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+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation First Quarter 2022 Earnings Conference Call. My name is Liz, and I will be your coordinator for today. (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 E. Nichols^ Thank you, Liz, and good morning, everyone. Welcome to Black Hills Corporation's First Quarter 2022 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 Linn 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 Linn Evans.

Linden R. Evans^ Thank you, Jerome. Good morning, everyone, and thank you for joining us. I'll start on Slide 4 of our investor presentation, which summarizes our performance for the first quarter. Our team delivered excellent operational and financial performance during the quarter, providing a great start to the year. Our earnings per share increased 18%

year-over-year, with strong contributions from both our electric and gas utilities. Our earnings growth in the first quarter reflects the execution of our regulatory strategy over the last several quarters, including constructive outcomes for 3 gas rate reviews and Storm Uri cost recovery.

Our financial results also benefited from ongoing customer growth driven by population migration into our service territories. And our strong generation fleet availability during the quarter supported profitable off-system energy sales that benefited customers and shareholders. Our generation team operates our fleet at much higher availability than the industry average which is a testament to their focus on operational excellence and is key to our top quartile reliability and keeps costs lower for our customers.

As always, safety is our top priority as we aspire to be the safest utility in the country. As an example of our team's safety focus, our Wyodak Mine was recently recognized by achieving CORESafety certification from the National Mining Association. Wyodak joins only 10 other mines out of more than 500 to meet these strict safety standards.

Our capital plan for the year is on track as we proactively manage through inflation and supply chain challenges. We're prioritizing our projects and adapting our project schedules to address these realities. Most of our procurement needs for 2022 are already sourced. And looking ahead, certain equipment items such as meters and distribution transformers are developing longer lead times, and we're collaborating with our supply chain partners to address these challenges.

We also continue to advance our growth and resiliency strategies. We have signed a contract with a blockchain customer in Wyoming. The contract includes conditions that must be met by the customer before we provide them energy, and we hope to begin delivering energy later this year. We also continue to evaluate other requests for service under our blockchain interruptible service tariff. Our proposed Ready Wyoming transmission project also continues to move along. I'll discuss this project further in a moment.

Our financial outlook is listed on Slide 5, which is consistent with our prior disclosures. We continue to anticipate earnings in the range of $3.95 to $4.15 per share for the year. We also continue to target EPS growth of 5% to 7% for 2023 through 2026 and annual dividend growth of at least 5% during the same period. Our base capital plan remains at $3.2 billion over the next 5 years.

Slide 6 provides a regulatory update for our current and planned activities. Our only currently active rate review is for Arkansas Gas, which we filed last December. We're requesting recovery for more than $220 million of investments and approval for an enhanced safety-focused rider. The regulatory process continues as expected, and we anticipate resolution by year-end.

We've nearly completed our regulatory process relative to our recovery of our incremental fuel costs that we experienced during Winter Storm Uri.

We continue to expect full recovery of the $546 million of extraordinary fuel costs we incurred during the February 2021 storm. We're currently recovering all of our states, and we're waiting for final decisions for Arkansas Gas and Wyoming Gas. Through the first quarter of this year, we've recovered $106 million of the $546 million of incremental costs.

In February, we filed for approval of the Ready Wyoming project to propose 260-mile electric transmission line in Southeast Wyoming, which is expected to stabilize cost for customers, enhance the resiliency of our electric systems and support the local economic health of the Cheyenne region. The request is moving through the regulatory process, and we expect resolution by year-end. If approved, construction will begin next year and we view Ready Wyoming as a win-win project for our customers for Wyoming and for our shareholders.

Looking forward, we're preparing to file 2 rate reviews this year. We plan to file a rate review for Wyoming Electric by June 1 as required by a prior settlement agreement. And we also plan to file a rate review later this year for Rocky Mountain Natural Gas, our interstate natural gas pipeline in Colorado. In our natural gas utilities, we plan to file RNG tariffs in 3 states that would provide customers an option to replace all or a portion of their current natural gas usage with biogas or renewable natural gas. We expect to file in Colorado in May, followed by filings in Kansas and Nebraska before August.

The final 2 items on this slide relate to the resource planning process for our 3 electric utilities. We submitted a resource plan last year for our jointly operated South Dakota and Wyoming Electric System. We're preparing for the next steps to add up to 100 megawatts of renewable resources and 20 megawatts of battery storage as identified in our preferred plan. We're also working to finalize and file our Clean Energy Plan for Colorado in the second quarter. This plan supports an 80% reduction in carbon emissions by 2030 of a 2005 base year, which will require the addition of more renewable energy resources.

Slide 7 sets our company-wide emissions reduction goals for our electric and natural gas segments. From a 2005 baseline, we've already achieved a 30% reduction in greenhouse gas emissions intensity at our electric utilities and a 33% reduction in our natural gas utilities, and we're well on track to achieve a cleaner energy profile for the future.

Our updated sustainability report, along with our other ESG disclosures, including SASB the AGA, EEI templates and the Natural Gas Sustainability Initiative will be published in August. And for the first time, we will also publish TCFD disclosures in August.

Moving to Slide 8, which focuses on our experience with customer growth in the states and jurisdictions we serve. The gray bars on this chart displayed the total population growth over the past 3 years, the states we serve and the national average. The orange bars show the customer growth rate for our Black Hills Energy jurisdictions during the same period. I'll note that the customer growth rates within our service territories are well above each state's average, illustrating the overall quality of the jurisdictions we serve with growth in our Arkansas and

Colorado territories remaining particularly strong. Here in Rapid City, we were recently listed as the top growing Midwest community and we're also ranked as the #1 emerging housing market by an index published by the Wall Street Journal at realtor.com. We've also provided our estimated rate base by jurisdiction on this slide.

Slide 9 highlights our Energy Forward initiative. We're fostering sustainable cost savings through innovation and continuous improvement. Our company-wide program is focused on ensuring we have processes that allow us to serve customers as effectively and efficiently as possible.

Slide 10 summarizes our long-term growth plan. We're confident in our customer-focused strategy, and the strategic diversity of our electric and gas utilities across our stable and constructive jurisdictions, and we're excited about our growth opportunities, many of which we've already discussed today. We're focused on growing long-term value for customers and shareholders through our customer-focused capital investment program, developing incremental projects, executing on other opportunities to grow our earnings stream and improving our effectiveness and efficiency as a team. We remain excited about our growth opportunities and the customer growth in our service territories. Those factors, combined with our Energy Forward initiative, will assist us in tempering inflation impacts and delivering on long-term growth targets.

That completes my comments, and now I'll turn it over to Rich for the financial update. Rich?

Richard W. Kinzley^ Thanks, Linn, and good morning, everyone. I'll start on Slide 13, which shows our first quarter EPS and segment operating income for 2022 compared to 2021. We delivered EPS of $1.82 compared to $1.54 last year. As Linn noted, that's an increase of 18%. Last year's first quarter included a $0.15 negative impact from Winter Storm Uri. And even when adding that $0.15 back to 2021 results, we still increased EPS by 8%. Operating income was up 25% with strong contributions from both our electric and gas utilities.

Slide 14 illustrates the detailed drivers of change in net income year-over-year for the first quarter. All amounts on this slide are after tax. There are a number of items that drove higher margins year-over-year, and these are detailed in our earnings release yesterday. The key drivers were new rates and rider recovery, customer growth, strong off-system energy sales and mark-to-market benefits on energy contracts. Also, margins at the Electric Utilities were higher year-over-year due to a TCJA tax refund at Colorado Electric last year, which reduced margin and income taxes by a like amount.

Weather benefited earnings in both Q1 2022 and Q1 2021. Compared to normal, weather added $0.06 to EPS this quarter compared to $0.07 in Q1 2021. I'll also note that we reported $0.04 of EPS in Q1 2022 from mark-to-market accounting on energy contracts, while last year's first quarter had $0.02 of negative EPS related to mark-to-market items.

O&M was higher, mainly due to higher cloud computing licensing costs as we move more of this activity from our data centers to the cloud and maintenance expenses on plan generation outages and property taxes. DD&A increased due to our capital investment program and interest expense increased from higher debt balances mainly due to the impact from Winter Storm Uri. Additional details on year-over-year changes in margin and operating expenses are available in yesterday's earnings release and in our 10-Q to be filed later today.

Slide 15 shows our financial position through the lens of capital structure, credit ratings and financial flexibility. We have a manageable debt maturity profile, and we're committed to maintaining our solid investment-grade credit ratings. Our debt to total capitalization ratio improved to 60.8%, down from 62% at year-end, thanks to strong first quarter cash flows and recovery of Winter Storm Uri costs. We expect to achieve our target capital structure of mid-50s by late 2023 or early 2024 as our business generates strong cash flows, and we recover storm costs, repay debt and execute our at-the-market equity offering program. At the end of April, we had over $435 million of available liquidity on our revolving credit facility.

Moving to our dividend on Slide 16. We've increased our dividend an average of 6.4% annually over the last 5 years. Our 2021 dividend represented 51 consecutive years of dividend increases, one of the longest track records in our industry and a record we're quite proud of. Looking forward, we anticipate increasing our dividend by more than 5% annually through 2026 as we maintain our 50% to 60% payout target.

In closing, our overall financial outlook is illustrated on Slide 17. Between Linn's comments and my comments, we've covered the information shown on this slide. And with that, we'll take questions.

+++ q-and-a

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

Julien Patrick Dumoulin-Smith^ Can you hear me?

Linden R. Evans^ I hear you well.

Julien Patrick Dumoulin-Smith^ Listen, I just wanted to check in first on this jury item disclosed. Just thought process on why it wasn't booked in the -- in earnings here and just a little bit more context behind it. I haven't seen a lot of disclosure in the past on it, just to talk about it a little bit more, if you can.

Richard W. Kinzley^ Yes, Julien, that -- I think Linn didn't quite hear the question. He's looking at me quizzically. So I'll answer it, and he can add to it. We feel like we have meritorious defenses against that. We plan to appeal. And at this time, there's nothing recorded as an accrual. That relates to our disposed ~~--~~– Black Hills oil and gas company that we disposed of in 2018.

Linden R. Evans^ Rich is right, Julien. I'm sorry, I didn't hear your first phrase of your questions, so it threw me off. But yes, Rich answered that very well. That is operations we no longer own and operate. We were surprised by the jury verdict, and we think we have meritorious appeal rights, and we're going to pursue those.

Julien Patrick Dumoulin-Smith^ Got it. Okay. Fair enough. And then just keeping going back to the core operations here, if I can. On -- in terms of Bitcoin and some of the dynamics there. I mean what are you seeing in terms of follow-through on some of this load materializing here again at times, one could argue that there's entry. How much is sort of do you anticipate at this point to be realized, if you will? Or you can speak to where you are.

Linden R. Evans^ Are you speaking to the crypto RFP in Wyoming ~~(inaudible) and oil~~?

Julien Patrick Dumoulin-Smith^ Yes, exactly.

Linden R. Evans^ Okay. Yes. We -- as you might remember, we did an RFP early last year, had a very, very strong response to that because we were getting so many phone calls from potential customers. And in response to that RFP was quite strong, and then we picked our top couple. We have actually negotiated and signed a contract and agreement with one of those crypto mining customers. There is a condition precedent to that, that agreement before we start supplying them energy, we feel confident they'll get that accomplished.

And then before the end of this year, we'll be supplying energy to them. And of course, we are responding to others, part of opportunities that we see with respect to increasing the opportunities we serve in Wyoming would be additional transmission things of that nature. So we see a pretty strong opportunity for us to serve a pretty doggone good growing load. And frankly, the customers that we're already serving are growing pretty doggone rapidly, and that's going quite well for us.

Julien Patrick Dumoulin-Smith^ Got it. In fact, maybe if I can clarify the question further. As you said, right, you got -- you had a lot of respondents here on the RFP. I mean -- and as you highlighted here, you have a single contract with coming out of that. As you think about perhaps realizing more of those initial respondents, is there a time line there? Or should we be kind of holding back and waiting a little bit more?

Linden R. Evans^ I think we're just -- we're being very careful to make sure that we high grade the opportunities there. We want to make sure we have good counterparties that are solid, long-term customers, things of that nature. So that's been our focus so far, Julien. So we're not in a big hurry. We have plenty of demand. So it's about quality of the customer, power factors, things of that nature that help us maximize the opportunity for customers and shareholders.

Operator^ Your next question comes from Brandon Lee with Mizuho.

Wayne Lee^ Just a couple of quick ones. Just given the energy backdrop and the need for more diversified fuel supply, are the gas LDC assets more valuable inside the portfolio? Or are you still potentially evaluating strategic alternatives?

Linden R. Evans^ Well, as I said it last quarter, I think, Brandon, the best way for me to answer that question is what's best for customers and shareholders is always paramount to our decision-making. We're constantly evaluating our portfolio. And the 20-plus years I've been with this organization, we've been very proactive with our moves. We've added assets. We've divested assets. We have strategic partners in our assets, especially our generation assets. So that will always be our long-term approach to creating shareholder value. And I think we've proven our track record in that regard. But right now, again, it would be -- I'll be speculating if I said anything further than that, Brandon.

Wayne Lee^ Sure. That's helpful. And just a quick question on the timing of your equity. It seems like utility stocks have run off or have gained substantially throughout the year. I guess I'm a little surprised that you've only done $3 million of -- or $3.8 million of your $100 million, let's call it, $110 million of equity needs for the year. I guess do you have -- can you just talk about the strategy, are you lining that up with capital spending? Or can you just talk about how we should view that for the rest of the year?

Linden R. Evans^ Yes. The way I would view that, Brandon, you're right, stocks have run up, utility stocks, but that happened kind of right at the end of the quarter, and those ATM windows are certain dates, right? So we were pretty judicious in the first quarter. I would think about the balance of what we need to spread through the remaining quarters of the year. We've got 3 more quarters to go and plenty of time to get done what we need to get done.

Operator^ (Operator Instructions) Next question comes from Andrew Weisel with Scotiabank.

Andrew Marc Weisel^ First question, just to clarify, Linn, did you say~~see~~ in the prepared remarks that you're adapting your capital plans in response to supply chain constraints? I see the CapEx bar and this slide is unchanged. So can you just elaborate about what type of spending might be shifted around, if I heard you~~,~~ right?

Linden R. Evans^ Good question. Thank you for that. Yes, what we've been doing so far is we've had to slightly defer some projects. We plan to stay within that cap. The capital forecast beginning for this year and next year for multiple reasons, one of which is to ensure that we maintain a strong balance sheet. So we intend to spend capital up to the numbers we have published. And as we see higher prices and as we see inflation, we see it primarily at least thus far in our capital areas when we buy equipment and things of that nature.

So as we see those prices come in, we're constantly evaluating each project. We have them prioritized. We have them ranked. We know what our risks are associated with those and the opportunities. And then we are deferring some projects to date. We'll see how the rest of the year goes. But so far, it's been relatively minimal. There are projects that certainly we would like to do and intend to do, but we'd be deferring those into other years. Does that make sense to you, Andrew?

Andrew Marc Weisel^ It does. Yes. Thank you for explaining that.

Richard W. Kinzley^ Overall -- just one other thing to add to that is that we do have the majority -- the vast majority of this year's capital contracted and locked in. So that's helpful as well. One other thing I would add to that as well is if you think about capital beyond '23, the inflationary situation is likely to help us or make us increase our CapEx forecast in those years. More detail on that to come later this year. We usually update our capital numbers with our third quarter release in early November.

Andrew Marc Weisel^ Next question on overall demand. I see that electric and gas volumes are up quite a bit year-over-year. You mentioned the population in-migration as well as some new winter peak loads. Are you able to talk about how the demand compared to prepandemic levels, ideally adjusted for weather and by customer class?

Linden R. Evans^ Yes, we're looking at each other. There's going to be data in our Q that we'll file that -- No. I think that certainly in the residential, it remains strong. As you know, during the pandemic residential load was up. We're still seeing that. And now we're seeing a C&I load. And I think the C&I load, yes, it's probably at least back to the prepandemic levels, and I think it's actually exceeded if my memory is correctly and the numbers I've been looking at.

Andrew Marc Weisel^ Great to hear. One last one, if I may. I could be wrong, but I believe these voluntary RNG programs would be new for you. Is that right? Can you just talk a little bit about the interest, conversations you might be having with regulators or customers, how big the programs could be. Just a little more detail on that, please?

Linden R. Evans^ Yes. That's -- it is -- they are new for us, Andrew, as you said. So yes, would be new, and there's some good demand for them. We serve primarily a lot of agrarian communities. We serve a lot of rural communities within our territory. Many of them are very agrarian oriented. And they understand the need for sustainability within their own communities and their own businesses, if you will. So we're pretty excited about it. We think it has a nice little element to our portfolio and it kind of produces and glides us a launching pad for future RNG opportunities through our Midwest territory.

Operator^ With no further questions, I will turn the call back to Linn Evans for closing remarks.

Linden R. Evans^ Well, thank you very much for your interest in Black Hills. I can assure you we're already at work towards continued success in the second quarter. We look forward to seeing many of you in a few weeks at the American Gas Association Financial Conference and thank you, Liz, for your help this morning. Thank you, everyone.

Operator^ Thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a good day.