

BLACK HILLS CORP /SD/
Form DEF 14A
April 12, 2006

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

Filed by a Party other than the Registrant

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 Material Pursuant to §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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BLACK HILLS CORPORATION
625 Ninth Street
Rapid City, South Dakota 57701

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
MAY 24, 2006

April 12, 2006

Dear Shareholder:

You are invited to attend the annual meeting of shareholders of Black Hills Corporation to be held on Wednesday, May 24, 2006 at 9:30 a.m., local time, at The Journey Museum, 222 New York 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 III: David C. Ebertz, John R. Howard and Stephen D. Newlin.
2. Ratification of Deloitte & Touche LLP to serve as our independent registered public accounting firm for the year 2006.
3. Any other business that properly comes before the annual meeting.

The enclosed proxy statement discusses the important matters to be considered at this year's meeting. Our common shareholders of record as of April 5, 2006 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 Wednesday, May 24, 2006, and at any adjournment of the annual meeting.

The enclosed form of proxy, when executed and returned, will be voted as set forth therein. 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 Shareholder Communications, Inc. to assist us in the solicitation of proxies at an anticipated cost of \$6,000 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 April 12, 2006. Our 2005 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 April 5, 2006, will be entitled to vote at the meeting. Our outstanding voting stock as of such record date consisted of 33,244,313 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

Q: Who is soliciting my proxy?

A: The Board of Directors of Black Hills Corporation.

Q: Where and when is the annual meeting?

A: 9:30 a.m., local time, May 24, 2006 at The Journey Museum, 222 New York Street, Rapid City, South Dakota.

Q: What am I voting on?

- A:
- Election of three directors in Class III: David C. Ebertz, John R. Howard and Stephen D. Newlin.
 - Ratification of Deloitte & Touche LLP as our independent registered public accounting firm for 2006.

Q: Who can vote?

A: Holders of our common stock as of the close of business on the record date, April 5, 2006, can vote at our annual meeting. Each share of our common stock gets one vote. Cumulative voting is permitted in the election 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.

Q: How do I vote?

A: 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 directors. 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 Item 1; and
- in favor of Item 2.

You have the right to revoke your proxy any time before the meeting by:

- entering a new vote by telephone or Internet;

- notifying our secretary in writing;
- sending a later dated proxy changing your vote; or
- attending the meeting in person and revoking your proxy at any time before the proxy is exercised.

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Q: Who will count the vote?

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

Q: What constitutes a quorum?

A: As of the record date, April 5, 2006, 33,244,313 shares of our common stock were issued and outstanding. In order to conduct the annual meeting, more than one-half of the outstanding shares must be present or be represented by proxy. This is referred to as a quorum. If you submit a properly executed proxy card, you will be considered as part of the quorum. Proxies marked as abstaining and broker non-votes on any proposal to be acted on by shareholders will be treated as present at the annual meeting for purposes of determining a quorum.

Q: What vote is needed for these proposals to be adopted?

A: The affirmative vote of a plurality of the votes cast at the meeting is required for the election of 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 there is a quorum.

For each other item, the affirmative vote of the holders of a majority of the shares represented at the meeting and entitled to vote on the item will be required for approval. A properly executed proxy marked Abstain with respect to any such matter will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold your shares in street name through a broker or nominee, your broker or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such broker non-votes will, however, be counted in determining whether there is a quorum.

Q: Is cumulative voting permitted for the election of directors?

A: In the election of directors, you may elect to cumulate your vote. Cumulative voting will allow 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 chose 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.

Q: What should I do now?

A: 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.

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

A: We are asking for your proxy for the annual meeting and will pay all the cost of asking for shareholder proxies. We have hired Georgeson Shareholder Communications, Inc. to help us send out the proxy materials and ask for proxies. Georgeson Shareholder Communications, Inc.'s fee for these services is anticipated to be \$6,000, 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 regular employees to ask for proxies. These people do not receive additional compensation for these services. We will reimburse brokerage houses 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.

Q: Can I revoke my proxy?

A: 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.

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

A: Your broker may vote shares nominally held in its name, or in what is commonly called street name, under some circumstances, only if you provide the broker with written instructions on how to vote.

Q: What happens if I do not give my broker instructions?

A: Absent your instructions, under some circumstances, these shares will not be voted. Therefore, we urge you to instruct your broker in writing to vote shares held in street name.

Q: Who should I call with questions?

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

Q: When are the shareholder proposals for the annual meeting held in 2007 due?

A: In order to be considered, you must submit proposals for next year's annual meeting in writing to our Corporate Secretary at our executive offices at 625 Ninth Street, P.O. Box 1400, Rapid City, South Dakota 57709, prior to December 13, 2006.

ELECTION OF DIRECTORS

In accordance with our Bylaws and Article Sixth 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 III of the Board of Directors to hold office for a term of three years until our annual meeting of shareholders in 2009, and until their respective successors shall be duly elected and qualified.

All three nominees for directors are presently members of our Board of Directors. Mr. Newlin was elected by the Board of Directors in January 2004 and is nominee for election for the first time. Mr. Newlin was recommended for nomination by an individual contacted through an executive led search process. The proxy attorneys will vote your stock for the election of the three nominees for directors, unless otherwise instructed. If, at the time of the meeting, any of such nominees shall be unable to serve in the capacity for which they are nominated or for good cause will not serve, an event which the Board of Directors does not anticipate, it is the intention of the persons designated as proxy attorneys to vote, at 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.

The following information, including principal occupation or employment for the past five or more years, is furnished with respect to each of the following persons who are nominated as Class III Directors, each to serve for a term of three years to expire in 2009.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF THE FOLLOWING NOMINEES:

**Nominees for Election Until
2009 Annual Meeting Class III**

Name, Age, Principal Occupation for Last Five Years and Other Directorships	Director Since
David C. Ebertz, 60 President, Dave Ebertz Risk Management Consulting, a firm specializing in insurance and risk management services for schools and public entities, since January 2000.	1998
John R. Howard, 65 Former President, Industrial Products, Inc., an industrial parts distributor, providing equipment and supplies to the mining and manufacturing industries, from 1992 to 2003 and Special Projects Manager for Linweld, Inc. in Lincoln, Nebraska.	1977
Stephen D. Newlin, 53 Chairman, President and Chief Executive Officer of PolyOne Corporation, a global polymer compounding and North American distribution company, since February 2006. Former President, Industrial Sector, Ecolab, Inc., a provider of services, specialty chemicals and equipment serving industrial and institutional clients, from 2003 to February 2006. Private Investor and Business Advisor, 2001 to 2003. President, Chief Operating Officer and Director of Nalco Chemical Company, a water/process treatment specialty chemical company from 1998 to 2001. Concurrently from 1999 to 2001, Chairman, Nalco Exxon Energy Chemicals.	2004

**Directors Whose Terms Expire at
2007 Annual Meeting Class I**

Name, Age, Principal Occupation for Last Five Years
and Other Directorships

	Director Since
Jack W. Eugster, 60 Former Non-Executive Chairman of Shopko Stores, Inc., a general merchandise discount store chain, from 2001 to 2005. Former Chairman, Chief Executive Officer and President of Musicland Stores, Inc., a retail music and home video company, from 1986 until his retirement in 2001. Currently Director of Donaldson Co., Inc., Graco, Inc. and Golf Galaxy, Inc.	2004
Richard Korpan, 64 Former Chairman, President and Chief Executive Officer of Florida Progress Corporation and Chairman of Florida Power Corporation, electric utility and energy companies located in St. Petersburg, Florida, from 1998 to 2000.	2003
Thomas J. Zeller, 58 President, RESPEC, a technical consulting and services firm with expertise in engineering, information technologies and water and natural resources, since 1995.	1997

**Directors Whose Terms Expire at
2008 Annual Meeting Class II**

Name, Age, Principal Occupation for Last Five Years
and Other Directorships

	Director Since
David R. Emery, 43 Chairman, President and Chief Executive Officer of Black Hills Corporation, since April 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 16 years of experience with Black Hills Corporation.	2004
Kay S. Jorgensen, 55 Owner and Chief Executive Officer of KSJ Enterprises, LLC, providing marketing and development services since January 2006. Former owner and Chief Executive Officer, Jorgensen-Thompson Creative Broadcast Services, Inc., a radio broadcast services company from 1997 to 2005. Previously served in the South Dakota State Legislature and on various state and local boards and commissions.	1992
William G. Van Dyke, 60 Former Chairman of Donaldson Company, Inc., a diversified manufacturer of air and liquid filtration products from August 2004 to July 2005 and Chairman, Chief Executive Officer and President of Donaldson Company, Inc., from 1996 to 2004. Currently Director of Alliant Techsystems and Graco, Inc.	2005
John B. Vering, 56 Managing Director of Lone Mountain Investments, Inc., agricultural and oil and gas investments, since 2002. Co-founded PMT Energy, LLC, a natural gas and exploration company focused on the Appalachia Basin, in 2003. President and Chief Operating Officer of Fossil Bay Resources, Inc., an oil and gas exploration company, from September 2000 to February 2001.	2005

Security Ownership of Management and Principal Shareholders

The following table sets forth the beneficial ownership of our common stock as of March 15, 2006 for each director and nominee for 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 the power to vote or transfer, and stock options that are exercisable currently or within 60 days of March 15, 2006.

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	Shares of Common Stock Beneficially Owned(1)		Options Exercisable Within 60 Days	Directors Common Stock Equivalents(2)	Total	Percentage(3)
<i>Directors and Named Executive Officers</i>						
Russell L. Cohen	14,989		33,787		48,776	*
David C. Ebertz	5,251			3,386	8,637	*
David R. Emery	39,538	(4)	73,882		113,420	*
Jack W. Eugster	4,000			1,085	5,085	*
Linden R. Evans	11,213		8,333		19,546	*
John R. Howard	16,864			8,860	25,724	*
Kay S. Jorgensen	6,275			5,062	11,337	*
Richard Korpan	2,000			1,616	3,616	*
Stephen D. Newlin	2,504			1,262	3,766	*
Thomas M. Ohlmacher	34,452		28,026		62,478	*
Mark T. Thies	31,574	(5)	58,047		89,621	*
William G. Van Dyke	757			572	1,329	*
John B. Vering	2,278	(6)		572	2,850	*
Thomas J. Zeller	3,524	(7)		3,716	7,240	*
All directors and executive officers as a group (21 persons)	263,506		410,452	26,131	700,089	2.1 %
<i>Five Percent Shareholders</i>						
Barclays Global Investors, NA and Barclays Global Fund Advisors, et. al. 45 Freemont Street San Francisco, CA 94105	2,598,142	(8)			2,598,142	7.8 %
First Trust Portfolios L.P., First Trust Advisors L.P. and The Charger Corporation 1001 Warrenville Road Lisle, IL 60532	2,474,995	(9)			2,474,995	7.5 %
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	2,220,640	(10)			2,220,640	6.7 %

* Represents less than one percent of the common stock outstanding.

- (1) Includes restricted stock held by the following executive officers which they have voting power but not investment power and restricted stock units the executive officer has the right to acquire within 60 days as to which he has no current voting or investment power: Mr. Cohen 3,908 shares and 7,402 restricted stock units; Mr. Emery 18,332 shares; Mr. Evans 6,531 shares; Mr. Ohlmacher 9,581 shares and 18,189 restricted stock units; Mr. Thies 5,303 shares and 10,624 restricted stock units; and all directors and executive officers as a group 64,698 shares and 39,827 restricted stock units.
- (2) Represents common stock allocated to the directors' accounts in the directors' stock based compensation plan, of which the trustee has sole voting and investment authority.
- (3) Shares of common stock which were not outstanding but could be acquired by a person upon exercise of an option within sixty days of March 15, 2006, are deemed outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by such person. Such shares, however, are not deemed to be outstanding for the purpose of computing the percentage of outstanding shares beneficially owned by any other person.
- (4) Includes 19,916 shares owned jointly with Mr. Emery's spouse as to which he shares voting and investment authority.
- (5) Includes 6,629 shares owned jointly with Mr. Thies' spouse as to which he shares voting and investment authority.
- (6) Includes 2,000 shares owned jointly with Mr. Vering's spouse as to which he shares voting and investment authority.
- (7) Includes 225 shares owned jointly with Mr. Zeller's spouse as to which he shares voting and investment authority.
- (8) Information is as of December 31, 2005, and is based on a Schedule 13G filed on January 26, 2006.
- (9) Information is as of December 31, 2005 and is based on a Schedule 13G filed on February 9, 2006.
- (10) Information is as of December 31, 2005 and is based on a Schedule 13G filed on February 14, 2006.

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 2005 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.

The Board, Committees and Corporate Governance Matters

Board of Directors. Our directors review and approve our strategic plan and oversee management of the Company. Our Board of Directors held eleven meetings during 2005. Directors' attendance at all Board and Committee meetings averaged 97 percent. During 2005, every director attended at least 75 percent of the combined total of Board meetings and Committee meetings on which the director served. Each regularly scheduled meeting of the Board includes an executive session of only independent directors. The Company encourages directors to attend the annual shareholders meeting. All ten directors holding office during 2005 were in attendance at the 2005 annual meeting of shareholders.

Board Independence. The Board of Directors has adopted a Policy for Director Independence that includes categorical standards for independence. This Policy is attached as Appendix A. The Board has determined that all members of the

Board except Mr. Emery are independent in accordance with the

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Company's Policy for Director Independence and the New York Stock Exchange (NYSE) listing standards. Mr. Emery is not independent because he is a senior executive of the Company.

Presiding Director and Executive Sessions. In late 2001, the Board of Directors established the position of Lead Director which they renamed to Presiding Director in 2005. John R. Howard was elected to hold this position, and continues to do so. 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 Chairman and Chief Executive Officer to the Chief Executive Officer. The Presiding Director, together with the independent directors, establishes the agenda for executive sessions, which are held at the end of each regular Board meeting. The Presiding Director serves as a liaison between the independent members of the Board and the Chairman, President and Chief Executive Officer, and discusses, to the extent appropriate, matters discussed by the independent directors in executive session. The Presiding Director also presides over regular meetings of the Board in the absence of the Chairman.

Corporate Governance Documents. The charters of the Audit, Compensation, Executive and Governance committees, as well as the Board's Corporate Governance Guidelines 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 the Company's website (www.blackhillscorp.com/corpgov.htm). Copies may also be obtained upon request from the Company's Corporate Secretary. Please note that none of the information contained on our website is incorporated by reference in this proxy statement.

Audit Committee. Our Audit Committee is comprised of Jack W. Eugster, John R. Howard, William G. Van Dyke, John B. Vering and Thomas J. Zeller, with Mr. Zeller serving as Chairperson. The Committee appoints an independent registered public accounting firm for ratification by our shareholders, pre-approves all audit and non-audit services provided by the external auditors, reviews the scope and results of the annual audit including reports and recommendations of the independent registered public accountants, reviews our internal audit function, and periodically confers with the internal audit group, our management, and our independent registered public accounting firm. All of the members of the Committee are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines. The Audit Committee held six meetings in 2005.

In accordance with our written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of our accounting, auditing and financial reporting practices. In accordance with the rules of the NYSE, all of the members of the Audit Committee are financially literate. The Board determined that Messrs. Eugster, Howard, Van Dyke, Vering and Zeller each 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.

Mr. Eugster serves on the audit committees of four public companies. In accordance with the NYSE Corporate Governance Rules, the Board discussed the time requirements and demand of serving on four public audit committees. The Board concluded that Mr. Eugster's service on multiple public audit committees is supported by his retirement status and significant experience and would not impair his ability to effectively serve on our Audit Committee.

Compensation Committee. Our Compensation Committee is comprised of David C. Ebertz, Kay S. Jorgensen, Richard Korpan and Stephen D. Newlin, with Mr. Korpan serving as Chairperson. The Committee performs functions required by the Board of Directors in the administration of all federal and state statutes relating to employment and compensation and considers and approves the Company's compensation program including benefits, stock option plans and stock ownership plans. The Committee annually (i) reviews the performance of the Chairman, President and Chief Executive Officer, in

conjunction with the independent directors, and recommends to the independent directors the compensation level for the Chairman, President and Chief Executive Officer, (ii) reviews the Chief Executive Officer's evaluation of the Chief Operating Officer Wholesale, Chief Operating Officer Retail and Chief Financial Officer and recommends to the Board the compensation levels for these three officer positions, and (iii) reviews the Chief Executive Officer's evaluation and compensation recommendations for the other senior executive officers and the subsidiary business unit leaders, and reports its actions to the full Board. All of the members of the Committee are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines. The Compensation Committee held six meetings in 2005.

Executive Committee. Our Executive Committee is comprised of David C. Ebertz, David R. Emery, John R. Howard, Kay S. Jorgensen and Thomas J. Zeller, with Mr. Emery serving as Chairperson. The Committee acts upon authority delegated by the Board of Directors in the interval between meetings of the Board. The Executive Committee held one meeting in 2005.

Governance Committee. Our Governance Committee is comprised of Jack W. Eugster, John R. Howard, Stephen D. Newlin and John B. Vering, with Mr. Howard serving as Presiding Director and Chairperson. The Governance Committee operates under a written charter. The Committee identifies, investigates and recommends prospective directors to the Board with the goal of creating a balance of knowledge, experience and diversity. The Bylaws and the Charter of the Governance Committee provide that the Presiding Director shall serve as Chairperson. All of the members of the Committee are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines. The Governance Committee held three meetings in 2005.

Members of the Committees referred to above are designated by our directors upon recommendation of the Governance Committee each year at a meeting held following our annual meeting of shareholders.

Consideration of Director Nominees. The Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The 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 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 Committee considers these and other factors as it deems appropriate, given the current needs of the Board and the Company. The Committee considers candidates for Board membership suggested by a variety of sources, including current or past Board members, members of management and shareholders. There are no differences in the manner by which the Committee evaluates director candidates recommended by shareholders from those recommended by other sources. The Committee has also retained a third-party executive search firm to identify candidates upon request of the Committee from time to time.

Nominations from our shareholders for membership on the Board of Directors will be considered by the Governance Committee. A shareholder who wishes to submit names for future consideration for Board membership should do so in writing, with whatever supporting material the shareholder considers appropriate, addressed to Governance Committee, c/o Corporate Secretary, Black Hills Corporation, P.O. Box 1400, Rapid City, South Dakota 57709.

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, P.O. Box 1400, 625 Ninth Street, Rapid City, South Dakota, 57709.

Directors Fees

Effective May 25, 2005, non-employee directors receive an annual fee of \$28,000 plus a fee of \$1,250 for each board meeting and committee meeting attended, provided such committee meetings are substantive in nature and content. Also, the Presiding Director receives an annual retainer fee of \$8,000 and the Committee Chairpersons receive an annual retainer fee of \$4,000.

In addition, each non-employee director receives common stock equivalents equal to \$28,000 per year divided by the market price of our common stock. The common stock equivalents are payable in stock or cash at retirement or can be deferred at the election of the director.

Members of our Board of Directors are required to beneficially own 100 shares of common stock when they are initially elected a director and to apply at least 50 percent of his or her retainer toward the purchase of additional shares until the director has accumulated at least 2,000 shares of common stock.

The following table sets forth the compensation earned for the fiscal year ended D