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PRESENTATION

Operator
Good day, ladies and gentlemen, and welcome to the Black Hills Corporation Fourth Quarter and Full Year 2018 Earnings Conference Call. My name is Daniel, and I will be your coordinator for today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

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

Jerome E. Nichols ***Black Hills Corporation - Director of IR & Corporate Communications***
Thank you, Daniel. Good morning, everyone. Welcome to Black Hills Corporation's Fourth Quarter and Full Year 2018 Earnings Conference Call. Leading our quarterly earnings discussion today are David Emery, Executive Chairman; 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 David Emery for a few comments.

David R. Emery ***Black Hills Corporation - Chairman***
Thanks, Jerome. Good morning, everyone. We appreciate your attendance on the call today.

As most of you are likely aware, Linn Evans succeeded me as CEO, effective January 1. And I'm going to continue to serve as Executive Chairman of the Board until May 1, 2020, which follows the expiration of my current 3-year board term. In light of that CEO succession, this will be my last earnings call. And today, I plan to just make a few introductory comments, and then I'll turn it over to Linn Evans and Rich Kinzley to review results and answer all your questions.

2018 was a transformational year for Black Hills. We made great progress on a number of key strategic initiatives during the year. That positions us extremely well for future success as we focus on the customer and growth as an electric and gas utility. Linn and Rich will provide the details for the year, but I think a few of our achievements deserves special mention.

We completed our exit~~ed~~of the oil and gas business during the year. That's our final business that was not directly related to our utilities. We developed and disclosed comprehensive, long-term capital investment plans for both our electric and natural gas utilities. Those will ensure our ability to serve customers safely, reliably and affordably, and also provide our shareholders with earnings growth that is well above industry average for years to come.

We continued our track record now of 49 consecutive annual dividend increases for shareholders, which is now the second longest streak in the utility industry. We delivered solid financial results, even exceeding the top end of our earnings guidance range, thanks to a little help from weather in the fourth quarter. And we had the most successful regulatory year in the company's history. Under the guidance of our regulatory team, our employees completed 3 different rate reviews; received approval to return the benefits of the Tax Cuts and Jobs Act to our customers in 6 states; we extended a critical integrity rider in Nebraska; settled a multiyear Power Cost Adjustment dispute in Wyoming; followed an -- filed an Electric Resource Plan in Wyoming; we filed for approval of innovative renewable energy tariffs in Wyoming and South Dakota, and block chain and data center tariffs in Wyoming and Colorado; and we made significant progress towards combining our multiple gas distribution utilities in 3 states: Colorado, Wyoming and Nebraska. All of those achievements set us up really well for success in 2019 and beyond. I want to personally thank each member of our employee team for a really successful 2018. Their efforts are greatly appreciated.

The future of the company is extremely bright. We've got an excellent strategic plan to better serve our customers and communities while providing our shareholders with strong total shareholder returns. Our leadership and employee team, which I believe is among the best in the industry, is well-positioned to successfully execute that strategy.

And finally, to wrap up, I want to thank all of you in the investment community that I've had the pleasure to work with over the last 15 years as CEO. I wish you all the best.

And with that, I'll turn it over to Linn and Rich.

Linden R. Evans ***Black Hills Corporation - President, CEO, COO & Director***
Thank you, Dave. Good morning, everybody. Please let me take this opportunity to once again recognize and congratulate Dave on his retirement. After more than 29 years of service with our company and

served our employees and our customers and our shareholders very well, David has done an extraordinary job, in my opinion, leading, creating and growing the company that we know today. And I am enjoying and valuing my relationship with Dave as our Executive Chairman of the Board, and we continue to wish David and Diana a great happiness as they enter their next chapter of their life together.

I'll be starting on Slide 3 of our presentation. I'll cover the highlights of the quarter, Rich will then provide his financial update, and then I'll finish with the discussion around our strategy. Before I cover highlights on Slide 5, I, too, would like to take a moment to recognize the 2018 achievements that are represented within the materials that we're going to present this morning. These achievements are certainly not possible without our investors, both large and small investors. They entrust us with their savings, and we thank them for that. Without the broad access to cost-effective capital from our investors, we would not be able to make the necessary investments that we do to provide safe and reliable energy to our customers. We are laser-focused on delivering for our customers and our investors this year. And we're also prepared for 2020 and beyond.

Also at Black Hills, we take safety very seriously, and it continues to be top of mind with an enhanced commitment in everything that we do. We set an all-time record in 2018 with the fewest number of employee injuries. From boots on the ground, to safety in the office, every meeting and every job we do starts with what we call a safety share or a safety tailboard. In the field, all potential hazards are discussed before the job begins, and necessary precautions are taken to protect employees and our communities. A sustained and strengthened safety culture requires persistent daily attention in everything that we do, and I assure you that all of us at Black Hills take that very seriously.

We had an outstanding fourth quarter and full year 2018 operationally, financially and strategically. Our entire Black Hills team continued to execute our electric and natural gas utility strategy, and have showed~~elled~~ through a variety of successes across the organization.

Operationally, we delivered excellent performance, being ready to deliver reliable service during all-time peak weather demands, enabling strong financial results.

Financially, we reported earnings above our guidance range, mainly related to weather benefits, compared to normal weather of $0.06 per share for the quarter and $0.09 per share for the full year.

Strategically, we planned for and executed a comprehensive regulatory agenda, and I am proud of how the organization responded.

We further demonstrated our customer focus in 2018, laying the groundwork for upgrading and modernizing our utility infrastructure systems while we continue to transform the customer experience.

And then to cap off our achievements for the year, we did celebrate our 135th anniversary of serving customers. We've come a long way from our origins when we introduced electric lights to the western frontier back in 1883.

Now moving to Slide 5, and our highlights for our electric utilities. On December 17, we requested approval for our voluntary renewable energy tariffs in South Dakota and Wyoming, and I plan to provide additional details about this later in the presentation.

On November 30, we filed our integrated resource plan in Wyoming. We are recommending that we serve customers through a balanced mix of generation resources that will include coal, natural gas and renewables, a balanced mix of generation assets will allow us to deliver reliable and affordable energy to customers, while adding renewable energy resources as it make sense for our customers and shareholders. Importantly, the resource plan also notes that the Wygen I power plant is the most economic resource to meet our near-term capacity shortfall under all modeling scenarios.

In October, Wyoming Electric received approval from the Wyoming Public Service Commission for a multiyear, multi-docket settlement to resolve issues related to our Power Cost Adjustment. Now importantly, the settlement provides us clarity for the Wygen I power purchase agreement through 2022, and Rich will provide details around the customer credits related to this settlement in his financial update.

Turning to Slide 6. Last summer, both Colorado Electric and Wyoming Electric set new all-time peak loads. Then in the fourth quarter, both of our Colorado Electric and Wyoming Electric utilities set new record winter peak loads, indicating ongoing load growth in those jurisdictions.

Gas utility highlights on Slide 6 now. In February 1, 2019, Colorado Gas filed a rate review proposal with the Colorado Commission to consolidate the rates, the tariffs and the services of our 2 legacy gas utilities in Colorado. This is another step in our jurisdiction simplification.

You may recall that in 2018, we filed a request with the Colorado Commission to approve the legal consolidation of our 2 legacy utilities into a single new company. We received approval for that consolidation last October, and then we completed the consolidation in -- excuse me, in December.

Our Colorado Gas rate review filing also requests a new rider mechanism to recover integrity investments that we have identified within Colorado.

In November, our gas utilities received approval from the Wyoming Commission to construct the $54 million natural bridge pipeline to improve safe supply diversity and delivery capacity for our customers in Central Wyoming, and we expect this pipeline to be in service in late 2019.

In October, we received approval in Arkansas for our first rate review since acquiring gas utility operations in the state. New rates were implemented in mid-October to recover more than $160 million of utility infrastructure investments, as we support the robust economic growth being experienced in the Northwest Arkansas and in support of our continued safety and reliability investments on behalf of our customers.

Now moving to Slide 7. In December, our Power Generation segment acquired a 50% interest in the Busch Ranch I wind farm in Colorado, which provides renewable energy to our Colorado Electric utility under a power purchase agreement. That agreement expires in 2037. Our Colorado Electric utility owns the other 50% interest in Busch Ranch I and also operates the entire facility.

On January 30, our board declared a quarterly dividend of $0.505 per share, which represents an annualized rate of $2.02 in 2019 and is our 49th consecutive annual dividend increase, one of the longest track records in the utility industry, and a record we are proud of and we are determined to continue. Last November, we increased the dividend by 6.3%.

Moving to Slide 8. As noted earlier, David retired as CEO effective December 31. He has continued to serve as executive chairman until May of 2020. When his current board term will expire, I'm both humbled and excited to lead Black Hills as we focus on our natural gas and electric utility strategy as we deliver benefits to customers and shareholders.

Now shifting back to the quarter. We completed the conversion of our equity units on November 1. We issued 6.37 million shares of new common stock. This milestone completed the financing related to the very successful acquisition of SourceGas back in February of 2016.

Slides 9 and 10 illustrate our excellent fourth quarter and full year earnings, driven by strong results in our gas utilities. The gas utilities benefited from new rates associated with 3 completed rate reviews, return on new infrastructure investments, residential growth, increased usage per customer, and colder weather. You can find the full-year highlights and more details on specific items in our earnings release, which we distributed last night.

Now I'll turn it over to Rich for his financial update. Rich?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Very good. Thank you, Linn, and good morning, everyone. As Linn noted, we enjoyed strong financial performance in the fourth quarter and for the full-year 2018. I'll start on Slide 12, where we reconciled GAAP earnings to earnings from continuing operations 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 full years 2017 and 2018.

Working from top to bottom on the slide, the first special item is related to onetime acquisition costs incurred as part of the SourceGas integration which wrapped up in 2017. The second item relates primarily to tax reform. At the end of 2017, we recorded a benefit related to tax reform. In 2018, certain benefits and expenses associated with the new law netted to $0.07 of expense for the full year. The tax reform items this year, related to our continued evaluation of the impact of the new law on our financial statements as well as impacts from continued revisions and IRS guidance regarding the new law.

The largest special item you see is related to the tax benefit of legal restructurings completed in 2018. As part of an effort to simplify our legal organization, in Q1 and Q4, we restructured certain entities acquired as part of the SourceGas acquisition. The restructurings increased goodwill that is amortizable for tax purposes, resulting in a $49 million deferred tax benefit in the first quarter, and a $23 million deferred tax benefit in the fourth quarter, for a total of $1.31 per share for the full year. The special items on this page are not indicative of an ongoing performance. And accordingly, we reflected them on as-adjusted basis.

As adjusted EPS for the fourth quarter grew 7% to $1.05 per share compared to $0.98 per share in the fourth quarter of 2017. For the full year, as adjusted EPS increased 5% in 2018 to $3.54 per share, compared to $3.36 per share in 2017. This growth was driven mainly by strong performance at our gas utilities. As Linn noted earlier, we benefited from colder than normal weather across our service territories in 2018, and we estimate that $0.06 of EPS in the fourth quarter and $0.09 of EPS for the full year resulted from favorable weather compared to normal. Backing the $0.06 of favorability in the fourth quarter off the $3.54, our EPS would have been $3.48, which is within the high-end of the guidance range of $3.35 to $3.50 that we issued in early November.

The waterfall chart on Slide 13 illustrates major drivers, bridging net income from Q4 2017 to Q4 2018. All amounts on this chart are net of income tax.

You'll note we had a revenue reduction in 2018 as a result of passing tax reform benefits on to our utility customers. These revenue reductions are offset by reduced income tax.

Outside the tax reform, the biggest item of note is that our gas utilities gross margin for the fourth quarter demonstrated substantial improvement, driving our 13% increase in as adjusted net income compared to the fourth quarter last year. I'll detail segment performance shortly.

The waterfall chart on Slide 14 illustrates major drivers bridging net income for full-year 2017 into full-year 2018. As with the fourth quarter chart, all amounts in this chart are net of income taxes. Again, we had a revenue reduction in 2018 as a result of passing tax reform benefits on to our utility customers, which is offset by reduced taxes. And strong margin improvement at the gas utilities drove our 6% increase in as adjusted net income.

Slide 15 displays our fourth quarter and full-year income statements. Comparing 2018 to 2017, we delivered growth in income from continuing operations as adjusted from both the fourth quarter and the full year. Operating income and EBITDA decreased in 2018, mainly due to the reductions in revenue and gross margin from delivering approximately $43 million of tax reform benefits to our utility customers. Again, this reduction in revenue gross margin is offset by reduced income taxes, so the effect on the bottom line is neutral.

Operating expenses increased by over 5% year-over-year. However, 2018 operating expenses included a few nonrecurring items, such as the 30-day Wygen I major outage, which included $1.3 million of O&M, and bad debt was $2.1 million higher in 2018, due to increased revenue recognized. Backing these amounts out of 2018 operating expenses yields an approximately 4% normalized increase in operating expenses year-over-year.

We did make targeted O&M investments during 2018 by hiring additional people in our higher growth areas like Arkansas, and in areas such as gas engineering and regulatory to support our customer-focused capital program. Looking ahead, we expect O&M escalation to be near inflationary. We remain committed to our long-term objective of improving efficiencies for our customers.

Also of note is that during 2018, we recognized approximately $69 million in onetime reductions of income tax expense related primarily to the legal restructurings I mentioned previously. Excluding those onetime net benefits in our tax expense line, our effective tax rate would've been 17.6% for the full year, which is about what we would have expected.

Income from continuing operations as adjusted increased 6% from $185.3 million in 2017 to $196.5 million in 2018. You will note, our diluted share count increased year-over-year.

On November 1, 2018, we issued 6.37 million common shares upon conversion of unit mandatory securities issued in late 2015 to help fund the SourceGas acquisition. This brought our year-end actual diluted share count to just under 60 million shares. Overall, we're pleased with the earnings per share growth from $3.36 to $3.54.

Slide 16 displays our electric utilities gross margin and operating income. The electric utilities gross margin was relatively flat for the fourth quarter and full year compared to 2017, predominantly driven by increases from shared facility revenue, returns on transmission investments and favorable weather, offset by lower revenue due to tax reform. The shared facility revenue is new in 2018 and is reflective of South Dakota Electric owning our new corporate headquarters and receiving rent from all our subsidiaries. This amounted to $9.8 million in 2018 over 2017. This compares in difference, and our segment information will go away in 2019.

Another notable gross margin item relates to the $7 million Wyoming PCA settlement we reached in October. We recorded a $1.7 million reserve associated with this issue in 2017 and another $4.3 million in 2018. So we have $6 million of the $7 million settlement recorded through year-end 2018, with $500,000 to be expensed in each 2019 and 2020 per the terms of the settlement.

Other gross margin changes for the quarter and year-over-year are detailed in our press release yesterday. Operating expenses were $4.6 million higher in the fourth quarter and $19.2 million for the full year as a result of increased expenses associated with vegetation management, shared facility rent and depreciation.

Operating income decreased by approximately $22 million for full year 2018 compared to 2017. Again, this decrease in operating income is attributed to delivering approximately $22 million in tax reform benefits to our customers which is offset by lower income tax.

Moving to Slide 17. From an operating income perspective, our gas utilities were flat year-over-year, which is remarkable given the effective tax reform on operating income. Gross margin increased by $25 million, despite delivering approximately $21 million of tax reform benefits to customers.

The year-over-year margin increase was the result of new rates from 3 completed rate reviews, return on new infrastructure investments, residential customer growth, increased usage per customer, and favorable weather. Operating expenses were approximately $25 million higher year-over-year, offsetting the increase in gross margin. Operating expenses increased as a result of higher employee and contract-related costs associated with growth in our service territories, higher facility costs, higher uncollectible accounts, and increased -- from increased revenue, and higher depreciation expense.

Again, achieving flat operating income at our gas utilities year-over-year is quite remarkable given the effect of~~ive~~ tax reform. As you saw back on Slide 10, on an as-adjusted basis, the gas utilities increased their contribution to earnings by nearly $18 million comparing 2018 to 2017.

Next, I'll talk about gross margin impact from weather at both our electric and gas utilities when compared to normal as opposed to comparing to last year.

In the fourth quarter, compared to normal, weather favorability impacted our gas utilities gross margin by an estimated $4.1 million, and our electric utilities gross margin by approximately $400,000. For the full year, compared to normal, weather favorability impacted our gas utilities gross margin by an estimated $4.6 million and our electric utility gross margins by an estimated $1.8 million.

On Slide 18, you see that power generation operating income decreased $3.2 million for the fourth quarter 2018 compared to 2017, and decreased by $4.1 million year-over-year, primarily driven by a planned major turbine outage on Wygen I that occurred in the fourth quarter of 2018. This scheduled outage reduced revenue by $2.9 million year-over-year, and increased O&M by approximately $1.3 million year-over-year. Outside of that outage, the Power Generation segment continued to realize strong contract availability from its generating units and continued its strong cash flow contributions.

On Slide 19. In the fourth quarter of 2018, our Mining segment had an $800,000 operating income increase compared to the fourth quarter in 2017. For the quarter, revenue declined $900,000, with unfavorable tons sold, primarily driven by the Wygen I outage. This revenue decrease was more than offset by decreased maintenance and overburden removal costs compared to the prior year.

For the full-year 2018, mining operating income increased by $2.8 million. Revenue was $1.4 million higher for the full year, with the benefit of increased pricing partially offset by lower tons sold compared to full-year 2017.

On the cost side, we had decreased costs of $1.4 million, primarily driven by lower maintenance and mining costs in 2018.

The mine continues to perform at a high level, and sales almost entirely to on-site and mine-mouth plants, with roughly half our sales based on a cost-plus pricing methodology.

Slide 20 shows our financial position through the lens of capital structure, credit ratings, and financial flexibility. Our credit ratings are strong at BBB+ at both Fitch and S&P, and BAA2 at Moody's. We remain committed to maintaining our strong investment-grade credit ratings.

At the end of 2018, our debt-to-total capital ratio of 58.9% was a 710-basis-point improvement from year-end 2017. We met our commitment to improve our capital structure after the acquisition of SourceGas, and reduced our debt-to-cap ratio below 60% by the end of 2018. This improvement was, in large part, driven by the final settlement of our equity units and the resulting conversion of the unit mandatories to common equity on November 1. We used the proceeds received from the settlement to pay off the $250 million notes due January of 2019 and reduce short-term debt. We continue to target a debt-to-total capitalization ratio in the mid-50s over the long term.

Looking to the future. We have strong and stable cash flows from our businesses, a very manageable debt maturity schedule, and access to liquidity through our revolver and At-the-Market equity program, providing us plenty of flexibility to fund our strong capital expenditure program.

Slide 21 illustrates our dividend track record. We've grown the dividend at a faster rate the past few years, demonstrating our confidence in our future earnings growth potential. As we've stated in the past, our intent is to not reduce the amount of the annual dividend increase, and we maintain our dividend payout ratio policy of 50% to 60% of earnings.

On Slide 22, we're reaffirming our earnings guidance for 2019 with a range of $3.35 to $3.55 per share, and for 2020 with a range of $3.50 to $3.80 per share. As I noted on our third quarter call back in November, we don't intend to make 2 years of guidance our regular practice. But providing this preliminary 2020 guidance to demonstrate confidence in our customer-focused growth strategy, which includes substantial capital expenditures to support the growth, and 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 59 and 60 in the appendix.

Our CapEx disclosure has once again increased this quarter, primarily due to the addition of the Corriedale Wind Project. In total, 2018 through 2020 CapEx increased by $90 million from our previous disclosure in November.

We've continued to assume annual equity issuances through our At-the-Market equity program of $25 million to $50 million in both 2019 and 2020 to help fund their CapEx program.

With that, I'm going to turn it back to Linn to talk about our strategy.

Linden R. Evans ***Black Hills Corporation - President, CEO, COO & Director***
Thank you, Rich. I'll be continuing on Slide 24, which sets forth our strategic objectives update. Consistent with past several years, we grouped our strategic goals into 4 major categories: Profitable Growth, Valued Service, Better Every Day, and Great Workplace. Our overall objective is to perform as a best-in-class utility in everything that we do. With the strategic divestiture of our final non-utility supporting business, the entire Black Hills team continues to be tightly aligned as we execute our customer-focused utility strategy.

On Slide 25, we have completed the process of transitioning our earnings growth drivers from an acquisition and integration focus, to a more traditional customer-focused utility growth strategy. From a strategy execution perspective, we are focused on delivering long-term shareholder value returns, driven by our customer-focused capital investment program, our continued focus on standardization and efficiency improvements across the entire organization, more regular rate review filings as we return to a more traditional utility model, and achieving greater burner tip saturation in our gas utilities and adding load in our electric utilities. Additionally, we target a dividend payout ratio of 50% to 60%. Our team is determined to continue our track record of what is now 49 consecutive annual dividend increases.

Moving to Slide 26. This slide illustrates the diversity between our electric and gas utilities for complementary seasonality and the broad customer locations we serve in stable and growing states. This diversity reduces business risk and delivers earnings that are more predictable. Risk from any particular region or business are diminished in light of the total company scale, as illustrated on Slide 27.

Our strategic utility acquisitions over the years have created greater investment opportunities for our larger transmission and distribution systems and expanded customer base. These larger systems across 8 states provide more diverse opportunities for investments, more interconnections for reliability and growth, and greater overall efficiency of operations.

On Slide 28. Our larger systems require significant long-term investments to meet our customers' needs. We anticipate significant ongoing capital investment requirements, focused on safety and reliability, and supporting customer growth. These forecasted levels of investment needs far exceed forecasted depreciation, which will translate to earnings growth. As we've noted on prior calls, we normally add capital to the outer years as those years get closer and as we gain more comfort around specific projects. Our total 5-year forecast of capital expenditures of more than $2.5 billion, has potential for incremental opportunities, which we are still evaluating.

With the build-out of our programmatic infrastructure replacement plans, combined with growth in larger project opportunities, we fully expect our actual capital expenditures will be greater.

We updated our capital investment plan again this quarter by adding our current 2023 capital investment forecast. As a reminder, we added $208 million to the capital investment plan last quarter.

Our current capital forecast now includes a couple of larger projects, including the Natural Bridge Pipeline near Casper, Wyoming. And the Busch Ranch II wind farm currently under construction in Colorado. This capital forecast also includes some initial capital for meeting ~~in~~ the proposed [PHMSA~~FEMSA~~(Pipeline and Hazardous Materials Safety Administration)] mega-rule as it's sometimes referred to.

I want to ~~have~~ add one more comment around capital investment and earnings growth. We believe our base investment forecast will translate to earnings growth rates above the utility industry average. As we consider other growth objectives that add meters and add load, and as larger customer-focused capital investment projects that we don't currently have in the forecast, start to come to fruition, we will then add to our base forecast. Then we should achieve even higher earnings growth rates.

Slide 29 illustrates the background of our 5-year capital forecast -- excuse me, the breakdown. Our 90% of our forecasted investment is in our utilities. Of Those utility investments, over 70% are recovered in an accelerated manner.

Moving to Slide 30 now. This slide provides detail on forecasted capital investment for our gas utilities, including breakouts by state, by investment type and by recovery mechanism. The forecast includes the addition of the Natural Bridge Pipeline project this year as well.

Slide 31 illustrates our base expectations around our long-term recurring capital outlook at our gas utilities of at least $225 million to $250 million annually, related primarily to programmatic safety investment for both gas distribution and gas transmission. As we note on the slide, and as I stated on Slide 28, larger pipeline and storage projects will be incremental to this base expectation.

Slide 32 provides detail on forecasted capital investment for our electric utilities. As noted before, we've added $57 million for the Corriedale Wind Project across 2019 and 2020.

Slide 33 illustrates our current expectation of $120 million to $140 million of annual base investment in our electric utilities, 80% of which to ensure a safe and reliable system. Large generation, renewable and transmission projects will be incremental to this recurring annual expectation. With our natural gas electric utilities combined, our current expectation for annual recurring base investment is $345 million to $390 million, plus incremental large projects across both utilities.

Again, as we enhance our customer investment programs and continue to grow, we expect our gas and electric utility capital forecast will increase as we grow to -- as we continue to evaluate our system.

Moving to Slide 34. As I noted earlier, Black Hills planned and executed extremely well a comprehensive regulatory agenda in 2018. We successfully completed 3 rate reviews, including our first at Arkansas Gas. We provided tax reform benefits to customers in 6 states. We prepared and filed an Electric Resource Plan in Wyoming. We received approval for the Natural Bridge Pipeline, also in Wyoming. We requested approval for the Corriedale Wind Energy Project. We also commenced proceedings in Colorado to consolidate 2 gas utilities within the state. We completed that legal consolidation in December, and we recently filed a rate review application to consolidate the rates, the tariffs, and the services from our 2 legacy gas utilities. The table also shows the ongoing tax reform effort in Wyoming, and we expect to receive approval in the first half of 2019. To date, we have returned approximately $43 million of benefits to customers related to the Tax Cuts and Jobs Act.

Moving to Slide 35. This slide shows a timeline around our multistate jurisdiction simplification efforts. We have 3 states in which we own multiple gas distribution utilities: Colorado, Nebraska and Wyoming. We strongly believe consolidation of the multiple entities within each of these states will provide long-lasting benefits for all of our stakeholders, including our regulators, through streamlined and fewer regulatory proceedings and filings.

Consolidation will also simplify the customer billing process and improve how we deliver customer service through fewer tariffs to manage. Having fewer jurisdiction entities will reduce our risk and also reduce both the complexity and the quantity of rate reviews, regulatory filings, and other reporting requirements. We also make corporate processes simpler, and in some cases, it provided onetime tax benefits.

Wyoming Electric will likely file a legal consolidation request in the first quarter of 2019. And if approved, we will file a consolidated rate review later in 2019. Nebraska will most likely file a legal consolidation request in the first half of 2019, prior to our current plan to file a rate review likely in 2020.

Moving now to Slide 36. To support our renewable ready program, as we call it, we submitted request for approval of tariffs to both South Dakota and the Wyoming commissions. This tariff and program, if it's approved, will provide government and larger commercial and industrial customers a cost-effective option to purchase utility-scale renewable energy up to 100% of their needs. So far, we have received strong interest from potential customers for renewable energy. This program is basically a subscription program that offers customers contracts and duration of 5 years and up to 25 years.

If we continue to experience sufficient interest, the program would essentially fund the rate base investment required to provide renewable energy. And this program is designed to keep these larger customers on our electric utilities systems while protecting remaining customers from the potential loss of load.

Slide 37. On this slide, we focus every day on operational excellence. Our safety performance continues to be excellent, and our reliability for 2018 was outstanding. Even though we did not quite achieve our internal safety goal this year, we delivered a record year with respect to the fewest number of employee injuries. All 3 electric utilities achieved reliability in the top quartile of all electric utilities in the country. We also received employee recognition in South Dakota and in Nebraska for their safety and their community service.

Slide 38 contains our 2018 scorecard, and this will be our final review of how we did for this last year, with many successes across the board. All in all, I feel very good about our accomplishments in 2018.

Now Slide 29 (sic) [39] introduces our 2019 scorecards. Listing a number of priorities across our organization, the scorecard includes a number of key objectives, including executing on our capital program and completing construction of 3 major projects, the Natural Bridge Pipeline, the Busch Ranch II wind farm and the Rapid City to Stegall transmission line.

In conclusion, 2018 was a very eventful and productive year for Black Hills, and I'm very proud of our accomplishments and the performance of the entire Black Hills team.

We're really excited about 2019, as we execute on our natural gas and electric utility strategy. We will continue to transform the customer experience, we will remain laser-focused on delivering results for shareholders, and we will continue our journey to become the safest utility in the industry.

This concludes my and Rich's remarks, and we're happy to take questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from 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***

I give all the best to David. Yes. So perhaps just to kick things off, at a high level, you talked strategy, you talked about being above average amongst the utilities. Can you just elaborate a little bit on how you think about that? Just is that under using the current forecast? And through what period are you thinking? Sorry to ask you for a little more detail here, but I just want to get a little bit clear on how you're thinking about it.

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

We see that, Julien, for the next -- through 2023, we have strong capital spending. As we said earlier, and we said before in meetings like this, as we get closer to those years, we routinely find projects that we are working on. As we find, we're working on projects. As they come to fruition, then we begin to add them to the capital. And so we see -- I see strong spreading through 2023, as we put into this presentation this quarter. And we also see that ongoing rate spending of up to $390 million of being something that we're going to continue to do. So we serve territories that are growing. We serve territories now, with especially ~~up~~ after ~~to~~ the SourceGas transaction, and we have opportunities to enhance our customer reliability, enhance our system for customer reliability, and continue to improve safety within our territory. So we see above-industry average growth in the near term, and in the midterm as well, at least through 2023.

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

Excellent. So let me get a little bit more the details there, if you can. Obviously, a nice quarter-over-quarter increase again in the CapEx. Just wanted to make sure. I know what's in, and more importantly, what's out of the CapEx still as it stands today. I think you said several times, the Natural Bridge program, Busch Ranch, et cetera, are in the CapEx program. But outside of it, I think you said the tariff program in South Dakota and Wyoming still excluded. What else is outside of it? And how do you think about, a, the timeline to getting that into the CapEx program; and b, at least specific to the tariff program, the magnitude of the capital.

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

Julien, it's Rich. The Corriedale project, which supports renewable-ready, is in the CapEx. That's one of the additions we made. So that's $57 million in the addition you saw.

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

Okay. All right. Excellent. Now, are there other projects that are excluded? I know that sort of the quarter-over-quarter increases that we've seen, it seems like it's largely reflective of this point in time. But is there anything else with respect to the capital program that you just discussed that are excluded?

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

Yes, we've got a lot of projects that we've identified that we're working on. Again, we typically don't add them to this CapEx schedule until either we file the CPCN, or otherwise, advance the project to a point where we're comfortable adding it. But I think the point that Linn was making earlier and that I'll reiterate is it's very likely that you will see that forward CapEx schedule continue to increase as we get the cement to firm up around the different projects we're looking at.

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

Excellent. Rich, one quick follow-up there. On '18, very nicely done. I want to just clarify here. Obviously, there's a good chunk of weather there. Year-over-year, as you roll into '19 here, any favorable tailwinds that we should be paying attention to that have materialized to get you above the top end of '18 here, just to make sure we're not missing anything.

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

If you're referring to weather, we're in the process of closing our January books, and so nothing to share there. But I will say it was warm to start the year for the first couple weeks. And then as you know, the latter half of January has been pretty cold. So at this point, kind of averaging that out, I'd characterize it as normal. Nothing's materialized that would make us change the assumptions that we've put in our guidance, and that's why we reaffirmed it.

Julien Patrick Dumoulin-Smith ***BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research***
Got it. But nothing outside of weather that you'd be flagging or just that drove the beat on '18 to pay attention to in the '19?

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

Operator
(Operator Instructions) Our next question comes from Michael Weinstein with Credit Suisse.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
So on the renewable-ready program, how big can that program get, and what are you thinking about in terms of future growth for it? And does it become a material driver of CapEx at some point?

Linden R. Evans ***Black Hills Corporation - President, CEO, COO & Director***
It's a good question. It's early in the process, Michael, so I wouldn't analyze it. We've been approaching our top -- when I say our largest customers, especially in South Dakota and Wyoming, with this concept, we started talking to them several months ago. And I'd say we were a little bit on the surprised side how interested those customers were. And they have expressed strong interest, frankly. In fact, when we filed the tariffs, we asked the customers who had high interest to sign kind of letters of intent, if you will, to establish with our regulators that there is interest in this kind of a program. And we've kind of just scratched the surface. We plan to talk -- the tariffs propose that our top 600 customers would be eligible for the tariffs, and we're working our way down that list. So we will see. I'm pretty excited about it, personally. I believe that we may have opportunity beyond this project, but we have our ways to go to determine that.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Okay. And with the emphasis on consolidation at the utilities, Colorado and Wyoming coming up, I know you said that the M&A is a -- or acquisitions, at least, from a strategy point of view, has been deemphasized, and that continues to be the case now in 2019. But what about divestitures, which is another thing that you specifically mentioned is not included in the guidance. But is there any additional consolidation through divestitures that might be being considered or would be considered going forward?

Linden R. Evans ***Black Hills Corporation - President, CEO, COO & Director***
Michael, I think the short answer to that is no. We like the territories that we're in. They're growing territories. And we're in the utility business, and we're going to appreciate those that we have. So the short answer is no.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
And one final question about Wyodak and PacifiCorp. I don't know if you've gotten any kind of indication

from them as to whether they intend to go extend their life of that plant beyond 2022? And if they did decide not to, and the contract for coal with PacifiCorp was -- ended at that point, what would be the impact on net income?

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

Good question. We've been watching their IRPs closely, and of course, having conversations with PacifiCorp, and frankly, we're in negotiations with them now as we reopen the coal contract for pricing. If you'll note in there, April, as I recall, 2017 IRP, they show why that plant is being a very low-cost resource and operating it through to 2039. And then they're making their 2019 IRP presentations now, and those presentations continue to show the benefits of continuing to operate the Wyodak plant. Now the other half of your -- so we don't -- we believe they will continue to operate it. The other side of your question, what if they were to close it. Well, we'll cross that bridge when we get to it, but we do have cost-plus contracts at the mine for our remaining plants, and we would certainly rightsize the mine and operate it as efficiently as we could from that perspective going forward.

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

So there would be a path to mitigate any earnings impact, essentially, from shutting off parts of the plant -- part of the mine?

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

We think so, Mike, yes.

Operator

With no further questions, I will return the call back to Linn Evans for closing remarks. Go ahead, sir.

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

Thank you, everyone, for your interest in Black Hills. I'll take this opportunity to once again thank our employee team for an outstanding 2018, and ask for their continued focus on 2019 as we execute our strategy. And thank you for your interest in Black Hills, and have a great day. Thank you.

Operator

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