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+++ presentation

Operator^ Good day, and thank you for standing by. Welcome to the Q3 2023 Black Hills Corporation Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Jerome Nichols, Director of Investor Relations.

Jerome E. Nichols^ Thank you, and good morning, everyone. Welcome to Black Hills Corporation's Third Quarter 2023 Earnings Conference Call. You can find our earnings release and materials for this call on our website at www.blackhillscorp.com under the Investor Relations heading.

Leading our quarterly earnings discussion today are Lind Evans, President and Chief Executive Officer; and Kimberly Nooney, Senior Vice President and Chief Financial Officer. Also attending this morning are Marne Jones, Senior Vice President of Utilities; and Todd Jacobs, Senior Vice President, Growth and Strategy.

Before we begin today, we would like to note that Black Hills will be attending the Edison Electric Institute's Financial Conference on November 12 through November 14. Our leadership team will be meeting with investors at the conference and the investor presentation will be posted on our website prior to the conference.

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 in here in such comments.

Although we believe that our expectations 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 SEC 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 Lind Evans.

Linden R. Evans^ Thank you, Jerome, and thank you all for joining us today. I will provide an overview of our third quarter. Kimberly will provide our financial update, and Marne and Todd will provide more detail on our ongoing operational performance and strategy.

I'll begin my comments on Slide 3. We delivered excellent operational and financial performance in the third quarter, continuing to build upon our team's accomplishments during the first half of the year. I'm especially pleased with our team's success in providing safe and reliable service to our customers, our most important priority.

And while on the topic of reliability, the Edison Electric Institute once again recognized all 3 of our electric utilities as being among the most reliable in the country. In addition to operational excellence, we are focused on 3 additional key objectives for the year, delivering earnings in line with our guidance expectations, continuing to strengthen our balance sheet and advancing our regulatory plan and growth initiatives.

We delivered solid earnings for the quarter through continued execution of our strategy and regulatory plan, coupled with our team's efforts to control expenses. We expect to deliver at the top end of our earnings guidance range for this year, assuming normal fourth quarter weather and operating conditions, as outlined in our guidance assumptions.

We also delivered on our financial plan to improve credit metrics and further strengthen our balance sheet through strong operating cash flows, successfully refinancing our November debt maturity and issuing stock under our ~~ITM~~ ATM (at-the-market) program.

On the rate review front, we recently negotiated a constructive settlement for Wyoming gas. We are also working toward a year-end resolution for Colorado gas, and we're preparing an application for Arkansas gas that we plan to file next month.

In July, we served a remarkable 10th consecutive years of new peak customer loads for our Wyoming Electric system, representing an increase of nearly 70% over the last decade to a new peak of 312 megawatts. These peaks are driven in part by our strategic objective to expand the data center business in the Cheyenne region and most recently by attracting a large blockchain customer. We remain optimistic about the growth of these expanding industries in Cheyenne area.

We continue to advance our resource plan strategies to serve our customers' growing energy needs and add renewable generation to our portfolio as we achieve key milestones in our work to add 500 megawatts of new renewable resources. We recently updated our strategic objectives as part of our annual review of our strategy, and Todd will share some details in his comments.

And to wrap up my quarterly review, we appreciate our stakeholders' interest regarding wildfire mitigation, which we take very seriously and have managed throughout our 140-year history. We recently provided transparency into the many strategic and operational measures we have in place and how these programs support our industry-leading reliability and the resiliency of our systems. Marne will provide more color on this topic during her comments.

Slide 4 looks out our financial outlook. With our solid results to date and a positive outlook for the remainder of the year, we are guiding to the top end of our 2023 earnings guidance. Our ongoing execution and clarity around growth opportunities supports our 4% to 6% long-term earnings per share growth target, which is based off of our 2023 guidance midpoint.

We're continuing to deploy prudent and strategic capital in a way that serves customers and strengthens our balance sheet. Our current 5-year capital plan, which we announced last year totaled $3.5 billion. As a reminder, our 5-year plan does not yet include new investments stemming from our RFPs in Colorado or South Dakota.

As we stated last quarter, we will provide you additional and updated insights during our Q4 earnings call. Our updates will include our 2024 earnings guidance, our dividend growth plans and an updated capital forecast for 2024 through 2028 that will include some of our growing pipeline of customer-focused investment opportunities. With that, Kimberly will provide our financial review. Kimberly?

Kimberly F. Nooney^ Thank you, Linn~~d~~, and good morning, everyone. I'll begin my comments on Slide 6 with earnings per share compared to the same period last year. As Linn~~d~~ noted earlier, we delivered strong financial performance for the third quarter with EPS of $0.67 compared to $0.54 last year.

Quarterly results were driven primarily by new rates and rider recovery, solid expense management and higher-than-planned interest income. Slide 7 highlights the after-tax drivers of change in net income for Q3 2023 compared to Q3 2022. Improvement in electric and natural gas utility margins was primarily driven by $0.10 of EPS from new rates and rider investment recovery and $0.06 of recaptured lost revenue from our 2021 generation outage at Wygen I. These were partially offset by $0.05 of net negative weather when comparing current and prior year Q3 results.

Our O&M expenses were lower than last year due to expense management and a strategic sale of land to a customer to support further ~~low~~ load growth in the Cheyenne area. Interest expense was up slightly for the quarter compared to last year as interest income on our cash balance offset impacts from higher interest rates.

Slide 8 represents year-to-date operating results. At our Electric Utilities, higher margins were primarily driven by $0.18 per share of new rates and rider recovery margin and $0.09 from transmission services and off-system energy sales.

At our Gas Utilities, we benefited from $0.12 of new rates in rider recovery margin and $0.04 from residential growth and usage. This was partially offset by 3 items: a $0.06 net change in mark-to-market valuation of natural gas commodity contracts year-over-year; a net weather impact of $0.10 year-over-year and a onetime benefit of $0.12 related to winter storm ~~Erie~~ Uri last year.

O&M expenses increased 2.1% compared to the same period last year, primarily driven by the inflationary impacts on labor and outside service costs. These were partially offset by the impact of gains from the sale of wind assets in Q1 and a strategic land sale during the quarter, as I mentioned earlier.

Interest expense increased due to higher interest rates and new debt issuances, partially offset by interest income on our available cash. We have been and will continue to manage our controllable operating expenses.

As Linn~~d~~ noted earlier, we are reaffirming our 2023 earnings guidance and expect to deliver results at the top end of the range. Additional details regarding our financial results are available in our earnings release and 10-Q released yesterday.

Moving to Slide 9. One of our key strategic objectives for this year is to strengthen our balance sheet. Since last year, we have significantly improved our credit metrics with execution of our operating and financial plans, strong cash flows from operations and disciplined capital investment. We have reduced our net debt to total capitalization by 300 basis points from 60.8% at year-end 2022 to 57.8% as of September 30, 2023. We continue to improve our FFO to debt metrics at all 3 rating agencies.

We are managing our capital plan to approximately $615 million for the year. You may recall, we sold our noncore Iowa wind farm assets in the first quarter, which provided additional cash resources for the remainder of the year.

Our financing plan for the year began with issuing $350 million in new notes in March with proceeds used to repay all our commercial paper balances. In September, we issued $450 million of debt and in combination with available cash, we will repay our $525 million of notes maturing at the end of November.

We have issued new shares of Common stock throughout the year under our ATM equity program. We've issued $108 million to date compared to our planned range of $140 million to $160 million for the year. Overall, we are delivering on our commitment to strengthen our balance sheet and improve our credit metrics.

The benefit of our work detailed on Slide 9 is reflected in the charts on Slide 10, which display our financial position through the lens of credit quality, capital structure and liquidity. As previously discussed, we continue to remain focused on improving the quality of our balance sheet and credit metrics.

At quarter end, we had nearly $600 million of cash with no short-term borrowings on our $750 million revolving credit facility. Total liquidity was nearly $1.4 billion or $825 million when you net out the $525 million debt repayment to be completed later this month.

Slide 11 displays our industry-leading dividend track record. A dependable and increasing dividend is a component of our strategy for growing long-term value for our shareholders. We expect to continue our 53-year track record of annual dividend increases in line with our long-term EPS growth rate of 4% to 6%.

Our growth rate is based on the midpoint of our earnings guidance of $3.75 per share. We will continue to target a payout ratio of 55% to 65%. I will now turn the call over to Marne for our business update.

Marne M. Jones^ Thank you, Kimberly. I'd like to start by recognizing our team for your ongoing efforts in maintaining a safe, reliable and resilient system. Thank you, and congratulations for a solid quarter. EEI~~DEI~~ recognized us once again during the quarter as top quartile for a combined ~~rank team~~ranking based on 2022 reliability outage minutes or ~~CDI~~SAIDI. This reflects the prudency of our long-standing investments, long-term planning and team execution and responsiveness to our customers every day.

This industry-leading reliability is even more of an achievement as was reflected earlier this quarter, considering that we completed a decade of consecutive annual increases in new peak loads for Wyoming Electric.

Slide 14 lays out the progress of our electric resource plans, one of our key strategic initiatives for our Colorado and South Dakota electric system. We plan to add 500 megawatts of renewable resources to our systems, 100 megawatts of build transfer generation in 2026 for South Dakota Electric and 400 megawatts of renewable resources by 2030 for Colorado Electric.

For South Dakota, we evaluated the bids received in response to our request for proposals and are currently in negotiations. We expect to share the project proposal with the South Dakota Public Utility Commission in the first quarter of 2024. The project is also targeted to be filed as part of a certificate of public convenience and necessity with the Wyoming Public Service Commission in Q1 of 2024.

In Colorado, we received a strong and diverse response to our RFP supporting the clean energy plan. We are currently evaluating bids and will provide a bid~~g~~ summary this year to the Colorado Public Utility Commission as part of the approval process. We will also plan to update the capital forecast with those details when we have more certainty. And we will likely be able to provide an estimate of the capital investment for South Dakota Electric and our capital refresh in early February.

Moving to Slide 15. I'm excited for our Ready Wyoming electric transmission project to be underway. We are working through our land rights of way now and are planning to start on a substation expansion near ~~Shaan~~ Cheyenne with weeks. The 260 mile project will better serve our customers through a larger, more interconnected system, essentially closing the loop between our South Dakota and Wyoming Electric systems.

This transmission expansion is expected to enhance resiliency, increase our access to energy markets and provide long-term stabilization of transmission costs for customers. Increased transmission capacity will enhance our ability to reliably serve our growing customer base. The project will be constructed and energized in multiple phases and is targeted to be completed by year-end 2025.

The Ready Wyoming assets will be owned by our Wyoming Electric utility and recovery of the investment is expected through our Wyoming-based transmission rider.

Slide 16 outlines our wildfire mitigation efforts. Safety and reliability go hand and our top priorities for us. For decades, we have embedded a wide variety of wildfire mitigation measures and initiatives to protect our energy delivery systems while safeguarding our facilities and the surrounding environment.

From an operations perspective, wildfire safety is a daily focus. And we use a combination of tools, practices and programs to support our risk mitigation efforts and ~~drag~~ drive reliability.

Broadly, we manage wildfire risk through a 3-layered approach, asset programs, integrity programs and operational response. Our asset programs focus on preventative measures such as the management and safety and integrity inspections. Our integrity programs include our ongoing long-term investments in our systems and other initiatives like undergrounding electric distribution~~s~~.

Our operational response includes day-to-day assessment of conditions, management of our systems and activities such as construction work. We also leverage the solid relationships with local, state and federal agencies that appropriately manage public lands within our ~~sort of~~service territories, providing another meaningful layer of security against wildfires.

Additional information about our wildfire mitigation programs can be found on our Black Hills Energy website and in our recently distributed press release.

With that, I will turn it over to Todd for an update on our regulatory strategy and growth progress.

Todd Jacobs^ Thanks, Marn. As Linn~~d~~ mentioned, we're advancing our regulatory and growth initiatives, and we've recently updated our strategic objectives. I'll start with a regulatory update on Slide 18.

In Wyoming, we recently filed a settlement agreement for our natural gas rate review, which is pending review by the Wyoming Commission. The settlement provides $13.9 million of new annual revenue based on a return on equity of 9.85% and a capital structure of 51% equity and 49% debt.

The agreement provides for new rates starting January 1 of '24 and includes the renewal of our integrity investment rider for 4 years. The agreement also provides the establishment of our Green Forward program, a voluntary RNG and carbon offset program that is being successfully offered in several other gas utility territories we serve.

With our ongoing growth in Wyoming, we appreciate and value the constructive regulatory environment which supports our ability to provide safe and reliable service to our customers.

Our other active gas rate review is in Colorado, which continues to advance through the regulatory process, seeking new rates in Q1 of '24. We're hopeful for resolution this year, having reached a settlement earlier this year for RMNG, our intrastate pipeline in Colorado with new rates implemented early in the third quarter.

In addition, we are preparing to file a natural gas rate review in Arkansas by year-end, which is driven by ongoing investment to support our growing communities in Northwest Arkansas. Looking forward, we expect to file 3 rate reviews per year as normal course of business. We continue to evaluate our regulatory plan in light of rising interest rates and inflation.

Slide 19 lays out our updated strategic priorities. Over the last year, we undertook a comprehensive review of our strategy. Through this process, we made a connected set of choices for our business, creating strong alignment within our team and provided greater clarity on our strategy and our measures for success.

From this process, we narrowed our focus to the following strategic priorities and objectives. They include growth and financial performance, operational excellence, transformation, which is focused on our internal processes and how we serve our customers and people and culture.

We're excited to share more over the coming year about these strategic priorities and the objectives and key results we will use to measure value for stakeholders. These strategic priorities do not represent a dramatic shift in our underlying plan but better align people, processes and capital to more effectively and efficiently deliver strong operational and financial performance.

As part of this effort, we strategically reviewed the entire organization's needs to have the right people in the right roles. Due to the current macroeconomic environment, affordability for our customers and our investors' earnings expectations, we made the difficult choice to make a targeted reduction in our workforce. While these decisions are never easy, they will make the organization stronger and help us deliver more cost-effective service for our customers.

Slide 20 shows our disciplined growth plan and potential upside. We are investing in the core needs of our customers through our $3.5 billion 5-year capital plan, improving our infrastructure with incremental investment focused on safety and reliability, and we are pursuing profitable growth in a variety of other customer-focused growth and efficiency initiatives.

As we prepare to refresh our 5-year capital forecast at our fourth quarter earnings call, we expect recurring core investments of about $700 million annually in safety, reliability and growth. We do not include large generation or other infrastructure projects in our forecast until we have high certainty of investment amounts, timing and avenues for recovery. The forecast will be updated as we gain more certainty around our larger strategic projects.

Beyond this capital forecast and major incremental projects, we are aggressively pursuing profitable growth in a variety of other ways. Our team is focused on cultivating opportunities that drive new margin streams through innovative and creative solutions living into our vision to be an energy partner of choice.

Slide 21 lays out our other customer-focused initiatives in 5 areas: transmission and storage, data centers, blockchain, renewable natural gas and driving organizational effectiveness and efficiency. An example of a strategic infrastructure project is our ready Wyoming transmission expansion project.

As part of a larger and longer-term vision, we expect the project to unlock a host of future opportunities through expanded access to market energy and more renewable generation to serve our customers' energy needs. We are particularly excited about serving the Cheyenne region, which has a robust business environment and conditions that are ideal for data centers, renewable generation and blockchain and crypto ~~pay~~mining.

Our existing data center customers in Cheyenne are expecting continued load growth, and our blockchain customer has exercised their option for an additional 30 megawatts of energy demand, which will take their load up to a total of 75 megawatts.

In addition to Ready Wyoming, we are also actively pursuing other incremental transmission opportunities in our long-term plan, and we are always evaluating other needs such as natural gas pipelines and storage projects. We continue to see the expansion of our renewable natural gas business as an attractive opportunity in our agriculture rich service territories. We've leveraged our utility operations experience to support 6 pipeline interconnects to date and expect to add 4 new interconnect projects in the short term.

We continue evaluating a range of ~~Orange~~ RNG opportunities that could be more meaningful in scale for both earnings contribution and decarbonization impact for our natural gas system. We are also fostering ongoing sustainable cost savings through innovation and continuous improvement in how we do business and serve our customers through our Energy Forward initiative. This is critical to our overall strategy and as part of the transformation objective listed earlier. Through that initiative, we will seek out and drive efficiencies in how we operate our business and serve our customers.

In closing, and before I turn it back to Lin~~nd~~, we are truly excited about our future at Black Hills Energy. We are successfully realizing our near-term initiatives, aggressively developing our growth opportunity pipeline and continuing to improve clarity around how we can better execute our strategy in the evolving macroeconomic environment. We are confident that we will deliver strong results through our current plan as well as through long-term sustained value for our stakeholders. Linn~~d~~?

Linden R. Evans^ Thank you, Todd. In summary, we delivered strong operational and financial performance in the third quarter and made meaningful progress on our strategic initiatives. We are well positioned to achieve the top end of our earnings guidance for the year and to further strengthen our balance sheet. We will remain disciplined in managing expenses and deploying capital to serve customers.

Our team continues to execute our regulatory plan, and we are excited about our growth initiatives, which support confidence in our 4% to 6% long-term growth target. With that, we're happy to entertain questions.

+++ q-and-a

Operator^ (Operator Instructions). Our first question comes from Julien Dumoulin-Smith with Bank of America.

Julien Patrick Dumoulin-Smith^ Thank you guys for all the updates this morning. Pretty exhaustive set. Look, thank you again. But if we can, can we pivot to talking about the '24 outlook here. And I just want to make sure we understand clearly. So it seems that you guys are reaffirming here your growth, 4% to 6% off of the 23 midpoint into '24 and beyond. Can we talk a little bit about what gives you that confidence here into '24, more specifically? Obviously, there's some more onetime-ish type items that are reflected and seem to have been contemplated in guidance originally in '23, but to be able to grow off of that level into '24 is notable. Can you talk a little bit about the pieces there, especially considering the incremental headwinds from interest expense? It sounds like, if I hear you right, that the O&M levers that you announced just now stand out in particular in enabling that visibility?

Linden R. Evans^ Julien, thanks for the question. This is Linn~~d~~. We're about less than 2 months now from '24. So we've been working on '24 hard, obviously, doing well in '23, watching the momentum that we're building in '23, taking that into '24. I'm going to turn this question over to Kimberly in a moment, so which he can dive into the details for you, but we have replaced our debt for 2023. We've considered that into our model, as you indicated before. In your question, we've also considered the equity issuance that we're doing as well. But I'm really proud of our team and how we are leaning in, working on controlling costs, especially, and we think we can take that momentum into 2024.

Again, thank you for pointing out based off that 2023 midpoint of our guidance, and I'll turn it over to Kimberly for more detail.

Kimberly F. Nooney^ Yes. Julien, thank you so much. When we reestablished our earnings guidance earlier this year, we took a lot of the macroeconomic environment challenges into consideration as we designed not only the earnings guidance for 2023, but also how we looked at our growth rate of 4% to 6%. So you can think about your questions around higher interest costs, potential for higher inflation, we evaluated those and included those in the plan.

I think you commented on onetime items. Those items that we talked about today were contemplated and included in our guidance range. And so when you look at the holistic picture, I think that's what makes us confident around our 4% to 6% growth on top of a lot of the capital growth opportunities that Todd and Marne discussed that we are going to be providing you with more updates here in Q4.

Linden R. Evans^ Yes. Well said. And I just also emphasize the continued load~~n~~ growth we're seeing from customers been very beneficial for us.

Julien Patrick Dumoulin-Smith^ Absolutely. Yes. In fact, if you don't mind, let's lean into that last comment a little bit further. I mean, so fourth quarter seems like a little bit of a bigger update than just '24 as you guys unveil a number of projects that you guys have been working on for a bit, it seems. What's going to be "ready"? Or in terms of just having the visibility from a permitting or regulatory perspective to really talk to on fourth quarter. I know you have a lot of different, especially long-term initiatives, but to the extent to which that things will be right to talk about in the fourth quarter, what could those include if you can kind of take through those?

And then if I can throw on at the same time here, how do you think about eligibility to own perhaps disproportionate quantities of these renewable resources? You obviously saw your peer, PSCo in Colorado here proposed something that's well above the historical norms on ownership in the renewable space of late. If you could elaborate on that front, too.

Linden R. Evans^ Yes. Lots of things to unpack there, Julien. I'll do my best. This is Linn~~d~~ speaking again. Starting with our load growth, we're still seeing and migration of customers into our territories. We've been seeing very strong, nice immigration that continues. We're seeing data center expansions. We've mentioned in our opening comments about the mine one, the blockchain mining organization that we are now serving. They've exercised their option to expand that. Not a huge impact in '24, but the point is those kinds of customers are growing for us.

You mentioned the Clean Energy Plan and our IRP, at least I think you mentioned both of them. In South Dakota, we asked for a design build, build transfer contracts and so that's what we are currently negotiating with those bidders. So we believe we'll be owning those assets in the long term. We've visited with our South Dakota commissioners about the advantage of ownership versus PPAs. We think they understand that well.

With the Clean Energy Plan, we're watching what's happening with our counterpart Excel closely. They are ahead of us at least about 6 months. So we're watching that closely. We have about 400 megawatts that we intend to add there. And as the statute says, we can own up to 50% of that reasonable cost. So we have lots of bids for that, that we're evaluating currently very strong bids. We'll be refiling our reports relatively soon with the commission. And I might look to Marne to see if you have something to add to that, Marne.

Marne M. Jones^ Just a couple of additional comments on that, Julien. So in South Dakota for that build transfer, we are planning to have that in service in mid-2026. So just to give you some time frame on that. And then for the Colorado resources, those will be in service between 2026 and 2029. That will drive us to meet our clean energy plan requirements of the 80% reduction by 2030.

The other asset I do want to mention too, just follow up on is our Ready Wyoming asset. So that is currently underway and permitting is in progress from a land rights of way. That asset is expected to be in service by year-end 2025.

Julien Patrick Dumoulin-Smith^ Got you. Excellent. And then last little twist here. On the equity, obviously, a number of further projects you've already got done a good chunk of the ACM here. But still, how do you think about resolving needs that are created or expected in '24 and/or the remainder of '23? Do you think continue to leverage ATM or given increasing size here, pursue other avenues?

Kimberly F. Nooney^ Yes, Julien, we obviously look at all opportunities. It could include our ATM. It could include block trade opportunities. I just want to be clear, this year's equity was specifically focused on strengthening our balance sheet. As we move forward, obviously, you heard Linn~~d~~ and Marne talk a lot about our capital growth opportunities as we think about capital going forward, it's focused on maintaining BBB+ credit quality. So it really is going to depend on timing and what those opportunities look at at that point. But we do expect equity in the future to finance our future growth opportunities from a capital investment perspective.

Julien Patrick Dumoulin-Smith^ All the best.

Operator^ (Operator Instructions). And our next question comes from Willard Grainger with Mizuho.

Willard Afonso Grainger^ I just wanted to touch on the rate review progress. Are there any other rate cases that you're looking at for 2024 that we should be thinking about besides Arkansas Gas?

Todd Jacobs^ They're currently under review. It's nothing that we are publicly disclosing at this point. So just to recap the cases that we have in progress right now, '23 are in Wyoming, Colorado, and we've indicated filing in Arkansas. We expect to file about 3 a year but we haven't specifically identified jurisdictions.

Linden R. Evans^ Will, what we typically like to do, this is Linn~~d~~. We always like to talk to our regulators first, let them know what they can anticipate. Having those discussions ahead of time always helps. So we will be doing that. But as Todd did answer nicely in response to the question in his opening comments, what we expect about 3 rate reviews a year going forward~~?~~

Willard Afonso Grainger^ That's helpful. And that would be contemplated in that 4% to 6% CAGR?

Todd Jacobs^ Yes.

Operator^ Thank you. I'd now like to turn the call back over to Linn~~d~~ Evans for any closing remarks.

Linden R. Evans^ Well, thank you for your interest in Black Hills Corporation, Black Hills Energy. Very proud of what our team performed this quarter and year-to-date. We're already experiencing winter here in our service territories, and we're glad that we see some relatively low natural gas prices for our customers as we enter into that peak heating season, and we're happy to pass on those lower costs to our customers. And we look forward to seeing many of you in a couple of weeks at the EEI Financial Conference. And I encourage all of you please have the Black Hills Energy safe day. Thank you.

Operator^ Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.