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IDA - Q4 2017 Idacorp Inc Earnings Call

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PRESENTATION

Operator

Welcome to the IDACORP's Fourth Quarter 2017 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 idacorpinc.com. (Operator Instructions)

Now I will turn the call over to Justin Forsberg, Director of Investor Relations. Please go ahead.

Justin Forsberg

Thanks, Stephen. Before the markets open today, we issued and posted to the IDACORP website both our fourth quarter 2017 earnings release and our Annual Report on Form 10-K. The slides we'll be using to supplement today's call are also available on our website. We'll refer to those slides by number during the call.

As noted on Slide 2, our presentation today will include forward-looking statements, which represent our current views on what the future holds. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from statements made today, some of which are listed on Slide 2, and are supplemented by information in our filings with the Securities and Exchange Commission, which we encourage you to review. We caution you against placing undue reliance on any forward-looking statements.

As noted on Slide 3, on today's call, we have Darrel Anderson, our President and Chief Executive Officer; and Steve Keen, our Senior Vice President, Chief Financial Officer and Treasurer; along with other individuals available to help answer your questions during the question-and-answer period.

On Slide 4, we present our quarterly and annual financial results. IDACORP's 2017 fourth quarter earnings per diluted share were $0.77, an increase of $0.11 per share from last year's fourth quarter.

For the full year 2017, earnings per diluted share were $4.21, $0.27 higher than 2016.

I will now turn the presentation over to Steve.

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Thanks, Justin. We are pleased to announce that 2017 earnings exceeded our internal expectations and resulted in IDACORP's tenth consecutive year of earnings growth.

We also note that the midpoint of our opening guidance for 2018 is $0.20 higher than where we opened last year, which is a 5% improvement. This is stronger year-over-year growth in that metric than we assume recently and reflects our balanced regulatory outcomes and continued customer growth.

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I'll walk through the earnings drivers in a moment, but I want to take some time to reflect on how hard our team has worked for positive outcomes for all stakeholders over the past year.

Throughout 2017, we worked with the staff at the Idaho and Oregon regulatory commissions and various interested parties on several challenging but important items. The collaborative outcomes of the North Valmy settlement stipulations of both states were positive. They allow us to prepare for an end to Idaho Power's participation in that coal-fired plant while ensuring the company receives a reasonable return on its investment.

We also believe that the settlement stipulation we filed in relation to the Hells Canyon Complex prudence review in Idaho, if approved by the commission, adds more certainty for Idaho Power as we work towards completing the relicensing process over the next few years. It was a productive and challenging year, and I thank everyone for their efforts.

Looking ahead, we will continue to work with the state regulatory commissions on a reasonable method to return the benefit of expected lower future federal income tax expense to our customers while ensuring Idaho Power's continued financial health.

With that, let's review last year's earnings. On Slide 5, you'll see a reconciliation of income from 2016 to 2017. Operating income at Idaho Power increased by $35.6 million. This was partly driven by strong customer growth that reached 2% for the first time since 2007, and increased operating income by $9.2 million.

Warmer-than-normal weather during the summer months, along with a colder-than-normal January and February, increased usage per customer by $9.9 million, which was net of an 11% decrease in irrigation usage per customer. These increases were offset by a $12.1 million decrease in fixed cost adjustment revenues, which tempers benefits derived from extreme weather for sales to residential and small commercial customers.

Ongoing benefits resulting from rate adjustments earlier this year make up most of the $34.1 million attributable to an increase in revenue per megawatt-hour as well as most of the additional $18.4 million in depreciation expense further down the table.

Settlement stipulations related to North Valmy are expected to add about $5 million of net income annually with a gradual decline through 2028.

The remaining increase in revenue per megawatt-hour relates to a greater proportion of residential sales in higher-rate tiers. In addition to these changes in general business revenues, Idaho Power's operating income benefited from an $11.9 million increase in transmission wheeling due to increases in wheeling volumes throughout the year and the transmission wheeling rate, which is updated each October. The Federal Energy Regulatory Commission approved increases in the transmission wheeling rates in 2016 and in 2017, and the rates now fully reflect the impact of the transmission asset swap between Idaho Power and PacifiCorp in 2015 and more closely align rates with the cost of providing transmission service.

Operating and maintenance expenses at Idaho Power decreased $2.2 million for the year due to offsetting factors. Beneficial decreases in O&M came from $2.4 million related to previously expensed energy efficiency labor cost now deemed prudent by the Idaho Commission and $2.7 million related to lower cost at our thermal plant. These decreases were partially offset by a $2.5 million increase in O&M related to the pending Hells Canyon Complex settlement stipulation in Idaho, which would establish the reasonableness of relicensing cost incurred through December 2015. A reduction in allowance for funds used during construction of $2.5 million was also related to this settlement stipulation and drove most of the $2.8 million decrease in nonoperating income and expenses further down the table.

Income taxes year-over-year were $14.1 million higher, mostly related to higher current year pretax earnings as well as a $5.6 million tax benefit related to Idaho Power's early redemption of long-term debt in the prior year.

In addition, the Tax Cuts and Jobs Act increased Idaho Power's 2017 income tax expense by $2 million over last year as certain unprotected deferred tax accounts were adjusted to reflect the new federal rate. Idaho Power, once again, did not record any additional accumulated deferred investment tax credit, or ADITC, amortization during the year under its Idaho regulatory stipulation as the Idaho jurisdictional return on year-end equity was just under 10%.

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Finally, IDACORP's 2016 net income also included $3.7 million of income from a December 2016 settlement relating to the California energy market proceedings, which increased prior year earnings.

Overall, these and a few other changes combined to increase both Idaho Power's and IDACORP's net income by $17.1 million and $14.1 million, respectively, over last year.

IDACORP and Idaho Power continue to maintain strong balance sheets, good liquidity and investment-grade credit ratings. Both Moody's and S&P have stable outlooks on the companies and earlier this month, Moody's affirmed its ratings.

On Slide 6, we show IDACORP's operating cash flows, along with liquidity positions as of the end of 2017. Cash flow from operations increased $90.3 million, mostly due to higher net income, collections of prior year power costs and fixed cost adjustment balances and the timing of working capital receipts and payments.

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 through 2022. The liquidity available under the credit facilities is shown on the bottom of Slide 6.

Slide 7 shows our initial 2018 earnings guidance and estimated key financial and operating metrics for the full year 2018. At this time, we expect IDACORP's earnings to be in the range of $4.10 to $4.25 per diluted share.

For O&M, we are forecasting a 7 straight year of relatively flat spending aside from modest increases in labor-related expenses.

We expect Idaho Power to utilize less than $5 million of additional ADITC amortization in 2018. We continue to strive to minimize credit use. We remain committed to preserving our ADITC balance for future years. Importantly, the full $45 million of credits remain available.

For capital expenditures, we expect to spend between $280 million and $290 million this year.

Our hydroelectric generation will likely be in the range of 7.5 million to 9.5 million-megawatt hours, reflecting strong reservoir storage with current snowpack levels that are slightly below normal.

These guidance assumptions reflect approval of the Hells Canyon Complex settlement as submitted, reasonable regulatory treatment associated with income tax reform and as always, normal weather conditions.

In regard to tax reform, we do not anticipate significant impacts to projected cash flows or material impacts to earnings going forward. We are working with regulators to return the appropriate future income tax benefits to our customers.

As you know, our regulatory flow-through income tax accounting has kept our effective tax rate significantly below the statutory rate in prior years as we flowed net tax benefits, where allowed, directly onto customers. That implies that the recent reduction in the federal statutory rate will be proportionately smaller for us going forward due to our lower starting point. But clearly, income taxes will be lower.

Having flowed benefits through, we had essentially no net excess deferred tax collections to return to customers from prior years, but saw a significant reduction in our net regulatory receivable for income taxes on the balance sheet as future collections are now expected to be repaid at a lower rate. Once we have greater clarity on regulatory decisions and potential state-level policy actions, we'll have better visibility on our forward effective tax rate.

I'll now turn the presentation over to Darrel.

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Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

Thanks, Steve, and thanks, everyone, for joining us on our call today. 2017 was a year filled with growth and success, both for Idaho Power and for our service area.

I'd like to start with a few statistics to illustrate some of our encouraging growth trends. As Steve mentioned, Idaho Power saw customer growth in 2017 of 2%. As you can see in the U.S. Census Bureau map on Slide 8, Idaho's 2.2% population growth makes it the fastest-growing state in the nation.

In addition, business and economic growth remained strong. Unemployment in our service area was 3% in December 2017 compared with 4.1% at the national level. Compared to this time last year, employment in our service area increased approximately 3.7%.

Gross domestic product grew 4.5% over last year's fourth quarter in Idaho Power's service area, while Moody's Analytics projects 2018 and 2019 GDP growth to be 4.5% and 3.4%, respectively.

National publications continue to recognize parts of our service area for actual and potential future growth. Milken Institute ranked Boise #3 for year-over-year job growth in its 200 best large cities index, while USA TODAY included Meridian, Idaho, one of the largest cities in our service area and the state, among its top 25 cities in America.

Most recently, I'd like to point to an Idaho Statesman article highlighting how outside investors are driving growth and development in the greater Boise area. Outside investment, industrial construction, evolving office spaces and an uptick in hotels are just a few of the factors leading the Boise area real estate sector.

Turning to Slide 9, economic development continues to bring great opportunities for new large-load projects. Currently, Capitol Distributing is constructing an approximately 200,000 square foot distribution center at Sky Ranch Business Park in Caldwell, Idaho, that will serve 234 Jacksons Convenience Stores throughout regions of the Western United States. This project is scheduled to be in service by the end of 2018.

A relatively recent business development opportunity for Idaho Power relates to crypto currency. As you likely are aware, mining of these currency such as Bitcoin requires a great deal of energy, and we have certainly seen a noticeable uptick in the number of individuals and businesses seeking low-cost energy locations to operate their electronic mining equipment in a more cost-effective manner. While it is yet to be seen whether these inquiries will result in sustainable load increases, we continue to engage with these potential customers and could expect to see several megawatts of new cryptocurrency mining customer load by the second quarter of this year.

Turning now to a few regulatory large project updates on Slide 10. We are working with our State Regulatory Commissions to determine how the income tax reductions resulting from the Tax Cuts and Jobs Act will benefit customers. We are committed to keeping customer rates among the lowest in the country and the lower cost resulting from tax reform will help in that regard.

As Steve noted, Idaho Power is different from many utilities in that it uses a flow-through income tax accounting method that has long reduced income tax expense and contributed to lower customer rates. This was why our 2017 tax reform-related adjustments were modest. We hope to have more clarity on the future impact of tax reform in Idaho by the end of March.

Next, the Boardman to Hemingway transmission line project reached a major milestone in November when the Bureau of Land Management released its record of decision for the proposed 300-mile, 500-kilovolt transmission line that will run from Southern Idaho to Northeast Oregon. Work continues on the Oregon permitting process, and we expect to receive a draft proposed order in 2018.

The project is moving forward with anticipated in-service date of 2025 or beyond. We are currently working with the Oregon Public Utility Commission on the acknowledgment of our 2017 Integrated Resource Plan, or IRP, that includes the line in our preferred resource portfolio. The acknowledgment will be another major milestone for the project. We expect to know the outcome of this decision in April. The Idaho Public Utilities Commission acknowledged the 2017 IRP earlier this year.

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We continue to work towards renewing a long-term federal license for the 3-dam Hells Canyon Complex, the company's largest generation resource. In late 2017, the company reached a tentative settlement with the IPUC staff calling for approximately $216.5 million in expenditures related to the relicensing of the Hells Canyon Complex to be designated as reasonable and eligible for recovery in future customer rates. We expect a decision on the settlement from the Idaho Commission in the first quarter of this year.

Continued customer growth and the effective management of operating expenses are top of mind as we evaluate the need and timing of filing general rate cases. We do not plan to file a general rate case in either Idaho or Oregon in 2018, and we will continue to study the need for doing so in 2019 and beyond. We have not made a general rate case filings since 2011.

Referring to Slide 11, IDACORP is committed to growing its business and shareholder value. One of our 4 strategic initiatives for 2018 is growth and enhancing financial strength through business development, exploring new revenue opportunities, promoting electrification and optimizing wholesale transmission and energy sales.

As always, our overall business strategy balances the needs of our customers, shareholders and the communities we serve. As we strive to provide reliable responsible fair price energy, I would like to point out on Slide 12 one of the many ways the company is managing its environmental impact.

Coal accounted for 18% of our total energy supply in 2017, down from just over 24% in 2016. The company beat its CO2 emissions intensity reduction goals in 2017 with both total emissions and emissions intensity reaching new lows. The company's diverse generation portfolio and long-term resource planning, including the planned early retirement of the North Valmy coal plant in Nevada, point towards expected continued carbon emissions reductions in the future.

I will close with a brief look at weather projections. One indicator on the weather is that famous groundhog, Punxsutawney Phil. If you believe in Phil, we will have 6 more weeks of winter weather as we see today with a fresh blanket of white over the foothills in Boise. But if you are more scientific, we refer you to Slide 13, where current projections call for an equal chance of above or below normal temperatures and precipitation. While average conditions are forecast, the higher-than-normal reservoir levels across our service area, thanks to last year's heavy snowpack, lead us to believe that we should have another good water year in 2018.

With that, Steve and I and others on the call will be happy to answer any questions you have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Chris Ellinghaus with Williams Capital.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Steve, a couple -- can I get a couple of clarifications on things. You mentioned, $2.5 million was an adder to O&M. That $2.5 million, I presume, is the after tax amount from the Hells Canyon charge from the settlement?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

That's a pretax charge.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Yes, the $2.5 million is pretax?

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Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Yes, pretax, yes.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. What happened to the $4.3 million that was from the 8-K?

Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

(inaudible) AFUDC?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Are you talking just AFUDC or the whole -- there's 2 portions that were impacted from Hells Canyon.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Just from my recollection, the 8-K said there will be a $4.3 million pretax expense in the fourth quarter?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Yes. It's an estimate and I think it included that and some O&M costs that were just specifically set aside. So it's 2 portions, I believe, that get to the $4 million.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. You go with the $2.5 million pretax?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

It's roughly $4 million in total as I recall.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. What was the -- there was another item. You said something about there was an offset right after that, I didn't quite catch what you were talking about.

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

We also had a positive benefit to the O&M in that we got allowed roughly $2 million, $2.5 million for the labor cost related to our demand-side management program. And this is something that had been looked at in the past, hadn't been specifically disallowed, but we had expensed those items as we went along, and that underwent a review this year and we were allowed to take that and basically, the funds were funded by the rider. So it replaced them all.

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Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

And then you said tax reform was about a $2 million hit in the quarter?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Yes. That was the effect on Idaho Power, and it related to what we needed to do at the end of the year, trueing up balances. When the tax reform was adopted in '17, we had to make sure the balance sheet got corrected. And just a little guidance there with -- as you know, for the most part, we don't have as many unprotected balances. But all of our, really, short-term timing differences, for instance, our -- the mechanisms for the PCA and that sort of items that turn within a real short time, those do carry deferred taxes and they had to be corrected.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Right. Okay. As far as hydro goes, you were talking about a couple of things that seem to be a little bit opposed in terms of snowpack versus where reservoirs are. How would you characterize your current standing versus this time last year?

Steven R. Keen - *IdaCorp, Inc. - CFO, SVP, Treasurer, CFO of Idaho Power Co., SVP of Idaho Power Co. and Treasurer of Idaho Power Co.*

Chris, I'll give you the -- my sight is that I believe we aren't seeing the phenomenal year in terms of snowpack that we had last year, is extremely strong, but the difference is we have a very strong reservoir story this year and the snowpack, while it's not quite normal, is looking pretty good and it is still coming, so I think it's a little early to judge it as a problem at all. And the reservoirs are very full such that the carryover alone probably takes care of most of needs this year and really, you're looking for a snowpack to replenish it so that you're looking good going into next year as well.

Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

Chris, this is Darrel. If you look at the numbers Steve shared on estimated hydro gen for -- in the guidance we gave you, which is 7.5 million to 9.5 million megawatt-hours, and you look at the actual numbers that we did, which is 8.9 million megawatt-hours in this last year with the snowpack that we did have. So if you look in and around the midpoint of that number, we're not that far off of where we ended up this year and mainly benefiting from the significant carryover. And another thing is, again, we just got a big dumping of snow last night and today, and so we're still in that snow accumulation period. So while we -- I would say, we started out the year slow, we still have another month or 2 of snow accumulation potential that's out there that could continue to help enhance that, which is why we have that range of 7.5 million megawatt-hours to 9.5 million megawatt-hours. So there's -- but we are -- as Steve said, we have really good reservoir carryover where we sit today, and better than what we've seen in a long time.

Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Darrel, I think you said you were slightly below normal snowpack-wise. Do you remember where you were last year relative to normal?

Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

We were quite a bit above normal last year at this time. But didn't -- but also last year, we didn't have that reservoir carryover that we have this year. So you kind of have -- you've got last year's -- this year benefiting from last year's snowpack, whereas the year prior, we didn't have the carryover. So that's why when you look at our hydro generation range, we are -- we still can -- we can still touch what we did this last year.

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Christopher Ronald Ellinghaus - *The Williams Capital Group, L.P., Research Division - Senior Equity Research Analyst of Power and Natural Gas*

Okay. One more thing, Darrel. You're sort of running really high at the moment in terms of customer growth and that might have some implications in the future about load growth. Are you thinking at this point that maybe there's some pressure on sort of your load forecast vis-à-vis where you reflected your expectations in the IRP most recently?

Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

I think that we take a long-term look on as it relates to the IRP and the low growth that's there. And so last year, customer growth, we are at 1.8%. This year, we're at 2%. And for the near term, I think we still feel pretty positive about where it is. But when you start looking at the 5-year and 10-year numbers, they -- those are probably still pretty reasonable, and we'll look at that as we gear up for our 2019 IRP and see if those modify. But we still have some pretty good numbers in the IRP when you take a look at that -- at what those numbers are. So I think overall, I would tell you, it's a -- we'll wait and see how it continues to go. But if you look on in our 10-K the information that we provided in there, we have -- we're talking about peak demand growing at 1.6%, retail sales growing at 1.1%. So -- and we are pretty close on our customer growth numbers in 2017. I think we're up by 0.1% of what we were forecasting on that 2% number, so we're pretty close.

Operator

(Operator Instructions) And that concludes the question-and-answer session for today. Mr. Anderson, I will turn the call back over to you.

Darrel T. Anderson - *IdaCorp, Inc. - CEO, President and Director*

Thank you, Stephen. Thank you. And thanks for all that were on the call this afternoon. We appreciate your continued interest in IDACORP, and we hope you have a great day. Thank you.

Operator

This concludes today's conference. Thank you for your participation. You may now disconnect.

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