

BLACK HILLS CORP /SD/  
Form 10-Q  
August 04, 2017

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 June 30, 2017

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 IRS Identification Number 46-0458824

625 Ninth Street

Rapid City, South Dakota 57701

Registrant's telephone number (605) 721-1700

Former name, former address, and former fiscal year if changed since  
last report

NONE

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

Yes  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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller  
reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section

13(a) of the Exchange Act.

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.

Class	Outstanding at July 31, 2017
Common stock, \$1.00 par value	53,475,190 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)
APSC	Arkansas Public Service Commission
Arkansas Gas	Black Hills Energy Arkansas, Inc., a direct, wholly-owned subsidiary of Black Hills Gas Inc.
Stockton Storage	Arkansas Gas storage facility
ARMRP	At-Risk Meter Relocation Program
ASC	Accounting Standards Codification
ASU	Accounting Standards Update issued by the FASB
ATM	At-the-market equity offering program
Availability	The availability factor of a power plant is the percentage of the time that it is available to provide energy.
Bbl	Barrel
BHC	Black Hills Corporation; the Company
Black Hills Gas	Black Hills Gas, LLC, a subsidiary of Black Hills Gas Holdings, which was previously named SourceGas LLC
Black Hills Gas Holdings	Black Hills Gas Holdings, LLC, a subsidiary of Black Hills Utility Holdings, which was previously named SourceGas Holdings LLC
Black Hills Electric Generation	Black Hills Electric Generation, LLC, a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Black Hills Energy	The name used to conduct the business of our utility companies
Black Hills Energy Arkansas Gas	Includes the acquired SourceGas utility Black Hills Energy Arkansas, Inc. utility operations
Black Hills Energy Colorado Electric	Includes Colorado Electric's utility operations
Black Hills Energy Colorado Gas	Includes Black Hills Energy Colorado Gas utility operations, as well as the acquired SourceGas utility Black Hills Gas Distribution's Colorado gas operations and RMNG
Black Hills Energy Iowa Gas	Includes Black Hills Energy Iowa gas utility operations
Black Hills Energy Kansas Gas	Includes Black Hills Energy Kansas gas utility operations
Black Hills Energy Nebraska Gas	Includes Black Hills Energy Nebraska gas utility operations, as well as the acquired SourceGas utility Black Hills Gas Distribution's Nebraska gas operations
Black Hills Energy South Dakota Electric	Includes Black Hills Power operations in South Dakota, Wyoming and Montana
Black Hills Energy Wyoming Electric	Includes Cheyenne Light's electric utility operations
Black Hills Energy Wyoming Gas	Includes Cheyenne Light's natural gas utility operations, as well as the acquired SourceGas utility Black Hills Gas Distribution's Wyoming gas operations
Black Hills Gas Distribution	Black Hills Gas Distribution, LLC, a company acquired in the SourceGas Acquisition that conducts the gas distribution operations in Colorado, Nebraska and Wyoming. It was formerly named SourceGas Distribution LLC.
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 (doing business as Black Hills Energy)

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Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of Black Hills Corporation (doing business as Black Hills Energy)
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
Btu	British thermal unit
CAPP	Customer Appliance Protection Plan

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Ceiling Test	Related to our Oil and Gas subsidiary, capitalized costs, less accumulated amortization and related deferred income taxes, are subject to a ceiling test which limits the pooled costs to the aggregate of the discounted value of future net revenue attributable to proved natural gas and crude oil reserves using prices and a discount rate defined by the SEC plus the lower of cost or market value of unevaluated properties.
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of Black Hills Corporation (doing business as Black Hills Energy)
CIAC	Contribution In Aid of Construction
City of Gillette	Gillette, Wyoming
Colorado Electric	Black Hills Colorado Electric Utility Company, LP, an indirect, wholly-owned subsidiary of Black Hills Utility Holdings (doing business as Black Hills Energy)
Colorado Gas	Black Hills Colorado Gas Utility Company, LP, an indirect, wholly-owned subsidiary of Black Hills Utility Holdings (doing business as Black Hills Energy)
Colorado IPP	Black Hills Colorado IPP, LLC a 50.1% owned subsidiary of Black Hills Electric Generation
Consolidated Indebtedness to Capitalization Ratio	Any Indebtedness outstanding at such time, divided by Capital at such time. Capital being Consolidated Net-Worth (excluding noncontrolling interest and including the aggregate outstanding amount of RSNs) plus Consolidated Indebtedness (including letters of credit, certain guarantees issued and excluding RSNs) as defined within the current Credit Agreement.
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.
Cost of Service Gas Program (COSG)	Proposed Cost of Service Gas Program designed to provide long-term natural gas price stability for the Company's utility customers, along with a reasonable expectation of customer savings over the life of the program.
CP Program	Commercial Paper Program
CPUC	Colorado Public Utilities Commission
CVA	Credit Valuation Adjustment
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DSM	Demand Side Management
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
ECA	Energy Cost Adjustment - adjustments that allow us to pass the prudently-incurred cost of fuel and purchased energy through to customers.
Equity Unit	Each Equity Unit has a stated amount of \$50, consisting of a purchase contract issued by BHC to purchase shares of BHC common stock and a 1/20, or 5% undivided beneficial ownership interest in \$1,000 principal amount of BHC RSNs due 2028.
FASB	Financial Accounting Standards Board
FERC	United States Federal Energy Regulatory Commission
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
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.
GSRS	Gas System Reliability Surcharge
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.

Iowa Gas

Black Hills Iowa Gas Utility Company, LLC, a direct, wholly-owned subsidiary of Black Hills Utility Holdings (doing business as Black Hills Energy)

IPP

Independent power producer

IRS

United States Internal Revenue Service

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Kansas Gas	Black Hills Kansas Gas Utility Company, LLC, a direct, wholly-owned subsidiary of Black Hills Utility Holdings (doing business as Black Hills Energy)
KCC	Kansas Corporation Commission
kV	Kilovolt
LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Mcf	Thousand cubic feet
Mcfe	Thousand cubic feet equivalent
MMBtu	Million British thermal units
Moody's	Moody's Investors Service, Inc.
MRP	Meter Relocation Program
MW	Megawatts
MWh	Megawatt-hours
Nebraska Gas	Black Hills Nebraska Gas Utility Company, LLC, a direct, wholly-owned subsidiary of Black Hills Utility Holdings (doing business as Black Hills Energy)
NGL	Natural Gas Liquids (1 barrel equals 6 Mcfe)
NOL	Net Operating Loss
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
Peak View Wind Project	\$109 million 60 MW wind generating project for Colorado Electric, adjacent to Busch Ranch wind farm
PPA	Power Purchase Agreement
Revolving Credit Facility	Our \$750 million credit facility used to fund working capital needs, letters of credit and other corporate purposes, which matures in 2021.
RMNG	Rocky Mountain Natural Gas, a regulated gas utility acquired in the SourceGas Acquisition that provides regulated transmission and wholesale natural gas service to Black Hills Gas in western Colorado (doing business as Black Hills Energy)
RSNs	Remarketable junior subordinated notes, issued on November 23, 2015
SDPUC	South Dakota Public Utilities Commission
SEC	U. S. Securities and Exchange Commission
SourceGas	SourceGas Holdings LLC and its subsidiaries, a gas utility owned by funds managed by Alinda Capital Partners and GE Energy Financial Services, a unit of General Electric Co. (NYSE:GE) that was acquired on February 12, 2016, and is now named Black Hills Gas Holdings, LLC (doing business as Black Hills Energy)
SourceGas Acquisition	The acquisition of SourceGas Holdings, LLC by Black Hills Utility Holdings
SourceGas Transaction	On February 12, 2016, Black Hills Utility Holdings acquired SourceGas pursuant to a purchase and sale agreement executed on July 12, 2015 for approximately \$1.89 billion, which included the assumption of \$760 million in debt at closing.
S&P	Standard and Poor's, a division of The McGraw-Hill Companies, Inc.
South Dakota Electric	Includes Black Hills Power operations in South Dakota, Wyoming and Montana
SSIR	System Safety and Integrity Rider
TCA	Transmission Cost Adjustment -- adjustments passed through to the customer based on transmission costs that are higher or lower than the costs approved in the rate case.
VIE	Variable interest entity
Winter Storm Atlas	An October 2013 blizzard that impacted South Dakota Electric. It was the second most severe blizzard in Rapid City's history.

WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings
Wyodak Plant	Wyodak, a 362 MW mine-mouth coal-fired plant in Gillette, Wyoming, is owned 80% by Pacificorp and 20% by Black Hills Energy South Dakota. Our WRDC mine supplies all of the fuel for the plant.
Wyoming Electric	Includes Cheyenne Light's electric utility operations
Wyoming Gas	Includes Cheyenne Light's natural gas utility operations, as well as the acquired SourceGas utility Black Hills Gas Distribution's Wyoming gas operations

BLACK HILLS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(unaudited)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Revenue	\$347,978	\$325,441	\$901,981	\$775,400
Operating expenses:				
Fuel, purchased power and cost of natural gas sold	98,164	84,489	317,941	256,345
Operations and maintenance	117,374	112,541	239,504	219,603
Depreciation, depletion and amortization	48,663	47,305	97,310	91,712
Taxes - property, production and severance	13,743	12,760	27,712	24,877
Impairment of long-lived assets	—	25,497	—	39,993
Other operating expenses	1,168	7,551	3,137	33,982
Total operating expenses	279,112	290,143	685,604	666,512
Operating income	68,866	35,298	216,377	108,888
Other income (expense):				
Interest charges -				
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts)	(35,098)	(34,609)	(70,194)	(66,683)
Allowance for funds used during construction - borrowed	822	754	1,308	1,255
Capitalized interest	130	268	299	503
Interest income	257	946	298	1,601
Allowance for funds used during construction - equity	794	982	1,286	1,689
Other income (expense), net	(58)	(47)	(160)	641
Total other income (expense), net	(33,153)	(31,706)	(67,163)	(60,994)
Income before income taxes	35,713	3,592	149,214	47,894
Income tax benefit (expense)	(10,402)	(309)	(43,757)	(4,561)
Net income	25,311	3,283	105,457	43,333
Net income attributable to noncontrolling interest	(3,116)	(2,614)	(6,739)	(2,662)
Net income available for common stock	\$22,195	\$669	\$98,718	\$40,671
Earnings per share of common stock:				
Earnings per share, Basic	\$0.42	\$0.01	\$1.86	\$0.79
Earnings per share, Diluted	\$0.40	\$0.01	\$1.79	\$0.78
Weighted average common shares outstanding:				
Basic	53,229	51,514	53,191	51,279
Diluted	55,384	52,986	55,179	52,454
Dividends declared per share of common stock	\$0.445	\$0.420	\$0.890	\$0.840

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

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BLACK HILLS CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)	Three Months Ended June 30, 2017    2016		Six Months Ended June 30, 2017    2016	
	(in thousands)			
Net income (loss)	\$25,311	\$3,283	\$105,457	\$43,333
Other comprehensive income (loss), net of tax:				
Reclassification adjustments of benefit plan liability - prior service cost (net of tax (expense) benefit of \$18 and \$19 for the three months ended June 30, 2017 and 2016 and \$35 and \$38 for the six months ended June 30, 2017 and 2016, respectively)	(31	)(36	)(62	)(72 )
Reclassification adjustments of benefit plan liability - net gain (loss) (net of tax (expense) benefit of \$(146) and \$(173) for the three months ended June 30, 2017 and 2016 and \$(300) and \$(346) for the six months ended June 30, 2017 and 2016, respectively)	268	321	528	643
Derivative instruments designated as cash flow hedges:				
Net unrealized gains (losses) on interest rate swaps (net of tax of \$0 and \$4,440 for the three months ended June 30, 2017 and 2016 and \$0 and \$10,767 for the six months ended June 30, 2017 and 2016, respectively)	—	(8,174	)—	(19,898 )
Reclassification of net realized (gains) losses on settled/amortized interest rate swaps (net of tax of \$(249) and \$(294) for the three months ended June 30, 2017 and 2016 and \$(530) and \$(592) for the six months ended June 30, 2017 and 2016, respectively)	464	546	985	1,098
Net unrealized gains (losses) on commodity derivatives (net of tax of \$(194) and \$906 for the three months ended June 30, 2017 and 2016 and \$(536) and \$98 for the six months ended June 30, 2017 and 2016, respectively)	331	(1,546	)915	(168 )
Reclassification of net realized (gains) losses on settled commodity derivatives (net of tax of \$143 and \$1,176 for the three months ended June 30, 2017 and 2016 and \$249 and \$2,476 for the six months ended June 30, 2017 and 2016, respectively)	(243	)(2,050	)(424	)(4,312 )
Other comprehensive income (loss), net of tax	789	(10,939	)1,942	(22,709 )
Comprehensive income (loss)	26,100	(7,656	)107,399	20,624
Less: comprehensive income attributable to noncontrolling interest	(3,116	)(2,614	)(6,739	)(2,662 )
Comprehensive income (loss) available for common stock	\$22,984	\$(10,270)	\$100,660	\$17,962

See Note 13 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		
	June 30, 2017	December 31, 2016	June 30, 2016
	(in thousands)		
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 11,590	\$ 13,580	\$ 61,859
Restricted cash and equivalents	2,534	2,274	1,975
Accounts receivable, net	169,957	263,289	150,227
Materials, supplies and fuel	99,126	107,210	85,189
Derivative assets, current	1,148	4,138	4,030
Regulatory assets, current	53,061	49,260	54,856
Other current assets	21,840	27,063	30,652
Total current assets	359,256	466,814	388,788
Investments	12,761	12,561	12,363
Property, plant and equipment	6,533,581	6,412,223	6,209,816
Less: accumulated depreciation and depletion	(1,981,880 )	(1,943,234 )	(1,819,886 )
Total property, plant and equipment, net	4,551,701	4,468,989	4,389,930
Other assets:			
Goodwill	1,299,454	1,299,454	1,303,453
Intangible assets, net	7,972	8,392	9,164
Regulatory assets, non-current	244,099	246,882	220,556
Derivative assets, non-current	37	222	226
Other assets, non-current	13,812	12,130	15,438
Total other assets, non-current	1,565,374	1,567,080	1,548,837
<b>TOTAL ASSETS</b>	<b>\$ 6,489,092</b>	<b>\$ 6,515,444</b>	<b>\$ 6,339,918</b>

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		
	June 30, 2017	December 31, 2016	June 30, 2016
	(in thousands, except share amounts)		
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND TOTAL EQUITY</b>			
Current liabilities:			
Accounts payable	\$99,970	\$153,477	\$115,203
Accrued liabilities	201,993	244,034	218,250
Derivative liabilities, current	719	2,459	28,855
Accrued income taxes, net	5,160	12,552	10,624
Regulatory liabilities, current	17,305	13,067	34,275
Notes payable	107,975	96,600	75,000
Current maturities of long-term debt	5,743	5,743	930,743
Total current liabilities	438,865	527,932	1,412,950
Long-term debt	3,160,302	3,211,189	2,221,347
Deferred credits and other liabilities:			
Deferred income tax liabilities, net, non-current	589,189	535,606	530,746
Derivative liabilities, non-current	88	274	231
Regulatory liabilities, non-current	199,005	193,689	195,166
Benefit plan liabilities	176,102	173,682	173,347
Other deferred credits and other liabilities	135,510	138,643	122,015
Total deferred credits and other liabilities	1,099,894	1,041,894	1,021,505
Commitments and contingencies (See Notes 8, 10, 15, 16)			
Redeemable noncontrolling interest	—	4,295	4,171
Equity:			
Stockholders' equity —			
Common stock \$1 par value; 100,000,000 shares authorized; issued 53,513,521; 53,397,467; and 52,299,075 shares, respectively	53,514	53,397	52,299
Additional paid-in capital	1,145,493	1,138,982	1,072,927
Retained earnings	512,498	457,934	469,940
Treasury stock, at cost – 39,329; 15,258; and 18,900 shares, respectively	(2,325)	(791)	(975)
Accumulated other comprehensive income (loss)	(32,941)	(34,883)	(31,764)
Total stockholders' equity	1,676,239	1,614,639	1,562,427
Noncontrolling interest	113,792	115,495	117,518
Total equity	1,790,031	1,730,134	1,679,945
<b>TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND TOTAL EQUITY</b>	<b>\$6,489,092</b>	<b>\$6,515,444</b>	<b>\$6,339,918</b>

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)

	Six Months Ended June 30,	
	2017	2016
	(in thousands)	
Operating activities:		
Net income (loss)	\$ 105,457	\$ 40,671
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	97,310	91,712
Deferred financing cost amortization	4,138	2,857
Impairment of long-lived assets	—	39,993
Stock compensation	6,589	7,054
Deferred income taxes	51,153	32,606
Employee benefit plans	5,717	7,782
Other adjustments, net	(6,515)	(6,332)
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	7,720	17,722
Accounts receivable, unbilled revenues and other operating assets	97,902	82,361
Accounts payable and other operating liabilities	(113,541)	(124,695)
Regulatory assets - current	3,086	1,862
Regulatory liabilities - current	5,908	2,994
Contributions to defined benefit pension plans	—	(10,200)
Other operating activities, net	(2,055)	(2,884)
Net cash provided by (used in) operating activities	262,869	183,503
Investing activities:		
Property, plant and equipment additions	(163,768)	(199,854)
Acquisition, net of long term debt assumed	—	(1,124,238)
Other investing activities	(22)	(649)
Net cash provided by (used in) investing activities	(163,790)	(1,324,741)
Financing activities:		
Dividends paid on common stock	(47,544)	(43,265)
Common stock issued	2,965	57,490
Sale of noncontrolling interest	—	216,370
Net (payments) borrowings of short-term debt	11,375	(1,800)
Long-term debt - issuances	—	574,672
Long-term debt - repayments	(52,871)	(41,436)
Distributions to noncontrolling interest	(8,335)	—
Other financing activities	(6,659)	205
Net cash provided by (used in) financing activities	(101,069)	762,236
Net change in cash and cash equivalents	(1,990)	(379,002)
Cash and cash equivalents, beginning of period	13,580	440,861
Cash and cash equivalents, end of period	\$ 11,590	\$ 61,859

See Note 14 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 2016 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 2016 Annual Report on Form 10-K filed with the SEC.

#### Segment Reporting

We conduct our operations through the following reportable segments: Electric Utilities, Gas Utilities, Power Generation, Mining and Oil and Gas. Our reportable segments are based on our method of internal reporting, which is generally segregated by differences in products, services and regulation. All of our operations and assets are located within the United States.

#### Use of Estimates and Basis of Presentation

The information furnished in the accompanying Condensed Consolidated Financial Statements reflects certain estimates required and all adjustments, including accruals, which are, in the opinion of management, necessary for a fair presentation of the June 30, 2017, December 31, 2016, and June 30, 2016 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 prices. In particular, the normal peak usage season for electric utilities is June through August while the normal peak usage season for gas utilities is November through March. 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 and six months ended June 30, 2017 and June 30, 2016, and our financial condition as of June 30, 2017, December 31, 2016, and June 30, 2016, are not necessarily indicative of the results of operations and financial condition to be expected as of or for any other period. June 30, 2017 reflects a full six months of activity from the SourceGas Acquisition on February 12, 2016, as compared to the six months ended June 30, 2016 which reflects a partial period of approximately 4.5 months. All earnings per share amounts discussed refer to diluted earnings per share unless otherwise noted.

#### Revisions

Certain revisions have been made to prior years' financial information to conform to the current year presentation. The Company revised its presentation of cash as of December 31, 2016. The Company has banking arrangements at certain financial institutions whereby if required, payments of one account are cleared with cash from other accounts at the same financial institution; therefore, book overdrafts are presented on a combined basis by bank as cash and cash equivalents. Prior year amounts were corrected to conform with the current year presentation, which decreased

cash and cash equivalents and accounts payable by \$55 million as of June 30, 2016, and decreased net cash flows provided by operations by \$39 million for the six months ended June 30, 2016. We assessed the materiality of these changes, taking into account quantitative and qualitative factors, and determined them to be immaterial to the condensed consolidated balance sheet as of June 30, 2016 and to the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2016. There is no impact to the Condensed Consolidated Statements of Income or the Condensed Consolidated Statements of Comprehensive Income for any period reported.

## Recently Issued and Adopted Accounting Standards

### Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost, ASU 2017-07

In March 2017, the FASB issued ASU 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost. The changes to the standard require employers to report the service cost component in the same line item(s) as other compensation costs, and require the other components of net periodic pension and post-retirement benefit costs to be separately presented in the income statement outside of income from operations. Additionally, only the service cost component may be eligible for capitalization, when applicable. However, all cost components remain eligible for capitalization under FERC regulations. This ASU will be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension and post-retirement benefit costs in the income statement. The capitalization of the service cost component of net period pension and post-retirement benefit costs in assets will be applied on a prospective basis. This new guidance is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We continue to assess the impact of this new standard on our financial statements and disclosures, and we monitor regulated utility industry implementation discussions and guidance. The presentation changes required for net periodic pension and post-retirement costs will result in offsetting changes to Operating income and Other income and are not expected to be material. We will implement this standard effective January 1, 2018.

### Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, ASU 2016-15

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force). This ASU requires changes in the presentation of certain items including but not limited to debt prepayment or debt extinguishment costs; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies and distributions received from equity method investees. The ASU will be effective for fiscal years beginning after December 15, 2017. We will use the retrospective transition method to adopt this standard with fiscal years beginning after December 15, 2017. This standard will not have a material impact on our financial position, results of operations or cash flows.

### Improvements to Employee Share-Based Payment Accounting, ASU 2016-09

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This ASU simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for forfeitures, income taxes, and statutory tax withholding requirements. The ASU was effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, with early adoption permitted. Certain amendments of this guidance are to be applied retrospectively and others prospectively. We implemented this ASU effective January 1, 2017, recording a cumulative-effect adjustment to retained earnings as of the date of adoption of \$3.2 million in the Condensed Consolidated Balance Sheets, representing previously recorded forfeitures and excess tax benefits generated in years prior to 2017 that were previously not recognized in stockholders' equity due to NOLs in those years. Adoption of this ASU did not have a material impact on our consolidated financial position, results of operations or cash flows.

### Leases, ASU 2016-02

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. This ASU requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term greater than 12 months, whereas today only financing type lease liabilities (capital leases) are recognized on the balance sheet. In addition, the definition of a lease has been revised in regards to when an arrangement conveys the right to control the use of the identified asset under the arrangement which may result in changes to the classification of an arrangement as a lease. The ASU does not significantly change the lessees' recognition, measurement and presentation of expenses and cash flows from the previous accounting standard. Lessors' accounting under the ASU is largely unchanged from the previous accounting standard. The ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which requires application of the new guidance at the beginning of the earliest comparative period presented in the year of adoption. The guidance is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted.

We currently expect to adopt this standard on January 1, 2019. We continue to evaluate the impact of this new standard on our financial position, results of operations and cash flows as well as monitor emerging guidance on such topics as easements and right of ways, pipeline laterals, purchase power agreements, pole attachments and other industry-related areas. We also expect to implement changes to systems, processes and procedures in order to recognize and measure leases recorded on the balance sheet that are currently classified as operating leases.

#### Revenue from Contracts with Customers, ASU 2014-09

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. The standard provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The core principle of the model is to recognize revenue when control of the goods or services transfers to the customer. The new disclosure requirements will provide information about the nature, amount, timing and uncertainty of revenue and cash flows from revenue contracts with customers. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017 with early adoption on January 1, 2017 permitted. Entities will have the option of using either a full retrospective or modified retrospective approach to adopting this guidance. Under the modified approach, an entity would recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption.

We currently expect to implement the standard on a modified retrospective basis effective January 1, 2018. We continue to actively assess all of our sources of revenue to determine the impact that adoption of the new standard will have on our financial position, results of operations and cash flows. Our evaluation includes identifying revenue streams by like contracts to allow for ease of implementation. A majority of our revenues are from regulated tariff offerings that provide natural gas or electricity with a defined contractual term. For such arrangements, we expect that revenue from contracts with the customer will be equivalent to the electricity or gas delivered in that period. Therefore, we do not expect there will be a significant shift in the timing or pattern of revenue recognition for regulated tariff based sales. The evaluation of other revenue streams is ongoing, including our non-regulated revenues and those tied to longer term contractual commitments. We also continue to monitor outstanding industry implementation issues and assess the impacts to our current accounting policies and/or patterns of revenue recognition.

## (2) ACQUISITION

### 2016 Acquisition of SourceGas

On February 12, 2016, Black Hills Corporation acquired SourceGas (now referred to as Black Hills Gas Holdings). We acquired SourceGas for \$1.1 billion of cash plus the assumption of \$760 million of long-term debt. We finalized our purchase price allocation at December 31, 2016. See Note 2 of our Notes to the Consolidated Financial Statements in our 2016 Annual Report on Form 10-K for more details.

### Pro Forma Results

The following unaudited pro forma financial information reflects the consolidated results of operations as if the SourceGas Acquisition had taken place on January 1, 2015. The unaudited pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the consolidated results of operations that would have been achieved or our future consolidated results.





The pro forma financial information does not reflect any potential cost savings from operating efficiencies resulting from the acquisition and does not include certain acquisition-related costs that are not expected to have a continuing impact on the combined consolidated results. Pro forma results for the three and six months ended June 30, 2016 exclude approximately \$4.0 million and \$20 million, respectively, of after-tax transaction costs, professional fees, employee related expenses and other miscellaneous costs.

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
	(in thousands, except per share amounts)	
Revenue	\$325,441	\$854,362
Net income (loss) available for common stock	\$4,658	\$72,978
Earnings (loss) per share, Basic	\$0.09	\$1.42
Earnings (loss) per share, Diluted	\$0.09	\$1.39

#### Redemption of seller's noncontrolling interest

As part of the SourceGas Transaction, a seller retained a 0.5% noncontrolling interest and we entered into an associated option agreement with the holder of the 0.5% retained interest. The terms of the agreement provided us a call option to purchase the remaining interest beginning 366 days after the initial close of the SourceGas Transaction. In March 2017, we exercised our call option and purchased the remaining 0.5% equity interest in SourceGas for \$5.6 million.

### (3) BUSINESS SEGMENT INFORMATION

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

	External Operating Revenue	Inter-company Operating Revenue	Net Income (Loss) Available for Common Stock
Three Months Ended June 30, 2017			
Segment:			
Electric	\$165,517	\$2,936	\$18,832
Gas	166,439	8	(272 )
Power Generation <sup>(b)</sup>	1,470	20,325	5,332
Mining	8,403	6,543	2,681
Oil and Gas	6,149	—	(1,946 )
Corporate activities <sup>(c)</sup>	—	—	(2,432 )
Inter-company eliminations	—	(29,812 )	—
Total	\$347,978	\$ —	\$22,195

Three Months Ended June 30, 2016 External Inter-company

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Segment:	Operating Revenue	Operating Revenue	Net Income (Loss) Available for Common Stock
Electric:	\$ 158,560	\$ 2,921	\$ 19,229
Gas	153,767	(1,806 )	987
Power Generation <sup>(b)</sup>	1,546	20,168	5,683
Mining	3,922	7,125	724
Oil and Gas <sup>(c)</sup>	7,646	—	(19,424 )
Corporate activities <sup>(c)</sup>	—	—	(6,530 )
Inter-company eliminations	—	(28,408 )	—
Total	\$ 325,441	\$ —	\$ 669

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	External	Inter-company	Net Income (Loss)
Six Months Ended June 30, 2017	Operating Revenue	Operating Revenue	Available for Common Stock
Segment:			
Electric	\$337,687	\$ 6,790	\$41,062
Gas <sup>(a)</sup>	531,340	17	45,738
Power Generation <sup>(b)</sup>	3,572	41,790	11,862
Mining	16,758	14,734	5,571
Oil and Gas	12,624	—	(4,897 )
Corporate activities <sup>(c)(d)</sup>	—	—	(618 )
Inter-company eliminations	—	(63,331 )	—
Total	\$901,981	\$ —	\$98,718

	External	Inter-company	Net Income (Loss)
Six Months Ended June 30, 2016	Operating Revenue	Operating Revenue	Available for Common Stock
Segment:			
Electric	\$322,091	\$ 6,666	\$38,444
Gas <sup>(a)</sup>	422,434	—	32,914
Power Generation <sup>(b)</sup>	3,398	41,624	14,265
Mining	11,456	15,873	3,662
Oil and Gas <sup>(c)</sup>	16,021	—	(26,448 )
Corporate activities <sup>(c)(d)</sup>	—	—	(22,166 )
Inter-company eliminations	—	(64,163 )	—
Total	\$775,400	\$ —	\$40,671

(a) Gas Utility revenue increased for the six months ended June 30, 2017 compared to the same periods in the prior year primarily due to the addition of the SourceGas utilities on February 12, 2016.

Net income (loss) available for common stock for the three and six months ended June 30, 2017 was net of net (b) income attributable to noncontrolling interests of \$3.1 million and \$6.6 million, respectively, and \$2.6 million for both the three and six months ended June 30, 2016.

Net income (loss) available for common stock for the three and six months ended June 30, 2017 and June 30, 2016 (c) included incremental, non-recurring acquisition costs, net of tax of \$0.3 million and \$1.2 million, and \$4.1 million and \$20 million respectively. The three and six months ended June 30, 2016 also included \$2.0 million and \$5.7 million, respectively, of after-tax internal labor costs attributable to the acquisition.

Net income (loss) available for common stock for the six months ended June 30, 2017 included a \$1.4 million tax benefit recognized from carryback claims for specified liability losses involving prior tax years. Net income (loss) (d) available for common stock for the six months ended June 30, 2016 included tax benefits of approximately \$4.4 million as a result of the re-measurement of the liability for uncertain tax positions predicated on an agreement reached with IRS Appeals in early 2016. See Note 18.

Net income (loss) available for common stock for the three and six months ended June 30, 2016 included non-cash (e) after-tax impairments of oil and gas properties of \$16 million and \$25 million. See Note 17 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

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

Total Assets (net of inter-company eliminations) as of:	June 30, 2017	December 31, 2016	June 30, 2016
Segment:			
Electric <sup>(a)</sup>	\$2,901,570	\$2,859,559	\$2,755,695
Gas	3,242,461	3,307,967	3,118,626
Power Generation <sup>(a)</sup>	66,292	73,445	80,360
Mining	67,365	67,347	71,319
Oil and Gas <sup>(b)</sup>	103,044	96,435	171,239
Corporate activities	108,360	110,691	142,679
Total assets	\$6,489,092	\$6,515,444	\$6,339,918

The PPA under which Black Hills Colorado IPP provides generation to support Colorado Electric customers from (a) the Pueblo Airport Generation Station is accounted for as a capital lease. As such, assets owned by our Power Generation segment are recorded at Colorado Electric under accounting for a capital lease.

As a result of continued low commodity prices and our decision to divest non-core oil and gas assets, we recorded (b) non-cash impairments of \$107 million for the year ended December 31, 2016 and \$40 million for the six months ended June 30, 2016. See Note 17 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

## (4) ACCOUNTS RECEIVABLE

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

	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
June 30, 2017				
Electric Utilities	\$ 41,635	\$ 33,686	\$ (466 )	\$ 74,855
Gas Utilities	62,908	26,584	(2,535 )	86,957
Power Generation	877	—	—	877
Mining	2,904	—	—	2,904
Oil and Gas	3,280	—	(83 )	3,197
Corporate	1,167	—	—	1,167
Total	\$ 112,771	\$ 60,270	\$ (3,084 )	\$ 169,957

	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
December 31, 2016				
Electric Utilities	\$ 41,730	\$ 36,463	\$ (353 )	\$ 77,840
Gas Utilities	88,168	88,329	(2,026 )	174,471
Power Generation	1,420	—	—	1,420
Mining	3,352	—	—	3,352
Oil and Gas	3,991	—	(13 )	3,978
Corporate	2,228	—	—	2,228
Total	\$ 140,889	\$ 124,792	\$ (2,392 )	\$ 263,289

	Accounts Receivable, Trade	Unbilled Revenue	Less Allowance for Doubtful Accounts	Accounts Receivable, net
June 30, 2016				
Electric Utilities	\$ 40,991	\$ 34,174	\$ (716 )	\$ 74,449
Gas Utilities	47,600	23,124	(2,997 )	67,727
Power Generation	1,229	—	—	1,229
Mining	1,114	—	—	1,114
Oil and Gas	3,094	—	(13 )	3,081
Corporate	2,627	—	—	2,627
Total	\$ 96,655	\$ 57,298	\$ (3,726 )	\$ 150,227

(5) REGULATORY ACCOUNTING

We had the following regulatory assets and liabilities (in thousands):

Maximum	As of	As of	As of
Amortization	June 30, 2017	December 31, 2016	