

## **Corporate Governance Guidelines of the Board of Directors Black Hills Corporation**

### **I. Authority**

1. The Board of Directors of Black Hills Corporation adopted the following Corporate Governance Guidelines. The operation of the Board of Directors is a dynamic and evolving process. As such, these Guidelines are reviewed annually by the Governance Committee, and may be amended at any time, upon recommendation by the Governance Committee, and approval of the Board. No policy can cover each and every issue that may surface, but these Guidelines set the proper tone for the operation of the Black Hills Corporation Board of Directors and assist the Board in fulfilling its obligations to stockholders and other constituencies.
2. These Corporate Governance Guidelines were initially adopted by the Board on December 10, 2001, and last reviewed on January 30, 2009.

### **II. Board Responsibilities**

1. Mission Statement. We are a quality company, delivering exceptional customer value, creating opportunities for employees, and growing through responsible energy development in the West to achieve solid returns for investors.
2. Corporate Authority and Responsibility. All corporate authority resides in the Board of Directors as fiduciaries on behalf of stockholders. The Board delegates authority to management to pursue the Company's mission. Management, not the Board, is responsible for managing the Company. Yet the Board is responsible for determining that the corporation is managed in a way to achieve its mission. To this end, the Board will provide its advice and consent to management with respect to Company policies and strategic plans. The Board shall recommend candidates to the stockholders for election to the Board of Directors. The Board will select and evaluate the Chief Executive Officer, oversee succession plans, determine senior management compensation, approve the annual budget, and regularly review systems, procedures for the establishment of internal controls and disclosure controls. The Board will assess major risks facing the Company and review options for their mitigation. The Board will ensure that the Company establishes and maintains processes to protect the integrity of financial reports, to comply with applicable law, and the Company Code of Conduct.

### III. Board Operations

1. Selection and Composition of the Board. The Board of Directors should be composed of individuals whose backgrounds, abilities, commitment and expertise combine to serve the best interests of the Company. Individually they should possess the highest personal and professional integrity, and practical and mature judgment. Collectively, the Board should represent diverse experience at policy-making levels in areas of relevance to the Company's business activities.
  - a. Board Membership Criteria. The Governance Committee shall identify, and review with the Board, on an annual basis, the skills, expertise, commitment and characteristics required of Company Board Members, given both the current makeup of the Board, and the operations of the Company. Based upon this evaluation, the Governance Committee shall make recommendations to the Board regarding the re-nomination of existing Board Members, as well as the addition of new members. This assessment should include issues of judgment, diversity, age, skills such as understanding of relevant industries, technologies and markets, financial literacy, time commitment and leadership. Independent Directors shall constitute a substantial majority of the Board.
  - b. Number of Directors. The Bylaws of the corporation authorize management of the Company through a Board of no fewer than nine members. The Board shall assess its size from time to time.
  - c. Selection, Orientation and Continuing Education of Directors. The Governance Committee shall recommend nominees to the full Board for election as Directors. The committee will welcome input from all Directors and stockholders, and may utilize the services of independent consultants. The Board and the Company shall orient new Directors through means that include published materials, meetings with senior management, and visits to Company facilities. Following initial orientation, Board members shall regularly receive continuing education concerning business activities of the Company, their responsibilities as directors, and as members of Board committees.
  - d. Retirement. Retirement age for Board Members shall be as provided in Company By-Laws.
  - e. Changes in Professional Responsibility. The Board retains the discretion to determine whether Directors who retire or change from the professional position they held when they came on the Board should be required to resign. A change in an individual's professional responsibilities may directly or indirectly impact that person's ability to fulfill directorship obligations. Accordingly,

Board Members who retire or change professional responsibilities shall promptly tender their resignation from the Board. The Board shall not be obligated to accept such resignation, but the Governance Committee will review the affected member's service and qualifications and recommend to the Board the continued appropriateness of Board membership under these circumstances.

- f. Independent Directors. To be independent, the Board should consist of a substantial majority of outside, Independent Directors, with a minimum of one and a maximum of three inside, employee Directors. The Board's standard of independence shall be set forth in a Policy for Director Independence that meets the New York Stock Exchange's requirements for independence and other applicable law, in determining independence of Directors on Audit Committees.
2. Director Compensation and Stock Ownership. From time to time, the compensation of Directors shall be reviewed by the Compensation Committee, which shall make recommendations to the full Board. The Board's philosophy is that a portion of Director compensation be equity based. The Board shall also maintain minimum stock ownership guidelines for Directors.

#### **IV. Board Leadership**

1. Selection of Chairman and CEO. The Board shall have the option to make this choice any way that seems best for the Company at a given point in time. The Board does not have a policy on whether or not the role of Chairman and CEO should be separate or combined and, if it is to be separate, whether the Chairman should be selected from the non-employee Directors or be an employee. The Governance Committee shall periodically review and recommend to the Board the selection of the Chairman of the Board.
2. Presiding Director. In those periods when the role of Chairman and CEO are combined, the Board will appoint one of its Independent Directors to serve as the Presiding Director. The Presiding Director will chair executive sessions of the Independent Directors. The Presiding Director, together with the Independent Directors, will develop the agenda for executive sessions. The Presiding Director shall chair regular meetings of the Board in the absence of the CEO/Chairman, and perform other duties as assigned by resolution or request of the Board, or the Independent Directors.
3. Commitment to Service. Independent Directors are encouraged to limit the number of other boards on which they serve, taking into account potential board attendance and participation and effectiveness on these

boards. Directors shall advise the Chairman in advance of accepting an invitation to serve on the board of another public company.

4. Evaluation of Board Performance. The Governance Committee shall evaluate and report annually to the Board an assessment of the Board's performance. This will be discussed with the full Board annually, based upon a review of the Board's strengths and weaknesses, and its contribution as a whole. The purpose of this evaluation is to increase the effectiveness of the Board.

## V. Board Operations

1. Board Agenda. The Chairman and CEO shall consult with the Presiding Director and set the agenda for each Board meeting, taking into account input and suggestions from other Board Members. Information and data that is important to the Board's understanding of the business will be distributed in writing before the Board meets. Management will make every attempt to see that this material is as brief as possible, while still providing the desired information. The schedule and length of Board meetings should allow sufficient time for in-depth discussion, analysis and strategic planning.
2. Strategic Planning. Management will prepare the strategic plan for the Company and will present and discuss it with the Board at an annual strategic planning session. The timing and agenda for the strategic planning session shall be suggested by the Chairman.
3. Independent Advice. The Board or any Committee may seek legal or other expert advice from a source independent of management. Generally, this would be accomplished with the knowledge of the CEO and Chairman of the Board.
4. Board's Interaction with Institutional Investors, Press, Customers, and Shareholders. The Board believes that in ordinary circumstances management speaks for the Company. Individual Board Members may, from time to time at the request of management, meet or otherwise communicate with various constituencies that are involved with the Company. If comments from the Board are appropriate, they should in most circumstances come from the Chairman. Any direct communication a Board member has with any of the above constituents should be reported to the Chairman. Shareholders who want to communicate with the Board may do so by writing to the Presiding Director, Black Hills Corporation, P.O. Box 1400, 625 Ninth Street, Rapid City, South Dakota 57709.

5. Access to Senior Management. The Board welcomes the invited attendance at Board and/or Committee meetings of non-members who are in senior management positions of the Company. Board Members are likewise free to contact members of senior management and are encouraged to coordinate these contacts with the CEO or to inform the CEO that the contact has been made if it wasn't coordinated by the CEO.
6. Field Board Meetings. Board meetings should periodically include operational site visits. The CEO shall determine appropriate sites and the scheduling of such meetings, with input from the Board.
7. Executive Sessions. Independent, non-employee directors shall meet at each regular meeting of the Board, without management present, and shall meet at such other times as determined by the Presiding Director.

## **VI. Committee Matters**

1. Number, Structure and Independence of Committees. The current standing committees of the Company include the Audit Committee, Compensation Committee, Executive Committee, and Governance Committee (formerly the Nominating Committee). The Board may form or disband other special committees depending upon the needs of the Company. Except for the Executive Committee, committee membership will consist only of Independent Directors.
2. Assignment and Rotation of Committee Members. The Governance Committee, after consultation with the Chairman of the Board, and with consideration of the desires of individual Board Members, shall recommend assignment of Board Members to various committees. While the Board believes that consideration should be given to rotating committee members periodically, the Board does not believe that such rotation should be mandated as a policy, as there may be reasons to maintain an individual Director's committee membership for a longer period.
3. Chief Executive Officer Evaluation. The Compensation Committee shall conduct an annual evaluation of the CEO. The evaluation, which shall consider the input of all Independent Directors, should be based upon objective criteria, including performance of the business, accomplishment of long-term strategic objectives, development of management, etc. The Compensation Committee shall also make recommendations, for the approval of the Board of Directors, concerning CEO compensation.
4. Management Succession. The Board shall coordinate with the CEO to ensure that a successor for emergencies is designated at all times and that a formalized process governs long-term management, development and succession. The CEO shall report to the Board annually about development of senior management personnel and succession plans.

5. Outside Board Memberships. The CEO, officers, and other members of senior management shall advise the Board before accepting outside, paid board memberships. The Governance Committee shall review, and make recommendations to the Board, which in turn must grant approval for any executive officer to accept any interlocking board membership with respect to any other member of the Board.

Guidelines initially adopted December 10, 2001

Guidelines revised on the following dates:

December 9, 2003

February 2, 2006

February 1, 2007

January 30, 2009

Guidelines last reviewed on January 30, 2009