Event ID: 138500926449
Event Name: Q2 2023 Black Hills Corp Earnings Call
Event Date: 2023-08-03T15:00:00 UTC

P: Operator;;
C: Jerome E. Nichols;Black Hills Corporation;Director of IR
C: Kimberly F. Nooney;Black Hills Corporation;Senior VP & CFO
C: Linden R. Evans;Black Hills Corporation;President, CEO & Director
C: Marne M. Jones;Black Hills Corporation;SVP of Utilities
C: Todd Jacobs;Black Hills Corporation;SVP Growth and Strategy
P: Andrew Marc Weisel;Scotiabank Global Banking and Markets, Research Division;Analyst
P: Christopher Ronald Ellinghaus;Siebert Williams Shank & Co., L.L.C., Research Division;MD, Principal & Senior Equity Utility Analyst
P: Julien Patrick Dumoulin-Smith;BofA Securities, Research Division;Director and Head of the US Power, Utilities & Alternative Energy Equity Research
P: Willard Afonso Grainger;Mizuho Securities USA LLC, Research Division;Senior Associate

+++ presentation

Operator^ Good day, and thank you for standing by. Welcome to the Second Quarter 2023 Black Hills Corporation Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (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 Second 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 this morning are Linn 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 of Growth and Strategy.

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 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 Linn Evans.

Linden R. Evans^ Thank you, Jerome, and thank you all for joining us today. As Jerome said, Kimberly and I are pleased to be joined this morning by 2 additional members of our senior leadership team. Marne will provide our business update. Todd will provide updates on our regulatory plan and our progress on growth initiatives. I'll begin my prepared comments on Slide 3. I'm very proud of our team's operational performance as we continue to deliver upon our #1 priority, and that's serving our customers safely and reliably. As recent extreme weather events across our country continue to remind us, keeping our customers comfortable and safe, whether it's bitterly cold or blistering hot, requires long-term planning and a continuous focus on operations excellence.

I'm grateful to our engaged team for our collective focus on excellence and how we're all working together to improve life with energy in our communities. We had a productive quarter, building on our prior success while making tangible progress on 3 key objectives: delivering earnings within our expectations, continuing to strengthen our balance sheet and advancing our regulatory plan and growth initiatives. We're on track with our 2023 capital plan of $615 million. We're now in the execution phase of our electric resource plans in Colorado and South Dakota to add a combined 500 megawatts of renewable resources. Those plans include ownership opportunities, representing upside to our base capital plan.

Our team continues to deliver a steady drumbeat of progress on growth opportunities and other key initiatives to support us achieving our earnings guidance. Slide 4 lists our financial outlook, which remains consistent with the first quarter. We're reaffirming our earnings guidance of $3.65 to $3.85 per share and our long-term EPS growth target of 4% to 6%. Our base capital forecast remains at $3.5 billion for the 5-year period with upside from the generation resource plans I mentioned a moment ago.

We typically update our capital forecast when we report our third quarter earnings. However, we're moving our annual outlook update to coincide with our year-end earnings and align with our internal financial planning process. Our Q4 earnings will include our 2024 earnings and dividend guidance, our roll forward and refreshed capital plan and the annual increase of our dividend.

To summarize, we're executing on our strategy and delivering progress toward our long-term success in growing value for our customers, communities and shareholders. We're leveraging the near-term uncertainty expect to emerge stronger with a more resilient and efficient operational and financial base and even broader range of growth opportunities and a proven track record of staying power through uncertainty.

With that, Kimberly will provide our financial review. Kimberly?

Kimberly F. Nooney^ Thank you, Linn, and good morning, everyone. I'll begin my comments on Slide 6 with earnings per share compared to the same period last year. We delivered EPS for the second quarter of $0.35 compared to $0.52 last year. Last year's second quarter earnings included a $0.12 benefit related to winter storm Uri recovery. This year's earnings were primarily driven by new rates and rider recovery and a state income tax true-up. These results were tempered by higher operating expenses, increased interest expense due to higher interest rates and mild weather.

Slide 7 highlights the after-tax drivers of change in net income year-over-year for Q2 2023 compared to Q2 2022. Higher utility margins were driven by $0.09 of EPS from new rates and investment riders and $0.04 of EPS from transmission services and off-system energy sales. Weather had a $0.02 per share unfavorable impact versus normal in Q2 2023 compared to a $0.01 benefit in the same period last year. We had a mark-to-market gain of $0.01 per share compared to a $0.04 negative impact in Q2 of last year.

O&M expenses increased 8.2% year-over-year, primarily driven by the inflationary impacts on labor costs and benefits. We are actively managing our expenses for the remainder of the year, including limits on hiring and controllable expenses. While total debt was consistent with last year, interest expense increased due to higher interest rates. Other expense was higher due to the impact of market performance on incentive plans and pension costs. To be clear, our $0.35 of reported EPS is a GAAP non-adjusted measure that includes a $0.12 EPS benefit from a state income tax true-up this quarter.

Subtracting the $0.12 benefit from our EPS results, coupled with focused cost management through the remainder of the year, we anticipate delivering EPS at the midrange of our guidance. We remain diligent in managing a variety of initiatives to achieve our cost management objectives. Additional details regarding our financial results are available in our earnings release and 10-Q released yesterday.

Moving to Slide 8. We continue to strengthen our balance sheet and liquidity position resulting from strong cash flows from operations, disciplined capital investment and executing our financing plan. Our robust cash flows from operations were driven by fuel cost recovery, new customer rates, rider recovery revenue and customer growth. We continue to execute our financing plan during the quarter. We're prudently managing our capital investment program to approximately $600 million for this year. We continue to issue shares through our at-the-market equity program with a total of $58 million issued to date.

Our guidance for the year is to issue $140 million to $160 million of equity through our ATM program. Earlier this year, we issued $350 million of debt, which was primarily used to repay short-term debt. In line with our plan for this year, we have improved our liquidity, paid down all short-term debt and continued to strengthen our balance sheet. This will allow us to refinance a portion of the $525 million notes due in November, further reducing our overall total debt balance.

Slide 9 displays our financial position due to length of credit quality, capital structure and liquidity. From year-end, we improved our net debt to total capitalization by 250 basis points to 58.2%. At quarter end, we had approximately $140 million of cash with no short-term borrowings on our $750 million revolving credit facility, providing nearly $900 million of available liquidity.

Slide 10 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 52-year track record of dividend increases with increases in line with our long-term EPS growth rate. We also continue to target a payout ratio of 55% to 65%. As Linn mentioned earlier, we intend to provide our annual outlook for earnings and dividend guidance and dividend increase announcement with our Q4 and year-end earnings in February 2024. As noted previously, this will align with our internal financial planning process.

I'll now turn it over to Marne for our business update.

Marne M. Jones^ Thanks, Kimberly. I'll start by recognizing our team for our focus on safety and reliability as outlined on Slide 12. Operational excellence is a daily priority for us, and we're proud to note significant achievements this quarter. Two of our electric generation facilities were recognized by OSHA for extending their achievement of OSHA's highest safety honor, the voluntary protection programs Safety Star Status. We're proud of our team at the Pueblo Airport Generating Station in Colorado for another 5 years of vesting and our Cheyenne Prairie Generating Station in Wyoming for reaching another 3 years of Star Status.

We also made headlines during the quarter regarding one of our state-of-the-art natural gas processes. Our team was recognized by the American Gas Association's 2023 best practices program for our geographic information system. Our best-in-class GIS system enables us to access accurate system information upon installation of pipe and materials, enabling safe and efficient management of our system and construction projects. We are pleased to be part of the AGA's program and to be recognized for our work in this area, supporting the safety and reliability of our system and communities.

Our single most important priority is providing our customers with safe and reliable energy. We don't take for granted our industry-leading electric reliability as our team delivers on operations excellence and efficiently operating our diverse generation resources for our customers. This is especially noteworthy against the backdrop of NERC's reliability assessment for this summer, encouraging electric providers to be keenly aware of the need for generation and transmission reliability.

Slide 13 is a reminder of our electric resource plans progressing in Colorado and South Dakota. We are in the execution phases for a combined 500 megawatts of new renewable resources with competitive bidding processes underway in each state. In Colorado, we released our RFP website in late July for 400 megawatts of renewable resources to be in service between 2026 and year-end 2029. These resources are necessary for our Colorado Electric utility to achieve its 80% carbon reduction goal by 2030, as outlined in our clean energy plan. Our approved settlement in the state allows us to own up to 50% or 200 megawatts of new resources, if at reasonable cost to customers.

In South Dakota, bids were received during the second quarter for 100 megawatts of build transfer renewable energy generation to be in service by mid-2026. Evaluation of those bids is underway, and we expect to complete negotiations with the selected bidder in Q1 of 2024.

In summary, we are executing well on our mission of improving life with energy, delivering safe and reliable service to our customers and consistently executing on our key strategic initiatives.

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

Todd Jacobs^ Thank you, Marne. I'll start on Slide 15, which provides a regulatory update. I'm very pleased that in July, we received final approval for a settlement in the rate review for our Rocky Mountain Natural Gas Pipeline in Colorado. The settlement provides for $8.2 million of new annual revenue with new rates effective July 15. These new rates were necessary to recover $110 million of investment in our systems since our last rate review in 2017. We note and appreciate the engagement with stakeholders in that case that led to a constructive settlement.

We have 2 natural gas rate reviews in progress. In May, we filed in Colorado and Wyoming seeking new rates by Q1 of next year. We are seeking to recover investments of nearly $300 million in the 2 states and are requesting $46 million of new annual revenue. These rate reviews are moving through the regulatory process and are on track. We plan to file a natural gas rate review later this year in Arkansas with the rate review driven by ongoing investments to support our growing communities in Northwest Arkansas.

We continue to evaluate our regulatory plan and the potential timing of future rate reviews. We are also actively evaluating the acceleration of new regulatory requests given the impact of higher inflation and interest rates on our businesses.

Moving to Slide 16. This slide illustrates our customer-focused growth plan and our potential upside opportunities. We are investing in the core needs of our customers, improving our infrastructure with safety and reliability investments and pursuing other profitable growth. Our base capital forecast of $3.5 billion through 2027 reflects an annual run rate of approximately $700 million annually. In 2023, we're managing capital investments to approximately $600 million as we focus on strengthening our balance sheet.

Our capital forecast for 2024 increases to over $800 million, driven by Ready Wyoming transmission construction and strategic project deferrals from 2022 and 2023. Incremental to our base capital plan is the pipeline of projects we are developing to maintain our systems reliability and resiliency and to serve the growing needs of our customers. In the near term, this includes incremental investment dollars from our electric resource plans.

The capstone of our plan is pursuing profitable growth, which includes intentionally cultivating other opportunities that require little to no capital and to drive new margin streams through innovative solutions, living into our vision to be an energy partner of choice.

Slide 17 lays out our customer-focused initiatives in 5 key 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, our 260 mile project in Southeastern Wyoming. During the quarter, we received final approval for our CPCN from the Wyoming Public Service Commission. We're finalizing the preferred locations of rights of way for the transmission line, and we remain on track to start construction this year with phased completion targeted through 2025.

We are also actively pursuing other incremental transmission opportunities, and we are always evaluating other needs such as natural gas pipelines and storage projects. Our service to data centers and blockchain customers are examples of our approach to provide innovative and customized solutions for our customers. We're especially optimistic about long-term growth in serving hyperscale data centers. Data center customers have communicated robust energy demand growth plans for operations in the Cheyenne, Wyoming area. Cheyenne is an especially attractive data center location with higher elevation for efficient cooling, strong fiber connectivity, regional wind resources and proximity to the Denver metro area.

Our first blockchain customer located in Cheyenne is in service, and they successfully ramped up their initial energy intake during the second quarter. We note that we have little to no capital at risk with this customer. We're optimistic that this approach to blockchain is a scalable model for other prospects going forward.

Renewable natural gas is another sweet spot of growth for us in our agriculture rich service territories. We've already placed 6 RNG interconnects into service. We're nearing the finish line on 3 additional interconnects this year, and we have several other potential projects being evaluated. We are focused on participating in the growing RNG market, and we have a dedicated team that is actively developing these opportunities. We will continue to integrate more RNG projects onto our system and further engage in this market as we see RNG playing an increasing role in helping to decarbonize our nation's natural gas system.

We're also fostering ongoing sustainable cost savings through innovation and continuous improvement in how we do business and how we serve our customers through our Energy Forward initiative. Through that initiative, we will seek out and drive efficiencies in how we operate our business and serve our customers.

And lastly, Slide 18 lists our clean energy goals. Our strategy integrates our plan to responsibly reduce electric emissions by 70% by 2040 and to achieve net zero emissions by 2035 for our natural gas systems. I refer you to our new corporate sustainability report published during the second quarter for more detail of our progress and plans.

In closing, and before I turn it back to Linn, I am excited about our strategy and the diversity of our growth opportunities. We continue to review and evaluate our strategy in this ever-changing industry and macroeconomic landscape for better and more efficient ways to serve our stakeholders and to create long-term value. Linn?

Linden R. Evans^ Thank you, Todd, and thank you to all of our Black Hills Energy team for another solid quarter of results and progress. I'm pleased with the results of our strategic execution, including our operational excellence, how we strengthened our balance sheet, our continued progress in our resource plans and growth initiatives and our acute focus on O&M and capital management. Our financial results for the first half of the year, along with ongoing cost management through the second half of this year have us on track for a successful 2023 and beyond.

With that, we're happy to take your questions.

+++ q-and-a

Operator^ (Operator Instructions)

Our first question comes from Paul Zimbardo with Bank of America.

Julien Patrick Dumoulin-Smith^ It's actually Julien. I appreciate the opportunity to chat here. Just to clarify this angle, first off, just on '24 expectations now for the year-end call versus, I suppose, historically in recent years, third quarter. Just you want to elaborate a little bit on the timing thought. Is it just because we've seen so much volatility in the rate environment or any further commentary on that?

Kimberly F. Nooney^ Yes. I think you're hitting the nail on the head. It's some of the inflationary challenges that we face as we look forward. We're dealing with the O&M challenges that we talked about on the call, and we're validating that. We want to hit the midrange of our guidance, Julien.

Julien Patrick Dumoulin-Smith^ I hear you. In fact, speaking with the midpoint of the guidance, with the midpoint of the guidance here, even excluding the gain, you feel good about for '23?

Kimberly F. Nooney^ Absolutely. We're focused on managing controllable O&M, Julien. Big things that we experienced this first 6 months, we're focused on labor costs. There were labor costs, both internally and externally as you think about outside services, but we have a lot of controllable O&M levers that we can pull with labor costs, travel and outside services, and we are absolutely focused on achieving those things so that we can get to the midrange of our guidance that we provided.

Linden R. Evans^ And Julien, many of the things that we have initiated. We'll start to see the results of those, the impact of those through the second half of the year. So that gives us confidence in attaining the midrange of our guidance.

Kimberly F. Nooney^ And maybe, Julien, one follow-up is when we think of the earnings guidance, we're thinking the holistic financial landscape. And one of the areas that we've seen benefit is we've had some really strong cash flows from operations and gas cost recovery that not only allowed us to pay down short-term debt, but we have cash that we're earning interest income on. So just another opportunity that we've seen overall to date.

Julien Patrick Dumoulin-Smith^ Yes. And actually, since you mentioned the O&M side, if I can pivot there real quickly. The core O&M trends here, right, excluding the gains, I mean, it looks like I think, towards $0.30-ish give or take. How is that trending here in terms of another year into '24? I know that core inflation for a lot of your peers has been a consistent theme here. Are we finally starting to see some moderating trends here? And how are you guys looking at that in terms of a factor as you roll forward again, right?

Maybe let me ask that slightly differently. I think a lot of the headwinds here of late have been both inflationary on O&M and on interest expense. And I think that's why we'd previously been talking about near-term growth being weaker versus maybe the longer-term reaccelerating here on the 4% to 6%. How is the O&M trend and what we've seen year-to-date put you against that 4% to 6% and kind of the cadence of achieving that as well.

Kimberly F. Nooney^ I think the way you characterized it was spot on. We're experiencing, as you mentioned, higher inflation, but we have taken that into account as we look forward in the plan. So we have some great growth opportunities that will materialize. As Todd talked about a little bit earlier from organic growth opportunities from the customer perspective, we have growth when we think about our capital-light initiatives, which we refer to as our data centers or blockchain. So we have a lot of strong growth opportunities. So as you think about the whole 4% to 6%, yes, we want to hit our numbers, but it may be more impacted by inflation in the earlier part of the plan.

Linden R. Evans^ And as you mentioned, Julien, this is Linn. You mentioned that we've seen strong inflation. Yes, we are seeing maybe a softening of inflation. But as we know, those costs are very sticky. And so we have the sticking of those costs we need to deal with. We are dealing with. That's why we're filing rate reviews, reviewing our rate review schedule and maybe accelerating those to help us achieve the growth that we need to achieve.

Julien Patrick Dumoulin-Smith^ Yes. I hear you. It's pervasive, as you say. And just on the equity front, any reason to hold back on tapping into that ATM here when you think about the cadence of that through the back half of the year, if you will, just last nitpick there.

Kimberly F. Nooney^ No, absolutely. Great question, Julien. So we continue to be focused on that BBB+ credit quality. We've been focused on strengthening our balance sheet as it relates to that BBB+ credit quality. So as we put in guidance and as we reaffirmed, we're focused on the $140 million to $160 million of equity to help support those objectives.

Julien Patrick Dumoulin-Smith^ Right. But the nuance there being that you feel like you've achieved where you need to be on the balance sheet? Are these presently or by year-end?

Kimberly F. Nooney^ Yes. So great question, and let's just clarify for that. We're continuing to strengthen our balance sheet, right? And so Q2 and Q3 are always softer quarters. Q4 is a very strong quarter when you think about earnings, cash flow is just by nature of the seasonal part of our business. So we continue to strengthen our balance sheet through the equity issuances. And then obviously, the earnings strength as we move into Q4, will help that as well.

Linden R. Evans^ We're very focused, Julien on achieving our BBB+ credit metrics. We're very focused on that.

Julien Patrick Dumoulin-Smith^ Absolutely. Thank you guys for being clear. Appreciate it. Good luck. See you guys soon.

Operator^ Our next question comes from Will Grainger with Mizuho.

Willard Afonso Grainger^ Just want to ask in Arkansas, I see you're preparing to file a rate case there. What's prompting that now? And can you talk about the time line of that? How are you thinking about that?

Todd Jacobs^ Yes. This is Todd. It's really driven by a significant amount of investment in growing communities in Northwest Arkansas. So that really is the main driver for that case. In terms of timing, we're leaning toward Q3, Q4 of this year, with rates effective around the same time the following year. So we'll get -- getting clarity on some of the specific tasks that we have that's really driven by a significant amount of investment in a very growing state.

Willard Afonso Grainger^ Got you. And then maybe just thinking about the longer-term strategy here. Are you looking at investments or you mentioned RNG, -- are you looking at investments and maybe some regulated-like businesses as opposed to purely regulated? How are you thinking about the long-term strategy of your business?

Linden R. Evans^ It's a bit of a mix. We have a dedicated team right now where we pulled out some really talented employees within the organization that was really driven by a significant amount of customer demand for interconnects and so where there are producers that want to get RNG into the interstate pipeline, they were looking for people that know pipes like we do to be able to put that RNG into the broader system. And so we really started out early on focused on those regulated interconnects and connecting point A to point B. It's our sweet spot. We know that space.

And what we're looking at right now is other opportunities. So they may be interconnects, they may be hubs where dairy farms, for example, truck RNG to centralized location works purified and put into the natural gas system. We're looking at other investments. And so I'd say that right now, we've got our toe in the water on the non-reg side, but the bulk of what we have to date is really regulated assets. But again, a significant amount of interest in that space -- we operate in -- around a lot of farms in rural America. And so we see upside in that area where we want to explore it, stay involved and really understand also how it develops in the future with respect to ways to decarbonize our natural gas system.

Willard Afonso Grainger^ Understood. That's super helpful. I'll leave it there. Thank you very much for the time.

Operator^ Our next question comes from Andrew Weisel with Scotiabank.

Andrew Marc Weisel^ First, I just want to clarify something. I'm probably trying to make something out of nothing. But the slide on the balance sheet. Last quarter, you had a checkpoint for customer growth, and you removed that. Is that meant to be a deliberate kind of message about customer growth or changes? Or am I trying to make something out of nothing.

Linden R. Evans^ No, thank you for pointing that out to us. No, that was not intentional on our part. We're still seeing nice customer growth into our service territories. Todd just mentioned what's happening in Northwest Arkansas, a real strong growth, Front Range of Colorado, strong growth. Rapid City, South Dakota strong growth. So that's still the case for us. So that was simply an omission on our part, and we'll pay more attention to that next time. So thanks for bringing it to our attention, Andrew.

Andrew Marc Weisel^ Just wanted to make sure the trends are still strong. My bigger question on the balance sheet. I think you sort of alluded to this in one of the earlier questions, but you talked in the past about that being something of a constraint on CapEx. The balance sheet repair is coming along nicely. You've taken a lot of actions and things have gotten better on the regulatory recovery. So my question is, directionally, should we expect an increase in CapEx with the February update?

Linden R. Evans^ I'd say, in general, that is correct. What we have said so far is next year, we anticipate about $800 million. Of course, we will announce that at the appropriate time when we do year-end earnings. But given that we have the Wyoming Ready transmission project, as an example, we intend to start construction later this year. So we will see an increase in capital from that perspective. And then as we said, you can kind of generally think about a run rate of at least $700 million a year with it being $800 million next year, and then we'll watch the IRPs. And that's the integrated resource plan in South Dakota. We have the clean energy plan in Colorado. We have opportunity to invest in renewable generation that is not currently part of our capital forecast that could also influence the capital we spend in those outer years, if you will.

Andrew Marc Weisel^ Okay. Great. Very helpful. Then one last one. In terms of rate case filings, you mentioned potentially accelerating some filings, which jurisdictions might come next and when? Your count is a little quiet for you right now, given how many subs you have?

Linden R. Evans^ Sure. We're cautious about that, Andrew. That's not something we typically say publicly until we have visited with the regulators, visited with the staff, things of that nature in those states. And so we like to follow that protocol out of respect for them and to ensure we have great relationships with our regulators. So we'll be very clear about that at the appropriate time.

Operator^ One moment for questions. Our next question comes from Christopher Ellinghaus with Siebert Williams.

Christopher Ronald Ellinghaus^ I just want to make sure I understood when you were talking about being focused on making the midpoint of the guidance for the year. Are you talking GAAP there?

Kimberly F. Nooney^ Yes. So let's just be clear on -- great question. So when we reaffirmed the midrange of our guidance, that guidance did not include the $0.12 we talked about from the state income tax true-up. And as we talked about how we're going to address the $0.12 gain or make that up, it's going to be through that managing all of our O&M costs, leveraging the cash flows from an interest income perspective. Obviously, we're focused on margin opportunities as well. So just to be clear, it does not include that, and we have some work to do to make that up through the items that I just mentioned.

Christopher Ronald Ellinghaus^ Okay. Great. Looking at Slide 18, the net zero target for 2035 on the gas side. Can you give us some thoughts or your plan vis-a-vis how much of that is new RNG source of molecules? How much are you thinking might be hydrogen? How much of that might be leak prevention, those sorts of things? And sort of as a sideline, hydrogen has the molecular issue with pipes. Have you got any thoughts on sort of system upgrades to enable hydrogen for the future?

Todd Jacobs^ Yes. This is Todd Jacobs, and I'll cover that. The vast majority of the emissions reductions for that net zero goal are really related to at-risk and aging pipeline materials. Some of it is related to best practices in terms of very good leak detection, artificial intelligence processes to really show where risk is on our system, how we respond to third-party damages. We want to be the best-in-class on third-party line hits, for example. So we've seen a significant amount of improvement in that area for our company and taking in some areas where we've had a tremendous amount of focus.

The low carbon fuels are a smaller component of that overall reduction and then also part of that overall reduction relates to carbon offsets. And so what we have put together is a real plan that we can execute with existing technology today. And so when we look at where low carbon fuels fit within that overall picture, I think RNG seems more present, if you will, Chris, in terms of what's available. Hydrogen is something that is very interesting. But with all low carbon fuels, we're really evaluating price cost impact on the consumer, how this fits overall.

Remember, we operate in very cold jurisdictions. And so our natural gas pipelines, we see as having a long-term future. Ultimately, hydrogen is a bit of a question for us. I'd say we're actively following it. We're looking at developments of some of the engineering studies that you note, better understanding how it impacts and some of our existing pipeline infrastructure. So I think that the hydrogen piece is more of a wait and see, but very much watchful in terms of what's being developed in the industry.

Linden R. Evans^ You mentioned, Chris, that with the molecular nature of hydrogen, we're very well aware of how light it is, how corrosive it is, and so let's be fascinating to watch. That's what Todd was really indicating. We'll watch it. We're studying it, especially studying it on our generation side, electric generation side of the business, we just finished a tabletop, if you will, exercise about how we could blend at our Cheyenne Prairie Generating Station. And we think we can blend successfully up to about 35% hydrogen there. So we'll be learning that as well. But we're focused on it, but we're also in a very learning mode and being cautious about it as well.

Christopher Ronald Ellinghaus^ Okay. And lastly, have you -- any updates on your thought process on the completion of the RFPs?

Marne M. Jones^ So both of the RFP -- this is Marne, by the way. Thanks for the question, Chris. Both of those RFPs are underway. South Dakota was issued back in March, and we had those bids in and are currently evaluating those bids, expect to be under negotiations with the top bidder in Q4 -- I'm sorry, Q1 of 2024. In Colorado Electric, we just issued that RFP late July. We'll expect bids to come in. Again, that's a 400-megawatt renewable resource request. This, we'll do in October. So that process is just -- that process is just getting underway.

Christopher Ronald Ellinghaus^ So when you give the update for the fourth quarter, you may have some portion of knowledge of renewable investments at that point?

Marne M. Jones^ It's likely to be probably into Q1 of '24, but we'll have a little bit more insight in Q4, but Q1 and Q2 should be more on target with some detail.

Linden R. Evans^ We should be able to talk roughly around the South Dakota RFP, especially Colorado, we'll see. But it's progressing well, Chris, and we're excited about it. So it's some great opportunity for customers and shareholders.

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

Linden R. Evans^ Well, thank you very much for joining us today. I don't know if you can hear the roar of motorcycles in the background or not, we can hear them outside our window. The Sturgis Motorcycle Rally starts tomorrow. So if you're traveling to Sturgis or the Black Hills in South Dakota, please let us know you're here, and we'd love to see you. I'm grateful to my coworkers who are very hard at work and focused on delivering value for our customers and our shareholders. So on behalf of the Black Hills Energy team, I wish you a really safe and productive day. And again, thanks for joining us.

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