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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Black Hills Corporation First Quarter 2017 Earnings Conference Call. My name is Michelle, and I will be your coordinator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would like to turn the presentation 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, Michelle. Good morning, everyone. Welcome to Black Hills Corporation's First 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. Before we begin today, I would like to note that Black Hills will be attending the American Gas Association Financial Forum starting May 21 in Orlando, Florida. Our presentation materials and webcast information will be posted on our website at www.blackhillscorp.com under the Investor Relations heading. 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 R. Emery *- Black Hills Corporation - Chairman and CEO*

Thank you, Jerome. Good morning, everyone. Thanks for joining us. We appreciate your attendance on our call this morning. On Slide 3 of the webcast deck, we'll be following a similar agenda to those of previous calls. I'll give a quick update on highlights of the first quarter; Rich Kinzley, our CFO, will provide a financial update; and then I'll discuss forward strategy before we take questions.

Moving on to Slide 5. We had an excellent first quarter. Our earnings per share as adjusted were up almost 15% compared to the first quarter of last year. That improvement was largely driven by a full quarter of earnings from a successful acquisition and integration of SourceGas, which we purchased on February 12 of last year.

Highlights for our utilities during the quarter. Our South Dakota Electric utility continued its construction of a 144-mile transmission line from Northeastern Wyoming into Rapid City, South Dakota~~(inaudible)~~. The final segment of that line is expected to be placed in-service later this quarter -- the second quarter. Colorado Electric received approval from the Colorado PUC for its electric resource plan, which will provide for an additional 60 megawatts of renewable energy resources that will be in service by 2019. Colorado Electric plans to issue a request for proposals for those resources during the second quarter and present those results to the commission by year-end for their approval. We continue to pursue reconsideration of the Colorado PUC's decision on last year's rate review, which was primarily related to the new $63 million, 40-megawatt gas combustion turbine that we placed in service at year-end. Our request for rehearing and reconsideration is still pending before the commission.

Moving on to Slide 6, continuing with first quarter highlights. Our Oil and Gas subsidiary continued to reduce operating costs and sell noncore properties as it continues to reposition itself to assist our utilities with their cost-of-service gas program in the future. On the corporate side, last week, our Board of Directors declared a quarterly dividend of $0.445 per share, consistent with that done last quarter, which is equivalent to an annual dividend rate of $1.78 per share. In late March, Fitch Ratings reaffirmed -- or affirmed our credit rating of Black Hills at BBB+ and -- with a stable outlook, maintaining a solid investment-grade credit rating for us. We also began issuing commercial paper during the quarter under a program that we implemented in late 2016. At the end of the month, we had $51 million outstanding with a weighted average interest rate of about 1.27%. Finally, during the quarter, we completed some officer and board member changes, which were previously announced and we discussed during our February Investor call.

Slide 7 provides a reconciliation of first quarter net income from continuing operations as adjusted compared to the first quarter of 2016. Rich will elaborate on the specific variances during his discussion of our financial performance. But the largest positive variance is in our Gas Utilities, driven by a full quarter of operations for the acquired SourceGas territories. It's also worth noting that net income as adjusted is lower at our Oil and Gas subsidiary, largely due to a large tax benefit recognized in the first quarter of last year. Rich will discuss this but Oil and Gas operating income has actually improved compared to last year on a quarter-over-quarter basis. I'll now turn it over to Rich for the financial update. Rich?

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

Great. Thanks, Dave, and good morning, everyone. We're pleased with our first quarter financial performance. When you review our Q1 results for 2017 versus 2016, you see the earnings power of our Gas Utilities with the addition of a full quarter of SourceGas, as Dave mentioned. Despite milder winter weather than normal, our Gas Utilities earnings increased substantially year-over-year. Additionally, we're pleased with the growth in our Electric Utilities from new generation investments and continued solid performance from our Power Generation and Mining segments.

On Slide 9, we reconcile GAAP earnings to earnings as adjusted, a non-GAAP measure. We do this to isolate special items and communicate earnings that better represent our ongoing performance. This slide displays the last 5 quarters and trailing 12 months as of March 31 for 2017 and 2016. As detailed on the slide, we experienced special items not reflective of our ongoing performance in each quarter of 2016 and Q1 of 2017. The first special item is noncash asset 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 the integration work related to the acquisition in 2016 and are finishing the few remaining projects in 2017. These acquisition expenses and impairments are not indicative of our ongoing performance and, accordingly, we reflect them on an as adjusted basis. Our first quarter as adjusted EPS was $1.41 per share compared to $1.23 for the first quarter last year. The earnings uplift in Q1 this year compared to Q1 last year was driven mainly by the first full quarter ownership of the SourceGas utilities. As you'll recall, we closed on the acquisition in mid-February last year. This quarter's results were strong despite milder weather than normal during the first quarter heating season at our Gas and Electric Utilities. Warmer-than-normal weather impacted EPS by an estimated $0.09 in the first quarter. And I'll discuss the impact of weather in more detail later. And as I mentioned on prior calls, we have seasonality in our earnings, with the highest earnings in the heating season represented by the first and fourth quarters. For the trailing 12 months, as adjusted EPS came in at $3.35 per share compared to $3.14 per share for last year, a nearly 7% increase.

Slide 10 displays our first quarter revenue and operating income. On the left side of the slide, you'll note that 2017 revenues for Q1 exceeded those in 2016 by 23%, mainly due to the addition of the SourceGas natural gas utilities. On the right side of the slide, you'll see that year-over-year operating income increased 33%, driven by a $28 million increase at the Gas Utilities, again, due to the addition of SourceGas for the full quarter. We also benefited from improved operating performance in the first quarter at our Electric Utilities, Oil and Gas and Corporate segments. The Power Generation and Coal Mining segments were essentially flat. I'll discuss each of the segments on the following slides. The improvement in the Corporate segment relates to the reduction in 2017 of internal labor charges to acquisition and integration activities. As I noted on the previous slide, with the integration substantially complete, our employees have largely moved on to other projects and initiatives.

Slide 11 displays our first quarter income statement. Gross margin, operating expenses and DD&A all increased comparing Q1 2017 to Q1 2016, mainly as a result of the SourceGas acquisition. Given our successful execution of integration activities during 2016, the increase in operating expenses was moderated. As a result, operating income before special items increased 33% year-over-year. For Q1 2017, the only special item was minimal acquisition-related costs. Q1 2016 included special items for Oil and Gas impairments and more significant acquisition-related costs. Interest expense increased year-over-year related to increased outstanding debt from the acquisition. The increase was mitigated through successful Q3 2016 refinancings of debt we assumed from SourceGas, and from favorable short-term rates from our newly implemented commercial paper program that Dave mentioned. The effective tax rate for the quarter was just under 30% and benefited from a onetime $2 million interest reversal associated with a carryback claim, plus $1.4 million in production tax credits from our Peak View Wind Farm, which went into service in late 2016. As you'll recall, in Q1 last year, we had a settlement with the IRS as well as a tax depletion methodology change, which combined, resulted in an effective rate well below normal for 2016. In the second quarter of 2016, we sold a 49.9% interest in Colorado IPP. The $3.6 million reduction in net income available for our shareholders represents the ownership interest in that facility by a third party. I'll talk more about this on the Power Generation slide. Moving to the as adjusted net income line. We reported $77 million for the quarter compared to $64 million for Q1 2016, a 21% increase. Diluted shares increased in 2017 compared to 2016 due to nearly 2 million shares of equity issued in the last 3 quarters of 2016 on our at-the-market equity program. Also, the application of the treasury stock method related to our unit mandatories added approximately 1.6 million shares to the Q1 2017 diluted share count compared to approximately 700,000 additional shares in Q1 of last year. Overall, as adjusted EPS grew $0.18 or 15% from the same quarter last year. EBITDA increased by $40 million or 26%. These strong results met our expectations despite the headwinds we faced from milder-than-normal weather.

Slide 12 displays our utilities gross margin and operating income. On the left side of the slide, you see the Electric Utilities gross margin increased in the first quarter by $6.3 million over 2016. The gross margin increases resulted from returns on the Peak View Wind and Colorado Gas Turbine Generation projects placed in service in late 2016, transmission investments and increased commercial and industrial load. Operating income increased by $3.2 million or nearly 8% for the first quarter compared to 2016. Despite the addition of generation and transmission projects, our Electric Utilities did a great job controlling cost increases with O&M only increasing $1.5 million comparing this year to last year. I'll also note a substantial component of the return on our Peak View Wind Project is realized through production tax credits, which come through reduced income taxes rather than through operating income. As I noted earlier, these credits amounted to $1.4 million in the first quarter. Moving to the right side of the slide, the improved results in our Gas Utilities for the first quarter were almost entirely explained by 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. Also, at our legacy Black Hills gas operations, we demonstrated improved operating income of $1.6 million, a 3.7% growth rate year-over-year, benefiting from strong cost management. As I mentioned earlier, we experienced warmer-than-normal weather during Q1, negatively impacting the EPS contribution from our Electric and Gas Utilities by approximately $0.09. Heating degree days were 11% below normal at the Electric Utilities and more notably 13% below normal at the Gas Utilities. Comparing to normal weather at our utilities for the first quarter, our gas utility gross margins were negatively impacted by an estimated $6.5 million, while the electric utility gross margins were negatively impacted by an estimated $800,000.

On Slide 13, you see the power gen operating income was effectively flat for the first quarter compared to 2016. The Power Generation business unit continues 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 was contracted -- which is contracted to our Colorado Electric Utility, plus ~~75.6 --~~ 76.5% ownership of 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 gen segment. These numbers include a 100% ownership of Colorado IPP. In the second quarter of 2016, we sold a 49.9% interest in Colorado IPP. We consolidated 100% of that unit's results in our financial statements and then backed out the 49.9% noncontrolling interest at the bottom of the income statement. Moving to the right side of the slide, our Mining segment operating income was also essentially flat compared to Q1 2016. For the quarter, revenue was up slightly as tons sold increased by 5% compared to last year, due primarily to a power plant outage last year. On the cost side, we enjoyed continuing mining efficiencies as we were able to move 19% more overburden in 2017 at a decreased per-cubic-yard cost. O&M was higher in 2017 than 2016, due primarily to a production tax valuation adjustment involving the prior year. Our mine continues to perform at a high level with sales almost entirely to on-site mine-mouth plants and roughly half our sales based on a favorable cost-plus mechanism.

Moving to Slide 14. At Oil and Gas, we reduced the operating loss in the first quarter to $3.7 million compared to an operating loss of $4.8 million in Q1 2016. The 2016 operating loss excludes asset impairment charges taken last year. First quarter volumes sold decreased as oil and gas production declined from the prior year due to divestures and natural decline curves. The decrease in volume was offset by slightly higher average commodity prices received, lower DD&A resulting from previous impairments and diligent G&A cost management, all of which have helped minimize the operating loss from the segment. We expect operating results to continue to improve at Oil and Gas as we move through 2017, focusing the segment on supporting our cost-of-service gas initiative. Also, we've made additional minor divestitures of noncore properties during 2017, bringing total sales proceeds to-date up to approximately $12 million.

Slide 15 shows our capitalization. At March 31, our net debt-to-cap ratio was 66%, a reduction of 330 basis points from the same quarter last year. As we move forward, we expect the 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, which I'll discuss on the next slide. And our internally generated cash flows will fund our CapEx and dividends for the next couple years. Additionally, we have $299 million of unit mandatories reported as debt on our balance sheet until those units convert in the second half of 2018. We're 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 as we paid for 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. We also successfully implemented a commercial paper program in Q1, which will help minimize short-term borrowing costs. I'll also mention that on the equity side, we issued nearly 2 million shares of stock through our at-the-market equity program in 2016, raising nearly $120 million through that program. While we will keep the program active to provide financing flexibility as we move forward, we intend to issue very few, if any, shares through the program in the near term.

Slide 17 demonstrates our track record of growing operating earnings and EPS. The midpoint of our 2017 as adjusted EPS 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.

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On Slide 18, we're reaffirming our as adjusted 2017 earnings guidance of $3.45 to $3.65 per share. We're pleased with our operational execution despite mild weather in Q1. And with that, I'll turn it back to Dave for his strategic overview.

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

Thank you, Rich. Moving on to Slide 20. We group our strategic goals into 4 major categories, with the overall objective of being an industry leader in all we do. Those 4 categories are profitable growth, valued service, better every day and a great workplace.

Slide 21. During the past few quarters we've discussed at length our earnings growth strategy for the next several years now that we've completed the acquisition and integration of SourceGas. We have a great opportunity to provide earnings growth by improving the efficiency and reducing the cost of the combined Black Hills and SourceGas company through a focus on best practices, standardization and continuous improvement. We will also focus our capital spending to reduce or eliminate regulatory lag to the extent possible.

Moving on to Slide 22. Strong capital spending has and will continue to drive much of our earnings growth. Even with an increased focus over the next few years of reducing regulatory lag and optimizing our capital spending, we still expect to spend approximately $1 billion between 2017 and 2019, which is well in excess of our depreciation.

On Slide 23, we continue to make excellent progress on our Colorado Electric Resource plan. That plan will enable us to meet the state's renewable energy standards. Those requirements provide that we have to supply 30% of our energy consumed by customers from renewable sources by 2020. We have Colorado PUC approval to add approximately 60 megawatts of renewable energy resources by 2019. As I mentioned earlier, we'll issue a request for proposals for those 60 megawatts of renewable resources during this upcoming quarter, the second quarter, and we expect to present the results of those RFP's to the commission by year-end for their approval, which would allow us to ensure that the project -- the resources are in-service by 2019.

On Slide 24, we continue to believe strongly that a utility cost-of-service gas program will provide long-term price stability and a reasonable expectation of lower long-term costs for customers while providing opportunities for increased earnings for shareholders, truly a win-win situation. We're in the process of evaluating options on how best to proceed with that program, including the possibility of having utility joint venture partners and then filing new applications for approval of specific gas reserve properties. We expect to file those applications in the second or maybe in the third quarters of '17. That may be a little bit later than we originally anticipated, largely due to the time delays and just the extra time required to working with partners and further assessing reserve properties.

Moving on to Slide 25. We're extremely proud of our dividend track record, having increased the annual dividend for shareholders for now 47 consecutive years. Last year -- or this year, with the effective rate of $1.78 on an annual basis, that's a $0.10 increase over the prior year, a pretty good indication of our confidence in our ability to continue to pay dividends.

Slide 26 summarizes our solid investment-grade credit ratings. I mentioned earlier the recent action by Fitch, but all 3 agencies have us at a solid investment-grade credit rating with stable outlooks.

On Slide 27, we focus every day on operational excellence. As an example, all 3 of our Electric Utilities are in the top quartile of the industry for reliability. In addition, after a year of focus on the integration of SourceGas, we're back on track related to our aggressive safety goals.

Finally, on Slide 28, this is our scorecard. This is something we've done for several years. It's our way of holding ourselves accountable to you, our shareholders. Sets out our goals at the beginning of the year and tracks our progress throughout the year, as we continue to focus on long-term strategic objectives for the benefit of employees, customers and shareholders.

That concludes our comments today. We'd now be happy to answer questions.

QUESTION AND ANSWER

Operator

(Operator Instructions) Our first question comes from the line of Mike Weinstein with CreÃ©dit Suisse.

Michael Weinstein - ***CreÃ©dit Suisse AG, Research Division - United States Utilities Analyst***

Do you have any kind of indication as to when you'd be able to provide additional details around the CapEx forecast going forward, beyond perhaps the 2019 that your forecast now goes through?

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

Yes. We're working on that, Mike. It's one of those things that we've talked a lot about how to optimize our CapEx. We've had a lot of discussions internally and are continuing to look at that forecast. We'd hope that sometime during the year here, we can come out with at least an indication of what those post-2019 spending levels will look like. May not be as detailed as a year-by-year forecast, but probably at least provide some indication of what we expect the average CapEx to be in those first couple of years subsequent to 2019.

Michael Weinstein - ***CreÃ©dit Suisse AG, Research Division - United States Utilities Analyst***

Okay, great. And on the cost-of-service gas program, is there any -- can you discuss what kinds of partners you're working with, if not their actual identities at this point? Is there a reason for the secrecy, I guess?

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

Yes. Certainly, not prepared to discuss who they are. I think, really, it's a matter of until we're certain that we're going to have partners, both Black Hills and the potential partners would prefer not to disclose that. But they would be other utilities that would serve and service territories that are outside of the ones that we serve. At least those are the people we're talking to currently.

Michael Weinstein - ***CreÃ©dit Suisse AG, Research Division - United States Utilities Analyst***

That's mostly utilities.

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

Yes, absolutely, exclusively utilities.

Michael Weinstein - ***CreÃ©dit Suisse AG, Research Division - United States Utilities Analyst***

And on the Colorado IRP approval, is that an indication at all of any improvement in Colorado's investment climate versus the Pueblo CT treatment?

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

Well, we're obligated to pursue the renewable portfolio standard there, the 30%. And certainly, as we go through the RFP process and look at investments in Colorado, part of the process, especially if it involves an investment by Black Hills, it's going to involve establishing some degree of comfort that the commission's comfortable with any investment that we would make, if one of our projects is selected as the winning project in RFP. I do feel optimistic that in time we'll reach a reasonable solution through the gas turbine investment and the rate review process there. With the change in commissioners, it's just taking a little longer than we would have preferred for that process to play out. But we feel pretty good about that overall and that in time, that'll work itself out as we work through the RFP for the renewables. And we'll see if a project that we would invest in is the winning project at the end of the day. But if it is, certainly we would want to have a pretty good feeling of comfort that we would be allowed to recover a fair return on that investment before we would choose to invest additional dollars there.

Operator

And our next question comes from the line of Insoo Kim with RBC Capital Markets.

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

First, regarding your 2017 guidance, reiterating the guidance. Is it -- how much -- when you originally gave the guidance, how much rate increase at the Colorado rate case did you embed? And is it safe to assume that was somewhat higher than what you ended up receiving?

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

Well, we haven't revised the guidance. So, I guess, put it this way, we're comfortable with the number that's in there and what we would expect ultimately in maintaining that guidance number.

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

Right. So even if, I guess, the rehearing doesn't yield anything more than what you guys originally received, you would still be comfortable within that range.

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

Correct.

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

Got it. And then regarding the noncore asset sales, is it still your expectation to be divested of all the non-Mancos properties by the end of this year?

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

Yes. That's our target. What we really would like to do is kind of match up the 2 concepts where, by the time we are ready to focus on cost-of-service gas exclusively, we will essentially have divested all the rest of the noncore assets, and we expect that to be around year-end.

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

Got it. And then despite the moderate delay in the potential filing for cost-of-service gas, is your time line for being out of the unregulated E&P business, as we know it, still on track to happen~~ve them~~ by the end of '18, whether Mancos goes into this regulated model or you end up divesting it?

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

Yes. If I understand your question correctly, I think our intent is really to have divested all the noncore things by the end of '17 or shortly thereafter. And then, hopefully if we're fortunate and obtain approval for cost-of-service gas program, we would finish the transition kind of in '18. So yes, we're very much still on schedule to meet that as the plan.

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

Right. And then the tail end of that question was, I guess, if cost-of-service gas isn't approved or the Mancos properties aren't ultimately put into the program, then you would look to divest that also by the end of '18. Is that correct?

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

Certainly, we would have to have a discussion with our board as far as future alternatives there, but we've said kind of repeatedly that we would not intend to stay in kind of the non-regulated E&P business.

Operator

And our next question comes from the line of [Joe Zhou] with Avon Capital Advisors.

Joe Zhou] - Avon Capital Advisors~~Unidentified Analyst~~

I'm sorry if has been asked before, but it has been a while since your acquisition of SourceGas. When do you think you will be open to continue to grow through another merger acquisition, if that's still part of your strategy?

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

Yes, Joe, this is Rich. Certainly, we're always looking at acquisition opportunities. Right now, the balance sheet, as we've discussed, is pretty levered intentionally from this -- that's how we paid for SourceGas. But we're working through that deleveraging process. And as you look out, say, toward the end of 2018, we're going to be in a pretty good position in terms of our balance sheet. So in the meantime, we'll continue to evaluate opportunities, but it's probably -- anything material, say over $0.5 billion, it's probably a little way down the road before we can compete for one of those.

Operator

(Operator Instructions) Our next question comes from the line of Lasan Johong with Auvila Research Consulting.

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

I've been called worse. Anyway, first of all, your commercial paper program. I assume you've got the [revolver] backstopping that commercial paper issue?

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

That's correct.

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

Okay, good. Second, the Mancos Shale, is it a dry gas or does it have any liquids in it?

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

It depends on the area you're in, Lasan, a little of both. Certainly, I think, economics would be better in the short term if we focused on the liquids-rich areas, which we've done some of. We've done a little drilling in both areas, but our plan for cost-of-service gas would be to focus a little more attention on the liquids-rich areas early just because the economics are better, then as gas prices rise over time, then we can focus more on the dryer areas. But we have a fairly good handle on where we think the liquids-rich areas of the play are.

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

Okay. And then, obviously, the next question is, how -- is there thinking or methodology in terms of how you would share the profits from the liquids with utilities that you would serve or is that going to be completely Black Hills account only and the gas side is the only thing that the commission will care about?

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

Yes. If you look at the way we've -- at least the initial proposal, which of course we've withdrawn, we're not differentiating those. So any liquids benefit would essentially reduce the cost of gas for customers. We're not proposing some complicated sharing mechanism or anything like that. Our plan would be to basically drill the wells and all the benefits of both gas and liquids production would benefit customers.

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

Well, that's a hell of a deal for customers, that -- assuming the liquids portion is pretty healthy. The next question then begets is, do you have enough processing capacity for the liquids?

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

Yes, we do. If you read our 10-K and Qs along the way, you'll see that we have a Summit processing agreement, but we also have an arrangement with another entity where we're working on finalizing now where any excess capacity we could take to them for processing, and actually at a significantly less cost than Summit.

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

And they have substantial available capacity.

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

There's a lot of capacity available there. So, yes, we've got more than adequate capacity.

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

Excellent. Then the other questions I have was something that's precipitated by your comment, David. You see, your partners are mostly, or if not all, utilities. Does that mean they are coming in on the drilling program as well as being recipients of cost-of-service gas or is it going to be they're just going to be customers at the end of the day?

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

No. To the extent we're successful in partnering with another utility, they would be full participants in the program, if we're successful (inaudible). They'd be partners in the entire venture.

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

(inaudible) So, including the drilling risks, there's no like super exclusion or you guys take the risk on the first 5 wells or something like that? (inaudible) all the way.

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

No, no. We would assume a partnership all the way through.

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

Okay. And then the next question is, I assume that you have enough pipeline capacity to service all these partner utilities that you're talking to, correct?

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

Absolutely.

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

Yes.

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

So there is no need for new builds.

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

No. There might be some need for some minor gathering -- in-field gathering which we operate, but otherwise no.

Operator

And I'm showing no further questions. And I'd like to turn the conference back over to Mr. David Emery. Sir, please proceed with your closing remarks.

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

Thank you for your attendance on our call this morning. We appreciate your continued interest in Black Hills. Have a great rest of your day.

Operator

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