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+++ presentation

Operator^ Good day, ladies and gentlemen, and welcome to the Black Hills Corporation Fourth Quarter and Full Year 2021 Earnings Conference Call. My name is Liz, 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^ Thank you, and good morning, everyone. Welcome to Black Hills Corporation's Fourth Quarter and Full Year 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, and thank you for joining us this morning as we review our Q4 and our full year 2021 performance. Let me begin by recognizing our engaged and dedicated team. Because of them we had an outstanding 2021 with strong operational and strategic execution. Moving to our slide deck; I'll start by reviewing Slides 4 and 5. Over the past year, our team delivered safe and reliable service to our customers when they needed it most during the year when they experienced extreme cold and extreme heat brought on by some extraordinary and unique weather conditions.

We successfully serve new all-time peak loads for both our electric and gas systems last year. And in January of this year, we served new winter electric peak loads in South Dakota and Wyoming. And importantly, we served our customers very reliably throughout the year with all three of our electric utility systems delivering top quartile reliability. The resiliency of our electric and natural gas systems was showcased by our exceptional performance during the extreme conditions of Winter Storm Uri. That performance, combined with our top quartile, industry-leading reliability affirms necessity and the success of our capital investment programs.

To maintain our proven track record of delivering strong service reliability we successfully deployed $680 million of capital investments last year. We also obtained approvals in Colorado, Iowa and Kansas, for new rates and riders after achieving constructive settlements in all three. We value the constructive regulatory environment within our states. Also, as we said we'd do, we filed a gas rate review in Arkansas in December, which is now progressing through the regulatory process. In addition to our rate review activity last year, we prepared and filed applications for Winter Storm Uri cost recovery.

We've received approvals for recovery in four states and we're waiting for final decisions regarding our two settlement agreements in Colorado, and we're in the final stages in Arkansas and Wyoming where we have interim rates in place. Our team also worked safely achieving strong safety metrics, including a 44% improvement in our injury incident rate since 2014 and a 37% reduction in motor vehicle incidents as compared to last year. Our team at the Cheyenne Prairie Generating Station achieved OSHA Gold Star safety status, joining the Pueblo Airport Generating Station as our second generation site to receive this coveted safety designation by OSHA.

Looking forward, we will file a rate review for Wyoming Electric by midyear, and we expect to file a rate review for Rocky Mountain Natural Gas, our midstream subsidiary in Colorado later this year. As a leader within the energy transition, we're engaged in mapping our best path forward for customers and shareholders. We submitted our resource plan for our South Dakota Electric and Wyoming Electric systems last June, providing a road map for new generation resources to serve customers. The plan also achieves our emission goals by responsibly integrating new renewable resources and battery storage technology.

And we will continue to support our local communities by keeping critical generation capacity operating in Wyoming with lower emissions by repowering our Neil Simpson II power plants and natural gas. We also announced the Ready Wyoming transmission and expansion project, which will provide our Wyoming customers with long-term cost stability. The project will interconnect our South Dakota, Eastern Wyoming and Cheyenne Electric systems. By doing so, we will enhance resiliency and reliability and will also gain access to new energy markets and renewable energy resources.

We plan to file for approval of the project this month with capital cost of approximately $260 million. I'll note these dollars are included in our forward capital forecast. Construction would commence in 2023 following commission approval and would take place in several phases through 2026. We're also finalizing our plan to meet our electric resource needs and emissions goals in Colorado. Our team made progress in 2021 modeling a variety of resource scenarios. We expect to file our Clean Energy Plan with the Colorado Commission by midyear.

And finally, we expanded and published new disclosures for ESG adopting new reporting through SASB and NGSI and we're working with a consultant on our path forward relative to TCFD and other reporting opportunities. I am proud of the execution and resilience of our Black Hills team and all that we accomplished in 2021. Our team had a truly outstanding year, and importantly, we added to our foundation for continued growth. Our financial outlook is provided on Slide 6. We are affirming our 2022 guidance range of $3.95 to $4.15 per share.

As a reminder, we typically add another year to our capital forecast with our fourth quarter earnings, which now includes 2026. We've also extended our 5% to 7% EPS growth target and our annual dividend growth target of at least 5% through 2026. Slide 7 summarizes our long-term growth plan. We're focused on growing long-term value through our customer-focused capital investment program, developing incremental projects and executing on other opportunities to grow our earnings stream and improve our effectiveness and efficiency as a team.

We have a robust $600 million annual capital plan to serve the growing needs of customers in 2022 and 2023 and over $650 million of investment each year thereafter. I'll note that our current base capital forecast does not include potential incremental transmission projects beyond Ready Wyoming nor does it include any renewable generation assets that may develop from our South Dakota and Wyoming Resource Plan or from our Colorado Clean Energy Plan, we will file later this year. We're always evaluating opportunities for our business such as renewables and transmission, other pipeline and storage projects and additional programmatic investment. We're also focused on what we call capital-light opportunities that can drive earnings with little to no capital investment.

We're optimistic about the continued customer growth we're experiencing, which includes population migration and new and growing business loads such as data centers and the interest expressed by potential new crypto miners and Blockchain customers. We're also fostering ongoing sustainable cost savings through innovation and continuous improvement in how we do business as a team across our organization. Our company-wide Energy Forward program is focused on ensuring we have processes that allow us to serve customers as effectively and efficiently as possible.

We're confident in our strategy, and we're blessed with thriving and growing communities in states with constructive regulatory environments, and we're further blessed with a growing list of great opportunities to drive a strong future for our stakeholders. Slide 8 illustrates the results we've delivered in recent years by executing our customer-focused strategy. Our engaged team gives me confidence that we can continue to drive long-term value for our customers and shareholders.

Slide 9 sets out our emissions and reduction goals for both our electric and natural gas segments. From a 2005 baseline, we've already achieved a 30% reduction in greenhouse gas emissions intensity at our electric utilities and a 33% reduction at our natural gas utilities, and we're well on track to deliver a cleaner energy profile for the future. The initiatives wrapped within the ESG blanket have always been a key focus for us, and we're continuing to critically evaluate our business through that lens.

This, of course, includes analyzing ESG risks and opportunities and then weaving them into our strategy and decision-making. Finally, we've engaged independent consultants to assist us in analyzing risks from climate and other similar ESG issues as we integrate them into and consider them part of our strategy. That completes my comments.

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

Richard W. Kinzley^ Thanks, Linn, and good morning, everyone. I'll start on Slide 11. I'll open my comments though by noting a change in our segment reporting. You probably noticed in our earnings release yesterday that we've consolidated our former Power Generation and Mining business segments into our Electric Utilities. These businesses are almost entirely contracted to or integrated within our electric utilities. And as such, going forward, you will see three business segments: Electric Utilities, Gas Utilities and Corporate. Slide 11 shows our adjusted earnings per share for the full year and by quarter for 2021 compared to 2020.

We delivered EPS as adjusted for the full year of $3.74 compared to $3.73 last year and $1.11 for the quarter compared to $1.23 for Q4 2020. Record warm weather in the fourth quarter impacted quarterly results by $0.16. Absent this late year impact, our full year EPS results would have been within the guidance range issued with our third quarter earnings release. I'll discuss the fourth quarter weather impact further in a moment. Full year earnings were positively driven by new rates, customer growth and strong off-system power sales results.

Effective cost management and other actions essentially offset the impacts from two unplanned events, Winter Storm Uri in Q1 and the Wygen I outage in Q3 and Q4. Although weather was a relatively positive net driver through the first three quarters, fourth quarter results were impacted by record warm weather. The U.S. reported its warmest fourth quarter in recorded history dating back to 1895. For the quarter, heating degree days in our service territories were 21% below normal. The negative impacts from weather compared to normal were $0.16 per share for the fourth quarter and $0.07 per share for the full year.

Also starting in late September, we experienced an unplanned outage at our Wygen I power plant. The impact to 2021 earnings from this outage was $0.13, nearly all of which was incurred in the fourth quarter. This represents just the third major unplanned outage for our generation fleet in the last 25 years. Slides 12 and 13 illustrate the detailed drivers of change in net income year-over-year for the fourth quarter and full year. All amounts listed on these slides are after tax.

I'll focus on the full year on Slide 13. The primary drivers of gross margin included $24.7 million of improvement from new rates and investment riders, $5.1 million of increased margin from customer growth and higher usage per customer, especially in our electric utilities and $5.9 million of off-system power and wholesale energy sales. These positives were mostly offset by unfavorable weather, impacts from the Wygen I outage and TCJA bill credits for customers in Colorado and Nebraska. And as a reminder, these bill credits were offset by reduced tax expense and had a net -- neutral impact to net income.

Regarding O&M, our team did a great job holding our O&M expense to an increase of just 1.8% in an inflationary environment. Drivers of the increase in O&M included higher employee costs and property taxes. DD&A increased due to our capital investment program and interest expense increased as a result of higher debt balances mainly due to the impact from Winter Storm Uri. Additional details on year-over-year changes in gross margin and operating expenses are available in yesterday's earnings release and in our 10-K to be filed early next week.

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. As of early February, we had more than $350 million of available liquidity on our revolving credit facility, which we recently amended and extended through July of 2026. Deferred recovery of fuel costs for Winter Storm Uri and associated new debt temporarily increased our debt to total capitalization ratio to 62%.

We expect to achieve our target of mid-50s over the next two to three years as our business generates strong cash flows and we recover storm costs, repay debt and execute on our at-the-market equity offering program. And as a reminder, the $600 million notes offering that was completed related to Storm Uri has the option to repay in part or in whole, ahead of maturity without penalty. We expect to periodically pay down the balance as cash is collected from Winter Storm Uri cost recovery.

Slide 15 details our 2022 earnings guidance assumptions. Notable assumptions include our capital forecast, production tax credits and equity issuance. Our guidance for the year also incorporates assumptions for elevated inflation. Moving to our dividend on Slide 16; we've grown our dividend an average of 6.4% annually over the last five years, and our 2021 dividend represented a remarkable 51 consecutive years of dividend increases.

That's one of the longest track records in our industry and a record that we're proud of. Looking forward, we anticipate increasing our dividend by more than 5% annually through 2026, while maintaining our 50% to 60% payout target. In closing, our overall financial outlook is illustrated on Slide 17. We're pleased with how our team overcame the unique challenges of 2021. We served customers well, delivered excellent progress on our regulatory initiatives while continuing to develop our strong growth opportunities.

And with that, we'll take questions.

+++ q-and-a

Operator^ (Operator Instructions) our first question comes from Ryan Greenwald with Bank of America.

Ryan Greenwald^ Appreciate the time.

Linden R. Evans^ Hope you're doing well.

Ryan Greenwald^ You guys as well. Perhaps to start with the extension of the 5% to 7% growth trajectory [earlier]. Can you just talk a bit about the drivers and where you'd expect to be under the current plan? And then is the expectation that the normal cadence would be to extend this another year every year around this time?

Linden R. Evans^ I'll start with the latter part of your question, Ryan. That would be our expectation and certainly our goal and what we're trying -- striving to do each day as a management team and as a complete team. So I'd say the answer to that question is yes. We see our programmatic spending and our investment into our system being getting us to that lower end of that range with the opportunities of other things like the IRP I just spoke about in my opening comments. We see opportunities perhaps for generation in the future, things of that nature and also the continued immigration that we see of customers into our system. So yes, we continue to see that happening into the future. That's what we're very focused on, and we're confident in our plan.

Ryan Greenwald^ Great. Appreciate that. And then in terms of the gas LDC strategy, still pretty glaring valuation gap in public markets. We've seen some attractive private valuation. Is anything on the table there around potential divestments to unlock value?

Linden R. Evans^ Thank you for that question, Ryan. I think the best way to answer that is we're always focused on what's doing -- what we can do best for our customers and for our shareholders. That's really paramount to everything that we do. We're constantly evaluating our portfolio. And I think if you look at our history, we have a very long history of what I would call proactive moves. Over the last two decades, I've been with this organization we've added assets when it made sense.

And we've divested of assets when it made sense. And it's really been core to our approach in terms of how we drive long-term shareholder value. And I think our track record as a company is proven in this area. So I think I'll summarize by saying, yes, we are critically evaluating strategic alternatives as we always do, but I won't speculate on any specific moves that we might make.

Ryan Greenwald^ Great. I'll leave it there. Thank you for the time.

Operator^ Our next question comes from Andrew Weisel with Scotiabank.

Andrew Marc Weisel^ First question about inflation. So for your 2022 guidance, the only change to the assumptions was that you had previously assumed inflation in line with recent historical trends. I think it's pretty obvious why that might not be the case currently, especially after today's CPI. My question is how do you think about your sensitivity to higher input costs, either qualitatively or quantitatively from your perspective and from your clients' perspective or customers' perspective? And then where exactly are you most sensitive to inflation?

Linden R. Evans^ Well, something we're certainly aware of, Andrew, like everybody else in this business or any other -- we've been very focused on inflation issues, how we control that, how we manage it, especially from a supply chain issue. We managed through 2020 and '21 quite well through the supply chain issues we saw there. And for 2022, this year, we've got about 75% of our materials and our labor are currently under contract. So that gives us real confidence for this year. We've got flexibility in our spending. We're watching it very carefully, and we'll be migrating through this with our eyes wide open. We're really focused on alliances and how we purchase equipment, how we purchase materials and things of that nature, inventories, et cetera.

And we've really got some real good flexibility, if you will. We've been able, for example, to buy production slots and procure those ahead of time so that when we actually get to that production, we'll know what kind of transformers as an example, we could -- we can manage to. When it comes to our capital spending, that may be a place really that I can focus on my response is that we have a capital plan, we plan to stay within that capital plan to ensure that our balance sheet continues to improve and that we maintain the credit ratings that we're currently seeking. So we're watching inflation closely. We're aware of it, obviously, and we have levers that we're pulling along the way to ensure that we succeed.

Andrew Marc Weisel^ Very helpful. Next question is you've got some new peaks in electric demand, both Dakota Electric and Wyoming Electric have recently said winter and summer peaks. My question is how do you think about not necessarily overall demand growth, but the peak load growth? And how does that factor into your integrated resource plans, new capacity, renewables versus fossil fuel capacity, things like that?

Linden R. Evans^ Well, obviously, it plays very well into our plans and our future. We have growing territories. Those peaks indicate that we have strong customer growth, especially amongst the what I would call the high power factor growth. We have things like data centers moving into our territories and being constructed. Those are loads that we really enjoy serving and appreciate serving, especially with our high reliability that we have. I think the peaks and how we're able to manage through those peaks successfully shows that our system is valid. It's strong. It's resilient and it's very reliable, and we think it's a great opportunity.

The question you had or comments you had about renewables, we're very focused on resiliency and reliability. We absolutely have to have that. But we also live and work and have customers and territories and jurisdictions that have extremely good renewable opportunities. That's one of the reasons we're building the Ready Wyoming line. Not only can Ready Wyoming transmission line help us keep customer rates stable and actually lower than what they would might otherwise be without the line. It also puts us into some very nice service territories or some areas that have very strong renewable opportunities. So we're really excited about that. So we see the peak loads as opportunity all the way around. As you indicated, we've got improving revenue. We're spreading our costs over a larger number of customers, and we have investment opportunity to meet those loads.

Andrew Marc Weisel^ Very good. One last one, if I could squeeze in and apologies if I missed it. You've got the South Dakota, Wyoming IRP underway, and you said you're going to file the Colorado Clean Energy Plan later this year. Can you get more specific on when you'll file in Colorado and when we can expect both of those processes to be wrapped up?

Linden R. Evans^ The Colorado Clean Energy Plan, we're still running some scenarios there with respect to that. But we intend to file that, I would say, midyear, maybe a little bit earlier than that, but certainly by midyear is our current plan. And then with the IRPs, really aren't a formal -- in South Dakota and Wyoming, I should say. There's really not a formal process for those. They take ~~the baby~~(they being)~~ and~~ the commission Wyoming can take feedback and input from interveners, if you will. But we see that primarily through CPCN, CPCN's applications that will be filed in the future. And also, I would imagine by the end of this year, we could be submitting or posting -- publishing a request for proposals so that we can fulfill the needs of that generation opportunity we see there to peak those loads you talked about earlier, Andrew.

Operator^ Our next question comes from Brian Russo with Sidoti.

Brian J. Russo^ Could you just provide us an update or more detail on the Blockchain RFPs where you mentioned in the press release that you've identified the short list, number of megawatts or any assumptions in the Wyoming tariff you can provide?

Linden R. Evans^ Sorry to interrupt you, Brian. Thank you for that question. Yes, we're really excited about the opportunity to serve the data centers of crypto mining and things that we're seeing in Cheyenne. We had very strong response as we said before, to that RFP that we issued. And now we are literally down to the final finals, if you will, with respect to our negotiations. We actually have some internal meetings on those that we'll be having over the next couple of days. So we're getting pretty close but these are intricate agreements. They're very important that we get them right. And so we're making sure that we dot the I's and cross the T's as we go through these negotiations. But I believe you'll see something relatively soon in regard to that.

Brian J. Russo^ Any idea the size in terms of megawatts of demand? I mean, I would imagine it's going to be several hundred megawatts just based on some of your other regional utilities have filed for.

Linden R. Evans^ Well, I won't indicate how much we have. Several hundred megawatts would be quite a few. I don't think it would be quite that, but we have strong opportunity, good opportunity, and we'll announce that when we get those negotiations completed, Brian, please.

Brian J. Russo^ Got it. Understood. And just to clarify on Slide 24 on your capital investment by year. You got $60 million in 25 and $140 million in $26 million for incremental projects. So that's excluding your Ready Wyoming and that excludes the IRP? And if that's the case, then what is that earmarked for?

Richard W. Kinzley^ Yeah. This is Rich, Brian. The Ready Wyoming project is basically baked into the details above. So we've included that in the detailed CapEx. As Linn indicated in his comments, the other generation opportunities that may come from the IRP in South Dakota and Wyoming or the ERP in Colorado, those are not included in the detail, so they could fill those incremental project buckets as could incremental transmission as could incremental programmatic spend. There's plenty of opportunity to fill those buckets and probably exceed them as we get to those out years.

Brian J. Russo^ Okay, got it. And then also, it seems like you obviously have a lot of transmission opportunities that would be upside as you're in a growing service territory, right? You got a lot of cryptocurrency upside customers. It seems like you have even more headroom now to add incremental CapEx, which you usually do on the fourth quarter call. And I'm just curious, are you going to kind of update your CapEx each quarter or is it more of a year-end type of 10-K related update?

Richard W. Kinzley^ Yeah. The way you'll see us handle that not too dissimilar from what we've done in the past is typically with our third quarter earnings release, we'll give you a fulsome update on CapEx. Now, in the interim with our first and second quarter earnings releases, if something pops up that's significant or we file a CPCN that has different numbers than what we may have included with our original estimates, we may give updates along the way too, Brian.

Brian J. Russo^ Okay. And then just lastly, any update on the Wyodak contract negotiations with that contract expiring this year?

Linden R. Evans^ We're continuing negotiations with that, Brian. We have good conversations with Pacific Corp. and Rocky Mountain Power. So those negotiations are currently underway.

Richard W. Kinzley^ One thing I would add to that, Brian, as we've said in the past, their most recent integrated resource plan indicates that plant running through 2039. We are very confident that, that contract will be extended.

Operator^ (Operator Instructions) Our next question comes from Brandon Lee with Mizuho.

Brandon Lee^ Just a couple of quick ones for me. Over the past few years you've issued about $100 million, $119 million of equity every year. Are you considering alternatives to offset the dilution from the equity issuance?

Richard W. Kinzley^ Well, what I would say, Linn can certainly add to it. But we're -- he made the comment earlier, we're always evaluating our portfolio of assets. Nothing specific to talk about at this time, but there certainly could be options to replace our equity needs. We'll see.

Linden R. Evans^ I~~We~~ think that's well said, thank you~~(inaudible)~~.

Brandon Lee^ Great. And then just another question. So given you guys look at valuations in the public and private markets, what assets do you see that have the greatest difference in valuation? Is it LDCs, transmissions, electric utilities, coal mines? Can you shine some light on the differences that you're seeing in the assets that you have?

Linden R. Evans^ Well, I think the obvious one that comes to mind is what we're seeing in the market with respect to LDCs and the private equity, the premiums won't be paid there, but I think that would be the extent of my comment there, Brandon.

Operator^ That concludes today's question-and-answer session. I'd like to turn the call back to Linn Evans for closing remarks.

Linden R. Evans^ Well, thank you very much for each of your interest in Black Hills. We're very proud of what we accomplished in 2021, and I want to thank the team again for an incredible focus and great progress. So we're very focused on 2022 and extremely excited for the opportunities we see in front of us. So thank you again for joining us and enjoy what we call Black Hills Energy Safe Day. Take care.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect.