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C: Val Simpson;Black Hills Corporation;Finance Manager
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P: Matt Davis;Credit Suisse;Analyst
P: Nick Yuelys;Gabelli & Co;Analyst
P: Mathew Barnett;Jet Capital Investors LP;Analyst
P: David Arcaro;Sidoti & Co.;Analyst
P: Operator;;

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Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation 2014 second-quarter earnings conference call. My name is Janada and I will be your coordinator for today.

(Operator Instructions).

As a reminder this conference is being recorded for replay purposes. I would now like to turn the presentation over to Ms. Val Simpson, Finance Manager of Black Hills Corporation. Please proceed.

Val Simpson^ Good morning, everyone. Welcome to the Black Hills Corporation second-quarter 2014 earnings call. Today with me is Dave Emery, Chairman, President and Chief Executive Officer, and Tony Cleberg, Executive Vice President and Chief Financial Officer.

Before I turn the call over I need to remind you that during the course of this call some of the comments we make may contain forward-looking statements as defined by the Securities and Exchange Commission and there are a number of uncertainties inherent in such comments. Although we believe that our expectations and beliefs are based on reasonable assumptions, actual results may differ materially. We direct you to our earnings release, slide 2 of the investor presentation on our website and our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission for a list of some of the factors that could cause future results to differ materially from our expectations.

I now turn the call over to Dave Emery.

Dave Emery^ Thank you, Val. Good morning, everyone. Thanks for joining us this morning.

I'll start on slide 3 in the webcast deck for those of you who might be following along. Again, we will follow a similar format to previous quarters. I will give an update on the quarter, Tony Cleberg will give an update on the financials for the quarter and then I will talk about the strategic overview and more of the forward-looking strategy issues.

So moving on to slide 5, highlights from the second quarter. From a business perspective we had relatively normal weather in the quarter in our utility service territories compared to colder than normal weather last year. I would say this year characterized by a little bit warmer weather in April, a little colder in June but not far out of line with normal.

Highlights for the utilities, it's been a very busy quarter for our utilities. We've got a lot going on. Recently Black Hills Power filed for approval in both Wyoming and South Dakota to construct a new 144-mile $54 million transmission line that will go from Northeast Wyoming to Rapid City, South Dakota. That's a project we hope to complete in early 2016 pending approvals, right-of-way acquisitions and things like that.

Cheyenne Prairie Generating Station, our new power plant under construction in Cheyenne, Wyoming, is on schedule and within budget. We expect commercial operations on October 1.

The associated rate cases for that plant in both South Dakota and Wyoming are progressing well. New rates should be in effect in both jurisdictions on October 1, the first date of commercial operation.

July 31 the Wyoming PSC approved new rates for Cheyenne Light for the plant based on a 9.9% return on equity and 54% equity in the capital structure. Pretty favorable result for us, one we are satisfied with.

We also completed permanent financing for the plant. Black Hills Power and Cheyenne Light both entered into agreements on June 30 to issue a total of $160 million in first mortgage bond financing.

The closing date for the sale of those bonds is expected on October 1, also coinciding with the date of first operation.

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Moving on to slide 6, a continuation of our utility highlights. Cheyenne Light received FERC approval to establish some new rates for transmission services on favorable returns and capital structure. Cheyenne Light, during the quarter or just after the end of the quarter I guess in July, set a new all-time peak load, beating the previous load by about 6 megawatts or so.

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Colorado Electric issued an RFP for about 42 megawatts of seasonal firm summer capacity for the summers of 2017, 2018 and 2019 and then a request for up to 60 megawatts of renewable capacity, as well. Our Power Generation segment has submitted both solar and wind bids in response to that RFP. We will see how we fare as the utility conducts its analysis of bids and bidders.

During the quarter both Colorado Electric and Kansas Gas filed rate cases during the quarter. Both are progressing well and according to schedule.

On slide 7, highlights for our Non-regulated Energy segments. Power Generation segment received FERC approval in July for the previously announced sale of our 40 megawatts CT2 combustion turbine to the city of Gillette, Wyoming. That transaction closing is expected by the end of the month.

That transaction also includes an economy energy agreement with Black Hills where if we can purchase energy for the city of Gillette cheaper than they can generate it with that turbine, we split the cost savings. That agreement will continue for 20 years. Should be a good arrangement for Black Hills over the long haul.

On the Oil and Gas front, in June we commenced drilling in the southern Piceance Basin on two of the six horizontal wells that we plan to drill in the Mancos Shale formation. This year operations are progressing well and we expect good completions there this year.

On the Corporate front the Board declared a dividend of $0.39 per share last year -- last week -- equivalent to an annual dividend rate of $1.56. In June Fitch upgraded our Company's corporate credit rating to BBB+ with a stable outlook. Now two of the three agencies have us rated at the equivalent of a BBB+ credit rating, pretty significant improvement over the last year and a half or so from BBB- at all three agencies.

And then in late May we amended and extended our $500 million unsecured revolving credit facility at improved pricing. That is a five-year deal. It also has a $250 million accordion feature.

On slide 8, financial highlights for the quarter. We earned $0.44 a share as adjusted compared to $0.41 per share as adjusted in the second quarter of 2013.

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Pretty strong increase of 7% year-over-year. Pretty good growth given the relative amount of the weather in the quarter.

Slide 9 provides a reconciliation of the second-quarter 2014 income from continuing operations as adjusted to the second-quarter 2013 results. In a nutshell most of our businesses improved year-over-year. The exception was the Gas Utilities segment, really due to a return to more normal weather compared to a very cold second quarter of 2013.

Now I will turn it over to Tony Cleberg for a financial update for the quarter. Tony?

Tony Cleberg^ Thank you, Dave. As Dave mentioned, second-quarter 2014 financial performance improved compared to the same period in 2013 and that is due primarily to an improvement in interest expense.

As you will recall the weather helped us outperform in the first quarter and then the second quarter we gave some of it back due to mild weather, yet we achieved the 7% increase year-over-year in our earnings per share. Just looking at the first six months of 2014 our earnings per share improved by 19% over the same period in 2013.

Moving to slide 11, we report GAAP earnings and reconciled to earnings as adjusted, a non-GAAP measure. We do this each quarter to isolate special items and communicate earnings that we believe better indicate our ongoing performance.

This slide displays the last five quarters and during the second quarter of 2014 we had no special items. So our GAAP earnings per share of $0.44 compares to the 2013 as adjusted earnings per share of $0.41. The 2013 as adjusted earnings per share excluded a mark-to-market gain of $0.28 on interest rate swaps that we settled near the end of last year.

Slide 12 displays our second-quarter revenue and operating income. Later I will give more color about the year-over-year changes by segment. But here the main point is that we are predominantly a regulated business generating about 80% of our operating income from our utilities in the second quarter.

Our operating income declined by 5%, or $2.4 million compared to the same period in 2013. Milder weather in our Gas Utility territories lowered the operating income by $4.1 million compared to 2013. The impact of the mild weather was partially offset by better performance in our Power Generation and our Oil and Gas segments.

Slide 13 displays our second-quarter income statement. As you will note our interest expense declined by $5.5 million. This resulted from two actions taken in the fourth quarter of 2013.

One, we refinanced debt at a lower rate and two, we settled $250 million worth of interest rate swaps. Settling the swaps eliminated monthly interest charges.

Another point is while our operating income declined by about 5% due primarily to weather, our EBITDA declined less than 1%. Comparing the first six months of 2014 to the same period in 2013, EBITDA and operating income improved in that mid-5% range.

Moving to slide 14, the left side of this slide displays our Electric Utilities segment. Our second-quarter revenue increased by $3.9 million compared to 2013 due to primarily higher fuel costs. Gross margins were comparable to the prior year reflecting increased riders and higher industrial demand partially offset by lower residential and commercial demand.

Also we had planned in an unplanned outage that lowered our planned availability and lowered our off-system sales margin by $600,000 compared to the prior year. The lower residential and commercial demand reflected the impact of both lower heating and cooling days. From our perspective it wasn't cold enough in April and it wasn't hot enough in June.

With flat margin and higher expenses for employee costs and property taxes, our operating income declined by $700,000 in the Electric Utilities segment. Looking at the right side of slide 14 you will note Gas Utilities revenue declined by $3.3 million resulting from lower demand caused by the mild weather. For the quarter heating degree days were 5% above averages but compared to the same period in 2013 the heating degree days declined by 16%.

Our O&M expense increased year-over-year by $1.6 million primarily due to employee costs. Compared to 2013 second-quarter operating income declined by $4.1 million. The residential and commercial dekatherms sold decreased year-over-year by 29%.

As you will recall, last year April and May were much colder than normal in our service territories and 2014 was milder. So overall our Utilities have improved rates but the mild weather dampened performance compared to 2013. In our Utilities, both Gas and Electric, we continue to see about 1% annual customer growth.

Slide 15, our next segment Power Generation's operating income, as adjusted, improved by $1.1 million compared to the prior year. During the current quarter Power Generation saw strong operational performance, good cost management and improved prices for the purchase power agreements.

Moving to the right side of slide 15, Coal Mining segment saw the second-quarter operating income flat with 2013. The tons sold declined by 2%. Prices increased by 4% mostly offsetting a 5% increase in the mining cost.

The stripping ratio, which increased from 0.86 to 0.95 slightly increased our overburdened removal cost. As a reminder, over 50% of our coal production is priced on a cost-plus basis. The Mining segment is performing as expected.

Moving to Oil and Gas on slide 16, we started to see improved performance. Our overall second-quarter production increased by 15% compared to the same period in 2013. Breaking down our production improvement we saw a 3% increase in natural gas, 41% increase in oil and 97% increase in natural gas liquids.

From a cost perspective, our Q2 O&M expenses increased by only $244,000 and the DD&A increased by $2.1 million compared to 2013. From the operating income standpoint we reduced our loss in this segment by $1 million compared to the same period in 2013. And this is primarily due to production increases and about 12% increase in our net average price received.

The depletion rate increased by 30% compared to Q2 of 2013 due primarily to adding higher cost oil drilling to our cost pool for non-operated wells. Sequentially the first quarter to the second quarter production increased by 12%.

Natural gas increased 5%, oil by 24% and natural gas liquids increased by 55%. However, the net average price received decreased by 11% from the first quarter.

Prices declined for natural gas by 5%, oil by 14% and NGLs by 32%. So with the production increase and the price decline, our Q2 Oil and Gas revenue was flat compared to the first quarter and the $500,000 improvement in the operating loss resulted from lower O&M costs.

Slide 17 is our capital structure and we appreciated Fitch's upgrade of our credit ratings during the quarter. And as David mentioned, at the corporate level we have Moody's and Fitch at a BBB equivalent -- a BBB+

equivalent and an S&P at a BBB flat. At quarter end our net debt to capitalization ratio was flat with the year end at 53%. With the cash flow from operations and our debt capacity we have ample funding available for capital expenditures and dividends for the next year.

Slide 18. Just a note we did reaffirm our 2014 earnings guidance to be in the range of $2.65 to $2.85.

And moving to slide 19, just to conclude, our second quarter performance (technical difficulty) continued to lay a path for solid earnings growth. If you look at our projected midpoint for 2014 earnings guidance we expect to deliver double-digit growth for our shareholders, an accomplishment that we consider very important. And with those comments I will turn it back to Dave.

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Dave Emery^ All right, thank you, Tony. Moving forward here on strategic objectives on slide 21, as we introduced last quarter, we group our strategic goals into four major categories.

The overall objective is being an industry leader in essentially all that we do. Those four categories are profitable growth, valued service, better every day and a great workplace.

Slide 22. Strong capital spending drives our earnings growth. We project strong spending far in excess of depreciation during the next several years and expect that trend to continue but it has been and will continue to be a driver of our earnings growth.

Slide 23 provides detail related to the historical and forecasted capital spending by business segment. Gives you an idea of kind of the various facets of our growth throughout our subsidiaries.

Slide 24 is a subset of the information on slide 23 simply providing a little more detail for some of our select major utility projects including a couple that are beyond our 2016 detailed capital spending forecast.

Slide 25, again helping drive our strong earnings growth in the 2014, 2015 timeframe is our Cheyenne Prairie Generating Station. As I said earlier that $222 million project is on time and on budget for an October 1 in-service date, going exceptionally well and we will be commencing firing turbines and selling test energy and things here in the next couple months prior to commercial operations in October. Everything is going according to plan.

Slide 26, our Oil and Gas assets offer substantial value upside. From a strategy perspective we plan to prove up and capture the value of those existing oil and gas properties and also continue to pursue some disciplined oil exploration primarily in plays that have impactful reserve potential.

This year we are really focused on the execution of our Piceance Basin and Mancos drilling program. Our plan there this year is to drill and complete six wells in 2014 and another six wells in 2015. This year we have commenced drilling the first two of those six wells in our 2014 program, starting in June, again, according to plan.

With the results of our 2014 and 2015 program we hope that by late 2015 we will be able to consider strategic options for that play. We've talked about these before but they can include many things but including and not limited to select properties divestitures, joint venture programs which properties including some of those reserves are drilling and cost of service gas supply program for our Electric and Gas Utilities and certainly several other options or combinations of those options.

But before making those we really need to complete these at least next six wells this year and six next year to really get a handle on the potential value of those properties before we make strategic decisions.

Slide 27 provides a little more detail on our 2014 Oil and Gas plans. I won't reiterate those but suffice it to say things are going according to plan.

One thing I'd like to mention is there has been a lot of attention focused in Colorado on some of the anti-fracking ballot initiatives there. I was pleased to hear that earlier this week Governor Hickenlooper in Colorado announced a deal with the proponents of the anti-fracking ballot initiative to essentially remove those from the ballot this fall.

In exchange for that the governor will appoint a special task force who will make recommendations, if necessary, to the legislature this winter regarding oil and gas activities in the state, such thing as setback distances from communities, residential areas, things like that. But very pleased to see a good common sense approach prevail in a state like Colorado where oil and gas is so critical to the state's economy. I think again common sense prevailed there, and it should, so positive result.

On slide 28 we are very proud of our dividend track record. We've increased our annual dividend to shareholders for 44 consecutive years. Despite our aggressive capital spending, at least maintaining our dividend track record is very important from a priority perspective.

Slide 29, I mentioned this already but during the quarter Fitch upgraded our corporate credit rating. Again, as Tony mentioned and I mentioned earlier, we now have two of the three agencies at the equivalent of a BBB+ and one at BBB flat.

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A very positive result for the Company. I think it shows the continued confidence in our ability to generate strong earnings and cash flows going forward.

Slide 30 provides a summary of our pending regulatory activity much of which is rate case related and I have discussed a lot of that. In those rate cases we are seeking a fair return on the substantial capital investments we have made in our utility businesses, primarily to better serve our customers. The update is pretty self-explanatory so I won't elaborate anymore on that.

Slide 31 focuses on our operational superiority. We've got truly superior power plant availability and starting reliability compared to our industry peers. The slide also demonstrates that we have a very modern generation fleet.

And with the completion of Cheyenne Prairie on October 1, literally an average age of about 12.5 years to 13 years, which is pretty phenomenal. Positions us extremely well related to all the EPA activity related to emissions, both the MATS rule and the CO2 rules, etc.

Slide 32 exhibits again exceptional operational performance in our utility businesses relative to (technical difficulty). It also demonstrates some things we have done to improve our customers' experience and how they deal with the Company every day.

Substantial improvements in those customer service areas. On-time rates for calls and field operations, reducing truck rolls and things like that to our AMI system implementation.

Finally, slide 33 illustrates a tremendous safety record that we have really been focused on the last several years. And also highlights again the quality of Black Hills Corporation as a workplace.

For the third time in the last five years our IT group has been named one of the best 100 places to work in information technology. That's something our IT folks should be very proud of.

Slide 34 is our scorecard. We show this to you every quarter. Again this is our way of holding ourselves accountable to you, our shareholders.

We set forth our goals at the beginning of the year and note progress as the year goes on. Progress has been excellent to date according to plan.

That concludes my remarks. We would be happy to entertain any questions.

+++ q-and-a
Operator^ (Operator Instructions). Dan Eggers, Credit Suisse.

Matt Davis^ Good morning. It's actually Matt Davis.

I was wondering if we could just touch upon the Oil and Gas business and the decision to drill the six additional wells in 2015. Correct me if I am wrong but I believe in previous quarters we had really just focused on the 2014 drilling program and then would come to a value decision around the first quarter of 2015 and then some kind of strategic decision later on in the year. And I just want to understand the decision process around that.

Dave Emery^ No, I don't think there's been any change there at all, Matt. We've been pretty focused on a couple of year's worth of solid drilling results.

As we've discussed in the past, what it really boils down to is we need to drill enough wells to be comfortable with repeatability of results.

Both the physical side but the drilling and completion and the costs associated with that and then certainly the production and reserve booking side of that, as well.

We are feeling very confident about the progress we are making, continuing to get more and more efficient in our drilling and completion operation. But with the play as large as this, it is going to take some wells to get that established. Even if we drill all of these, it is only like 16 wells in the play that we have drilled so it's not really that many and I don't think it represents any change in our plan at all.

Matt Davis^ And will you guys be able to firm up and provide some information around well design and spacing and that kind of information sometime earlier in 2015? Or is that going to have to wait until the end of 2015 once you are done with (multiple speakers)

Dave Emery^ To the extent that we continue to drill we will provide updates. One of the benefits at least of the first three wells we are drilling this year is we are not in an area where we are bound by a partnership confidentiality agreement.

So we would intend, once we have cost through casing points pre-completion, we would probably release some of that information and compare it with the information we provided last year. Possibly some of that information will probably be discussed at our Analyst Day.

That's typically a good venue for going into a little more detail. We don't typically have time on the earnings call to spend too much time on those issues.

Matt Davis^ Okay. Thank you very much.

Operator^ Nick Yuelys, Gabelli & Co.

Nick Yuelys^ Hey guys, nice quarter. I was just wondering if you could provide a little more color on the electric demand growth you are seeing in Cheyenne. Is that data center driven or is it more economic growth in and around the city?

Dave Emery^ I would say it's a little of all of the above. Cheyenne has just had pretty strong growth relative to most of our service territory. It has been for several years getting a lot of business overflow from the front range, if you will.

Much more pro-business environment in Southeast Wyoming than in Colorado and a more favorable tax environment and everything else. And Wyoming has been pretty aggressive at trying to attract business to Cheyenne. The Cheyenne LEADS group, the economic development group there, does a fantastic job and our folks have been working hand-in-hand with them.

Certainly the data center business is helping. Several years ago we started on the National Center for Atmospheric Research data center there.

Microsoft has a new data center that has been up and running for a couple of quarters. That is a pretty significant increase in load. And Microsoft announced with the governor of Wyoming here a month or two ago, a pretty significant continued expansion in Cheyenne, as well.

So I think all of those signs plus just an increase in commercial business overall are good positives from a forward perspective for Cheyenne Light. It has been a real good territory. I wish it was a little bigger, 200 megawatt system.

Nick Yuelys^ Okay, great. And I guess just on the Oil and Gas side, crude volumes and NGL volumes were up pretty significantly year-over-year. Is that mostly related to the non-operated Bakken wells, or is that coming from some of the Piceance wells you drilled at the end of last year?

Tony Cleberg^ It is a combination of both. The non-operated is a little stronger on the oil but we are also getting some oil on the gas wells that we drilled in the Piceance. And the NGLs, really the Piceance has helped that substantially.

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Nick Yuelys^ Great. And then did I just hear you correctly that the first three wells you are drilling this year will not be subject to the confidentiality agreements?

Dave Emery^ Yes, that is correct. It is possible all six won't, but for sure the first three won't.

So as we have reasonable information we will be releasing it probably in our quarterly calls. And like I said probably try to go into a little more detail if we have some good numbers by our Analyst Day in September.

Nick Yuelys^ Okay, great. Thank you, guys.

Dave Emery^ One other comment, Nick, is the two wells that we drilled last year, we are not going to disclose production on these two wells every quarter. But suffice it to say that they are following the type curves that we put out previously for those Piceance gas wells. I think it back in the deck in like slide 50 or 51, somewhere back there but they are -- both wells are following that production profile that we forecasted.

Operator^ Mathew Barnett, Capital Jet.

Mathew Barnett^ Hi, guys. Nice quarter. I just had a couple of questions.

The first one on Oil and Gas, which you touched on the NGLs. Just by the math it looks like about 30% of what you produced was NGLs. Is that in the right range of numbers?

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Dave Emery^ Probably in the ballpark.

Tony Cleberg^ Yes.

Dave Emery^ We don't disclose -- we don't have specific production on those two wells in the data but that's probably in the neighborhood. Very strong liquid yields there.

Mathew Barnett^ And then when I look further in the deck that you have in the back, you outline an oilier zone. It looks to be about 50% to 60% of your acreage, is that in the ballpark as well?

Dave Emery^ Yes, roughly. We show that map in there based on current well control and part of our delineation drilling program here is to really get a better handle on where that oily zone, if you will, really is, the more liquids-rich area. There's limited production in the Mancos in that region and we are kind of extrapolating between those wells to draw that map.

So part of what we are doing in drilling these wells is testing which areas of our acreage really are more liquids-rich than others. But based on the map I think your observation is correct. But again remember that the map is not based on a lot of well control so it is going to be subject to reinterpretation as we continue to drill wells at the play and as other operators drill wells in the play also.

Mathew Barnett^ That's great. And then separately, you indicated EURs of a range of 6 to 9 based on your drilling in 2011, 2013.

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It seems like you are going for longer laterals now. Should investors be more focused at the upper end given that that is the type curve you have been pointing people to?

Dave Emery^ Most of our plans are to drill 9,000-plus or so foot laterals is kind of what we are focused on now. Earlier we were drilling the 5,000 to 6,000 foot laterals and I think the results that we have seen as well as the results that we've seen from other operators in the play continue to suggest that economics are better at that 9,000 to 10,000 foot lateral length range.

So that's our plan. And again from a completion standpoint then we are pumping a frac job every 200 feet, 250 feet or so in that lateral section.

Mathew Barnett^ Okay, so the upper end of the EUR range is more indicative of the plan if everything pans out?

Dave Emery^ Yes, again our wells are pretty early. But based on the type curve work we have done and analysis of the other wells, that's what we believe at this point.

Mathew Barnett^ Okay. And then just shifting to the Utilities side. You spoke about the Microsoft data center.

Can you give -- that looks to be coming online in summer of 2015. Can you give a sense of kind of what that means for load growth?

Dave Emery^ Well, we haven't talked specifically about it because we haven't finalized any definitive plans with Microsoft. They have talked about substantially increasing their presence in the state. They have talked about adding a lot of capacity there.

We are still working with them on the specifics of how much load they are talking about. So we are really not in a position yet to disclose what that load growth would be. Their plans are, at least tentative plans, are a couple, three multiples of what they currently have, maybe even more than that.

But when we know those plans and they have disclosed the size specifically of the data centers they are going to add, we'll provide a little more color on it. But we are still in discussions with them about that at this point.

Mathew Barnett^ Do you know how much you currently supply to them on the current center?

Dave Emery^ It's between 10 megawatts and 15 megawatts.

Mathew Barnett^ Okay, great. Thank you very much and thanks for all the effort.

Operator^ David Arcaro, Sidoti.

David Arcaro^ Good morning. You've talked a little bit about rig availability before. Wondering if you had any issues with the two wells you've brought on and would you anticipate any issues with availability I guess for the coming four?

Dave Emery^ No, we have a rig under contract to drill all six.

David Arcaro^ Okay, got it. Let's see, also could we get a current update on status of the coal price negotiations? Are there any market catalysts that you are still waiting for at this point, or is it just finalizing the deal?

Dave Emery^ No, there's essentially three components to that price and we've negotiated two of the three. The third one should be soon and once we agree on that price it will be effective July 1.

So we expect to reach agreement hopefully in the next month or two on that one, it's just kind of an issue of timing and getting the parties together to finalize negotiations. But I think it will be coming soon and hopefully we will get it in place. And like I said it's effective July 1 when we finally get it in place.

David Arcaro^ Got it. So it would be retroactive essentially covering the volumes --?

Dave Emery^ Correct. Yes, correct.

David Arcaro^ Hey, wondering if you could give your current thoughts on the EPA's proposed carbon emission regulations? I guess what is your approach and any insight into what to expect at this point in terms of maybe capital needs, or really what you see coming down the line?

Dave Emery^ Really too early to say what we think is going to happen in the individual states that we operate in. We are very actively participating in the process whether with EEI or whether it's in Colorado, South Dakota or Wyoming with the various state agencies. You really need to get all the players in each state together to really discuss the issues and concerns there.

Frankly, in South Dakota we don't have any coal-fired generation in South Dakota anymore. So we really have very little issue in South Dakota based on what we see today. Still assessing the situation but we just don't have any base load fossil-fired units in South Dakota.

So should be kind of a non-event there. Wyoming, we've got one of the most modern fleets in the country, frankly, coal fleets. All four units there are 1996 vintage or newer, all extremely low emissions for everything but CO2.

If we have to reduce CO2 emissions at those plants we believe we can do that through relatively economic means, whether that is coal firing a portion with natural gas or something, we are investigating all of those alternatives. It certainly would have a rate impact on customers but we really don't know what we would need to do, if anything, until we know what the other players in the state are going to do.

And primarily those are Basin Electric, the co-op and PacifiCorp and we are still working our way through that process in the state meeting with the state Public Service Commission, the State Department of Environmental Quality and then the other players. So a little too early to tell what's going to happen there.

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Colorado, very similar circumstance. We really don't have any coal units there anymore either. We don't.

We retired our W.N. Clark Plant in Canon City. We've got a couple -- some turbine cycle gas units but beyond that frankly there's not a whole lot we will need to do or be expected to do. Again you're looking at a discussion with the state, the other players in the state, notably Tri-State on the co-op side and of course Excel on the investor owned side.

So a little early but I think from a relative perspective compared to most of our industry peers I think we are in very very good shape. That being said, I think the rule is extremely onerous and if it goes through it is going to have a real dramatic negative impact on customers.

Ours less so than most of our peers but it's a very very complicated and very very expensive rule. If it gets completed as proposed.

David Arcaro^ Understood. Thanks again.

Operator^ (Operator Instructions). Dan Eggers, Credit Suisse.

Matt Davis^ Hi, guys. Sorry, I am back again.

Can you just talk about the process and timing for the approval of the transmission line? And then additionally -- from Black Hills Power -- and then additionally if there are any other opportunities outside of what you guys currently have in your plan that you are currently evaluating?

Dave Emery^ Yes, the process and timing is, we filed with both commissions. South Dakota's a little different approval because they don't have what you would consider to be a formal certificate of public convenience and necessity process.

But we would expect approval somewhere in the yearend timeframe in both South Dakota and Wyoming. There is no guarantee of that but I think the line's pretty well supported. So we don't expect a lot of trouble there getting approvals.

We also expect to have federal approval relatively soon, which we've been talking a little bit about this line for probably almost two years now. Haven't specifically filed for approval yet. We've been doing all the preplanning work primarily with the feds.

And a lot of that is we've got the Bureau of Land Management, a lot of United States Forest Service, National Forest Land to cross, and a few others -- National Grassland a little bit in Wyoming. I think we are in pretty good shape relative to a federal okay and just need the approval from the two states.

We would then hope to construct the line in 2015 and have it in service in early 2016. Again that assumes all of our right-of-way acquisitions get completed on time and some of those things. It's a little early.

We don't have all our rights-of-way secured yet. We are working on it.

Don't expect major problems but it just takes time. But early 2016 is kind of what our planned in-service date right now.

Related to other projects, we are always looking at some of the smaller transmission projects. And the nice thing about those is we do have some riders in place. If you look at our capital schedule the detailed utility project one in particular, there's a couple of smaller projects kind of way down on the bottom of the list that are in the 2017 and beyond timeframe.

Certainly those we're contemplating, or they wouldn't be on the list -- more than contemplating -- we are working on those. We have others that we may do but I would say not a lot unless we see substantial load growth or something that would lead us to have to construct additional transmission.

We will be doing some incremental projects. The largest utility growth project that we have been looking at really is one I mentioned earlier in the Oil and Gas segment about cost of service gas program for gas supply for both our Electric and Gas Utilities.

We are working on that. We are evaluating that, looking at whether we could include some of our own internal drilling in a program like that. Not ready to propose anything yet.

But certainly we are seeing some positive signs in other jurisdictions. And we believe our oil and gas experts use sets us up to do that very well. If we can get to a result that we really think would be good for shareholders we'd probably try to get something going on that front.

Matt Davis^ Okay. Thank you very much.

Operator^ And at this time we have no further questions. I would now like to turn the call back over to Mr. Dave Emery. Please proceed.

Dave Emery^ All right, thank you. Thanks for your interest in Black Hills. Thanks for your time and attention this morning.

Again we are pleased with our quarter. Relatively mild weather but we still improved earnings 7% over a pretty good quarter last year, so we are pretty happy about that.

Operationally everything is running extremely well, all according to plan. And we look forward to continuing to report strong results in the future. Thanks for your time and attention and have a great rest of your week.

Operator^ Thank you for your participation in today's conference. This concludes the presentation.

You may now disconnect. Have a great day.