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Rating Action: Moody's upgrades Black Hills Corp. to Baa1 from Baa2 and Black Hills Power to A3 from Baa1; outlooks are stable

Global Credit Research - 30 Jan 2014

Approximately \$1.3 Billion of Debt Affected

New York, January 30, 2014 -- Moody's Investors Service upgraded the ratings of Black Hills Corp. (BHC; including its unsecured rating to Baa1 from Baa2) and its operating subsidiary Black Hills Power (BHP; including its long-term issuer rating to A3 from Baa1). This rating action completes our review of BHC and BHP initiated on November 8, 2013. The outlooks for both BHC and BHP are stable.

"BHC benefits from a wide diversification of supportive regulatory frameworks across seven states, while BHP continues to exhibit a strong financial profile, underpinned by a suite of credit supportive cost recovery mechanisms in South Dakota and Wyoming" said Ryan Wobbrock, Assistant Vice President.

RATINGS RATIONALE

The primary driver of today's rating action is Moody's more favorable view of the relative credit supportiveness of the US regulatory framework, as detailed in our September 23, 2013 Request for Comment: "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation." Factors supporting this view include better cost recovery provisions, reduced regulatory lag, and generally fair and open relationships between utilities and regulators. The US utility sector's low number of defaults, high recovery rates, and generally strong financial metrics from a global perspective provide additional corroboration for these upgrades.

The rating upgrades for BHC and BHP reflect the supportive regulatory environments in which they operate, where a wide variety of recovery mechanisms and single-issue special purpose trackers exist. The implementation of such mechanisms has helped each company improve its financial profile and the predictability of its cash flow generation in recent years.

BHC's rating reflects that about 85% of the company's assets reside in lower-risk utility operations with good regulatory relationships. The rating also considers actions taken by BHC to reduce its exposure to higher risk non-regulated activities, thus increasing the influence of supportive regulation over its business mix.

BHP's ratings reflect strong financial metrics and supportive rate relief for large capital expenditures (e.g., generation construction) and other costs throughout its South Dakota, Wyoming and Montana service territories.

RATING OUTLOOK

The stable rating outlook for BHC reflects the progress it has made in de-risking its business profile and an expectation for cash flow to debt metrics to remain around 20% over the intermediate-term. The stable outlook also considers its relative positioning against other peer holding companies. For example, TECO (Baa1) has a similar size, financial profile and portion of non-utility businesses as a percentage of total consolidated operations.

The stable outlook for BHP takes into account strong financial metrics, but a relatively small size and liquidity dependency upon loans from BHC, since BHP does not have a standalone credit facility.

What Could Change the Rating - Up

BHC's rating could be upgraded if the company were to display financial metrics of CFO pre-WC to debt in the mid-20% range and CFO pre-WC less dividends (RCF) to debt over 14%, for a sustainable period and absent the effects of one-time tax benefits. Additionally, further de-risking and deleveraging activities, similar to those that the company enacted in 2012 (i.e., sale of E&P assets with commensurate debt reduction), could lead to ratings upgrades.

BHP would experience upward ratings pressure from significant improvements to cost recovery provisions implemented in South Dakota, and/or from exhibiting sustainable CFO pre-WC to debt over 25% without the one-

time tax benefits of policies such as bonus depreciation.

What Could Change the Rating - Down

Considering the recent upgrades, it is unlikely that BHC or BHP would be downgraded over the near-term, absent event risk, severe regulatory treatment, or a change in management philosophy that is not currently incorporated into the rating (e.g., increasing investment in unregulated operations at BHC).

Ratings Upgraded Include:

Black Hills Corporation

Issuer Rating to Baa1 from Baa2

Senior Unsecured Bank Credit Facility to Baa1 from Baa2

Senior Unsecured to Baa1 from Baa2

Subordinate Shelf to (P)Baa2 from (P)Baa3

Pref. Shelf to (P)Baa3 from (P)Ba1

Outlook Stable

Black Hills Power, Inc.

Issuer Rating to A3 from Baa1

First Mortgage Bonds to A1 from A2

Senior Secured Shelf to (P)A1 from (P)A2

Outlook Stable

The principal methodology used in this rating was Regulated Electric and Gas Utilities published in December 2013. Please see the Credit Policy page on www.moody.com for a copy of this methodology.

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