

BLACK HILLS CORP /SD/
Form 10-K
February 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016

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 625 Ninth Street IRS Identification Number
Rapid City, South Dakota 57701 46-0458824

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

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

Title of each class	Name of each exchange on which registered
Common stock of \$1.00 par value	New York Stock Exchange

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes x No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Yes x No o

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

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

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

Yes No

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

At June 30, 2016 \$3,248,873,889

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

Class	Outstanding at January 31, 2017
Common stock, \$1.00 par value	53,384,259 shares

Documents Incorporated by Reference

Portions of the Registrant's Definitive Proxy Statement being prepared for the solicitation of proxies in connection with the 2017 Annual Meeting of Stockholders to be held on April 25, 2017, are incorporated by reference in Part III of this Form 10-K.

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GLOSSARY OF TERMS AND ABBREVIATIONS

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

AC	Alternating Current
AFUDC	Allowance for Funds Used During Construction
AltaGas	AltaGas Renewable Energy Colorado LLC, a subsidiary of AltaGas Ltd.
AOCI	Accumulated Other Comprehensive Income
APSC	Arkansas Public Service Commission
Aquila Transaction	Our July 14, 2008 acquisition of five utilities from Aquila, Inc.
ARO	Asset Retirement Obligations
ASC	Accounting Standards Codification
ASU	Accounting Standards Update as issued by the FASB
ATM	At-the-market equity offering program
Baseload plant	A power generation facility used to meet some or all of a given region's continuous energy demand, producing energy at a constant rate.
Basin Electric	Basin Electric Power Cooperative
Bbl	Barrel
Bcf	Billion cubic feet
Bcfe	Billion cubic feet equivalent
BHC	Black Hills Corporation; the Company
BHEP	Black Hills Exploration and Production, Inc., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings, includes Black Hills Gas Resources, Inc. and Black Hills Plateau Production LLC, direct wholly-owned subsidiaries of Black Hills Exploration and Production, Inc.
Black Hills Colorado IPP	Black Hills Colorado IPP, LLC a 50.1% owned subsidiary of Black Hills Electric Generation
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 Services	A Choice Gas supplier acquired in the SourceGas Acquisition
Black Hills Energy South Dakota Electric	Includes Black Hills Power's 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)
BHSC	Black Hills Service Company LLC, a direct, wholly-owned subsidiary of Black Hills Corporation
Black Hills Utility Holdings	Black Hills Utility Holdings, Inc., a direct, wholly-owned subsidiary of Black Hills Corporation (doing business as Black Hills Energy)
Black Hills Wyoming	Black Hills Wyoming, LLC, a direct, wholly-owned subsidiary of Black Hills Electric Generation
BLM	United States Bureau of Land Management
Btu	British thermal unit
Busch Ranch	Busch Ranch Wind Farm is a 29 MW wind farm near Pueblo, Colorado, jointly owned by Colorado Electric and AltaGas. Colorado Electric has a 50% ownership interest in the wind farm. 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.
Ceiling Test	
CAPP	Customer Appliance Protection Plan - acquired in the SourceGas Acquisition
CFTC	United States Commodity Futures Trading Commission
CG&A	Cawley, Gillespie & Associates, Inc., an independent consulting and engineering firm
Cheyenne Light	Cheyenne Light, Fuel and Power Company, a direct, wholly-owned subsidiary of Black Hills Corporation (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 and Cheyenne Light in Cheyenne, Wyoming. Cheyenne Prairie was placed into commercial service on October 1, 2014. The unbundling of the natural gas service from the distribution component, which opens up the gas supply for competition allowing customers to choose from different natural gas suppliers.
Choice Gas Program	Black Hills Gas Distribution distributes the gas and Black Hills Energy Service is one of the Choice Gas suppliers.
City of Gillette	Gillette, Wyoming
CO ₂	Carbon dioxide
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 (CIG)	Colorado Interstate Natural Gas Pricing Index
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.

CPCN	Certificate of Public Convenience and Necessity
CPP	Clean Power Plan
CP Program	Commercial Paper Program
CPUC	Colorado Public Utilities Commission
CT	Combustion turbine
CTII	The 40 MW Gillette CT, a simple-cycle, gas-fired combustion turbine owned by the City of Gillette.

CVA	Credit Valuation Adjustment
DART	Days Away Restricted Transferred (number of cases with days away from work or job transfer or restrictions multiplied by 200,000 then divided by total hours worked for all employees during the year covered)
DC	Direct current
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DSM	Demand Side Management
DRSPP	Dividend Reinvestment and Stock Purchase Plan
Dth	Dekatherm. A unit of energy equal to 10 therms or one million British thermal units (MMBtu)
EBITDA	Earnings before interest, taxes, depreciation and amortization, a non-GAAP measurement
ECA	Energy Cost Adjustment -- adjustments that allow us to pass the prudently-incurred cost of fuel and purchased energy through to customers.
Economy Energy	Electricity purchased by one utility from another utility to take the place of electricity that would have cost more to produce on the utility's own system
Energy West	Energy West Wyoming, Inc., a subsidiary of Gas Natural, Inc. Energy West is an acquisition we closed on July 1, 2015.
Enserco	Enserco Energy Inc., a former wholly-owned subsidiary of Black Hills Non-regulated Holdings, which is presented in discontinued operations in this Annual Report filed on Form 10-K
EPA	United States Environmental Protection Agency
EPA Region VIII	EPA Region VIII (Mountains and Plains) located in Denver serving Colorado, Montana, North Dakota, South Dakota, Utah, Wyoming and 27 Tribal Nations
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.
EWG	Exempt Wholesale Generator
FASB	Financial Accounting Standards Board
FDIC	Federal Depository Insurance Corporation
FERC	United States Federal Energy Regulatory Commission
Fitch	Fitch Ratings
GAAP	Accounting principles generally accepted in the United States of America
GADS	Generation Availability Data System
GCA	Gas Cost Adjustment -- adjustments that allow us to pass the prudently-incurred cost of gas and certain services through to customers.
GHG	Greenhouse gases
Global Settlement	Settlement with a utilities commission where the dollar figure is agreed upon, but the specific adjustments used by each party to arrive at the figure are not specified in public rate orders
Happy Jack	Happy Jack Wind Farm, LLC, owned by Duke Energy Generation Services
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.
IEEE	Institute of Electrical and Electronics Engineers
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
IPP Transaction	The July 11, 2008 sale of seven of our IPP plants
IRS	United States Internal Revenue Service

KCC Kansas Corporation Commission
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

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LIBOR	London Interbank Offered Rate
LOE	Lease Operating Expense
Loveland Area Project	Part of the Western Area Power Association transmission system
MACT	Maximum Achievable Control Technology
MAPP	Mid-Continent Area Power Pool
MATS	Utility Mercury and Air Toxics Rules under the United States EPA National Emissions Standards for Hazardous Air Pollutants from Coal and Oil Fired Electric Utility Steam Generating Units
Mbbl	Thousand barrels of oil
Mcf	Thousand cubic feet
Mcfd	Thousand cubic feet per day
Mcfe	Thousand cubic feet equivalent
MDU	Montana Dakota Utilities Co., a regulated utility division of MDU Resources Group, Inc.
MEAN	Municipal Energy Agency of Nebraska
MGP	Manufactured Gas Plant
MMBtu	Million British thermal units
MMcf	Million cubic feet
MMcfe	Million cubic feet equivalent
Moody's	Moody's Investors Service, Inc.
MSHA	Mine Safety and Health Administration
MTPSC	Montana Public Service Commission
MW	Megawatts
MWh	Megawatt-hours
N/A	Not Applicable
Native load	Energy required to serve customers within our service territory
NAV	Net Asset Value
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)
NERC	North American Electric Reliability Corporation
NGL	Natural Gas Liquids (1 barrel equals 6 Mcfe)
NOAA	National Oceanic and Atmospheric Administration
NOAA Climate Normals	This dataset is produced once every 10 years. This dataset contains daily and monthly normals of temperature, precipitation, snowfall, heating and cooling degree days, frost/freeze dates, and growing degree days calculated from observations at approximately 9,800 stations operated by NOAA's National Weather Service.
NO _x	Nitrogen oxide
NOL	Net operating loss
NPDES	National Pollutant Discharge Elimination System
NPSC	Nebraska Public Service Commission
NWPL	Northwest Interstate Natural Gas Pricing Index
NYMEX	New York Mercantile Exchange
NYSE	New York Stock Exchange
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSHA	Occupational Safety & Health Administration
OSM	U.S. Department of the Interior's Office of Surface Mining
OTC	Over-the-counter
PCA	Power Cost Adjustment

PCCA Power Capacity Cost Adjustment
Peak View \$109 million 60 MW wind generating project owned by Colorado Electric, placed in service on
November 7, 2016 and adjacent to Busch Ranch Wind Farm
PPA Power Purchase Agreement

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PPACA	Patient Protection and Affordable Care Act of 2010
PPB	Parts per billion
PUD	Proved undeveloped reserves
PUHCA 2005	Public Utility Holding Company Act of 2005
Quad O Regulation	40 CFR 60 Subpart OOOO - Standards of performance for crude oil and natural gas production, transmission and distribution
RCRA	Resource Conservation and Recovery Act
RICE	Reciprocating Internal Combustion Engines
REPA	Renewable Energy 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 Distribution in western Colorado (doing business as Black Hills Energy)
RSNs	Remarketable junior subordinated notes, issued on November 23, 2015
SAIDI	System Average Interruption Duration Index
SDPUC	South Dakota Public Utilities Commission
SEC	U. S. Securities and Exchange Commission
Service Guard	Home appliance repair product offering for both natural gas and electric.
Silver Sage	Silver Sage Windpower, LLC, owned by Duke Energy Generation Services
SO ₂	Sulfur dioxide
S&P	Standard & Poor's, a division of The McGraw-Hill Companies, Inc.
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.
Spinning Reserve	Generation capacity that is on-line but unloaded and that can respond within 10 minutes to compensate for generation or transmission outages
SSIR	System Safety and Integrity Rider
SSTAR-TEXOK	Natural gas price index tied to the Southern Star Central gas pipeline
System Peak Demand	Represents the highest point of customer usage for a single hour for the system in total. Our system peaks include demand loads for 100% of plants regardless of joint ownership.
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.
TCIR	Total Case Incident Rate (average number of work-related injuries incurred by 100 workers during a one-year period)
VEBA	Voluntary Employee Benefit Association
VIE	Variable Interest Entity
VOC	Volatile Organic Compound
WDEQ	Wyoming Department of Environmental Quality
WECC	Western Electricity Coordinating Council
WPSC	Wyoming Public Service Commission
WRDC	Wyodak Resources Development Corp., a direct, wholly-owned subsidiary of Black Hills Non-regulated Holdings

WTI West Texas Intermediate crude oil, an oil index benchmark price as quoted by NYMEX
Wyodak Plant Wyodak, a 362 MW mine-mouth coal-fired plant in Gillette, Wyoming, owned 80% by PacifiCorp and 20% by Black Hills Energy South Dakota. Our WRDC mine supplies all of the fuel for the plant.

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Website Access to Reports

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

Forward-Looking Information

This Form 10-K contains forward-looking statements as defined by the SEC. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words “anticipates,” “estimates,” “expects,” “intends,” “plans,” “predicts” and similar expressions, and include statements concerning plans, objectives, goals, strategies, future events or performance, and underlying assumptions and other statements that are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature, including statements contained within Item 7 - Management’s Discussion & Analysis of Financial Condition and Results of Operations.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company’s expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management’s examination of historical operating trends, data contained in the Company’s records and other data available from third parties. Nonetheless, the Company’s expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements in this Form 10-K, including statements contained within Item 1A - Risk Factors.

PART I

ITEMS 1 AND 2. BUSINESS AND PROPERTIES

History and Organization

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

We operate our business in the United States, reporting our operating results through our regulated Electric Utilities segment, regulated Gas Utilities segment, Power Generation segment, Mining Segment and Oil and Gas Segment.

Our Electric Utilities segment generates, transmits and distributes electricity to approximately 208,500 electric customers in South Dakota, Wyoming, Colorado and Montana. Our Electric Utilities own 941 MW of generation and 8,806 miles of electric transmission and distribution lines.

Our Gas Utilities segment serves approximately 1,030,800 natural gas utility customers in Arkansas, Colorado, Iowa, Nebraska, Kansas and Wyoming. Our Gas Utilities own 4,585 miles of intrastate gas transmission pipelines and 40,044 miles of gas distribution mains and service lines. On February 12, 2016, we acquired SourceGas Holdings, LLC, adding four regulated natural gas utilities serving approximately 431,000 customers in Arkansas, Colorado, Nebraska and Wyoming and a 512 mile regulated intrastate natural gas transmission pipeline in Colorado. For additional information on this acquisition, see the Key Elements of our Business Strategy in Item 7 and Note 2 in the Notes to Consolidated Financial Statements in Item 8.

Our Power Generation segment produces electric power from its generating plants and sells the electric capacity and energy primarily to our utilities under long-term contracts. Our Mining segment produces coal at our mine near Gillette, Wyoming, and sells the coal primarily under long-term contracts to mine-mouth electric generation facilities including our own regulated and non-regulated generating plants. Our Oil and Gas segment engages in the exploration, development and production of crude oil and natural gas, primarily in the Rocky Mountain region, with a focus on divesting non-core oil and gas assets and retaining those best suited to assist utilities with the implementation of cost of service gas programs. For additional information, see the Key Elements of our Business Strategy in Item 7.

Our segments generated the following net income (loss) available for common stock for the year ended December 31, 2016 and had the following total assets at December 31, 2016 (excluding Corporate):

	Net income (loss) available for common stock for the year ended December 31, 2016 (in thousands)	Total Assets as of December 31, 2016
Electric Utilities	\$85,827	\$2,859,559
Gas Utilities	\$59,624	\$3,307,967
Power Generation	\$25,930	\$73,445
Mining	\$10,053	\$67,347
Oil and Gas	(\$71,054)	\$96,435

Segment reporting transition of Cheyenne Light's Natural Gas distribution

Effective January 1, 2016, the natural gas operations of Cheyenne Light are reported 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 periods have been reclassified to reflect this change in presentation between the Electric Utilities and Gas Utilities segments.

Segment Financial Information

We discuss our business strategy and other prospective information in Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations. Financial information regarding our business segments is incorporated herein by reference to Item 8 - Financial Statements and Supplementary Data, and particularly Note 5 in the Notes to the Consolidated Financial Statements, in this Annual Report on Form 10-K.

Utility Rebranding

All of our utilities now operate with the trade name Black Hills Energy. We expanded our regulated operations with the acquisition of SourceGas, as well as with our 2015 utility acquisitions. We rebranded our Cheyenne Light utilities, Black Hills Power utility and our SourceGas utilities to operate under the name Black Hills Energy, conforming to the name under which our other utilities operate. Within our Electric Utilities segment and our Gas Utilities segment, references made to our utilities are presented as follows according to their respective state:

Electric Utilities Segment

Black Hills Energy South Dakota Electric - includes all Black Hills Power utility operations in South Dakota, Wyoming and Montana.

Black Hills Energy Wyoming Electric - includes all Cheyenne Light electric utility operations.

Black Hills Energy Colorado Electric - includes all Colorado Electric utility operations.

Gas Utilities Segment

Black Hills Energy Arkansas Gas - includes the acquired SourceGas utility Black Hills Energy Arkansas 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 operations and RMNG 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 operations.

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 Wyoming Gas - includes Cheyenne Light's natural gas utility operations, as well as the acquired SourceGas utility Black Hills Gas Distribution's Wyoming operations.

Black Hills Energy Services - includes the acquired SourceGas Utility Black Hills Energy Services operations.

Electric Utilities Segment

We conduct electric utility operations through our South Dakota, Wyoming and Colorado subsidiaries. Our Electric Utilities generate, transmit and distribute electricity to approximately 208,500 customers in South Dakota, Wyoming, Colorado and Montana. Our electric generating facilities and power purchase agreements provide for the supply of electricity principally to our own distribution systems. Additionally, we sell excess power to other utilities and marketing companies, including our affiliates. We also provide non-regulated services through our Tech Services product lines. Tech Services provides electrical system construction services to large industrial customers of our electric utilities.

Capacity and Demand

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

	System Peak Demand (in MW)					
	2016		2015		2014	
	Summer	Winter	Summer	Winter	Summer	Winter
South Dakota Electric	438	389	424	369	410	389
Wyoming Electric ^(a)	236	230	212	202	198	197
Colorado Electric ^(b)	412	302	392	303	384	298
Total Electric Utilities Peak Demands	1,086	921	1,028	874	992	884

(a) Both 2016 summer and winter peaks are records set in July and December, respectively, replacing summer and winter record peaks set in July and December of 2015.

(b) New summer peak load for Colorado Electric achieved in July 2016, replacing the previous all-time summer peak of 406 set in June 2016, and of 400 set in June 2012.

Regulated Power Plants

As of December 31, 2016, our Electric Utilities' ownership interests in electric generation plants were as follows:

Unit	Fuel Type	Location	Ownership Interest %	Owned Capacity (MW)	Year Installed
South Dakota Electric:					
Cheyenne Prairie ^(a)	Gas	Cheyenne, Wyoming	58%	55.0	2014
Wygen III ^(b)	Coal	Gillette, Wyoming	52%	57.2	2010
Neil Simpson II	Coal	Gillette, Wyoming	100%	90.0	1995
Wyodak ^(c)	Coal	Gillette, Wyoming	20%	72.4	1978
Neil Simpson CT	Gas	Gillette, Wyoming	100%	40.0	2000
Lange CT	Gas	Rapid City, South Dakota	100%	40.0	2002
Ben French Diesel #1-5	Oil	Rapid City, South Dakota	100%	10.0	1965
Ben French CTs #1-4	Gas/Oil	Rapid City, South Dakota	100%	80.0	1977-1979
Wyoming Electric:					
Cheyenne Prairie ^(a)	Gas	Cheyenne, Wyoming	42%	40.0	2014
Cheyenne Prairie CT ^(a)	Gas	Cheyenne, Wyoming	100%	37.0	2014
Wygen II	Coal	Gillette, Wyoming	100%	95.0	2008
Colorado Electric:					
Busch Ranch Wind Farm ^(d)	Wind	Pueblo, Colorado	50%	14.5	2012
Peak View Wind Farm ^(e)	Wind	Pueblo, Colorado	100%	60.0	2016
Pueblo Airport Generation	Gas	Pueblo, Colorado	100%	180.0	2011
Pueblo Airport Generation CT ^(f)	Gas	Pueblo, Colorado	100%	40.0	2016
AIP Diesel	Oil	Pueblo, Colorado	100%	10.0	2001
Diesel #1-5	Oil	Pueblo, Colorado	100%	10.0	1964
Diesel #1-5	Oil	Rocky Ford, Colorado	100%	10.0	1964
Total MW Capacity				941.1	

(a) Cheyenne Prairie, a 132 MW natural gas-fired power generation facility was placed into commercial operation on October 1, 2014 to support the customers of South Dakota Electric and Wyoming Electric. The facility includes one simple-cycle, 37 MW combustion turbine that is wholly-owned by Wyoming Electric and one combined-cycle, 95 MW unit that is jointly-owned by Wyoming Electric (40 MW) and South Dakota Electric (55 MW).

(b) Wygen III, a 110 MW mine-mouth coal-fired power plant, is operated by South Dakota Electric. South Dakota Electric has a 52% ownership interest, MDU owns 25% and the City of Gillette owns the remaining 23% interest. Our WRDC coal mine supplies all of the fuel for the plant.

(c) Wyodak, a 362 MW mine-mouth coal-fired power plant, is owned 80% by PacifiCorp and 20% by South Dakota Electric. This baseload plant is operated by PacifiCorp and our WRDC coal mine supplies all of the fuel for the plant.

(d) Busch Ranch Wind Farm, a 29 MW wind farm, is operated by Colorado Electric. Colorado Electric has a 50% ownership interest in the wind farm and AltaGas owns the remaining 50%. Colorado Electric has a 25-year REPA with AltaGas for their 14.5 MW of power from the wind farm.

(e) Peak View Wind Farm achieved commercial operation on November 7, 2016.

(f) Colorado Electric's newly constructed LM 6000, which achieved commercial operation on December 29, 2016.

The Electric Utilities' annual average cost of fuel utilized to generate electricity and the average price paid for purchased power (excluding contracted capacity) per MWh for the years ended December 31 is as follows:

Fuel Source (dollars per MWh)	2016	2015	2014
Coal	\$11.27	\$10.89	\$10.92
Natural Gas ^(a)	\$30.59	\$51.14	\$77.31
Diesel Oil ^(b)	\$149.13	\$303.16	\$174.04
Total Average Fuel Cost	\$12.99	\$14.62	\$14.82
Purchased Power - Coal, Gas and Oil	\$48.36	\$47.81	\$35.21
Purchased Power - Renewable Sources	\$51.95	\$50.92	\$50.27

(a) Decrease is driven by lower 2016 natural gas costs than the prior year.

(b) Decrease is due to combination of lower fuel costs in 2016 and the efficiencies at which the diesel units performed compared to the prior year.

Our Electric Utilities' power supply, by resource as a percent of the total power supply for our energy needs for the years ended December 31 is as follows:

Power Supply	2016	2015	2014
Coal	33 %	33 %	34 %
Gas, Oil and Wind	7	4	4
Total Generated	40	37	38
Purchased ^(a)	60	63	62
Total	100 %	100 %	100 %

(a) Wind represents approximately 7% of our purchased power in 2016, and approximately 5% of our purchased power in 2015 and 2014.

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

South Dakota Electric's PPA with PacifiCorp expiring on December 31, 2023, which provides for the purchase of 50 MW of coal-fired baseload power;

Colorado Electric's PPA with Black Hills Colorado IPP expiring on December 31, 2031, which provides 200 MW of energy and capacity to Colorado Electric from Black Hills Colorado IPP's combined-cycle turbines. This PPA is reported and accounted for as a capital lease within our business segments and is eliminated on the accompanying Consolidated Financial Statements;

Colorado Electric's PPA with AltaGas expiring on October 16, 2037, which provides up to 14.5 MW of wind energy from AltaGas' owned interest in the Busch Ranch Wind Farm;

Wyoming Electric's PPA with Black Hills Wyoming expiring on December 31, 2022, whereby Black Hills Wyoming provides 60 MW of unit-contingent capacity and energy from its Wygen I facility. The PPA includes an option for Wyoming Electric to purchase Black Hills Wyoming's ownership interest in the Wygen I facility through 2019, subject to WPSC and FERC approval in order to obtain regulatory treatment. The purchase price related to the option is \$2.6 million per MW adjusted for capital additions and reduced by depreciation over a 35-year life beginning

January 1, 2009 (approximately \$5 million per year);

Wyoming Electric's 20-year PPA with Duke Energy expiring on September 3, 2028, which provides up to 29.4 MW of wind energy from the Happy Jack Wind Farm to Wyoming Electric. Under a separate inter-company agreement, Wyoming Electric sells 50% of the facility's output to South Dakota Electric;

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Wyoming Electric's 20-year PPA with Duke Energy expiring on September 30, 2029, which provides up to 30 MW of wind energy from the Silver Sage wind farm to Wyoming Electric. Under a separate inter-company agreement, Wyoming Electric sells 20 MW of the facility's output to South Dakota Electric; and

Wyoming Electric and South Dakota Electric's Generation Dispatch Agreement requires South Dakota Electric to purchase all of Wyoming Electric's excess energy.

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

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

South Dakota Electric has an agreement through December 31, 2023 to provide MDU capacity and energy up to a maximum of 50 MW;

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

South Dakota Electric has an agreement to supply up to 20 MW of energy and capacity to MEAN under a contract that expires in 2023. This contract is unit-contingent based on the availability of our Neil Simpson II and Wygen III plants, with decreasing capacity purchased over the term of the agreement. The unit-contingent capacity amounts from Wygen III and Neil Simpson II are as follows:

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

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

At December 31, 2016, our Electric Utilities owned the electric transmission and distribution lines shown below:

Utility	State	Transmission Distribution	
		(in Line Miles)	(in Line Miles)
South Dakota Electric	South Dakota, Wyoming	1,260	2,497
South Dakota Electric - Jointly Owned ^(a)	South Dakota, Wyoming	44	—
Wyoming Electric	South Dakota, Wyoming	44	1,279
Colorado Electric	Colorado	590	3,092

(a) South Dakota Electric owns 35% of a DC transmission tie that interconnects the Western and Eastern transmission grids, which are independently-operated transmission grids serving the western United States and eastern United States, respectively. This transmission tie, which is 65% owned by Basin Electric, provides transmission access to both the WECC region in the West and the MAPP region in the East. The transfer capacity of the tie is 200 MW

from West to East, and 200 MW from East to West. South Dakota Electric's electric system is located in the WECC region. This transmission tie allows us to buy and sell energy in the Eastern grid without having to isolate and physically reconnect load or generation between the two transmission grids, thus enhancing the reliability of our system. It accommodates scheduling transactions in both directions simultaneously, provides additional opportunities to sell excess generation or to make economic purchases to serve our native load and contract obligations, and enables us to take advantage of power price differentials between the two grids.

South Dakota Electric has firm point-to-point transmission access to deliver up to 50 MW of power on PacifiCorp's transmission system to wholesale customers in the WECC region through 2023.

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

In order to serve Wyoming Electric's existing load, Wyoming Electric has a network transmission agreement with Western Area Power Association's Loveland Area Project.

Operating Agreements. Our Electric Utilities have the following material operating agreements:

Shared Services Agreements -

South Dakota Electric, Wyoming Electric, and Black Hills Wyoming are parties to a shared facilities agreement, whereby each entity charges for the use of assets by the affiliate entity.

Black Hills Colorado IPP and Colorado Electric are also parties to a facility fee agreement, whereby Colorado Electric charges Black Hills Colorado IPP for the use of Colorado Electric assets.

South Dakota Electric and Wyoming Electric receive certain staffing and management services from BHSC for Cheyenne Prairie.

- Jointly Owned Facilities -

South Dakota Electric, the City of Gillette and MDU are parties to a shared joint ownership agreement, whereby South Dakota Electric charges the City of Gillette and MDU for administrative services, plant operations and maintenance for their share of the Wygen III generating facility for the life of the plant.

Colorado Electric and AltaGas are parties to a shared joint ownership agreement whereby Colorado Electric charges AltaGas for operations and maintenance for their share of the Busch Ranch Wind Farm.

Operating Statistics

The following tables summarize information for our Electric Utilities:

Degree Days	2016			2015			2014		
	Actual	Variance from Prior Year	Variance from 30-Year Average (b)	Actual	Variance from Prior Year	Variance from 30-Year Average (b)	Actual	Variance from 30-Year Average (b)	
Heating Degree Days:									
South Dakota Electric	6,402	(2)%	(10)%	6,521	(12)%	(8)%	7,373	4%	
Wyoming Electric	6,363	(1)%	(14)%	6,404	(10)%	(10)%	7,100	—%	
Colorado Electric	4,658	(4)%	(16)%	4,846	(12)%	(12)%	5,534	—%	
Combined (a)	5,595	(2)%	(13)%	5,729	(11)%	(10)%	6,473	2%	

Cooling Degree Days:

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South Dakota Electric	646	12%	(4)%	577	20%	(14)%	481	(28)%
Wyoming Electric	460	13%	31%	407	21%	16%	336	(5)%
Colorado Electric	1,358	7%	42%	1,270	38%	32%	919	(4)%
Combined ^(a)	935	9%	26%	861	32%	16%	654	(12)%

(a) The combined heating degree days are calculated based on a weighted average of total customers by state.

(b) 30-Year Average is from NOAA Climate Normals.

Revenue - Electric (in thousands)	2016	2015	2014
Residential:			
South Dakota Electric	\$72,084	\$72,659	\$69,712
Wyoming Electric	39,553	39,587	36,634
Colorado Electric	97,088	97,418	94,391
Total Residential	208,725	209,664	200,737
Commercial:			
South Dakota Electric	97,579		