BLACK HILLS CORP /SD/
Form 10-Q
November 04, 2016

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

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

OR

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

Commission File Number 001-31303

Black Hills Corporation
Incorporated in South Dakota IRS Identification Number 46-0458824
625 Ninth Street
Rapid City, South Dakota 57701
Registrant's telephone number (605) 721-1700
Former name, former address, and former fiscal year if changed since last report
NONE

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes x No o

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

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

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

Class	Outstanding at October 31, 2016
Common stock, $1.00 par value	53,147,805 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
ASC	Accounting Standards Codification
ASU	Accounting Standards Update issued by the FASB
ATM	At-the-market equity offering program
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)
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

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) plus Consolidated Indebtedness as defined within the current Credit Agreement.
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 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)

Cheyenne Prairie	Cheyenne Prairie Generating Station is a 132 MW natural gas-fired generating facility jointly owned by Black Hills Power, Inc. and Cheyenne Light, Fuel and Power Company. Cheyenne Prairie was placed into commercial service on October 1, 2014.
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 Interstate Gas	Colorado Interstate Natural Gas Pricing Index
Colorado IPP	Black Hills Colorado IPP, LLC a 50.1% owned subsidiary of Black Hills Electric Generation
Cooling degree day	A cooling degree day is equivalent to each degree that the average of the high and low temperature for a day is above 65 degrees. The warmer the climate, the greater the number of cooling degree days. Cooling degree days are used in the utility industry to measure the relative warmth of weather and to compare relative temperatures between one geographic area and another. Normal degree days are based on the National Weather Service data for selected locations over a 30-year average.
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.
CPCN	Certificate of Public Convenience and Necessity
CPUC	Colorado Public Utilities Commission
CVA	Credit Valuation Adjustment
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
El Paso San Juan	El Paso San Juan Natural Gas Pricing Index
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
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
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)
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.
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)
Northwest Wyoming Pool	Northwest Wyoming Natural Gas Pricing index
NPSC	Nebraska Public Service Commission
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
Panhandle Eastern Pipeline	Panhandle Eastern Pipeline Natural Gas Pricing Index
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
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	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.
SSIR	System Safety and Integrity
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
WPSC	Wyoming Public Service Commission
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.

BLACK HILLS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(unaudited)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
	(in thousands, except per share amounts)			
Revenue	$333,786	$272,105	$1,109,186	$986,346
Operating expenses:				
Fuel, purchased power and cost of natural gas sold	80,194	71,627	336,539	350,778
Operations and maintenance	115,103	89,830	334,706	273,374
Depreciation, depletion and amortization	48,925	37,768	140,637	116,821
Taxes - property, production and severance	12,114	10,675	36,991	33,988
Impairment of long-lived assets	12,293	61,875	52,286	178,395
Other operating expenses	6,748	2,374	40,730	3,392
Total operating expenses	275,377	274,149	941,889	956,748
Operating income (loss)	58,409	(2,044)	167,297	29,598
Other income (expense):				
Interest charges -				
Interest expense incurred (including amortization of debt issuance costs, premiums and discounts)	(37,306)	(22,378)	(103,989)	(61,833)
Allowance for funds used during construction - borrowed	860	478	2,115	843
Capitalized interest	282	280	785	1,037
Interest income	912	414	2,513	1,163
Allowance for funds used during construction - equity	1,211	430	2,900	563
Other income (expense), net	160	842	801	1,568
Total other income (expense), net	(33,881)	(19,934)	(94,875)	(56,659)
Income (loss) before earnings (loss) of unconsolidated subsidiaries and income taxes	24,528	(21,978)	72,422	(27,061)
Equity in earnings (loss) of unconsolidated subsidiaries	—	—	—	(344)
Impairment of equity investments	—	—	—	(5,170)
Income tax benefit (expense)	(6,644)	12,035	(11,205)	14,640
Net income (loss)	17,884	(9,943)	61,217	(17,935)
Net income attributable to noncontrolling interest	(3,753)	—	(6,415)	—
Net income (loss) available for common stock	$14,131	$(9,943)	$54,802	$(17,935)
Earnings (loss) per share of common stock:				
Earnings (loss) per share, Basic	$0.27	$(0.22)	$1.06	$(0.40)
Earnings (loss) per share, Diluted	$0.26	$(0.22)	$1.04	$(0.40)
Weighted average common shares outstanding:				
Basic	52,184	44,635	51,583	44,598
Diluted	53,733	44,635	52,893	44,598

Dividends declared per share of common stock	$0.420	$0.405	$1.260	$1.215

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

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

(unaudited)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
	(in thousands)			
Net income (loss)	$17,884	$(9,943)	$61,217	$(17,935)
Other comprehensive income (loss), net of tax:				
Fair value adjustments on derivatives designated as cash flow hedges (net of tax (expense) benefit of $(260) and $(1,609) for the three months ended 2016 and 2015 and $10,605 and $(1,482) for the nine months ended 2016 and 2015, respectively)	(551)	2,773	(20,617)	2,644
Reclassification adjustments for cash flow hedges settled and included in net income (loss) (net of tax (expense) benefit of $566 and $558 for the three months ended 2016 and 2015 and $2,450 and $2,548 for the nine months ended 2016 and 2015, respectively)	(923)	(948)	(4,137)	(3,450)
Benefit plan liability adjustments - net gain (loss) (net of tax (expense) benefit of $0 and $0 for the three months ended 2016 and 2015 and $0 and $16 for the nine months ended 2016 and 2015, respectively)	—	—	—	(27)
Reclassification adjustments of benefit plan liability - prior service cost (net of tax (expense) benefit of $19 and $19 for the three months ended 2016 and 2015 and $58 and $58 for the nine months ended 2016 and 2015, respectively)	(36)	(36)	(108)	(108)
Reclassification adjustments of benefit plan liability - net gain (loss) (net of tax (expense) benefit of $(171) and $(247) for the three months ended 2016 and 2015 and $(516) and $(742) for the nine months ended 2016 and 2015, respectively)	323	459	966	1,374
Other comprehensive income (loss), net of tax	(1,187)	2,248	(23,896)	433
Comprehensive income (loss)	16,697	(7,695)	37,321	(17,502)
Less: comprehensive income attributable to noncontrolling interest	(3,753)	—	(6,415)	—
Comprehensive income (loss) available for common stock	$12,944	$(7,695)	$30,906	$(17,502)

See Note 16 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 September 30, 2016	December 31, 2015	September 30, 2015
	(in thousands)		
ASSETS			
Current assets:			
Cash and cash equivalents	$62,964	$456,535	$38,841
Restricted cash and equivalents	2,140	1,697	2,462
Accounts receivable, net	154,617	147,486	115,502
Materials, supplies and fuel	113,475	86,943	90,349
Derivative assets, current	4,382	—	—
Income tax receivable, net	—	368	—
Deferred income tax assets, net, current	—	—	47,783
Regulatory assets, current	50,561	57,359	51,962
Other current assets	30,032	71,763	55,383
Total current assets	418,171	822,151	402,282
Investments	12,416	11,985	12,148
Property, plant and equipment	6,306,119	4,976,778	4,882,420
Less: accumulated depreciation and depletion	(1,841,116)	(1,717,684)	(1,617,723)
Total property, plant and equipment, net	4,465,003	3,259,094	3,264,697
Other assets:			
Goodwill	1,300,379	359,759	359,527
Intangible assets, net	8,944	3,380	3,440
Regulatory assets, non-current	234,240	175,125	182,337
Derivative assets, non-current	183	3,441	—
Other assets, non-current	12,800	7,382	7,501
Total other assets, non-current	1,556,546	549,087	552,805
TOTAL ASSETS	$6,452,136	$4,642,317	$4,231,932

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 September 30, 2016	December 31, 2015	September 30, 2015
	(in thousands, except share amounts)		
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND TOTAL EQUITY			
Current liabilities:			
Accounts payable	$141,780	$105,468	$91,633
Accrued liabilities	228,522	232,061	229,889
Derivative liabilities, current	1,941	2,835	3,312
Accrued income taxes, net	10,909	—	308
Regulatory liabilities, current	16,925	4,865	5,647
Notes payable	75,000	76,800	117,900
Current maturities of long-term debt	5,743	—	—
Total current liabilities	480,820	422,029	448,689
Long-term debt	3,211,768	1,853,682	1,553,167
Deferred credits and other liabilities:			
Deferred income tax liabilities, net, non-current	533,865	450,579	494,834
Derivative liabilities, non-current	317	156	722
Regulatory liabilities, non-current	186,496	148,176	152,164
Benefit plan liabilities	171,633	146,459	158,682
Other deferred credits and other liabilities	141,007	155,369	136,462
Total deferred credits and other liabilities	1,033,318	900,739	942,864
Commitments and contingencies (See Notes 10, 11, 12, 18, 19)			
Redeemable noncontrolling interest	4,206	—	—
Equity:			
Stockholders’ equity —			
Common stock $1 par value; 100,000,000 shares authorized; issued 53,131,469; 51,231,861; and 44,891,626 shares, respectively	53,131	51,232	44,892
Additional paid-in capital	1,123,527	953,044	753,856
Retained earnings	462,090	472,534	504,864
Treasury stock, at cost – 22,368; 39,720; and 36,711 shares, respectively	(1,155)	(1,888)	(1,789)
Accumulated other comprehensive income (loss)	(32,951)	(9,055)	(14,611)
Total stockholders’ equity	1,604,642	1,465,867	1,287,212
Noncontrolling interest	117,382	—	—
Total equity	1,722,024	1,465,867	1,287,212
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND TOTAL EQUITY	$6,452,136	$4,642,317	$4,231,932

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)	Nine Months Ended September 30,	
	2016	2015
Operating activities:	(in thousands)	
Net income (loss) available for common stock	$54,802	$(17,935)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	140,637	116,821
Deferred financing cost amortization	4,002	3,074
Impairment of long-lived assets	52,286	183,565
Derivative fair value adjustments	(7,308)	(8,851)
Stock compensation	9,124	2,868
Deferred income taxes	38,578	(20,808)
Employee benefit plans	11,830	15,175
Other adjustments, net	(2,076)	4,013
Changes in certain operating assets and liabilities:		
Materials, supplies and fuel	(5,166)	3,618
Accounts receivable, unbilled revenues and other operating assets	78,869	75,966
Accounts payable and other operating liabilities	(102,155)	(5,255)
Regulatory assets - current	8,453	27,768
Regulatory liabilities - current	(8,181)	2,457
Contributions to defined benefit pension plans	(14,200)	(10,200)
Interest rate swap settlement	(28,820)	—
Other operating activities, net	(5,998)	(6,403)
Net cash provided by (used in) operating activities	224,677	365,873
Investing activities:		
Property, plant and equipment additions	(334,098)	(349,471)
Acquisition, net of long term debt assumed	(1,124,238)	—
Other investing activities	(860)	(7,189)
Net cash provided by (used in) investing activities	(1,459,196)	(356,660)
Financing activities:		
Dividends paid on common stock	(65,247)	(54,450)
Common stock issued	107,690	2,484
Sale of noncontrolling interest	216,370	—
Short-term borrowings - issuances	208,100	287,910
Short-term borrowings - repayments	(209,900)	(245,010)
Long-term debt - issuances	1,767,608	300,000
Long-term debt - repayments	(1,162,872)	(275,000)
Distributions to noncontrolling interest	(4,516)	—
Other financing activities	(16,285)	(7,524)
Net cash provided by (used in) financing activities	840,948	8,410
Net change in cash and cash equivalents	(393,571)	17,623
Cash and cash equivalents, beginning of period	456,535	21,218
Cash and cash equivalents, end of period	$62,964	$38,841

See Note 17 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 2015 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 2015 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. Prior to March 31, 2016, our segments were reported within two business groups, our Utilities Group, containing the Electric Utilities and Gas Utilities segments, and our Non-regulated Energy Group, containing the Power Generation, Coal Mining and Oil and Gas segments. We have continued to report our operations consistently through our reportable segments; however we will no longer separate the segments by business group.
We are a customer-focused, growth-oriented, vertically-integrated utility company. All of our non-utility business segments support our electric utilities, other than the Oil and Gas segment. In our oil and gas business, we are divesting non-core assets while retaining those best suited for a cost of service gas program and we have refocused our professional staff on assisting our utilities with the implementation of a cost of service gas program.
The following changes have been made to our Condensed Consolidated Statements of Income (Loss) to reflect combined operations and maintenance expenses, rather than by business group as previously reported, for the three and nine months ended September 30, 2015, respectively:

	For the Three Months Ended September 30, 2015			For the Nine Months Ended September 30, 2015		
(in thousands)	As Previously Reported	Presentation Reclassification	As Currently Reported	As Previously Reported	Presentation Reclassification	As Currently Reported
Utilities - operations and maintenance	$67,282	$ (67,282)	$—	$205,630	$ (205,630)	$—
Non-regulated energy operations and maintenance	$22,548	$ (22,548)	$—	$67,744	$ (67,744)	$—
Operations and maintenance	$—	$ 89,830	$ 89,830	$—	$ 273,374	$273,374

This presentation reclassification did not impact our consolidated financial position, results of operations or cash flows.

Segment Reporting Transition of Cheyenne Light's Natural Gas Distribution

Effective January 1, 2016, the natural gas operations of Cheyenne Light have been included in our Gas Utilities Segment. Through December 31, 2015, Cheyenne Light's natural gas operations were included in our Electric Utilities Segment as these natural gas operations were consolidated within Cheyenne Light since its acquisition. This change is a result of our business segment reorganization to, among other things, integrate all regulated natural gas operations, including the SourceGas Acquisition, into our Gas Utilities Segment which is led by the Group Vice President, Natural Gas Utilities. Likewise, all regulated electric utility operations, including Cheyenne Light's electric utility operations, are reported in our Electric Utilities Segment, which is led by the Group Vice President, Electric Utilities. The prior period has been reclassified to reflect this change in presentation between the Electric Utilities and Gas Utilities segments. See Note 3 for Revenues, Net Income and Segment Assets reclassified from the Electric Utilities segment to the Gas Utilities segment for the three and nine months ending September 30, 2015. This segment reclassification did not impact our consolidated financial position, results of operations or cash flows.

Use of Estimates and Basis of Presentation

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 September 30, 2016, December 31, 2015, and September 30, 2015 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 nine months ended September 30, 2016 and September 30, 2015, and our financial condition as of September 30, 2016, December 31, 2015, and September 30, 2015, 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.

Significant Accounting Policies

Business Combinations

We record acquisitions in accordance with ASC 805, Business Combinations, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair values of the net tangible and net intangible assets acquired is recorded as goodwill. The application of ASC 805, Business Combinations requires management to make significant estimates and assumptions in the determination of the fair value of assets acquired and liabilities assumed in order to properly allocate purchase price consideration between goodwill and assets that are depreciated and amortized. Our estimates are based on historical experience, information obtained from the management of the acquired companies and, when appropriate, include assistance from independent third-party appraisal firms. These estimates are inherently uncertain and unpredictable. In addition, unanticipated events or circumstances may occur which may affect the accuracy or validity of such estimates. See Note 2 for additional detail on the accounting for our acquisition.

Noncontrolling Interest

We account for changes in our controlling interests of subsidiaries according to ASC 810, Consolidations. ASC 810 requires that the Company record such changes as equity transactions, recording no gain or loss on such a sale. GAAP requires that noncontrolling interests in subsidiaries and affiliates be reported in the equity section of a company's balance sheet. In addition, the amounts attributable to the noncontrolling interest net income (loss) of those subsidiaries are reported separately in the consolidated statements of income and comprehensive income. See Note 12 for additional detail on Noncontrolling Interests.

Share-Based Compensation

We account for our share-based compensation arrangements in accordance with ASC 718, Compensation-Stock Compensation, by recognizing compensation costs for all share-based awards over the respective service period for employee services received in exchange for an award of equity or equity-based compensation. Awards that will be settled in stock are accounted for as equity and the compensation expense is based on the grant date fair value. Awards that are settled in cash are accounted for as liabilities and the compensation expense is re-measured each period based on the current market price and performance achievement measures.

Recently Issued and Adopted Accounting Standards

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 are currently assessing the impact that adoption of ASU 2016-15 will have on our consolidated financial position, results of operations and 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 will be 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 are currently assessing the impact that adoption of ASU 2016-09 will have on our consolidated financial position, results of operations and 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 for all leases with terms of more than 12 months. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of 12 months or less. 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 ASC is largely unchanged from the previous accounting standard. In addition, the ASU expands the disclosure requirements of lease arrangements. Lessees and lessors will use a modified retrospective transition approach, which includes a number of practical expedients. The guidance is effective for the Company beginning after December 15, 2018. Early adoption is permitted. We are currently assessing the impact that adoption of ASU 2016-02 will have on our financial position, results of operations and cash flows.

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, as opposed to recognizing revenue when the risks and rewards transfer to the customer under the existing revenue guidance. On July 9, 2015, FASB voted to defer the effective date of ASU 2014-09 by one year. The guidance is effective for annual and interim reporting periods beginning after December 15, 2017 and early adoption is 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. As of September 30, 2016, we were actively evaluating all of our sources of revenue to determine the impact that adoption of ASU 2014-09 will have on our financial position, results of operations and cash flows.

Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent), ASU 2015-07

On May 1, 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent). The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient and also removes certain disclosure requirements. The new requirements were effective for us beginning January 1, 2016 and will be applied retrospectively to all periods presented, in our 2016 Form 10-K. This ASU will not materially affect our financial statements and disclosures, but will change certain presentation and disclosure of the fair value of certain plan assets in our pension and other postretirement benefit plan disclosures in our 2016 Form 10-K, for all periods presented.

Simplifying the Presentation of Debt Issuance Costs, ASU 2015-03

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. Debt issuance costs related to a recognized debt liability are presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts, rather than as an asset. Amortization of these costs will continue to be reported as interest expense. ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015. We adopted ASU 2015-03 in the first quarter of 2016 on a retrospective basis. As of September 30, 2016, we presented the debt issuance costs, previously reported in other assets, as direct deductions from the carrying amount of long-term debt. The implementation of this standard resulted in reductions of other assets, non-current and long-term debt of $13 million and $15 million in the Condensed Consolidated Balance Sheets as of December 31, 2015, and September 30, 2015, respectively. Adoption of ASU 2015-03 did not have a material impact on our financial position.

Simplifying the Accounting for Measurement-Period Adjustments, ASU 2015-16

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments. This ASU eliminates the requirement to retrospectively account for changes to provisional amounts recognized at the acquisition date in a business combination. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustments are determined, including the effect of the change in the provisional amount as if the accounting had been completed at the acquisition date. The provisions of this ASU are effective for fiscal years beginning after December 31, 2015, including interim periods within those fiscal years and should be applied prospectively to adjustments to provisional amounts that occur after the effective date. We have implemented ASU 2015-16 as of January 1, 2016. Adoption of this standard did not have a material impact on our financial position, results of operations and cash flows.

(2) ACQUISITION

Acquisition of SourceGas

On February 12, 2016, Black Hills Corporation acquired SourceGas, pursuant to the purchase and sale agreement executed on July 12, 2015 for approximately $1.89 billion, including the assumption of $760 million in debt at closing. The purchase price was subject to post-closing adjustments for capital expenditures, indebtedness and working capital. Post-closing adjustments of approximately $11 million were agreed to and received from the sellers in June 2016. SourceGas is a 99.5% owned subsidiary of Black Hills Utility Holdings, Inc., a wholly-owned subsidiary of Black Hills Corporation and has been renamed Black Hills Gas Holdings, LLC. Black Hills Gas Holdings primarily operates four regulated natural gas utilities serving approximately 429,000 customers in Arkansas, Colorado, Nebraska and Wyoming, and a 512-mile regulated intrastate natural gas transmission pipeline in Colorado.

Cash consideration of $1.135 billion paid on February 12, 2016 to close the SourceGas Acquisition included net proceeds of approximately $536 million from the November 23, 2015 issuance of 6.325 million shares of our common stock and 5.98 million equity units, and $546 million in net proceeds from our debt offerings on January 13, 2016. We funded the cash consideration and out-of-pocket expenses payable with the SourceGas Acquisition using the proceeds listed above, cash on hand, and draws under our revolving credit facility.

In connection with the acquisition, the Company recorded pre-tax, incremental acquisition costs of approximately $5.2 million and $36 million, respectively, in the three and nine months ended September 30, 2016. These costs consisted of transaction costs, professional fees, employee-related expenses and other miscellaneous costs. The costs are recorded primarily in Other operating expenses on the Condensed Consolidating Income Statements. There were $4.3

million and $5.0 million of incremental acquisition costs recorded in the three and nine months ended September 30, 2015, respectively.

Our consolidated operating results for the three and nine months ended September 30, 2016 include revenues of $72 million and $217 million, respectively, and net income (loss) of $(3.8) million and $0.8 million, respectively, attributable to SourceGas for the period from February 12 through September 30, 2016. The SourceGas operating results are reported in our Gas Utilities segment. We believe the SourceGas Acquisition enhances Black Hills Corporation's utility growth strategy, providing greater operating scale, driving more efficient delivery of services and benefiting customers.

We accounted for the SourceGas Acquisition in accordance with ASC 805, Business Combinations, with identifiable assets acquired and liabilities assumed recorded at their estimated fair values on the acquisition date. Substantially all of SourceGas' operations are subject to the rate-setting authority of state regulatory commissions, and are accounted for in accordance with GAAP for regulated operations. SourceGas' assets and liabilities subject to rate setting provisions provide revenues derived from costs, including a return on investment of assets and liabilities included in rate base. As such, the fair value of these assets and liabilities equal their historical net book values.

We are still determining the purchase price allocation for SourceGas. A preliminary purchase price allocation of the fair value of the assets acquired and liabilities assumed is included in the table below. The cash consideration paid of $1.124 billion, net of long-term debt assumed of $760 million and a working capital adjustment received of approximately $11 million, resulted in a preliminary estimate of goodwill totaling $941 million. This estimate is subject to change and will likely result in an increase or decrease in goodwill, which could be material. We have up to one year from the acquisition date to finalize the purchase price allocation. From the time of acquisition through September 30, 2016, we decreased goodwill by $5.8 million, reflecting the working capital adjustment received of $11 million and changes in valuation estimates for long-term debt, intangible assets, accrued liabilities and deferred taxes. Approximately $251 million of the goodwill balance is amortizable for tax purposes, relating to the partnership interests that were directly acquired in the transaction. The remainder of the goodwill balance is not amortizable for tax purposes. Goodwill generated from the acquisition reflects the benefits of increased operating scale and organic growth opportunities.

	(in thousands)
Preliminary Purchase Price	$1,894,882
Less: Long-term debt assumed	(760,000)
Less: Working capital adjustment received	(10,644)
Consideration Paid, net of working capital adjustment received	$1,124,238
Preliminary Allocation of Purchase Price:	
Current Assets	$111,893
Property, plant & equipment, net	1,058,093
Goodwill	940,620
Deferred charges and other assets, excluding goodwill	133,215
Current liabilities	(166,807)
Long-term debt	(764,337)
Deferred credits and other liabilities	(188,439)
Total preliminary consideration paid, net of working-capital adjustment received	$1,124,238

Conditions of SourceGas Acquisition Regulatory Approval

The acquisition was subject to regulatory approvals from the public utility commissions in Arkansas (APSC), Colorado (CPUC), Nebraska (NPSC), and Wyoming (WPSC). Approvals were obtained from all commissions, subject to various conditions as set forth below:

The APSC order includes a 12 month base rate moratorium, an annual $0.25 million customer credit for a term of up to five-years or until we file the next rate case, whichever comes first, and provides the Company recovery of a portion of specific labor synergies at the time of the next base rate case, as well as various other terms and reporting requirements.

The CPUC order includes a two-year base rate moratorium for our regulated transmission and wholesale natural gas provider, a three-year base rate moratorium for our regulated gas distribution utility, an annual $0.2 million customer credit for a term of up to five-years or until we file the next rate case, whichever comes first, and provides the Company recovery of a portion of specific labor synergies at the time of the next base rate case, as well as various other terms and reporting requirements.

The NPSC order includes a three-year base rate moratorium, a three-year continuation of the Choice Gas program, and provides the Company recovery of a portion of specific labor synergies at the time of the next base rate case, as well as various other terms and reporting requirements.

The WPSC order includes a three-year continuation of the Choice Gas program, as well as various other terms and reporting requirements.

All four orders also disallowed recovery of goodwill and transaction costs. Recovery of transition costs is disallowed in Arkansas, Colorado and Nebraska, however Wyoming allows for request of recovery of transition costs. Transition costs are those non-recurring costs related to the transition and integration of SourceGas. In the conditions mentioned above, the orders that include base rate moratoriums over a specified period of time do not impact our ability to adjust rates through riders or gas supply cost recovery mechanisms as allowed under the current enacted state tariffs. In certain cases, we may file for leave to increase general base rates and/or cost of sales recovery limited to material adverse changes, but only if there are changes in law or regulations or the occurrence of other extraordinary events outside of our control which result in a material adverse change in revenues, revenue requirement and/or increase in operating costs.

Settlement of Gas Supply Contract

On April 29, 2016, we settled for $40 million, a former SourceGas contract that required the company to purchase all of the natural gas produced over the productive life of specific leaseholds in the Bowdoin Field in Montana. This contract’s intangible negative fair value is included with Current liabilities of the preliminary purchase price allocation. Approximately 75% of these purchases were committed to distribution customers in Nebraska, Colorado and Wyoming, which are subject to cost recovery mechanisms, while the remaining 25% was not subject to regulatory recovery. The prices to be paid under this contract varied, ranging from $6 to $8 per MMBtu at the time of acquisition and exceeded market prices. We applied for and were granted approval to terminate this agreement from the NPSC, CPUC and WPSC, on the basis that the agreement was not beneficial to customers in the long term. We received written orders allowing recovery of the net buyout costs associated with the contract termination that were allocated to regulated subsidiaries. These costs were recorded as a regulatory asset of approximately $30 million that is being recovered over a five-year period.

Pro Forma Results

We calculated the pro forma impact of the SourceGas Acquisition and the associated debt and equity financings on our operating results for the three and nine months ended September 30, 2016 and 2015. The following pro forma results give effect to the acquisition, assuming the transaction closed on January 1, 2015:

	Pro Forma Results Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands, except per share amounts)			
Revenue	$333,786	$344,498	$1,188,148	$1,320,047
Net income (loss) available for common stock	$17,376	$(14,189)	$89,973	$(13,884)
Earnings (loss) per share, Basic	$0.33	$(0.28)	$1.74	$(0.27)
Earnings (loss) per share, Diluted	$0.32	$(0.28)	$1.70	$(0.27)

We derived the pro forma results for the SourceGas Acquisition based on historical financial information obtained from the sellers and certain management assumptions. Our pro forma adjustments relate to incremental interest expense associated with the financings to effect the transaction, and for the three and nine months ended September 30, 2015, also include adjustments to shares outstanding to reflect the equity issuances as if they had occurred on January 1, 2015, and to reflect pro forma dilutive effects of the equity units issued. The pro forma results do not reflect any cost savings, (or associated costs to achieve such savings) from operating efficiencies or restructuring that could result from the acquisition, and exclude any unique one-time items resulting from the acquisition that are not expected to have a continuing impact on the combined consolidated results. Pro forma results for the three and nine months ended September 30, 2016 reflect unfavorable weather impacts resulting in lower gas usage by our customers than in the same periods of the prior year. In addition, we calculated the tax impact of these adjustments at an estimated combined federal and state income tax rate of 37%.

These pro forma results are for illustrative purposes only and do not purport to be indicative of the results that would have been obtained had the SourceGas Acquisition been completed on January 1, 2015, or that may be obtained in the future.

Seller’s noncontrolling interest

One of the sellers retained 0.5% of the outstanding equity interests of SourceGas under the terms of the purchase agreement. As part of the transaction, we entered into an associated option agreement with that holder of the retained interest. The terms of this agreement provide us a call option to purchase the remaining interest beginning 366 days after the initial close of the SourceGas transaction. If we choose not to exercise this option during a ninety-day period, the seller may exercise the put option to sell us the retained interest. The value of this 0.5% equity interest is shown as Redeemable noncontrolling interest on the accompanying condensed consolidated balance sheets.

(3) BUSINESS SEGMENT INFORMATION

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

Three Months Ended September 30, 2016	External Operating Revenue	Inter-company Operating Revenue	Net Income (Loss) Available for Common Stock
Segment:			
Electric	$171,754	$ 2,747	$24,181
Gas [f]	141,445	—	(2,939)
Power Generation [e]	1,906	21,431	5,642
Mining	9,042	7,778	3,307
Oil and Gas [a]	9,639	—	(8,828)
Corporate activities [c]	—	—	(7,232)
Inter-company eliminations	—	(31,956)	—
Total	$333,786	$ —	$14,131

Three Months Ended September 30, 2015	External Operating Revenue	Inter-company Operating Revenue	Net Income (Loss) Available for Common Stock
Segment:			
Electric [d]	$176,042	$ 2,548	$22,659
Gas [d]	75,155	—	652
Power Generation	2,123	21,128	9,067
Mining	8,890	8,076	3,047
Oil and Gas [a] [b]	9,895	—	(39,769)
Corporate activities [c]	—	—	(5,599)
Inter-company eliminations	—	(31,752)	—
Total	$272,105	$ —	$(9,943)

Nine Months Ended September 30, 2016	External Operating Revenue	Inter-company Operating Revenue	Net Income (Loss) Available for Common Stock
Segment:			
Electric	$493,845	$ 9,413	$62,625
Gas [f]	563,879	—	29,975
Power Generation [e]	5,304	63,055	19,907
Mining	20,498	23,651	6,969
Oil and Gas [a]	25,660	—	(35,277)
Corporate activities [c]	—	—	(29,397)
Inter-company eliminations	—	(96,119)	—
Total	$1,109,186	$ —	$54,802

Nine Months Ended September 30, 2015	External Operating Revenue	Inter-company Operating Revenue	Net Income (Loss) Available for Common Stock
Segment:			
Electric [d]	$504,049	$ 8,481	$57,844
Gas [d]	416,950	—	27,475
Power Generation	5,782	62,452	24,761
Mining	26,084	23,541	9,106
Oil and Gas [a] [b]	33,481	—	(130,079)
Corporate activities [c]	—	—	(7,042)
Inter-company eliminations	—	(94,474)	—
Total	$986,346	$ —	$(17,935)

(a) Net income (loss) available for common stock for the three and nine months ended September 30, 2016 and September 30, 2015 includes non-cash after-tax impairments of oil and gas properties of $7.9 million and $33 million and $36 million and $113 million, respectively. See Note 20 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

(b) Net income (loss) available for common stock for the nine months ended September 30, 2015 included a non-cash after-tax impairment to equity investments of $3.4 million. See Note 20 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

(c) Net income (loss) available for common stock for the three and nine months ended September 30, 2016 and September 30, 2015 included incremental, non-recurring acquisition costs, net of tax of $4.0 million and $24 million; and $2.8 million and $3.0 million respectively, and after-tax internal labor costs attributable to the acquisition of $1.7 million and $7.4 million; and $1.2 million and $1.8 million respectively. See Note 2 to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

(d) Effective January 1, 2016, Cheyenne Light’s natural gas utility results are reported in our Gas Utility segment. Cheyenne Light’s gas utility results for the three and nine months ended September 30, 2015 have been reclassified from the Electric Utility segment to the Gas Utility segment. Revenue of $6.2 million and $31 million, respectively, and Net loss of $1.0 million and Net income of $0.5 million, respectively, previously reported in the Electric Utility segment in 2015 are now included in the Gas Utility segment.

(e) Net income (loss) available for common stock is net of net income attributable to noncontrolling interests of $3.8 million and $6.4 million for the three and nine months ended September 30, 2016.

(f) Gas Utility revenue increased for the three and nine months ended September 30, 2016 compared to the same periods in the prior year primarily due to the addition of the SourceGas utilities on February 12, 2016.

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:	September 30, 2016	December 31, 2015	September 30, 2015
Segment:			
Electric [(a)] [(b)]	$2,824,145	$2,720,004	$2,706,654
Gas [(b)] [(e)]	3,182,852	999,778	967,225
Power Generation [(a)]	77,570	60,864	78,666
Mining	66,804	76,357	78,000
Oil and Gas [(c)]	158,970	208,956	280,842
Corporate activities [(d)]	141,795	576,358	