Event ID: 137121988826
Event Name: Q2 2021 Black Hills Corp Earnings Call
Event Date: 2021-08-04T15:00:00 UTC

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Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation Second Quarter 2021 Earnings Conference Call. My name is Sarah, and I will be your coordinator for today. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes.

I would now like to turn the presentation over to Mr. Jerome Nichols, Director of Investor Relations at Black Hills Corporation. Please proceed, sir.

Jerome E. Nichols^ Thank you, and good morning, everyone. Welcome to Black Hills Corporation's Second Quarter 2021 Earnings Conference call. You can find our earnings release and materials for our call this morning at our website at www.blackhillscorp.com under the Investor Relations heading. Leading our quarterly earnings discussion today are Lin Evans, President and Chief Executive Officer; and Rich Kinzley, Senior Vice President and Chief Financial Officer.

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

I will now turn the call over to Lin Evans.

Linden R. Evans^ Thank you, Jerome. Good morning, everyone, and thank you for joining us today. I'll begin on Slide 4, which lists our key achievements during the second quarter.

Our team delivered strong financial results, with earnings up 21% compared to last year. We also delivered solid operational performance with strong execution of our capital plan, and we made excellent progress on our regulatory initiatives, including Storm Uri expense recovery actions.

After safety, one of our key operational priorities is providing reliable and resilient service to our customers. During the record-breaking heat in June across the Western United States, the Black Hills team and our electric systems and generating fleet performed exceptionally well. This was our second consecutive quarter that included extreme weather events, and our energy delivery systems performed as designed. During both quarters, our diverse mix of power generation resources and our reliable and dispatchable generation capacity allowed us to serve customers and avoid rolling blackouts and other emergency actions that were required in other parts of the country.

The Black Hills team continued to execute our capital investment plan to maintain our enviable reliability and system resiliency and to serve our growing communities. We're on track to deploy up to $647 million of capital for the year, and we continue to evaluate and develop new opportunities beyond 2021.

On the regulatory front, we had a very productive quarter. As we said we would do, we filed rate reviews in Colorado, Iowa and Kansas. In Colorado, we recently received approval for a new safety-focused investment rider for our gas utility. And on June 30, we submitted our electric integrated resource plan for our South Dakota and Wyoming utilities in a moment, and then Rich will cover regulatory activity in more detail in his update.

Slide 5 lays out our financial outlook. We affirmed our 2021 earnings guidance based on strong second quarter financial performance. We also maintain our 2022 earnings guidance range. We are targeting 5% to 7% earnings growth for 2023 through 2025 and at least 5% annual dividend growth.

Our growth plan is shown on Slide 6. We continue to plan for capital investments of more than $3 billion through 2025. We expect earnings growth to be driven by our robust capital plan to serve customers, incremental project opportunities and other earnings drivers that add margin with little or no capital investment.

In our electric utilities business, we are evaluating our transmission needs to develop expanded access to power markets and to cost-effectively serve loads across our electric utilities. We also see opportunity to serve growing load in our prime data center market in Cheyenne, Wyoming. We look forward to engaging our regulators regarding these potential transmission opportunities.

Our initial modeling leads us to believe interconnecting our 3 electric systems and expanding power market access would benefit our customers and shareholders while also supporting our long-term emissions reduction goals. In addition, we're exploring the potential for responsibly adding more renewable generation and pursuing additional renewable natural gas projects across our agriculture-heavy service territories. We currently have a long list of potential renewable natural gas interconnect projects, and while our existing RNG business is relatively modest, RNG represents an interesting sustainability and perhaps longer-term financial opportunity.

We're very optimistic about population migration into our service territories. Both our electric and gas utility service territories are seeing accelerating customer growth, and we continue to see evidence of firming customer growth trends. As we noted in our press release yesterday, we set new all-time load peaks in July at our South Dakota and Wyoming electric utilities. Finally, we're advancing our culture to be better every day through cultivating innovative solutions and leveraging technologies and data analytics as we encourage our team to find ways to serve our customers with more efficient and effective processes.

Before I leave this slide, let me point out that we typically refresh our 5-year capital plan during our third quarter earnings release in November. Then, at our year-end earnings release, we had a year to maintain a 5-year capital forecast.

Moving to Slide 7. As I said earlier, on June 30, we submitted our integrated resource plan for our electric systems in South Dakota and Wyoming. The resource plan modeled a variety of scenarios with the objective of accomplishing four goals: first, serve our growing customer demand for electricity; second, utilize resources that are cost-effective; third, maintain strong reliability; and finally, achieve our environmental goals as set forth in our ESG initiatives.

Our preferred plan proposes to add 100 megawatts of new renewable generation, evaluate the addition of up to 20 megawatts of battery storage to help maintain reliability, and evaluate and develop new transmission opportunities. In addition, the plan proposes to convert our 90-megawatt Neil Simpson II coal-fired power plant to natural gas in 2025, the end of its engineered life. This option helps provide system resiliency, demonstrates our continued support of a locally-based energy economy and supports our emission reduction goals.

In addition to our resource plan, we're supporting research to advance emissions-reducing technologies. The funding for a feasibility study for a hydrogen pilot project we proposed was recently approved by the Wyoming Energy Authority and the University of Wyoming Energy Research Council. The feasibility study will examine the viability of using hydrogen and natural gas generation. We're also supporting the University of Wyoming's research program for turbine firing technologies that would further reduce emissions. As these technologies advance, future options for our generation resources will only continue to expand and, in turn, allow us to continue to cost-effectively and responsibly reduce our emissions.

Specifics about the pilot project and the associated capital necessary to execute our recently submitted resource plan are still in the early stages of evaluation. As we work with regulators through the review of the resource plan and gain greater clarity on project specifics, we will provide estimates on potential incremental additions to our capital plan. Any new generation investment would be incremental to our current capital plan. We have included some transmission investment in our existing capital forecast, but there may be incremental opportunities.

Moving to Slide 8. We continue to make progress from an Environmental, Social and Governance, or ESG perspective. We're taking a responsible approach to reducing our emissions, with goals to reduce emissions intensity for our electric operations of 40% by 2030 and 70% by 2040 off a 2005 baseline. For our gas utilities, we're targeting a 50% reduction by 2035 and have voluntarily committed to reducing methane emissions with our participation in the EPA Methane Challenge and the One Future Coalition. We have a legacy of prioritizing ESG issues, and we're working to holistically communicate that story as we continually enhance our disclosures.

During August, we will publish new disclosures for the Sustainability Accounting Standards Board and the Natural Gas Sustainability Initiative. We will also soon publish our 2020 Corporate Sustainability Report and updated AGA and EEI quantitative reports. I encourage you to visit our Investor website and review these materials once they are published.

And finally, on Slide 9, we're well-positioned as an integrated utility with a strong long-term growth outlook. We're executing our customer-focused strategy and are confident in our future.

I'll now turn it over to Rich for the financial update. Rich?

Richard W. Kinzley^ Thanks, Lin, and good morning, everyone. Slide 11 summarizes earnings per share for the second quarter. We delivered EPS as adjusted of $0.40 compared to $0.33 in Q2 2020, a 21% increase. Overall, strong financial results were driven by new rates and rider revenues and recovery of wholesale power margins at our utilities. Higher gross margins were partially offset by increases in O&M, DD&A and interest expense.

Weather was not a major driver of earnings during the non-peak second quarter for both our electric and gas utilities. The net benefit to earnings from weather was $0.01 per share compared to normal and $0.01 below the second quarter last year.

Slide 12 illustrates the detailed drivers of change in net income quarter-over-quarter. All amounts listed on this slide are after tax. As I noted on the previous slide, the main drivers compared to last year were $9.2 million of gross margin improvement from new rates and riders and recovery of wholesale power margins at our utilities.

O&M increased due to higher employee costs and outside services, planned power plant maintenance-related expenses and operating expenses for new wind generation. The improvement in other income expense over the prior year was driven by lower retirement benefit service costs and market impacts on nonqualified deferred compensation expense.

The additional quarter-over-quarter tax benefits of $4.3 million on the far right of the slide were primarily from 2 items: first, Nebraska Tax Cuts and Jobs Act customer bill credits, which reduced gross margins collected from customers and reduced income tax expense by the same amount; and second, increased flow-through tax benefits related to repairs and certain indirect costs. Additional second quarter detail on segment earnings can be found in the appendix, and you can also find additional details on year-over-year changes in gross margin and operating expenses in yesterday's earnings release.

As we promised last quarter, we made progress on mitigating Winter Storm Uri's impact on earnings. The first quarter net impact from Storm Uri was $12.5 million, or $0.15 per share. As we told you then, we planned to offset approximately $0.05 of these costs through regulatory actions and ongoing power marketing opportunities. We delivered $0.03 of the offsets in the second quarter, and we anticipate achieving the other $0.02 through the remainder of the year. And we are on plan to mitigate the remaining $0.10 net storm year impact through O&M management and other opportunities.

Slide 13 shows the details of our recent regulatory activity. In Kansas, we filed our first rate review in more than 7 years, including a request to renew our existing 5-year system safety and integrity investment rider. In Iowa, we filed our first rate review in more than a decade, including a request for a new system safety and integrity investment rider. And I'll note that Iowa interim rates took effect in June. And we continue to make progress on our rate review filed for Colorado Gas. We expect all 3 of these rate reviews to conclude late this year or early next year, with new rates effective in Q1 2022.

Looking forward, we are tentatively planning to submit rate reviews for Arkansas Gas in the fourth quarter of this year and for Wyoming Electric in mid-2022. And as previously noted, we are making progress on our Storm Uri recovery plans. All our recovery applications have been filed, and we already received final approval and commenced recovery in Nebraska and South Dakota, with interim rates in place in Arkansas and Iowa.

Slide 14 shows our financial position through the lens of capital structure, credit ratings and financial flexibility. We have a manageable debt maturity profile and are committed to maintaining our solid investment-grade credit ratings. At the end of June, we had more than $500 million of available liquidity on our revolving credit facility. And in July, we amended and extended our revolving credit facility with similar terms through July 2026.

We expect to finalize our refinancing strategy for the $600 million balance on our term loan in the third quarter. We are evaluating refinancing options that align with our anticipated recovery period. The weighted average length of recovery requested in our regulatory plans is 3.7 years.

New debt and deferred recovery of fuel costs for Storm Uri temporarily increased our debt to total capitalization ratio to 62% at the end of March, and it remained at that level at the end of June. As we recover storm costs, repay debt and execute on our equity program, we expect to reduce our debt to total capitalization ratio, and we continue to target debt to total cap ratio in the mid-50s.

During the second quarter, we issued $40 million through our at-the-market equity offering program. Our equity issuance expectations are still $100 million to $120 million for 2021 and $60 million to $80 million for 2022.

Moving to our dividend on Slide 15. In 2020, we proudly marked 50 consecutive years of annual dividend increases, one of the longest track records in our industry. Since 2016, we've increased our dividend at an average annual rate of 6.6%. And looking forward, we anticipate increasing our dividend by more than 5% annually through 2025 while maintaining our 50% to 60% payout target.

In closing, we thank you for your interest in Black Hills. We're pleased with our strong second quarter financial results and the progress we made during the quarter on many fronts. We're excited about our growth opportunities, with accelerating population migration into our service territories and many opportunities to continue to develop our strong capital program. We continue to be well-positioned, both operationally and financially, to be ready to serve all our stakeholders.

And with that, we're available to take your questions.

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Operator^ (Operator Instructions) Your first question comes from the line of Brian Russo with Sidoti.

Brian J. Russo^ On the IRP that was filed; procedurally, what needs to happen for you to implement and execute on the preferred plant that you mentioned earlier?

Linden R. Evans^ Thanks for the question, Brian, this is Lin. Wyoming and South Dakota are the 2 states that we have filed the IRP. In South Dakota, it's submitted as information essentially only in Wyoming. They will have a review and comment period and a review and comment hearing. They don't necessarily approve the IRP, so anything that we would want to do and have suggested through our IRP to add generation, transmission, pipeline, et cetera, each would be done through a CPCN application ~~in replication~~ request in Wyoming. In South Dakota, it's a prudency review, frankly, after it's been constructed.

So it's fairly simple IRP process. Most of the work comes through the CPCN ~~in~~ process, allowing us to then build those assets, Brian.

Brian J. Russo^ And then the 3 projects that you outlined, the 100 megawatts of renewables, the Simpson coal-to-gas and the battery storage; based on the cost estimates and ranges you provided in the IRP, I mean, it looks like it could be anywhere between $125 million to $150 million of possible investment. Is that accurate?

Linden R. Evans^ You're within the right range, yes. Each one of these need to be proven up individually and separately, if you will. None of our current capital forecast includes any generation opportunities in it. So that would be incremental to the forecast we put out there thus far, Brian.

We have, however, put a little bit of the transmission investment into our capital forecast that would be represented in the IRP. We have pretty good confidence in that we're going to be able and need to construct that transmission. So we begin to layer it in, but not all of it's layered in at this point.

Brian J. Russo^ And a follow-up on transmission. There was a lot of discussion in the IRP about new transmission for reliability, et cetera. Could you just elaborate on that, which is outside of the preferred plant, because I assume it's more longer-term in nature?

Linden R. Evans^ Relatively longer-term in nature, but be within the next several years. We have kind of an objective or a goal where we could connect our 4 generation sites in Gillette, Rapid City, Cheyenne and Pueblo, Colorado. We think, by doing that, we can lower our cost, improve reliability, improve resiliency. And again, as I just said, most importantly, perhaps lower our customers' cost through that, and then provide us opportunity then to perhaps add more renewables in an effective way that would help us with both resiliency and reliability.

Brian J. Russo^ In regards to the positive customer growth you're seeing, what's driving that growth? And what jurisdictions is that growth concentrated in? And when you look at rate cases, is it possible that the load growth in those jurisdictions can allow you to delay rate cases?

Linden R. Evans^ I'll start out with the high-level question, then I'll ask Rich to maybe fill in some of the figures and numbers. We are seeing nice population growth in, frankly, throughout all of our territory. Some of the areas that are especially meaningful, our Northwest Arkansas continues to see great growth. We see great growth in the front range of Colorado and here in Rapid City. But again, we're seeing growth across the whole footprint, if you will.

In fact, if you annualize growth for the first 6 months of this year, it's about double the rate that we were seeing in 2019, so it's been very interesting to watch. We're watching to see how sustainable it is, but it's certainly having an impact on our load. As you might remember, as I said in my comments a few moments ago, we did set new peaks in July at both Wyoming Electric and South Dakota Electric. And they were significant increase in those peaks, by nearly 5% year-over-year. So we think what's driving it is largely maybe the virus, people looking for perhaps more rural communities, smaller communities, et cetera. But we're just seeing a large migration into our service territories. Rich, you want to add to that?

Richard W. Kinzley^ I can add a little color. I think you hit the jurisdictions pretty well, Lin. But if you look at our electric utilities, our 3 electric utilities, kind of historic customer growth there has been about 0.8%. We saw that start to accelerate, particularly in 2020 and the first half of this year. The run rate this year is about 1.6%. So as Lin noted, about double what we've seen in the past.

And at the gas utilities, our historic growth is more in the kind of 1% to 1.1% range, and we saw that start to pick up last year. And then, this year, the run rate, again, is about 1.6%. So we're really encouraged with these trends, and they appear to have some staying power. Time will tell, but it certainly looks awful good right now.

Brian J. Russo^ And then, just on the leverage, obviously above 60% now due to the gas cost debt. How long do you think it will take you to get back down to the mid-50% range?

Richard W. Kinzley^ Kind of the way we filed the Storm Uri recovery requests comes out to about a 3.7 year weighted average to get those all recovered. It is a little front-end loaded, though. So I think, assuming approval of all those, which we fully expect, you'll see that start to happen fairly quickly in 2022 and 2023. Prior to Storm Uri, we were targeting being to that mid-50s range in a couple of years. Pre-Uri, it's probably going to take more like 3 to 4 years now to get there, Brian, with the recovery period of those Uri costs.

Operator^ Our next question comes from the line of Brandon Lee with Mizuho.

Wayne Lee^ The theme of the quarter has been an acceleration of decarbonization. Is that something that Black Hills is looking into? And if so, can you discuss the opportunities there?

Linden R. Evans^ We put out some ESG goals that I mentioned in my comments a few moments ago, and so we're very focused on those. We're focused not only on carbon reduction but also greenhouse gas reduction across our regulated utilities, across our natural gas utilities and the electric.

As you heard about our IRP, we're also wanting to add at least 100 megawatts of renewables to our generation fleet. We're being very careful, though, to make sure that we're also focused on cost for customers. We're very focused on reliability and resiliency, especially as we see the capacity in the West begin to close. For example, we're selling power this summer and into the fall in triple digits for peak load periods. And I believe that's because so many utilities are now really relied upon the energy market not so much and don't have quite the capacity that we probably ought to have.

So we're watching that very closely as we make this transition. That's why we're focused on fuel switching with the Neil Simpson II plant we mentioned in the question before, migrating that from coal, at least our suggestion is to the Commission we migrate that from coal to natural gas. We still support the local energy and fuel economy, also making sure we have that resiliency, have that capacity available for those Storm Uris and things of that nature.

Wayne Lee^ And then just another quick question on your 2022 equity. Can you discuss the timing? Is that going to be front-loaded in the year? Or are you going to be more opportunistic throughout the year?

Richard W. Kinzley^ Yes. As you saw in our release yesterday, we did $40 million of this year's $100 million to $120 million in the second quarter, so you would expect the rest of this year to just kind of play out through the course of the year on the ATM. For modeling purposes, I would assume kind of an even spread of that equity need next year throughout the year, no front-end load or anything like that.

Operator^ (Operator Instructions) Our next question comes from the line of Chris Ellinghaus with Siebert Williams.

Christopher Ronald Ellinghaus^ The IRP process, what's your expected timeline on approval?

Linden R. Evans^ Well, again, we don't have approval of the IRP themselves. We'll have hearings relatively soon in terms of reviewing the IRP and the recommendations we made in it, get to have a chance for the public [to add] more comment to [interveners], things of that nature; and, of course, the Commission. And then, once we're through that process, then again, we'll start filing for CPCNs.

For the generation side, we anticipate we would have to go through RFPs to add that generation, probably both South Dakota and Wyoming. However, we're very focused with the Commission in making sure that we recognize, especially in the aftermath of Storm Uri and things like that, the importance of owning capacity, the party that has the obligation to serve is running and operating that capacity, et cetera. So we'll work hard to allow ourselves to have as much of that in ownership for ourselves and for our shareholders. So we think that's the right thing for customers in the long run, but there's a lot of water under that bridge that we'll have to work through.

Christopher Ronald Ellinghaus^ Rich, at the end of the second quarter, have you got an adjusted number absent the Uri costs that are unrecovered so far?

Richard W. Kinzley^ For calendar year '21?

Christopher Ronald Ellinghaus^ Yes. Where would you have been on the debt-to-cap absent [the] Uri?

Richard W. Kinzley^ I don't know that off the top of my head, Chris, but I would tell you it probably would have been in the 58% to 59% range.

Christopher Ronald Ellinghaus^ Can you give me a little color on the decline in the non-re~~i~~g side for the quarter?

Richard W. Kinzley^ Yes. The big thing there really was, at power gen, we had planned outages during the shoulder quarter when we didn't need the capacity. That's probably the biggest driver, Chris. And then, at the coal mine, we had a little downtick there as well because also of planned outages at the coal mine, so we delivered less coal.

Christopher Ronald Ellinghaus^ You talked a little bit about seeing opportunities in RNG. Have you got any sense of when we might hear about a little bit more detail on your plan there?

Linden R. Evans^ Yes. We're working that pretty aggressively, Chris. We have 4 projects in place and have had those in place for a while, so we're learning from those. We've got another 6 to 10 that we're now currently negotiating. And then, we've got a fairly long backlog of possibilities. Our focus to date has been ensuring that we can build pipeline and transmission systems to the sources. We're also looking at other opportunities, of course. We've got thousands and thousands of miles of pipe that cross our primarily agricultural-oriented economies. We've got lots of great potential customers, et cetera.

So we're still learning. It's very early stages. It's still relatively expensive, as well. But it depends on what kind of solutions we're looking for. Are we looking for economic solutions? Are we looking for emission solutions? And over time, perhaps because we're looking for emission solutions, the economics start to make more sense and prices begin to come down as we get smarter, et cetera.

So we're in early stages, but we do have a committed team that's looking at this very carefully, thinking about the opportunities, and then making sure we're capturing them as quickly as we can.

Operator^ With no further questions, I will return the call back to Lin Evans for closing remarks. Please go ahead, sir.

Linden R. Evans^ Well, thank you very much. Let me close by saying thank you for your interest in Black Hills. We're already at hard work on Q3. I greatly appreciate the Black Hills team and how focused we have been on O&M savings while still hitting our metrics with respect to great customer service and safety. Especially just great thanks to our team.

I ask all of you, please be safe. Stay well. We'll look forward to next quarter. Take care.

Operator^ Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.