

BLACK HILLS CORP /SD/
Form DEF 14A
March 14, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
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Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Materials under §240.14a-12

Black Hills Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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BLACK HILLS CORPORATION

Notice of 2013
Annual Meeting of Shareholders
and Proxy Statement

BLACK HILLS CORPORATION

625 Ninth Street
Rapid City, South Dakota 57701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 23, 2013

March 14, 2013

Dear Shareholder:

You are invited to attend the annual meeting of shareholders of Black Hills Corporation to be held on Tuesday, April 23, 2013 at 9:30 a.m., local time, at the Dahl Arts Center, 713 Seventh Street, Rapid City, South Dakota. The purpose of our annual meeting is to consider and take action on the following:

1. Election of three directors in Class I: Jack W. Eugster, Gary L. Pechota and Thomas J. Zeller.
2. Ratification of Deloitte & Touche LLP to serve as our independent registered public accounting firm for 2013.
3. Adoption of an advisory, non-binding resolution to approve our executive compensation.
4. Any other business that properly comes before the annual meeting.

The enclosed proxy statement discusses these important matters to be considered at this year's meeting. Our common shareholders of record as of March 5, 2013 can vote at the annual meeting.

Your vote is very important. You may vote your shares by telephone, by the Internet or by returning the enclosed proxy. If you own shares of common stock other than the shares shown on the enclosed proxy, you will receive a proxy in a separate envelope for each such holding. Please vote each proxy received. To make sure that your vote is counted if voting by mail, you should allow enough time for the postal service to deliver your proxy before the meeting.

Sincerely,
ROXANN R. BASHAM
Vice President – Governance and Corporate Secretary

BLACK HILLS CORPORATION

625 Ninth Street
Rapid City, South Dakota 57701

PROXY STATEMENT

A proxy in the accompanying form is solicited by the Board of Directors of Black Hills Corporation, a South Dakota corporation, to be voted at the annual meeting of our shareholders to be held Tuesday, April 23, 2013, and at any adjournment of the annual meeting.

The enclosed form of proxy, when executed and returned, will be voted as set forth in the proxy. Any shareholder signing a proxy has the power to revoke the proxy in writing, addressed to our secretary, or in person at the meeting at any time before the proxy is exercised.

We will bear all costs of the solicitation. In addition to solicitation by mail, our officers and employees may solicit proxies by telephone, fax, or in person. We have retained Georgeson Inc. to assist us in the solicitation of proxies at an anticipated cost of \$7,500, plus out-of-pocket expenses. Also, we will, upon request, reimburse brokers or other persons holding stock in their names or in the names of their nominees for reasonable expenses in forwarding proxies and proxy materials to the beneficial owners of stock.

This proxy statement and the accompanying form of proxy are to be first mailed on or about March 14, 2013. Our 2012 annual report to shareholders is being mailed to shareholders with this proxy statement.

VOTING RIGHTS AND PRINCIPAL HOLDERS

Only our shareholders of record at the close of business on March 5, 2013 are entitled to vote at the meeting. Our outstanding voting stock as of the record date consisted of 44,426,907 shares of our common stock.

Each outstanding share of our common stock is entitled to one vote. Cumulative voting is permitted in the election of our Board of Directors. Each share is entitled to three votes, one each for the election of three directors, and the three votes may be cast for a single person or may be distributed among two or three persons.

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COMMONLY ASKED QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING PROCESS

Who is soliciting my proxy?

The Board of Directors of Black Hills Corporation is soliciting your proxy.

Where and when is the annual meeting?

The annual meeting is at 9:30 a.m., local time, April 23, 2013 at the Dahl Arts Center, 713 Seventh Street, Rapid City, South Dakota.

What am I voting on?

You are voting on:

• Election of three directors in Class I: Jack W. Eugster, Gary L. Pechota and Thomas J. Zeller;
• Ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2013; and
• Adoption of an advisory, non-binding resolution to approve our executive compensation.

Who can vote?

Holders of our common stock as of the close of business on the record date, March 5, 2013, can vote at our annual meeting. Each share of our common stock has one vote for Items 2 and 3. Cumulative voting is permitted in the election of directors. Each share is entitled to three votes for the election of directors, one each for the election of three directors, and the three votes may be cast for a single person or may be distributed among two or three persons.

How do I vote?

There are three ways to vote by proxy:

- by calling the toll free telephone number on the enclosed proxy;
 - by using the Internet; or
- by returning the enclosed proxy in the envelope provided.

You may be able to vote by telephone or the Internet if your shares are held in the name of a bank or broker. If this is the case, you will need to follow their instructions.

If we receive your signed proxy before the annual meeting, we will vote your shares as you direct. You can specify on your proxy whether your shares should be voted for all, some or none of the nominees for director. You can also specify whether you approve, disapprove or abstain from the other proposals.

If you do not mark any sections, your proxy card will be voted:

- in favor of the election of the directors named in Proposal 1; and
- in favor of Proposals 2 and 3.

Who will count the vote?

Representatives of our transfer agent, Wells Fargo Bank, N.A., will count the votes and serve as judges of the election.

What constitutes a quorum?

Shareholders representing at least 50 percent of our common stock issued and outstanding as of the record date must be present at the annual meeting, either in person or by proxy, for there to be a quorum. Abstentions and broker non-votes are counted as present for establishing a quorum. A broker non-vote occurs when a broker or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker or nominee does not have discretionary voting power and has not received instructions from the beneficial owner.

What vote is needed for these proposals to be adopted?

Item 1 – Election of Directors. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. This means that the three nominees with the largest number of votes “For” will be elected as directors. A properly executed proxy marked “Withhold authority” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether a quorum is present.

Item 2 – Ratification of Auditors. The appointment of Deloitte & Touche LLP as our independent registered public accounting firm for 2013 will be ratified if the votes cast “For” exceed the votes cast “Against.” Abstentions will have no effect on such vote.

Item 3 – Adoption of an Advisory Non-Binding Resolution to Approve Executive Compensation. The advisory resolution to approve executive compensation (“say on pay”) is non-binding. However, our Board of Directors will consider shareholders to have approved our executive compensation if the number of votes cast “For” the proposal exceeds the number of votes cast “Against” the proposal. Abstentions and broker non-votes will have no effect on such vote.

How will my shares be voted if they are held in a broker’s name?

If you hold your shares through an account with a bank or broker, the bank or broker may vote your shares on some matters even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on certain matters (such as the ratification of auditors) when their customers do not provide voting instructions. However, on most other matters when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a “broker non-vote” occurs. This means that brokers may not vote your shares on the election of directors and the “say on pay” advisory vote if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

Is cumulative voting permitted for the election of directors?

In the election of directors, you may cumulate your vote. Cumulative voting allows you to allocate among the director nominees, as you see fit, the total number of votes equal to the number of director positions to be filled multiplied by the number of shares you hold. For example, if you own 100 shares of stock, and there are three directors to be elected at the annual meeting, you could allocate 300 “For” votes (three times 100) among as few or as many of the three nominees to be voted on at the annual meeting as you choose.

If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the annual meeting. If you hold shares beneficially in street name and wish to cumulate votes, you should contact your broker, trustee or nominee.

What should I do now?

You should vote your shares by telephone, by the Internet or by returning your signed and dated proxy card in the enclosed envelope as soon as possible so that your shares will be represented at the annual meeting.

Who conducts the proxy solicitation and how much will it cost?

We are asking for your proxy for the annual meeting and will pay all the costs of asking for shareholder proxies. We have hired Georgeson Inc. to help us send out the proxy materials and ask for proxies. Georgeson Inc.'s fee for these services is anticipated to be \$7,500, plus out-of-pocket expenses. We can ask for proxies through the mail or by telephone, fax, or in person. We can use our directors, officers and employees to ask for proxies. These people do not receive additional compensation for these services. We will reimburse brokers and other custodians, nominees and fiduciaries for their reasonable out-of-pocket expenses for forwarding solicitation material to the beneficial owners of our common stock.

Can I revoke my proxy?

Yes. You can change your vote in one of four ways at any time before your proxy is used. First, you can enter a new vote by telephone or Internet. Second, you can revoke your proxy by written notice. Third, you can send a later dated proxy changing your vote. Fourth, you can attend the meeting and vote in person.

Who should I call with questions?

If you have questions about the annual meeting, you should call Roxann R. Basham, Vice President – Governance and Corporate Secretary, at (605) 721-1700.

When are the shareholder proposals due for the 2014 annual meeting?

In order to be considered for inclusion in our proxy materials, you must submit proposals for next year's annual meeting in writing to our Corporate Secretary at our executive offices at 625 Ninth Street, Rapid City, South Dakota 57701, on or prior to November 14, 2013.

A shareholder who intends to submit a proposal for consideration, but not for inclusion in our proxy materials, must provide written notice to our Corporate Secretary in accordance with Article I, Section 9 of our Bylaws. In general, our Bylaws provide that the written notice must be delivered not less than 90 days nor more than 120 days prior to the first anniversary date of the immediately preceding annual meeting of shareholders. Our 2013 annual meeting is scheduled for April 23, 2013. Ninety days prior to the first anniversary of this date will be January 23, 2014, and 120 days prior to the first anniversary of this date will be December 24, 2013.

Proposal 1

ELECTION OF DIRECTORS

In accordance with our Bylaws and Article VI of our Articles of Incorporation, members of our Board of Directors are elected to three classes of staggered terms consisting of three years each. At this annual meeting of our shareholders, three directors will be elected to Class I of the Board of Directors to hold office for a term of three years until our annual meeting of shareholders in 2016, and until their respective successors shall be duly elected and qualified in accordance with our Bylaws.

Nominees for director at the annual meeting are Jack W. Eugster, Gary L. Pechota and Thomas J. Zeller. All nominees are presently members of our Board of Directors. The proxies will vote your stock for the election of the three nominees for director, unless otherwise instructed. If, at the time of the meeting, any of such nominees are unable to serve in the capacity for which they are nominated or will not serve, events which the Board of Directors does not anticipate, it is the intention of the persons designated as proxies to vote, in their discretion, for such nominees as the Governance Committee may recommend and the Board of Directors may propose to replace those who are unable to serve. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of the nominees to the Board of Directors. This means that the three nominees with the largest number of votes "For" will be elected as directors. A properly executed proxy marked "Withhold authority" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether a quorum is present.

In the election of directors, you may cumulate your vote. Cumulative voting allows you to allocate among the director nominees, as you see fit, the total number of votes equal to the number of director positions to be filled multiplied by the number of shares you hold. For example, if you own 100 shares of stock, and there are three directors to be elected at the annual meeting, you could allocate 300 "For" votes (three times 100) among as few or as many of the three nominees to be voted on at the annual meeting as you choose.

If you choose to cumulate your votes, you will need to submit a proxy card or a ballot and make an explicit statement of your intent to cumulate your votes, either by indicating in writing on the proxy card or by indicating in writing on your ballot when voting at the annual meeting. If you hold shares beneficially in street name and wish to cumulate votes, you should contact your broker, trustee or nominee.

We have a majority voting policy, whereby any nominee for election as a director who receives a greater number of votes "withheld" from his or her election than votes "For" his or her election will promptly tender his or her resignation as a director to the chairman of the Board following certification of the election results. The Board will then consider accepting or rejecting the tendered resignation. The Board's decision and rationale for the decision will be publicly disclosed in a Form 8-K filing with the SEC.

The following information, including principal occupation or employment for the past five or more years and a summary of each individual's experience, qualifications, attributes or skills that have led to the conclusion that each individual should serve as a director in light of our current business and structure, is furnished with respect to each nominee and each of the continuing members of the Board of Directors.

The Board of Directors recommends a vote FOR the election of the following nominees:

Class I – Nominees for Election until 2016 Annual Meeting

Jack W. Eugster, 67, has been a director of the Company since 2004.

Retired. Former Chairman, Chief Executive Officer and President of Musicland Stores, Inc., a retail music and home video company, from 1980 until his retirement in 2001. Currently Director of Graco Inc. since 2004 and Life Time Fitness, Inc. since 2009. Previously Director of Donaldson Co., Inc. from 1993 to 2012, Golf Galaxy, Inc. from 2000 to 2007 and Director of Shopko Stores, Inc. from 1991 to 2005, serving as Non-Executive Chairman from 2001 to 2005.

Mr. Eugster has been a director of several other public company and non-profit boards in addition to those identified above. He has experience as chairman and chief executive officer of a high-growth public company and other extensive experience on public company boards, including 11 years of service on the board of another regulated utility. His past experience lends special expertise relating to acquisitions, divestitures and finance. Mr. Eugster provides in-depth business, financial and strategic acumen that strengthens our Board's collective qualifications, skills and experience and enables him to be an effective Compensation Committee Chairman.

Gary L. Pechota, 63, has been a director of the Company since 2007.

President and Chief Executive Officer of DT-TRAK Consulting, Inc., a medical billing services company, since 2007. Retired from 2005 to 2007. Former Chief of Staff of the National Indian Gaming Commission from 2003 to 2005. Previously held executive positions in the cement industry, including serving as chief executive officer of a publicly traded company, and positions in finance and accounting. Currently Director of Insteel Industries, Inc. since 1998. Previously Director of Texas Industries, Inc. from 2009 to 2012.

Mr. Pechota's background in finance and accounting provides the necessary expertise to serve on our Audit Committee. As an enrolled member of the Rosebud Sioux Tribe, Mr. Pechota supports our Company's interest in promoting diverse perspectives, as well as expertise relating to our business interests on tribal lands. In addition, his experience as an executive leader at several companies, his public company board experience, and his knowledge of mining and extracting minerals and the associated environmental issues strengthens our Board's collective qualifications, skills and experiences.

Thomas J. Zeller, 65, has been a director of the Company since 1997.

Retired. Former Chief Executive Officer of RESPEC, a technical consulting and services firm with expertise in engineering, information technologies, and water and natural resources specializing in emerging environmental protection protocols, from January 2011 to August 2011 and served as President from 1995 to January 2011.

Mr. Zeller is currently Presiding Director of our Board of Directors and is a Past Chairman of our Audit Committee. His industry experience at RESPEC relates to many of our Company's activities concerning technology, engineering and environmental matters. This expertise, in addition to his experience as an executive leader, provides valuable knowledge to our Board and strengthens its collective qualifications, skills and experiences relating to technical aspects of our Company operations and contract relationships.

Class II – Directors with Terms Expiring at 2014 Annual Meeting

David R. Emery, 50, has been a director of the Company since 2004.

Chairman, President and Chief Executive Officer of Black Hills Corporation since 2005. Formerly held various positions with Black Hills Corporation, including President and Chief Executive Officer, President and Chief Operating Officer – Retail Business Segment and Vice President – Fuel Resources. Mr. Emery has 23 years of experience with Black Hills Corporation. Prior to joining us, he served as a petroleum engineer for a large independent oil and gas company.

Mr. Emery is our only employee currently on our Board. With over 20 years of experience at our Company, he has a deep knowledge and understanding of each of our business units and related industries. As an enrolled member of the Cheyenne River Sioux Tribe, Mr. Emery supports our Company's interest in promoting diverse perspectives. He has demonstrated leadership abilities serving as our Chairman, President and Chief Executive Officer since 2005. His strategic, operational and industry knowledge and expertise provide the basis for critical leadership on the Board.

Rebecca B. Roberts, 60, has been a director of the Company since 2011.

Retired. Former President of Chevron Pipe Line Company, a pipeline company transporting crude oil, refined petroleum products, liquefied petroleum gas, natural gas and chemicals within the United States, from 2006 to

February 2011. President of Chevron Global Power Generation from 2003 to 2006. Currently Director of Enbridge Energy Company, Inc. and Enbridge Energy Management, LLC since July 2012. Previously a Director of Dynegy, Inc. serving as Chevron's representative from March 2006 to April 2007.

Ms. Roberts has 37 years of experience in the energy industry. Her industry experience includes managing pipelines in North America and global pipeline projects; managing a portfolio of power plants in the United States, Asia and the Middle East, and work as a vice president, chemist, scientist and trader in the oil and gas sectors. Her diversified energy industry experience and prior service on a public company board provide in-depth business and strategic acumen and diversity that strengthens our Board's collective qualifications, skills and experiences.

Warren L. Robinson, 62, has been a director of the Company since 2007.

Retired. Former Executive Vice President, Treasurer and Chief Financial Officer of MDU Resources Group, Inc., a diversified energy and resources company, from 1992 to January 2006.

Mr. Robinson has 29 years of experience in the utility industry, 18 of those years with MDU Resources Group. His industry experience at MDU included regulated utility finance and operations and oil and gas exploration and production, two critical business segments for our Company. Mr. Robinson's service as a chief executive for accounting and finance activities relating to our industries provides the necessary financial reporting expertise to serve as Chairman of our Audit Committee. His experience as an executive financial leader at a publicly traded energy company provides our Board with knowledge and understanding of the regulated business model and unique challenges of the geographic and regulatory environment in which we operate.

John B. Vering, 63, has been a director of the Company since 2005.

Managing Director of Lone Mountain Investments, Inc., oil and gas investments, since 2002. Partner in Vering Feed Yards LLC, a privately owned agricultural company, since 2010. Served as Interim President and General Manager of Black Hills Exploration and Production, Inc., our oil and gas subsidiary, from May 2010 to December 2011, pursuant to a consulting agreement, leading a strategic review of our oil and gas assets. Previously held several executive positions in the oil and gas industry.

Mr. Vering has over 30 years of experience, including executive leadership, in the oil and gas industry. He served for 23 years with Union Pacific Resources Company in several positions, including Vice President of Canadian Operations. He has direct operating experience in oil and gas transportation, marketing, and exploration and production, important business segments for our Company. His knowledge and understanding of the trans-national oil and gas business and his executive leadership experience strengthens our Board's collective qualifications, skills and experiences.

Class III – Directors with Terms Expiring at 2015 Annual Meeting

Michael H. Madison, 64, has been a director since May 2012.

Retired. Former President and Chief Executive Officer and a Director of Cleco Corporation, a public utility holding company, from 2005 to 2011, and President and Chief Operating Officer of Cleco Power, LLC, from 2003 to 2005. He was state president, Louisiana-Arkansas with American Electric Power, from 2000 to 2003.

Mr. Madison has more than 40 years of utility industry experience in various positions of increasing responsibility including president, director, vice president of operations and engineering, vice president of engineering and production and vice president of corporate services. His knowledge of all aspects of the electric utility business, combined with his position as president and chief executive officer of a public company make him a valuable member of our Board of Directors with the necessary expertise to serve on our Audit Committee.

Steven R. Mills, 57, has been a director of the Company since 2011.

Chief Financial Officer of Amyris, Inc., an integrated renewable products company, since May 2012. Former Senior Executive Vice President, Performance and Growth of Archer Daniels Midland Company, a processor, transporter, buyer and marketer of agricultural products from 2010 to February 2012, Executive Vice President and Chief

Financial Officer from 2008 to 2010, and Senior Vice President Strategic Planning from 2006 to 2008.

Mr. Mills has more than 35 years of experience in the fields of accounting, corporate finance, strategic planning, and mergers and acquisitions. His background in finance and accounting provides the necessary expertise to serve on our Audit Committee and provides financial and strategic acumen to strengthen our Board's collective qualifications, skills and experience.

Stephen D. Newlin, 60, has been a director of the Company since 2004.

Chairman, President and Chief Executive Officer of PolyOne Corporation, a global provider of specialized polymer materials, services and solutions, since 2006. Former President, Industrial Sector, Ecolab, Inc., a global leader of services, specialty chemicals and equipment serving industrial and institutional clients, from 2003 to 2006. Served as President and a Director of Nalco Chemical Company, a manufacturer of specialty chemicals, services and systems, from 1998 to 2001 and Chief Operating Officer and Chairman from 2000 to 2001. Director of OshKosh Corporation since January 2013 and formerly Director of Valspar Corporation from 2007 to February 2012.

Mr. Newlin has been a director of several other public company and non-profit boards in addition to those identified above. He has industry experience in chemicals, water treatment, power generation, mining, energy, petro-chemical and polymer compounds. Mr. Newlin's experience as an active chairman and chief executive officer of a public company and experience on other public company boards provides an in-depth business, financial and strategic acumen that strengthens our Board's collective qualifications, skills and experience and enables him to be an effective Governance Committee Chairman.

CORPORATE GOVERNANCE

Corporate Governance Guidelines. Our Board of Directors has adopted corporate governance guidelines titled "Corporate Governance Guidelines of the Board of Directors," which guide the operation of our Board and assist the Board in fulfilling its obligations to shareholders and other constituencies. The guidelines lay the foundation for the Board's responsibilities, operations, leadership, organization and committee matters. The Governance Committee reviews the guidelines annually, and the guidelines may be amended at any time, upon recommendation by the Governance Committee and approval of the Board. These guidelines can be found in the "Governance" section of our website (www.blackhillscorp.com/corpgov.htm).

Board Independence. In accordance with New York Stock Exchange rules, the Board of Directors through its Governance Committee affirmatively determines the independence of each director and director nominee in accordance with guidelines it has adopted, which include all elements of independence set forth in the New York Stock Exchange listing standards. These guidelines are contained in our Policy for Director Independence, which can be found in the "Governance" section of our website (www.blackhillscorp.com/corpgov.htm). Based on these standards, the Governance Committee determined that each of the following non-employee directors is independent and has no relationship with us, except as a director and shareholder:

Jack W. Eugster	Michael H. Madison	Rebecca B. Roberts
Stephen D. Newlin	Gary L. Pechota	Thomas J. Zeller
Warren L. Robinson	Steven R. Mills	

In addition, based on such standards, the Governance Committee determined that Messrs. Emery and Vering are not independent. Mr. Emery is not independent because he is our Chairman, President and Chief Executive Officer ("CEO"). Mr. Vering is not independent because he served as Interim President and General Manager of our oil and gas subsidiary during a portion of 2010 and 2011.

Board Leadership Structure. As noted above, our Board is currently comprised of ten directors, eight of whom are independent. Mr. Emery has served as our Chairman of the Board and CEO since 2005 and has been a member of our Board since 2004. Mr. Emery provides strategic, operational, and technical expertise and context for the matters considered by our Board. After considering alternative board leadership structures, our Board chose to retain the ability to balance an independent Board structure with the designation of a Presiding Director and to appoint as Chairman a CEO-Director with knowledge of and experience in the operations of our Company. At this time, our

Board believes that having a single person serve as Chairman and CEO provides unified and responsible leadership for our Company and in conjunction with the Presiding Director provides the proper balance to ensure the Board receives the information, experience and direction it needs to effectively govern.

Our Board has and continues to value a high degree of Board independence. As a result, our corporate governance structure and practices promote a strong, independent Board and include several independent oversight mechanisms. Only independent directors serve on our Audit, Compensation and Governance Committees. Our Board believes these practices ensure that experienced and independent directors will continue to effectively oversee management and critical issues related to financial and operating plans, long-range strategic issues, enterprise risk and corporate integrity. All of our Board committees may seek legal, financial or other expert advice from a source independent of management.

Our Board annually appoints an independent Presiding Director. Thomas J. Zeller is our current Presiding Director and has served in this role since May 2010. The responsibilities of Presiding Director, as provided in the Board's Governance Guidelines, are to chair executive sessions of the independent directors and communicate the Board's annual evaluation of the CEO. The Presiding Director, together with the independent directors, establishes the agenda for executive sessions, which are held at each regular Board meeting. The Presiding Director serves as a liaison between the independent members of the Board and the CEO and discusses, to the extent appropriate, matters raised by the independent directors in executive session. The Presiding Director also consults with the Chairman regarding meeting agendas and presides over regular meetings of the Board in the absence of the Chairman. This leadership structure provides consistent and effective oversight of our management and our Company.

Risk Oversight. Our Board oversees an enterprise approach to risk management that supports our operational and strategic objectives. The Corporate Governance Guidelines of our Board of Directors provide that the Board will review major risks facing our Company and the options for risk mitigation presented by management. Our Board delegates oversight of certain risk considerations to its committees within each of their respective areas of responsibility; however, the full Board monitors risk relating to strategic planning and execution, as well as executive succession. Financial risk oversight falls within the purview of our Audit Committee. Our Compensation Committee oversees compensation and benefit plan risks. Each committee reports to the full Board.

Our Board reviews any material changes in our key enterprise risk management issues with management at each quarterly Board meeting in conjunction with the presentation of quarterly financial results. In so doing, our Board seeks to ensure appropriate risk mitigation strategies are implemented by management on an ongoing basis. Operational and strategic plan presentations by management to our Board include consideration of the challenges and risks to our business. Our Board and management actively engage in discussions of these topics and utilize outside consultants as needed. Our Board oversees the assessment of our strategic plan risks as part of our strategic planning process. In addition, our Board periodically receives safety performance, environmental, legal and compliance reports.

Our Audit Committee oversees management's strategy and performance relative to our significant financial risks. In consultation with management, the independent auditors and the internal auditors, the Audit Committee discusses our risk assessment, risk management and credit policies and reviews significant financial risk exposures along with steps management has taken to monitor, mitigate and report such exposures. At least twice a year, our Chief Risk Officer provides a Risk and Credit Report to the Audit Committee. We adopted a Credit Policy that establishes guidelines, controls and limits to manage and mitigate credit risk within established risk tolerances.

Our Compensation Committee adopted an executive compensation philosophy that provides the foundation for our executive compensation program. The executive compensation philosophy states that the executive pay program should be market-based and maintain an appropriate and competitive balance between fixed and variable pay elements, short- and long-term compensation and cash and stock-based compensation. The Compensation Committee establishes company-specific performance goals with potential incentive payouts for our executive officers to motivate and reward performance, consistent with our long-term success. The target compensation for our senior officers is heavily weighted in favor of long-term incentives, aligning performance incentives with long-term results for our shareholders. Our Compensation Committee also sets minimum performance thresholds and maximum payouts in the incentive programs and maintains the discretion to reduce awards if excessive risk is taken. Stock ownership guidelines established for all of our officers require our executives to hold 100 percent of all shares awarded to them (net of share withholding for taxes and, in the case of cashless stock option exercises, net of the exercise price and withholding for taxes) until the established stock ownership guidelines are achieved. Our Compensation Committee also instituted "claw-back" provisions in our incentive plans, which may require an executive to return incentives received, if the Compensation Committee determines, in its discretion, that the executive engaged

in specified misconduct or wrongdoing or in the event of certain financial restatements.

Our management is responsible for day-to-day risk management and operates under an enterprise risk management (ERM) program that addresses strategic, operational and financial risks. The ERM program includes practices to identify risks, assesses the impact and probability of occurrence, and develops action plans to prevent the occurrence or mitigate the impact of the risk. The ERM program includes regular reporting to our senior management team and includes monitoring and testing by Risk Management, Compliance and Internal Audit groups. The overall ERM program is reviewed with the Board of Directors on a regular basis.

We believe this division of risk management responsibilities described above is an effective approach for addressing the risks facing our Company.

Director Nominees. The Governance Committee uses a variety of methods for identifying and evaluating nominees for director. The Governance Committee regularly assesses the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event vacancies are anticipated, or otherwise arise, the Governance Committee considers various potential candidates for director. Board candidates are considered based upon various criteria, including diverse business, administrative and professional skills or experiences; an understanding of relevant industries, technologies and markets; financial literacy; independence status; the ability and willingness to contribute time and special competence to Board activities; personal integrity and independent judgment; and a commitment to enhancing shareholder value. The Governance Committee considers these and other factors as it deems appropriate, given the needs of the Board and us. Our goal is a balanced and diverse Board, with members whose skills, background and experience are complementary and, together, cover the spectrum of areas that impact our business. The Governance Committee considers candidates for Board membership suggested by a variety of sources, including current or past Board members, the use of third-party executive search firms, members of management and shareholders. Any shareholder may make recommendations for consideration by the Governance Committee for membership on the Board by sending a written statement of the qualifications of the recommended individual to the Corporate Secretary. There are no differences in the manner by which the Committee evaluates director candidates recommended by shareholders from those recommended by other sources.

Shareholders who intend to nominate persons for election to the Board of Directors must provide timely written notice of the nomination in accordance with Article I, Section 9 of our Bylaws. Generally, our Corporate Secretary must receive the written notice at our executive offices at 625 Ninth Street, Rapid City, South Dakota, 57701, not less than 90 days nor more than 120 days prior to the anniversary date of the immediately preceding annual meeting of shareholders. The notice must set forth at a minimum the information set forth in Article I, Section 9 of our Bylaws, including the shareholder's identity and status, contingent ownership interests, description of any agreement made with others acting in concert with respect to the nomination, specific information about the nominee and supply certain representations by the nominee to us.

Communications with the Board. Shareholders and others interested in communicating directly with the Presiding Director, with the independent directors as a group, or the Board of Directors may do so in writing to the Presiding Director, Black Hills Corporation, 625 Ninth Street, Rapid City, South Dakota, 57701.

Corporate Governance Documents. The charters of the Audit, Compensation and Governance committees, as well as the Board's Corporate Governance Guidelines, Policy for Director Independence, Code of Business Conduct and the Code of Ethics that applies to our Chief Executive Officer, Chief Financial Officer, Corporate Controller, and certain other persons performing similar functions can be found in the "Governance" section of our website (www.blackhillscorp.com/corp.gov.htm). We intend to disclose any amendments to, or waivers of the Code of Ethics on our website. Please note that none of the information contained on our website is incorporated by reference in this proxy statement.

Our Corporate Governance Guidelines include a majority voting policy. Pursuant to the policy, any nominee for election as a director who receives a greater number of votes "withheld" from his or her election than votes "for" his or her election will promptly tender his or her resignation as a director to the Chairman of the Board following certification of the election results. Broker non-votes will not be deemed to be votes "for" or "withheld" from a director's election for purposes of the policy. The Governance Committee (without the participation of the affected director) will consider each resignation tendered under the policy and recommend to the Board whether to accept or reject it. The Board will then take the appropriate action on each tendered resignation, taking into account the Governance Committee's recommendation. The Governance Committee in making its recommendation, and the Board in making its decision, may consider any factors or other information that it considers appropriate, including the reasons why the Committee

believes shareholders “withheld” votes for election from such director and any other circumstances surrounding the “withheld” votes, any alternatives for curing the underlying cause of the “withheld” votes, the qualifications of the tendering director, his or her past and expected future contributions to us and the Board, and the overall composition of the Board, including whether accepting the resignation would cause us to fail to meet any applicable SEC or NYSE requirements. The Board will publicly disclose by filing with the SEC on Form 8-K its decision and, if applicable, its rationale within 90 days after receipt of the tendered resignation.

Certain Relationships and Related Party Transactions. We recognize related party transactions can present potential or actual conflicts of interest and create the appearance that decisions are based on considerations other than the best interests of us and our shareholders. Accordingly, as a general matter, it is our preference to avoid related party transactions. Nevertheless, we recognize that there are situations where related party transactions may be in, or may not be inconsistent with, the best interests of us and our shareholders, including but not limited to situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when we provide products or services to related parties on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. Therefore, our Board of Directors has adopted a policy for the review of related party transactions. This policy requires directors and officers to promptly report to our Vice President – Governance all proposed or existing transactions in which the Company and they, or persons related to them, are parties or participants. Our Vice President – Governance presents to our Governance Committee those transactions that may require disclosure pursuant to Item 404 of Regulation S-K (typically, those transactions that exceed \$120,000). Our Governance Committee reviews the material facts presented and either approves or disapproves entry into the transaction. In reviewing the transaction, the Governance Committee considers the following factors, among other factors it deems appropriate: (i) whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances; (ii) the extent of the related party's interest in the transaction; and (iii) the impact on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer.

Section 16(a) Beneficial Ownership Reporting Compliance. Based solely upon a review of our records and copies of reports on Form 3, 4 and 5 furnished to us, we believe that during and with respect to 2012, all persons subject to the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, as amended, filed the required reports on a timely basis, except for Form 4s for Lynn Wilson, former Senior Vice President-Communications and Investor Relations, and Scott Buchholz, Senior Vice President and Chief Information Officer, reporting the acquisition of shares through the Company's Short Term Incentive Plan.

MEETINGS AND COMMITTEES OF THE BOARD

The Board of Directors

Our directors review and approve our strategic plan and oversee our management. Our Board of Directors held six in-person meetings and four telephonic meetings during 2012. Each regularly scheduled meeting of the Board includes an executive session of only independent directors. We encourage our directors to attend the annual shareholders' meeting. During 2012, every director attended at least 75 percent of the combined total of Board meetings and Committee meetings on which the director served and all directors attended the 2012 annual meeting of shareholders.

Committees of the Board

Our Board has three standing committees to facilitate and assist the Board in the execution of its responsibilities. The committees are currently the Audit Committee, the Compensation Committee and the Governance Committee. In accordance with the New York Stock Exchange listing standards and our Corporate Governance Guidelines, the Audit, Compensation and Governance Committees are comprised solely of independent directors. Each committee operates under a charter, which is available on our website at www.blackhillscorp.com/corpgov.htm and is also available in print to any shareholder who requests it. In addition, our Board creates special committees from time to time for specific purposes.

Members of the Committees are designated by our Board upon recommendation of the Governance Committee. The table below shows current membership for each of the Board committees.

Audit Committee

Michael H. Madison

Steven R. Mills

Gary L. Pechota

Warren L. Robinson*

Compensation Committee

Jack W. Eugster*

Stephen D. Newlin

Rebecca B. Roberts

Thomas J. Zeller

Governance Committee

Jack W. Eugster

Stephen D. Newlin*

Gary L. Pechota

Rebecca B. Roberts

Thomas J. Zeller

*Committee Chairperson

Audit Committee. The Audit Committee held three in-person meetings and seven telephonic meetings in 2012. The Audit Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- assist the Board in fulfilling its oversight responsibility to our shareholders relating to the quality and integrity of our accounting, auditing and financial reporting practices;
- oversee the integrity of our financial statements, financial reporting process, systems of internal controls and disclosure controls regarding finance, accounting and legal compliance;
- review areas of potential significant financial risk to us;
- review consolidated financial statements and disclosures;
- appoint an independent registered public accounting firm for ratification by our shareholders;
- monitor the independence and performance of our independent registered public accountants and internal auditing department;
- pre-approve all audit and non-audit services provided by our independent registered public accountants;
- review the scope and results of the annual audit, including reports and recommendations of our independent registered public accountants;
- review the internal audit plan, results of internal audit work and our process for monitoring compliance with our Code of Conduct and other policies and practices established to ensure compliance with legal and regulatory requirements; and
- periodically meet, in private sessions, with our internal audit group, Chief Financial Officer, Chief Compliance Officer, other management, and our independent registered public accounting firm.

In accordance with the rules of the NYSE, all of the members of the Audit Committee are financially literate. In addition, the Board determined that all of the members of the Audit Committee, Messrs. Madison, Mills, Pechota and Robinson, have the requisite attributes of an "audit committee financial expert" as provided in regulations promulgated by the Securities and Exchange Commission, and that such attributes were acquired through relevant education and/or experience.

Compensation Committee. The Compensation Committee held three in-person meetings and one telephonic meeting in 2012. The Compensation Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- discharge the Board of Directors' responsibilities related to executive and director compensation philosophy, policies and programs;
- perform functions required of directors in the administration of all federal and state laws and regulations pertaining to executive employment and compensation;
- consider and recommend for approval by the Board all executive compensation programs including executive benefit programs and stock ownership plans; and
- promote an executive compensation program that supports the overall objective of enhancing shareholder value.

The Compensation Committee has authority under its charter to retain and terminate compensation consultants, outside counsel and other advisors as the Committee may deem appropriate in its sole discretion. The Committee has sole authority to approve related fees and retention terms and may delegate any of its responsibilities to subcommittees as the Committee may deem appropriate in its sole discretion. The Committee engaged Towers Watson, an independent consulting firm, to conduct an annual review of our 2012 total compensation program for executive officers and directors. Expenses for other consulting services provided to us by Towers Watson, that are not related to executive compensation, are monitored to ensure that executive compensation consultant independence is maintained. Towers Watson did not provide us with any other consulting services in 2012.

The Committee annually evaluates the CEO's performance against Board established goals and objectives, with input from the other independent directors. Based upon the Committee's evaluation and recommendation, the independent

directors of the Board set the CEO's annual compensation, including salary, bonus, incentive and equity compensation.

The CEO annually reviews the performance of each of our executive officers and presents a summary of his evaluations to the Committee. The CEO also provides oversight of management's evaluations of our other officers. Executive officers assess performance of all officers reporting to them. Based upon these performance reviews, market analysis conducted by the compensation consultant and discussions with our Sr. Vice President, Chief Human Resources Officer ("CHRO"), the CEO recommends the compensation of the officers to the Committee. The Committee may exercise its discretion in modifying any of the recommended compensation and award levels in its review and approval process.

More information describing the Compensation Committee's processes and procedures for considering and determining executive compensation, including the role of our CEO and consultants in determining or recommending the amount or form of executive compensation, is included in the Compensation Discussion and Analysis.

In setting non-employee director compensation, the Compensation Committee recommends the form and amount of compensation to the Board of Directors, which makes the final determination. In considering and recommending the compensation of non-employee directors, the Compensation Committee considers such factors as it deems appropriate, including historical compensation information, level of compensation necessary to attract and retain non-employee directors meeting our desired qualifications and market data. In the review of director compensation for 2012, the Compensation Committee retained Towers Watson to provide market information on non-employee director compensation, including compensation structure, annual board and committee retainers, board and committee meeting fees, committee chairperson fees, number of Board meetings and stock-based compensation.

Compensation Committee Interlocks and Insider Participation. The Compensation Committee is comprised entirely of independent directors. In addition, none of our executive officers serve as a member of a board of directors or compensation committee of any entity that has one or more executive officers who serve on our Board or on our Compensation Committee.

Governance Committee. The Governance Committee held three in-person meetings in 2012. The Governance Committee's responsibilities, discussed in detail in its charter include, among other duties, the responsibility to:

- assess the size of the Board and membership needs and qualifications for Board membership;
- identify and recommend prospective directors to the Board to fill vacancies;
- review and evaluate director nominations submitted by shareholders, including reviewing the qualifications and independence of shareholder nominees;
- consider and recommend existing Board members to be renominated at our annual meeting of shareholders;
- establish and review guidelines for corporate governance;
- recommend to the Board for approval committee membership and the chairpersons of the committees;
- recommend to the Board for approval an independent director to serve as a Presiding Director;
- review the independence of each director and director nominee;
- administer an annual evaluation of the performance of the Board and facilitate an annual assessment of each committee; and
- ensure that the Board oversees the evaluation and succession planning of management.

DIRECTOR COMPENSATION

Director Fees

In 2012, our non-employee director compensation was as follows:

- an annual cash retainer of \$40,000, paid on a monthly basis;
- common stock equivalents equal to \$60,000 per year, paid on a quarterly basis;
- dividend equivalents on the common stock equivalents equal to the same dividend rate our shareholders received; and
- a meeting fee of \$1,500 for each Board and committee meeting attended, provided such Board and committee meetings were substantive in nature and content.

In addition, our Presiding Director and Committee Chairpersons received the following additional compensation:

- Presiding Director – an annual fee of \$15,000;
- Audit Committee Chairperson – an annual fee of \$10,000;
- Compensation Committee Chairperson – an annual fee of \$8,000; and
- Governance Committee Chairperson – an annual fee of \$6,000.

Recently the Compensation Committee with the assistance of its independent compensation consultant completed a review of compensation for non-employee directors. Based on this review, the Committee recommended to the Board that it adopt a retainer-only structure for Director fees, eliminating Board and Committee meeting fees.

Effective January 1, 2013, our non-employee director compensation is as follows:

- an annual Board cash retainer of \$60,000, paid on a monthly basis;
- common stock equivalents equal to \$75,000 per year, paid on a quarterly basis;
- dividend equivalents on the common stock equivalents equal to the same dividend rate our shareholders receive;
- annual committee member cash retainers of \$10,000 for Audit Committee members, \$7,500 for Compensation Committee members and \$7,500 for Governance Committee members, paid on a monthly basis; and
- Presiding Director and Committee Chairpersons cash retainers at the same levels as paid in 2012.

Director Compensation for 2012 and Common Stock Equivalents Outstanding as of December 31, 2012⁽¹⁾

Name ⁽²⁾	Fees Earned or Paid in Cash	Stock Awards ⁽³⁾	All Other Compensation	Total	Number of Common Stock Equivalents Outstanding at December 31, 2012 ⁽⁴⁾
David C. Ebertz ⁽⁵⁾	\$28,667	\$25,000	-	\$53,667	-
Jack W. Eugster	\$82,500	\$60,000	-	\$142,500	13,922
John R. Howard ⁽⁵⁾	\$33,167	\$25,000	-	\$58,167	-
Michael H. Madison ⁽⁶⁾	\$50,333	\$35,000	-	\$85,333	873
Steven R. Mills	\$77,500	\$60,000	-	\$137,500	1,993
Stephen D. Newlin	\$80,500	\$60,000	-	\$140,500	14,163
Gary L. Pechota	\$80,500	\$60,000	-	\$140,500	11,033
Rebecca B. Roberts	\$71,500	\$60,000	-	\$131,500	2,839
Warren L. Robinson	\$86,000	\$60,000	-	\$146,000	11,225
John B. Vering ⁽⁷⁾	\$64,000	\$60,000	\$200,970	\$324,970	13,222
Thomas J. Zeller	\$86,500	\$60,000	-	\$146,500	17,506

(1) Our directors did not receive any stock option awards, non-equity incentive plan compensation, pension benefits or perquisites in 2012 and did not have any stock options outstanding at December 31, 2012.

Mr. Emery, our CEO, is not included in this table because he is our employee and thus receives no compensation for his services as a director. Mr. Emery's compensation received as an employee is shown in the Summary Compensation Table for our Named Executive Officers.

Each non-employee director received a quarterly award of common stock equivalents with a grant date fair value of \$15,000 per quarter or \$60,000 a year. The grant date fair value of a common stock equivalent is the closing price of a share of our common stock on the grant date.

The common stock equivalents are fully vested in that they are not subject to forfeiture; however, the shares are not issued until after the director ends his or her service on the Board. The common stock equivalents are payable in stock or cash or can be deferred further at the election of the director.

(5) Messrs. Ebertz's and Howard's terms as members of our Board of Directors concluded May 23, 2012, and consequently, their fees earned and stock award fair values reflect a partial year of service.

(6) Mr. Madison became a member of our Board of Directors effective May 23, 2012; consequently, his fees earned and stock award fair value reflects a partial year of service.

(7) Mr. Vering served as Interim President and General Manager of our oil and gas subsidiary from May 2010 until December 2011, leading a strategic review of our oil and gas assets. In exchange for his services, pursuant to a consulting agreement dated May 3, 2010, he received \$42,000 per month and temporary living expenses. He did

not receive cash Board compensation during the term of the agreement. The consulting agreement, as amended, expired January 31, 2012. In 2012, he received \$42,000 for one month of services under the consulting agreement, a project completion bonus in the amount of \$150,000, and \$8,970 for temporary living expenses, which are included in the above table as Other Compensation.

Director Stock Ownership Guidelines

Each member of our Board of Directors is required to apply at least 50 percent of his or her annual cash retainer toward the purchase of shares of common stock until the director has accumulated at least 7,500 shares of common stock or common stock equivalents.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL SHAREHOLDERS

The following tables set forth the beneficial ownership of our common stock as of February 15, 2013 for each director, each executive officer named in the Summary Compensation Table, all of our directors and executive officers as a group and each person or entity known by us to beneficially own more than five percent of our outstanding shares of common stock. Beneficial ownership includes shares a director or executive officer has or shares the power to vote or transfer. There were no stock options outstanding for any of our directors or executive officers as of February 15, 2013.

Our directors and executive officers are prohibited from hedging our stock or holding our stock in a margin account and must receive permission from our Senior Vice President - General Counsel if they want to pledge our stock as collateral for a loan. None of our directors or executive officers have pledged stock.

Except as otherwise indicated by footnote below, we believe that each individual or entity named has sole investment and voting power with respect to the shares of common stock indicated as beneficially owned by that individual or entity.

Name of Beneficial Owner ⁽¹⁾	Shares of Common Stock Beneficially Owned ⁽²⁾	Directors Common Stock Equivalents ⁽³⁾	Total	Percentage
Directors and Named Executive Officers				
Anthony S. Cleberg	53,539		53,539	*
David R. Emery	141,188		141,188	*
Jack W. Eugster	17,000	13,922	30,922	*
Linden R. Evans	70,911			