

Natural Gas and America's Electricity Future

IPAMS Mid-Year Energy Outlook
Natural Gas Bridge to a Carbon-Constrained Future

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Black Hills Corporation

An integrated and diversified energy company – Fuel, Generation & Utilities

Utilities



Gas Utilities

- Iowa Gas
- Colorado Gas
- Kansas Gas
- Nebraska Gas



Electric Utilities

- Black Hills Power
- Cheyenne Light*
- Colorado Electric

Non-Regulated Energy



Coal

- Wyodak Resources



Energy Marketing

- Enserco Energy



Oil & Gas

- Black Hills Exploration & Production



Power Generation

- Black Hills Electric Generation

- Balanced asset mix: approximately 2/3 regulated utility and 1/3 non-regulated energy
- Strong cash flows, solid balance sheet, and demonstrated access to capital markets
- Stronger overall corporate risk and credit profile
- Current capital structure of approximately 48% total debt to total capitalization

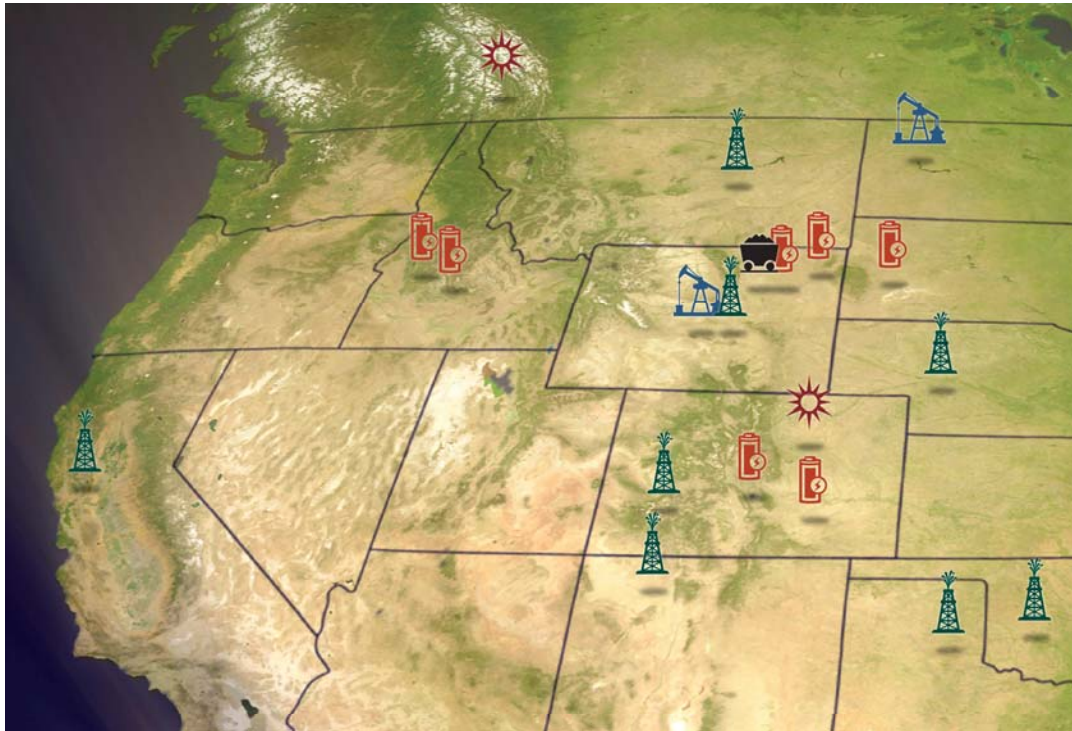
* Supplies electric and gas utility service to Cheyenne, Wyoming and vicinity

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Non-Regulated Energy Business

Our Non-regulated energy group, which operates through various subsidiaries, produces and sells electric capacity and energy through ownership of a diversified portfolio of generating plants; produces coal, natural gas and crude oil primarily in the Rocky Mountain region; and markets and stores natural gas and crude oil. The Non-regulated Energy Group consists of four business segments for reporting purposes: Oil and Gas; Power Generation; Coal Mining; and Energy Marketing.

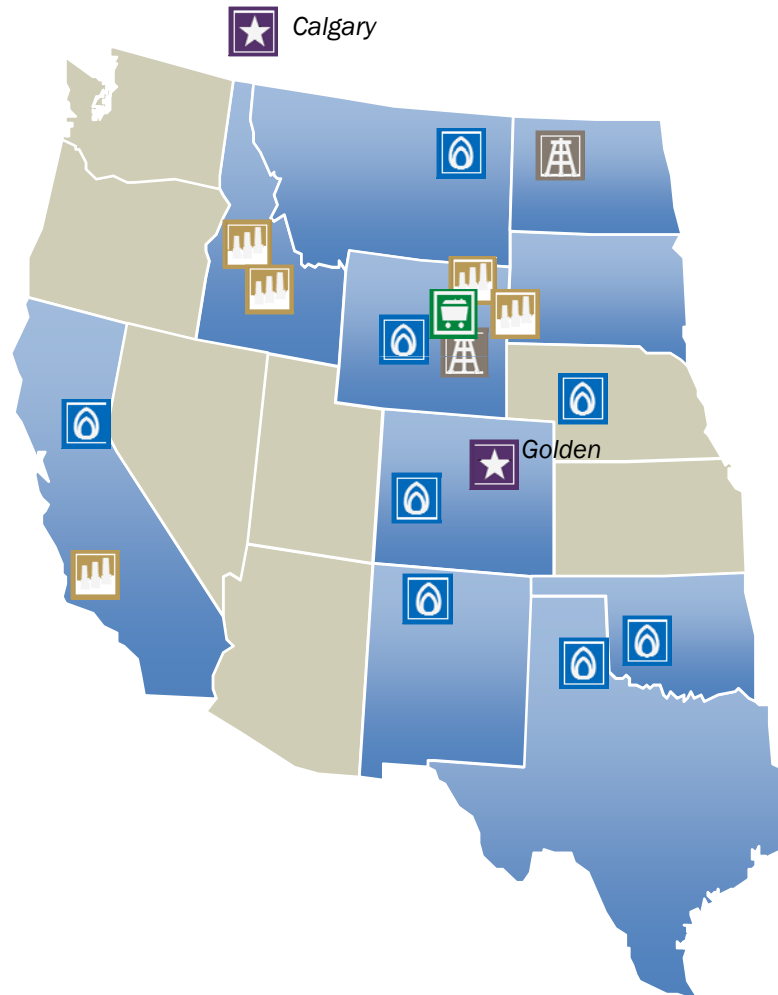


- 141 MW of power generation capacity.
- 185.5 Bcfe reserves at year-end 2008, with natural gas comprising 83% and crude oil comprising 17% of the total.
- The majority of our reserves are located in select oil and natural gas producing basins in the Rocky Mountain region.
- 274 million tons of coal reserves at year-end 2008 – a 42 year supply at expected production rates.

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Non-Regulated Energy Businesses



Operation Summary *

- Doing business in 10 states and Calgary, Alberta, Canada
- Oil and gas wells in Powder River Basin, Piceance Basin and San Juan Basin
- 186 Bcfe reserves – 83% natural gas & 17% oil
- 141 MW IPP capacity
- Approximately 274 million tons of low-sulfur Powder River Basin coal for low-cost, mine-mouth electricity generation
- Energy marketing has been a profitable business every year since inception

-  Power generation
-  Gas production
-  Oil production
-  Coal mine
-  Energy marketing

* Information as of 12/31/2008

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Political Drivers of Energy Policy

- Green economy/jobs
- Global climate change concerns
- Changing of the guard in Washington
- World leadership role
- Energy prices

Politics Favors More Natural Gas Generation



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Current Trends

- Renewable Electricity Standard (RES)
- Demand Side Management (DSM)
- Energy efficiency
- Decoupling
- Building standards
- Greenhouse gas regulations

Colorado

- RPS – 20% by 2020
- Demand reduction 5% by 2017
- Electricity Resource Planning
- Creation of Transmission Authority
- Mix of rate-based opportunities along with Requests For Proposals
- Governor Ritter's executive order

Waxman Markey Key Provisions

- Renewable Electricity Standard 20% by 2020 (up to 5% for efficiency)
- Greenhouse gas cap
 - 3% below 2005 levels by 2012
 - 17% below 2005 levels by 2020
 - 42% below 2005 levels by 2030
 - 83% below 2005 levels by 2050
- CO₂ allowances phase out by 2030
- Energy efficiency provisions

Potential Solutions & Challenges

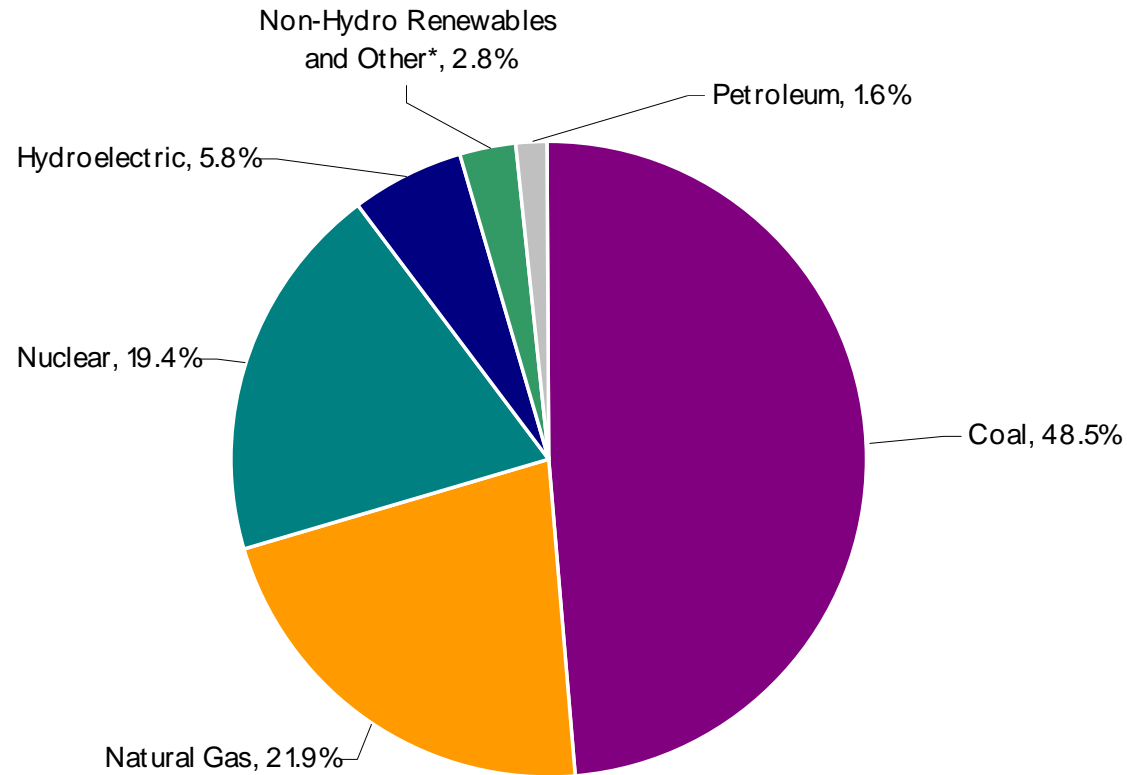
- Carbon capture & sequestration
- Nuclear power
- Transmission
- Renewable generation
- Energy efficiency
- Natural gas generation
- Power plant retirements
- Agricultural offsets

Time Horizons

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U.S. Electricity Portfolio



**Non-Hydro Renewables and Other* includes generation from solar, wind, geothermal, biomass (agricultural waste, municipal solid waste, landfill gas recovery, wood, pitch), hydrogen, batteries, chemicals, non-wood waste, purchased steam, sulfur and miscellaneous technologies.

Source: U.S. Department of Energy, Energy Information Administration, Power Plant Report (EIA-920), Combined Heat and Power Plant Report (EIA-920), Electric Power Monthly (2007 Preliminary), and Electric Power Annual 2007.

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Remaking America

What does 83% reduction in CO₂ really mean?

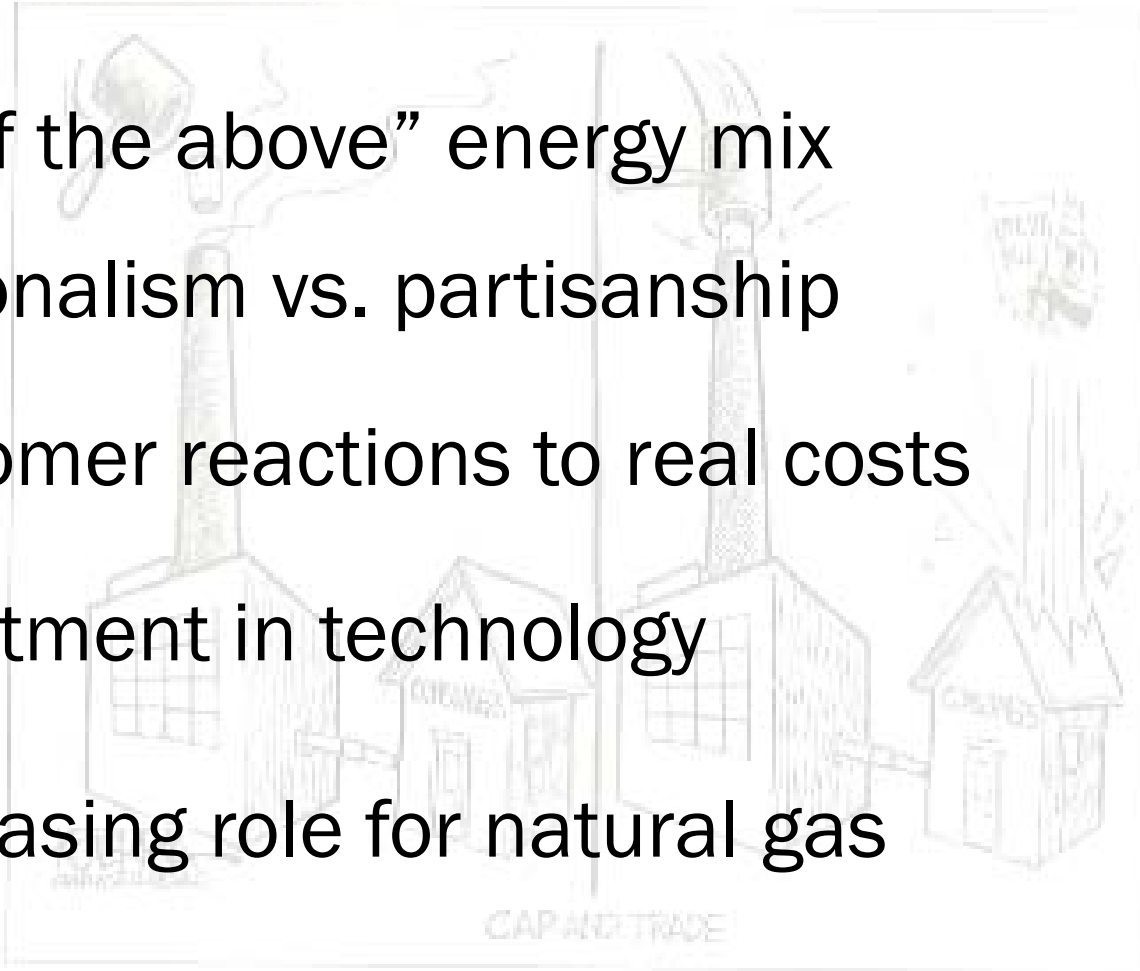
“Everything must change”

Natural Gas Outlook

- Coal generation limited
- Natural gas built and proven
- Price volatility
- Price sensitivity

Conclusion

- “All of the above” energy mix
- Regionalism vs. partisanship
- Customer reactions to real costs
- Investment in technology
- Increasing role for natural gas



Cartoon source: KOTERBA Omaha World Herald
As it appeared in the Rapid City Journal 6/13,2009

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