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More Impairments Coming For Black Hills E&P Unit, But Mancos Still Eyed

Richard Nemecek October 9, 2015

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Rapid City, SD-based Black Hills Corp. senior executives told a gathering of Wall Street analysts Thursday that more impairment charges are coming from the impact of depressed crude oil prices on the company's exploration and production (E&P) operations.

But the company's push in the Piceance Basin's Mancos Shale is still expected to have 2.2-4.4 Tcf of reserves that will fuel proposed cost-of-service gas reserve programs among Black Hills utilities operating in six states.

In reiterating that Black Hills took impairments in the first two quarters this year, CFO Rich Kinzley said "while we cannot anticipate what they will be in the third and fourth quarters, it is likely we are going to have more because the 12-month rolling average prices for our reserves keep coming down

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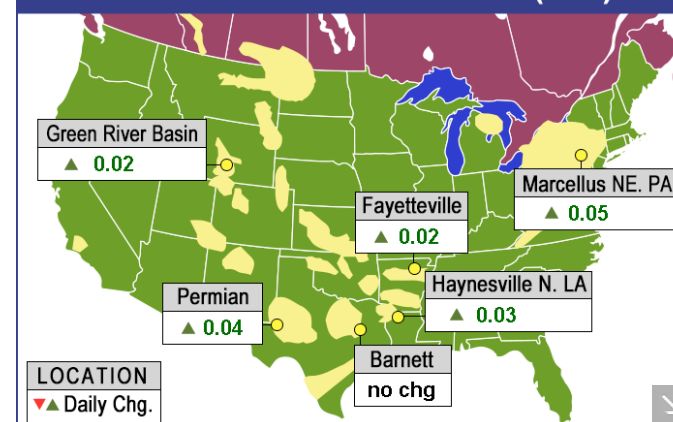
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"As we take these impairments, it reduces our future depletion rate, so that rate is estimated to be lower for the rest of the year."

In the coming months, a sale of more E&P assets and an independent gas-fired power plant in Colorado are likely, Kinzley said.

Black Hills CEO David Emery told the company's annual analyst meeting in New York City that low oil and gas prices have had a "pretty big negative impact" on the company and continue to do so. "That being our one market-exposed business, we have been hit pretty hard. The operating losses in our E&P unit this year are not good."




However, Emery said from a strategy standpoint the company "has remedied" the red ink situation by focusing on cost-of-service gas reserves program using its Mancos Shale play in the Piceance. "That gets us out of a heavy dependence on product prices," he said.

"With our Mancos Shale gas play we think we have a huge resource, and that is way more than we need even for cost-of-service gas," Emery said, adding that the utility reserve program would involve about 750 Bcf of reserves, or less than 20% of the estimated reserves in the Mancos. "We have a lot of testing under our belt; we've learned a lot about the Mancos, and we think we can transfer that into a very successful gas procurement program for our utilities [see *Daily GPI*, Oct. 5]."

Filings with six state regulatory commissions will be completed by the end of October, according to Brian Iverson, senior vice president for regulatory affairs. He told the analysts that under the program, a non-utility Black Hills subsidiary, Black Hills Utility Holding Co., would own the natural gas reserves, and each of the Black Hills utilities would have individual agreements with that affiliate for a portion of the reserves over a 20-year period. The reserves could come from other third-party assets as well as the Black Hills Mancos reserves, Iverson said.

"When you look at the long-term cost of gas, we believe this will provide more stable prices for the benefit of utility customers," Iverson said. Under the program, a new drilling plan will be submitted to the individual state regulatory commissions every five years so they can track the progress of the program. Rate coverage (up and down) to support the program will be part of the utilities' annual gas cost adjustment program.

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