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Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation First Quarter 2021 Earnings Conference Call. My name is Peter and I'll be your conference coordinator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

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

Jerome E. Nichols^ Thank you, Peter. Good morning, everyone. Welcome to Black Hills Corporation's first quarter 2021 earnings conference call. You can find our earnings release and materials for our call this morning at our website at www.blackhillscorp.com under the Investor Relations heading. Leading our quarterly earnings discussion today are Linn Evans, President and Chief Executive Officer; and Rich Kinzley, Senior Vice President and Chief Financial Officer.

During our earnings discussion today, some of the comments we make may contain forward-looking statements as defined by the Securities and Exchange Commission and there are a number of uncertainties inherent in such comments. Although we believe that our expectations and beliefs are based on reasonable assumptions, actual results may differ materially. We direct you to our earnings release, Slide 2 of the investor presentation on our website and our most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission for a list of some of the factors that could cause future results to differ materially from our expectations.

I will now turn the call over to Linn Evans.

Linden R. Evans^ Thank you, Jerome. Good morning, everyone. Thank you for joining us today. I'll begin on Slide 4, which lists our key achievements during the first quarter. Our top priority of Black Hills Corporation is safety, which works hand-in-hand with reliability in our predominantly cold weather service territories. I'm proud of our team's exceptional and resilient performance. The Black Hills team along with our electric and natural gas systems and our generating fleet performed very well through the historic decrees of the Winter Storm Uri. We successfully served extraordinary demand, keeping our customers safe through life threatening cold conditions across our service territory.

Our balanced mix of power generation resources, including reliable and dispatchable generation capacity allowed us to completely avoid rolling blackouts experienced in other areas of the country, even while our South Dakota electric utility served a new winter peak load. Of course, our success in serving our customers during Winter Storm Uri didn't happen by chance, rather it was a result of our relentless focus on our customers and ongoing investments for our safe, reliable and resilient infrastructure. Winter Storm Uri demonstrated how critical energy is to our daily lives. The storm highlighted the need for safe, reliable natural gas utilities and reliable generation capacity when our customers experience temperatures as low as 27 degrees below 0, setting numerous all-time record lows across our communities.

As an example, Lincoln, Nebraska reported 11 straight days of temperatures below 0 in February with lows of the minus 20s. Recognize the essential value of natural gas during these weather events, we're pleased that 4 of our 6 gas states Arkansas, Iowa, Kansas and Wyoming recently passed legislation that protects our customers freedom to choose a type of energy is right for them. Last week we announced, we joined the ONE Future Coalition of gas utility companies who are voluntarily reducing emissions. This is an addition to our previously announced participation in the EPA's Methane Challenge as we enhance our commitment to modernize and make our pipelines more resilient.

Continuing on Slide 4, we remain encouraged by the ongoing steady growth in new customer connections driven by population migration into our service territories. Our team also showcased our agility and the strength of our financing strategy during the first quarter. Given the unprecedented and unforeseeable market pricing for natural gas in February, we immediately supplemented our liquidity with additional short-term financing by securing an $800 million term loan on favorable terms. This term loan and other ongoing cash conservation initiatives ensures our ability to continue funding our strong capital investment program.

Slide 5 sets out our financial outlook. Our first quarter financial performance was tempered by cost brought about by storm Uri as outlined in our earnings release. However, absent these storm cost, our financial results were otherwise strong. During the February storm, we immediately implemented expense and cash management initiatives and we're executing on other opportunities to mitigate the impact of the storm. Rich will cover the details in his financial update. Given these ongoing initiatives and the opportunities we see for the remainder of this year, our 2021 earnings guidance remains unchanged. We also reaffirmed our 2022 earnings guidance and we remain confident in our long-term growth targets, including 5% to 7% earnings growth for 2023 through 2025 and at least 5% annual dividend growth.

Slide 6 illustrates our disciplined growth plan with upside potential. We plan on capital investments in more than $3 billion through 2025 and we expect to identify and develop incremental projects. We're also developing other growth opportunities including less capital intensive projects such as data center load additions and other innovative customer solutions including renewables and other technologies. I noted already that we're seeing accelerated population migration into our service territories and we're gaining confidence this trend will continue. The last item on this slide is a focus on cost discipline and continuous improvement. These are long-term initiatives for leaner more efficient processes and the use of new technologies to be better every day.

Moving to Slide 7. We've made progress on our regulatory initiatives. Our team is finalizing 3 rate review applications to be filed in the second quarter. We plan to file a new rate review for Colorado Gas, and we recently completed a hearing before the commission regarding our ongoing safety and integrity investment rider. In Kansas, we're filing our first rate review in 7 years which renews our 5 year system safety and integrity investment rider. And in Iowa, we plan to file our first rate review in more than a decade, including a request for a new system safety and integrity investment rider. In addition to our normal regulatory activity, we're engaged with regulators regarding recovery for costs associated with Storm Uri.

Moving to Slide 8. For our electric utilities, resource planning is a key focus, as we determine how best to reliably and cost effectively serve growing customer demand and achieve our greenhouse gas emission goals. We're targeting early July to submit our integrated resource plan for our jointly operated South Dakota and Wyoming electric systems. We're modeling various scenarios to meet our growing customer demand. Initial modeling which is always subject to change, indicates a need to add renewable, dispatchable natural gas generation, battery storage, additional transmission and upgraded pipeline capacity.

These scenarios consider customer impacts in achieving our greenhouse gas emission goals. We are also modeling a scenario that considers the Biden Administration's economy-wide greenhouse gas emission goals and what that would cost customers. I'm excited about this process as we look to provide greater clarity into these future opportunities in the upcoming months.

And finally on Slide 9, we're well positioned as an integrated utility with a strong long-term growth outlook. We're executing our customer focused strategy and are confident in our future.

I'll now turn it over to Rich for the financial update.

Richard W. Kinzley^ Thanks, Linn, and good morning, everyone. Slide 11 summarizes earnings per share for the first quarter. We delivered EPS of $1.54 compared to $1.59 as adjusted in Q1 2020. Impacts from Winter Storm Uri overshadowed what were otherwise solid financial results. The net storm impacts were $0.15 per share, which more than offset weather favorability and the benefit of new rates. We estimate weather benefited earnings by $0.07 per share compared to normal. For the quarter, heating degree days were 4% higher than normal at our electric utilities and 3% higher than normal at our gas utilities, attributable primarily to extreme cold in February, offsetting warmer than normal weather in January and March. Compared to Q1 2020, the weather impact was favorable by $0.11 per share, given a warmer than normal first quarter heating season last year.

Slide 12 details how we are addressing Winter Storm Uri impacts. In the first quarter, we incurred approximately $571 million of incremental cost to serve our customers. This includes $559 million of deferred utility fuel costs we booked as a regulatory asset. We've had constructive dialog with regulators in a filed or expect to file our remaining storm-related regulatory recovery requests in the second quarter. We've already filed requests for our gas utilities in Arkansas, Iowa, Nebraska and Wyoming and for South Dakota Electric. Recovery plans vary by state with proposed recovery in some states within 1 year while other states may take up to 5 years or longer. In the first quarter, we booked storm-related net expenses of $12.55 million pre-tax or $0.15 per share after tax.

The largest contributor was $8.2 million of non-recoverable incremental gas purchase costs at Black Hills Energy Services, which serves 52,000 of our regulated utility customers in Nebraska and Wyoming through the Choice Gas program. This program allows customers the option to choose their gas provider and is supported by a hedging and procurement plan based on demand history and forecasts. Serving our Choice Gas customers is a small, low risk and profitable piece of our business. However, it was subjected to the unprecedented market pricing and elevated demand caused by storm Uri.

For our electric businesses, the impact to our wholesale power margin sharing of $3.2 million was partially offset by $1.7 million of power generation benefits. We also incurred $2.1 million of fuel costs that are outside of our regulatory cost recovery mechanisms, primarily in Montana where we serve 2 industrial customers pursuant to contracts. This small piece of our utilities is typically very low risk but was subjected to the same unprecedented market pricing and elevated demand. In February, we immediately implemented strategies to mitigate the $0.15 EPS impact from Uri over the remainder of the year through cost management, ongoing wholesale power marketing opportunities and identified regulatory proceedings.

Slide 13 illustrates the drivers of change in net income year-over-year for the first quarter. All amounts listed are after-tax. The main drivers compared to last year were gross margin improvements at our gas utilities offset by Storm Uri impacts. Natural gas margin increases were driven by weather favorability and new base rates and rider recovery on investments for customers. Electric utility margins were lower than the prior year, primarily due to tax reform benefits that we passed on to our Colorado Electric customers. We credited over $9 million of tax reform benefits, which lowered revenue and had an offsetting income tax benefit, resulting in minimal overall impact to first quarter results. The additional quarter-over-quarter tax benefits in the far right were related primarily to additional production tax credits related to the Corriedale Wind Project that went into service in late 2020.

O&~~amp;~~M was impacted by higher employee costs and outside services. Outside services increased over the prior year because of higher Director fees tied to our stock price performance, which was much stronger in Q1 this year compared to last year. The change in other income expense over the prior year was driven by market impacts on a non-qualified deferred compensation expense. Additional first quarter detail on segment earnings can be found in the appendix. You can also find additional details on year-over-year changes in gross margin and operating expenses in yesterday's earnings release.

Slide 14 shows our financial position through the lens of capital structure, credit ratings and financial flexibility. We have a manageable debt maturity profile and are committed to maintaining our solid investment grade credit ratings. At the end of April, we had approximately $530 million of available liquidity on our revolving credit facility. In February, we entered into an $800 million 9 month term loan to bolster our liquidity in light of the increased fuel costs related to Storm Uri. We repaid $200 million of that term loan at quarter end and are developing the appropriate refinancing strategy for the remaining $600 million as we finalized Storm Uri recovery mechanisms. I expect we will issue debt with a 3 to 5 year term in the second or third quarter to match the recovery period of the bulk of the dollars from the deferred Storm Uri fuel cost.

New debt and deferred recovery of fuel cost temporarily increased our debt to total capitalization ratio to 62% at the end of March. As we recover storm costs, repay debt and execute on our equity program, we expect to reduce the debt to total capitalization ratio and continue to target a debt to total cap ratio in the mid 50s. Our equity issuance expectations are unchanged. We expect to issue $100 million to $120 million in 2021 and $60 million to $80 million in 2022 through our at-the-market equity offering program. We will continue to evaluate financing needs as we finalize our storm cost recovery proposals.

Moving to our dividend on Slide 15. In 2020, we proudly marked 50 consecutive years of annual dividend increases, one of the longest track records in our industry. Since 2016 we have increased our dividend at an average annual rate of 6.6%. Looking forward, we anticipate increasing our dividend by more than 5% annually through 2025 while maintaining our 50% to 60% payout target.

In closing, we thank you for your interest in Black Hills. We are uniquely positioned as an integrated utility in constructive jurisdictions with a complementary business mix across stable and growing territories. We continue to be well positioned both operationally and financially to be ready to serve all our stakeholders.

And with that, we're available to take your questions.

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Operator^ (Operator Instructions) I show our first question comes from the line of Michael Weinstein from Credit Suisse.

Michael Weinstein^ Within Colorado, can you -- how have -- so how is the new case been affected by prior settlement discussions? Has that -- do you found that to be, I guess, helpful with the new filings? Is there, I mean it's basically the same staff, right, so you're -- is there a, I don't know, is there a reason to be hopeful that the new case will be resolved quickly and maybe along the same lines as the prior settlement discussions?

Linden R. Evans^ We will refile that case during the -- in the second quarter, we have not quite refiled that yet, want to make sure that wasn't implied in your question. We were asked to refile the Phase 2 and file a new Phase 1, so that's what we're working on now. We'll have the Phase 2 filed shortly, we'll have the Phase 1 also filed during the second quarter. As you indicated, yes, we are hopeful that the prior case we had worked very closely with staff, Office of Consumer Counsel, they understood our case and we thought that the conversations were very constructive. And so we are similarly hopeful and anticipate then we filed a second case to refile the Phase 1 case that we'll have a similar response and the similar engagement with the staff and with the Office of Consumer Counsel. We're also, I think, we might benefit from the 3 relatively new commissioners that we have in -- at the Colorado Commission. And then also, we're really kind of very focused on the blocking and tackling. Some of our last cases involved issues around jurisdiction simplification, combining rates, things of that nature. We're no longer pursuing those in Colorado so. And also very recently, we finished a hearing on the SSIR, the System Safety and Integrity Rider that finished last week and so we anticipate a decision on that within the next 6 weeks. So I think all those combined, set us up nicely are much better positioned in Colorado as we go forward.

Michael Weinstein^ Sounds like a smoother process going forward. Is the -- is there anything in terms of large projects for the capital plan that are not included in the capital plan? Are there any, maybe any color on potential projects that you might be looking at or could be considering at this point?

Linden R. Evans^ Yes, we've got the $3 billion capital program over the next 5 years, and as we've always said, we anticipate incremental opportunities that are inside of that and perhaps beyond that. An important element that we're working on now is integrated resource plan that we'll be filing or submitting I should probably say in Wyoming and South Dakota in early July as our current plan. We anticipate through that, we will have some opportunities that will be identified to serve our growing customer load with respect to transmission, energy storage, IE batteries, dispatchable gas generation and also some renewables opportunities, none of that -- a very little of that, well, let me back up and say, some of our transmission opportunities are included in our current for -- capital forecast, but none of the other opportunities that are identified are included in that so we're very hopeful in that regard. We're also serving growing customer load and customer demand. We're moved from about 1% growth to well into 1.5% migration grow customer count growth within our service territories, that's been very helpful to us as well. So continue to serve that. The poultry barn kind of growth that we're seeing in the Arkansas and Nebraska, we've got alternative agriculture in Colorado that we're seeing continue to grow, et cetera, so those are the things that we continue to look at. And of course Storm Uri, as we look at that closer and do a deep brief and a real deep analysis on that, the investments that we have been making with new interconnects, adding pipelines to increase resiliency and reliability have been very helpful. And so we're certainly looking at what we had -- can learn from Storm Uri and continue those kinds of investments that we believe will help us mitigate those things that we can control that we learned through Storm Uri as well.

Operator^ Next question comes from Ryan Greenwald from Bank of America.

Ryan Greenwald^ Can you talk a bit about how you guys are kind of trending in the guidance range here given the Uri impacts and dive a bit deeper into the mitigating factors, particularly when it comes to the regulatory actions around what's hitting the income statement here.

Linden R. Evans^ Yeah, well, first Ryan, it's Rich. First of all I'd say, it's early in the year, so we're not going to -- we reaffirmed our range, we're not guiding toward the upper or lower end, we're comfortable with the range, we're comfortable we can mitigate the impacts from Uri. When you look at Slide 12, the items that we can take some actions on to recapture some of that, if you will, the wholesale power margin sharing line item, we think we've got opportunities to mitigate that as the year goes along in terms of calling that back, if you will. And then the term loan interest expense, the smaller item there, certainly we'll be talking with our regulators ~~and~~ in our discussions about storm recovery about including that and are confident that will occur. And then when you look at the remainder of the items they are about $0.10 of the $0.15, that's where we're focused on cost controls this year. As Linn noted, when I was talking to him before the call, we had to flex those muscles last year with COVID and we'll just continue to flex those muscles and believe we have ample opportunity to mitigate the majority or all of that remaining amount.

Ryan Greenwald^ Got it, fair enough. And then in terms of the regulatory process from here, the agenda is getting pretty busy again. Can you just remind us in terms of expectations for timeline and process in each jurisdiction with the upcoming rate cases?

Linden R. Evans^ Sure, we can do that, Ryan. We have 3 rate reviews that we intend to file this during the second quarter and that's on top of the Phase 2 that we'll also be filing in Colorado. So starting with Colorado, as I indicated in my response to Mike's question, we anticipate in this quarter to file a rate review in Colorado Gas, which replaces the gas case that we had filed back in September of last year. We also intend to file a case in Iowa, that'll be our first case in the last -- since 10 years ago, we filed our last rate review in Iowa. And then in -- and in Kansas, we'll be filing a case there that's been 7 years since we filed that, as primarily to ensure that we can renew the Safety System Integrity Rider that has a sunset in Kansas. We'll also be -- let me go back to Iowa, we will also be asking for a System Safety Integrity Rider for Iowa as well, which will be our~~e are~~ first one there if we're successful in obtaining that. So those are our 3 primary cases we'll be working on this year, Ryan. Then I think part of your question Ryan, if I interpreted that right was timing of the procedural schedules associated with those. And they're out -- they are different for each state, but generally speaking, you can kind of think of probably Q1 next year resolution on those. Hopefully we can wrap some of them up more quickly, we'll see, but that would be the procedural schedule to think about. One other side note is that, in Iowa we do get interim rates shortly after we file, so that's an important consideration for this year.

Operator^ Our next question comes from the line of Andrew Weisel from Scotiabank.

Andrew Marc Weisel^ My first question is on the credit metrics. So obviously Uri is weighing on them as you described about a 3% increase in debt to cap. The -- first of all, does that include the term loan? And then looking forward, you said you expect to recover about how quickly would you expect to get back to under 60% debt to cap where you were around year-end and by when do you think you'll reach your 55% target assuming accommodating decisions on fuel cost recovery?

Richard W. Kinzley^ Yes, so there were a number of questions there. 1, the 62% does include the term loan. So that's why we popped up from 59% at year end to 62% now. Second, in terms of recovery, we're deep into discussions. As we noted in our comments, we filed in a number of our states already for recovery and we'll get the rest of the jurisdictions filed in the second quarter. Some of the states, I think will recover as quickly as 1 year and some even just through our normal mechanisms, the smaller impacted jurisdictions, which are mostly our Electric South Dakota and Wyoming Electric for the most part. But then you think about the jurisdictions that were impacted a little more heavily like Kansas, Arkansas, Iowa, Colorado, those are probably more of a 3 to 5 year recovery and those discussions are ongoing with the regulators in those states, very constructive conversations. We would expect to recover that in that fashion through 2, 3, 4, 5 years. Relative to getting back to 55%, of course once these mechanisms are all in place and we're making those recoveries, it should start to rapidly delever us, Ryan -- Andrew. I think really we should kind of be, if you think of 3 to 5 years from now, we should be back to where we otherwise would have been, absent this deferred storm cost recovery. I think that answers most of your questions. Credit metrics, I think we're in good shape there. Conversations with the rating agencies have been very productive and constructive as well. Of course they want to see how we come out with the regulators and what the recovery periods look like, but we think we're on track to meet their expectations and keep our credit ratings where they are.

Andrew Marc Weisel^ Then just one follow-up. You put out the press release about joining our nation's energy future, the ONE Future Coalition and Linn, I think you mentioned that in your prepared remarks, apologies if I missed it. But please remind me, do you have a stated goal toward methane emission reductions? If I recall, you're targeting a 50% drop in greenhouse gas emissions from gas utilities by 2035. Does joining this ONE Future create opportunity to expand or accelerate that?

Linden R. Evans^ Correct, on the fact that we joined ONE Future, Andrew, and we also -- our goal is 50% by the year 2035 in reducing our intensity in our natural gas utilities. I -- the reason why we are joining them, is it allows us to really join a team with respect to how we report being very consistent, also using best practices and learning. T~~t~~he goal of the ONE Future is to reduce emissions below 1% and that group of the companies have already been successful in doing that. So we'll continue to learn best practices, it puts us in good company with that. With respect to that also puts us in good company with how we report and ensuring that we're consistent across the industry as well as we attain that goal.

Andrew Marc Weisel^ So are you committing to a 1% methane level or is that not -- is that still being sort it out?

Linden R. Evans^ That's been sorted out, that's part of what ONE Future is about, ensuring that the members of those companies have reduced their emissions to 1%, which is a different from the intensity goal that we put our reducing our intensity by 50% by 2035. So it's kind of measuring apples and oranges there a bit, Andrew.

Operator^ Our next question comes from the line of Brandon Lee from Mizuho.

Brandon Lee^ I just had a quick question, and thanks for all the updates on the regulatory filings. For your storm cost recovery, do you expect to issue the debt at the opco or at the parent, and if it's at the parent level, do you expect to recover all the interest expense?

Richard W. Kinzley^ Yeah, it's going to differ by jurisdiction. First of all, the issuance will be at the parent, that's typically how we do our financings, much more efficient with our smaller utilities than issuing small chunks of debt at all the opco's. So it will certain, almost certainly be a parent company issuance. Relative to recovery, those are the discussions we're having with regulators, what does it look like, the longer the recovery period is, it changes how we think about and how they think about recovery of carrying costs. So that can go a lot of different directions in the different states, but we do expect to recover our carrying costs.

Operator^ (Operator Instructions) I show our next question comes from the line of Brian Russo from Sidoti.

Brian J. Russo^ So just, when I look at Slide 22, the capital expenditures outlook, you have your base forecast $2.7 million and then the, I guess, incremental forecast. In the press release under the 2022 guidance assumptions, you noted you're going to spend $600 million, right? So you've layered in the $50 million of incremental projects in '22 above your base forecast?

Richard W. Kinzley^ Effectively yes. We we're very confident, I mean we -- between projects you identified, which are not yet included in the base forecast and they're being evaluated for timing, cost and so forth, that's what that line represents. But we're confident we'll find those projects and get those numbers filled in as the coming quarters and years flow out.

Brian J. Russo^ And you referenced to another CapEx related question about the upcoming IRPs and how contingent are these incremental projects on these IRPs that could take 9 to 12 months to be acknowledged “~~"or~~ approved”~~"~~ or not by regulators? Or this incremental projects seem relatively manageable. Is that -- could that just be more blocking and tackling on what you're already doing versus lumpy one-off type renewal project?

Richard W. Kinzley^ Brian, what I would say, it's a combination of all the above. Certainly some of the -- some of what the IRP is going to point out, there will be some near-term opportunity associated with that, but some of it's going to be beyond this 5 year plan. So a lot of this $50 million to $100 million a year that you're seeing on this table is some blocking -- a lot of blocking and tackling, relative to~~ly~~ programmatic spend, some of it is -- some of the incremental projects that we foresee as well, it's just a mixture of everything you just described.

Operator^ With no further questions in the queue, I would like to turn the call back over to Linn Evans for closing remarks. Please go ahead, sir.

Linden R. Evans^ Thanks, Peter, and thanks everyone for joining us today, and especially, thank you for your interest and certainly your investment in Black Hills Corporation. As we thought we would, we spend some time this morning addressing the impact of Storm Uri. While we recognize the storm presented a very unique and likely extremely rare confluence of circumstances, we've been doing the same thing within our company spending time thinking about Storm Uri the past several weeks and months. And as we look for opportunities and we're -- to mitigate the variables that we can influence during future and similar events, our electric and natural gas systems were extremely reliable and performed as they were designed. Our prior investments in interconnections, our investments in storage and reliability really paid off and kept our customers safe and healthy. So I can assure you, we're very hard at work in Q2, executing on our opportunities to deliver results for our customers and for you, our shareholders. And finally, I want to say thank you to the dedicated and focused team of Black Hills Energy. Thank you for living out our core values so admirably and serving our customers as well as you have every single day. Thank you for that. So please stay safe and well, and enjoy Black Hills Energy safe day. Thanks for joining our call today.

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