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BKH - BLACK HILLS CORPORATION ANNOUNCES AGREEMENT TO SELL NON-REGULATED ENERGY MARKETING BUSINESS CONFERENCE CALL

EVENT DATE/TIME: JANUARY 19, 2012 / 9:00PM GMT



JANUARY 19, 2012 / 9:00PM, BKH - Black Hills Corporation Announces Agreement to Sell Non-Regulated Energy Marketing Business Conference Call

CORPORATE PARTICIPANTS

Jerome Nichols *Black Hills Corp - Director IR & Corp Communications*

David Emery *Black Hills Corp - Chairman, President, CEO*

Tony Cleberg *Black Hills Corp - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

James Bellessa *D.A. Davidson & Co. - Analyst*

Kevin Cole *Credit Suisse - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Black Hills Corporation's investor update conference call. My name is Tuwanda and I will be your coordinator for today. At this time, all participants are in listen-only mode. Following the prepared remarks, there will be a question-and-answer session.

(Operator Instructions)

In order to get as many questions answered as possible, we ask that participants reenter the queue after asking one initial question and one follow-up question.

(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 Nichols - *Black Hills Corp - Director IR & Corp Communications*

Thank you, Tuwanda. Good afternoon, everyone, and welcome to Black Hills Corporation's investor update presentation on our announcement to sell our non-regulated energy marketing business. On the call today are David Emery, Chairman, President, and Chief Executive Officer; and Tony Cleberg, Executive Vice President and Chief Financial Officer.

Before I turn over the call, I need to remind you that, during the course of this call, 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 expectation beliefs are based on reasonable assumptions, actual results may differ materially. We direct you to our news release dated January 18, and the investor presentation update, both located on our website, and our most recent Form 10-K and Form 10-Q filed with the SEC for a list of some of the factors that could cause future results to differ materially from our expectations. I will now turn the call over to David Emery.

David Emery - *Black Hills Corp - Chairman, President, CEO*

Thank you, Jerome. Welcome everyone, thanks for attending this afternoon. I will cover an overview of the energy marketing transaction, and then ask Tony Cleberg to provide some comments on our updated 2011 and 2012 guidance, and then we will open it to questions. Before we start, however, we are holding today's conference call specifically to discuss the announced sale of our energy marketing business, and the related



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changes to our 2011 and 2012 earnings guidance. Since we won't release our final 2011 fourth-quarter and full-year financial results until February 3, we don't intend to comment on those results today, except for the discussion about the 2011 guidance revisions.

Moving to slide 3, Enserco, our energy marketing company, has been an integral part of the Corporation for going on 16 years, more than 15 years now, an important part of our diversified energy strategy. Historically, their primary strategies involved marketing natural gas and crude oil products in the United States and Canada. Since the economic downturn here a few years ago, the markets have changed pretty dramatically. Gas prices are significantly lower, and there has also been significant shifts in supply and demand fundamentals. Specifically, margins from natural gas storage and transport, they have decreased dramatically. And those two areas, historically, were the primary source of profits for Enserco.

In reaction to that, Enserco diversified its commodities in 2010 and '11 to add coal, power, and environmental products. That has improved recent performance, and in fact, Enserco had an excellent fourth quarter. But risk-adjusted returns still remained short of our desired results. Following the receipt of some unsolicited offers to buy Enserco in the third quarter of last year, and a very comprehensive internal strategic and financial review, we made the decision to divest Enserco.

The sale of Enserco to Twin Eagle Resource Management will be a big benefit to Black Hills shareholders. It reduces our risk profile and improves our credit metrics. In fact, both Moody's and Standard & Poor's have commented today that they view the transaction as credit positive. The sale also enhances our ability to produce more stable cash flow and earnings for shareholders, minimizes our need for equity financing in 2012 to fund a lot of our announced major growth projects, and it also strengthens our focus on our core utilities, power generation, and fuel production businesses.

From a terms and use of proceeds perspective, Black Hills is selling all of the outstanding stock of Enserco to Twin Eagle. Twin Eagle was formed in 2010, a Houston-based energy marketing company, that is their primary business. They are a private equity firm, affiliated with both Chesapeake Energy and LS Power. And their business is indeed energy marketing and only energy marketing. So they are a very legitimate buyer for the business. We expect net cash proceeds of \$160 million to \$170 million through the closing process, subject to working capital and other closing adjustments. We don't expect material gains or losses on the sale, but the value of this business changes daily as the value of the forward booked changes, so we have expressed proceeds as a range for that reason. We expect to close later in this quarter, and the transaction is contingent on receiving two customary regulatory approvals -- one from FERC; and antitrust clearance under Hart-Scott-Rodino. We intend to use the proceeds, as I said earlier, to reduce the need for equity financing for our already announced growth projects in the course of the next three years.

Highlighting a little bit of the process itself, on slide 5, in the third quarter we received several unsolicited offers from companies who were interested in purchasing Enserco, and in order to validate those conversations, we held -- in order to validate those offers, we held conversations with some of those potential buyers and made sure they were indeed serious and very serious about their interest in Enserco. Following that, we decided to put together a limited diligence package. We solicited indicative offers from the parties that we had received inquiries from, plus we reached out to a few additional parties that we viewed as very well-qualified buyers for the company. Out of that effort, we received three very viable offers to purchase the company. We took those offers, compared them to the continued value of continuing to own Enserco under obviously many different scenarios related to market and the growth opportunities for Enserco, other uses of proceeds, and those sorts of things. Following that real comprehensive strategy and finance review, we made the decision to divest the business.

The offer from Twin Eagle we viewed as the best value for shareholders. The deal structure as a stock sale was the most comprehensive and certainly in consideration of not only the value to our shareholders, but the ability to close the transaction and the process to maintain the value of the company between signing and closing, which of course is important from a sale proceeds perspective.

The sale of the energy marketing segment enables a smooth transition under this structure from Black Hills to Twin Eagle and certainly also a smooth transition for all of Enserco's customers. With that, I will turn it over to Tony to discuss guidance revisions for 2011 and 2012. Tony?



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Tony Cleberg - *Black Hills Corp - EVP and CFO*

Thank you Dave. As you have seen in our press release, we did revise our guidance for both 2011 and 2012, with the announcement of the Enserco transaction. For 2011, we are quite pleased with our fourth-quarter performance. The one thing is, I am not going to discuss the 2011 performance in detail, but I will provide some guidance on how we got to update the 2011 projections.

From a process standpoint, we closed our books and our external auditors are in the process of completing their audit work. And we are not aware of any material issues. But we still are giving a range on 2011 to make sure that we are close to where we think we should be. So, we expect to be in the \$1.90 to \$1.96, for both the continuing operations and the discontinued operations added together. This does exclude the \$0.68 mark-to-market on certain interest rate swaps as we have done in the past. This is quite an improvement from the \$1.70 to \$1.85. A lot of it was the energy marketing segment's performance, but also we had better performance out of our utilities.

The one thing when we classify this as discontinued operations, there is a certain amount, and in our case, \$0.05 EPS of indirect G&A that has to be allocated to the other segments. We take it out of -- we take that expense out of the energy marketing, which increases their performance and then we reduce it from the remaining segments, the continuing ops. So when you see the numbers for the actual earnings, the continuing ops will be roughly \$1.67 to \$1.69 and we're estimating that the discontinued operations will be \$0.23 to \$0.27. So, again, we are pleased with the overall performance.

Moving to 2012, on slide 7, we expect to be in the \$2.00 to \$2.20 range next year. So, if you take the midpoint of the \$1.67 to \$1.69 and you take the midpoint of \$2.00 to \$2.20, that's a 25% increase year over year. If you think about how we adjusted our plan, we excluded the Enserco, we had to adjust for the indirect absorption of the G&A that I talked about, we reduced our share count -- in our plan, we had thought we would have to issue equity in the fourth quarter to maintain the appropriate capital structure -- and then we adjust our interest expense, because we will use the funds to immediately pay down debt. So, those items are what is driving the reduced estimate for 2012.

We certainly like this transaction because, as Dave mentioned, it derisks our portfolio. And, the key thing is, the way we think about this business is that this is a business that really could not support debt, because of the volatility of the earnings. So, the way we looked at this business internally is it had to really be funded 100% by equity. So, the kind of returns that we expected out of this business were a lot higher than what we were achieving over the last several years.

I want to mention that we are not providing an estimate on 2012 discontinued operations. This would include the financial results of Enserco from the beginning of the year to whenever we close. And it would also include any gain or loss on the transaction. We don't believe that these numbers will materially change what we are estimating overall. So, with those comments, I will turn it back to you, Dave.

David Emery - *Black Hills Corp - Chairman, President, CEO*

All right. Thank you, Tony. We mentioned earlier that we are in the process of finalizing 2012 fourth-quarter and full-year financial results and going through the audit. On slide 8, we note that we intend to release those results on Thursday, February 2, and then have our call on February 3 to discuss the financial and operating performance for the quarter and the year.

Before I open up the call to questions, I again want to remind you that we have not yet issued those earnings, so please restrict your questions to those applying to either the sale of the energy marketing business or our revised earnings guidance. Also, Tony and I are in separate locations today, so if you have a question that's specific to one of us or the other, if you would please note that as you ask the question, it would just keep us from talking over the top of each other potentially. Thank you. With that, we would be happy to answer any questions.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) James Bellessa, DA Davidson.

James Bellessa - *D.A. Davidson & Co. - Analyst*

I am talking about or asking about the mark-to-market loss. I think Tony was talking about it. It excludes the new guidance, it excludes \$0.68 per share mark-to-market loss and certain interest-rate swaps. Seems like I had down nine months with \$0.67, so are you saying that you had \$0.01 more mark-to-market loss in the fourth quarter?

Tony Cleberg - *Black Hills Corp - EVP and CFO*

Yes. That's right Jim. It is \$0.01 or \$0.02. I thought we are at \$0.66 through the first three quarters but it could've rounded up to \$0.67.

James Bellessa - *D.A. Davidson & Co. - Analyst*

Okay. In your new guidance, there is on average a \$0.175 drop in the guidance. So I multiply it by the number shares that I think are going to be outstanding and I'm getting something close to \$8 million implied that you were expecting in your previous guidance to the new guidance from the energy marketing business. Is that about right? Is that the kind of earnings bar you were expecting?

Tony Cleberg - *Black Hills Corp - EVP and CFO*

Yes. If you multiply the \$0.22 that we expect this year, that was a little stronger than what we had estimated for the fourth quarter. And the number that you are coming up with, Jim, is about the right number.

James Bellessa - *D.A. Davidson & Co. - Analyst*

And then if I take the \$160 million low-end of the range of your proceeds, that's a pretty sizable multiple that you are getting for this business. That is just plain arithmetic. But how should I be looking at the valuation that you are indicating you are going to receive?

Tony Cleberg - *Black Hills Corp - EVP and CFO*

Because we don't believe there is going to be a material gain or loss on the business, we are basically selling the business for about book value. I might add that part of this is just taking cash out of the business. This business requires a fair amount of cash just to support LCs and other financing. So the \$160 million to \$170 million includes all of those cash proceeds.

James Bellessa - *D.A. Davidson & Co. - Analyst*

Thank you very much.

Operator

Kevin Cole with Credit Suisse.



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Kevin Cole - *Credit Suisse - Analyst*

Tony, just to follow up on the last comment. The \$160 million to \$170 million, that's basically the size of the credit facility currently supporting Enserco?

David Emery - *Black Hills Corp - Chairman, President, CEO*

The credit facility that we currently have is a \$250 million facility and there are a LCs under that. They will just assume the LCs.

Kevin Cole - *Credit Suisse - Analyst*

Okay. If I'm thinking about net cash to Black Hills, do I need to take that \$160 million to \$170 million and assume a pay down of that or is that really cash?

David Emery - *Black Hills Corp - Chairman, President, CEO*

That is net cash that we expect from the transaction.

Kevin Cole - *Credit Suisse - Analyst*

Okay.

David Emery - *Black Hills Corp - Chairman, President, CEO*

The LCs are not on the balance sheet.

Kevin Cole - *Credit Suisse - Analyst*

Okay. And then with the -- I guess with Enserco kind of being I guess essentially [ring side] from the rest of the business, is this simply an unbolting of the business or is there any residual commitment that Black Hills might have after the close of this transaction?

David Emery - *Black Hills Corp - Chairman, President, CEO*

There is really no residual commitments. The only significant service that Enserco provides currently for other Black Hills affiliates is they do the hedging and marketing of our oil and gas Company's products. We have no obligation to continue to use Enserco/Twin Eagle post sale. We will certainly consider them along with other companies who might be interested in providing those services.

Kevin Cole - *Credit Suisse - Analyst*

Okay.

David Emery - *Black Hills Corp - Chairman, President, CEO*

A clean break I guess.

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Kevin Cole - *Credit Suisse - Analyst*

And then last, I guess on the dividend policy. Do plan to continue your measured raises and then simply grow into the payout ratio?

David Emery - *Black Hills Corp - Chairman, President, CEO*

Yes, we haven't stated our intent for dividends, but we have repeatedly said we are pretty proud of our dividend track record of 41 consecutive years of increases. We will be announcing another dividend, but we have not done that yet.

Kevin Cole - *Credit Suisse - Analyst*

Okay, great, thank you, congratulations.

Operator

Sir, at this time there are no questions in the queue. (Operator Instructions)

David Emery - *Black Hills Corp - Chairman, President, CEO*

It doesn't sound like we have any additional questions. So given that, thanks to everyone for your time and attention this afternoon, and we look forward to getting our year-end earnings results out for you in a couple of weeks. We are excited about the Enserco transaction. We believe it is truly good for shareholders and also will be good for customers and employees of Enserco as they transition over to Twin Eagle as well. Thank you, have a good day.

Operator

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

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