



2019

AGA & EEI ESG QUALITATIVE REPORT



INTRODUCTION

Black Hills Corp. (NYSE: BKH) is a customer focused, growth-oriented utility company and the parent company of utilities in eight states which do business as Black Hills Energy. Based in Rapid City, S.D., we serve nearly 1.3 million natural gas and electric customers in Arkansas, Colorado, Iowa, Kansas, Montana, Nebraska, South Dakota and Wyoming. Our mission is to improve life with energy and to deliver upon that, sustainability is at the core of everything we do. As we continue to deliver safe, reliable and affordable energy to our customers, consideration of environmental, social and governance (ESG) is connected to our strategy, risk management and execution.

We are participating in voluntary industry initiatives coordinated by Edison Electric Institute (EEI) and the American Gas Association (AGA) to provide investors and other stakeholders with consistent ESG and sustainability metrics. This inaugural report supplements our upcoming 2019 Corporate Responsibility Report, which will be published later this year.

OUR SUSTAINABILITY STRATEGY

Black Hills Energy is continuously strengthening our sustainability strategy. We are building upon our success of delivering strong returns for investors and affordable energy for customers, by seeking renewable energy growth opportunities, minimizing risk and responding to stakeholders' evolving expectations. To accelerate our progress, we established a sustainability strategy team comprised of leaders from across the company and look forward to sharing more on our efforts in the coming month.



Capital investments

In 2019, we deployed \$850 million in customer-focused capital to improve the safety and reliability of our extensive systems, foster customers growth and expand renewable energy offerings. We operate and maintain one of the largest natural gas and electric infrastructure systems in the country—46,000 miles of natural gas lines and nearly 9,000 miles of electric transmission and distribution lines. Our long-term, programmatic approach to planning and prioritizing resources forecasts capital investments of \$2.7 billion from 2020 to 2024.

Stakeholders

ESG stakeholders are wide-ranging and include our customers, communities, employees, regulators, policymakers and investors. We strive to balance our responsibility of providing safe, reliable and affordable energy, complying with all regulations and delivering returns for shareholders, while improving our communities and planet.

In 2019, the State of Colorado approved legislation to require electric utilities to meet an 80% carbon reduction goal by 2030 based upon 2005 baseline levels. There were three bills passed, including House Bill 1261 which established state-wide emission goals for greenhouse gas emitting activities and applies to Black Hills Energy. House Bill 1261 includes provisions for utilities to submit a voluntary Clean Energy Plan with a goal of 80% reduction by 2030 and secures a guaranteed return on investment for electric generation projects approved by the Colorado Public Utilities Commission.

In Wyoming, Senate File 159 was signed into law in 2019, which only allows utilities to recover the costs of building new power plants to replace retiring coal generators if they first make “a good faith effort” to sell the closing facilities. If a buyer can be found, utilities are directed to purchase power from the plants back from the purchaser.





ENVIRONMENT

We are committed to creating a cleaner energy future that builds upon our responsibility to provide the safe, reliable and affordable energy that improves our customers' lives.

RENEWABLES AND EMISSIONS REDUCTION: ELECTRIC UTILITIES

We operate electric utilities in South Dakota, Wyoming and Colorado, serving nearly 215,00 customers. Our electric utilities have reduced total GHG emissions intensity by 25% since 2005, and our utility in Colorado is the cleanest in the state, with an all-renewable and natural gas generation fleet. The State of Colorado has recognized Black Hills Energy as a Gold Level Leader in its Environmental Leadership Program, the highest status awarded in Colorado, a status we have achieved every year since we entered the program in 2013.



Wind and solar projects

Our renewable energy portfolio continues to grow and support further greenhouse gas (GHG) emission reductions. Renewable energy projects include three wind generating facilities: Busch Ranch I, commissioned in 2012 (40 MW); Peak View, commissioned in 2016 (60 MW); and Busch Ranch II, commissioned in 2019 (60 MW). We also have a new, 10-year power purchase agreement for 60 MW of wind energy.

Our latest renewable project is a 200 MW solar project called Renewable Advantage, which is in the final stages of approval with the Colorado Public Utilities Commission. As planned, the solar project would be commissioned in 2023 and provide significant environmental benefits, leading to approximately 70% reduction in GHG emissions by 2024 and over half of our Colorado electric utility's energy coming from renewable generation resources. This builds upon our current achievement of a 50% emissions intensity reduction since 2005.

In South Dakota and Wyoming, the Renewable Ready program provides our largest customers with an opportunity to advance their business goals and sustainability objectives by choosing cost-effective, utility-scale renewable energy resources to power their businesses. Renewable Ready was approved in 2019 and gives customers the option of subscribing to renewable energy resources for up to 100% of their electric energy needs.

To support the Renewable Ready program, we have nearly completed construction of the 52.5 MW Corriedale Wind Energy Project in Cheyenne, Wyo. Renewable Ready subscribers will pay a cost-effective rate for the full cost of generating, integrating and delivering the renewable energy produced at the wind project. The wind project is on schedule to be placed into service in late 2020 and will be jointly owned by our electric utilities in South Dakota and Wyoming.

We have 60 MW of wind energy on our Wyoming system available through long-term power purchase agreements at the Happy Jack and Silver Sage wind generation facilities. Under separate inter-company agreements, our Wyoming utility sells 50 percent of the Happy Jack wind facility's output and 20 MW of energy from Silver Sage to our electric utility in South Dakota. Our South Dakota utility also has a power purchase agreement for an additional 12 MW of energy that is also sourced from Silver Sage Wind Facility.

Our South Dakota electric utility has executed a 20-year power purchase agreement for 80 MW of solar energy. As planned, the solar project would be commissioned in 2022 and purchases would begin in December of that year.

Rounding out our renewable fleet is the 89 MW Northern Iowa Wind Facility, purchased in 2018.

Research and technology

In addition to renewable energy, we're continually innovating to find new ways to lower emissions, like partnering with the University of Wyoming on a coal-fired flameless pressurized oxy (FPO) combustion research project. If the proposal is accepted by the Department of Energy, Black Hills Energy will host a large-scale pilot at our Gillette, Wyo. energy complex, aimed at advancing new technology to cost effectively utilize coal with little to no emissions. Additionally, we are actively investigating hydrogen battery storage, hydrogen fuel usage with combustion turbines and fuel cell technology.



We take a programmatic approach to maintaining, upgrading and replacing critical infrastructure to better serve our customers. Employee Jerome and Contractor Linda monitor the construction of the Natural Bridge pipeline project in Central Wyoming.

RENEWABLES AND EMISSIONS REDUCTION: GAS UTILITIES

Our natural gas utilities serve over one million customers in six states. We operate a modern gas system, with no cast iron pipe since 2014 and nearly 99% of our infrastructure comprised of protected steel or plastic, materials with the lowest emissions factors. Since 2006, we reduced our annual CO₂e emission by approximately 37,855 tons while increasing pipeline miles by approximately 5,000 miles.

Investing in infrastructure safety and the environment are a priority, with programmatic upgrades of the remaining unprotected steel continuing system wide. We're committed to completing replacement of all remaining unprotected pipe before 2035.

EPA Methane Challenge

Through the Methane Challenge Program, the EPA encourages partners to make commitments to reduce methane emissions through broad scale implementation of cost-effective technologies and practices. We are in the final stages of committing to and implementing three Best Management Practices: Distribution Mains Replacement, Distribution Services Replacement and Excavation Damages, which advances us to a position of industry leadership in challenge commitments. By joining this program, we will showcase our planned pipe replacements and associated GHG emissions reductions on a national level.

Renewable natural gas

Our natural gas supply includes renewable natural gas (RNG) from landfills and wastewater treatment facilities. We receive RNG into our pipelines from two facilities in Nebraska and one in Iowa, capturing methane that would otherwise vent into the atmosphere. With 12 additional projects active and 60 others identified, we see great potential to generate RNG supplies throughout our vast agricultural service area. For more information on our RNG projects, visit www.blackhillsenergy.com/RNG.

Research and technology

Energy efficiency and emerging technologies have potential to significantly reduce greenhouse gas emissions from natural gas. We're currently supporting research through the Gas Technology Institute which aims to lower methane emissions from gas purging practices using vacuum technology. We also achieved a second consecutive annual ENERGY STAR award from the EPA for our energy efficiency program.

RESOURCE MANAGEMENT

Air quality

We developed an industry-leading “auto trip logic” program to reduce short-term air quality emission exceedances at our power plants. The emissions control logic, coupled with improved maintenance, has virtually eliminated exceedances without jeopardizing operating availability. The software is programmed to shut down the operating electric generating units should air emissions approach the units’ permitted emission limits, thus preventing the exceedance from occurring. This pioneering technology significantly reduces our compliance risk, and we are currently the only company in the country employing such a technology approach.

Water conservation

Black Hills Energy was the first energy company to use air-cooled condensers in the United States. By using an air conditioner to cool the generation boilers rather than pumping water from a river or lake, we save millions of gallons of water usage daily, a critical benefit in the arid West. This technology also eliminates contaminated water from being discharged into the environment. Air-cooled condensers are utilized on all our power plants at the Neil Simpson Energy Complex in Gillette, Wyo.

Avian protection

We are an industry leader in the protection of migratory, threatened or endangered birds, raptors and waterfowl. For over 15 years, we have deployed an avian protection plan and conduct ongoing training for employees. All new power lines are built to raptor-safe standards and proactive retrofits are part of our ongoing maintenance programs. We build manmade nests to replace nests established on our powerline poles and work with local non-profits to provide raptor rehabilitation services. In 2019, we significantly reduced our response time to retrofit structures associated with negative interactions from 149 days to six days, with the average time for most retrofits being within 24 hours. View our full report on Avian Protection blackhillsenergy.com/avian-report.

Vegetation management

In 2019, Black Hills Energy enrolled 1,000 acres of electric transmission right of way in the National Wild Turkey Federation’s (NWTF) Energy for Wildlife Habitat Endorsement Program. Our vegetation management specialists worked with the NWTF to create a beneficial program, encouraging habitat enhancement on energy corridors including areas within the Black Hills National Forest. We’ve made significant progress adopting a progressive Integrated Vegetation Management system to both decrease maintenance costs and greatly increase wildlife habitat value.

Tree planting

In 2019, we invested almost \$85,000 in planting nearly 1,500 trees which will grow to save energy by blocking the hot summer sun and cold winter winds, as well as filter nearly 7 million gallons of storm water and avoid or sequester over 2.5 million pounds of carbon dioxide. Since beginning our program in 1992, the Arbor Day Foundation and Trees Forever estimate the Black Hills Energy program has avoided over 28 million pounds of carbon, filtered 80 million gallons of stormwater and saved 7 million kWh.





SOCIAL

We keep people at the center of our decision making. From today's nearly 3,000 employees and 1.3 million customers to those we will serve and work with in the future, we recognize our opportunity to positively impact the lives of others and the communities we serve.

Community and economic impact

Serving 824 communities across eight states, our direct economic impact in 2019 totaled \$1.46 billion. This included charitable giving, compensation for employees, franchise fees, payments to suppliers, and property, sales and use taxes paid to our communities.

In 2019, our charitable giving totaled over \$5.5 million, including over \$520,000 in employee donations to United Way agencies across our service area and nearly \$1 million in support of local economic development initiatives.

More than 17,000 customers participated in energy efficiency programs and benefited from energy savings, with customer rebates in 2019 totaling over \$5.2 million. Plus, our energy assistance program, Black Hills Cares, helped almost 1,600 families in need. For more information about our community impact visit www.blackhillsenergy.com/community/our-community-impact.

Supplier diversity

In 2019, we spent over \$928 million with suppliers to support our utility operations to better serve our customers. Over 40% of that spend was completed with businesses within our 8-state service territory. We also remain committed to supporting the small and diverse local businesses in our communities. In 2019, our spend with small business, women and minority-owned businesses and other diverse suppliers represented 17% of our total dollars spent.

Safety

Safety is one of our company values and a top priority in all we do. Over the past 12 years, we have reduced workplace injuries by more than 73% and continue to see long-term, sustained improvements in our safety practices and performance. In 2019, our Occupational Safety and Health Administration (OSHA) Total Incident Case Rate (incidents per 200,000 hours worked) was 1.25, well below the utility industry average of 1.95. Our Preventable Motor Vehicle Incident Rate (vehicle accidents per 1 million miles driven) was 2.48 in 2019, also well below the industry average of 3.11.

Our team at the Pueblo Airport Generating Station in Southern Colorado achieved the highest designation for workplace safety from OSHA in 2019. The path to earning the Voluntary Protection Program Star Status was an employee-driven, multi-year effort with rigorous requirements from OSHA.

Our safety culture extends to our communities. In 2019, we conducted more than 830 first responder trainings, including emergency response demonstrations.

Inclusion, diversity and belonging

We believe our unique talents and diversity anchor a culture of success. We know that diverse teams and cultures deliver customer and shareholder value. Accordingly, we proactively and intentionally foster an environment that respects all people without regard to race, color, religion, sex, sexual orientation, gender identity, national origin, ancestry, creed, disability, age, veteran status, or any other protected class. Our employee resource groups encourage inclusion and belonging, with specific programs for women, veterans and new hires.

Learn more at www.careers.blackhillsenergy.com/pages/diversity.



Our employees and their families give generously of their time and talents to support our customers and keep our communities strong and vibrant.



GOVERNANCE

We are a values-driven organization. These nine values guide our approach to sustainability and to doing business.



Agility

We embrace change and challenge ourselves to adapt quickly to opportunities.



Communication

Consistent, open and timely communication keeps us focused on our strategy and goals.



Creating Value

We are committed to creating exceptional value for our shareholders, employees, customers and the communities we serve ... always.



Customer Service

We are committed to providing a superior customer experience every day.



Integrity

We hold ourselves to the highest standards based on a foundation of unquestionable ethics.



Leadership

Leadership is an attitude. Everyone must demonstrate the care and initiative to do things right.



Partnership

Our partnerships with shareholders, communities, regulators, customers and each other make us all stronger.



Respect

We respect each other. Our unique talents and diversity anchor a culture of success.



Safety

We commit to live and work safely every day.

Oversight and leadership

Sustainability begins at the highest levels in Black Hills Energy, with direction from our board of directors, leadership from our CEO and executive management team, strategic planning from our cross-functional sustainability strategy team and integration throughout the company.

Our corporate governance structure promotes a strong, independent board of directors composed of diverse individuals whose backgrounds, abilities, commitment and expertise combine to serve the best interests of our stakeholders. As of this report, our board is composed of 10 directors, nine of whom are considered independent within the listing standards of the New York Stock Exchange. We actively seek and interview diverse director candidates and are a leader among our peers for the diversity of our board, with one third of board seats held by female or racially diverse directors.

To ensure effective management oversight of the critical issues related to financial and operating plans, long-range strategic issues, enterprise risk and corporate integrity, only independent board members serve on our board committees. The board has three committees to help execute its responsibilities:

- Audit Committee
- Compensation Committee
- Governance Committee

More information about our directors, senior management team, corporate structure, governance documents and board committees and charts can be found at ir.blackhillscorp.com.



Our 2019 Board of Directors pictured in the back row (from left): David R. Emery (retired May, 2019), Kathleen S. McAllister, Thomas J. Zeller (retired April, 2019), Linden R. Evans, Steven R. Mills, John B. Vering, Mark A. Schober, Michael H. Madison. Seated (from left): Tony A. Jensen, Rebecca B. Roberts, Robert P. Otto, Teresa A. Taylor.

Risk management and accounting

Black Hills Energy applies industry-standard security frameworks in our Corporate and Industrial Control System (ICS) environments as part of our commitment to the delivery of safe and reliable energy to our customers. We apply a standard of continuous improvement to cybersecurity, with ongoing employee training, education and system enhancements. Black Hills Energy is also a member of the Cybersecurity Risk Information Sharing Program (CRISP), a partnership with energy providers and the Department of Energy. As a voluntary participant in the CRISP program, Black Hills Energy shares threat information which could potentially detect and prevent cyber threats directed at Black Hills Energy and other utilities.

Our enterprise risk management program is designed to identify, report and manage all forms of relevant risk and opportunity. Managing all areas of risk, including compliance, operational, regulatory, financial, reputational and environmental risks, are embedded into business processes and key decision making at all levels of the company.

Regulatory compliance and leadership accountability driven by our board of directors and senior management team. This includes a comprehensive environmental management system to track performance and ensure compliance with all applicable state and federal regulations. In 2019, we achieved our continuous goal of zero violations and penalties.

Our high standard of compliance extends to our North American Electric Reliability Corporation (NERC) and Western Electricity Coordinating Council (WECC) compliance. We have a history early-adoption of major NERC regulatory changes and employ a vigorous process to identifying issues. Our integrity-driven approach has fostered trust with regulators; of over 300 NERC registered entities in the Western Interconnect, we are one of five who were allowed to self-log violations last year. In 2019, we achieved another consecutive year of no financial penalties.

Reliability and business continuity are critical to us and those we serve. We routinely test our systems and conduct table-top and full-scale mock drills to practice, identify gaps in our response plans and enhance procedures.

Additional information

Black Hills Energy is committed to sharing information about our business and operations that we know is important to our stakeholders. We are increasing the number and substance of these reports, which can be found at www.blackhillsenergy.com/sustainability. Additional financial information is posted at ir.blackhillscorp.com.

All information and data in the EEI and AGA ESG qualitative and quantitative reports are provided on a voluntary basis and could be subject to change. These reports contain forward-looking information as defined by the Securities and Exchange Commission. Whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties that, among other things, could cause actual results to differ materially from those contained in the forward-looking statements, including without limitation, the risk factors described in our 2019 Annual Report on Form 10-K. We assume no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise.