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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Black Hills Corporation Second Quarter 2017 Earnings Conference Call. My name is Jonathan, and I will be your coordinator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I will now turn the call over to Mr. Jerome Nichols, Director of Investor Relations of Black Hills Corporation. Please proceed, sir.

Jerome E. Nichols - *Black Hills Corporation - Director of IR & Corporate Communications*

Thank you, Jonathan. Good morning, everyone. Welcome to Black Hills Corporation's Second Quarter 2017 Earnings Conference Call. Leading our quarterly earnings discussion today are David Emery, Chairman 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 Securites 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 R. Emery - *Black Hills Corporation - Chairman and CEO*

Thank you, Jerome. Good morning, everyone. Thanks for joining us this morning. I'll start our discussion on Slide 3 of the webcast deck for those of you following along.

Similar to prior quarters, I'll give an update on the second quarter. Rich Kinzley, our CFO, will provide a financial update for the quarter, and then I'll talk a little bit about forward strategy before we take questions and answers.

Starting with Slide 5. We've had a good second quarter, a $0.02 increase in earnings per share as adjusted compared to the prior year, which was in line with our expectations. We also continued to advance several of our key utility growth projects during the quarter.

Second quarter highlights for our utilities included a new peak at our Wyoming Electric utility, which was set right after quarter end in July, surpassing the previous peak by a fair amount. We continue to grow our Cheyenne load pretty strongly.

On June 23, our Colorado Electric utility issued a request for proposals to add 60 megawatts of renewable energy resources by 2019 in order to meet the state's renewable energy requirements. Bids from the RFP are due on the 4th of August, and then we intend to select the winning project and recommend that to the Colorado PUC prior to year end.

Our South Dakota electric utility entered an agreement with the South Dakota PUC staff, which was approved by the commission itself on June 16. And that agreement secures the benefits of our SourceGas acquisition and successful integration for South Dakota electric customers and our shareholders for the next 6 years.

On May 30, our South Dakota electric utility completed the final segment of our 144-mile electric transmission line from northeastern Wyoming to Rapid City, South Dakota. And our Oil and Gas subsidiary during the quarter continued to reduce costs and divest noncore properties. Since the beginning of last year, we've sold 58% of our noncore gross wells, and we're targeting the divestiture of the remaining wells prior to year end.

Moving on to Slide 6. Highlights continued with corporate activities. Our universal shelf registration expires the 6th of August, and we plan to file a new shelf registration statement with the SEC concurrently with our second quarter 10-Q filing. At the same time, we intend to renew our at-the-market equity offering program as well.

On July 26, our board declared a quarterly dividend of $0.445 per share, which is equivalent to an annual dividend rate of $1.78 per share. And on July 21st, Standard & Poor's affirmed its credit rating of Black Hills Corporation at BBB flat with a stable outlook.

During the quarter, we recently took advantage of favorable short-term interest rates on our commercial paper program to prepay or repay $100 million of our corporate term loan borrowings, which are due in 2019. And as we discussed on last quarter's call, on April 1st at the beginning of the second quarter, Jennifer Landis was appointed as Senior Vice President and Chief Human Resources Officer.

Moving on to Slide 7. This slide just provides a reconciliation of our second quarter net income from continuing operations as adjusted compared to the second quarter of last year. Rich will provide the segment details in his financial update. Rich?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Great. Thanks, Dave, and good morning, everyone. At a high level, our second quarter financial performance was in line with our expectations. As adjusted earnings increased to $0.41 for the quarter compared to $0.39 last year.

I'll jump right in on Slide 9, where we reconcile GAAP earnings to earnings as adjusted to non-GAAP measure. We do this to isolate special items and communicate earnings to better represent our ongoing performance. This slide displays the last 5 quarters and trailing 12 months as of June 30 for 2017 and 2016.

As detailed on the slide, we experienced special items not reflective of our ongoing performance in each of the last 5 quarters. The first special item is noncash impairments at our Oil and Gas business that occurred last year. The second special item is acquisition-related expenses such as advisory fees, financing and other third-party consulting costs associated with the SourceGas acquisition and integration. We completed nearly all of the integration work related to the acquisition in 2016, and are finishing the few remaining projects in 2017. These acquisition-related costs and noncash impairments are not indicative of our ongoing performance, and accordingly, we reflect them on an as adjusted basis.

As we already mentioned, our second quarter as adjusted EPS was $0.41, which is $0.02 more than the second quarter last year. The second quarter results met our expectations as the quarter is composed of shoulder months outside the main cooling season at our Electric Utilities, which occurs in the third quarter, and the heating seasons at our Gas Utilities, which occur in the first and fourth quarters. At the bottom of the slide, we present EPS as adjusted for the trailing 12 months. As shown, we achieved $0.40 of as adjusted EPS growth, a 13% increase for the trailing 12 months ended

June 30, 2017 compared to the trailing 12 months ended June 30, 2016. The trailing 12 months' earnings uplift is due primarily to a full 12 months ownership of the SourceGas utilities, which were acquired in mid-February last year.

Turning to Slide 10, you see our second quarter revenue and operating income compared to last year. On the left side of the slide, you'll note that 2017 revenues for Q2 exceeded those in 2016 by 7% due to revenue improvements at each of our business segments, except Oil and Gas, which had a decrease as we transition away from the traditional Oil and Gas business.

On the right side of the slide, you'll see that year-over-year operating income increased by over 3%. The operating income improvement was driven by increases at our Power Generation, Mining, Oil and Gas and Corporate segments. These improvements more than offset quarter-over-quarter decreases in operating income at both our Electric and Gas Utility segments. I'll discuss each of the operating segments in more detail later.

The improvement in the Corporate segment relates to the reduction of internal labor charges in 2017 to acquisition and integration activities as compared to 2016. As I noted on the previous slide, with the integration of SourceGas substantially complete, our employees have largely moved on to other projects and initiatives. And the internal labor costs associated with those activities have predominantly been charged to our utility segments in 2017.

On Slide 11 is our second quarter income statement. Gross margin, operating expenses and DD&A all increased 3% to 4% comparing Q2 2017 to Q2 2016.

The gross margin increase was driven by our Electric Utilities and Mining segments. Operating expenses and DD&A are higher mainly from our new Electric and Gas utility investments placed in service during 2016.

Operating income before special items increased 3% quarter-over-quarter. For Q2 2017, the only special item was minimal acquisition-related costs. Q2 2016 included special items for Oil and Gas impairments and more significant acquisition-related costs.

We experienced a slight increase in interest expense year-over-year related to our mix of debt being more weighted to long-term this year than last year and higher variable interest rates. The effective tax rate for the quarter was 29%. The tax rate benefited from production tax credits at our Peak View Wind farm in Colorado, which went into service in late 2016.

The line item for noncontrolling interest reflects our sale of a 49.9% interest in Colorado IPP in Q2 of last year. The $3.1 million reduction in net income available for our shareholders represents third-party ownership interest in that facility. I'll talk a bit more about this on the Power Generation slide.

Moving to the as adjusted net income line. We reported $22.5 million for the quarter, compared to $20.9 million for Q2 2016, a nearly 8% increase. Diluted shares increased in 2017 over 2016 due primarily to over 1.5 million additional weighted average shares in 2017 from issuances of equity through our At-the-Market equity offering program in 2016.

Also as a result of our strong stock price performance in the first half of 2017, the application of the treasury stock method related to our unit mandatory convertible securities added approximately 2 million shares to the Q2 2017 diluted share count compared to approximately 1.4 million additional diluted shares in Q2 2016.

In total, diluted shares increased by 2.4 million quarter-over-quarter, or just under 5%. I'll note that during our seasonally low-income second quarter, the increased share count impacts EPS more dramatically. In the other higher-income quarters and for the full year, the effect of the additional shares is less impactful to EPS. On the bottom of this slide, you'll see that Q2 EBITDA increased by $3.2 million quarter-over-quarter or nearly 3%.

Slide 12 displays our Electric Utilities gross margin and operating income. The Electric Utilities gross margin increased $6 million in the second quarter over 2016. The gross margin increase resulted primarily from returns on our Peak View Wind Project and transmission investments. Additionally, we saw increased commercial and industrial demand, largely at our Wyoming Electric utility, thanks to data center expansions there.

Operating income decreased by $2.1 million, or approximately 5% for the second quarter compared to 2016. Operating expenses were higher as a result of increased generation expense, higher property taxes and depreciation associated with our new generation and transmission investments and prior year internal labor integration activities charged to the corporate segment in 2016, which are now being charged to our utility business segments. Our press release yesterday provides the details of the varied items that increased operating expenses at the Electric Utilities.

I'll also note a substantial component of the return on our Peak View Wind Project is realized through production tax credits, which are reflected in reduced income taxes rather than through operating income. These credits to our income tax amounted to $1.1 million in the second quarter and $2.5 million year-to-date.

Moving to the right side of Slide 12, the results at our Gas Utilities for the 2Q reflected a decrease of $3.3 million in operating income. While gross margin was flat to the prior year, we saw an increase in expenses as the prior year benefited from internal labor charges to the Corporate segment related to integration activities and transition activities.

Again, with integration largely complete, our employees have moved on to other projects, and these internal labor charges are now being charged to our utility business units. Additionally, depreciation was higher in 2017 as a result of increased asset base.

Because 2017 is the first complete year of SourceGas ownership, I'll expand on the June year-to-date results at the Gas Utilities. The Gas Utilities saw an increase of nearly $25 million in operating income comparing the first half of 2017 to the first half of 2016, with most of this increase attributable to the addition of SourceGas. We closed the acquisition on February 12, 2016. So we picked up 42 days of SourceGas operating results in Q1 2017 as compared to Q1 2016.

Also, at our legacy Black Hills gas operations, operating income improved by nearly $5 million for the first half of the year, a 9% growth rate year-over-year, benefiting from strong cost management as well as from shared services efficiencies realized from the SourceGas acquisition.

Next, I'll talk about weather impacts at both our Electric and Gas Utilities. Cooling degree days were slightly above normal during Q2, but had an immaterial effect on our Electric Utilities for the quarter. As I mentioned earlier, we experienced warmer-than-normal weather for both Q2 and the first half of 2017. Heating degree days drive results more than cooling degree days in Q2. And heating degree days were 9% below normal at both our Electric and Gas Utilities in Q2.

This was true during Q1 as well, where weather impacts are more notable, and heating degree days were 13% below normal at our Gas Utilities. Comparing to normal weather at our utilities, our Gas Utility gross margins were negatively impacted by an estimated $300,000 in Q2 and by an estimated $6.7 million year-to-date, while our Electric Utilities gross margins were negatively impacted by an estimated $600,000 in Q2 and an estimated $1.5 million year-to-date. In total, net unfavorable weather compared to normal has negatively impacted EPS by $0.01 in Q2 and $0.10 year-to-date.

On Slide 13, you see the Power Generation operating income increased slightly year-over-year. The Power Generation business unit continued to realize strong contract availability with its generating units, and continued its cash flow contributions to Black Hills.

Our Power Gen segment includes the Colorado IPP plant, which is contracted to our Colorado Electric utility, plus the Wygen I plant, which is contracted to our Wyoming Electric utility. Colorado IPP accounts for approximately 60% of the operating income in our Power Generation segment. The numbers reflected on Slide 13 include 100% ownership of Colorado IPP.

As we've already mentioned, in April last year, we sold a 49.9% interest in Colorado IPP. We consolidate 100% of Colorado IPP's results in our financial statements, and then back out the noncontrolling interest at the bottom of the income statement.

On the right side of the Slide 13, you'll note our Mining segment had a $2.8 million operating income increase compared to the second quarter last year. For the quarter, revenue was $3.9 million higher as tons sold increased by 51% compared to Q2 2016 due to an extended 11-week outage at the Wyodak power plant in the second quarter of 2016. We sell over 1/3 of our coal annually to this plant. Keep in mind that revenue increases from this impact does not drop straight to operating income as revenue-related royalties and taxes increase accordingly. On the cost side, O&M included -- including depreciation, was $1.2 million higher in Q2 2017 than Q2 2016, commensurate with the increased tons sold.

Also, we removed 16% more overburden in Q2 this year compared to last year. Our mine continues to perform at a high level, with sales almost entirely to on-site mine-mouth plants and roughly 1/2 of our sales based on a cost-plus contract pricing mechanism.

Moving to Oil and Gas on Slide 14. We reduced the operating loss in the second quarter to $1.9 million compared to an operating loss of $4.1 million for Q2 2016, excluding the asset impairment charge taken last year.

Second quarter volumes sold decreased as Oil and Gas production declined from the prior year due to divestitures and natural production declines. Also, we are limiting production in our Piceance properties to meet only the minimum daily quantity requirements of our gas processing contract.

The decrease in volume was more than offset by the combination of slightly higher average commodity prices received, natural gas, not oil, lower DD&A resulting from previous impairments, lower lease operating expenses, coupled with diligent G&A cost management, all of which have helped minimize the operating loss from the segment. Dave will talk more about our Oil and Gas strategy shortly.

Slide 15 shows our capitalization. At June 30, 2017, our net debt to capitalization ratio was 66.1%, a 90-basis-point decline from one year earlier. As we move forward, we expect this ratio to continue to decline through growth in our stockholders' equity from earnings. We don't expect to add any significant debt in the near term as our internally generated cash flows are expected to fund our CapEx and dividend through 2018. Additionally, we have $299 million of unit mandatories reported as debt on our balance sheet until the units convert to equity in the second half of 2018. By year end 2018, we expect our net debt-to-capitalization

ratio to be well under 60%.

I'll also mention that on the equity side, we issued nearly 2 million shares of stock through our At-the-Market equity offering program in 2016, raising approximately $120 million. We haven't issued any shares under the program in 2017. We will keep the program active to provide financing flexibility as we move forward. And as Dave mentioned, we plan to renew the program at an increased amount of $300 million when we renew our financing shelf later today in association with our 10-Q filing. We're increasing the size of the program only to provide additional flexibility in the future, but we intend to issue very few, if any, shares through the program in the near-term. We are committed to maintaining our solid investment-grade credit ratings and our forward forecasted metrics support those ratings.

Slide 16 demonstrates that we're in good shape relative to upcoming debt maturities. In the first quarter last year, we executed significant debt financings to help fund the SourceGas acquisition.

In the third quarter last year, we accessed the debt markets at a time when credit conditions were beneficial to successfully refinance debt we assumed through the acquisition and term out other upcoming maturities.

Also, as Dave mentioned, we successfully implemented a commercial paper program in Q1 this year, which is helping minimize short-term borrowing costs. Slide 17 shows our credit ratings. As you can see on the slide, S&P recently affirmed our BBB rating with a stable outlook, and we are Baa2 with a stable outlook for Moody's and BBB+ with a stable outlook from Fitch.

As I mentioned, just a moment ago, we're committed to maintaining those ratings, with a BBB to BBB+ equivalent being our target. Slide 18 illustrates our track record of growing operating earnings and EPS.

Our history shows periods where our earnings are occasionally flat year-over-year, but our long-term trend of growing earnings is excellent. I'll discuss our slight revision to 2017 EPS guidance on the next slide. But the midpoint of our 2017 guidance exhibits a full year of earnings contribution from the fully integrated SourceGas transaction, taking the next step forward and continuing to build on our impressive track record of growing shareholder value as we serve our utility customers safely, reliably and efficiently.

Moving to Slide 19. We are updating our full year as adjusted earnings guidance to $3.45 to $3.60 per share from $3.45 to $3.65 per share. We've lowered the top end of our range by $0.05 to reflect the unfavorable weather we've experienced through June, which, as I mentioned, impacted EPS for the first half of the year by an estimated $0.10.

Further, additional dilution due to the application of the treasury method of accounting for our unit mandatory securities, which I also discussed earlier, impacted our initial guidance range for the full year by approximately $0.03. Our stock price has performed very well in 2017, which impacts that calculation, adding more diluted shares in 2017 than we had expected.

We have implemented cost management initiatives to help offset these items, but feel it prudent to reduce the top end of our guidance range at this time. We continue to be pleased with our operational execution, despite the mild weather and dilution headwinds.

I'll turn it back to Dave now for his strategic overview.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

All right. Thank you, Rich. Moving on to Slide 21. From a forward strategy perspective, we group our strategic goals into 4 major categories, and we've done this for quite some time, those being:

profitable growth, valued service, better every day and great workplace. Our overall objective is being an industry leader in all we do.

Moving on to Slide 22. During the past several quarters, we've discussed at length our earnings growth strategy, focusing our efforts during the next 2 to 3 years on securing the full benefits of the SourceGas acquisition and successful integration for both customers and shareholders. And then following that, returning to a more traditional utility growth model over the long term.

Moving on to Slide 23. Strong capital spending has in the past and will continue to drive much of our earnings growth. You'll notice that this slide has been revised this quarter to update our planned capital spending. As we've continued to refine our capital spending priorities at each of our utilities going forward, we've increased our forecasted 2017 through 2019 capital by nearly $200 million to a total of almost $1.2 billion in this current forecast.

Related to Slide 23, it is worth noting, a small increase in oil and gas capital spending, even though it's a relatively small change. We recently completed 2 wells, which had been previously drilled and cased in order to provide production volumes to avoid paying minimum, quantity shortfall penalties under our gas processing agreement.

In addition to providing sufficient production to avoid the penalties well into next year, the investment in the 2 well completions also yield solid investment returns. You'll notice that following this year, we plan very minimal capital spending in our E&P segment.

Moving on to Slide 24. As you can see from this slide, our capital spending, both historical and forecasted, far exceeds our depreciation, contributing to our solid earnings growth.

Slide 25 provides a regulatory update related to our Colorado and South Dakota electric utilities. On June 9, the Colorado Public Utilities Commission denied our request for rehearing and reconsideration of the commission's late 2016 rate review decision for our new 40-megawatt natural gas-fired turbine in Pueblo Colorado.

On July 11, we filed an appeal of that PUC decision with the Denver District Court. We continue to believe very strongly that state law as well as prior PUC precedents support our appeal.

The court briefing schedule runs through November of this year. And following that, there's no firm deadline for a decision by the court.

Earlier, I mentioned the recent approval of a settlement agreement related to our South Dakota electric utility so I won't reiterate that again.

Moving on to Slide 26. Also, as noted earlier, we continue to make excellent progress towards meeting the state of Colorado's renewable energy mandates. As I noted, we've issued a request for proposals for 60 megawatts of new renewable energy resources to be in service in 2019. We expect to present the results of that RFP to the Colorado PUC prior to year end to obtain their approval.

Slide 27. We continue to believe strongly that a utility cost of service gas program will provide long-term price stability and a reasonable expectation of long-term, lower natural gas costs for customers, while providing opportunities for increased earnings for shareholders, which is truly a win-win. However, the political considerations associated with sustained low natural gas price environment make it unlikely that we would be successful in obtaining regulatory approval for a utility cost of service gas program in the near future. We're currently evaluating our options on how best to proceed with the cost of service gas program, but it's very likely we will not file for approval of a program prior to year end.

We're also considering options on how to preserve and possibly capture the potential upside opportunity provided by our natural gas assets in the Piceance Basin, while we continue to transition away from the traditional oil and gas exploration and production business.

Moving on to Slide 28. We continue to be very proud of our dividend track record, having increased our annual dividend to shareholders for 47 consecutive years. As I noted earlier, our equivalent annual rate this year is $1.78.

On Slide 29, we focus every day on operational excellence, spend a lot of time benchmarking our performance against that of the industry and our peers. Our safety culture continues to improve. And in fact, for the seventh straight year, our Wyodak mine has operated with a perfect safety record of no lost time accidents. And for the fourth year, our Wyodak mine employees have been awarded the Governor's Workplace Safety Award for the smallest -- or for the safest small mine in the Powder River Basin.

Finally, wrapping up on Slide 30, which is our 2017 scorecard. This is our way of holding ourselves accountable to you, our shareholders. We set forth our goals at the beginning of every year, and continue to monitor and track our progress for you as the year progresses.

Next, we will be hosting an Analyst Day on October 5 in New York City. And at that time, we do intend to provide some more details related to our future growth strategy and longer-term capital spending plans among other things. We hope you can join us.

That concludes our remarks for this morning. We'd be happy to entertain any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Weinstein from Credit Suisse.

Michael Weinstein - *Credit Suisse AG, Research Division - United States Utilities Analyst*

You mentioned that you were looking at other ways to maximize the value of the remaining core Permian assets -- or I'm sorry, Piceance assets. And I'm just wondering if -- is there any additional detail, like what's your -- what are your thoughts on ways to maximize value?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Well, we're in the process of evaluating that now, Mike, and kind of what the best options are. One of the questions we've received in the past is would we consider holding those properties for a period of time. I would say, if we would, it would be for a relatively short period of time, and only if we can really minimize, if not eliminate, our operating losses associated with those properties. We do fully intend to continue our transition away from the traditional exploration and production business.

Michael Weinstein - *Credit Suisse AG, Research Division - United States Utilities Analyst*

Okay. I mean, I think the takeaway that I would come away with that comment is that you were thinking about a sale at some point. But unless there are some other possibility besides those 2 options, which is one is cost of service gas or either a sale of the property, is there a third option in there?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Well, there's always opportunities. You could farm out your assets to another company or do something like that. I wouldn't say that's real high on our list right now, but it's certainly something that's possible. There's other alternatives. Obviously, the sale is the most obvious one, but not necessarily the one that would capture the most value.

Michael Weinstein - *Credit Suisse AG, Research Division - United States Utilities Analyst*

Okay. And maybe you could frame up a little bit more about the October Analyst Day. What kind of additional information you intend to provide for that?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

I mentioned essentially I think what we're comfortable saying today, and that we really want to talk a little bit more about our long-term growth plans, and particularly, the capital spending. We've talked a little bit in the past about when will our capital spending return to a more "normal level." You saw us increase our -- particularly our 2019 CapEx this quarter, a little bit of increase in '17 and '18 as well as we continue to refine our forward strategy in each of our individual utilities. I think by the time we get to Analyst Day, we should have a quite a bit more color on that for you as well as provide updates on several other things. It's possible we may have some additional updates on E&P at that time and things like that.

Operator

Our next question comes from the line of Chris Turnure from JPMorgan.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

I wanted to ask you about the changes to CapEx today. If we kind of just look at the numbers, it's a pretty material increase, as you said, versus your prior plan there. Has anything changed with your strategy that resulted in this increase? And if not, why did the increase occur now?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes, I don't think anything's changed big picture-wise, Chris? We've talked about -- subsequent to the SourceGas acquisition, we really wanted to look at how to maximize the value of our integration benefits there for both customers and shareholders, and be very prudent about how we spend capital in the first few years subsequent to that. Now that we've owned it for a 1.5 years or so, and we're really refining the individual spending forecast in each utility. It suggests that some of those -- there may be some opportunities sooner, rather than later, to increase spending because of needs in those particular utilities. So I would say the strategy hasn't changed. We've just been able to spend a lot more time on the details of each individual company now that we finalized all of our integration-related activity and things like that.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And I think you've been clear in your message with this multi-year strategy that you only want to deploy capital where you can get a timely return on that capital. What is the other category for Electric and Gas Utilities consist of in the CapEx chart?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Essentially that would be some of the longer term, more reliability-related CapEx, things that we have to spend to maintain reliability and a good system for the benefit of our customers, even though some of that CapEx may require rate cases and other things for recovery. And as you see some of that spending increasing over time, that will, in future, require us to file for regulatory rate review proceeding.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

But it is distinct from the kind of the full lag category?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes. I mean, I don't know if I would say it's distinct from the full lag category, some of it includes what you might consider the full lag category. Some of that spending we have to do, whether or not we want to file for rate reviews in the near future. There's still some of that spending we really need to do to maintain the viability of our system.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then switching gears, just for 2017 in particular, on the O&M front, Rich, you kind of made it clear around $0.10 of weather versus normal year-to-date has hit you and you're trying to make up for, at least, a chunk of that with more cost cuts than you originally anticipated. So it sounds like everything is a least on track on the cost cut front. But what's the amount of O&M that was at corporate -- or overhead expense that was at corporate last year on an adjusted basis as you report earnings that is now being moved through the full year into the segments?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Yes, I can't give you those numbers right off the top of my head segment by segment, Chris. But if you look in our press release yesterday, you'll see those details.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. See the details at least for the first-half actuals?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Correct. And you said cost cutting. I would characterize it maybe more as cost management. But yes, we're looking closely at all that for the second half of the year.

Christopher James Turnure - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And is that at least a corporate cost that is essentially being spread out evenly among the different segments?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

It's corporate cost and it's at all the business units. We're looking across the board.

Operator

Our next question comes from the line of Insoo Kim from RBC.

Insoo Kim - *RBC Capital Markets, LLC, Research Division - Analyst*

Starting couple of questions. One with the cost of service gas comments. It seems like the way you said it, you still left open the possibility that you may potentially file a COSG beyond this year. So maybe next year if maybe the prices seem right? Is that still an option that you're keeping on the table? Or is it that all else being equal, it just seems likely that you'll file at all?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

I mean, we would like to file, but I think the likelihood of something happening that's dramatic enough to the gas markets in the next reasonable period of time, something that would trigger us to file is somewhat unlikely. We certainly would like to do that, but we also have to feel like we have a reasonable chance at obtaining regulatory approval. And I think right now that would be extremely difficult. And don't -- absence some big change, we don't really see that changing a whole lot, even though we wish it would.

Insoo Kim - *RBC Capital Markets, LLC, Research Division - Analyst*

Right, right, right. For sure. But that would mean that the time frame for whether this goes -- whether your assets go into a potential program or in divesting or moving away from that business, the time line for that hasn't really been pushed back at all. So you're still thinking by the end of next year, let's say, you would have something completed to that extent?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes. We certainly hope so. I mean, I made the comment earlier about we consider holding it for a while just to make sure that we receive an appropriate value and how we choose to capture value from those Piceance assets, and that's a reasonable time frame. We don't have a firm deadline, but we clearly are in the process of transitioning that business.

Insoo Kim - *RBC Capital Markets, LLC, Research Division - Analyst*

And just one more for me. On the CapEx, as I look at the historical 3-year run rate for CapEx before SourceGas. I think it hovers kind of around that $1.2 billion to $1.3 billion. So this kind of seems to be in that run rate. But given that you have added SourceGas in the past year, does that mean that the ultimate potential run rate for like a 3-year level is actually greater, but that incremental level that you may be looking to do is -- are the ones that are really not recoverable immediately so you're holding off on that until more in that '19, or the 2020 and beyond time frame?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes, I wouldn't make a specific comment about what the ongoing run rate is, but I do think you see that we're increasing CapEx in '19. And one of the topics we hope to be able to provide a little more color around during our Analyst Day is what those long-range plans are and what a return to a more normal capital spending level is now that we own SourceGas and have fully integrated that.

Operator

Our next question comes from the line of Lasan Johong from Auvila Research.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

I think for David. I thought you said something kind of extremely irrational about the cost of service gas programs. I just wanted to make -- double check it -- share something (inaudible). Did you say that maybe they are likely to be reject it because we are in a sustained period of low gas price environment? You didn't say that right?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

I did say that, yes.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

You did say that.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Which I understand why you think that would be irrational and that it makes sense, probably from a strategic perspective to enter into programs when prices are low and I don't disagree with that.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

So that's the only time you would.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

I think the political reality of it is there's very little incentive for regulators to tackle a new program that's unfamiliar for them during a period when they think gas prices are likely to remain low. Right, wrong or otherwise, I (inaudible) of obtaining approval is highly unlikely.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Well, you may have dodged a bullet there because if that's just the way they think then, Jesus Christ, I wouldn't want you to be involved with that kind of argument later on when you have some inflation reserves. Okay. Well, that's kind of screwed up, but it is what it is. Second, you guys don't pay cash taxes correct, so the PTC, the book reduction as opposed to an actual cash reduction?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

I caught part of that, Lasan, but can you ask that again please?

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Yes, sure. Production tax credit deductions off your income tax, that's actually a book deduction? It's not an actual tax deduction?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Yes, you're -- that's right. It's just adding basically to the time period. I mean, we're not going to be a cash taxpayer, probably until well into the next decade, 2021, 2022 at this point. So all that's doing is extending it out. It's a book. It's not a cash benefit. It's a book benefit at this point.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Okay. Have you guys considered monetizing it? Or is it not enough?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

I didn't catch that either. I'm sorry.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Consider monetizing.

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Would we consider monetizing it? Well, we're always looking at ways to improve our tax efficiency, Lasan. So we've talked about that, it's something we'll always look at, but we haven't elected to do that at this point.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Got you. Third question. Did you say you're renewing the At-the-Market shelf registration filing for $300 million?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

We are.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

And if I'm not mistaken, you really don't have a need for that at the very near term, correct?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

No. No, we don't. We don't intend to really issue any shares in the near term, as I mentioned, but it's a nice piece of flexibility to have in the event something comes up.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Okay. So I'm correct in surmising that this is a, how do I put this, a potential source of quick fund if and when you need something big fortuitously.

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Yes. I mean, you -- well, quick is a relative term. You're not going to go issue $300 million on that program in a very short period of time. But last year, we demonstrated how effective that was last year by getting $120 million placed over a period of 6 to 7 months. So we just like having it there. It provides some flexibility.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

Right. Can I read more into it than just show flexibility?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

I'm sorry. I missed that, Lasan.

Lasan A. Johong - *Auvila Research Consulting LLC - Founder and Analyst*

I'm sorry. Would it be okay if I read a little more into it than just show of flexibility?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

No, I wouldn't read anything into it. Again, it's just -- it's a program we like to have in place.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes, it was a very good tool for us. We'd never had 1 before. We liked it a lot and we want to keep it as a tool in the future if we need it. Nothing more, nothing less.

Operator

Our next question comes from the line of Chris Ellinghaus from Williams Capital.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

I might have missed this, but I believe when you were talking about the CapEx that you had increased the total budget about $200 million. Can you just talk about what you might have said about that proportion of that capital that has current cost recovery mechanisms?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Well, we laid the slide out differently this quarter to help you be able to see that, Chris.

David R. Emery - *Black Hills Corporation - Chairman and CEO*

Yes, we changed the format of the slide. We didn't make a lot of commentary specifically on what drove the change, other than a review of our individual utilities and when we thought it prudent to make that next round of investments in each of those utilities. But we did lay it out a little differently this time so hopefully, you can kind of get a sense for types of CapEx and the lag associated with that.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

Okay. I'll look at that. As far -- you didn't say anything about in terms of cost of service gas, what you had been talking about partnership-wise. Can you just give us an update on that? And even if you're not filing, are you making progress on that?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

I think we have companies who would love to partner with us in a cost of service gas program, provided we could recommend 1 that would get approval. And as I said before, I think right now we are concerned that we wouldn't be able to recommend one that would receive regulatory approval. So we haven't spent anymore time working out a lot of real specific details with a potential partner, largely because we don't think that we can file for approval right now anyway. But we do still have parties who would be interested in partnering with us if we were to go ahead with the program.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

Given that, if you're not working on a partnership and you don't have any real near-term expectations for success with cost of service gas programs, and you did say you don't have sort of a hard schedule for making a decision on the Piceance assets, have you got some kind of schedule in the back of your head, how long you think you can wait on those assets if current condition sort of persists?

David R. Emery - *Black Hills Corporation - Chairman and CEO*

We got the question earlier about would we still be on a similar time line kind of by late next year to have things decided. And I answered that, yes, I thought that was a reasonable. I made the comment specifically that if we hold those assets, hoping to parlay them into value somehow, we would only do that for a relatively short period of time and in a situation in which we either completely minimized or made negligible in the operating losses we would have by holding them.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

Okay. And lastly, when you updated the guidance, what was your sort of thought process in terms of July weather. So far, did you include that in your thinking on the guidance? I guess that's just it.

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

Yes. I mean, we don't have firm numbers yet for July, Chris, but certainly, living in South Dakota, it's been hot. So that's factored into how we formed up our guidance.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

Okay. So you only reduced the top end by a nickel, and you've had weather and dilution headwinds. So we can assume that part of that good July is one of the offsets to those 2 issues in addition to the cost controls?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

I think that's fair. But when you look at the August forecast, we'll see what -- it's supposed to be fairly cool here, so -- or not hot. So weather keeps moving back and forth.

Christopher R. Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power & Natural Gas*

Right. But you'd rather have July weather than August weather, right?

Richard W. Kinzley - *Black Hills Corporation - CFO and SVP*

I'd rather not live in it. But for business purposes, yes, we'll take it.

Operator

At this time, there are no questions in the queue. (Operator Instructions)

David R. Emery - *Black Hills Corporation - Chairman and CEO*

All right. If there's no additional questions, we want to take you for attending our call this morning. We look forward, hopefully, to seeing some of you register for our Analyst Day in October. Have a great rest of your day. Thank you.

Operator

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