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IDA - Q3 2018 Idacorp Inc Earnings Call

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PRESENTATION

Operator

Welcome to IDACORP's Third Quarter 2018 Earnings 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 S. Forsberg - IDACORP, Inc. - Director of IR

Thanks, Gary. Before the markets opened today, we issued and posted to IDACORP's website both our third quarter 2018 earnings release and our Form 10-Q. The slides we'll be using to supplement today's call are also available on our website. We'll refer to those slides 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, some of which are listed on Slide 2 and are also laid out in more detail in our filings with the Securities and Exchange Commission, which you should review. These risks and uncertainties may cause actual results to differ materially from statements made today. We caution against placing undue reliance on any forward-looking statements.

As shown on Slide 3, 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. We also have other individuals available to help answer any questions you may have after Darrel and Steve provide updates.

On Slide 4, we present our quarterly and year-to-date financial results. IDACORP's 2008 (sic) [2018] third quarter earnings per diluted share were \$2.02, an increase of \$0.22 per share over the last year's third quarter. For the first 9 months of 2018, earnings per diluted share were \$3.97, \$0.53 higher than the same period in 2017. We have increased our full year 2018 earnings guidance estimate to a range of \$4.40 and \$4.50 per diluted share. I will return the call over to Steve.

Steven R. Keen - IDACORP, Inc. - Senior VP, CFO & Treasurer

Thanks, Justin, and good afternoon, everyone. Continued strong customer growth largely driven by new customers moving to our service area, combined with a return to more normal irrigation sales and the impact of tax reform have led to another solid quarter. There are a lot of moving parts. So using Slide 5, I will walk through a reconciliation of income from the third quarter of 2017 to the same period of 2018. Customer growth of 2.2% added \$2.9 million to operating income this quarter. Overall usage per customer, however, was lower, decreasing operating income by \$2 million. Residential usage per customer was lower by 7%, as there were fewer cooling degree days in 2018 than in last year's new record third quarter. Further down the table, you will note an increase of \$5.1 million in fixed cost adjustment, or FCA, revenues related primarily to residential customers, which partially offset the lower residential use. Irrigation usage per customer, however, was 6% higher as the service area was very dry compared to last year. Including the increase in the FCA, the revenues related to per customer use were \$3.1 million higher for the residential and irrigation class.



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Lower customer rates related primarily to the tax reform settlements that were implemented June 1 of this year resulted in a \$10.2 million decrease in retail revenues per megawatt hour. An additional driver of the lower revenues per megawatt hour was a change in the customer sales mix, as volume sold to residential customers made up a smaller portion of that mix. Residential customers generally pay higher rates than other customer classes. In addition to these changes in retail revenues, as you'll see next on the table, Idaho Power's operating income benefited from a \$7 million increase related to higher transmission wheeling rates and volumes. This rate resets annually and decreased about 10% effective October 1, 2018, to align with recent costs and volumes.

Excluding the tax reform related to \$2.9 million of noncash expense amortization of regulatory deferrals, other operating and maintenance expense was \$5.2 million higher than in the third quarter of last year. Higher maintenance service costs led to a \$1.4 million increase in transmission and distribution asset maintenance expense, and labor and benefit cost increased \$3.8 million primarily due to higher variable employee-related costs.

Despite these differences for the quarter, we are maintaining our forecasted range of operating and maintenance expenses of \$345 million to \$355 million for the full year of 2018. Depreciation expense was higher by \$1.4 million over the comparative periods due to an increase in plants in service. Finally, IDACORP recorded \$1.5 million as a provision against current revenues to be refunded to customers through a future rate reduction. This sharing is based on our current estimate that our full year 2018 return on year-end equity in the Idaho jurisdiction will exceed 10% under our current Idaho regulatory stipulation. We project \$2 million of revenue sharing for the full year. With all the moving parts, Idaho Power's operating income decreased by \$8.3 million relative to last year's third quarter, resulting mainly from the customer benefit of the tax reform settlement on both rate reductions and increased amortization costs, which moved this line from an increase to a decrease.

Further down the table, the \$1.4 million increase in earnings of equity method investments relates to Bridger Coal company and is timing related. We anticipate annual earnings in 2018 related to this investment to be comparable with recent years or roughly \$10 million. Tax benefits from the remeasurement of deferred income taxes related to IDACORP's 2017 consolidated income tax return filings drove a \$5.7 million decrease in income taxes relative to the third quarter of 2017. These remeasurements relate to the change in the income tax rate and its impact on certain deferred tax items incorporated in the 2017 tax return.

As you recall, we had a charge related to this in our 2017 10-K of roughly \$2 million. As final tax entries were evaluated, the remeasurement was updated. The largest impact relates to Idaho Power's 2018 pension contributions that were able to be included in IDACORP's 2017 tax return. Sector-wide concerns about credit-related impacts of tax reform on the utility industry delayed our pension contribution decision until we received more certainty as to the outcome from the tax reform settlement discussions as well as help from positive weather impacts through this summer.

Because we had no required minimum contribution for 2018, we cautiously monitored our cash flows early in the year before taking advantage of this benefit that is not expected to recur.

The remaining income taxes were \$13.1 million lower, largely related to the lower statutory tax rate. Overall, Idaho Power's and IDACORP's net income were respectively \$11.9 million and \$11.6 million higher than last year's third quarter. IDACORP and Idaho Power continue to maintain strong balance sheet, including sound liquidity and investment-grade credit ratings.

On Slide 6, we show IDACORP's operating cash flows, along with our liquidity positions, as of the end of September 2018. Cash flow from operations increased approximately \$20 million, mostly due to higher net income and the timing of working capital received from payments, offset by changes in deferred taxes and taxes accrued and receivables as well as changes in power cost adjustment-related regulatory deferrals. The liquidity available under IDACORP's and Idaho Power's credit facilities is shown on the bottom of Slide 6. At this time, we do not anticipate issuing additional equity through the end of 2018 other than relative normal amounts related to equity compensation plans.

Slide 7 shows our updated and increased earnings guidance and estimated key financial and operating metrics for the full year 2018. Our strong performance through the first 3 quarters allows us to, again, increase our earnings guidance for IDACORP to the range of \$4.40 to \$4.50 per diluted share. Based on this guidance, we expect to achieve our 11th consecutive year of earnings growth. This guidance change includes our expectation to, once again, avoid using any additional ADITC in 2018, preserving the full \$45 million for future years. It also includes our expectation to share \$2 million for the year with Idaho customers. We reaffirm a 7th straight year of relatively flat operating and maintenance expenses, and also reaffirm between \$280 million and \$290 million of capital expenditures this year. Current conditions and actual results suggest that the hydroelectric



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generation range can be tightened to the range of 8.5 million to 9 million megawatt hours. We remind you that our guidance assumptions reflect normal weather conditions for the last quarter of 2018.

With that, I'll turn it over to Darrel.

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

Thanks, Steve, and thanks, everyone for being on the call today. It sounds like you guys have had a very busy day. The growth trend continued in the third quarter for Idaho Power and IDACORP as new residential and business customers continue to drive higher loads. We also saw progress on the Boardman to Hemingway transmission project in addition to the productive regulatory outcomes that guide our path forward. We are executing on our business strategy, and our shareholders and customers are both benefiting from our efforts.

On Slide 8, we see the customer growth remains strong at 2.2% over the last 12 months. Our service area continues to earn national recognition as one of America's most desirable regions to live and work. CNBC and MagnifyMoney included Boise in recent articles listing 15 cities, where jobs are plentiful and business is booming as well as America's biggest boomtowns. We saw load growth in food processing over last year and economic activity is projected to bring additional large load customers onto our system over the next couple of years. I'll provide a couple of examples. Last quarter, I told you about NewCold's plans to build to a cold storage facility in Burley, Idaho. As reported, an additional cold storage facility has chosen to cite a new 280,000 square-foot, \$40 million facility on property surrounding the Pocatello Idaho airport to support area farmers and food processors in the region.

The facility is expected to support up to 80 full-time jobs and their project is expected to be completed by the fall of 2019. Our existing customer, Simplot, has broken ground for its new 11-story, cold storage operation in Caldwell, Idaho. The facility will be highly automated, utilizing their latest in cold storage technology. It is our understanding that the Food Safety Modernization Act has increased demand for cold storage nation wide, and we are pleased that these new and existing customers have chosen to locate these facilities in Idaho's fertile agricultural areas. These facilities are expected to further enhance the business prospects for food growers and producers in our service area. Another example is Premier Technology, a vertically-integrated engineering, manufacturing and construction company based in Blackfoot, Idaho, which has chosen to expand its manufacturing footprint in the area. The company recently broke ground on a new welding and fabrication facility at its existing operations in Blackfoot, in addition to expanding 2 existing buildings. The expansion is expected to create up to an additional 150 new jobs. According to Moody's latest forecast, gross domestic product in Idaho Power service area is predicted to grow 4.2% in 2019.

Employment within our region remains on a positive growth curve. Compared to this time last year, employment within Idaho Power service area has grown to 2.6%, now exceeding 521,000 people employed, a new record. Unemployment at the end of the third quarter in Idaho Power service area was 2.4% compared with 3.7% nationally.

Now turning to Slide 9. Shareholders are continuing to benefit from our earnings growth in the form of increased dividends. In September, IDACORP's Board of Directors approved another quarterly dividend increase of \$0.04 per share from \$0.59 to \$0.63 per share or a 6.8% growth. This increase, when combined with increases approved by the board since 2011, represents a 110% increase in the dividend. We expect to recommend to the board future annual increases of 5% or more to remain near the upper end of target payout ratio of between 50% and 60% of sustainable IDACORP earnings.

I want to briefly address general rate cases. I stated last quarter that we did not plan to file a general rate case in Idaho or Oregon in the next 12 months. That remains true today as we look at the next 12 months. Steady load growth, combined with increases in the number of customers, productive regulatory outcomes and effective management of operating expenses, all played significant roles as we look at the need and timing of our next general rate case.

Turning to Slide 10. The Boardman to Hemingway Transmission Line Project, or B2H, recently received another significant milestone as the Oregon Department of Energy, or ODOE, announced Idaho Power's application for site certificate for B2H as complete and ready for review and recommendation to the Energy Facility Siting Council, or EFSC. This is a major milestone for the State of Oregon's permitting process and a positive indicator the project is moving forward. The next major milestone, the draft proposed order, is expected in early 2019. Given the status of the



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ongoing permitting activities and the anticipated construction period, Idaho Power expects the end service date for the transmission line to be in 2025 or beyond.

Next, I would like to take a look at weather on Slide 11. As Steve discussed, we experienced favorable weather conditions during the third quarter with warmer and drier weather in July and August in particular. The projected outlook for the period from November to January calls for comparatively mild and dry conditions. The good news is that we are beginning this water year with a relatively healthy reservoir carryover conditions. We actively manage our total resource requirements on an ongoing basis with a robust risk management program that considers several factors, including weather conditions.

And as a reminder, our power cost adjustment mechanism in both Idaho and Oregon reduces earnings volatility related to changes in our resource mix and associated power supply costs. I want to close with a comment about our energy efficiency programs. Earlier this week, the Governor of the State of Idaho presented Idaho Power company with the Governor's Award for Excellence in Energy Efficiency. The award honors an organization that demonstrates a commitment to energy efficiency at all levels of the organization through its programming, implementation and promotion. On behalf of our employees and customers, I was proud to accept this award that recognizes our long-term commitment to energy efficiency programs.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Julien Dumoulin-Smith with Bank of America Merrill Lynch.

Julien Patrick Dumoulin-Smith - *BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research*

With respect to the IRP update, just can you clarify a little bit how are you seeing Bitcoin miners and some of the other growth. I suppose, candidly 1.3% versus the 1.1% in 2017. I was thinking maybe it might be a little bit better. Are there any offsets to that number that we should be thinking about or any other moving pieces?

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

As it relates -- Julien, this is Darrel. So as it relates to the 29 IRP assumptions, we are -- for the retail sales growth in the near term 5 years, we are using 1.3%; for peak, we're using 1.4%. And obviously, you have to take a look at that over the long-term. You referenced the Bitcoin miners and cryptocurrency folks, and I will tell you, as we talk about before, we saw a lot of interest in the crypto, Bitcoin marketplace, but that is actually pretty well dried up as we've seen it. Now we still have some interest, but we have -- a lot of that what we thought was coming really hasn't materialized at this point for probably a lot of different reasons. But so when we look at the 1.3% and the 1.4%, respectively, that's really based on long-term sustainable growth. We weren't really sure the sustainability of some of the crypto and blockchain -- or the crypto and the Bitcoin markets to begin with. We had heard from others in the region that to be cautious and to begin with. And so the good news is, I think we've been, and so these numbers really don't factor that in. These factor more the things that I have talked about with respect to the more sustainable businesses and the manufacturing that we've been focused on in the food processing, dairy side of things, the technical side of things. So that's really what those growth numbers are focused on.

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Steven R. Keen - IDACORP, Inc. - Senior VP, CFO & Treasurer

Julien, this is Steve. I would just say, too, that as you looked at -- we were moving up on the actual retail growth from 1.1% to 1.3%, so that's about not quite 20%, a 15% increase. And then it's a 5-year number. So it didn't necessarily going to come out exactly that every year, there could be a shape to that, and it could be a little higher earlier. But if we do those in increments of years, so you get one change for the first 5, and then we have a different change that we use over the 20 years.

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

And I think the other part, as you know, I think, we probably have -- when you look at over 20 years, that's a long period of time. And the near-term, we have -- we know we have a little bit more intelligence on what's going on in the marketplace versus necessarily what's really going to happen in 20 years, but I will just tell you, I think, the one thing we do know for sure -- relatively sure and that is, the people -- Idaho has been discovered, and we're getting a lot of people coming here for a lot of different reasons. And so I think, the in-migration side of this and it's just the 2.2% customer growth side of that, is a really positive message, and we still see customer growth strong. The question is going to be, how much juice are they going to use? Energy efficiency, as they noted earlier, has had an impact, obviously, as we see more efficient appliances, smaller footprints on residences and where people live. And so all those things come into play. So to still have the 1.3% number out there despite all those things, I think, it's a pretty strong message.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Got it. In fact, let me just make sure I'm reading between the lines appropriately. Are you kind of suggesting that the near years might be better than the 1.3% and that this might be a conservative kind of 5-year view?

Steven R. Keen - IDACORP, Inc. - Senior VP, CFO & Treasurer

I'm not basing that exactly on the IRP, but when we look at other projections, whether it's Moody's or someone else, it's usually a curve, seldom is it a flat number for 5 years. And so in the IRP, we use -- they use these inputs that are over periods of time. So you have to factor in the fact that it may not come exactly that amount every one of those 5 years. It's -- and it's -- as Darrel said, we're stronger in the early years that we are in the 20, but both of them actually went up from a use standpoint. So that's a good thing from our perspective.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Got it. And then returning to the other side of capital investment. I believe you have something like around \$100 million give or take to replace scrubbers at Bridger by '21. Are you still more likely to run the plant at a lower rate than spend that capital? How do you think about the merits of that? And how are you thinking about acceleration of end of life of units more broadly?

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

So Julien, Bridger, that's an ongoing conversation we're having right now with our partners. So we're going to look at what's in the best interest for our customers, what's in the best interest for our resource portfolio, along with staying tied to where our partners are headed. So -- but I can tell you there, that's ongoing conversations, and we will -- as that unfolds, we will have the opportunity to share that in subsequent calls. But right now, all I can tell you right now we're just working closely with our partners as to determine what the ultimate course of action is going to be there. As you know, we've got -- 2 of the units are scrubbed, 2 of the units aren't scrubbed, and we're assessing what the best course is as we go forward. But as...



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Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

There's a time line for approval -- sorry.

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

And I would just say -- I would say when we have this year-end call, when we have our call in February, we'll likely have an opportunity to give you an update then.

Julien Patrick Dumoulin-Smith - BofA Merrill Lynch, Research Division - Director and Head of the US Power, Utilities & Alternative Energy Equity Research

Last quick one from me on just Boardman to Hemingway, good stuff in terms of the execution in the quarter here. Anything that you're keen to get done by the end of the year, given some of the political changes out of the elections, et cetera? Or are you pretty satisfied in terms of the successes, milestones achieved thus far?

Steven R. Keen - IDACORP, Inc. - Senior VP, CFO & Treasurer

Well, we're in the middle of that process now. So from a political perspective, it's more in the process standpoint as it relates to Oregon. We are expecting -- we're hoping there is an exact decision by sometime early 2019. So I am not sure the elections should have an impact on that because it's -- now it's within the agencies, working to the agency process. So I think that's -- we have to trust the process as it stands right now. And given where we stand right now, I think we're confident that it's moving on pace.

Operator

The next question comes from Paul Ridzon with KeyBanc.

Paul Thomas Ridzon - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

Darrell, I kind of missed what you said about the rate case outlook. Could you just repeat that?

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

Yes. As we sit here today, as we look forward for the next 12 months, we don't see -- we have no plans to file a general rate case in either Idaho or Oregon. And that's really based on, as we look on the horizon, continued load growth that's coming. Steve talked about our cost management that we've been successful on. Those two things are going to continue to drive that. And we have other mechanisms that are in place that helps us continue to manage the business, and we're going to do everything that we can to try to manage that and not have to go in if we don't have to. And so that, as we look on the horizon today, we don't expect to have to do that in the next 12 months. And then a remind -- just as a reminder, our regulatory process in Idaho, remember, so it's a 7-month process basically. So you think about that a year from now and if we haven't filed -- let's just say, we were hypothetically to file something in a year from now, that's basically 19 months out before we likely see a rate change.

Paul Thomas Ridzon - KeyBanc Capital Markets Inc., Research Division - VP and Equity Research Analyst

And from a practical standpoint, you typically file mid-year. So can we assume that you're not thinking about a rate case at least until mid '20?



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Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

I'm just going to say right now, we have no plans for the next 12 months because you know -- historically, you're right. What we've generally done is synced up those cases, so that -- so we would generally have a price change that would take place in and around June 1 when we adjust our power supply costs, but that's not always a hard and fast as you've noticed with -- well I guess, Langley was similarly scheduled up, but that's sort of the idea. But we're going to look at it as it relates to what the needs are and determine our filings schedule based on need.

Operator

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

Darrel T. Anderson - IDACORP, Inc. - President, CEO & Director

Well, thank you, and thanks, everybody, for participating. We know you've had a hectic day. We'd like to thank you for your continued support in IDACORP. And we look forward to seeing many of you at the financial conference later this month in San Francisco, and we hope you guys all have a great rest of your day. Thank you very much.

Operator

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

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