“To say that the energy industry is tumultuous right now is an understatement. It has been a wild ride over the past few years... There is a ‘back to basics’ movement, but we’re proud to say we have never left the basics.”

DAVID R. EMERY, CEO, Black Hills Corporation
A NEW POTENTIAL

The collapse of the speculative energy trading market produced a string of failed or struggling corporations. As investor confidence in the energy sector wavered, survivors scrambled to improve their balance sheets by selling power plants and pipelines, laying off workers, and cancelling deals and projects. But for long-time utilities that had focused on core strengths, developed assets to meet the country’s ever-growing demand for power and managed their debt, the collapse created tremendous opportunities.
Black Hills Corporation’s leaders had smartly invested in generation capacity in the 1990s by adding power plants in Wyoming. With this capacity and a solid position in the energy trading markets, the price spikes for natural gas and electricity in the first years of the new millennium produced record profits. In 2000, net income from independent energy sales rose to more than $29 million and accounted for 44 percent of the company’s positive net income. The following year, as prices skyrocketed during the California energy crisis, net income from independent energy sales more than doubled, reaching nearly $60 million. Management cautioned stock analysts and shareholders that the unusual energy market conditions were not likely to continue. Indeed, after the state and federal governments stepped in, prices and profits stabilized.

Nevertheless, these record earnings allowed the company to aggressively move forward on its strategy. Over the next several years, the company expanded its power generation assets, moving beyond its traditional territory into Colorado, New Mexico, Nevada and California. It continued to increase fuel production in coal, oil and natural gas, and while other energy marketers failed following the Enron collapse, Enserco provided dependable service to independent producers and end users and profits to Black Hills Corporation shareholders. For the first time in a generation, because of the turmoil in the industry, the company could look at expanding by acquiring other utilities beyond the Black Hills.

BUILDING WYGEN I
Black Hills Corporation had announced plans in 1994 to build an 80 MW plant identical to Neil Simpson II, but the company struggled to find customers for this power and construction of the plant was delayed for years. A partnership formed with California-based Calpine Corp. in 1996 had dissolved because Calpine, like most of the industry, preferred to focus on building gas-fired plants. As natural gas prices rose and system reserve margins in the electric industry declined, Black Hills Corporation saw an opportunity and decided to move forward.

With the construction industry in recession and demand rising for electric power, Black Hills Corporation announced in 1999 that it would build Wygen I. To design and construct what was now envisioned as a 90 MW mine-mouth, coal-fired plant, the company hired Babcock and Wilcox, the boiler-making firm that had erected the original Wyodak plant and supplied the boiler for Neil Simpson II. Eager to help revive the market for coal-fired

Natural gas-fired power plants accounted for most of the growth in generating capacity in the U.S. between 1991 and 2002. Coal, however, continued to be the major fuel source for the country’s conventional power plants.
power plants, Babcock and Wilcox officials predicted that Wygen I would set a standard for future power development projects in North America and the world. Burning 500,000 tons a year of low-sulfur coal fed by conveyor from the Wyodak Mine, the plant was expected to be a mirror image of Neil Simpson II. Its production costs would be in the lowest 5 percent of coal-fired plants in the United States.

But without question Black Hills Corporation was taking a risk. The western markets for electric power were volatile. With growing environmental concerns, state and federal officials would want assurances that the company intended to invest in the most up-to-date pollution control equipment. Black Hills Corporation would also have to raise the capital it would need to build the plant.

ACQUIRING INDECK CAPITAL

When Black Hills Corporation moved into the independent power producer (IPP) market in 1999, it teamed with a group called Indeck Capital to bid for a number of power plants being offered for sale by Montana Power. The team did not win the bid, but the two organizations forged a strong partnership. Black Hills Corporation announced in the summer of 2000 that it would take this collaboration to the next step by acquiring Indeck and renaming it Black Hills Energy Capital.

Indeck had been organized as a relatively passive investment company, but by the year 2000 it owned partial interests in 14 independent power plants in California, Massachusetts, Colorado, New Mexico and Idaho. These plants had a total capacity of 350 megawatts. But Indeck’s income was increasingly limited by its lack of operational expertise and access to equity capital. Black Hills Corporation wanted the Indeck assets to leverage its organizational talents as a builder and operator of power plants, and it had the ability to sell stock. In other words, both organizations could benefit from the deal.

With the acquisition, Indeck’s John Salyer became president and chief operating officer of Black Hills Energy Capital, and Gerald Forsythe, Indeck’s majority shareholder, joined the Black Hills Corporation board of directors. Forsythe, a well-known auto racing financier, was an aggressive risk taker and entrepreneur with more than 30 years experience in the steam generating and electricity generating power plant equipment industry.

With the acquisition of Indeck, Black Hills Corporation had to learn about competitive and regulatory issues in a host of different states. The company also had to restructure to effectively manage its growing array of new businesses.
MOVING FORWARD

While the dot com, telecom, and energy trading industries suffered massive devaluations in 2000 and 2001, Black Hills Corporation moved ahead on its growth strategy. In the first half of 2001, the company solidified its top management team by promoting Ev Hoyt to president and chief operating officer of Black Hills Corporation. Recognizing the importance of legal issues to the company’s strategy, the company hired its first in-house counsel – Steve Helmers. At the same time, Kyle White was chosen as vice president-corporate affairs and Tom Ohlmacher was promoted to senior vice president – power supply and services.

As the management team evolved, so did the company’s relationship with Wall Street. By 2001, the company’s need for capital was soaring. Investment continued in the FiberCom system expansion. Wygen I was under construction. The company was aggressively looking for independent power producer opportunities. But the company could not take on new debt without raising equity. To raise equity, management increasingly recognized a need to change the corporate structure.

As a regulated utility, Black Hills Corporation had to seek regulatory approval whenever it wanted to go to the capital markets for money, even when the equity wasn’t going to be used for the utility. To provide more financial flexibility, the company’s board decided to make Black Hills Corporation a holding company. Under this new structure, created in 2000, Black Hills Power became one among a group of entities owned by the holding company.

Under the new structure and with great ambitions to expand in the independent power production market, Black Hills Corporation went looking for money. On March 22, 2001 the company filed a plan to offer three million shares of common stock. Funds raised by this equity offering would be used by the independent energy group to acquire, expand and construct power plants and acquire oil and gas reserves.

To help sell these shares, Dan Landguth promoted Mark Thies to senior vice president and chief financial officer. A Chicago native who grew up in Davenport, Iowa, Thies had worked for Arthur Anderson in Chicago and then a non-regulated energy firm in Iowa which became InterCoast Energy. In 1997, Thies interviewed to become the controller at Black Hills Corporation. When he was offered the job, he said he accepted because he was interested in the company’s ambitious plans to grow and diversify.

To enable the company’s expansion into new markets, Black Hills Corporation courted...
the fund managers who were playing an increasingly important role in the stock market. The IPP market carried greater risk, but also potentially higher returns. It was more attractive to institutional investors managing large portfolios of stocks.

Initially, the company’s investment bankers proposed pricing the stock offering at under $40 a share. As Landguth, Thies, and Gary Fish made the company’s case to portfolio managers and potential investors in city after city, they encountered tremendous interest in the company’s stock. With California’s problems and power prices spiking, record earnings in the energy sector drew attention at a time when other sectors of the stock market were struggling. According to Landguth, investors looked at the company and said, “Geez, these guys have a lot of power, paths to get it to market, and great markets.” Then they jumped to the wrong conclusion that it was going to continue forever. We had to really make clear that a market can change.”

Through the spring of 2001, the team continued their grueling road show. In one week in April, they gave nearly 50 stock offering presentations to nearly 100 investment funds in 13 cities from coast to coast. When the stock finally hit the market, it opened at $52 a share and then quickly rose another 17 percent. But just as quickly the superheated energy market cooled and the stock price fell back to $40 a share. When Wall Street turned to the company’s executives to ask about the drop, according to Thies, “We said, ‘Hey, we told you this would happen.’”

With new equity the company also was able to take on new debt. In September 2001, Black Hills Corporation reached an agreement with three major banks on a $400 million revolving credit facility that would also provide cash for...
investment. With a stronger balance sheet, the company was ready to look for assets offered by companies that had failed to navigate the stormy seas of the deregulated or restructured market for power.

**EXPANDING IN THE IPP MARKET**

True to four decades of history, Black Hills Corporation invested the first portion of its new capital at Wyodak. With plans complete for the Wygen I facility, the company announced that it would begin construction in March 2001. At the same time, Black Hills Corporation said that it would begin permitting another coal-fired plant at Wyodak (Wygen II). It also completed construction of a new 40 MW gas-fired plant at Wyodak to provide power to Xcel Energy’s subsidiary Cheyenne Light, Fuel & Power under a ten-year wholesale contract.

Hoping to deploy the company’s power generation skills in other markets, the company also announced in February 2001 that it would buy a 240 MW natural-gas-fired power plant from Enron that was under construction at Fountain Valley near Colorado Springs. The deal came with an 11-year contract to provide power to another Xcel Energy subsidiary, Public Service Company of Colorado. The company expected all phases of the construction project to be completed by July 2001 with a total construction cost of nearly $175 million. The site was attractive because there was room to expand. From the Fountain Valley location, Black Hills Corporation would be able to serve other markets in the Rocky Mountain and southwest regions.

Shortly after the Fountain Valley plant began producing power in August, the company completed the acquisition, also from Enron, of a 273 MW gas-fired plant northeast of Las Vegas. The Las Vegas facility had a 51 MW co-generation plant in operation (Las Vegas I) and a 222 MW expansion (Las Vegas II) under construction.

With these deals the company added more than 600 MW of power production potential, and Landguth noted that the company was well on its way to meeting its goal of adding 1,000 MW of capacity to its wholesale operations. Just as important, all of those additional facilities for power generation were linked to long-term “tolling” contracts with wholesale customers whereby the power purchaser provided the natural gas fuel and took the fuel price risk. It was a strategy the company could take to the bank.

With the acquisition of the Colorado plants, Black Hills Corporation made a strategic decision to relocate its wholesale business to...
the Denver area. Landguth told reporters the company wanted the subsidiary’s employees to be closer to potential customers for wholesale power and to the company’s new power plants in Colorado. As part of the move, Ohlmacher replaced Gary Fish, who resigned. He became president and chief operating officer of a new organization – Black Hills Energy Ventures. In this new position, Ohlmacher would supervise the company’s fuel resources group (Black Hills Exploration and Production and Wyodak Resources Development Corp.), as well as Black Hills Energy Capital and Enserco Energy.

SELLING COAL STILL FUELS GROWTH
Coal sales from the historic Wyodak mine continued to fuel the company’s growth. Wyodak coal powered the Neil Simpson plants, as well as the Wyodak plant operated by PacifiCorp. It would also fuel the new Wygen plant. But as spot coal prices dropped, tensions rose between PacifiCorp and Black Hills Power that jeopardized this important revenue stream.

The contract between PacifiCorp and Black Hills Power had a built-in price escalator. In addition, the coal price had been increased

The creation of Enserco in 1996 gave Black Hills Corporation a presence in Colorado. As the company’s independent energy business continued to grow, the need to be closer to customers and industry stakeholders in the Rocky Mountain region became apparent. In 2001, Landguth and his team decided to consolidate the company’s power generation and energy trading subsidiaries into one strategic location in Golden, Colorado.

Integrated under the business name Black Hills Energy Inc., the new team included Black Hills Energy Capital (formerly based in Wheeling, Illinois), Black Hills Generation and Enserco. Under one roof, Black Hills Energy had the ability to finance, develop and market fuel and power to buyers throughout the region.

Although the move made strategic sense for the organization, it was difficult for some long-time employees who had deep roots in the Black Hills. Others embraced the change of scenery and new opportunities in Colorado.

The establishment of a major employee center outside of the Black Hills also created new challenges for management as it sought to cultivate a common culture and sustain the organization’s vision and values.
One of the cleanest coal-fired power plants in the U.S., Wygen I was nominated for an EPA Clean Air Award after it went on line in 2003.
as part of a settlement reached by the two companies after PacifiCorp cancelled its Wyodak II coal contract. Driven by these two factors, PacifiCorp was paying Wyodak more than $10 per ton in 2000, while the spot price for the coal had dropped under $4 a ton. Under pressure from the Wyoming Public Service Commission to lower its fuel costs, PacifiCorp threatened to back out of its agreement to buy Wyodak coal. Litigation ensued.

The two sides finally reached a settlement in April 2001. Under the terms of the new contract, PacifiCorp agreed to make a lump sum payment to Wyodak Resources, which in turn agreed to reduce the price of the coal. PacifiCorp also agreed to an increased minimum annual coal purchase for the Wyodak plant and to an extension of the coal supply agreement from 2013 to 2022. At the same time, PacifiCorp agreed to buy Wyodak Resources coal for the Dave Johnston power plant near Glenrock, Wyoming. These shipments would be served with WRDC’s train load-out facilities that had been acquired from Kerr-McGee with the purchase of the Clovis Point Mine. Settling this dispute with PacifiCorp provided a short term boost to Wyodak Resources Development’s earnings and reassured the company’s long-term coal sales. It also maintained the company’s focus on the development of fuel resources to meet the demands of a growing regional economy.

Black Hills Corporation had also looked for ways to sell coal to markets east of the Mississippi. Black Hills Coal Network had been purchased in 1998 to explore these opportunities, but by 2002, senior management decided that this effort was not working. The company sold the business, taking a $1 million loss in the process.

EXPANDING THE OIL AND GAS BUSINESS

As Black Hills Corporation entered the 21st century, the company’s patient development of its oil and gas operations began to pay off. In October 2002 the company announced that it would acquire Denver-based Mallon Resources Corporation in a stock-for-stock merger that represented the company’s first acquisition of a publicly traded company. Mallon, an oil and gas company, had proven and unproven reserves of oil and natural gas. Active in oil and gas exploration and development in New Mexico since 1982, Mallon had expanded aggressively in the 1990s, acquiring additional interests in the

CULTIVATING TOMATO POWER

Steam turned the turbines at the Las Vegas Cogeneration power plant. It also heated an adjacent greenhouse that housed 120,000 tomato plants. Built in 1994 and acquired by Black Hills Corporation in 2001, the plant warmed the greenhouses to allow them to produce through the winter season. By using steam from the plant to grow tomatoes, the plant complied with provisions in the Public Utilities Regulatory Policy Act (PURPA) that required that at least 5 percent of the energy generated by a cogeneration plant be used for something other than generating electricity. The strategy reflected an innovative approach to energizing both the body and the home.
San Juan Basin and East Blanco fields. In 1998 the company increased its acreage in the East Blanco Field by entering into a development agreement with the Jicarilla Apache Tribe. To finance its expansion, Mallon raised $48.1 million in capital through the sale of stock between 1996 and 2000 and obtained debt financing from Aquila Energy Capital.

The agreement to buy Mallon Resources gave Black Hills Corporation’s exploration and production company its first platform for large-scale drilling. But the $53 million deal almost ran into trouble at the last minute. As part of the transaction, Black Hills Corporation had agreed to pay off the $30.5 million debt that Mallon owed to Aquila Energy Capital Corporation at a discount.

On the October day the agreements were supposed to be executed, David Emery was in Denver waiting for Aquila’s CEO Robert Green to sign the paperwork. He grew nervous as the fax failed to arrive and changed his flight home to Rapid City several times. Meanwhile, the staff at Black Hills Exploration and Production struggled to find out what was causing the delay at Aquila’s headquarters in Kansas City.

Finally, late in the day, the fax arrived. The signature of the CEO, however, took Emery by surprise. Richard Green, Aquila’s chairman, had replaced his brother, Robert, that day as CEO. Emery didn’t know it at the time, but Robert Green’s downfall and Aquila’s troubles would soon lead to an enormous opportunity for Black Hills Corporation. In the meantime, Emery’s bosses at Black Hills Corporation had their own struggling business to fix.

**OVERCOMING FIBERCOM’S CHALLENGES**

All across the country the collapse of Enron and the bursting of the telecom bubble hurt electric utilities that had followed the crowd into the market. Montana Power, for example, had leapt into telecommunications, selling all of its power utility assets to finance a total transformation of the business. When telecom share prices plummeted, many of this company’s long-time shareholders, including many company retirees, were financially devastated. Considering the travails of others, the challenges Black Hills Corporation faced were less difficult, but they still cast a cloud over the company’s overall success as the entire organization worked to make FiberCom profitable.

Although FiberCom enjoyed remarkable penetration rates in the Black Hills, it faced a number of challenges in its early years that were hard to overcome. Though few people realized it at the time, the global telecommunications market was at a high point in 1999, just as FiberCom was building its network. Demand
for fiber optic cable and contractors who could lay that cable was at an all-time high. As a result, FiberCom's capital costs rose dramatically, from a projected $75 million to an actual cost of nearly $157 million five years later. With these costs, it was difficult to turn a profit even with the company's excellent marketing efforts and strong revenues.

There were other challenges, as well. Planners at Black Hills Corporation had expected sluggish competition from U.S. West, but they hadn't anticipated the ways in which U.S. West would delay the build out of the network by being slow to provide the interconnections required under the new telecommunications law. Black Hills Corporation had anticipated cable TV competition from the incumbent provider, but after Midcontinent Communications bought TCI's operation in the Black Hills, it began to expand aggressively. It announced that it would also offer a bundled triple-play option – combining cable, Internet and telephone service – to consumers by the end of 2000.

Cultural tensions also arose. Working at a feverish pace in an industry that was exploding with demand and investment, FiberCom employees tended to look at their counterparts at Black Hills Power as "slow-moving and over studied." Meanwhile, long-time employees at Black Hills Power viewed FiberCom executives as "reckless spenders of the company's capital." These cultural tensions eroded cooperation and blocked some of the business integration that management had hoped would make both operations more efficient.

Despite these challenges, FiberCom claimed considerable success by 2002. The company had become the dominant communications provider in Rapid City and the Northern Hills with more than 20,000 residential customers and 2,500 business customers. The company switched an average of 800,000 local and long distance calls per day and delivered over half a million e-mails. With more than 150 people on staff, the company prided itself on good customer service. Financially, with the company's total capital investment over $100 million, FiberCom was still struggling. The managers and employees were not alone. Across the country, and around the world, the crash of the telecommunications industry had fundamentally altered the economics of the business.

As FiberCom began to run into trouble, tensions emerged between the board of directors and management and between management teams. Landguth worked to keep everyone working together. He asked Hoyt to play a larger role in the company's operations. "We had a very, very capable management team in Black Hills...today."
A New Potential

Hoyt and the FiberCom team focused intently on trying to reduce operating costs and moving the company to profitability. They began looking for additional investors to diminish the immediate impact of the investment and to provide for a longer-term payback. At one point, Hoyt spent a great deal of time talking to management at Aquila’s telecommunications subsidiary about a strategic combination of the two businesses, but the deal fell through when Aquila wanted to buy FiberCom in an all-stock transaction. Meanwhile, Hoyt and his team continued to look for opportunities to expand the business into other parts of the region to get more economies of scope and scale.

One of the greater opportunities the company faced was to integrate the customer service and billing operations of Black Hills Power with those of Black Hills FiberCom to achieve economies of scale. In April 2003, Landguth and Hoyt promoted David Emery to the position of president and chief operating officer for retail electric utility and communications operations. In this new position, Emery’s primary mission was to bring about this integration. Emery launched this effort in the summer and fall of 2003. After Ron Schaible resigned, he recruited Linden “Linn” Evans to take over day-to-day management of FiberCom.

Evans, a one-time mining engineer at Homestake who had gone on to earn a law degree, had joined the company in 2001 as a corporate attorney. As vice president and general manager of FiberCom, he referred back to his experiences in the mining industry to cut costs and run FiberCom’s business as efficiently as possible.

As the FiberCom team continued to integrate customer service operations and engineering, the company had to be extremely sensitive. Black Hills Power wanted to make sure that it did nothing that would lead to accusations that it was subsidizing the competitive operations of Black Hills FiberCom in any way. The company explained the concept and provided a rationale for the integration of these operations to the PUC. The regulators appreciated the initiative and dialogue and to the surprise of company officials asked “why we hadn’t considered it before.”

Progress was slow. In 2003, FiberCom reported a net loss of $5.9 million. But the team kept focusing on ways to gain synergies with the operations at Black Hills Power and to improve financial performance. After closing the books on 2004, Emery reported to shareholders that FiberCom’s financial performance had improved 33 percent over 2003.
Evans’ span of responsibility within Black Hills Corporation grew as Emery’s responsibilities expanded. After Ev Hoyt retired in the fall of 2004, Evans became president and chief operating officer for retail operations for the whole company. In this position, Evans continued to shop for partners to expand FiberCom’s scope and scale. Evans met with executives at PrairieWave Communications in Sioux Falls. The teams discussed opportunities for collaboration. Later, engineers and operations supervisors met to share information. The two companies looked at the possibility of sharing advertising or starting a third business together. At one point, PrairieWave suggested FiberCom should buy them.

“We looked at it,” said Evans, “but decided that we didn’t think our shareholders would want us to expand in a business where we were losing money.” The energy utility investors that were typical of Black Hills Corporation were very different from the more risk-tolerant telecom investors.

“They were disappointed when we gave them the news,” Evans said. “When we told them we thought their asking price was too high, we said, ‘Maybe you ought to think about buying us for that kind of price.’ It was a flippant comment. We were not for sale. We were not looking to sell.” One reason the company was not looking to sell was that Emery and others in top management believed they if they sold they would need to get the full book value (or close to it) for FiberCom’s assets. The management team had evaluated this option some months earlier and concluded that the market wasn’t right. “Our best option to recoup our investment was to integrate FiberCom with Black Hills Power as much as possible and then continue operating the company,” Emery said.

Nevertheless, two months later PrairieWave called with some surprising news. The company had evaluated the potential for acquiring FiberCom and decided to make an offer. “When we saw the number,” said Evans, “and considered our strategic vision, we thought we owed it to our shareholders” to consider the deal. Emery was willing to evaluate the offer, but he wanted the conversation to remain highly confidential. FiberCom had an excellent team. He did not want employees to think the company was on the auction block, especially if the deal fell through. On April 20, 2005, FiberCom and PrairieWave announced that PrairieWave would buy FiberCom for $103 million, a price that was roughly equal to the book value of the company.

There were lessons to be learned or re-learned from the FiberCom experience. It was important to really understand the capabilities of potential partners before going into business with them.
It was also important to consider how internal knowledge and skill sets could be applied in a different industry, even if the industry seemed altogether different. For example, the challenges of digging to lay cable in Black Hills soils and across Black Hills geography should have been something that the company understood. Some argued that the apparent synergies involved in providing utility-like service to the same group of customers hadn’t materialized. Others were not so sure. In business, as in life, timing matters. In 1998 the world was enthralled with the economic potential of the Internet and the growth opportunities for telecommunications. Black Hills Corporation was not the only business to be drawn into this bubble market. Considering the collapse of many other companies, Black Hills Corporation had managed to avert disaster. In the meantime, the threatened deregulation of the South Dakota and Wyoming electric markets that had created the need for FiberCom as a competitive strategy had never materialized. Selling FiberCom allowed Black Hills Corporation to stay focused on the business it truly understood – energy.

BRINGING POWER PLANTS ONLINE

Landguth believed that the company’s ability to build and operate power plants constituted a significant competitive advantage. It was a cornerstone for creating shareholder value. In 2002 and 2003, the company proved one part of this equation. It completed power plants at Foundation Valley and Arapahoe in Colorado. In January 2003, Las Vegas II began commercial operation. A month later, in February, the company dedicated its new 90 MW Wygen I power plant in Gillette. Completed under budget and ahead of schedule, Wygen was “the model of our potential,” Landguth told reporters. With reasonable capital costs and a relatively cheap fuel supply, the company had great potential for shareholders. “We intend to continue to advance our competitive generation capabilities in the years to come,” he said.

Wygen also reflected Black Hills Corporation’s continuing commitment to gain a competitive advantage in the environmental arena. Recognizing that states such as Wyoming, as well as the federal government would be raising the bar on environmental emissions, the company understood that if it wanted to build new generation capacity, it would have to meet and exceed new government standards. Wygen was the first coal-fired power plant to be built in the 21st century. It incorporated state-of-the-art environmental controls to minimize sulfur-dioxide and nitrogen-oxide emissions. Landguth told reporters that the facility’s design responded to Wyoming’s
strict standards, among the toughest in the nation. One of the cleanest, if not the cleanest, coal-fired power plants in the United States, Wygen I had the extraordinary honor of being nominated for an Environmental Protection Agency clean air award.

Black Hills Corporation expanded its base of assets in both regulated and unregulated energy markets while continuing to evaluate its growing portfolio. In addition to buying new properties, the company sold assets that didn’t fit its strategy. In September 2003, for example, the company sold its ownership interests in seven hydroelectric power plants in upstate New York for approximately $186 million. The company wanted to keep its focus on the Rocky Mountain and far western regions of the United States.

NOT EVERYTHING FOLLOWS THE PLAN

Hoyt and Landguth made an incredible team. The board had absolute confidence in both men. A few years older than Landguth, Hoyt planned to retire at 65, and the board anticipated that a new chief operating officer would be appointed then who would be in training to succeed Landguth as CEO when the time came. These plans were upset one morning in March 2002 when Hoyt called board members to say that Landguth was in the hospital following a heart attack.

“The news sent us into a whirlwind of activity,” said Kay Jorgensen, a long-time board member from Spearfish. “We had to figure out what was the right thing to do.”

After he had the report from his doctor, Landguth called John Howard, the lead director on Black Hills Corporation’s board, to give him the news. “I don’t think my health is going to permit me to continue,” he said.

The heart attack forced the Board of Directors to accelerate succession planning. They hired an outside search firm to look internally and externally for a new CEO. They interviewed candidates over the course of several months. During this time, however, Landguth made a remarkable recovery. In a heart-to-heart with the board, he said, “I think I’m just fine. I want to keep going for a couple more years.” The board agreed to his plan, but also continued the process of planning for succession.

A new generation of leaders was coming of age at Black Hills Corporation, and their expanding role was recognized in a series of promotions in the spring of 2003. David Emery was promoted to president and chief operating officer for retail
As Landguth, Hoyt and the board of directors evaluated these leaders as well as outside candidates, they concluded that the best person to succeed Landguth as CEO was Emery. Emery had managed the various fuel resources businesses within the company, including coal mining and oil and natural gas exploration and production from 1997 to 2003. His promotion to lead Black Hills Power and FiberCom in 2003 gave him greater exposure to the regulated side of the business. With deep family roots in the company and the Black Hills, he seemed like the best candidate to lead the company forward.

With Emery’s promotion, Landguth would remain as chairman of the board for a transitional period. Hoyt would step down from his position as president, but continue as chief operating officer until his planned retirement later in the year. With the decision made in January 2004, the press releases were generated, but Landguth told the folks in corporate communications to delay the news for a day. Black Hills Corporation had another deal to announce that would signal the company’s continuing expansion.

GROWING HORIZONTALLY BY ACQUISITION
The employees and managers at Black Hills Power had always been good at running a utility operation. After the long period of consolidation that ran from the early 1900s up to the early 1960s, the structure of the industry in the region stabilized. The collapse of deregulation, however, weakened a number of companies and created major opportunities for Black Hills Corporation. It had, after all, survived the era without shedding productive assets, taking on enormous debt, or exposing itself to volatile fuel or energy markets. Starting in 2004, the company began to move aggressively to acquire utility companies.

Geography was important. “The way we do business, with our community approach, our regulatory approach, our face-to-face customer service – all of those things are much better suited for the northern Great Plains and Rocky
Mountain demographic,” said Emery. And clearly there were opportunities to leverage the company’s investments in fuel production and power generation if utility acquisitions could be made close enough to the Black Hills region.

Since 2001, Black Hills Corporation had supplied Cheyenne Light, Fuel & Power with wholesale electricity. This relationship had given Black Hills Corporation the opportunity to get to know the market. The company already knew the Wyoming regulators. Cheyenne's parent company, Xcel Energy, had been hit hard by the collapse of the speculative energy market and was looking to sell assets.

On January 13, 2004, the company announced that it would buy Cheyenne Light, Fuel & Power from Xcel Energy. Cheyenne had approximately 38,000 electric customers and 30,000 gas customers. Its peak load was approximately 156 MW. The purchase was attractive because Cheyenne did not have its own power generation facilities. In addition, the deal offered Black Hills Corporation an opportunity to become a natural gas local distribution utility and learn more about this business. In 1979, Cheyenne Light had closed

Electric lighting arrived in Cheyenne in 1882. After the Cheyenne City Gas Company was formed in 1883, the gas and electric companies competed to serve the lighting needs of Cheyenne residents. At the beginning of the new century, however, the electric and gas companies combined to create Cheyenne Light, Fuel & Power Company.

As part of the nationwide consolidation movement, Cheyenne Light, Fuel & Power merged with the Public Service Company of Colorado in the early 1920s. During World War II, the company grew and moved into a new headquarters downtown. As demand for power increased, Cheyenne Light, Fuel & Power added diesel generation units in 1962 and began to purchase power from Pacific Power and Light starting in 1963.

Starting in 1997, Cheyenne Light went through a number of ownership changes.
an obsolete plant in Cheyenne and turned to the market to purchase power. When its electric supply contract expired in 2000, wholesale prices were at an all-time high. To soften the blow on customers, the Wyoming Public Service Commission spread the cost of new contracts with Public Service Company of Colorado (an Xcel Energy subsidiary) and Black Hills Energy over a number of years.

The contract with Colorado was due to expire in 2007. After that date, Black Hills Corporation would have the opportunity to provide additional power from its own generation plants.

As the Cheyenne Light, Fuel & Power deal proceeded, Black Hills Corporation discovered both the risks and the opportunities in acquiring other people’s businesses. As Black Hills Corporation took over Cheyenne’s operation in January 2005, the company discovered major problems relating to Cheyenne’s adoption of a new customer billing system in June 2004. The new system had created a variety of headaches – billing errors, high bills caused by poor estimates, slow responses to customer complaints and other inconsistencies. Installation of a record number of new meters compounded the problems. It took nine months to a year in some places to resolve the problems. Black Hills Corporation also recommended that the Wyoming Public Service Commission create a new customer service advisory group to monitor the company’s progress. Through these efforts, Black Hills Corporation had the opportunity to further improve its standing in the eyes of Wyoming regulators by cleaning up the problems.

The same month that Wyoming regulators acknowledged the improvements that Black Hills Corporation had made – August 2005 – the company broke ground on the construction of Wygen II. At least two-thirds of the capacity of the 95 MW plant would be dedicated to Cheyenne Light. The rest of the power would be sold on the wholesale market. Working aggressively to ensure that the plant met the highest environmental standards, Black Hills Corporation announced that it would reduce its smokestack emissions of mercury by 60 percent compared with older technologies. Overall, the deal highlighted opportunities to improve service for customers and to increase shareholder value by acquiring struggling utilities.

With the acquisition of Cheyenne Light, Black Hills Corporation looked for other opportunities to grow horizontally. In the fall of 2005, the company proposed a strategic merger with Northwestern Corporation. Devastated by diversification efforts gone awry, Northwestern had earlier filed for bankruptcy. Black Hills Corporation talked with the creditors about acquiring the company, but the creditors did not want to slow down the bankruptcy proceedings with a utility merger. When the

Employees of Cheyenne Light, Fuel & Power adapted easily to Black Hills Power’s corporate culture.
company emerged from bankruptcy, Black Hills Corporation offered a confidential proposal to acquire the business. Unfortunately, some of the Northwestern shareholders hoped to spark a bidding war. On the Wednesday before Thanksgiving, after the stock markets had closed, Northwestern revealed the offer to the public. Soon, other bidders materialized. Black Hills Corporation’s final offer was a stock-for-stock proposal that would have given Northwestern shareholders Black Hills Corporation stock at an implied value of approximately $33-$35 per share. When other bidders went higher, however, Black Hills Corporation decided to let the deal go. Ultimately, the proposed sale failed altogether when the Montana Public Service Commission unanimously blocked the sale to an Australian-owned private equity fund.

**BUYING AQUILA**

Despite losing the opportunity to purchase Northwestern, Black Hills Corporation continued to search for other utility properties. Across the country, in the wake of the turmoil of the deregulatory era, the utility industry was undergoing consolidation. In February 2006, for example, MidAmerican Energy Holdings Company acquired PacifiCorp. Duke Energy and Cinergy merged in April 2006 to form Duke Energy Corporation. In October 2006, FERC approved merger plans for National Grid and KeySpan Corporation. Some industry analysts predicted that by 2012 the number of companies in the utility industry in the United States would be cut in half.

With these forecasts in mind, Emery and Thies were headed to New York when they got a call from the investment bankers at Credit Suisse who had managed the sale of Northwestern. “They wanted to have dinner with us,” said Emery. Over the course of the evening, the bankers revealed that they had a client who was interested in acquiring a utility company, but the client only wanted part of the utility’s operations. There was an electric company and several gas distribution businesses that the client did not want.

The Credit Suisse bankers knew Black Hills Corporation’s strategy, structure, and operations from the due diligence they had done with the Northwestern deal. They believed these companies would fit well with Black Hills’ overall mix of businesses. They were confident that the company had the talent and expertise to convince regulators that a deal would be good for consumers, as well, but they did not reveal the company they were representing. When the meal was over, “we told them we would think about it,” Emery said.

Since the fall of Enron, Aquila had struggled to survive. Its share price and credit rating
fell throughout 2002, forcing the company to accelerate its repayment of nearly $150 million in debt in late September.

In a cash crisis, Aquila had announced that Robert Green, who had led the company’s rapid expansion and served as CEO for less than a year, would step down. Green’s older brother, Richard, the chairman of the company and its former CEO, had become CEO again. The elder Green had promised that the company would return to its roots and refocus on its traditional utility businesses. Despite Richard Green’s efforts to retrench, however, Aquila had continued to struggle.

In April 2003, the company reported a 44 percent decline in revenues in its fourth quarter and a “hefty loss.” To pay off debt, Aquila sold its Canadian utility operations in 2004. It also sold 12 independent power plants and liquidated its interest in Midlands Electricity in the United Kingdom. At the same time, it completed a major refinancing, selling new common stock to strengthen its balance sheet. All of these initiatives did not cure Aquila’s fundamental financial problems.

Aquila continued to sell assets. In September 2005, the company announced it would consider selling its gas utilities in Missouri, Michigan and Minnesota, as well as its electric utilities in Colorado and Kansas. Black Hills Corporation was very interested in purchasing the Colorado and Kansas electric utilities. “They looked a lot like Cheyenne Light, Fuel & Power,” Emery said, “and there were opportunities down the road to build and operate generating plants.” Black Hills Corporation submitted a bid for Kansas Electric, but they were not successful in the auction. Aquila sold four of the five utilities, but decided against selling the Colorado electric company.

Between September 2005 and February 2006 Aquila’s board and management continued to evaluate the company’s strategic options, including a possible sale or merger. Blackstone and Lehman Brothers were hired as financial...
advisors, and in May the advisors recommended nine potential acquirers with the financial resources and the management experience to run Aquila's businesses. The advisors suggested that some of these companies might be interested in only part of Aquila's assets and that the sale of the company might need to be done in a two-step process. Aquila did not publicly acknowledge that it was considering a sale. It kept the process very quiet and engaged in conversations by invitation only. On May 19, 2006 Richard Green met with Michael Chesser, chairman and CEO of Great Plains Energy, to talk about a possible deal. Chesser indicated that Great Plains was interested. Soon afterwards, Great Plains joined a group of six serious entities who were bidding for Aquila.

Early in the summer of 2006 Emery, Thies and Maurice Klefeker, senior vice president of strategic planning and development, flew to Kansas City to visit with executives at Great Plains Energy. Meeting at the historic Kansas City Club in the heart of downtown and just a short distance from Aquila's headquarters, the group talked without lawyers or investment bankers to get to know one another. Before the meeting was over, the group made plans to work together on a deal. Shortly afterwards teams from both companies began due diligence to analyze the strengths and weaknesses of Aquila's operations. On July 26, 2006, after wrapping up a board of directors meeting in Colorado, the company and Great Plains Energy jointly submitted a formal indication of interest.

Over the next several months, Aquila and its investment bankers checked the financial condition of the potential bidders. They invited the Black Hills Corporation and Great Plains teams in for detailed management presentations and due diligence meetings. Finally, shortly before Christmas, Aquila's board gave Black Hills Corporation and Great Plains Energy a 30-day exclusive right to negotiate a deal. "It was a real interesting holiday period," said Emery and "it wrecked everyone’s Christmas."

Sacrifices aside, the work done over the last week of December and the early part of January led to an agreement. On February 7, the complicated three-way deal was announced. Under the agreement, Black Hills Corporation agreed to spend $940 million in cash to purchase Aquila's one regulated electric utility in Colorado along with four regulated gas utilities in Colorado,
Kansas, Nebraska and Iowa. Great Plains would then acquire the outstanding shares and the remaining assets of Aquila, including its electric utility business in Missouri through a merger.

At the time of the announcement, Black Hills Corporation projected that the transaction would add approximately 616,000 utility customers to the company’s base. The vast majority of these customers – 523,000 – were consumers of natural gas and another 93,000 were electric customers. The deal would transform Black Hills Corporation. After 125 years of focusing on the electric business, gas customers would account for the majority of the company’s retail business. But first, Great Plains and Aquila had to convince shareholders that the transaction offered them good value and persuade various state and federal regulators that the deal was in the best interest of customers.

WINNING THE APPROVALS FOR AQUILA
To complete the Aquila transaction, Black Hills Corporation, Great Plains and Aquila had to clear a number of financial and regulatory hurdles. Black Hills Corporation needed to raise cash to finance the nearly $1 billion deal. Shareholders from Aquila and Great Plains had to be convinced it was in their best interests to approve the transaction. State regulators in Missouri, Iowa, Nebraska, Colorado and Kansas, along with the commissioners of the Federal Energy Regulatory Commission, had to determine that the deal would be good for ratepayers. Meanwhile, federal antitrust officials had to agree that the sale would not undermine competition.

For Black Hills Corporation, the financial part of the plan moved forward quickly. Emery flew to New York from Kansas City on the day the deal was announced. He spent most of the next ten days working with Thies on a private stock placement. On February 22, Black Hills Corporation announced that these negotiations had resulted in the sale of approximately 4.17 million shares of common stock. Proceeds from the stock sale would be used to reduce the company’s debt prior to the Aquila transaction. In February, the company also arranged for a $1 billion financing through ABN AMRO Bank to provide short-term funding for the acquisition. Shareholders from Aquila and Great Plains overwhelmingly approved the three-party transaction in October 2007.

To win the support of state and federal regulators, Black Hills Corporation, Great Plains and Aquila began a massive effort in the spring of 2007. By April, the companies had filed applications in Missouri, Colorado, Kansas, Nebraska and Iowa. Altogether, Black Hills Corporation’s filings filled 50 banker boxes with paper. The company also filed for antitrust clearance from the Federal Trade Commission and received a green light in August.

A “Your Vote Counts” packet was sent to all Aquila shareholders. Aquila actively encouraged investors to approve the three-way transaction with Great Plains Energy and Black Hills Corporation.
Through the fall of 2007 state regulatory approvals came without major issues. After Black Hills Corporation negotiated an agreement with the Office of the Consumer Advocate in Iowa, the Iowa Utilities Board gave its blessing in September. In October, the Nebraska Public Service Commission okayed the transaction on behalf of Aquila’s 195,000 Nebraska customers. FERC approval came the following day. In Colorado and Kansas hearings were more protracted with various constituencies lobbying for concessions from Black Hills Corporation as a condition for approval. Finally, by the end of February 2008, the company received approvals from all the relevant regulators. Yet the deal still did not have a green light.

In Missouri, where Aquila traced its roots back to L.K. Green at the beginning of the 20th century, Great Plains still needed the approval of the state’s Public Service Commission. While Great Plains and consumer advocates in Missouri exchanged heated arguments in the early months of 2008, Black Hills Corporation moved forward on its own long-term strategies by expanding its energy marketing business and adding new power generation facilities.

EVALUATING THE NON-REGULATED ENERGY BUSINESSES

The proposed acquisition of Aquila offered the opportunity to expand Black Hills Corporation’s utility business by producing a larger and more profitable organization with a lower risk profile for shareholders. The opportunity to expand in the utility sector was not something that had been available in the 1990s when the company formulated its diversification strategy and expanded its non-regulated businesses. The deal forced senior management at the company to once again evaluate the performance of the non-regulated business streams and take a new look at how they fit into the company’s long-term strategy.

By 2007, Black Hills Corporation’s non-regulated energy group encompassed four basic arenas: power generation, coal mining, oil and gas, and energy marketing. The contribution these businesses made to overall corporate earnings was substantial. Two years earlier, they produced net income of $26.2 million compared to $20.1 million from the utilities unit. By 2007, their contribution to net income had risen to $74.4 million, compared to $31.6 million for the utilities.

By the summer of 2005, Enserco’s team of 24 professionals at the home office in Golden was led by Kurt Kittleson (seated) and (L to R) Amy Orr, Scott Sitter, Brian O’Shea, Tim Wickersham, John Washabaugh and Tori Campbell.

Expanded power generation accounted for a major portion of the company’s non-regulated activity. In the early years of the new century, Black Hills Corporation acquired plants in Colorado, New Mexico, Nevada and California. By 2005, the company’s independent power plants were capable of producing a 1,000 MW...
of power. In April 2007 the company announced that it had reached an agreement with the Public Service Company of New Mexico to build an additional 149 MW gas-turbine facility near Albuquerque under a 20-year tolling contract.

Fluctuations in fuel prices, especially for natural gas, sometimes affected earnings from the non-regulated power generation business. Meanwhile, the market for independent power production facilities was very strong. Given these factors, with the announcement of the Aquila deal, senior management began to look at selling some of these plants to finance the Aquila acquisition and to keep the company’s overall debt ratio relatively low.

As always, the Wyodak Mine was playing an important role in the company’s success. Challenges included increasing operating costs tied to higher labor and equipment costs. In addition, the company was now working areas where the coal seam was further underground and more dirt had to be removed to get to the coal. Fortunately, the demand for Wyodak coal showed no signs of abating.

Wyodak signed a new coal supply agreement with PacifiCorp in 2007 to supply additional coal to the Dave Johnston power plant in Wyoming, increasing the delivery from 1.2 to 1.8 million tons per year. Wyodak was also scheduled to begin supplying coal to Black Hills Corporation’s new power plant – Wygen II. Together, these increased demands would raise coal production in 2008 by nearly 1 million tons.

In the oil and gas sector, rising costs for capital and operations also impeded the growth and profitability of the business, but the business contributed a steady $12.7 million to net income in 2006 and 2007. With costs rising, the company cut back on its drilling operations in 2007, while continuing to develop proven fields in New Mexico and Wyoming.

In the early years of the new decade energy trading operations continued to provide a significant boost to Black Hills Corporation’s income. After the unusual year of 2001, which saw natural gas prices skyrocket to an average of $7 per MMBtu, prices fell in 2002 to $3. Energy marketing revenues from Enserco and Black Hills Energy Resources fell from a record $34.6 million in 2001 to $12.7 million in 2002. Even with the dollar drop, Enserco’s contribution to Black Hills Corporation’s overall earnings remained important.

Success created its own challenges. Shawn McLaughlin, one of the original partners, launched his own company and took several
key traders with him. Enserco had to rebuild its team. Fortunately, with the demise of Enron and the declines in the energy trading industry, there was tremendous talent available. Enserco recruited a number of individuals who had formerly worked for Enron or Aquila.

As Enserco’s new team went to work, the company took advantage of strong prices in the natural gas market to produce record earnings. By 2005, net income from energy marketing reached $13.8 million. The following year, it rose to $17.3 million. In 2007, when natural gas prices spiked, the company delivered a record-breaking $34.2 million to Black Hills Corporation’s bottom line.

While Enserco’s activity in the natural gas market produced significant returns, the company continued to find its way in the oil marketing business. In March 2006, the company sold its crude oil marketing and transportation business in Houston, Texas after executives at Black Hills Corporation decided that the company’s operations were too far removed geographically to provide a good strategic fit. Just two months later, Enserco launched a new Denver-based oil marketing operation as part of its producer

With energy independence and climate change driving the conversation in public policy in 2006, Black Hills Corporation looked for opportunities to add renewable energy to the power it supplied to customers. Given its High Plains locations in Wyoming and South Dakota, the company recognized the potential for wind to play an important part in the company’s energy development strategy.

In 2006 Black Hills Corporation helped make the Happy Jack Wind Farm in Laramie County, Wyoming a reality. Black Hills Power and Cheyenne Light, Fuel & Power agreed to buy all of the electricity produced by Happy Jack’s 14 turbines for the first 20 years of the facility’s operations. Developed by Tierra Energy, which was acquired by Duke Energy, Happy Jack’s turbines were capable of producing 30 MW of electricity. This was enough power to serve several thousand homes in the Cheyenne and Black Hills regions.

Happy Jack offered a significant opportunity to reduce the company’s projected consumption of coal. It was part of a larger corporate effort to invest in renewable energy projects. At the plant’s dedication in September 2008, David Emery joined leaders from Duke Energy and Wyoming Gov. Dave Fruedenthal at the podium. He emphasized wind’s importance as a complement to other energy sources, including coal and natural gas. He also made it clear that Black Hills Corporation was committed to the development of clean energy.
services business line. Since Enserco was already buying natural gas from numerous small producers in the Rocky Mountains and the West, expanding into the purchase of crude oil in the same region made good sense and could be done very effectively. Like many of Black Hills Corporation’s efforts in the non-regulated energy sector, this initiative aimed to provide an operational base in an energy market that was at the edge of Black Hills Corporation’s core business, but critical to the company’s understanding of the changes taking place in the marketplace. The new venture also proved successful and continued to expand.

**COMPLETION OF WYGEN II**

As management and employees at Black Hills Corporation and Aquila prepared for the integration of the two companies, Black Hills Corporation’s movement on its strategy to build additional generating capacity close to home took a critical step forward with the completion of the Wygen II power plant. Built to supply power primarily to one of the company’s newest utility subsidiaries – Cheyenne Light, Fuel & Power, the 95 MW coal-fired Wygen II plant cost $182 million by the time it began commercial operation on January 1, 2008.

The plant reflected the ongoing effort of industry leaders and regulators to address environmental concerns. The plant was among the first coal-fired power plants in the nation to include mercury emissions abatement equipment. With new technology it also reduced the amount of sulfur and nitrogen byproducts from the plant.

With the completion of Wygen II and the incorporation of the plant into Cheyenne Light’s rate base, Black Hills Corporation reached another milestone in its strategy to build power generating facilities serving long-term customers. With demand for electric power continuing to grow in Black Hills Power’s service territory, the company broke ground for another 100 MW coal-fired plant at Wyodak – Wygen III. By the spring of 2008, permitting for the plant was complete and the company began construction. Scheduled for completion in 2010, the plant was expected to meet Black Hills Power’s growing energy needs and burn another 600,000 tons of coal per year.

**PLANNING FOR INTEGRATION**

While Black Hills Corporation employees continued to develop energy resources, produce power and serve customers through the fall of 2007 and into the early months of 2008, the company also laid plans for the integration of Aquila businesses that would add about 1,250 employees to the organization. Senior
management worked on cultural integration and the development of new branding strategies to unite the companies from a customer’s point of view. To manage the demand of an expanded customer base, the company set up a new call center in Rapid City. In January, 34 new employees began training with nearly 40 more joining the team months later.

Meanwhile, the company’s systems personnel began planning to integrate the two companies’ customer information (CIS) and accounting systems. Early on they realized that Black Hills Corporation’s software and systems would not be able to absorb an additional 600,000 customers, so a strategy was devised to migrate Black Hills Corporation’s customers to the Aquila system, a process that was expected to take 12 to 18 months from the time of the completion of the deal. Business integration issues, from marketing to records management, absorbed enormous amounts of time and energy.

**IPP DIVESTITURE**

As the Aquila acquisition received approvals from shareholders and regulators, Black Hills Corporation recognized an opportunity to re-evaluate its overall strategy. The investments made in independent gas-fired power plants had provided important opportunities to enter new markets. Black Hills Corporation brought its competitive strengths to bear in the construction or completion of many of these plants. But as IPPs, these businesses were subject to greater market volatility. In the fall of 2007, Black Hills Corporation began to explore the idea of selling some of these assets. Proceeds from a sale would help finance a portion of the Aquila transaction.

In October 2007, Black Hills Corporation announced that Credit Suisse would oversee an auction of a portion of the company’s gas-fired power plants. With MDU having recently sold a number of IPP plants for nearly $600 million, Emery told analysts that he believed that Black Hills Corporation would get a good price for its plants.

Six months later, on April 30, 2008, the company announced that it had completed its auction process and had reached an agreement with affiliates of the Hastings Funds Management group and IIF BH Investment, LLC to sell seven gas-fired power plants for $840 million. The deal included the Fountain Valley plant in Colorado (240 MW), Las Vegas II (224 MW), Valencia (149 MW), Arapahoe (130 MW), Harbor Cogeneration (98 MW), Valmont (80 MW) and Las Vegas I (53 MW). Cash from this transaction would reduce Black Hills Corporation’s need to sell stock or borrow to finance the Aquila acquisition.
A New Potential Corporation’s need to borrow or sell stock to complete the Aquila acquisition.

Only one step remained to close the Aquila deal – securing the approval from the Missouri regulators for the Great Plains portion of the deal. For months Great Plains and staff from the Missouri Public Service Commission had wrangled over issues Great Plains believed were unrelated to the deal – particularly the construction program for the company’s subsidiary Kansas City Power and Light. Finally, on July 1, the three members of the Missouri Public Service Commission who had not recused themselves voted 2-1 to approve the transaction.

With all of the approvals for the Aquila deal in hand, Black Hills Corporation closed the sale of the independent power plants on Friday, July 11. Proceeds from the sale were applied to the Aquila purchase. Careful tax planning allowed the company to defer between $130 and $165 million in income taxes that would have been due on the gain on sale of the plants. This added cash made the cost of the Aquila purchase even easier on the company’s finances. That Friday David Emery flew to Kansas City to sign the Aquila closing documents with Richard Green.

Giving back to the community has always been a core value and a key strategy for Black Hills Corporation. After earning record profits in 2001, the Board of Directors created the Black Hills Corporation Foundation to ensure that the company’s investments in community and quality of life would continue despite the ups and downs of the regional economy and the energy industry.

To provide the initial corpus for the foundation, the Board of Directors authorized the transfer of 100,000 shares of the company’s common stock to the foundation. CEO Dan Landguth emphasized the company’s deep commitment to its customers and their communities in his announcement. “The roots of our corporate success lie deep within the Black Hills,” he said. “I am excited that the new foundation will enlarge our corporate commitment to community partnerships in the communities we serve and live in.”

Over time the foundation’s corpus has grown with additional contributions from the company. The foundation has provided grants to a variety of organizations and activities. Meanwhile, the company has continued to provide donations for community activities that build customer awareness and reinforce the company’s image as a good corporate citizen.

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of Aquila and Michael Chesser from Great Plains Energy. Meanwhile, back in Rapid City, employees at Black Hills Corporation who had been working for months to get ready for the acquisition went into high gear to prepare for Monday’s July 14 closing.

**DAY ONE**

While many families spent the weekend fishing, picnicking or doing yard work, many Aquila and Black Hills Corporation employees worked through the weekend of July 12 and 13. Network specialists prepared for the systems integration. Corporate communications prepared press releases and employee information packets to announce personnel changes related to the transaction and to prepare for the celebration. Finally, at 12:01 a.m. July 14, 2008 the two companies made the cutover and Black Hills Corporation began operating Aquila’s systems.

Day One began with a flurry of activity, even though it was midnight. Through the morning, the legal staff at the company’s headquarters in Rapid City checked to make sure that the wire transfers of cash were completed and all the final documents were filed with the appropriate entities. The last transmission at around 10 a.m. went to the state of Delaware where Aquila was incorporated. This last filing formally terminated Aquila as an active corporation. With this last step, Black Hills Corporation had completed the two biggest deals in its history on consecutive business days.

At lunchtime, employees, family, retirees, and business and community leaders gathered in the lobby of the headquarters to celebrate. Similar celebrations occurred in nearly every Black Hills Corporation and acquired Aquila location. People wore t-shirts highlighting the company’s long-held, but newly articulated corporate values. As participants in Rapid City finished their meals, many joined the news reporters, drum group and friends of the company who were gathered in the shade in front of the building.

As the hour of one o’clock approached, David Emery stood on a small platform erected at the entrance to the company’s headquarters. His chiseled face reflected his Lakota heritage. His suit and serious demeanor did not hide his obvious excitement. He congratulated employees on their efforts, and unveiled a painting commissioned for the occasion by Nebraska artist Jim Whartman. It depicts an eagle (the meaning of *aquila* in Latin) soaring above the Needles in the Black Hills. Finally, with the lieutenant governor of South Dakota and the mayor of Rapid City standing on either side of him, Emery counted down with the crowd. At one, Emery and the audience donned caps to mark the “One @ One” integration.

“At this moment,” Emery said, “we are one company.”

The acquired Aquila companies became part of a new subsidiary — Black Hills Energy. With the acquisition, and after 125 years of service to the Black Hills region, Black Hills Corporation had become a major gas and electric utility with a large regional Midwest footprint. For the company, its employees and its shareholders the future would be shaped by the changing dynamics of the marketplace. The values and traditions of the people and the organization, however, would determine the ways in which the company would respond to emerging threats and opportunities in the years ahead.
Well-wishers donned hats for Day One festivities along with SD Lt. Gov. Dennis Daugaard, CEO David Emery and Rapid City Mayor Alan Hanks.