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+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation second-quarter 2015 earnings conference call. My name is Matt 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 Nichols^ Thank you, Matt. Good morning, everyone. Welcome to Black Hills Corporation's second-quarter 2015 earnings conference call. Leading our quarterly earnings discussion today are David Emery, Chairman, 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 David Emery.

David Emery^ Thank you, Jerome, and good morning, everyone. I will be starting on slide 3 of the webcast deck, for those of you who are following along.

This quarter will follow a similar format to previous quarters. I will give a quick update on the quarter. Rich Kinzley, our CFO, will provide the financial update for the quarter, and then I will speak to strategy going forward, followed finally by a question-and-answer session.

If you would turn to slide 5, second-quarter highlights, we had an exciting quarter in the second quarter. We posted strong earnings growth and EPS as adjusted compared to last year, almost a 22% improvement. We announced the signing of an agreement subsequent to the end of the

quarter to acquire SourceGas. That will be the largest transaction in the Company's history.

We also closed on a \$17 million purchase of a natural gas utility in northwest Wyoming, and I think notably related to that acquisition, that utility was fully integrated into all of our systems on day one following the closing of the transaction.

On the business environment side, from a weather perspective, we had moderate weather in our utility service territories this year, compared to colder-than-normal weather in the same period last year, and that tempered results slightly from both our electric and gas utilities.

Highlights from our utilities, Black Hills Power received approval from the Wyoming Public Service Commission for a CPCN to construct a new 144-mile, \$54 million electric transmission line from northeast Wyoming to Rapid City, South Dakota. If you recall, last year the South Dakota PUC also approved the same line, and we expect construction to commence in the fourth quarter of this year.

Cheyenne Light, Fuel & Power recorded a new all-time peak electric load of 212 megawatts on July 27. It was its third new peak since June 1. Our previous peak was last year at 198 megawatts last July. The new peak represents a 7% increase in peak load in just a little over one year, highlighting the strong growth in our Cheyenne service territory.

Slide 6, a continuation of utility highlights. Our Colorado Electric utility commenced construction on a \$65 million, 40-megawatt simple-cycle combustion turbine at the Pueblo Airport Generating Station. We expect commercial operation there in the fourth quarter of next year. That turbine will replace the capacity lost when we retired the 42-megawatt coal-fired Clark station in Canon City, Colorado, in compliance with the Colorado Clean Air Clean Jobs Act.

Colorado Electric also filed a request on June 23 with the Colorado PUC for a CPCN to acquire a 60-megawatt wind project, the Peak View Wind Project, which is going to be located near our Busch Ranch Wind Farm. That project was originally submitted in response to an all-source RFP that we did in May 2014. The commission rejected those bids. We basically went back, renegotiated, and resubmitted that proposal.

A third-party developer will build the project and we expect commercial operation in the fourth quarter of next year, and assuming we receive approval from the Colorado commission, our Colorado Electric utility will purchase the project for a little over \$100 million upon commercial operation.

Slide 7, nonregulated energy highlights, we are currently drilling the last of 13 horizontal Mancos Shale wells as part of our 2014/2015 drilling program in the southern Piceance Basin in Colorado. Completion activities for three wells are underway. We are now fracking the third well on a three-well pad. The other two have already been treated and we expect to place those three wells on production in September. Results for the overall program continue to meet or exceed our expectation.

Also related to oil and gas, we reduced our forecasted capital spending for 2016 and 2017 by a total of about \$215 million, due to our expectation of continued low oil and gas prices. I will speak more about that spending reduction later, but it certainly has positive implications for the financing of our SourceGas acquisition.

Highlights at the corporate level, we declared a quarterly dividend of \$0.405 a share, which is equivalent to an annual dividend rate of \$1.62, at our recent Board meeting last week. And on June 26, we extended our \$500 million unsecured revolving credit facilities on similar terms. That facility now has a maturity date of June 26, 2020.

And finally, our corporate-wide cost containment efforts are ongoing and at least partly successful in helping mitigate the impacts from our low commodity prices and weather.

Moving on to slide 8, second-quarter financial highlights, we earned \$0.56 per share as adjusted during the quarter, a 22% increase compared to the same quarter last year, which was a fantastic result, especially considering the low oil and gas prices and moderate weather.

Slide 9 provides a reconciliation of our second-quarter 2015 income from continuing operations as adjusted to second-quarter 2014 results. Strong performance in nearly all of our businesses, especially the electric utilities, more than made up for poor performance at our oil and gas business.

Now I'll turn it over to the Rich Kinzley to talk about the financial highlights for the quarter. Rich?

Rich Kinzley^ All right, thanks, Dave, and good morning.

As Dave mentioned, our core utility and utility like businesses continue to demonstrate strong performance. In the second quarter, as you saw on slide 9, each of the businesses improved financial performance compared to the second quarter of 2014. In particular, our electric utilities posted strong operating results and low commodity prices continue to impact our oil and gas business, but despite that challenge, we posted a great quarter.

On slide 11, we reconciled GAAP earnings to earnings as adjusted, a non-GAAP measure. We do this to isolate special items and communicate earnings that better indicate our ongoing performance.

In the first two quarters of 2015, we reported non-cash ceiling test impairments at our oil and gas business, and in the second quarter of 2015, we had an impairment of an equity investment at our oil and gas business. These impairments were due to continued low natural gas and crude oil prices and were non-cash charges that are not reflective of our ongoing operational performance.

We also incurred acquisition costs in the second quarter of 2015 related to the SourceGas acquisition, which were nonrecurring in nature.

Our second-quarter EPS as adjusted, reflective of ongoing operations, was \$0.56 per share, compared to \$0.46 per share in the second quarter last year. Our trailing 12-months EPS as adjusted was \$3.02, a 10% increase over \$2.74 reported for the 12 months ended June 30, 2014.

Moving to slide 12, we incurred \$66 million in after-tax non-cash impairment charges related to our oil and gas holdings in the second quarter. While performing our ceiling test calculation for our oil and gas reserves at the end of the second quarter, we determined calculations of this test in prior periods were in error. The error related to evaluating and correctly accounting for all tax impacts associated with the calculation.

As a result, we recalculated our ceiling test impairments and associated impacts to depletion expense for each period back to 2008, as well as the associated impact to the gain from the sale of our Bakken properties in 2012. In short, we understated ceiling test impairment charges in 2008, 2009, 2012, and the first quarter of 2015 and overstated depletion expense in all previous -- previously reported periods after 2008. We also understated the gain on the Bakken sale in 2012.

When we file our second-quarter 10-Q later this week, we will also file a 10-K/A for 2014 and a 10-Q/A for the first quarter of 2015. Both amended filings will reflect the revised numbers associated with this issue. You will see in the 10-K/A and 10-Q/A that the revisions to prior periods are all non-cash in nature and not meaningful to our ongoing financial performance.

Operating earnings as adjusted and EPS as adjusted for each of the periods from 2012 through the first quarter of 2015 increased slightly from previously reported amounts, as we previously overstated depletion expense.

Slide 13 displays our first-quarter (sic - see Presentation - "second-quarter") revenue and operating income. Strong performance at our core utility, coal mine, and power gen businesses more than offset decreased performance at oil and gas. While revenue was down slightly in 2015 due to lower revenues at our oil and gas utilities from lower pass-through gas costs in 2015, second-quarter 2015 operating income increased nearly 19% over 2014.

Slide 14 displays our second-quarter income statement. Comparing Q2 2015 to Q2 2014, you will note a 9% increase in gross margin, the majority of which came from our electric utilities. Operating expenses increased only at an inflationary level, despite the added costs associated with the October 1, 2014, in-service of the \$222 million Cheyenne Prairie Generating Station.

Depreciation and interest expense increased primarily due to the additional plant in-service and additional borrowings associated with Cheyenne Prairie. EPS as adjusted grew 22% year over year and EBITDA increased by 15%.

Slide 15 displays our electric and gas utilities' gross margin and operating income. We have changed from discussing revenue to gross margin at our utilities, as we feel gross margin is more relevant to understanding ongoing results, since revenue includes fuel pass-through costs.

On the left side of the slide, you will see our electric utilities 2015 second-quarter gross margin increased by \$16 million from 2014. This increase was driven primarily by additional return from investments in our generation facilities, with completed rate cases in late 2014 and early 2015 in Colorado, South Dakota, and Wyoming. Gross margin also benefited from higher commercial and industrial demand.

Operating income during the first quarter for our electric utilities improved \$11 million or 37% year over year as a result of increased gross margin and solid cost management. Operating expenses, including depreciation, increased only \$4.8 million year over year, despite the addition of Cheyenne Prairie.

Looking to the right side of slide 13, our gas utility's gross margin decreased by \$0.5 million, mainly due to milder weather in 2015 compared to 2014. Second-quarter 2015 hitting degree days in our gas utility service territories were 14% below 2014 and 10% below normal.

Despite decreased gross margin, second-quarter 2015 operating income increased \$1.3 million compared to 2014, due to lower bad debt and strong cost management, which reduced operating expenses by \$2.6 million year over year. Depreciation increased by \$800,000, due to increased plant in service.

Overall across our electric and gas utilities, weather impacts to gross margin in the second quarter were \$1.3 million negative compared to the prior year and \$1.4 million negative compared to normal.

On slide 16, you will see power gen's operating income improved by \$700,000 compared to 2014. Power gen benefited from annual power purchase agreement price increases, offset by decreased capacity payments since we sold the 40-megawatt CT II to the city of Gillette in the third quarter of 2014. We operated this facility on behalf of the city and the lost revenues from no longer receiving the capacity payments were partially offset by our sharing of the savings we create for the city via economy energy purchases, rather than running the facility. Cost management efforts at power gen allowed us to reduce operating costs slightly year over year.

On the right side of slide 16, coal mining saw operating income improve in the quarter by \$1.5 million from 2014. Our average coal price received increased 13%, comparing Q2 2015 to Q2 2014, the result of a significant increase in July 2014 in the price per ton on a third-party contract. This contract represents approximately 35% of our production.

Tons sold were up slightly year over year. Operating costs increased on major maintenance items and higher royalties due to increased revenue.

Moving to oil and gas on slide 17, you'll see we sustained a \$7.5 million operating loss for the quarter. Commodity prices significantly impacted results in the second quarter of 2015 as our average received prices, including hedges, were down 17% for crude oil and 44% for natural gas compared to the second quarter of 2014. Overall, second-quarter production increased 32% compared to the same period in 2014, driven largely by a 47% increase in natural gas production.

We brought on three new Mancos Shale wells in the first quarter and they continue to perform solidly from a production perspective.

On the cost side, Q2 O&M expenses increased slightly, comparing 2015 to 2014, due primarily to water haulage costs and higher lease operating expenses on nonoperated wells. DD&A increased \$2.2 million compared to 2014, due to higher production volumes. Sequentially, production from the first quarter of 2015 to the second quarter of 2015 increased 20%.

Low commodity prices will likely continue to hamper our oil and gas financial results in 2015. As I mentioned earlier, we incurred an impairment charge in the second quarter and will likely incur additional impairment charges later in 2015 if crude oil and natural gas prices remain at current depressed levels.

However, we continue to be pleased with the momentum we have proving up our Piceance/Mancos Shale play. We expect to substantially complete our drilling, completion, and testing program in the southern Piceance as we work through 2015.

We also substantially reduced our expected capital spending in our oil and gas segment for 2016 and 2017 and Dave is going to talk a little more about that here in a few minutes.

Slide 18 shows our current capitalization. At the end -- at quarter-end, our net debt to capitalization ratio was 54.6%, an increase from March 31, driven by a reduction in equity due to the non-cash impairment charge.

Given expected cash flow from operations for the remainder of the year and our revolver capacity, we have ample funding available for planned CapEx and dividends through 2015. The reduction in 2016 and 2017 spending at oil and gas will help reduce the amount of equity we need to issue for the SourceGas acquisition. Dave is going to discuss the SourceGas acquisition here in a moment, but I will note we plan to finance the acquisition in a manner supporting our strong investment-grade ratings.

Moving to slide 19, in our earnings press release yesterday we reaffirmed our 2015 earnings guidance range of \$2.80 to \$3 per share. Given the expectation of continued low crude oil and gas -- natural gas prices in 2015, we implemented cost-control measures early in the year and expect to continue these efforts through the year to achieve earnings in this range. This estimated range is for EPS as adjusted and excludes special items.

Slide 20 demonstrates our strong earnings growth performance over the past six years. Our second-quarter results demonstrate the continued strong operating performance and growth characteristics of our core businesses. While low crude oil and natural gas prices impacted our oil and gas segment results in the first two quarters, 2015 is a transitional year for our oil and gas business as we work to prove out our Piceance/Mancos Shale reserves and we will continue to operate all our businesses as efficiently as we can.

And I will turn it back to Dave now.

David Emery^ All right, thank you, Rich.

Moving forward into strategy, on slide 22, you have seen this before. We group our strategic goals into four major categories with the overall objective of being an industry leader in everything we do. Those four major goals for us include profitable growth, valued service, better every day, and great workplace.

On slide 23, subsequent to the quarter-end we announced our agreement to acquire SourceGas Holdings LLC for a total consideration of \$1.89 billion. That is and will be the largest transaction in our Company's history.

We are excited about that opportunity. It provides a lot of benefits to us, customers, and shareholders. It expands our utility presence in Colorado, Nebraska, and Wyoming; also adds a new state for us, Arkansas, which has a fast-growing service territory. We are excited about entering a new state in Arkansas. It increases our customer base by 55% and, most importantly, it enhances the future growth potential of our utility and it will be meaningfully accretive to EPS in the first calendar year following closing. We expect to file for all necessary approvals next week and anticipate closing in the first half of 2016.

Slide 24 provides an illustration of the combined Company footprint. Following closing, we will serve a total of 1.2 million electric and natural gas utility customers in 790 communities and eight states.

Moving on to slide 25, strong capital spending drives our earnings growth. We forecast a total of \$1.2 billion of investment from 2015 to 2017, with nearly \$493 million for 2015. Our projected capital spending far exceeds depreciation, driving our earnings growth.

It is important to note on this table that it does not include any capital related to the SourceGas properties. Once we close the acquisition, we will add those into the schedule.

Also, since last quarter's call, we have revised forecasted spending in three areas and I will briefly point those out.

On the gas utility side, we reduced our capital by \$12 million or \$13 million for what we called our Northeast Nebraska pipeline project. That project has been delayed indefinitely. It was going to serve an oilfield

tubular plant in Norfolk, Nebraska, and that plant has been put on hold for obvious reasons related to oil and gas pricing.

~~(For) The the constant of~~ service gas line ~~(program)~~, we have increased the capital for 2016 and 2017 as essentially we migrate our oil and gas strategy from our straight-up E&P spending that we've done in the past more towards a cost of service gas program for our utilities.

And then, finally, on the oil and gas line we have increased spending slightly for this year, which I will talk about, and then the decrease for 2016 and 2017, which we already mentioned.

On slide 26, as I mentioned earlier, we did commence construction on our new \$65 million, 40-megawatt gas turbine for our Colorado Electric utility. That is being constructed now at the Pueblo Airport Generating Station. Again, we expect that plant to be in service in the fourth quarter of next year. We do have a construction financing rider in place for that plant.

Moving on to slide 27, it provides an update related to our oil and gas strategy. We remain very focused on finishing our 2014 and 2015 drilling program to prove up the value of our Mancos Shale properties in the southern Piceance Basin. As I said earlier, overall results of that program continue to meet or exceed our expectations.

We are currently drilling the last of 13 horizontal Mancos wells. Two of the three drilling rigs that we were operating last quarter have been released and we will release the third drilling rig once the ~~sp~~final well is cased and cemented. Then we will turn our attention to completing the wells.

We are currently completing three wells on our Homer Deep unit 9-11 pad. We have completed fracs on the first two wells and we are now fracking the third well. Yesterday, we pumped Stage 13 out of a planned 48 stages on that well. Once we finish that frac, we expect to place those three wells on production in September.

If you recall, we are production limited to 20 million cubic feet a day from that area, essentially due to the capacity of so much gas processing plant in the area. So we will have to shut in the three wells from our Homer Deep unit 9-41 pad that we placed on production in February in order to make room for the three new wells and get those tested beginning in September.

Following the 9-11 pad, we plan to move to our Whittaker Flats pad, another three-well location, and begin fracking those wells in September and expect to place them on production sometime probably before late November.

In light of the low natural gas prices and also combined with the gas processing plant capacity issue that I just talked about, we plan to defer completion of the four-well pad on the Homer Deep unit 7-23 location. That's where we are currently drilling that last well. We plan

to defer those completions until 2016 or early 2017 when we can include those wells in a cost-of-service gas program for our utilities.

Based on what we know today from the first wells we have drilled there, we won't need well tests from these four wells to finalize our assessment regarding the future economic viability of the Mancos play. It is better to defer the capital rather than spend it today when we can't produce the wells anyway.

We have increased our projected 2015 oil and gas capital spending to a total of \$179 million, which is up from \$167 million last quarter. With this change, if you go all the way back to the end of last year, we have increased our planned 2015 spending from \$123 million to \$179 million. We talked about several of those factors last quarter, but I will reiterate them again.

There are several factors that contributed to the increase. The first one is approximately \$50 million in carryover from our 2014 drilling program. That was for planned activities in the Mancos and other areas that we didn't complete in 2014 and made the decision to go ahead and finish in 2015.

We also had an increase of another \$35 million for nonconsent working interests. Other working interest owners elected not to participate in the drilling of the wells we proposed, particularly in the Mancos play. And then, those two increases are partially offset by the planned deferral of about \$30 million, which I just talked about, related to completing the last four Mancos wells on the Homer Deep unit 7-23 pad.

And finally, as I mentioned earlier, our expectations for oil and gas prices over the next couple of years don't support drilling unless that drilling is part of a long-term utility cost of service gas program. So as a result of that, we reduced our planned oil and gas capital spending by a total of \$215 million for 2016 and 2017.

Moving on to slide 28, it provides a well-by-well detail for our Mancos drilling program. As in previous quarters, it includes all wells going back to 2013 through 2015.

I will give you a quick update on each of the pads highlighted there. The Homer Deep unit 9-41 pad, those wells were placed on production in February. As I said, we will have to shut those in in September to make room for testing additional wells.

The 9-11 pad, again, we have fracked two wells. We are fracking the third now. Those three wells will be tested beginning in September.

The 7-23 pad is the one we still have a drilling rig working on. Three wells have been drilled, cased, and cemented. We are drilling the horizontal lateral on the final well at a little over 9,400, 9,500 feet or so today, with a planned total depth of about 17,600 feet.

On the Whittaker Flats pad, we have drilled, cased, and cemented three wells. We will begin completions, the fracking of those wells, in

September, again with plans to put them on production for testing in November.

Slide 29 is a map illustrating our ongoing activity for the Mancos play. You have seen this before.

And then on slide 30, we continue to talk about the significant growth opportunity that we are pursuing related to a utility cost-of-service gas program. Under a utility cost-of-service gas program, our direct investment in natural gas reserves would provide longer-term price stability for our customers while providing increased earnings opportunity for shareholders, truly a win-win scenario.

We are continuing to have very productive regulatory dialogue throughout our service territory, meeting with PUC commissioners, staff, and consumer advocates. We had several more meetings during the quarter and they continue to go well. We're working on state and regulatory applications and the supporting materials for those, with the intent of filing for approvals yet this fall.

We're also still evaluating producing properties and drilling projects for inclusion in the program, including our Mancos Shale gas property.

As I noted on slide 25, we have revised our capital expenditures related to the cost-of-service gas program for 2016 and 2017, increasing those numbers to \$50 million in 2016 and \$100 million in 2017, basically recognizing that our planned oil and gas drilling and related activity will likely be occurring in a cost-of-service gas program, rather than our normal E&P drilling project.

Moving on to slide 31, we continue to be very proud of our dividend track record. We have increased our annual dividend to shareholders for 45 consecutive years, one of the longest streaks in the utility industry and one we're very proud of.

On slide 32, we have a strong balance sheet and solid investment-grade credit ratings. All three rating agencies reacted favorably, as we expected, to the announcement of the SourceGas transaction last month.

And finally, slide 33 illustrates the focus we place every day on operational excellence and on being a great workplace. Our safety record year to date is outstanding and a substantial improvement over prior years. We are working hard to continue that throughout the rest of the year.

And then also during the quarter, we're very honored to receive the 2015 Secretary of Defense Employer Support Freedom Award. That's the highest recognition the Pentagon gives to US employers for supporting employees serving in the Guard and Reserves. We were one of 15 recipients out of more than almost 3,000 companies nominated for the award. We will have the pleasure of receiving that award next month at the Pentagon and White House.

And last, slide 34 is our 2015 scorecard. As we have done for several years now, we put this scorecard together, which sets forth our objectives for the year. It is our way of holding ourselves accountable to you, our shareholders, and meeting our key objectives during the course of the year.

That concludes our prepared remarks. I will be happy to entertain any questions.

+++ q-and-a

Operator^ (Operator Instructions). Matt Tucker, KeyBanc Capital Markets.

Matt Tucker^ Congrats on a nice quarter. First, I wanted to ask about the cost-of-service gas program. Should we look at increasing the CapEx there as a sign that you are increasingly confident in getting approval and in including your Mancos Shale asset?

David Emery^ We haven't made the final decision to include the Mancos, but that is certainly the goal we are working towards. I think as we continue to complete wells this fall, we are getting increasingly confident in the quality of the play, so I view that as a real positive sign for us.

We really like the program. We have had a lot of discussions in all the states and definitely plan to get filed this fall.

Matt Tucker^ Got it, and just to clarify, if you don't include the Mancos assets in the program, would some of the CapEx shift back to the nonregulated side or do you plan to, in the current commodity environment, stick with the numbers that you have laid out today?

David Emery^ Yes, realistically we wouldn't shift that capital back to normal E&P programs, Matt. At current price levels, they just don't support the rates of return necessary for simple payouts on drilling wells in most of our plays.

When you look at a long-term cost-of-service gas program, you're looking to beat a little different number rather than the spot price of natural gas. So it is viable there.

If we don't include the Mancos, which we certainly hope to include the Mancos, we are still looking to acquire some producing properties, gas properties. They would be relatively small, but we would include those in the cost-of-service gas program instead, so the CapEx forecast we have in there is really for the Mancos and/or acquisition of some small producing properties, all of which would be included in a cost-of-service gas if things work out as expected here.

Matt Tucker^ Okay, thanks, so I think I understand. You think the regulators would take a longer-term view, so while it may not make sense to invest over the next couple years in the nonregulated side, they would look at it differently.

David Emery^ Yes, we feel pretty strongly that the best time to implement a cost-of-service gas program is when gas prices are low. Drilling costs are a little lower, obviously not low enough to just drill for a rate of return, but when you look at a long-term life-of-property hedge on gas prices, which essentially a cost-of-service gas program provides, it's a great time to get a program in place.

It gives you a relatively low number on a per-Mcfe basis that will be around for years to come. And then, you've got the program in place when the gas prices do rebound and customers can reap the entire benefit. It makes a lot more sense to implement it when prices are low than after prices have already started to rise.

Matt Tucker^ That's very helpful, thanks. And then I just, shifting gears, wanted to ask about the wind farm application and I guess just give us a sense, what has changed versus -- in the bid versus the last time? Is it just lower now or what gives you optimism that it will get approved this time?

And then as a follow-up to that, if the costs to construct end up coming in above what you are assuming or the developer is assuming, is the developer on the hook for those costs?

David Emery^ The last part of your question is yes. The first part is really what's changed, there are several things. But when we went into the commission last year, one of the concerns they expressed with the projects we proposed was that we had evaluated those against a higher forecast for natural gas prices.

And so, one of the primary suggestions they made really was to go back to the suppliers, see if you can get better bids, but then obviously evaluate those against a more current natural gas price forecast, which we have done.

We still believe that this project is in the best long-term interests of our customers at Colorado Electric and so we have re-proposed it. Hopefully, the commission will agree with us.

Matt Tucker^ Great, thanks, Dave. I will jump back in the queue.

Operator^ (Operator Instructions). Matt Tucker.

Matt Tucker^ I noticed the costs for a couple of the Whittaker Flats wells completed earlier this year had gone up a little bit relative to the first-quarter slides. Could you just comment on what was going on there?

David Emery^ I think -- and I don't have that slide sitting in front of me, Matt, but I think the Whittaker Flats numbers actually look pretty good. We had a couple wells on the Homer Deep 9-11 pad that were just a little bit higher. Those wells are deeper, for one thing, by almost a couple thousand feet in total measured depth.

Whittaker Flats are more in the 16,000 range, a little more, and some of the Homer Deep wells are 18,000 feet measured depth, so there is a difference in cost related to that.

On the 9-11 pad, we did have a few drilling problems and you can see that on the graphs, basically where we stay at the same place for quite a while, don't make much progress.

But overall, I think we are very happy with the way the drilling has gone. Interestingly, the 9-11 pad was the least modern of the three rigs that we were running in the play, and so what we have seen in the Whittaker Flats and on the Homer Deep 7-23 pad is really good drilling efficiencies and costs. Now you'll see that as we move forward into the following quarters and give you a full detailed cost information on those wells, but those are two really purpose-built rigs that are designed to drill these deeper horizontal wells efficiently and safely and they really did a bang-up job for us.

So, I think as we get some more numbers out there, you'll be pleased with what you see. That, combined with the fact that just service costs have come down overall anyway, due to the downturn in the industry.

Matt Tucker^ Thanks, and I actually misspoke. I meant to refer to the Homer Deep wells, but that commentary was helpful.

And the follow-up to that, the 7-23 wells that you're not expecting to produce now until late 2016, early 2017, can you test those wells earlier or do you just not complete them until the later date?

David Emery^ No, because you need to do a -- the full frac job to do an adequate test, and the fracs on those four wells, we are predicting, are going to cost around \$30 million.

And again, if we just test them and shut them in, it doesn't make a whole lot of sense. We don't need the production out of the plant for at least another full year because of the plant capacity issue.

If we were concerned that we really needed those well test results, we would probably be planning on completing them still, even though we can't produce them, just to get the well test results to increase our confidence in the predictability of the program. What we have seen so far, we're pretty pleased with the predictability of the program and don't really anticipate needing the results of those four wells to be fairly confident in the ongoing viability of the drilling program there.

Matt Tucker^ Makes sense, thanks. And then just on the SourceGas acquisition, your equity currency has lost a little value since you announced the deal. Does that impact your accretion expectations or are there other levers you can pull or adjustments you can make to the financing plan to offset that?

Rich Kinzley^ Sure, Matt, this is Rich. There is a lot of things we are looking at there, but the reduced CapEx at E&P in 2016 and 2017 certainly help in terms of postacquisition how quickly we will delever.

So, our attempt is going to be to finance this as aggressively as we can in terms of least amount of equity, while maintaining our strong investment-grade rating.

So, we are looking at all those things. We should generate good cash flow in the second half of the year. My hope is that we are not going to have to issue as much equity as what you see in the deck, but we will be looking at all that as we move forward.

Matt Tucker^ Okay, that's all I had. Congrats again on a nice quarter.

Operator^ (Operator Instructions). At this time, I am showing no further questions. I would like to turn it back to David Emery for closing remarks.

David Emery^ Thanks for joining us this morning, everyone. We appreciate your time and attention and obviously we appreciate your continued interest in Black Hills.

As I said at the beginning of the call, we are really excited. We had a great quarter. The announcement of SourceGas, obviously, is a huge -- another large transformational acquisition for us and we're excited about getting that deal closed in the next year or less, hopefully, and getting it integrated into our existing utilities.

I look forward to next quarter. Talk to you then. Thank you.

Operator^ Ladies and gentlemen, thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.