Company Name: Black Hills Corp (BKH)
Event: CFA Society of Minnesota's InvestMNt Conference 2014
Date: August 06, 2014

<<Unidentified Analyst>>

So we wanted to get started. On behalf of the CFA Society of Minnesota, I welcome you to the afternoon of the 2014 InvestMNt Conference. A new presenter this year at the InvestMNt conference, Black Hills Corporation, a diversified energy company with a tradition of exemplary service, basically the energy partner of choice, founded in 1941, the company is based in Rapid City, South Dakota, corporate offices into Colorado and Nebraska.

They serve 765,000 natural gas and electric utility customers in Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota and Wyoming. They also have a business segment that generates [indiscernible] electricity and produces natural gas, crude oil and mine coal.

With us today, we have Brian Iverson, the Vice President and Treasurer; and Jerome Nichols, Director of Investor Relations.

With that, gentlemen?

<<Jerome E. Nichols, Director-Investor Relations>>

Thank you. Well, good afternoon, everyone, and thank you for your attendance this afternoon. And we also welcome those who are participating by webcast today. Before I begin, obviously on slide two; some of statements we make today maybe forward-looking statements, so we ask that you review the risk factors and our statement here as well as risk factors in our other published documents with the SEC.

So why should you consider investing in Black Hills? We have five items here that we think are fairly pertinent. We've worked really hard at refocussing our business back to being a utility-centered energy company. So that provides just more stable and predictable cash flows and earnings. We have an oil and gas group, and we'll talk more about that, that has a pretty exciting shale play in it right now that we think can provide very opportunistic upside value and earnings growth.

We focused really hard on operational excellence through our continuous improvement initiatives internally that helps not only customers, but also shareholders and also helps the regulators in helping or hoping that they'll provide us better regulatory outcomes in our rate cases.

Much stronger balance sheet; over the last decade or so, as we've consolidated our business back to being more of a utility, Brian will talk a lot more about how that's impacted our credit ratings and our credit metrics. And finally, an increasing dividend with solid yield and Brian will talk more about that as well.

On the next slide, I guess on slide number five, here is just an overview of Black Hills before we talk little more about operations. Black Hills Corporations started in 1883, when an intrepid investor decided that he wanted to bring electric lights to the western frontier and mining community at Deadwood, South Dakota. So 131-year history is a very proud history for the company, and one that everybody, I assure you everyone at Black Hills very much wants to perpetuate into the future.

Whereas our legacy company, Black Hills Power was incorporated in 1941, and we were finally listed on the exchange, New York Stock Exchange in 1980, where we've traded under the symbol BKH ever since.

The table here provides you some idea of what returns have been for Black Hills, total shareholder return including dividends and stock split over certain periods of time; it's been a pretty impressive run when you consider that, Black Hills has a beta of about .6 So, double-digit returns historically is pretty impressive when you think about all the events that we've conquered over that time period.

So on slide six then, is just a quick summary of who Black Hills is. So Black Hills Corporation as you noted is, we construe ourselves as a growth company, vertically integrated and we'll talk a little bit about why we think we're vertically integrated. We operate under two groups, utilities and non-reg. In utilities we have both electric and gas utilities operating in the geographies that the map identifies.

On the non-reg side, we have three business segments; power generation, coal mining and oil and gas. The power generation and coal mining businesses, we think as being vertically integrated into our electric utilities, and being very utility like, and we'll talk a little more about that in the next slide. That leaves us really what we construe as our only non-regulated business being oil and gas. And that's the business that has the shale play opportunity right now that we're very excited about.

On slide seven then, just to give you a better sense of our electric and gas utilities. The two groups, the two segments here serve almost 800,000 customers in the particular geography identified. These are geographies that we really like, they're fairly economically stable. They don't have the boom to bust cycles that you have on the coasts or maybe in the deep south. We also like the unemployment rates there, which are – all – most of these states are going to be in the top ten except for Colorado.

So we'd like to think that they're fairly economically vibrant areas and also provides us a little bit of diversity in terms of economic impact in case one state, maybe is having a little more of a challenge versus other states. So it provides us a little bit of the risk diversification, as well as providing us some economic vitality here in the Midwest and in the Plain states.

On slide eight, is some detail on our non-reg businesses. Our power generation segment right now consist of basically three assets. All three of those assets are contracted and integrated into our electric utilities. So that's why we like to think about them as more utility like. So those

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contracts are all approved by the commissions. So that's why we think about them as being utility-like.

The coal mine part of our business, we have a single coal mine that we bought in the mid-50s, its been continuously operated since, that is basically a fuel supply or a gasoline station that you might want to think about it to our coal-fired power plants that are adjacent to that particular coal mine.

We have a picture in the appendix in your book. Oops, we forgot to give you out book real quickly. I'm sorry. And so we'll handout books here in just a minute. But we have a picture in that appendix that shows essentially what we refer to as our Gillette Energy Complex, that will show you the coal mine on one side of the interstate, and on the other side of the interstate will be all of our coal-fired power plants, plus a couple of combustion turbines. So it's an integrated business model there that really is very efficient, it's very cost effective. We can deliver a BTU of coal into our power plants at less than $1.

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So when you think about, natural gas right now is about $4 an MMBtu, we can deliver coal for $1. So it's very, very cost effective. So we don't need to have coal handling facilities really like a lot of other people do. We don't need a supply group, we don't need purchasing group, we don't need marketing group, any of that. We basically uncover the coal, mine it, put it on the conveyer, it goes to the plant, then crush it and put it in the power plant, it's a very efficient model.

This is our Busch Ranch Wind Farm down south of Colorado, which is owned and been in operation about a year and a half. So from a strategic perspective then, what are we trying to accomplish? So we've tried to devise a way to communicate most of our strategic objectives under these four particular communication pillars, so profitable growth, valued service, better everyday and great workplace. I'm not going to read them here, you have a book there, where you can read them, and you can take a look at what our strategic objectives are for each one of those. So we worked internally very hard at trying to build our company around these four pillars from a communications perspective.

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So what are we trying to do from a strategic perspective or operational perspective? So we'd like to think about our business is doing everything better; operational excellence. And we do it for a variety of reasons. One is to try to maximize utilization of our assets.

So if we get availability of our power plants higher than the industry average, which we do, that tells you that we're getting more out of that asset, in other words we're lowering cost for the customer. Why do we care so much about lowering cost for the customer right now? Part of what's happening in the regulatory environment right now is, we're getting more and more regulatory burden imposed by EPA and other compliance related issues at the state level.

So that is increasing our costs. And one of the other items that just came out, by the EPA right now is CO2 legislation or regulatory recommendation. So all that's going to do is, increase cost for the customers, when you have to continue to upgrade your fleet. So one of the ways you can mitigate that impact to your customers is by trying to lower their costs through O&M or through utilizing your assets on a more efficient basis.

So we have, when you look at our availability as an example, reliability compared to industry, we do very well. And in the bottom, we take a look at what's happened here, generation mix by fuel type. So what is happening with our generation fleet? So over the last five years, you can note that, our fleet is getting basically greener and cleaner and newer. So we used to have more than 60% of our fleet was fired by coal. Today, after we get the new power plant that we're building right now online in October, we're going to be less than 40%; and natural gas will go from less than about 30% to almost 60%.

So we'll have flipped our generation mix, which basically improves our emissions and will have improved our CO2 emissions pretty substantially as a company. What that means is that, on a combined fleet age, we're a very new fleet; when you think about the average age of a coal plant in this country is over 40 years. And our average fleet is going to be about 12 years old, it's pretty impressive. So we've gone to a lot of the pain and suffering and our customers have taken a lot of that increase in rates already, relative to a lot of our peer companies.

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Again, operationally on slide 12 then, this just give you some additional metrics to just show you that from an operational perspective, we're really striving to be top quartile in everything that we do.

And this is kind of an interesting piece here is just we are using technology more and more in our business to try to reduce cost for our customers and by using capital i.e. technology we are improving hopefully returns for shareholders. But if we take a look at some items here, this is just a very impressive item here. So just AMI automated metering basically, by being able to do remote disconnects and connects, we've been able to reduce manual meter reads by almost 90% over the last couple of years.

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Field operations by being able to do these things through electronic technology, we've been able to reduce as an example truck deployments sending a crew out to do a disconnect or reconnect or reading the meter by about 95%. So it's tens of thousands of truck rolls. So that reduces cost, reduces emissions if you are talking about sustainability and those types of items. So it's pretty impressive what we've been able to do with technology and we're continuing to integrate technology into everything that we do.

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So what's driving our growth, so on slide 13 is just an overall look at our historical and forecasted capital expenditures. If we take a look at the last three years, 2011, 2012, and 2013, we spend something on the order of about $1.1 billion in capital. We are forecasting about $1.2 billion I believe in 2014, 2015, and 2016. So right now, we are being able to sustain our capital that drives earnings growth for the company. Bottom two just shows you capital spend versus depreciation, which gives in our business obviously in a regulatory model building rate basis is how you grow earnings, it just shows you that we are building rate base at a pretty good rate.

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On slide 14 then this just breaks out our capital a little bit in the utility side to give you a sense of where that capital is going. Historically, it's been going into generation that's been our big spend. Now what you're starting to see is a little bit of spend here increasing spend on the oil and gas side to take advantage of the shale play that we have in the Mancos. We'll talk a little bit about here. And then finally, some of the specific projects that make up the capital on the prior two pages.

What's going to drive earnings here in the short-term? It's going to be the new plant. This new plant will be – it's on budget and on schedule to be brought on service on October 01. This will serve both Black Hills Power and Cheyenne Light. It will meet growing demand in Cheyenne and it will replace some of the capacity that we retired at the end of March of this year for retirement of older and smaller coal-fire plants that were too burdensome to upgrade for emission control.

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So regulatory updates, this gives you a sense of some of the rate cases that we have filed. Most of these rate cases are filed on behalf of the new power plant, because we have to file both in Wyoming and South Dakota to meet the needs of both Black Hills Power and Cheyenne Light, give you a status update on the one, which is the Wyoming piece. This was approved on July 30.

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So we have the settlements that were approved. So at least we have the Wyoming portion of the Cheyenne rate cases now approved.

So oil and gas, what are we trying to do? So in the oil and gas business right now, we owned some assets down in New Mexico and Colorado that came with an acquisition back in about 2003. And we knew the deeper formations were a part of that leasehold – but they weren't economic at the time. So with peer companies out there doing some work in there, we realized that fracking or horizontal technology had advanced to that point where we could actually do some drilling down there and make it economic.

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So we are trying to do then is prove up probable and possible reserves. That's mostly going to pertain to the Mancos Shale assets so that we could have done it. Besides that, we want to pursue a disciplined oil exploration program. What we are trying to do is balance out of portfolio of oil and gas reserves, it's about 70% gas right now and about 30% crude. We'd like to balance out a little more.

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So on the Piceance and San Juan basin which is actually our Mancos shale program. What are we trying to do is about 94,000 acres down there right now. We need to drill and complete some wells, some additional wells there to basically prove out that all of that acreage is equally perspective. That the geology is consistent and that we consistently and ratably drill wells and we have an idea of what we are going to have.

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Alright. So we need to do that in 2014, 2015 and probably as we get later into the 2015, we'll think about what our strategic options are going to be, and we have a variety of things that we can consider and all things will be on the table.

And for 2014, we just talked about a little that. Unfortunately, we're going to drill six wells, we're going to drill additional six wells in 2015, continue to participate in some non-operated Bakken drilling, which is crude oil which has been very successful for us and continue our oil well upgraded greater program.

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With that, I'll turn it over to Brian.

<<Brian G. Iverson, Treasurer & Vice President>>

Thanks, Jerome, and good afternoon and thank you for being here. We just announced earnings earlier today for the second quarter $0.44 a share, up about 7% year-over-year from 2013. As you'll see later on, primarily driven from some of the refinancing and interest savings, we have late last year.

Year-to-date, earnings are up on a per share basis, 19% from 2013. 2013 had a very good weather year. 2014 earlier, first quarter was a very good quarter for weather. I think Jerome mentioned we wished it would have been a little colder on April and a little warmer in June, when it comes to utilities and you got both gas and electric to improve the second quarter. But all-in-all, good solid operational performance and certainly good 7% percent increase over the same time last year. I guess there is a slide there.

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We can see here this, it's kind of a note to look at this. In previous years, we had some interest rate swaps out there of the part of the balance sheet restructuring, we have settled those in the fourth quarter of 2013.

And so we typically had listed those as a special item, because really they were non-cash mark-to-market items, really going to reflect kind of the ongoing operations. We've cleared those up and so now, our income statement including our balance sheet was much cleaner as we move forward and kind of look at the bottom line results.

Next slide here goes through and get you a little more break down and you can see about $5.5 million interest savings in the second quarter. Year-to-date, spent $11.6 million of interest savings related to that refinancing, so really kind of put us in a good position and we'll talk to a little more about credit metrics and the improvements that we've made there.

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EBITDA is about flat year-over-year. But when you look at the year-to-date numbers, we're about 5% up from the previous year. So we're a little right around $400 million we would expect to continue and grow that EBITDA number.

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This gives you a little more break down as to how we view the business the way we're doing. And you look here, the electric utility is about 80% of our operating income, gas utility is another 14% and the rest is made up of power gen and coal mining, which is directly tied to our utility businesses.

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And then the E&P, we've lost money there where we had an improvement for the last year in that business, due to some increased production and slightly higher average price. And main focus has been there, a couple of years ago we sold off a portion of our oil business that was up in the Bakken. We took the cash and used it to pay down debt and then kind of refinance the power plant that we're building right now.

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So what we're doing now is we're kind of getting back into that process of drilling some, doing some drilling on the oil side and then proving up this Mancos Shale. So we know as Jerome said kind of how prospective it is and we can delineate better what the valuation is.

Looking at our growth rate over the years, driven primarily by vertically integrating utilities, we've acquired electric utilities and the Aquila properties and really been able to invest in taking them from PPA type environment to rate based generation in those jurisdictions, so that's driven a lot of the growth that we see here. And if you look at the midpoint of our guidance for this year, it equates to about 14 point compound annual growth rate. So really solid, solid returns for utility type business.

This is something that we've started disclosing later on in the year to help people give a kind of a handle on the utility side of our business, we got about $1.7 billion of rate base. Number for 2013, we typically will update this about a year of a time and the number for the 2013 clearly will go up significantly with about $222 million addition of Cheyenne Prairie Generating Station and we've got some other transmission projects out there too that will take that up.

One of the things you see when you go from 2012 to 2013, effective bonus depreciation has a significant effect on how rate base is computing some of the jurisdictions, so it does do some strange things to what the numbers look like, that we will see a nice lift, going into next year for the rate base.

And then we get the capital structure, mentioned some of the scrude oil really kind of improving our balance sheet. We've been on, back in early 2000, I think most of the utility sector and energy sector took downgrades from the rating agencies. We've been on the mission for about 10 years to improve our credit, improve our balance sheet and really secure some upgrades from the rating agencies.

Last year, all three of the rating agencies gave us an upgrade, Moody's gave us two because they had kind of a general utility industry upgrade that they gave and they also gave us an upgrade, just because of our improved performance and credit metrics. Fitch has given us two upgrades most recently just last month, I guess two months ago now, now that we are in August and then S&Ps still has us at BBB flat credit. So if you look at our credit metrics, we have very solid high BBB type of metrics when you look at it.

We've been spending money on constructing Cheyenne Prairie Generating Station. So our net debt to capitalization is here pretty consistent from year-end. And we did the – as you flip on to the next page here, this is page 27, we did finance the permanent financing for Cheyenne Prairie Generating Station.

At the end of June, we announced that we've financed Black Hills Power's portion for some 30-$85 million of 30-year notes, I think with a coupon of 4.43%. And for Cheyenne Light, Fuel & Power, we did $75 million of 30-year notes for about 4.53%. Those will fund in October, so it's a delayed draw transaction that we entered into, that's about five institutional investors that purchase those bonds in a private placement.

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So we're in good share on it when you take a look at this one, it comes to maturities. We do have a term loan that we've been taking advantage of the current short-term interest rates, certainly looking at as we go through times, when is the proper time, to term that out a little more, some of the proceeds from the actual funding of the Cheyenne Prairie transaction will be used to pay that down to.

So we're in a really good shape when it comes to maturities and really from the balance sheet perspective. And this is just a summary of what we've already talked about related to the credit rating agencies, we're all stable outlook at all of them. Black Hills Power is also rated entity and we typically only issue secured debt in that and it's got A- and A ratings from our Moody's, S&P and Fitch.

And then last but not least, I would like to talk about our dividend record, we are one of three electric and gas utility companies that have ever referred as I believe maybe, Vector and National Fuel Gas are either with us or few years ahead of us, we've had a history and sometimes we've moderated that because one of the things we always look at is how do we deploy capital within our utility and we want to continue to having a strong dividend record, increasing that dividend, but also mindful of what other demands we have in our capital since we've been building generation and have other places to deploy it.

But typically we look at about a 60% payout ratio and typically if you look at, that's been on a regulated side, because most of our earnings have been from our regulated utility type properties. And then you saw a little bit of this early with Jerome identified the pillars we have out there.

We set down at the first part of every year and develop a bunch of objectives that's how we measure ourselves, how we help investors take a look at and say are we accomplishing the pieces to get the pieces that it takes under these categories to get to the kind of financial performance that we need to get.

And so as we go through, we check them off. We still have a good amount of work to do for this year, but a lot of it's coming due when we check off hopefully in the next quarter with Cheyenne Prairie Generating Station going into service at the end of the quarter, certainly the increase of the dividends, we're really working on trying to – with the workforce issues as you get people retiring and whatnot how do you make sure that you attract people into an industry that maybe people have looked at and said what that doesn't like, it's very exciting and we've got plenty to do an we're trying to communicate that to people.

So with that, we're on to questions, we got about 10 or 15 minutes I guess, or 5 to 10 minutes for questions.

Q&A

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: Maintenance CapEx, I don't know that we – we can try and get a view of that on those separate numbers by maintenance growth and data that we have…

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<A>: It's a good number. Very good. So I think the other line again generation.

<A – Brian G. Iverson>: That's probably about as close as you'll get into that. And then with the gas utilities or some integrity capital there, but that's going to continue on in – I think all of our jurisdictions now, except for maybe Colorado, I believe we've got integrity riders. So that as you go through and do some of the replacement of older pipe that flows through on a year-by-year basis. So you don't have the kind of mindful rate case. So that's probably a good estimate of where we're at.

<A>: And then on the electric too, when you look at the other that's ramped up here in 2014, 2015, 2016, so there is – where some of the maintenance, you also have some technology gap that's going in to some of those initiatives. So not all of that's been maintenance, but probably half, it's not more than half will be maintenance CapEx for the electric utilities.

<A – Brian G. Iverson>: Yeah. I mean you get here to the slide before that has got kind of our depreciation rates compared to CapEx, so that's going to be, any other question?

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: Biometric screening. Yeah, we've looked at is just – we have a healthcare plan and really looking at the ACA and how do we – I think our employees, being a preferred employer, you want to make sure that you've got the benefits you need. So we do biometric screening that's typical, you do some blood work, blood pressure.

<A>: Body mass.

<A – Brian G. Iverson>: Body mass.

<Q>: Yeah.

<A – Brian G. Iverson>: It's kind of your basic measurements, a lot of it is the blood testing and we've actually had very good results of having employees that have caught many health issues early. We don't – clearly don't know anything about this, where we get reports back for them. And to some people would say, why do we have to do this?

They end up begrudgingly going to do this and find out this is a good thing. So it is an effort to really kind of help people understand their numbers and then do something about it, keep healthcare costs lower.

<A>: Yeah. The healthcare costs are becoming an issue…

<A – Brian G. Iverson>: That's in an effort to kind of avoid those healthcare tax issues that you get to, if you can hold your healthcare tax down. We have wellness programs too, we encourage. We kind of set up a little competitions, we've got an internal website where people can measure different things, they have form up teams and this is by getting out and doing

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exercise. It's interesting how people get excited about that, but it gets them into the right thing, it's all good.

We do I think in next year, we will have a discount, the people have participated in all the wellness screenings, everything that we are supposed to do, and really it's just about them knowing and doing the right things for themselves, but they will get slight break on their part of the premium for doing all that. Any other questions?

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: Yes, we do. So the coal mine serves our mine-mouth plants, (do you know what page that is at?)

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: And then the PacifiCorp has got a plant that's located at Wyodak plant, we won 20% of that facility. They're all right at the mine-mouth, that's what that thing is really designed to do is to serve those, hopefully so we have some very small ancillary sales to some local, aggregate type of companies if they're a little bit caught.

<A>: This has got really to be an integrated approach right, so nearly, it was not built to serve third-party customers off-premise?

<A – Brian G. Iverson>: Yeah. So the PRB, it's a pretty – it looks big, but it's small compared to some of the big operators, right. Any other questions?

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: That's delivered, because what happens is it goes on a conveyor belt out here and right into the coal facility. So there's no transportation costs, it's very, very efficient.

<Q>: [Question Inaudible]

<A – Brian G. Iverson>: Those are silos and there's two more here.

<A>: [Question Inaudible] it's very, very efficient.

<A – Brian G. Iverson>: Yeah. So that type of facilities are very competitive to – we've always, we've been modeling emissions and carbon tax in our resource planning since the 90s and probably even before. The fuel costs on those facilities make them dispatch, even with some additional impositions as we get on. The hard part how about it is the energy cost are high enough from people's view in that any of these additional impositions, which has been increased some of that.

<A>: One of the interesting things about how this coal mine works is, it works a little bit like a rate base model. So right now, a little more than half of your coal is shipped directly to your

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regulated electric utilities. And so that coal that is shipped there under approved regulatory contracts, you treat them like a rate base model. You get complete recovery of the costs, plus you get a return essentially on the coal rate base which is net PP&E plus inventory. That return is A rated utility bonds plus 400 basis points.

So it's a pretty neat structure there, because what it does is it treats as it gets, it gets an amazing way of lower risk model versus just a regular mine in Powder River Basin. And that's where that coal is, you ship to PacifiCorp, which owns...

<A – Brian G. Iverson>: Which is right here.

<A>: …. which is owned 80% by PacifiCorp, 20% by us. And so you have basically kind of a fixed price contracts that we adjust on regular basis for PacifiCorp components. So that's not under that rate base model and then we also ship to Wygen I which is actually one of our power generation segments, which is again the fixed price.

Now, what's interesting there is the Wygen I piece, Cheyenne Light electric utility has an option to purchase that ownership portion of Wygen I at some point. So again, if they execute that option at some point that percentage of coal being shipped to Wygen I would actually become kind of a rate base model down the road. So very interesting complex, very interesting process here, just kind of lower our risk and make it more predictable from an earnings perspective.

<<Jerome E. Nichols, Director-Investor Relations>>

Well, thank you very much, I appreciate your time.

<<Brian G. Iverson, Treasurer & Vice President>>

Thank you for the time.

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