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+++ presentation

Operator^ Good day ladies and gentlemen and welcome to the Black Hills Corporation third-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Jerome Nichols, Director of Investor Relations of Black Hills Corporation. Please proceed, sir.

Jerome Nichols^ Thank you, Mallory. Good morning everyone. Welcome to Black Hills Corporation third-quarter 2015 earnings conference call. Leading our quarterly earnings discussion today are David Emery, Chairman, President and Chief Executive Officer and Rich Kinzley, Senior Vice President and chief financial officer.

Before we begin today a would like to note that Black Hills will be attending the EEI Financial Conference next week in Hollywood, Florida. You will find our presentation materials and webcast information on our website at www.blackhillscorp.com under the investor relations heading.

During our earnings discussion today 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 expectation 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, Form 10-Q and other documents 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 will now turn the call over to David Emery.

David Emery^ Thank you, Jerome, and good morning everyone. I'll be starting on slide 3 of the webcast deck and then we will be following a format similar to that of previous ~~quarterly~~quarterly calls. I'll give an overview of the quarter and some highlights, Rich Kinzley will go over the financials from the quarter and then I will talk a little bit about forward strategy and then we will answer questions.

Moving to slide 5 the third quarter was another strong quarter for Black Hills Corporation. We posted solid earnings and made great progress on our growth goals for our existing businesses and we also made excellent progress towards our pending acquisition of SourceGas.

Related to SourceGas on August 10 which was less than 30 days after the deal that was announced we filed joint applications for acquisition approvals in all four states. A week later, just a little over a week later we received our Hart-Scott-Rodino antitrust clearance. We now have procedural schedules established in three of the states with the fourth state pending. The discovery process is ongoing and we still remain on track to close in the first half of 2016.

Also on the acquisition front we did close on July 1 on our \$17 million acquisition of about a little less than 7,000 customers in northwest Wyoming. Notably related to that acquisition they were 100% integrated onto all of our systems and processes on day one after close.

From a business environment perspective during the quarter we had warmer than average weather in our utility service territories, slight positive for the electric utilities and a negative for the gas utilities. And then energy commodity prices, particularly oil and gas, remained ed at very low levels.

Moving on to slide 6 utility highlights for the quarter, Black Hills Power is preparing to commence construction later this quarter on a 144 mile, \$54 million electric transmission line routed from northeast Wyoming to Rapid City South Dakota. Cheyenne Light recorded a new all-time peak load of 212 megawatts on July 27. That's the third new peak for Cheyenne Light this summer, highlighting the strong growth in the Cheyenne area service territory.

On October 21, Colorado Electric received approval from the Colorado PUC to acquire the planned 60 megawatt Peak View Wind Project which will help our utility meet the Colorado renewable energy standards. A third-party wind developer will build the project. We executed a build transfer agreement with that developer and we'll take ownership upon commercial operations in the fourth quarter of 2016.

Total cost of the project will be approximately \$109 million. Our capital investment and the return on that capital and all expenses will be recovered through customer adjustment clauses and a base rate increase will not be required for the first 10 years of the project.

Moving on to slide 7, continuation of our utility highlights, we continued construction on our \$65 million, 40 megawatts gas combustion turbine at our Pueblo Airport generating station. That's being built for our Colorado Electric subsidiary and it's expected to be in service in the fourth quarter of 2016.

We also completed here just in the last couple of weeks our field service optimization project. We rolled it out to all of our utility techs in all of our states.

Really that project is a deployment of tablet and GPS technology to automate and improve the efficiency of a lot of our field processes including dispatching. We're excited about the benefits of that project.

On the nonregulated side, ~~our~~ non-utility side we initiated a process to evaluate the possible sale of a minority interest in our Colorado IPP generating assets. And we drilled the last of 13 horizontal Mancos Shale gas wells for our 2014 and 2015 drilling program in the southern Piceance Basin in Colorado. We have six wells on production and we just started flow back operations for the final three wells.

We expect to have the test results on those three wells by year-end. Results for the program continue to meet or exceed our expectations.

Slide 8 which is corporate highlights for the quarter, the Board last week declared a quarterly dividend of \$0.405 a share, continuing the level we've been at for this year equivalent to an annual rate of \$1.62 per share. During the quarter we entered into \$250 million of interest rate swaps really to mitigate any future interest rate risk associated with some of our future debt issuances, primarily related to the SourceGas transaction. And we continued our cost-containment efforts which we started earlier this year to really help mitigate the impacts of low oil and gas prices and moderate weather that we had earlier in the year.

Moving on to slide 9, financial highlights for the third quarter we earned \$0.64 per share as adjusted from continuing operations during the quarter, about a 5% increase compared to the same quarter last year. Really good result considering the negative impacts of our oil and gas business.

Slide 10 provides a reconciliation of our third-quarter 2015 income from continuing ops as adjusted against our 2014 results for the third quarter. Strong performance in nearly all of businesses more than made up for poor performance at our oil and gas subsidiary.

With that I will turn it over to Rich for the financial update. Rich?

Rich Kinzley^ All right, thanks Dave. Dave mentioned our core utility and utility like businesses continue to demonstrate strong performance.

In the third quarter each of these businesses improved operating income compared to the third quarter of 2014. In particular, our electric utilities posted strong year-over-year operating results.

Our oil and gas business continued to manage through a challenging commodity price environment. Despite that challenge we posted a strong quarter.

On slide 12 we reconcile GAAP earnings to earnings as adjusted, a non-GAAP measure. We do this to isolate special items and communicate earnings to better indicate our ongoing performance. In each of the first three quarters of 2015 we've incurred noncash ceiling test impairments at

our oil and gas business and in the second quarter of 2015 we also impaired an equity investment at our oil and gas business.

These impairments are due to low natural gas and crude oil prices and are noncash charges that are not reflective of ongoing operational results. We also incurred external acquisition related costs in the second and third-quarters of 2015 associated with the SourceGas acquisition, such as financing and other third-party costs which were nonrecurring in nature. Our third-quarter as adjusted EPS reflective of ongoing operations was \$0.64 per share compared to \$0.61 per share in the third quarter last year and our trailing 12-months as adjusted EPS was \$3.05.

Slide 13 displays our third-quarter revenue and operating income. On the left side of the slide you will note that revenue was flat in 2015 due to lower gas utility revenues from lowered pass-through gas costs in 2015 and lower revenue from the oil and gas business due to lower received prices. These revenue reductions were offset by strong revenue growth at our electric utilities.

On the right side of the slide you can see that strong performance in the third quarter at our core utilities, coal mine and power gen businesses more than offset decreased performance at oil and gas resulting in a more than 10% increase in consolidated operating income as adjusted year over year. I will elaborate on each business unit in the following slides.

Slide 14 displays our third-quarter income statement. Comparing third-quarter 2015 to third-quarter 2014 gross margin increased 7% driven by strong electric utility results. Operating expenses increased 6% due largely to margin additive activities at our electric utilities.

DD&A and interest expense increased primarily from added plant ~~in and~~ service and borrowings associated with our October 1, 2014 in service of the \$222 million Cheyenne ~~Prairie~~ generating station. The DD&A increase was partially mitigated by lower ongoing depletion at our oil and gas business which I will explain in a few slides. As adjusted EPS grew 5% year over year and EBITDA increased by 8%.

Moving to our business unit results, slide 15 displays electric and gas utilities gross margin and operating income. In 2015 we changed from discussing revenue to gross margin for our utilities as we feel gross margin is more relevant to understanding ongoing results since revenue includes fuel cost pass throughs.

On the left side of the slide you'll see our electric utilities third-quarter 2015 gross margin increased by \$14 million from 2014. \$9.5 million of this increase was driven by additional return from investments in our generation facilities with completed rate cases in late 2014 and early 2015 in Colorado, South Dakota and Wyoming.

Gross margin also benefited by nearly \$3 million from the combination of higher commercial and industrial demand and the addition of two small Wyoming natural gas utility acquisitions in 2015 that Dave mentioned. These small utilities are subsidiaries of Cheyenne Light and we report their results in the electric utility segment.

Residential usage was favorable across our electric service territories, in total up 4.6% comparing third-quarter of 2015 to 2014. Cooling degree days in our electric utility service territories for the quarter were 36% above 2014, adding \$3.3 million to margin year over year. Overall weather impacts at our electric utilities were \$300,000, favorable compared to normal.

Operating income during the third quarter for our electric utilities improved by \$8 million or 19% year over year as a result of increased gross margin and solid cost management. Operating expenses including depreciation increased only \$6 million year over year despite the addition of Cheyenne Prairie and the two small Wyoming acquisitions, the combination of which accounted for approximately half of the \$6 million expense increase.

Looking at the right side of slide 15 our gas utilities gross margin increased slightly in 2015 compared to 2014. Increased margins from a rate case completed in Kansas in late 2014 and higher transport and industrial volumes were offset by unfavorable weather impacts.

While weather isn't a large driver for our gas utilities in the third quarter it's worth noting 2015 heating degree days in our gas utility service territories were 61% below 2014 and 57% below normal for the period, resulting in a \$400,000 negative impact to margins in the third quarter compared to the prior year and compared to normal. So if you take the electric and gas utilities combined weather was, really, flat compared to normal in total for the third quarter.

Third-quarter 2015 operating income of the gas utilities increased \$800,000 compared to 2014 thanks to strong cost management which reduced operating expenses \$600,000 year over year.

On slide 16 you'll see power gen's operating income improved by \$1.4 million compared to last year's performance. Power gen declined from -- power generation benefited from annual power purchase agreement price increases, partially offset by decreased capacity payments as we sold the 40 megawatt CTII to the city of Gillette in the third quarter of 2014.

These lost revenues were partially mitigated by the cost sharing benefits we enjoy as we operate this facility for the city. Cost management efforts at power gen allowed us to reduce operating costs by \$300,000 year over year.

On the right side of slide 16 our coal mining segment saw improved operating income in the quarter by \$400,000 from 2014. While tons sold were slightly done year over year our average overall coal price received increased 13% comparing Q3 2015 to Q3 2014 and strong cost management contributed to another solid quarter at the coal mine. Power gen and coal mining continue to deliver solid results.

Moving to oil and gas on slide 17 you'll see we sustained an as adjusted \$7.2 million operating loss for the quarter. Commodity prices negatively impacted results in the third quarter of 2015 as our average received

prices inclusive of hedges were down 27% for crude oil and 37% for natural gas compared to the third quarter of 2014. Overall third-quarter production increased 17% comparing the same period in 2014 driven by increases in both natural gas and crude oil production.

On the cost side our Q3 operating expenses increased slightly comparing 2015 to 2014 due primarily to employee severance cost as we reduced staff in the third quarter which will reduce future period's ~~is~~ operating costs. Despite increased production volumes DD&A decreased by \$0.5 million in the third quarter compared to 2014 due to a substantially lower depletion rate. The reduction in the depletion rate resulted from a lower cost pool due to the ceiling test impairments we incurred in the first and second quarters of 2015.

In the third quarter we incurred a \$62 million pretax ceiling test impairment charge related to our oil and gas holdings in addition to the impairments we incurred in the first and second quarters. The ceiling test utilizes rolling 12-month average prices for crude oil and natural gas. Prices for these commodities began to fall in the fourth quarter of 2014 and have remained low throughout 2015 compared to 2014.

Consequently the average prices used in our ceiling test impairment evaluations have continued to drop each quarter in 2015. We are likely to incur an additional impairment charge in the fourth quarter if crude oil and natural gas prices remain at current depressed levels. Also as a result of the third quarter ceiling test impairment we expect a lower depletion rate again in the fourth quarter.

Despite the challenges presented by the low commodity price environment we continue to be pleased with the momentum we have proving up our Piceance Mancos Shale play. We expect to substantially complete our drilling, completion and testing program as we finish out 2015. The play is well-positioned to potentially serve our cost of service gas model we filed in six states for regulatory approval and for additional upside value capture when commodity prices improve.

We've rightsized our cost structure in the oil and gas segment and expect a much lower depletion rate in 2016. We've also substantially reduced our expected capital spending in our oil and gas segment for 2016 and 2017. Dave is going to talk a little more about that in a couple of slides.

Slide 18 shows our current plans for the SourceGas financing as well as other financing activities in the 2016, 2017 horizon. We completed syndication of a bridge facility to give us flexibility with the timing and structuring for the permanent financing for the SourceGas acquisition.

As previously disclosed we will be assuming \$700 million of existing SourceGas debt and financing the remainder of the acquisition through potential asset sales and new debt and equity issuances. At our recent Analyst Day we discussed our financing plans for the SourceGas acquisition and indicated we will finance the acquisition in a manner that will support our strong investment-grade ratings.

We are currently reviewing options for financing the recently announced \$109 million Peak View Wind Project and our other strong utility growth oriented capital activities in 2016 and beyond. To support ongoing CapEx associated with our continued growth post-SourceGas acquisition closing we are considering the implementation of an at-the-market equity program in 2016.

Slide 19 shows our current capitalization. At quarter end that debt-to-cap was 56.7%, an increase from June 30 that was primarily driven by the third-quarter non-cash impairment charge in our oil and gas segment. Given expected cash flows from operations for the remainder of the year and our revolver capacity we have ample funding available for planned CapEx and dividends in the fourth quarter.

Slide 20 demonstrates our strong earnings growth performance over the last six years. Our third-quarter results demonstrate the continuing strong operational performance and growth characteristics of our core businesses. While low crude oil and natural gas prices impacted our oil and gas segment in 2015 and tempered 2015 earnings growth we expect to grow earnings again in 2016.

Which brings us to slide 21. In our press release on October 7, we increased our 2015 earnings guidance range to \$2.90 to \$3.10 per share as adjusted which we reaffirmed with our press release yesterday. We also yesterday issued our initial earnings guidance for 2016 to be in the range of \$3.15 to \$3.35 per share as adjusted.

The assumptions for this guidance are listed on slide 21. Most notably, the assumptions exclude the SourceGas acquisition, any material asset sales and any significant new debt or equity issuances. If any of these items occur we will issue updated guidance. As we've previously disclosed we believe the SourceGas acquisition if closed in the first half of 2016 as planned will be meaningfully accretive to 2017 earnings per share.

And with those comments I will turn it back to Dave.

David Emery^ All right, thank you Rich. Moving on to slide 21 (Actually slide 23), forward strategy.

We group our strategic goals into four major categories and we've done this for a couple of years, the overall objective being an industry leader in all that we do. Those four major goals are profitable growth, valued service, better every day and a great workplace.

On slide 24 I noted this earlier but we're making excellent progress on our acquisition of SourceGas. We're on track for closing in the first half of 2016 as I said earlier and we have a very experienced leadership team guiding our integration effort. Our goal on the integration is to be fully integrated by the end of the year 2016.

Moving on to slide 25, strong capital spending drives our earnings growth and we forecast a total of \$1.25 billion of investment for 2015 through 2017. Our projected capital spending far exceeds depreciation driving earnings growth. It's important to note that this table on slide 25 does

not include any capital related to either the SourceGas acquisition or capital spent in the SourceGas territories post-acquisition.

On slide 26 as I said earlier we're continuing to make great progress constructing a new turbine at the Pueblo Airport generating station. We commenced construction in June. We've spent about \$27 million to date out of the projected total of \$65 million. Construction is a little over 20% completed and we have no safety incidents to date.

On slide 27 Monday of this week we announced that we've received the necessary approvals and executed the necessary agreements to purchase the \$109 million, 60 megawatt Peak View Wind Project in Colorado. I mentioned this earlier, it will help us meet the renewable energy standard in Colorado for our Colorado Electric customers. We expect construction to commence in the second quarter of 2016 and be completed by year end.

Slide 28, our electric utilities have demonstrated solid earnings growth year to date in 2015 and Rich covered that earlier. One aspect of that has been strong industrial load growth in all three of our electric utilities. The overall growth rate has been 16% year to date. That growth has come from several different industrial customers and industry segments with the data center load growth particularly in Cheyenne, Wyoming being the most notable.

On the slide 29, a significant growth opportunity that we are pursuing is this utility cost of service gas supply program that we've been talking about for well over a year now. Under a cost of service gas program our direct investment in natural gas reserves would provide long-term price stability for customers while providing increased earnings for shareholders, an excellent win-win situation. We've submitted cost of service gas regulatory applications now in a total of six states.

We hope to pursue and receive approvals on those programs in 2016. We're continuing to evaluate producing properties and drilling prospects for inclusion in that program and that certainly includes our Mancos Shale gas properties in the Piceance Basin in Colorado.

On slide 30 and we discussed this in quite a bit of detail in our Analyst Day but in light of continued low oil and gas prices, our oil and gas strategy is really focused on providing cost of service gas cost effectively to our utilities. We're working to finish up our 2014 and 2015 Mancos drilling program and then focusing on minimizing other capital expenditures and operating costs.

On slide 31 there is an illustration of the impacts that low crude oil and natural gas prices have had on our quarterly full cost ceiling test that Rich mentioned earlier. We do expect another impairment in the fourth quarter as Rich stated earlier if product prices remain at current levels.

Slide 32 provides well by well detail for our Mancos drilling program. It includes all wells drilled from 2013 through 2015. The top six wells on the page have all been placed on production in 2015.

We have good test results on those wells. We just started flowing back the three final wells that we intend to produce this year. They are in the Whittaker Flats area and should be tested and on production prior to year end.

On slide 33 we continue to be very proud of our dividend track record, having increased our annual dividend to shareholders for 45 consecutive years.

On slide 34 we do have a strong balance sheet, strong cash flows and solid investment-grade credit ratings. And as we discussed last quarter all three agencies reacted favorably as we expected to our SourceGas announcement.

Slide 35 illustrates the continuing focus we place every day on operational excellence and on being a great workplace. Our safety performance year to date has been outstanding. Our total case incident rate for the year of 0.7 is the lowest ever for Black Hills Corporation.

Finally on slide 36 is our scorecard. This is our way of holding ourselves accountable to you our shareholders.

We've done this for quite a few years now. We lay out our goals at the beginning of the year and literally keep you informed as to our progress throughout the year as we make progress towards those goals.

That concludes all of our remarks. We'd be happy to take questions.

+++ q-and-a

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

Dan Eggers^ Hey, good morning guys. I guess if we step back and think about the priorities around the earnings outlook, the commodity price assumptions in the E&P business are above the strip, can you explain how you got to those number, where the sensitivities fall out and why you guys decided to settle above the curve right now?

David Emery^ The curve changes every day and typically what we do, Dan, is we take a basket of multiple forecasts and try to use that to come up with a reasonable estimate for the future year. Literally the curve changes every day and if we revised our forward-look every time the curve changes then that's all we do. So we try to look at several forecasts and bank forecasts, the strip and other things. Obviously weighted a little more heavily probably towards the strip than some of the other things and set a forecast at the beginning of the year that we think we can live with regardless of whether that price fluctuates up and down a little bit throughout the year.

Dan Eggers^ Okay got it. And then did I hear you correctly say that on the Wind acquisition that there's no base rate increase for the first 10 years?

David Emery^ Correct. Yes, the way that we're going to get recovery for that is it's basically going to flow through three different cost adjustment clauses that we have. And we'll earn the same amount basically but it's going to go through the adjustment clauses.

And then it's going to be up to us to decide whether we want to continue that or go in for a base rate case in year 10. I think the commission's preference at least at this point would probably be that we do a base rate case in year 10.

Dan Eggers^ Now are we going to see a distortion in your tax bill because the BDCs being generated will bring your tax expenses down, so part of the return is going to come on that asset through the tax line effectively?

Rich Kinzley^ That's correct, Dan.

Dan Eggers^ Okay. And how much will that affect the tax rate for next year or the year after if we want to try and layer in expectations?

Rich Kinzley^ Right. It won't affect 2016 obviously because it's going to go into service late in 2016. But in 2017 I don't even want to guess --

Dan Eggers^ Or maybe I should ask what is the right utilization rate you guys are expecting off the project?

Rich Kinzley^ Yes, high 30s, low 40s. Right in there for a capacity effect.

Dan Eggers^ Okay very good. Thank you guys.

Operator^ (Operator Instructions) Insoo Kim, RBC Capital Markets.

Insoo Kim^ Hi, good morning guys. Just back to SourceGas, are you able to give any more guidance on potential timing of the equity issuance whether it will be before the end of the year or after?

David Emery^ Basically what we wanted to do was get our third-quarter financials out and then essentially we're going to watch the market conditions and be prepared to go to the market. There's obviously some holiday and things in there but we're looking at any time basically between a couple of weeks from now and closing would be our ideal timing. And we're just going to evaluate market conditions and make a decision on timing as things evolve.

Insoo Kim^ Understood. And regarding the financing of the deal, are you currently actively looking for buyers of your non-core E&P assets to help with the funding? Or is there not really a good market right now given the low oil and gas prices?

Rich Kinzley^ The non-core assets at E&P aren't going to generate I would say a material amount. The Colorado IPP is the big thing there obviously. So we'll opportunistically look for opportunities on the non-core E&P but it's not going to be a huge number.

David Emery^ Yes, it's more just cleaning up the portfolio and the labor involved and managing it all than it is about big dollars on the capital side.

Insoo Kim^ Got it. And finally if the deal does close on time in the first half of 2016 I know in 2017 you do expect some material earnings accretion. But in 2016 do you still expect some neutral to slightly accretive scenario for 2016?

David Emery^ It really depends on timing. And if you think about the SourceGas is no different than most gas utilities, it makes a huge portion of its income in the first quarter. And so if you close after the first quarter is over you have a relatively small piece of the income remaining and a relatively large piece of the expenses remaining for the year.

So it's going to depend on timing. If we close right after winter for example we're going to have three quarters of a year of expenses and roughly half a year of income.

Insoo Kim^ Right, right, got it. And then just one more question if I may, at the utilities with a strong industrial growth year to date you're seeing for the year, is there any read through to the forecast for 2016 and potentially beyond?

David Emery^ I think we've accounted for that growth in our guidance if that's what you're asking.

Insoo Kim^ Yes, I was just wondering it's pretty 16% industrial growth you're seeing that's very strong and just wondering modeling out for 2016 kind of what level we should be expecting.

David Emery^ Well, we've talked a little bit -- the biggest piece that will be continuing is really the Microsoft piece. And there's quite a few public disclosures around Microsoft has made some announcements in Cheyenne related to their plans and they are continuing with additional expansions of data centers there in Cheyenne. So we expect that to continue for a while.

Insoo Kim^ Understood. Thank you and see you in a few days.

Operator^ (Operator Instructions) I'm showing no further questions. I will turn the call back to David Emery for final remarks.

David Emery^ All right. Thank you everyone for attending the call this morning.

We certainly appreciate your continued interest in Black Hills. And for those of you who are going to be at EEI we look forward to seeing you next week. Thanks and have a great day.

Operator^ Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.