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PRESENTATION

Operator
Good day, ladies and gentlemen, and welcome to Black Hills Corporation Third Quarter 2018 Earnings Conference Call. My name is Brian, and I'll be your coordinator for today. (Operator Instructions) As a reminder, this conference call is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Jerome Nichols, Director of Investor Relations of Black Hills Corporation. Please proceed, sir.

Jerome E. Nichols ***Black Hills Corporation - Director of IR & Corporate Communications***
Thank you, Brian. Good morning, everyone. Welcome to Black Hills Corporation's Third Quarter 2018 Earnings Conference Call. Before we begin today, I would like to note that Black Hills will be attending the EEI Financial Conference starting November 11 in San Francisco. The company will host one-on-one meetings throughout the conference and deliver presentation to investors on Tuesday, November 13. Our presentation materials and webcast information will be posted on our website at www.blackhillscorp.com under the Investor Relations heading after market closed this Friday.

Leading our quarterly earnings discussion today are David Emery, Chairman and Chief Executive Officer; Linn Evans, President and Chief Operating 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 R. Emery ***Black Hills Corporation - Chairman & CEO***
Thank you, Jerome. Good morning, everyone. Thanks for joining us. Before I jump in on the webcast deck, I've got a couple of comments.

Last week, I announced that after almost 15 years as the CEO, 14 of those as Chairman and CEO, that I plan to retire as CEO of the company effective December 31. To help ensure a smooth transition following my retirement as CEO, I'll continue to serve as an employee of the company in the role of Executive Chairman of the board until May 1, 2020, which is through the end of my current board term, which will end at our Annual Meeting of Shareholders in late April of 2020.

Consistent with our long-standing and real comprehensive succession planning process, Linn Evans, our current President and COO, was appointed to succeed me as Chief Executive Officer, effective January 1. Linn was also appointed to the Board of Directors effective November 1. I'm really confident that now is the right time to transition the company to a new CEO. We've completed the divestiture of our oil and gas subsidiary, which is our final nonutility-related business. Now, as an electric and natural gas utility with 1.25 million customers and 800 communities in 8 states, we have an excellent strategic plan in place to help ensure success for years to come.

Linn is absolutely the right person to lead Black Hills into the future. During his 17 years with Black Hills, he's played a key leadership role in the transformation and growth of the company. He will also guide an experienced officer team, most of whom have also been a key part of the company's past success over the years. I look forward to helping ensure a successful and seamless transition and to assisting Linn and the leadership team as Executive Chairman. The future of the company is really exciting. I think it's going to be great.

Now onto the slide deck. I will start on Slide 3 for those of you following along on the webcast presentation. Given the upcoming leadership changes, we have modified our format a little bit for this quarter. I will cover the highlights from the quarter, Rich will cover the financial update, and then Linn will discuss forward strategy.

We had an excellent third quarter marked by a lot of significant operational and regulatory accomplishments, all of which I think set us up really well for the future. We also raised our 2018 earnings guidance, basically reflecting our year-to-date performance and our confidence in the balance of the year.

Moving on to Slide 5, 3rd quarter highlights for our utilities. Following quarter end on October 31, our Wyoming Electric subsidiary received approval from the Wyoming Public Service Commission for a real comprehensive settlement that resolves all the outstanding issues related to our Power Cost Adjustment, or PCA, in Wyoming. A settlement resolves several years of disputed issues related to the

PCA, including the price escalation contained in the Wygen 1 plant power purchase agreement between our Power Generation subsidiary and Wyoming Electric.

As part of that settlement, we agreed to credit customers for $7 million total between 2018, '19 and '20. Rich will discuss the recognition of these customer credits in more detail on his financial update.

The settlement provides excellent benefits for both shareholders and customers, and we're really pleased to have that issue behind us.

Other highlights on Slide 5 include the approval on October 10 by the Colorado Public Utilities Commission to merge our 2 gas LDC companies in Colorado. This is the first important step in a multiyear project to consolidate our several gas LDC companies that we own in 3 separate states.

Also during October, we received approval of the successful rate review for Arkansas Gas and our Colorado Electric Utilities set a new winter peak load.

Moving on to Slide 6, continuing with utility highlights. We received approval for Nebraska Gas Distribution to extend the recovery period of its system safety and integrity rider, which was set to expire on October 31, 2019, that riders now extended to December 31, 2020. The rider provides about $6 million in revenue per year. That rider extension coincides really well with our plans to file in late 2019 or early 2020 for approval of the consolidation of our 2 natural gas distribution utilities in Nebraska.

During July, South Dakota Electric placed in service the first 48-mile segment of our planned $70 million, 175-mile electric transmission line from Rapid City, South Dakota to Stegall, Nebraska. The remainder of the line is expected to be placed in service next year in 2019.

In addition, during July, our northwest Wyoming gas utility received approval for a rate review, and our Wyoming Electric subsidiary set a new all-time peak electric load.

In June, our Kansas Gas utility received approval from the Kansas Corporation Commission to double the amount of annual eligible spending for safety-related investments under its Gas System Reliability rider. The Kansas legislature had previously passed legislation enabling that increase and as a result, our rider eligible spending in Kansas will increase from approximately $4 million to $8 million a year going forward.

Finally, during the quarter, our utilities approved -- received approval to deliver the benefits of corporate federal income tax reform to customers in both South Dakota and Arkansas. We've now successfully completed federal income tax reform in 6 states with only Wyoming remaining.

Slide 7, Power Generation highlights. Our Black Hills Electric Generation subsidiary reached an agreement to purchase a third party's 50% interest in our Busch Ranch wind farm in Colorado for a little over $16 million. That purchase is subject to FERC approval, which we expect prior to year-end.

Our Colorado Electric subsidiary owns the remaining 50% interest and operates the wind farm. They also purchased all of the energy under a long-term power purchase agreement.

Corporate highlights are covered on both Slides 7 and 8. Since late July, we completed several meaningful finance-related transactions. First, we issued 6.37 million shares of new common stock on November 1, that was related to the conversion of our outstanding equity units which we issued in November 2015 to help finance the SourceGas acquisition. The proceeds will be used to retire debt. As of November 1 and the conversion of those units, we now have just under 60 million shares of common stock outstanding.

We increased our quarterly dividend by 6.3% to $0.505 per share, that increase represents our 49th consecutive annual dividend increase which is 1 of the longest streaks in the utility industry, one we're really proud of. We issued $400 million of 15-year 4.35% senior unsecured notes. We amended and restated our $750 million revolving credit facility, extending the term to July 30, 2023, and we amended and restated a $300 million term loan, extending that maturity to July 30, 2020. And finally, during the quarter, S&P Global upgraded our corporate credit rating to BBB+ with a stable outlook.

Slide 9 provides a reconciliation by business segment of adjusted earnings from third quarter 2017 to third quarter 2018. Rich will provide detail on the segment variances in his financial update.

Moving to Slide 10, I will turn it over to Rich to provide the financial update. Before I do, just noting the picture on that slide, in late August, members of the company's management team had the opportunity to ring the opening bell on The New York Stock Exchange. We were celebrating our 135th anniversary of service to our utility customers, which began in Deadwood, South Dakota in September 1883, a pretty significant milestone.

Now with that, I'll turn it over to Rich for the financial update. Rich?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
All right. Thanks, Dave, and good morning, everyone. Financial results for the third quarter did meet our expectations, considering that in the third quarter, we had unfavorable weather impacts on margins compared to last year, and we recorded revenue credits associated with the settlement at Wyoming Electric that Dave mentioned. I'll get into more detail on these items on the following slides, but in short, these items explain the majority of the difference between the third quarter last year and the third quarter this year. I'll start on Slide 11 where we reconciled 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 September 30, 2018.

Looking from top to bottom on the slide, the first special item related to one-time acquisition cost incurred as part of the SourceGas acquisition and integration, which was wrapped up at the end of 2017.

The second item relates to tax reform. At the end of 2017, we recorded a benefit related to tax reform and in the first and third quarters this year, we recorded expenses associated with the new law. The expenses this year relate to our continued evaluation of the impact of the new law on our financial statements as well as impacts from continued revisions to the law. For example, in the third quarter, the IRS posted changes related to bonus depreciation, which resulted in recognition of additional expense. The third item you see related to the tax benefit of legal restructuring effectuated in Q1 2018. These items were not indicative of our ongoing performance and accordingly, we reflected them on an as adjusted basis.

Our third quarter EPS was $0.42 compared to $0.52 for the third quarter last year. The waterfall chart on Slide 12 illustrates major drivers bridging Q3 2017 to Q3 2018, all amounts on this chart are net of income taxes. First, you'll note we have reduced revenue in 2018 as a result of recording reserves related to passing tax reform benefits on to our utility customers. These revenue reductions are offset by reduced income taxes. We've reached agreement with regulators in all our states relating to tax reform, with the exception of Wyoming where we plan to file our tax reform plan in the fourth quarter.

Outside of the revenue reduction for tax reform, gross margins were flat. Gross margin in Q3 2018 was impacted by approximately $5 million after tax or the equivalent of $0.09 of EPS by the settlement of Wyoming Electric and negative weather year-over-year. Other drivers for the quarter were typical year-over-year expense increases to support our growth efforts. I'll get into more detail on margin and expense drivers in the following slides.

Slide 13 displays our third quarter income statement. Gross margin decreased $7.6 million year-over-year due to the items I noted on the previous slide, most notably revenue reserves for tax reform, which again, are offset below the line by reduced income tax expense. Operating expenses increased to support our growth initiatives and DD&A was up as a result of additional customer-focused utility investments.

Moving below operating income, interest expense increased year-over-year due to slightly higher average debt balances in Q3 this year versus last year and due to higher interest rates on our variable rate short-term debt. As you know, the short end of the interest curve has risen substantially this year.

Income tax expense was down from the prior year, driven by tax reforms corporate rate reduction. I will point out the $7.5 million of tax expense in Q3 includes $5.3 million, related to adjustments resulting from tax reform, which is and as adjusted item for the quarter, as I noted on Slide 11.

Moving down to income from continuing operations as adjusted, we generated $23.1 million for the quarter, down from $29.2 million last year. You'll note our diluted share count decreased year-over-year. This is due to the application of the treasury stock method of accounting related to the unit mandatory securities we issued in late 2015 to help fund the SourceGas acquisition.

As Dave mentioned, on November 1 this year, we issued common shares upon conversion of the unit mandatories. I'll talk more about that shortly. But prior to conversion, we will require to apply the treasury method of accounting, whereby we include a portion of the shares in our diluted share count.

The number of shares we included is based on the average daily closing price of our stock during -- given reporting period. We added approximately 1.3 million shares to our diluted share count this quarter compared to 2 million additional shares in Q3 last year.

I'll now discuss each business segment. Slide 14 compares Q3 2018 to Q3 2017 for our Electric and Gas utility segments. On the left side, the results of our Electric Utilities for the third quarter this year reflect $3.1 million lower gross margin and a decrease of $9.5 million in operating income. Q3 2018 gross margins of the Electric Utilities saw the benefits of new transmission, investment recovery and higher nonenergy services, including power marketing and technical services. Also new this year in margin for the Electric Utilities is rent income for our new corporate headquarters, which is owned by South Dakota Electric and charged out to all our operating subsidiaries. The net impact on consolidated result is a wash.

These positives to gross margin were more than offset by the revenue reserve for tax reform, the revenue credits for the Wyoming Electric settlement and the unfavorable weather. These gross margin changes are detailed in the table on Page 9 in yesterday's press release. Operating expenses of the Electric Utilities increased $6.3 million as a result of higher labor and benefits outside services and facility costs as well as higher property taxes and depreciation on additional utility capital investments.

Moving to the right side of Slide 14, the results of our Gas Utilities for the third quarter of this year reflected $2 million lower gross margins and a decrease of $7.1 million in operating income. Positive gross margin impacts from customer growth in nonutility services were offset by revenue reserves for tax reform and negative weather impacts year-over-year. Expenses increased by $5 million due to higher labor and benefits outside services and facility costs. The increased facility costs at both the Electric and Gas Utilities are offset by increased rent revenue at the Electric Utilities, as I just noted.

Additionally, gas utility depreciation was higher in 2018 as a result of utility capital investments. As a reminder, our natural Gas Utilities generate their earnings in the first and fourth quarters with expected breakeven or losses in the second and third quarters. The Gas Utilities results for the third quarter met our expectations.

Next, I'll talk about weather impacts compared to normal at our Electric and Gas Utilities. To be clear, the weather-related numbers on Pages 9 and 10 of the press release yesterday and on Page 12 of this presentation reflect weather impacts in Q3 this year compared to Q3 last year. I'll now be comparing Q3 2018 to normal weather with these comments.

The third quarter represents the main cooling season at our Electric Utilities with limited heating degree days at both our Electric and Gas Utilities. Also, there's typically Q3 benefit of the Gas Utilities from gas load related to irrigation activity in our service territories. These activities depended on both temperature and precipitation. While cooling degree days at our Electric Utilities were 9% higher than normal during Q3 2018, heating degree days were 20% below normal at the Electric Utilities and 27% below normal at the Gas Utilities. Also, it was unusually wet in 2018 in our key irrigation areas in Q3 this year, reducing irrigation activity. Compared to normal, weather conditions negatively impacted Q3 margins this year at the Electric and Gas Utilities by approximately $500,000 and $2.2 million, respectively. This amounts to a negative Q3 impact to EPS related to weather of $0.04 compared to normal. Year-to-date through September 30, weather has had a $0.03 positive EPS impact compared to normal.

On Slide 15, you see the Power Generation operating income increased by $900,000, primarily from higher power purchase agreement pricing and an increase in megawatt sold. The Power Generation segment continued to realize strong contract availability from its generating units outside of planned outages and is positioned to continue its strong earnings and cash flow contributions. Also on Slide 15, you'll see our Mining segment had a $300,000 operating income increase. For the quarter, operating costs increased by $400,000 -- excuse me, decreased by $400,000 from lower maintenance costs and savings on labor and benefits, while revenue was $200,000 lower due to a 6% decrease in tons sold. 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 cost-plus pricing methodology.

Slide 16 shows our capitalization. At September 30, our net debt-to-capitalization ratio was 64.6%, 140 basis point improvement from year-end 2017. This was driven by the increase in retained earnings, thanks to strong earnings for the first 9 months of 2018.

Slide 17 describes our unit mandatory conversion, which occurred last week. These securities were issued in November 15 as part of the financing and SourceGas acquisition as Dave mentioned. With the conversion of the unit mandatories to common equity last week, our unit mandatory securities were delisted.

In August, we issued $400 million of senior unsecured notes due 2033 at a 4.35% coupon. Concurrently, we successfully remarketed the $299 million principal amount of junior subordinated notes component of our equity units. Each of these equity units was comprised of a contract to purchase Black Hills' common stock and an interest in our 3.5% junior subordinated notes due 2028. We exchanged the junior subordinated notes for senior unsecured notes and canceled the junior on subordinated notes. The remainder of the upsized debt offering was used to pay down a portion of our commercial paper borrowings.

On November 1, the stock purchase contracts settled. We received gross proceeds of $299 million and issued approximately 6.3 million -- 6.37 million shares of Black Hills' common stock. Proceeds from this stock issuance will be used to retire the $250 million of 2.5% notes that are due in January 2019, with the extra proceeds used to again reduce commercial paper borrowings.

As a result of these activities, our net debt-to-capitalization ratio will decline below 60% in the fourth quarter. And as Dave noted, as of November 1, we have just under 60 million shares of common stock outstanding. With the units settled and associated common stock issued, we will no longer apply the treasury method after November 1.

Slide 18 shows our debt maturity schedule. The schedule is updated to reflect our capital markets activities executed in the third quarter. Dave noted that in the third quarter, we extended our $300 million term loan into 2020 and extended our revolving credit facility through mid-2023. We're in great shape from a liquidity perspective, and our debt maturities are very manageable.

Slide 19 shows our investment-grade credit ratings. In August, Standard & Poor's upgraded us to BBB+ and Fitch recently affirmed their BBB+ rating. We are committed to maintaining our strong investment-grade ratings.

On Slide 20, we're increasing the lower end of our 2018 earnings guidance range by $0.05, with the revised range now at $3.35 to $3.50 per share. This guidance range assumes normal weather in the fourth quarter as it pertains to the winter-heating season at our utilities, which is our biggest risk to meeting the guidance range for 2018.

Slide 55 in the appendix sets forth the major assumptions related to this 2018 guidance. Also, we are initiating earnings guidance for 2019 with a range of $3.35 to $3.55 per share. As we've noted in previous calls, we must grow 2019 net income by approximately 8% to keep EPS flat with 2018 due to the dilution created by the share issuance last week associated with the unit mandatory conversion.

Further, we are initiating preliminary guidance for 2020 with a range of $3.50 to $3.80 per share. While we don't intend to make 2 years of guidance our regular practice, we are providing this preliminary 2020 guidance to demonstrate confidence in our customer-centric growth strategy, which includes substantial capital expenditures to maintain and enhance the safety and reliability of our utility systems.

The major assumptions relied upon to formulate the earnings guidance for both 2019 and 2020 are noted on Slides 56 and 57 in the appendix. You'll see that we assume equity issuances through our At-the-Market equity program of $25 million to $50 million in both 2019 and 2020 to help increase CapEx program, which increased by over $200 million for 2018 through 2022 as compared to the CapEx we disclosed last quarter.

Linn is going to discuss our strategy around this CapEx program in his comments. And with that, I will turn it to Linn.

Linden R. Evans *Black Hills Corporation - President, COO & Director*
Thank you, Rich. Good morning, everyone. Please allow me to start by saying congratulations to David. He's been an incredible leader and a mentor to me and as well as the entire leadership team and our employee team. During Dave's tenure as our CEO, he led the remolding of our organization into what it is today, and David became our CEO in 2004, we had few than 900 employees. We're nearly 2,800

employees today. Also, our assets have grown from $2.1 billion to $6.7 billion, and our market cap has grown from approximately $900 million to nearly $3.7 billion. Those are some outstanding accomplishments, and we appreciate Dave. We're really looking forward to his ongoing guidance and inspiration as he becomes our Executive Chairman.

For me, it's been a great privilege to work for Black Hills for more than 17 years now. I have reported directly to David for 15 of those years, and I guess that's enough for anyone. So David, deserves retirement for that alone. I've also been fortunate to be at the senior management table for the past 14 years. As such, I believe strongly in our utility-focused strategy. We'll build upon as we focus on growth and delivering industry-leading customer service and reliability, we'll do that in the safest and most efficient manner possible.

I'm particularly excited to continue an outstanding partnership with the company's very experienced leadership team, all of whom have played key roles in the company's success and will play key roles in our company's future success. And also, I'm looking forward to the opportunity to work closely with our valued stakeholders. Of course, our customers, our investors and analysts, our regulators and our many other partners as we execute our utility-oriented strategic plan.

With that, now, I'll start with the Slide 22 on the deck. Consistent with the past several years, we grouped our strategic goals into 4 major categories: Profitable Growth; Valued Service; Better Every Day; and Great Workplace, with the overall objective of being an industry leader in all that we do. These gold categories will continue to be our focus. The Black Hills organization is focused on being a best-in-class natural gas and electric utility, with a strategic divestiture of our oil and gas subsidiary, which was our final nonutility supporting business, our strategic plan is clearly focused on being a customer-centric utility and being top quartile at everything that we do.

On Slide 23, from a strategy execution perspective, we are focused on delivering strong long-term total shareholder returns. We plan to accomplish that by achieving a long-term EPS growth rate above the utility industry average, targeting a 50% to 60% dividend ratio -- payout ratio, while retaining the flexibility to increase the dividend during periods of slower EPS growth just as we did last week, while we continue our track record of what is now 49 consecutive annual dividend increases.

Moving to Slide 24. We have essentially completed the process of transitioning our earnings growth drivers from an acquisition and integration focus to more of a traditional utility strategy. In 2018 and 2019, we anticipated lower EPS growth, given we are either entering test years in preparation for rate review filings or commencing rate review filings in certain jurisdictions.

In 2019, we are forecasting a return to strong net income growth, that's made possible by the successful SourceGas acquisition and its integration and our strong customer-centered capital investment program.

This strong 2019 net income growth is expected to be largely offset by the 8% equity dilution, which resulted from the November 1 conversion of the equity units. Commencing in 2020 and beyond, we expect strong, long-term EPS growth, driven by our diverse and ongoing capital investments that will meet customer needs, our continued focus on standardization and efficiency improvements and more regular rate review filings as we return to more traditional utility model.

Moving now to Slide 25. As we focus on delivering strong long-term shareholder returns, our fuel and service territory diversity reduces business risk and helps drive more predictable earnings.

On Slide 26, our strategic utility acquisitions over the years have resulted in greater opportunities through larger transmission and distribution systems and, of course, expanded customer base. With increased scale comes a greater need to invest in being ready to serve our customers and, of course, our shareholders. Our geographic reach and footprint delivers more diverse opportunities for investment. It also delivers more interconnections for reliability and growth and greater overall efficiency of operations.

Slide 27. Strong capital spending for customer needs will continue to drive much of our future earnings growth. Now we've added $208 million to the capital investment plan we presented to you last quarter, and our total forecasted investment is now more than $2.5 billion over our current 5-year planned period, which will help us better serve our 1.25 million customers.

Notably, $123 million of the $208 million increase will occur in 2019 and 2020 and is represented primarily by additional programmatic integrity and facility investments at our Gas Utilities. That level of investment far exceeds depreciation, which will drive earnings growth.

Slides 28 and 29 provided a detailed capital investment forecast for our Gas and our Electric Utilities. We've included breakouts by states, by investment type and by recovery mechanism. These numbers have been increased this quarter, largely due to our proposed customer safety and reliability investment plan. As we continue to enhance and execute our customer-centric investment program over the next couple of quarters, we will continue to disclose additional details with respect to our capital investment.

Moving to the slides -- well, Slides 30 and 31 are new slides that we've added this quarter. We've had lots of discussions with investors inquiring about the sustainability of our utility investment programs. We have significant customer investment opportunities, and these slides are intended to provide clarity into our longer-term opportunities. We are delivering on our commitment to demonstrate to all of our stakeholders the ongoing long-term base capital investment requirements we forecast beyond 2022.

On Slide 30, we currently anticipate an ongoing $225 million to $250 million annual investment need within our Gas Utilities to ensure a safe and reliable system and to meet forecasted customer growth. This annual run rate is expressed in 2018 dollars and does not include large pipeline projects such as a Natural Bridge project in Wyoming that we're currently working on. As we enhance our customer investment programs and continue to grow, we expect this run rate will increase as we continue to evaluate our system and review pending PHMSA(Pipeline and Hazardous Materials Safety Administration) ~~[FINSA]~~ rules. We are working with our regulators to evaluate pipe replacement programs for long-term consistent and programmatic approach for the ongoing prioritization of our safety investment needs. This is illustrated in the replacement program distribution chart that we placed on the right-hand portion of that slide.

As I said before, Slide 31, is the new slide that help demonstrate the ongoing long-term capital investment we forecast for the Electric Utilities beyond 2022. We anticipate an ongoing annual investment need of $120 million to $140 million within our Electric Utilities to ensure a safe and reliable system and, of course, to meet forecasted customer growth within our electric jurisdictions. Again, this run rate does not include larger projects like generation, renewables or similar type projects.

Slide 32 provides our regulatory update for our utilities highlighting the status of our active rate reviews and federal income tax reform dockets by each states. We recently completed the rate review filing in Arkansas, and we've completed the process of determining the customer benefits resulting from federal income tax reform in 6 states. And we expect to file in Wyoming later this year.

Slide 33. We have 3 different states in which we own multiple distribution utilities: those are Colorado, Nebraska and Wyoming. We strongly believe that consolidation of the multiple entities within each state will provide long-lasting benefits for all of our stakeholders. Consolidation will simplify the customer billing process and improve how we deliver customer service to fewer tariffs we have to manage. Having fewer jurisdictional entities reduces our risk, our complexity and the quantity of rate reviews, regulatory filings and other reporting requirements and will also help us streamline corporate processes and provide a one-time tax benefit.

The timing for our consolidation request in each state will be driven by the need to file a rate review in that particular state, that's why as a result, the timing will vary between our states.

On the bottom of the slide, we lay out the 3 states and our current status and our plans regarding the required steps and the timing for consolidating our gas distribution utilities in each of those states. Colorado was, of course, our first state, and we have received approval for the legal consolidation we seek to achieve there, and we intend to file a consolidated rate review for our Gas Utilities there in Q1 of next year. Wyoming will likely follow next in late 2018 and 2019.

And with the extension of the system, safety, integrity rider for Nebraska Gas Distribution, which we announced last week, we don't see the consolidation effort beginning there probably until late 2019 or early 2020.

Moving to Slide 34. We continue to be extremely proud of our track record of annual dividend increases, including stronger increases the past several years, reflecting our confidence in strong future earnings and cash flow growth. We increased the quarterly dividend by 6.3% last week. Over the past several years, we have delivered strong dividend increases, while remaining within our targeted 50% to 60% dividend payout ratio.

Slide 35, we focus on every day on operations activity. Our safety performance continues to be excellent. Our South Dakota Electric utility was recently recognized for its excellence safety performance and was awarded the South Dakota Governor's Meritorious Achievement Award in Occupational Safety.

Also, our Nebraska employee team was recently recognized for their extraordinary volunteer service and were selected as the winners of the 2018 ServeNebraska Step Forward Corporate Community Volunteer award. And as Dave mentioned earlier, we're also very proud to have recently rang The Opening Bell at The New York Stock Exchange to help celebrate our 135th year of serving customers.

And as always, Slide 36 contains our 2018 scorecard. Now this is our way of holding ourselves accountable to you, our shareholders. We continue to make great progress toward our key 2018 goals. That concludes my remarks, and we're happy to entertain questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

Congratulations to both of you. It's been a pleasure, and I look forward to it, Linn. Perhaps just to kick off the questions here. I mean, impressive shift here in the minimal lag bucket. Can you talk a little bit about the riders? It looks like there's a couple of hundred million increase in total bucketed towards that minimal lag across your different Gas Utilities? And then maybe let me also laid out, I'm curious on the Wyoming Electric strategy given the uptick in CapEx there, contrast it against the rate case stay out to '21 at this point.

Linden R. Evans ***Black Hills Corporation - President, COO & Director***

Talking about your minimal lag, Julien. Yes, we have increased that -- that capital spending. That goes to our long-term programmatic spending that we're working with our regulators on and with our teams to ensure we have a safe system going forward as our system ages and as we replace certain parts of our pipeline, we're very focused on that opportunity to invest in that particular area. I didn't catch the last question.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***

Wyoming. Increase CapEx in Wyoming Electric.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***

Yes. How do you -- what's the recovery plan given the stay out?

Linden R. Evans ***Black Hills Corporation - President, COO & Director***
Well, we'll be -- obviously, likely to file a case there in mid-2021 as required by the stipulation, so it's all setting up towards that.

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Yes. And obviously, we didn't breakdown when that capital would be spent, Julien, somewhere in that 5-year time frame. But certainly, we're cognizant of when the next rate review will be scheduled and heavy spending their related to growth today and then some of the more reliability-type spending probably occur a little bit later, little closer in timing to the rate review, but trying to spread that work out as we can.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***
Sorry, let me come back to the minimal lag just to clarify a little bit. Are there new mechanisms? Are you shifting capital to different jurisdictions to ensure minimal lag? What drove such a meaningful increase? I'm just making sure I didn't miss something on the regulatory front or if there's a shift in where you're spending.

Linden Evans President & COO
Well, Julien, in Kansas, for example, we have the opportunity to essentially double our spending in Kansas due to legislation that was passed there, so that's part of it. And then on Nebraska, we have the SSIR was extended for another year as well. So those 2 states we still continue to invest in. Then the rest of it is, yes, focusing on that programmatic plans. So no new riders in those particular states but continued focus on the programmatic spending in those states.

David R. Emery ***Black Hills Corporation - Chairman & CEO***
And if you recall in the previous couple of quarters, we've talked about working with our various states to at least inform them of our long-term plans for a more programmatic approach to routine line replacement for some of our older materials and things like that. We've had the opportunity to have some visits with commissions and staff and at least outline our preliminary plans. Those aren't something that we get a pre-approval for, but we wanted to make sure they were aware of what those plans were before we really announce the change in spending focus to really deal with some of those issues, particularly some of the older materials as they age, want to make sure we're way ahead of those from a safety perspective. Now that we've had those conversations, obviously, that was a big driver of the additional couple of hundred million in spending.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
One thing to add to that, the minimal lag as we define it, isn't just riders, obviously. It's capital that spent within -- leads into a rate review, Julien.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US***

Power, Utilities & Alternative Energy Equity Research
Excellent. And just quickly -- just to clarify what FFO data you saw, I mean, for new ATM? Just where do that puts you in metrics? I know you have some changes on your metric itself.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Yes, obviously, we want to stay in the mid-teens and as we work through this planned period, we're headed towards the upper teens, Julien.

Operator
And our next question will come from the line of Michael Weinstein with Crédit Suisse.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Congratulations, David and Linn. Hey, David, I'm just curious. Do you have any other plans to move on to something else at this point? Or is this really retirement situation?

David R. Emery ***Black Hills Corporation - Chairman & CEO***
No, I don't have any other plans. My plans are really to play more and work less. So I think the decision here with the Executive Chair role's kind of a good way to ensure that that happens. But after 15 years in the role, which is a long time relative to the tenure of most public company CEOs, it seems like it's time to focus more on fun and a little less on work after lot of years of working very, very full time. So no other particular plans other than to enjoy and play.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Got you. Sounds like a good plan. Hey, on the new Slides, 30 and 31, the -- that's the recurring CapEx. So that's not intended to be the full amount of CapEx that is represented on Slide 27. Is that -- sorry, can you identify -- can you quantify that as a percentage of the usual full amount for each year?

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Well, those 2 new slides really are just for 2023 and beyond. We have the detailed '18 through '22 on the 2 earlier slides. And then the '23 and beyond, the numbers referenced the $225 million to $250 million for Gas and the $120 million to $140 million for Electric, that does not include any major items, that's just the ongoing spend to keep up the reliability and safety of the system. But I think what it indicates is we've got a really strong investment program just to keep up with the massive system that we have going forward. And there's a lot of upside opportunity on top of that for those major pipeline projects, Power Generation, renewables, et cetera.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
And do you still expect to have like 1 or 2 of those a year roughly the $50 million range each kind of thing?

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Yes. We're working on a lot of them. It's just it's hard to control the timing sometimes on those, but if

you look back over history, we've had several, almost every year. We've always got a bunch of them that we're working on, and just appropriate timing and when they're needed and some of those things that our intent is to always have quite a few of those irons in the fire at any given point in time.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Hey, one last question on the Wyoming settlement. How does this affect -- and sorry if I just missed this, but how does this affect the Wygen I consideration for rate base -- possible rate basing at some point?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Well, our intent is to file our integrated resource plan by the end of the year, and that should clear that up, I guess.

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Yes, it doesn't affect our opinion related to that asset at all. Really, all it does is just clean up the remaining contract period. We had a dispute with some of the industrial intervenors about the way the escalation clauses work and then there were some other issues related to couple of years of prior PCAs that were in dispute. So it really just cleans all that up and basically ensures that we're not going to fight over it for the remaining life of the contract. Hopefully, we'll resolve the issue through our research planning process well in advance of the exploration of the contract. We'll see how that process plays out. But as Rich said, we should file it up before the end of the year.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Can you briefly identify like just how much EPS is coming from that one contract like in other words, how much would be -- how would this affect the finances if it was not rate base and the contract simply expired?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Well, we haven't disclosed specifically what that contract provides in terms of EPS, Mike, but I think the way that you can think of it is, for the next through the end of 2022, it's escalating at 3%, so that contribution will continue. And then, as Dave mentioned, we'll see how the IRP process plays out.

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Yes, there's only 2 assets in our Power Gen -- in our Power Gen business, this and the Colorado plant, and we showed that adjustment for the other 50% of that Colorado IPP plant, how much that Colorado IPP is a total of Power Gen earnings. Look back at our Wygen I. One thing we're pretty comfortable with those is the value of Wygen I to the customers is Cheyenne Light, whether that's rate base contracting or whatever that's an extremely low cost, very high availability resource. So the likelihood of that plant not running is extraordinarily low. It's a fantastic resource for the long term and we're pretty confident in that. We just have to work our way through their process.

Operator
(Operator Instructions) Our next question will come from the line of Chris Ellinghaus with Williams

Capital.

Christopher Ronald Ellinghaus ***The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas***
Congratulations to the job switchers. Rich, the Wyoming credit, should we expect, A, that, that will be roughly evenly spread over the multiple years? And would you expect to accrue that in the same quarter each year?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
No. Here's the detail on that, Chris. We had a reserve -- reserves booked prior to this quarter of about $2 million associated with that. We reached a settlement in the third quarter. We actually recorded about $3.1 million pretax, which was predominantly the revenue credits we talked about in our comments and then there were a few other smaller items. And then, in the fourth quarter, we will record another $1.5 million associated with that, and then $0.5 million each in 2019 and 2020.

Christopher Ronald Ellinghaus ***The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas***
Okay, that helps a lot. The Busch Ranch I acquisition, how should we think about returns on that?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Yes, I think you can kind of think of them as maybe slightly better than utility. It was a PPA contract basically that we bought out, so...

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Most earnings.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Most of it's going to come through the tax credits, that's right.

Christopher Ronald Ellinghaus ***The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas***
Okay. And with this increased CapEx, and with the sort of flipping to the balance sheet with the unit conversion, have you got sort of a target for what you'd like the balance sheet to look like going forward?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Yes. We want to get where our debt to total caps more in the mid-50s, but that's not going to happen right away given the strong CapEx program that we've disclosed. Obviously, we're sprinkling a little bit of equity in now giving the increased CapEx to help with that balance sheet rightsizing, if you will, but by the end of the 5 years, we'd like to be back to the mid-50s. We'll work our way there kind of I wouldn't say linearly, given that large CapEx in 2019, but we'll work our way there over the next few years.

Operator
And our next question will come from Vedula Murti with from Avon Capita.

Vedula Murti ***Avon Capital***
Congratulations on your retirement and your plans to have fun. I'm wondering following up on Mike Weinstein's question. Right now, what is -- on the balance sheet, what is the carrying value of Wygen I?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Well, I don't know the exact number of top of my head, but it's in our 10-K that we filed in February. And obviously, they'll be a little depreciation of that net book value right now. We can look that up here, but...

David R. Emery ***Black Hills Corporation - Chairman & CEO***
Yes, it's pretty spelled out in the K.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
It is. Yes.

Vedula Murti ***Avon Capital***
Just wondering if you have a number approximately. I can look it up, obviously, if I have to, but.

David R. Emery ***Black Hills Corporation - Chairman & CEO***
We'll find it here and answer here shortly.

Vedula Murti ***Avon Capital***
Okay, I guess where I'm going with this then is right now, with the power sales contract, does the power sales contract provide a utility type rate of return? Or is it kind of a below utility type rate of return that will by the end of the contract achieve the utility type rate return, can you kind of describe that?

David R. Emery ***Black Hills Corporation - Chairman & CEO***
It provides a pretty good return. I mean, that contract was entered into clear back in 2002, I think, started 2003 with that plant, and it's escalated and things along that period. Returns are pretty solid, I'd say add or a little above utility returns. As you would expect from an IPP project.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
We can answer the question, in the K, although it just indicates the net book value of Wygen I at December 31, 2017, was $69 million. So there's a little bit depreciation off of that for 9 months.

Operator
And our next question will come from the line of Andrew Weisel with Scotia.

Andrew Marc Weisel ***Scotia Howard Weil, Research Division - Analyst***

I also want to pass congratulations to everyone and for all the positive regulatory updates recently. It's been a stretch for you guys. Just I have 2 quick ones here. First, on the dividend. Obviously, you've increased at recently at a little over 6%. You've got the common targeting 50% to 60%. Just want to be sure how do you think about the other comment in the slides about increasing the dividend during the period of slower EPS growth? Does that imply that may be we'll see a deceleration in the dividend growth as EPS starts to accelerate? Or maybe it's kind of thoughts on trajectory there?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***

Well, obviously, we're not going to comment on what the board might do with future dividends, but our intent is to not decrease the level of increase as you look forward. We've increased at $0.12 each in the last 2 years and $0.10 the year prior to that. One change we've made is typically do it now this time of year as opposed to after the first of the year. Again, we'll see conversations with the board on that next year, but the intent would be not to decrease the level of increase.

Andrew Marc Weisel ***Scotia Howard Weil, Research Division - Analyst***

Okay, got it. And then just maybe it is a little technical one, but the Nebraska safety and integrity rider, that is now going through the end of 2020. If I understood it correctly, it only covers historical spending. So how would recovery for spending from 2018 through 2020 be recovered? Would that be through a rate case? And does that fold into the consolidation? Or is that a separate issue altogether?

Linden R. Evans ***Black Hills Corporation - President, COO & Director***

My short answer to that question is yes, primarily covered through rate cases.

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

And then our intent, and I think this has been outlined previously is we'll file for the consolidation cases when the entities combined would need a rate review. So that's what happens when we talk about the rider extension, basically, puts us out into that 2020 time frame, maybe late '19 time frame to start that process. And so any capital spending between now and then that is not covered by the rider or is not growth-related and pays for itself as we go, then we'll be rolled into that consolidation rate case down the road. But we do have 2 entities there, and that rider extension only covers the former SourceGas territory. So we have some other mechanisms in place for our legacy Nebraska Gas Utility also.

Operator

There are no further questions. David Emery, please proceed to closing remarks.

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

Yes. Thank you. We certainly appreciate everyone's time and attention today. As I said at the beginning, I think we had a great quarter. And Andrew just mentioned it, but our regulatory's success has been really good. We've got an excellent team, puts a lot of time and effort in with our regulators to make sure we achieve great regulatory results. It's truly one of our core strengths and something that we look forward to continuing to execute on going forward. We've got a lot of activity coming up. We expect to do an excellent job on those regulatory filings just like we have these that we've achieved recently.

With that, that's kind of the end of our comments for today. Thanks a lot for your time and attention and your interest in Black Hills. 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. Have a good day.
