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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Black Hills Corporation Fourth Quarter and Full Year 2019 Earnings Conference Call. My name is Daniel, and I will be your coordinator for today. (Operator Instructions)

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, IR***

Thank you, Dan. Good morning, everyone. Welcome to Black Hills Corporation's Fourth Quarter and Full Year 2019 Earnings Conference Call. 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 ***Black Hills Corporation - President, CEO & Director***

Thank you, Jerome. Good morning, everyone, and thank you for your interest in Black Hills today. Before we dive into our results, I want to start this meeting as we do with all meetings within Black Hills with a safety focus. I'd like to do that by recognizing our coworkers at our Pueblo Airport Generating Station in Colorado. They recently achieved the coveted status as a Star Worksite as part of OSHA's Voluntary

Protection Program. This is the highest status given by the program and requires a 3-year rigorous process as focused on creating a strong safety plan, executing on that plan and successfully completing a thorough audit by OSHA.

In December, our team proudly raised the Star Worksite flag at the Pueblo Airport Generating Station, the safety focused by our Pueblo team through their proactive planning and execution moves us toward our goal of being the safest utility in the industry. I'd like to pause and say very well done.

Starting on Slide 5. We reported solid operational and financial performance in 2019, and our team executed our customer-focused strategy to grow long-term value for both our customers and our shareholders. We continue to deliver safe and reliable service. We invested in significant capital to serve our customers' needs. We rolled out innovative growth solutions, and we made progress on key regulatory initiatives during the year. As a result, and as a team, we delivered earnings above our guidance midpoint in 2019.

Our team delivered on our core responsibility of providing safe and reliable service to our nearly 1.3 million utility customers, we successfully executed our capital plan, investing $850 million of capital in 2019, the majority targeted towards safety and system integrity. We made solid strategic progress, accomplishing a number of long-term goals. In addition to successfully executing our capital investment program despite challenging weather conditions, our team further refined our programmatic approach and long-term plan. We rolled our 5-year capital plan forward, adding our current capital forecast for 2024.

We advanced our regulatory strategies, making progress on the consolidation of our gas utilities and planning for long-term capacity needs at our electric utilities. We implemented 2 innovative renewable energy solutions for our customers' needs, which also provided unique growth opportunities. Our Board prepared for retirements with the appointment of 2 new directors in November, expanding the diversity and experience of our Board. We maintained our solid investment-grade credit ratings with all 3 rating agencies, affirming our debt ratings with a stable outlook in 2019.

We completed 49 consecutive years of annual dividend increases. Our dividend track record illustrates our legacy of long-term and sustainable growth. We are on track to celebrate this year a milestone of 50 consecutive years of annual dividend increases, one of the longest track records in the electric and gas utility sectors. It's certainly notable for any company to consistently pay dividends for 50 years, but remarkable to increase dividends for that many consecutive years.

Moving on to Slide 6. I'll cover some recent highlights, starting with the Electric Utilities. I'm pleased with our customers' response to our Renewable Ready subscription-based program with strong demand, leading us to expand the program. In December, we obtained approval to increase the program in the related Corriedale Wind Project to 52.5 megawatts from 40 megawatts with a revised capital cost of $79 million.

Moving to Colorado with our new Busch Ranch II Wind project now in service, our Southern Colorado system is on track to deliver 30% of our customers' energy from renewable resources in 2020. This will help us meet the state's renewable energy standard. We are further supporting Colorado's emissions reduction goals with our Renewable Advantage program, which could increase our renewable generation mix up to 60%. On December 13, we kicked off the program by issuing an RFP to potentially add up to 200 megawatts of cost-effective utility-scale renewable energy resources. Bids will be reviewed by an independent evaluator under oversight by the Colorado Public Utilities Commission.

Our Southern Colorado customers are currently served by wind and solar, renewable energy generation supported by our reliable and flexible natural gas-fired generation that will support the addition of more renewables. In Wyoming, we recorded a new all-time winter peak load in December for the second consecutive year, demonstrating continued overall customer and demand grows. This winter peak confirms our strategy to operate a diversified generation mix given that the last 2 winter peaks occurred on days with 0 wind energy available to serve customers.

Moving to our Natural Gas Utilities highlights. In December, we completed the 35-mile Natural Bridge Pipeline's project for our Wyoming Gas customers on time and on budget. The project enhances supply, reliability and capacity for our customers in Central Wyoming. And it's just one of the large capital projects we successfully completed for customers in 2019. We also continue to advance our efforts to consolidate and simplify Natural Gas Utilities in Colorado, Nebraska and Wyoming to better and more efficiently serve our customers.

In Wyoming, we received approval of a settlement agreement that completed our consolidation efforts in the state. The approval allows for statewide customer rates and to consolidate general tariffs effective March 1, 2020. This agreement also approved a general rate increase to recover approximately $150 million of investments in the state, including the Natural Bridge Pipeline. The agreement also establishes a new rider to support system integrity investments. We are also advancing consolidation efforts for Nebraska. Legal consolidation was approved and completed effective January 1, 2020. We are now preparing to a rate review filing midyear to consolidate rates to recover investments for customers in the state.

In Colorado an ALJ submitted a recommended decision, which would deny our plan to consolidate rate territories and adopted adjustments that would result in a rate decrease. We are disappointed in this recommendation. And we have filed exceptions as part of the administrative process. We continue to remain confident that consolidation will benefit customers by providing more efficient service to customers, and we greatly simplify regulatory processes over the long term. We believe strongly in our plan to -- in Colorado, and we'll continue our efforts with regulators to streamline our operations on behalf of our customers in that state.

Moving to our Power Generation segment on Slide 7. We filed an application last August with the FERC asking for approval of the 60-megawatt power purchase agreement between our Power Generation segment and our utility affiliate. We filed answers to questions from FERC in late December, and currently anticipate a decision in the latter part of February.

On November 26, we placed our Busch Ranch II Wind project in service, the $71 million, 60-megawatt wind project, is contracted to serve our Colorado Electric Utility through 2044. Power Generation segment was selected in 2018 through a competitive bidding process to support Colorado's renewable resource goals.

I've already highlighted our dividend track record and new Board members. So with that, I'll turn it over to Rich for our financial update.

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Thanks, Linn, and good morning, everyone. I'll start on Slide 9. As Linn noted, we delivered strong fourth quarter financial performance, driving our full year EPS to the upper half of our 2019 guidance range. Fourth quarter EPS, as adjusted, was $1.13 compared to $1.05 in Q4 2018, reflecting a 13% increase in adjusted net income, partially offset by a 5% share dilution. Full year 2019 EPS as adjusted was $3.53 compared to $3.54 in 2018, reflecting 9.2% increase in adjusted net income offset by a 9.5% share dilution.

I'll discuss operational earnings driver by business segment in a few slides, but we'll address consolidated weather earnings impacts here. Weather favorably impacted consolidated results compared to normal in both 2018 and 2019. In the fourth quarter of 2019, we estimate weather favorably impacted EPS by $0.04 compared to normal, which was $0.02 less favorable than the fourth quarter in 2018. For full year 2019, we estimate weather favorably impacted EPS by $0.06 compared to normal, which was $0.03 less favorable than 2018.

On Slide 10, we reconcile GAAP earnings to earnings as adjusted, a non-GAAP measure. We do this to isolate special items and communicate earnings that we believe better represent our ongoing performance. This slide displays the last 5 quarters and trailing 12 months as of December 31, 2018 and 2019 and demonstrates the seasonality of our earnings. In the third quarter of 2019, we recorded a noncash pretax impairment of $20 million or $0.25 per share after tax related to an investment in a privately held company. We covered that in our third quarter earnings release. Special items in 2018, not reflective of our ongoing performance were all income tax related. The first item reflected the impact of the Tax Cuts and Jobs Act during 2018. The second and larger item related to tax benefits of legal restructurings completed in 2018. The impairment in 2019 and tax-related items in 2018 are not indicative of our ongoing performance and accordingly, we reflect them on an as-adjusted basis.

Slide 11 is a waterfall chart illustrating the primary drivers of our earnings results from Q4 2018 to Q4 2019. All amounts on this chart are net of income taxes. I'll add more detail by segment on Slide 13, but at a high level, our Electric Utilities, Gas Utilities and Power Generation segments had solid gross margin improvements compared to Q4 last year.

Total O&M increased by less than 1%, reflecting solid cost management during the quarter. Depreciation increased as a result of increased plant in service from our customer-focused capital investment program. Interest expense was flat compared to Q4 2018. Other expense was higher than last year due to development costs of approximately $5.4 million related to projects we no longer intend to construct.

We experienced favorability in our effective income tax rate in Q4 2019 compared to the prior year when excluding the special items, I discussed on the previous slide. Our effective tax rate for the quarter was 9.3% compared to 18.8% last year, again, excluding the special items. The reduced effective rate in Q4 2019 was driven by a tax benefit from the federal tax loss carryback claim, higher production tax credits from our new wind generation assets, and increased repair and development credits.

Slide 12 is a waterfall chart comparing full year 2019 to 2018, consistent with our Q4 waterfall chart on the previous page, all amounts here are net of income taxes. Our Electric Utilities and Gas Utilities, both had strong gross margin improvements compared to last year, while our nonregulated margins were relatively flat year-over-year. Total O&M increased by 3%, reflecting prudent cost management over the full year. Depreciation expense increased as a result of increased plant in service from our customer-focused capital expenditure program. Interest expense was slightly higher than 2018. Other expense was higher than last year due to development cost I mentioned on the last slide.

Our effective income tax rate in 2019 was 13% compared to 17.6% in 2018 when excluding the special items I discussed earlier. The reduced effective tax rate in 2019 was driven primarily by federal production tax credits and the state investment tax credit on our wind farms and from a tax benefit from the federal tax loss carryback claim.

On Slide 13, segment operating income results for the fourth quarter are compared to the prior year. I'll make a few comments here, and you can find additional details on Q4 year-over-year changes in gross margin and operating expenses in our earnings release. At our Electric Utilities, operating income for Q4 2019 increased by $2.3 million compared to Q4 2018. Gross margins increased by $5.8 million, driven primarily by higher industrial demand, lower purchase power capacity costs and rider recovery. Operating expenses increased $3.5 million over Q4 last year due to higher employee costs and depreciation expense.

At our Gas Utilities, operating income for Q4 2019 increased by $4.3 million compared to 2018. Gross margins increased by $3.7 million, benefiting from customer growth in our service territories, higher transport and transmission margins and new rates. These benefits were partially offset by unfavorable weather compared to Q4 last year. Heating degree days were 2% above normal for the quarter, but 3% lower than Q4 2018. Operating expenses decreased by $0.5 million, primarily from lower outside services and employee costs, partially offset by higher depreciation.

On the bottom half of Slide 13 at our Power Generation segment, operating income for Q4 2019 increased $1.9 million compared to Q4 2018. Revenue increased in 2019 due to higher contract prices received and increased generation from our new wind generation assets we added this year. Operating expenses increased due to higher depreciation and property taxes from those new wind assets. The primary earnings benefit from our new wind projects comes through reduced income tax expense due to the federal production tax credits we received from these projects.

Operating income in our Mining segment was comparable to the prior year.

On Slide 14, segment operating results for full year 2019 are compared to the prior year. Again, I'll make a few comments here, and you'll find additional details on year-over-year changes in gross margin and operating expenses in our earnings release. At our Electric Utilities, operating income for 2019 increased by $4.4 million compared to 2018. Gross margins increased by $17 million, driven primarily by lower purchase power capacity costs, a regulatory settlement in the prior year, Wyoming Electric, and rider recovery. Operating expenses increased $12 million over last year, primarily due to higher employee costs, higher outside service expenses and higher depreciation expense.

At our Gas Utilities, operating income for 2019 increased by $4.8 million compared to 2018. Gross margins increased by $21 million, benefiting from new rates, customer growth in our service territories and higher transport and transmission margins. These benefits to gross margin were partially offset by unfavorable weather compared to last year and changes in unrealized mark-to-market gains and losses on commodity contracts. Last year, we had a gain of $1.6 million on these contracts. And this year, we had a $1.7 million loss. Heating degree days were 5% above normal in 2019 compared to 2% above normal in 2018. This benefit to gross margins was offset by excessive precipitation that negatively impacted irrigation loads for agricultural customers in our Nebraska Gas service territory during the second and third quarters of 2019. In total, for the year, we estimate weather adversely impacted margins at the Gas Utilities by $2.2 million compared to the prior year, but was favorable by $2.7 million when compared to normal. Operating expenses increased by $16 million from higher outside services, employee cost, property taxes and depreciation.

On the bottom half of Slide 14 at our Power Generation segment, operating income for 2019 increased $2.2 million when compared to 2018. Revenue increased in the current year due to higher contract prices received and increased wind generation, but was partially offset by higher operating expenses from higher depreciation and property taxes on the joint assets. As I mentioned previously, the primary earnings benefit from our new wind projects comes to reduced income tax due to the federal production tax credits we received on these projects.

Operating income at our Mining segment decreased by $3.7 million compared to the prior year. The decrease from the prior year was driven primarily by planned and unplanned outages at the Wyodak plant, which negatively impacted sales of the mine.

Slide 15 shows our financial position through the lens of capital structure, credit ratings and financial flexibility. Our credit ratings remain at BBB+ at both Fitch and S&P and Baa2 at Moody's, with a stable outlook at all 3 agencies. We remain committed to maintaining our strong investment-grade credit ratings. Given low interest rates and favorable market conditions, we issued $700 million of new long-term public debt in early October to pay off maturities we had upcoming in 2020 and 2021. And we are in good shape from a debt maturity and liquidity perspective.

At December 31, our net debt-to-capitalization ratio was 59.6%, slightly higher than where we were at the end of 2018, mainly due to our 2019 capital investment program of $850 million. We issued $100 million of equity through our At-the-Market equity offering program in 2019 to help fund our CapEx. We expect to issue $100 million to $120 million of equity through our At-the-Market program in 2020, an increase of $20 million on each end of the range from our prior guidance. The additional equity helps fund our increased capital investment as we increased our CapEx from previous disclosures by $76 million for 2019 and 2020 combined and by $112 million in total for 2019 through 2023. While debt to total capitalization will likely remain in the 58% to 59% range through 2020, given our plan to invest $669 million in CapEx in 2020, we continue to target a debt to total cap ratio in the mid-50s over the longer term. Linn will speak to our CapEx program shortly.

Slide 16 illustrates our dividend track record. As Linn mentioned, we are on track to deliver 50 consecutive years of increased dividends in 2020. And we've grown the dividend at a strong rate in recent years with $0.12 annual increases in 2018 and 2019, demonstrating our confidence in our future earnings growth potential. We maintain our dividend payout ratio target of 50% to 60% of EPS.

I'll turn it back to Linn now for his strategic overview.

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
Thank you, Rich. Moving to Slide 18, our customer-focused strategy grows long-term value for customers and shareholders. We are focused on being ready for our customers' needs for safety, reliability, growth and a positive experience. As we grow, we continue to adapt to enhance value of our service. We are aligning our people, processes, technology and analytics to serve our customers and grow our company. A prime example is our programmatic-based approach to safety and integrity investment to align all of our stakeholders. Our long-term approach not only prioritizes investment by risk and customer need, it provides clarity and consistency, a clear line of sight creates more predictable operational, financial and regulatory processes. Being ready for our customers is being ready for our shareholders, as we invest in responsibly growing the value of our service to customers, earnings grow alongside our customers and communities through a sustainable foundation. Based on the system needs across our expansive infrastructure, we expect to deliver long-term earnings growth above the utility average. We also expect to realize incremental growth opportunities from generation and other larger projects. Combined with our disciplined approach to dividend growth, long-term shareholder returns are expected to remain strong.

Slide 19 illustrates the strategic diversity of our Utility business and the seasonality of our earnings. You'll note that our fourth and first quarter earnings are driven by the Gas Utilities, while the third quarter typically has stronger Electric Utility results. You'll also note that last quarter, we started providing you greater clarity of our diversity by including rate base estimated by state as of the end of the prior year. The chart on the right illustrates this and is updated as of year-end 2019.

Slide 20 further illustrates our strategic diversity, our expansive electric and natural gas systems require significant investment to maintain, upgrade and modernize to serve customers. In addition, our presence across 8 states also delivers a strong base of growth opportunities. Forecasted capital needs are illustrated on Slide 21. Over the next 5 years, we are focused primarily on projects and initiatives that maintain safety and reliability and foster customer growth. You will note that our forecasted investment far exceeds depreciation, which will translate to future earnings growth.

In 2019, we completed $850 million of capital investment exceeding our forecast mainly due to availability of contractors and materials and the relatively mild weather that supported construction progress toward the end of 2019. We have rolled forward our 5-year capital investment forecast through 2020-'24 for a new total of $2.7 billion. We added an incremental $82 million for 2020 to 2023 and provided an initial forecast of $470 million for 2024. Our incremental capital included $22 million for the investment necessary to expand the Corriedale Wind Project to the newly approved 52.5 megawatts.

As noted in prior quarters, we take a relative conservative approach to our capital forecast. We include opportunities, we are relatively certain to occur, and we add capital as we gain more clarity and comfort around incremental projects to support customer growth. We anticipate that additional capital opportunities are likely over the planned period, especially in the outer years.

Slide 22 illustrates our capital plan is utility focused with timely recovery on most of these investments. You'll note that 94% of our new 5-year capital forecast is in our Utilities, was 78% of those investments received timely recovery.

Slide 23 illustrates our commitment to managing our environmental social impacts, while retaining strong governance and ensuring we continue to deliver a sustainable and strong future for all our stakeholders.

Slide 24. We are focused on operational excellence in serving our customers. Our team's safety performance continues to be better than the industry average, but any injury is still one too many. It's worth mentioning again that I'm proud of our team's performance in Pueblo to achieve OSHA Star Worksite status. In terms of reliability, we are very pleased that all 3 of our Electric Utilities are in the top quartile reliability in 2018. The result of the persistent team effort and focus on serving our customers reliably.

Slide 25 illustrates results of executing our customer-focused strategy, delivering strong long-term total shareholder returns.

On Slides 26 and 27, you'll find our 2019 and our 2020 scorecards to hold ourselves accountable to you, our shareholders and our customers, we publish our major initiative scorecard each year. We group our strategic goals into 4 major categories: profitable growth, valued service, better every day and great workplace, with the overall objective of being an industry leader in all we do.

To recap, 2019, we invested significant capital to serve our customers. We developed innovative energy solutions, and we're advancing our long-term customer-focused strategy across all areas of our business. We've managed a lot of moving parts, but that's what we do best, take care of the details to be ready for our customers' energy needs.

That concludes our prepared remarks, and we are happy to entertain questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Julien Dumoulin-Smith with Bank of America.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***

This is actually Ryan Greenwald on for Julien. So on Slide 22, with the 78% timely recovery, does that take into account the unfavorable decision in Colorado?

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

Technically, no. That's an ongoing process. We'll see where that ends up. But it's a smaller rate request on our parts, so it wouldn't move those numbers much anyway. However, it comes out.

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

That rate increase request was about $2.5 million.

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

Right.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***

And do you guys have clarity on what the rate decrease would be if the decision kind is approved?

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

No, not really. There are a variety of recommendations in the area of ALJ(administrative law judge)~~J.D.~~'s recommended decision. We've made -- yes, we file our exceptions to that. We're now working our way through the process.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***

Got it. And then are you able to provide any color in terms of the split in Colorado with RMNG, and then the consolidated entities?

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

Please ask second question again.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***
In terms of how you guys are thinking about CapEx spend in Colorado between RMNG that has the rider and then the consolidated entities?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Yes, RMNG is separate from, we're requesting to consolidate the 2 Colorado Gas district -- LDCs, Rocky Mountain Natural Gas is separate.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***
Are you able to provide color in terms of the capital for the state, the breakout between the 2?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
We have not broken that out. We include Rocky Mountain Natural within just the Colorado Gas total.

Ryan Greenwald ***BofA Merrill Lynch, Research Division - Associate***
Got it. And then just lastly, in terms of the incremental equity, what are your latest thoughts on the out-years and how you're kind of thinking about that?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Yes. What we've said in the past couple of quarters is that there are incremental CapEx additions. You're probably going to see $0.25 to $0.30 on the dollar of incremental equity. If you think about the additional CapEx we added for 2019 and 2020 is about $76 million. We increased our midpoint of our equity needs this year by $20 million. So that's about that ratio.

Operator
Our next question comes from Michael Weinstein with Crédit Suisse.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Just on that last -- just a follow-up on the last question. So would it imply that a normal equity, I guess, starting point every year is around that $60 million to $80 million mark and maybe it goes up from there as more capital projects are added?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
No, I think if you look at our CapEx after 2020, Mike, there's probably minimal equity needs for the CapEx we've disclosed after 2020, but there may be a little in 2021, again, to keep healing the balance sheet up a bit, but really not significant equity needs based on the disclosed capital after 2020, but as we add capital, that's where the incremental $0.25 to $0.30 on the dollar of equity will come in. Does that make sense?

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Right. Yes, that makes sense. And in terms of payout ratio, you guys are, I guess, close to the top end of your targeted range. Is that -- you would expect that to come down into the middle of the range over

time as earnings grow? Or what are you thinking there?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Well, we've raised the dividend $0.12 each of the last 2 years. We would anticipate to continue to grow the dividend, probably at a rate like that, assuming the Board keeps approving the dividend increases. So I would expect the payout ratio to start to decrease as we get past 2020. So that should give you some indication of what we're thinking about earnings growth.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Got you. And in terms of the debt ratio, I know you're still targeting a mid-50s type debt ratio over time. But are you actually under any pressure from the rating agencies to lower it? I mean, higher leverage is always a nice thing, I suppose? Or are you under any pressure from regulators to lower it?

Richard W. Kinzley ***Black Hills Corporation - Senior VP & CFO***
Well, not on the rating agency side, Mike, not really, we're in good shape there. We believe our other metrics such as FFO and so forth are all in a great shape. It's really more about the regulatory construct, and we'd like to get that down closer to mid-50s for those outcomes.

Michael Weinstein ***Crédit Suisse AG, Research Division - United States Utilities Analyst***
Right. One question on Wygen. Hypothetically speaking, if the ball was thrown back in your court on contracting or getting a competitive price for contracts, would you reconsider rate basing at that point? I mean, is that something that you might revisit if you had to?

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
Good question, Mike, and thank you for it. We have a number of options. Of course, we hope that FERC will approve the current PPA that we have proposed, we anticipate, hopefully, hearing from FERC, if they follow their normal routine about the end of this month in February. But as you said, hypothetically, our team is focused on what if, what if we don't get the approval from FERC. And if you look at it from the utilities perspective, there's about 60 megawatts of capacity need that will immediately come upon us at the end of 2022, early 2023. And so our team is considering a number of options with respect to what we might do with Wygen I and how we might meet that need, the capacity need on behalf of our Cheyenne Light customers. You look at it from a generation perspective, there's a couple of agreements that we put into our 10-K with respect to 50 megawatts of capacity that's expiring, a PPA that's expiring late 2023. We also have an all-requirements contract with another utility that expires around that time. So we'll go through the process of the integrated resource plan, plan to file that next year. And so with that process, we'll learn about capacity needs within our part of the country, et cetera. But it's a worst-case scenario, we probably have to build something else for Cheyenne Light perhaps another natural gas plant, something of that nature. Again, we'll decide that through the I~~E~~RP process. Now we'll see what the opportunities are with respect to capacity in the west at that point as well.

Operator
(Operator Instructions) Our next question comes from Vedula Murti with Avon Capital.

Vedula Murti ***Millennium Management LLC - Senior Analyst & Assistant Portfolio Manager***
Following up a little bit on Wygen and FERC, does -- during this process, one of the issues you'd highlighted was the fact that there were very few market transactions to -- on which to base a valuation to present to FERC. Is the transaction that's being proposed by NorthWestern with regards to purchasing coal strip -- a portion of coal strip considered a market data point that would be considered by FERC in evaluating the PPA?

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
In my opinion, no, Vedula, not at all. In fact, that's why we filed the application. We did file, as you may recall, we entered into a contract, a PPA with the city of Gillette, actually using Wygen I. So our position in front of FERC is that meets the "Edgar test" and should hopefully gives an evidence for FERC to approve the PPAs that we have before them. But no, we don't consider the $1 that NorthWestern paid for the capacity of the coal strip would be a really a viable option for FERC to consider.

Vedula Murti ***Millennium Management LLC - Senior Analyst & Assistant Portfolio Manager***
Okay. And so -- and you expect a decision from FERC by the end of the month?

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
Well, potentially, if they follow their normal 60-day rule, if you will, or a practice, we filed responses to 2 questions they asked us right before Christmas, December 23. And so if they follow their normal practice. So we would expect something in the -- yes, late February, perhaps.

Vedula Murti ***Millennium Management LLC - Senior Analyst & Assistant Portfolio Manager***
Okay. And can you give me -- maybe you've discussed this before, and I just don't recall, what's the context around the issue about not wanting to -- in Colorado about not consolidating the 2 gas utilities in terms of the current filing that's pending? And at this point, what is the time line for a final CPUC order?

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
Good questions. In terms of the process and where we are, we have filed exceptions to the ALJ's recommended decision. We also filed comments or responses to exceptions that were filed by other interveners. As we look at the procedural schedule, technically and legally, we could put new rates into effect in accord to our application on March 1. So with that understanding, it's our anticipation that either the ALJ or the commission, either one could pick up the exceptions that have been filed, and then determine the decision on the pending case.

As to consolidation, we think it's the absolute right thing to do. We were very fortunate in Wyoming. The way we were treated there and that we're going to have -- we had great success there. It's been to really streamline both the commission's efforts and our efforts in that stage, and we hope that Colorado will soon follow suit. Should they not, I think we probably are in a position where we file yet another request and another rate application to continue to pursue that opportunity.

Vedula Murti ***Millennium Management LLC - Senior Analyst & Assistant Portfolio Manager***
So if the rates to go into effect on March 1, when would a decision need to be issued by the CPUC?

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
We really don't know. ~~The last~~That's kind of the point is that's a time line that's certainly within the procedural process. So we anticipate perhaps the commission can pick it up essentially any day.

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

Linden R. Evans ***Black Hills Corporation - President, CEO & Director***
Thank you very much for your interest in Black Hills, and I really thank our coworkers for delivering a fantastic 2019, and looking very forward to our success in 2020. So I want to make sure -- just thank our coworkers so much for what they do for our customers and our shareholders each day. And thank you for your interest in Black Hills, and have a safe day. Thank you.

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