change in market price or rate. We are exposed to the following market risks:

Commodity price risk associated with our natural long position with crude oil and natural gas reserves and production, fuel procurement for certain of our gas-fired generation assets and variability in revenue due to changes in gas usage at our regulated segment; and

Interest rate risk associated with our variable rate credit facility, project financing floating rate debt and our derivative instruments.

Our exposure to these market risks is affected by a number of factors including the size, duration, and composition of our energy portfolio, the absolute and relative levels of interest rates and commodity prices, the volatility of these prices and rates, and the liquidity of the related interest rate and commodity markets.

Credit Risk

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

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

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

As of March 31, 2012, our credit exposure (exclusive of retail customers of the regulated utilities) was concentrated primarily among investment grade companies. Credit exposure with non-investment grade or non-rated counterparties, was supported partially through letters of credit, prepayments or parental guarantees.

We actively manage our exposure to certain market and credit risks as described in Note 3 of the Notes to the Consolidated Financial Statements in our 2011 Annual Report on Form 10-K. Our derivative and hedging activities included in the accompanying Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Income and Comprehensive Income are detailed below and within Note 14.

Oil and Gas Exploration and Production

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

We hold a portfolio of swaps and options to hedge portions of our crude oil and natural gas production. We elect hedge accounting on those OTC swaps and options. These transactions were designated at inception as cash flow hedges, documented under accounting for derivatives and hedging, and initially met prospective effectiveness testing. Effectiveness of our hedging position is evaluated at least quarterly.

The derivatives were marked to fair value and are recorded as Derivative assets or Derivative liabilities on the accompanying Condensed Consolidated Balance Sheets. The effective portion of the gain or loss on these derivatives is reported in Accumulated other comprehensive income (loss) and the ineffective portion, if any, is reported in Revenue.

We had the following derivatives and related balances (dollars in thousands) as of:

	March 31, 2012		December 31, 2011		March 31, 2011	
	Crude Oil Swaps/Options	Natural Gas Swaps	Crude Oil Swaps/Options	Natural Gas Swaps	Crude Oil Swaps/Options	Natural Gas Swaps
Notional ^(a)	522,000	5,001,750	528,000	5,406,250	487,500	5,974,800
Maximum terms in years ^(b)	1.25	1.50	1.25	1.75	1.00	0.25
Derivative assets, current	\$406	\$8,256	\$729	\$8,010	\$108	\$6,649
Derivative assets, non-current	\$46	\$808	\$771	\$1,148	\$—	\$975
Derivative liabilities, current	\$2,904	\$—	\$2,559	\$—	\$4,688	\$—
Derivative liabilities, non-current	\$1,084	\$—	\$811	\$7	\$2,678	\$157
Pre-tax accumulated other comprehensive income (loss)	\$ (3,566)	\$ 9,064	\$ (1,928)	\$ 9,152	\$ (7,613)	\$ 7,467
Revenue ^(c)	\$30	\$—	\$58	\$—	\$355	\$—

(a) Crude oil in Bbls, gas in MMBtus

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

(c) Represents the amortization of put premiums.

Based on March 31, 2012 market prices, a \$4.3 million gain would be reclassified from AOCI during the next 12 months. Estimated and actual realized gains will change during future periods as market prices fluctuate.

Utilities

Our utility customers are exposed to the effect of volatile natural gas prices; therefore, as allowed or required by state utility commissions, we have entered into certain exchange-traded natural gas futures, options and basis swaps to reduce our customers' underlying exposure to these fluctuations. These transactions are considered derivatives and in accordance with accounting standards for derivatives and hedging, mark-to-market adjustments are recorded as Derivative assets or Derivative liabilities on the accompanying Condensed Consolidated Balance Sheets. Gains and losses, as well as option premiums and commissions, on these transactions are recorded as Regulatory assets or Regulatory liabilities in accordance with accounting standards for regulated operations. Accordingly, the earnings impact is recognized in the Condensed Consolidated Statements of Income and Comprehensive Income when the related costs are recovered through our rates.

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

	March 31, 2012		December 31, 2011		March 31, 2011	
	Notional (MMBtus)	Latest Expiration (months)	Notional (MMBtus)	Latest Expiration (months)	Notional (MMBtus)	Latest Expiration (months)
Natural gas futures purchased	11,550,000	81	14,310,000	84	4,680,000	24
Natural gas options purchased	670,000	12	1,720,000	3	—	—
Natural gas basis swaps purchased	7,640,000	81	7,160,000	60	—	—

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

	March 31, 2012	December 31, 2011	March 31, 2011
Derivative assets, current	\$9,215	\$ 9,844	\$1,056
Derivative assets, non-current	\$27	\$ 52	\$209
Derivative liabilities, non-current	\$6,407	\$ 7,156	\$—
Net unrealized gain (loss) included in Regulatory assets or liabilities	\$15,223	\$ 17,556	\$2,455
Included in Derivatives:			
Cash collateral receivable (payable)	\$17,651	\$ 19,416	\$3,720
Option premiums and commissions	\$407	\$ 880	\$—

Financing Activities

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

	March 31, 2012		December 31, 2011		March 31, 2011	
	Designated Interest Rate Swaps	De-designated Interest Rate Swaps*	Designated Interest Rate Swaps	De-designated Interest Rate Swaps*	Designated Interest Rate Swaps	De-designated Interest Rate Swaps*
Notional	\$ 150,000	\$ 250,000	\$ 150,000	\$ 250,000	\$ 150,000	\$ 250,000
Weighted average fixed interest rate	5.04	% 5.67	% 5.04	% 5.67	% 5.04	% 5.67
Maximum terms in years	4.75	1.75	5.00	2.00	5.75	0.75
Derivative liabilities, current	\$6,777	\$ 66,708	\$6,513	\$ 75,295	\$6,769	\$ 48,515
Derivative liabilities, non-current	\$18,441	\$ 17,237	\$20,363	\$ 20,696	\$12,955	\$—
Pre-tax accumulated other comprehensive income (loss)	\$(25,218)	\$—	\$(26,876)	\$—	\$(19,724)	\$—
Pre-tax gain (loss)	\$—	\$ 12,045	\$—	\$(42,010)	\$—	\$ 5,465
Cash collateral receivable (payable)	\$—	\$—	\$—	\$—	\$—	\$—

* Maximum terms in years reflect the amended early termination dates. If the early termination dates are not extended, the swaps will require cash settlement based on the swap value on the termination date. If extended, de-designated swaps totaling \$100 million terminate in 7 years and de-designated swaps totaling \$150 million terminate in 17 years.

\$50 million of our de-designated swaps have collateral requirements based on our corporate credit ratings. At our current credit ratings, we would be required to post collateral for any amount by which the swaps' negative mark-to-market fair value exceeds \$20 million. If our senior unsecured credit rating drops to BB+ or below by S&P, or Ba1 or below by Moody's, we would be required to post collateral for the entire amount of the swaps' negative mark-to-market fair value.

Based on March 31, 2012 market interest rates and balances related to our designated interest rate swaps, a loss of approximately \$6.8 million would be reclassified from AOCI during the next 12 months. Estimated and realized losses will change during future periods as market interest rates change.

(14) FAIR VALUE MEASUREMENTS

Derivative Financial Instruments

Assets and liabilities carried at fair value are classified and disclosed in one of the following categories:

Level 1 — Unadjusted quoted prices available in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities. This level primarily consists of financial instruments such as exchange-traded securities or listed derivatives.

Level 2 — Pricing inputs include quoted prices for identical or similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 — Pricing inputs include significant inputs that are generally less observable from objective sources. These inputs reflect management's best estimate of fair value using its own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy levels. We record transfers, if necessary, between levels at the end of the reporting period for all of our financial instruments.

Valuation Methodologies

Oil and Gas Segment:

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

The commodity basis swaps for the Oil and Gas segment are valued under the market approach using the instrument's current forward price strip hedged for the same quantity and date and discounted based on the three-month LIBOR.

Utilities Segment:

The commodity contracts for the Utilities, valued using the market approach, include exchange-traded futures, options and basis swaps (Level 2) and OTC basis swaps (Level 3) for natural gas contracts. For Level 2 assets and liabilities, fair value was derived using broker quotes validated by the Chicago Mercantile Exchange pricing for similar instruments. For Level 3 assets and liabilities, fair value was derived using average price quotes from the OTC contract broker and an independent third party market participant.

Corporate Segment:

The interest rate swaps are valued using the market valuation approach. The company establishes fair value by obtaining price quotes directly from the counterparty which are based on the floating three-month LIBOR curve for the term of the contract. The fair value obtained from the counterparty is then validated by utilizing a nationally recognized service that obtains observable inputs to compute fair value for the same instrument. In addition, the fair

value for the interest rate swap derivatives includes a CVA component. The CVA considers the fair value of the interest rate swap and the probability of default based on the life of the contract. For the probability of a default component, we utilize observable inputs supporting Level 2 disclosure by using our credit default spread, if available, or a generic credit default spread curve that takes into account our credit ratings.

Recurring Fair Value Measurements

The following tables set forth by level within the fair value hierarchy our assets and liabilities that were accounted for at fair value on a recurring basis (in thousands):

	As of March 31, 2012			Counterparty Netting	Cash Collateral	Total
	Level 1	Level 2	Level 3			
Assets:						
Commodity derivatives — Oil and Gas						
Options -- Oil	\$—	\$404	\$—	\$—	\$—	\$404
Basis Swaps -- Oil	—	48	—	—	—	48
Options -- Gas	—	—	—	—	—	—
Basis Swaps -- Gas	—	9,064	—	—	—	9,064
Commodity derivatives — Utilities	—	(8,412	) 3	—	17,651	9,242
Repurchase agreement ^(a)	43,128	—	—	—	—	43,128
Money market funds and term deposits ^(a)	12,791	—	—	—	—	12,791
Total	\$55,919	\$1,104	\$3	\$—	\$17,651	\$74,677
Liabilities:						
Commodity derivatives — Oil and Gas						
Options -- Oil	\$—	\$1,347	\$—	\$—	\$—	\$1,347
Basis Swaps -- Oil	—	2,641	—	—	—	2,641
Options -- Gas	—	—	—	—	—	—
Basis Swaps -- Gas	—	—	—	—	—	—
Commodity derivatives — Utilities	—	6,359	48	—	—	6,407
Interest rate swaps	—	109,163	—	—	—	109,163
Total	\$—	\$119,510	\$48	\$—	\$—	\$119,558

(a) Level 1 assets and liabilities and described at Note 15.

	As of December 31, 2011			Counterparty Netting	Cash Collateral	Total
	Level 1	Level 2	Level 3			
Assets:						
Commodity derivatives — Oil and Gas	\$—	\$9,885	\$768	\$5	\$—	\$10,658
Commodity derivatives — Utilities	—	(9,520	) —	—	19,416	9,896
Money market funds	6,005	—	—	—	—	6,005
Total	\$6,005	\$365	\$768	\$5	\$19,416	\$26,559
Liabilities:						
Commodity derivatives — Oil and Gas	\$—	\$2,207	\$1,165	\$5	\$—	\$3,377
Commodity derivatives — Utilities	—	7,156	—	—	—	7,156
Interest rate swaps	—	122,867	—	—	—	122,867
Total	\$—	\$132,230	\$1,165	\$5	\$—	\$133,400

	As of March 31, 2011			Counterparty Netting	Cash Collateral	Total
	Level 1	Level 2	Level 3			
Assets:						
Commodity derivatives — Oil and Gas	\$—	\$7,626	\$106	\$—	\$—	\$7,732
Commodity derivatives — Utilities	—	(2,455)	—	—	3,720	1,265
Money market funds	9,050	—	—	—	—	9,050
Total	\$9,050	\$5,171	\$106	\$—	\$3,720	\$18,047
Liabilities:						
Commodity derivatives — Oil and Gas	\$—	\$7,523	\$—	\$—	\$—	\$7,523
Commodity derivatives — Utilities	—	—	—	—	—	—
Interest rate swaps	—	68,239	—	—	—	68,239
Total	\$—	\$75,762	\$—	\$—	\$—	\$75,762

The following table presents the quantitative information about level 3 fair value measurements (dollars shown in thousands):

	Fair Value at March 31, 2012	Valuation Technique	Unobservable Input	Range (Weighted Average)
ASSETS				
Commodity derivatives - Utilities ^(a)	\$3	Independent price quotes	Long-term natural gas prices	Not applicable
LIABILITIES				
Commodity derivatives - Utilities ^(a)	\$48	Independent price quotes	Long-term natural gas prices	Not applicable

The significant unobservable inputs used in the fair value measurement of the long-term OTC contracts are based on the average of price quotes from an independent third party market participant and the OTC contract broker.

^(a) Significant changes to these inputs along with the contract term would impact the derivative asset/liability and regulatory asset/liability, but will not impact the results of operations until the contract is settled under the original terms of the contract. The contracts will be classified as Level 2 once settlement is within 60 months of maturity and quoted market prices from a market exchange are available.

The following tables present the changes in Level 3 recurring fair value for the three months ended March 31, 2012 and 2011, respectively (in thousands):

	Three Months Ended March 31, 2012			
	Commodity Derivatives -- Oil	Commodity Derivatives -- Gas	Commodity Derivatives -- Utilities	Total
Assets:				
Balances as of beginning of period	\$768	\$—	\$—	\$768
Total gain (loss) included in revenue	—	—	—	—
Total gain (loss) included in AOCI	(360	)—	—	(360)
Purchases	—	—	3	3
Issuances	—	—	—	—
Settlements	(4	)—	—	(4)
Transfers into level 3 ^(a)	—	—	—	—
Transfers out of level 3 ^{(b)(c)}	(404	)—	—	(404)
Balances at end of period	\$—	\$—	\$3	\$3

Changes in unrealized gains (losses) relating to instruments still held as of period-end	\$—	\$—	\$3	\$3
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Liabilities:	Three Months Ended March 31, 2012			Total
	Commodity Derivatives -- Oil	Commodity Derivatives -- Gas	Commodity Derivatives -- Utilities	
Balances as of beginning of period	\$1,165	\$—	\$—	\$1,165
Total gain (loss) included in revenue	—	—	—	—
Total gain (loss) included in AOCI	182	—	—	182
Purchases	—	—	48	48
Issuances	—	—	—	—
Settlements	—	—	—	—
Transfers into level 3 (a)	—	—	—	—
Transfers out of level 3(b)(c)	(1,347	)—	—	(1,347
Balances at end of period	\$—	\$—	\$48	\$48
Changes in unrealized gains (losses) relating to instruments still held as of period-end	\$—	\$—	\$48	\$48

	Three Months Ended March 31, 2011 Commodity Derivatives
Balance as of beginning of period	\$266
Unrealized losses	(160
Unrealized gains	—
Settlements	—
Transfers into level 3 (a)	—
Transfers out of level 3(b)	—
Balance at end of period	\$106
Changes in unrealized gains (losses) relating to instruments still held as of period-end	\$(159

Transfers into Level 3 would occur when significant inputs used to value the derivative instruments become less (a) observable such as a significant decrease in the frequency and volume in which the instrument is traded, negatively impacting the availability of observable pricing inputs.

Transfers out of Level 3 would occur when the significant inputs become more observable such as the time (b) between the valuation date and the delivery date of a transaction becomes shorter, positively impacting the availability of observable pricing inputs.

(c) Previously, we utilized pricing methodologies developed by our Energy Marketing segment to value our Oil and Gas derivatives. Oil and Gas now obtains available observable inputs including quoted prices traded on active exchanges from multiple sources to value our options. Therefore, options in the Oil and Gas segment have been reclassified from Level 3 to Level 2.

Fair Value Measures

As required by accounting standards for derivatives and hedges, fair values within the following tables are presented on a gross basis and do not reflect the netting of asset and liability positions permitted in accordance with accounting standards for offsetting and under terms of our master netting agreements. Further, the amounts do not include net cash collateral on deposit in margin accounts at March 31, 2012, December 31, 2011, and March 31, 2011, to collateralize certain financial instruments, which are included in Derivative assets and/or Derivative liabilities.

Therefore, the gross balances are not indicative of either our actual credit exposure or net economic exposure. Additionally, the amounts below will not agree with the amounts presented on our Condensed Consolidated Balance Sheets, nor will they correspond to the fair value measurements presented in Note 13.

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

As of March 31, 2012

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

As of December 31, 2011