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EDITED TRANSCRIPT

IDA - Q1 2016 Idacorp Inc Earnings Call

EVENT DATE/TIME: APRIL 28, 2016 / 08:30PM GMT

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CONFERENCE CALL PARTICIPANTS

Paul Ridzon *KeyBanc Capital Markets - Analyst*

Brian Russo *Ladenburg Thalmann - Analyst*

PRESENTATION

Operator

Welcome to IDACORP's first-quarter 2016 conference call. Today's call is being recorded and webcast live. A complete replay will be available from the end of the day for a period of 12 months on the Company's website at www.idacorpinc.com. (Operator Instructions). At this time, I would like to turn the call over to Mr. Lawrence Spencer, Director of Investor Relations.

Lawrence Spencer ***- IDACORP, Inc. - Director, IR***

Thanks, Chelsea. We issued our earnings release and Form 10-Q before the markets opened today and they are both posted to the IDACORP website. The slides we will be using to supplement today's call can be found on our website as well. We will refer to those slides as we work our way through today's presentation.

On today's call, we have Darrel Anderson, IDACORP's President and Chief Executive Officer and Steve Keen, Senior Vice President, Chief Financial Officer and Treasurer, along with other individuals available to help answer your questions during the Q&A period.

As noted on slide 3, our presentation today will include forward-looking statements. While these forward-looking statements represent our current judgment or opinion of what the future holds, these statements are subject to risks and uncertainties that may cause actual results to differ materially from forward-looking statements made today. So we caution you against placing undue reliance on forward-looking statements. Some of the factors and events that could cause future results to differ materially from those included in forward-looking statements are listed on slide 3 and are included in our filings with the Securities and Exchange Commission, which we encourage you to review.

On slide 4, our quarterly financial results are presented. IDACORP's first-quarter 2016 earnings per diluted share were $0.51, an increase of $0.04 per share from last year's first quarter. I will turn the presentation over to Steve to discuss the results in greater detail and to review our 2016 key operating metrics.

Steve Keen ***- IDACORP, Inc. - SVP, CFO & Treasurer***

Thanks, Larry. We had a successful first quarter, executing on key milestones and delivering earnings slightly ahead of the prior year. Similar to 2015, our first-quarter results were again impacted by mild temperatures. Looking ahead, temperatures are projected to be above normal for spring and summer in our service area and have the potential to reverse these impacts, although our forward estimates only include normal weather expectations.

On slide 5, we present a reconciliation of net income from first quarter 2015 to first quarter 2016. Overall, net income increased by $2.3 million over the period. The combined positive effect of customer growth and increased usage per customer improved operating income by $2.7 million compared with the first quarter last year.

In May 2015, the Idaho Public Utilities Commission modified the Idaho Fixed Cost Adjustment mechanism, or FCA, to use actual sales rather than weather-normalized sales in the calculation and made that change effective January 1, 2015, and the $7.4 million impact was recorded during the second quarter last year.

The effect of this modification on the first quarter of 2016 is an increase in FCA revenues of $4.9 million over the prior year. Recall that the FCA mechanism only applies to the residential and small commercial customer classes.

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Our operating and maintenance expenses were up roughly 2.5% over last year's first quarter, which decreased operating income by $2.1 million. After evaluating the impacts of the mild weather, we have sharpened our focus on optimization of our spending as we continue to seek sustainable reductions to planned O&M expense. We reaffirm our guidance for full-year 2016 O&M expense to be within the range of $350 million to $360 million, but our goal is to carefully assess all spending.

Depreciation expense also accounted for a $1.6 million reduction in operating income as our planned investment has grown quarter-over-quarter. Overall, Idaho Power's operating income increased by $1 million for the first quarter 2015 to 2016.

Moving further down the table, lower income tax expense modestly benefited this year's first-quarter net income compared to 2015. The decrease in income tax expense was a result of recording additional amortization of accumulated deferred investment tax credits, or ADITC, under the Idaho Regulatory Stipulation and the adoption of a new accounting standard related to share-based compensation, which resulted in changes to the accounting treatment of income tax deductions for our stock-based compensation plan. I will further address the booking of additional ADITC in a moment.

As for the accounting standard change, implementation is required in 2017, but we chose to adopt the standard early. We outline the impacts of this new standard on page 18 of our Form 10-Q issued today.

Moving now to slide 6, we show IDACORP's operating cash flows for the first quarter 2016 and 2015 along with the liquidity positions at March 31. Cash flow from operations for the first quarter 2016 was approximately $66.2 million, a decrease of $39.2 million from the first quarter 2015. The decrease was primarily due to changes in regulatory assets and liabilities, as well as timing and decreases in working capital.

IDACORP and Idaho Power currently have in place credit facilities of $100 million and $300 million respectively to meet short-term liquidity and operating requirements. The liquidity available under the credit facilities is shown on the bottom of slide 6.

Also, there are 3 million IDACORP common shares available for issuance under IDACORP's continuous equity program. Under this program, no shares were issued during this year's first quarter and no new share issuances are expected during the remainder of 2016.

Turning to slide 7, each of the financial operating metrics listed on this slide remain the same as presented on February 18, the date we reported fourth-quarter 2015 results. I will add some color on two of these metrics. In regard to hydroelectric generation, 2016 is shaping up to be a better water year than 2015, though still below normal. On April 28, the snow water equivalent above Brownlee Reservoir in Hells Canyon was 77% of normal compared to 47% of normal on the same date in 2015. The improvement over prior year is reflected in our guidance range and our balanced resource portfolio and risk management programs will help us manage system needs despite below-normal hydro conditions.

I would also like to point out that we ratably recorded $500,000 of additional ADITC amortization in the first quarter based on our estimate of return on year-end equity in the Idaho jurisdiction for 2016. This figure corresponds to a full-year estimate of $2 million. The amount for the quarter is included in the income tax reconciliation table in Note 2 of the financial statements in the Form 10-Q filed earlier today.

Despite the challenges we faced in the first quarter from weather impacts, we remain focused on minimizing the need for this additional ADITC amortization as we execute our plans for the remainder of the year.

Also, as discussed in the liquidity and capital resources section of the Form 10-Q, the early redemptions of the 6.15% first mortgage bonds due April of 2019 resulted in Idaho Power paying a make-whole premium of $14 million to the holders of the bonds. We estimate the net tax benefit of this premium to be around $5.5 million and it will be recorded in the second quarter. This benefit has been taken into consideration in reaffirming the earnings-per-share guidance range for 2016. Both the issuance of the new 30-year bonds at a coupon of 4.05% and the redemption of outstanding higher coupon 10-year bonds were positive accomplishments for this year. I will now turn the presentation over to Darrel.

Darrel Anderson - ***IDACORP, Inc. - President & CEO***

Thanks, Steve and good afternoon to all of you. As we discussed in our earnings release, as well as our first quarter 10-Q, we saw growth in the first quarter and continue to be optimistic about growth. For the 12 months ended March 31, 2016, our customer growth rate was 1.8%. Preliminary data as of March 2016 shows unemployment in the service area was 3.8% compared to 5% at the national level. Compared with last year's first quarter, our service area employment increased approximately 1.5%. As of March 2016, Moody's Analytics forecasted that growth in gross area product in our service area would be 6% and 5% for 2016 and 2017 respectively.

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Evidence of some of this growth is shown on slide 8 where a major food manufacturer in our South Central Idaho service area, Chobani, announced March 10 it is investing nearly 100 million to expand its existing Greek yogurt plant in Twin Falls. New equipment for new products is a major part of the major expansion initiative. The yogurt plant in Twin Falls is the world's largest.

Another sign of positive economic activity became public this week when a California-based company, American Food Equipment Company, broke ground on a new 61,000 square foot equipment manufacturing facility. It is expected to bring close to 90 new manufacturing jobs as part of a national expansion plan, according to a Boise Valley Economic Partnership news release. The company has outgrown its existing facility in California and Idaho rose to the top of the list according to the release.

Areas that stood out as part of the selection criteria were the work ethic and availability of labor in our service area. The facility is expected to be online by late fall of this year.

Also on slide 8, we show that Boise and the state of Idaho continue to receive national recognition as a low-cost desirable place to live with employment potential. Just earlier this week, the Bureau of Labor Statistics noted that Idaho is number one in US job growth since March 2015.

We, like many other companies, are seeing the impact of the baby boomer generation retiring in our leadership ranks. We have seen this in recent officer retirees, including Greg Said and Lori Smith earlier this year. Most recently, Senior Vice President and General Counsel, Rex Blackburn, has announced he will retire December 31 of this year.

As we have mentioned before, developing and promoting an experienced leadership team as part of our long-term strategy to ensure our Company is well-positioned for a strong future. To that end, our lead counsel, Brian Buckham, assumed the role of Vice President and General Counsel of IDACORP and Idaho Power on April 1. To ensure an effective transition, Rex will remain an officer of the Company through the end of the year. Brian has been with the Company since 2010 with areas of practice in securities, finance, corporate governance, commercial transactions and physical and cyber security, to name a few.

On slide 9, we discuss our recent announcement related to Idaho Power's intention to join the Western Energy Imbalance Market, or EIM. On March 31, Idaho Power signed an agreement to participate in the Western EIM beginning in 2018 contingent on necessary regulatory approvals and other conditions. The Western EIM is intended to reduce the power supply cost to serve customers through more efficient dispatch of a larger and more diverse pool of resources, to integrate intermittent power from renewable generation resources more effectively and to enhance reliability.

Slide 9 shows the active and planned EIM participants in the Western United States. I would now like to provide an update on our transmission projects. Boardman to Hemingway continues to move along the permitting and siting process. Upcoming Bureau of Land Management milestones on the project include a final environmental impact statement to be issued in the third quarter with a record of decision later this year. This line was a preferred resource identified in our 2015 integrated resource plan.

On the Gateway West project, a draft environmental impact statement for the two deferred segments was released in March of this year. As of now, BLM's schedule provides for the issuance of a record of decision on these two segments late this year.

Slide 10 is a look at the projected May to July weather outlook. Current projections suggest that there's an equal chance for above or below normal precipitation in Idaho Power's service area and a greater than 50% chance of above-normal temperatures.

Before opening for questions, I want to remind everyone that our annual meeting of shareholders will be held at 10 AM Mountain Time on Thursday, May 19 at our corporate headquarters in Boise, Idaho. We will also be webcasting the event live on the IDACORP website. Now Steve and I and others on the call today look forward to answering any questions you may have.

QUESTION AND ANSWER

Operator

(Operator Instructions). Paul Ridzon, KeyBanc.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

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Good afternoon. Will this change in tax methodology flow throughout the year and was this contemplated when you first issued 2016 guidance?

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Paul, I would say, no. This wasn't contemplated. This is one of those items that has been looked at for a number of years, but until we saw the final decisions and how it was going to be implemented, we didn't know what the impact would be. There really is not an ongoing impact this year. It will have an ongoing impact year-over-year, but will also be difficult to project what that impact will be because it is based on variations in share price and whether or not targets are met, or exceeded, or missed and all those variables will factor into what the ultimate impact will be. But this was -- we could calculate this year's number and so we adopted early.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

Is this something you will calculate once a year?

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

You really don't know until you get to the point that you would have the payout because it is impacted by the price of your stock and how well you perform against the prior-year metrics. So companies will know probably post-year-end a better idea, but -- and you could estimate what it's going to be, but it would be subject to markets and those kind of things are pretty difficult to say what could happen.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

I know the weather was fairly mild. How much of the mild weather do you think the new PCA mechanism cannot offset?

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Paul, I don't have a good -- I don't have a percentage that way. I would say that first quarter, being one of our smaller quarters, tends to be impacted a little bit more than the rest of the year over time. We ran some correlations against how weather had been and our good first quarters almost always had strong weather, and our weaker first quarters not so much. And just looking back at the last five years, first quarter has been anywhere from 10% of our year-end earnings, or about 11% of our year-end earnings to I think 19%, so it's a pretty small part of overall earnings anyway and I think it's one of those, because of the size, it gets lagged a little more by what weather does. And the year that was 19% was year 2013, which was a really big winter year for us, had a strong weather impact.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

From a shareholder earnings standpoint, what kind of impacts do you think joining the EIM is going to have, if any?

Darrel Anderson - ***IDACORP, Inc. - President & CEO***

Paul, we are obviously still in the process of finalizing those numbers, and we think that it could be -- there's a range of numbers because there's a range of assumptions depending on what happens in the marketplace, and so it -- and I don't really want to throw out a bunch of numbers today because we are still in the process of assessing that, but needless to say, we think there's value there. That's why we are pursuing it. We think for the most part though it is a -- a reduction in power supply cost benefit is really what it ends up being. There's an investment we will have to make in systems associated with that, but we think we would have to make some of those investments anyway as the market continues to change. So the capital investment that we might otherwise have to make we felt like we should at least consider joining the EIM because of what at least we project today as the potential reduction in power supply costs longer term.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

And not all those costs will flow through to customers? Shareholders will see some of that?

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Darrel Anderson - ***IDACORP, Inc. - President & CEO***

We anticipate that it would run through the PCA in a normal 95/5 sharing is where we would project that to be.

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Paul, we also intend to, as we present this to the PUC, it's likely that we will show all of those costs and benefits together and try to reach an agreement such that we align recovery of the costs with whatever comes out of the EIM. That will be a primary goal.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

With the cost of capital or expense?

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

It would be more of -- you could defer some of those upfront costs and align them with the benefits that are being received. I think that would be the way that would make the most sense and be fair to all parties.

Paul Ridzon - ***KeyBanc Capital Markets - Analyst***

Okay. Thank you very much for your time.

Operator

Brian Russo, Ladenburg Thalmann.

Brian Russo - ***Ladenburg Thalmann - Analyst***

Good afternoon. Just the $0.5 million of ADITC usage in the first quarter and then your assumption of $2 million for the year, what was driving that? Was it first-quarter weather or was it cost pressures? Just wanted to get more insight on that.

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Brian, it is both, really. We do have cost pressures because, as you saw in our reconciliation, some items are going up as we add new plant to -- rate to our -- close it to 101. It's driving higher depreciation even though we haven't filed a case, so we don't necessarily get corrections for that.

Within our plan, we felt like, from the very start, even with normal weather, we would be looking at somewhere between 0 and 5. As it turns out, we had good success in executing on some of our goals. We got the bonds done. We've accomplished the redemption. What didn't happen was weather didn't stay normal and it got a little bit worse, so we didn't -- several positive things that we felt like happened and could've maybe put us in a better place ended up not fully materializing as improvements. I think we got a little bit and as you saw, we are booking towards $2 million for the year. We have three more quarters to hopefully find things that we could make that improve as well. That's our goal. We believe that preservation of credit is important to customers and/or owners, so that's really where we're focused. It just turned out that the combination of everything we couldn't get there quarter one.

And we've been here before. We've booked credits Q1 and then had them reverse, but that is the challenge we have as our Company grows and we don't file a case is can we sustain this growth that Darrel mentioned and talked about is the biggest answer to that in the near term and we are seeing it. It added up; didn't quite get us to zero.

Darrel Anderson - ***IDACORP, Inc. - President & CEO***

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Brian, just to add to that, the thing that Steve said as we look forward, we forecast normal weather and as we also mentioned then as we are looking to the summer, which I think as you know, second and third quarters are generally our biggest quarters because of our cooling load and irrigation load all coming together.

But as we see some of these temperature forecasts that have a greater than 50% chance of being hotter or warmer than normal, some of those things for instance could play into Steve's estimate of the annual utilization of ADITC. So I think the thing that we are looking for is what will be the mix of those sales as we go into second and third quarter, which will then determine to the extent if we go above normal than that would allow us potentially to reduce the utilization of ADITC.

Brian Russo - ***Ladenburg Thalmann - Analyst***

Okay. Understood. And then the updated FCA, is that going to have an impact in the second quarter?

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Brian, it really depends on what happens with weather. So the reason it's showing a benefit this quarter is because weather was below normal. Whichever way the weather goes, it's likely to moderate what otherwise would have been an impact on us. It won't completely remove the impact, but it will have a moderating effect, and I would say as we get towards summer, the impact of the irrigation load probably rises up and has a little more impact on shareowners because that piece falls outside the FCA. If we have a lot more irrigation, that would show up as a benefit. If it's a rainy, cool spring and they turn off, we will see more impact negatively from that.

Brian Russo - ***Ladenburg Thalmann - Analyst***

Okay. Thank you.

Operator

(Operator Instructions). That concludes the question-and-answer session for today. Mr. Anderson, I will turn the conference back to you.

Darrel Anderson - ***IDACORP, Inc. - President & CEO***

Thanks, Chelsea and thanks for all that are participating on our call this afternoon. One thing I do want to mention before I sign off here is all of you guys probably that are on the phone know that -- know Larry Spencer very well. This will be his last hooray as it relates to leading this call for us as head of our Investor Relations group and all the years that he's put in and done a fabulous job with that, but he's going to be one of those baby boomers that are also going to be sailing off into the sunset. So we just want to thank him for all of his hard work and with all of you on the phone who he's spent many, many hours with both on the phone and in person. So, Larry, we want to thank you for that and with that, we hope everybody has a great afternoon.

Steve Keen - ***IDACORP, Inc. - SVP, CFO & Treasurer***

Thank you.

Operator

That concludes today's conference. Thank you for your participation.

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