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C: Jerome Nichols;Black Hills Corp;Director of Investor Relations

C: Linden Evans;Black Hills Corp;President, Chief Executive Officer, Director

C: Kimberly Nooney;Black Hills Corp;Chief Financial Officer, Senior Vice President

C: Marne Jones;Black Hills Corp;Senior Vice President - Utilities

P: Julien Dumoulin-Smith;Jefferies LLC;Analyst

+++ presentation

Operator^ Good day, and thank you for standing by. Welcome to the Q2 2024 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 Nichols^ Thank you. Good morning, and welcome to Black Hills Corporation's second quarter 2024 earnings conference call. You can find our earnings release and materials for our call this morning on our website at www.blackhillscorp.com under the Investor Relations heading. Leading our quarterly earnings discussion today are Linn Evans, President and Chief Executive Officer; Kimberly Nooney, Senior Vice President and Chief Financial Officer, and Marne Jones, Senior Vice President, Utilities.

During our earnings discussion today, comments we make may contain forward-looking statements as defined by the Securities and Exchange Commission, and there are a number of uncertainties inherent in such comments. Although we believe that our expectations are based on reasonable assumptions actual results may differ materially.

We direct you to our earnings release, slide 2 of the investor presentation on our website and our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission for a list of some of the factors that could cause future results to differ materially from our expectations.

I will now turn the call over to [Lynn Linn](#) Evans.

Linden Evans^ Thank you, Jerome. Good morning and thank you all for joining us today. Before we share our comments about our quarter on behalf of the Black Hills team, I would like to thank Jerome for his 20 years of service to our company for the last 13 years as our Director of Investor Relations. Many of you know Jerome well, and I ask that you join us in wishing him all the best as he enjoys his well-deserved retirement. And as we say, thank you to Jerome, we're pleased to welcome Sal Diaz to our team as our new Director of Investor Relations. Congratulations, Jerome, and Sal welcome to the team.

I'll begin my comments with a brief overview of the quarter. Kimberly will provide our financial update, and Marne will provide more detail on our team's operational performance and our strategic progress. Turning to slide 3, we continue to execute our customer-focused strategy during the second quarter. Once again, I'm pleased to share that our team delivered excellent service to our customers continue to execute on our financial targets and advanced our regulatory and growth initiatives. I'm very proud of our team as we continue to dependably serve our customers living at our ready to serve commitment.

Our thoughts are certainly with our customers who faced severe storms and flooding in recent months across several of our communities. Marne and I witnessed firsthand the impact on neighborhoods and businesses, and we appreciate the admirable response and service of our team who quickly responded to the needs of our customers and are supporting the restoration efforts in our impacted communities.

As we continue to support those impacted, I'd like to say a huge thank you to our colleagues listening in today across our service territory for exemplifying our values and our mission of improving life with energy well done. Our ongoing capital investment plan is critical to the commitments we've made to serve our customers and communities safely reliably and cost effectively. And we remain on track with our \$800 million capital plan for 2024. This includes our Ready Wyoming Electric Transmission project, which strategically interconnects our Wyoming and South Dakota transmission systems, enhancing the resiliency and capacity of our regional energy infrastructure.

Notably, this will benefit our customers with cost stability and expanded energy market access. We also continue to make progress in our regulatory plan for the year with three active rate reviews moving along as expected. Looking forward, we expect a normal cadence of approximately three to four rate reviews per year to seek recovery of our investments and reduce lag.

We're diligently executing our financial plan as we continue to improve our credit quality and advance our growth initiatives. To meet the growing energy needs of our customers and communities, we are in the final stages for delivering on our long-term electric resource plans for Colorado Electric and South Dakota Electric. In Colorado, we're seeking approval of selected bids for 400 megawatts of new renewable resources, including 250 megawatts that would be utility owned. In South Dakota, we're planning to add 100 megawatts of cost-effective utility-owned resources by 2026.

We remain confident in our financial outlook listed on slide 4, which is consistent with the first quarter. Based on solid year to date results, including new margins and our team's continued disciplined expense management, we're on track to deliver on our earnings guidance range of \$3.80 to \$4 per share. Our strong growth opportunities and continued execution of our initiatives gives us confidence in achieving our long-term EPS growth target of 4% to 6%.

Slide 5 provides a summary of our hyperscale data center and blockchain growth opportunities. We recently announced our plan to power Meta's first data center in Cheyenne, Wyoming. I am proud of our track record of reliability and innovative energy solutions, which helped drive Meta's decision to build their \$800 million, 715,000 square foot AI data center within our Cheyenne community.

We're excited to support their new project, which will benefit all our Wyoming customers with greater infrastructure investment. Our communities with new jobs and tax revenues and our shareholders through our innovative energy procurement model, we expect to begin serving Meta's initial demand in 2026. Earlier this year, we said that we anticipate future earnings from this type of customer will exceed 10% of total EPS by the end of our 5-year plan through 2028. This new data center is included in that expectation. I'll also note that Wyoming's tax policies provide a favorable environment for data center and blockchain growth within the state.

Moving to slide 6, we remain confident in our long-term growth trajectory, supported by our base capital investment plan, ongoing organic growth, including data centers and other incremental investments. Over a five year plan period, we expect to invest an average of more than \$800 million per year. Our \$1.3 billion in capital investment in 2026 includes the majority of generation investments resulting from our electric resource plans, which Marne will cover in our business update.

In 2027 and 2028, we anticipate incremental opportunities to be added to our plan as we

gain more clarity around timing and costs, as indicated by the green arrows above the chart. And before I turn the call over to Kimberly, I'd like to remind you that we recently published our new 2023 corporate sustainability report, highlighting our progress on our environmental, social and governance goals. We remain on track to cost effectively achieve our emissions reduction goals.

With that, I'll turn it over to Kimberly for our financial update. Kimberly?

Kimberly Nooney^ Thank you, Linn, and good morning, everyone. We delivered a solid second quarter. We remained focused on our objective to carefully manage our expenses and improve credit quality, and we achieved those goals for the first half of the year.

Slide 9 shows second quarter EPS drivers compared to the same period last year. We reported \$0.33 per share compared to \$0.35 per share in Q2 2023. Quarterly earnings were primarily driven by new margins and expense management by our team, which largely offset the impacts of weather and a prior year income tax benefit~~s~~.

We realized \$0.13 of higher margins from new rates and rider recovery, including data center margins and \$0.03 of customer growth and usage. These positive results were partially offset by impacts to revenue due to unplanned generation outages. Through continued cost management, we delivered lower O&M of \$0.04 per share compared to Q2 2023, primarily due to lower labor costs.

We continue to experience the impacts of inflation within our business, including additional expenses associated with increasing insurance premiums. Given these factors, coupled with the mild weather we experienced during the first half of the year, we will continue to manage our O&M to an increase of approximately 3.5% for the full year to achieve our 2024 financial targets.

As a reminder, our earnings guidance assumes normal weather. For the quarter compared to normal weather negatively impacted EPS by \$0.07 per share. Compared to Q2 2023, weather negatively impacted earnings by \$0.04 per share. Income taxes increased due to a \$0.12 prior year benefit resulting from our reduction in Nebraska's state income tax rate.

Slide 10 displays the earnings drivers through the first half of 2024. We are on track to achieve our 2024 financial targets despite unfavorable weather of \$0.14 per share compared to 2023. Year to date, earnings per share increased 6% year over year as new margins and expense management more than offset the impact of weather financing

depreciation and prior year one-time benefits. Further details on the year-over-year changes in operating income can be found in our earnings release and 10-Q to be filed with the SEC later today.

Moving to slide 11, which depicts our solid financial position through the lens of credit quality capital structure and liquidity. We continued to reduce our debt to total capitalization ratio and improved other key credit metrics and our commitment to maintain triple BBB+ credit quality. We issued \$42 million of new shares under our ATM during the quarter for a total of \$74 million through the first half of the year.

As previously disclosed, we are expecting \$170 million to \$190 million in equity issuances for the year. Our liquidity remains strong at quarter end with full availability under our \$750 million revolving credit facility and \$625 million in cash, following the issuance of \$450 million of notes in May. We will repay our \$600 million notes maturing later this month. Our next debt maturity occurs in 2026, and we are evaluating timing and options for refinancing that maturity.

Slide 12 illustrates our industry-leading dividend track record of 54 consecutive years. We anticipate growing our dividend at a rate comparable to earnings growth. A dependable and increasing dividend is an important component of our strategy for delivering long-term value for our shareholders.

I'll now turn the call over to Marne for a business update.

Marne Jones^ Thank you, Kimberly. We had another strong quarter of serving our 1.3 million families and businesses across our footprint. Through windstorms, tornadoes and flooding, our team of operational experts proactively managed our systems to keep our customers safe, with system, reliability and resiliency, top of mind.

I'll start my comments on slide 14 with a regulatory update. We have demonstrated our ability to reach constructive results with three or more rate reviews annually in recent years, we are in the final stages for our Arkansas gas rate review and continue to anticipate new rates in the fourth quarter. Our Iowa gas rate review continues as planned, with interim rates in place since May 11, and final rates expected in early 2025.

In June, we filed a rate review for Colorado Electric, our first since 2016. Over the past eight years, we have kept base rates unchanged while incurring increased costs and necessary system investments of approximately \$470 million, which support a safe, reliable, resilient

and clean energy system. Nearly one-third of that capital is currently recovered through our transmission rider. Our request includes \$36.7 million in new annual revenue, a capital structure of 53% equity and a 10.5% return on equity. We are requesting new rates by the first quarter of next year.

Slide 15 provides an update on our enhanced disclosures and engagement on wildfire management and risk mitigation, a key safety and reliability priority of ours for more than a decade. Operationally, we use a layered approach to wildfire mitigation, which can be summarized into three broad categories, asset programs, integrity programs and operational response.

In June, we disclosed our comprehensive Wildfire Mitigation Plan, which provides deeper insight into the practices, policies and procedures we carry out every day. We continue to engage broad stakeholder groups, including community and local agencies, regulators, legislative bodies and our industry peers to review and advance our wildfire management and mitigation plans. In that spirit, we are working with these stakeholders to formalize our Public Safety Power Shutoff program or PSPS and expect to implement it in the first half of next year.

Moving on to slide 16, I would like to share our progress on our ongoing strategic initiatives. Our largest active capital project is our Ready Wyoming transmission project. The 260 mile line is being constructed in segments and remains on target to be in service by year end 2025, with our first segment expected to be in service later this year. When complete Ready Wyoming will provide additional capacity, expanded access to energy markets and renewable energy and is expected to stabilize long-term cost for customers. The investment for this project will be recovered through our Wyoming transmission rider as segments are placed in service.

Slide 17 provides an update on our clean energy plan in Colorado. In July, the Colorado Public Utilities Commission reviewed our preferred portfolio, which includes a 200 megawatt build transfer solar project, a 50 megawatt bill transfer battery project and 150 megawatts of wind energy through power purchase agreement.

In their decision they asked us to submit additional details on generation and transmission costs. In response earlier this week, we provided the additional information and proposed a 100 megawatt solar PPA to replace the 150 megawatt wind PPA, with the remaining portfolio unchanged. We are awaiting a final decision by the commission, which we expect later this year.

Slide 18 outlines our South Dakota Electric resource plan. We continue to pursue 100 megawatts of utility-owned generation that will cost effectively and reliably serve our customers. We are targeting an in-service date of mid 2026 for 100 megawatts of natural gas-fired generation. We plan to file a pre-application notice with the South Dakota Public Utilities Commission and request a certificate of public convenience and necessity from the Wyoming Public Service Commission in the second half of 2024.

With that, I will now turn the call back to [LynnLinn](#).

Linden Evans^ Thank you. Morning. I'll summarize our quarter by expressing my thanks to our team for how they continued strong progress on our strategic initiatives as we invest in and maintain our systems for our customers, successfully execute our regulatory plan, tirelessly, develop and execute our strategic growth opportunities and creatively serve our expanding data center and blockchain load growth. And with that, we'll take your questions.

+++ q-and-a

Operator^ Thank you. (Operator Instructions)

Julien Dumoulin-Smith, Jefferies.

Julien Dumoulin-Smith^ All right, I'm picking up the handset here. Let's make sure it works. Hey, good morning, team. How you guys doing?

Linden Evans^ Good, Julien. Good, welcome back to the game.

Julien Dumoulin-Smith^ Thank you so much. Congrats, Jerome, on the retirement. It's been a great line. It's been it's been a real pleasure.

Jerome Nichols^ Thank you, very much. Appreciate that.

Julien Dumoulin-Smith^ Absolutely, Look, guys, nice updates and continued success here. And I give you guys kudos for being early in adapting to data centers in this conversation early on with these novel tariffs. To that end, this 10% number by the end of the five year plan, can you talk a little bit about the parameters that are reflected versus perhaps maybe not necessarily reflected in the capital budget here? I know this is a fluid conversation, but

what's in, what's not in, in terms of how you get there?

And then also related to that and focusing on a tariff conversation, how do you think about the rate case cadence and how that gets reflected in earnings vis a vis some of the novel tariffs that you guys have had in place?

Linden Evans^ Yeah. Thank you for that question, ~~Julie Julian, and~~, we appreciate being able to focus on our data center successes. As you know, we've had this LPCS a large of power contract service tariff in place since about 2016. So it's been an important part of our growth model and our strategy for the last several years, especially as we had the good fortune of serving Microsoft and some other blockchain customers. We're very excited to have announced the Meta here very recently ~~launched~~ in June, and that's a project we had been working on some for some time with them.

And so the Meta and the Microsoft loads and other loads that we anticipate are reflected in that 10% -- or perhaps greater 10% of our EPS towards the outer part of the year of the plan in around 2028. And we're very fortunate to serve a great service territory for data centers, starting with the weather that we have there, the elevation, ~~the-of~~ fiber, there's lots of things that attract people or customers to that region. And then we have a very innovative tariff that I just mentioned, that allows us to serve customers relatively rapidly. It provides protection for customers ~~our~~ normal customers, if you will, and allows us to serve these growing data center loads as rapidly fairly rapidly, if you will, so they can come to us pretty quickly.

And we're excited about that service and we call these in the past and we still call them capital light kind of projects. Yes, we invest some capital for them in terms of the substations things of that nature, but they're relatively capital light. But if you look at our slide 6, we've got the green carats. There is potential and there's lots of moving parts, if you will, we'll see what happens with capacity in the West. But our innovative tariff allows us to go out and get market energy for these customers and they'll need other energy we know along the way.

So we see opportunities for investment with transmission. Our Ready Wyoming transmission line, ~~welt-while~~ it serves all of our customers, will also help us with ensuring that we have the load capabilities are serving that load capabilities for our data centers. But we see further opportunity for transmission investment because of data centers and because of our growing customer load within the region and then potentially out in toward the outer part of the plan period, yes, we may have potential for generation to support for

that growth.

So those green tariffs that we put on slide 6 include some of those, but we've got lots to learn. These are very sophisticated customers. They know what they need with respect to energy. So we're constantly talking to them about their energy needs and how we will effectively meet those energy needs that works for all of our customers and especially our shareholders too.

And there was another question, I think, Julien, about maybe rate reviews with respect to this. We file our integrated resource plans that include these loads and exclude these loads so that we understand what's happening within our service territory beyond the data centers. So we look at our normal customers, if you will, our residential, our commercial and our industrial customers and then we also look at these data centers independently, if you will, and how we manage that system cohesively for all interested parties.

Julien Dumoulin-Smith^ Got it. Excellent. Thank you guys, very much. Appreciate it. And actually, just to elaborate on what you just said a second ago when you were talking about other opportunities, energy capacity, et cetera. I mean, you guys have done previously sort of contracted capacity outside of the traditional vertically integrated utility construct. Is that another avenue here that when you think about serving your evolving loads and novel ways is that something you could be looking to do is have long-term contracts with them directly or (multiple speakers). Okay.

Linden Evans^ Yes, it could be -- it's kind of all the above approach, yes, and that would be one of them.

Julien Dumoulin-Smith^ Got it. Yep. Awesome. All right, I'll leave it there. Speak to you guys soon.

Linden Evans^ Thank you, Julia.

Operator^ Thank you. (Operator Instructions) I'm not showing any further questions. I would now like to turn the call back over to Linn Evans for any closing remarks.

Linden Evans^ Well, thank you, Josh. Appreciate your help this morning. And I just want to pause for a moment and really thank our team, Marne's comments about the storms, the flooding, the tornadoes, that our customers have endured, ~~a~~ our heartshard certainly go out to those communities and I really just thank our team and how well they represented

our values, represented our culture and came to the rescue, if you will, to make sure we have safe, reliable and resilient energy for our customers.

So thank you for that. I wanted to emphasize our positive results for the Q2 and for the first half of the year. We're off to a great start for 2024. Again, thank you to our team. I'm excited about our growth initiatives, ~~our are~~ Ready Wyoming project, our largest capital project in our company's history is on track. Our customer growth continues. We're very excited, as you can tell about ~~continuous continuing to serve sort of~~ data centers and blockchain loads and then our capital plan across our gas utilities, electric utilities being executed very, very well.

You may be able to hear a little thunder in the background. We have the Sturgis Motorcycle Rally that officially starts tomorrow. So if any of you happen to be in Sturgis, riding your motorcycles or otherwise over the next week, please stop by and say hello.

And with that again, thank you to our team and enjoy Black Hills Energy safe day.

Operator^ Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.