



Transaction to Divest Enserco Energy, Inc

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Investor Relations Information

COMPANY INFORMATION

Black Hills Corporation

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FORWARD LOOKING STATEMENTS

This news release includes “forward-looking statements” as defined by the Securities and Exchange Commission, or SEC. We make these forward-looking statements in reliance on the safe harbor protections provided under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this news release that address activities, events or developments that we project, expect, believe or anticipate will or may occur in the future are forward-looking statements. These include, without limitation, our 2011 and 2012 earnings guidance. These forward-looking statements are based on assumptions which we believe are reasonable based on current expectations and projections about future events and industry conditions and trends affecting our business. However, whether actual results and developments will conform to our expectations and projections is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, the risk factors described in Item 1A of Part I of our 2010 Annual Report on Form 10-K filed with the SEC, other reports that we file with the SEC from time to time, and the following:

- Our ability to close the transaction to sell our energy marketing business for net cash proceeds of approximately \$160 to \$170 million, subject to working capital and other closing adjustments;
- The transaction’s impact on reducing our risk profile, improving our credit metrics and enhancing our ability to produce more stable cash flows and earnings;
- The accuracy of our assumptions on which our earnings guidance is based;
- Adequate cost recovery for our utility operations through regulatory proceedings and favorable rulings in periodic applications to recover costs for fuel, transmission and purchased power and the timing in which the new rates would go into effect;
- Our ability to complete our capital program in a cost effective and timely manner;
- The accounting treatment and earnings impact associated with interest rate swaps and other derivatives;
- Capital market conditions and market uncertainties related to interest rates, which may affect our ability to raise capital on favorable terms;
- The timing, volatility and extent of changes in energy and commodity prices, supply or volume, the cost and availability of transportation of commodities, changes in interest rates or foreign exchange rates and the demand for our services, any of which can affect our earnings, financial liquidity and the underlying value of our assets, including the possibility that we may be required to take future impairment charges under the SEC’s full cost ceiling test for natural gas and oil reserves;
- The timing and extent of scheduled and unscheduled outages of our power generating facilities;
- Our ability to provide accurate estimates of proved oil and gas reserves and future production and associated costs;
- The extent of our success in connecting natural gas supplies to gathering, processing and pipeline systems;
- Changes in or compliance with laws and regulations, particularly those related to financial reform legislation, taxation, power generation, safety, protection of the environment and energy marketing;
- Weather and other natural phenomena;
- The effect of accounting policies issued periodically by accounting standard-setting agencies;
- Macro- and micro-economic changes in the economy and energy industry, including the impact of (i) consolidation and changes in competition and (ii) general economic and political conditions, including tax rates or policies and inflation rates; and
- Other factors discussed from time to time in our filings with the SEC.

Overview and Transaction Benefits



- Enserco Energy, Inc has been an integral part of Black Hills Corp's diversified portfolio of businesses for approximately 15 years; primary strategies included marketing of natural gas and crude oil products and services in the US & Canada
- Since the 2008 economic downturn, significantly lower natural gas prices and shifts in energy supply and demand fundamentals created a more challenging environment for marketing and trading companies
- Enserco diversified its commodity strategies in 2010 / 2011 to include coal, power and environmental marketing improving recent performance, but risk adjusted returns remained short of desired results
- Following receipt of unsolicited offers to buy Enserco in Q3 2011 and a comprehensive strategic and financial review, a decision was made to divest the energy marketing business
- Sale of Enserco to Twin Eagle Resource Management, LLC will benefit BHC shareholders
 - ✓ Reduces risk profile and improves credit metrics
 - ✓ Enhances ability to produce more stable cash flows and earnings
 - ✓ Minimizes need for equity financing in 2012 to fund planned growth
 - ✓ Strengthens focus on core utilities, power generation and fuel production businesses

Transaction Terms and Use of Proceeds



- Black Hills Corp is selling all outstanding stock of Enserco Energy, Inc to Twin Eagle Resource Management, LLC
 - Formed in 2010, Twin Eagle is a natural gas and electricity marketing, logistics and trading organization based in Houston, TX with offices in Calgary, Chicago, Oklahoma City, and Madisonville, KY
 - Twin Eagle, a private equity trading firm, is affiliated with Chesapeake Energy Corp, an Oklahoma based E&P company and LS Power, a New York based generation and transmission company
- Net cash proceeds of approximately \$160 to \$170 million are expected to be received through the close process, subject to working capital and other closing adjustments
- Close expected in Q1 2012; transaction is contingent on receiving customary regulatory approvals from the Federal Energy Regulatory Commission and antitrust clearance under the Hart-Scott-Rodino Act
- Net proceeds from the pending sale will be used to reduce BHC's need for equity financing to fund expected growth projects in the 2012 through 2014 timeframe

Transaction Process



- In Q3 2011, Black Hills Corp received several unsolicited inquiries from companies interested in purchasing Enserco Energy, Inc; subsequent conversations with inquiring parties validated interest
- BHC provided access to diligence information and solicited indicative offers from inquiring parties and other potential buyers so that strategic options could be fully evaluated
 - Three viable offers were received
 - Offers were compared to the projected value of BHC continuing to own Enserco
- Following a comprehensive strategic and financial review, the decision was made to divest energy marketing business
- Twin Eagle Resource Management, LLC's offer was considered the best value for BHC Shareholders
 - Deal structure was most comprehensive in consideration of value provided to BHC shareholders, ability to close transaction and process to maintain value through closing
 - Sale of entire energy marketing segment enables a smooth transition for BHC, Twin Eagle and Enserco customers

2011 Earnings Guidance - Raised



- Black Hills Corp expects 2011 net income, as adjusted, from the combination of continuing operations and discontinued operations to be \$1.90 to \$1.96 per share which excludes a \$0.68 per share mark-to-market loss on certain interest rate swaps
 - This revised 2011 earnings guidance range exceeds BHC's previous 2011 earnings guidance of \$1.70 to \$1.85 issued on November 3, 2011, primarily due to stronger than expected fourth quarter results from energy marketing segment
 - Energy marketing segment results are estimated to be in the range of \$0.18 to \$0.22 per share including \$0.05 per share of indirect corporate expense that will be reclassified from discontinued operations (Enserco) and charged to continuing operations for reporting purposes
- Estimated 2011 net income, as adjusted, from continuing operations is \$1.67 to \$1.69 per share and from discontinued operations is \$0.23 to \$0.27 per share

2012 Earnings Guidance - Adjusted



Black Hills Corp expects 2012 net income, as adjusted, from continuing operations to be in the range of \$2.00 to \$2.20 per share

- Revised 2012 earnings guidance range replaces BHC's previous 2012 earnings guidance of \$2.15 to \$2.40 per share issued on November 3, 2011
- Adjustment reflects anticipated sale of Enserco Energy, Inc in Q1 2012, changes to expected oil and natural gas prices and is based on the following primary assumptions:
 - Exclusion of all financial results, investments and direct expenses from energy marketing segment during 2012;
 - Receipt by BHC of net cash proceeds from Enserco sale transaction of \$160 to \$170 million;
 - Capital spending of \$415 to \$435 million, including oil and gas capital expenditures of \$95 to \$100 million;
 - Normal operations and weather conditions within our utility service territories that impact customer usage, and planned construction, maintenance and/or capital investment projects;
 - Successful completion of rate cases for the electric and gas utilities;
 - No significant unplanned outages at any of our power generation facilities;
 - Oil and natural gas production in the range of 12.3 Bcfe to 13.0 Bcfe;
 - Oil and gas average NYMEX prices of \$3.78 per MMBtu for natural gas and \$101.50 per Bbl for oil; production-weighted average well-head prices of \$2.77 per Mcf and \$91.16 per Bbl of oil, and average hedged prices of \$3.49 per Mcf and \$87.39 per Bbl;
 - Exclusion of mark-to-market changes on certain interest rate swaps;
 - Financing plans to maintain appropriate capital structure;
 - No equity financing in 2012 except for approximately \$3 million from the dividend reinvestment program; and
 - No additional significant acquisitions or divestitures

Planned Release of 2011 Q4 and FY Results



Black Hills Corp expects to issue a news release regarding 2011 fourth quarter and full year results on Thursday, Feb. 2, 2012, and host a live conference call and webcast at 11 a.m. E.T. on Friday, Feb. 3 to discuss the company's financial and operating performance.



Questions and Answers