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IDA - Q3 2019 Idacorp Inc Earnings Call

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PRESENTATION

Operator

Welcome to IDACORP's Third Quarter 2019 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 and Treasury. Please go ahead.

Justin S. Forsberg - IDACORP, Inc. - Director of IR

Good afternoon, everyone. Before the markets opened this morning, we issued and posted to IDACORP's website both our third quarter 2019 earnings release and Form 10-Q. The slides that accompany today's call are also available on our website. We'll refer to those slides by number throughout the call.

As noted on Slide 2, our discussion today includes forward-looking statements, including earnings guidance, which reflect our current views on what the future holds. These forward-looking statements are subject to risks -- to several risks and uncertainties, some of which are listed on Slide 2. This cautionary note is also included 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, and 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; Lisa Grow, President of Idaho Power Company; and Steve Keen, Senior Vice President, Chief Financial Officer and Treasurer. We also have other company representatives available to help answer any questions you may have after Steve, Lisa and Darrel provide updates.

On Slide 4, we present our quarterly financial results. IDACORP's 2019 third quarter earnings per diluted share were \$1.78, a decrease of \$0.24 per share over last year's third quarter. IDACORP's earnings per diluted share for the first 9 months of 2019 were \$3.68, a decrease of \$0.29 per share over the first 9 months of 2018. Year-to-date, IDACORP's earnings are the second highest achieved in its history, exceeded only by last year's record results.

Today, we raised the bottom end of our full year 2019 earnings guidance estimate to the range of \$4.40 to \$4.50 per diluted share. We also decreased both ends of the range of our estimate of operating and maintenance expenses by \$5 million. I will now turn the call over to Steve.



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

Thanks, Justin, and Happy Halloween, everyone. Overall, despite some challenging weather, we saw operating income relatively flat to last year's third quarter. The nonrecurring effects of income tax reform and other positive tax return adjustments last year led to our lower net income.

With that, I'll walk you through the drivers quarter-over-quarter on Slide 5. Customer growth has continued to rise in Idaho Power service area at a rate of 2.6% over the last 12 months. This growth, along with lower expenses, nearly offset the decrease in retail and transmission revenues resulting from the combination of milder regional weather and greater precipitation in our service area.

Net customer growth added \$5.5 million to operating income in the quarter. An overall decrease in usage per customer, mostly related to lower irrigation sales and weather, decreased operating income by \$8.6 million. An increase of \$1.7 million in fixed cost adjustment revenues, next on the table, offsets most of the lower usage per customer in the residential and small general service categories. Precipitation in the Boise area for the quarter went from about 0.1 inch last year to nearly a full inch this year. In addition, overall cooling degree days were 7% below last year.

Next on the table, net retail revenues per megawatt hour decreased operating income by \$1 million. The settlement stipulations associated with the income tax reform reduced revenues more significantly this year, as anticipated. These items together net to a \$2.4 million decrease to operating income.

Transmission wheeling-related revenues were down about 24% or \$5.1 million. Lower hydropower generation in the Pacific Northwest and more moderate temperatures throughout the region resulted in lower wheeling volumes this year.

In addition, the open-access tariff rates declined by about 11% over the comparable period. The tariff rate filed with the Federal Energy Regulatory Commission declined an additional 13% effective October 1, 2019.

Next on the table, other operating and maintenance expenses decreased by \$4.4 million due to a \$1.6 million decrease in labor and benefit costs in 2019 and a \$2.9 million O&M noncash amortization expense of regulatory deferrals in 2018 related to tax reform that did not continue.

Finally, during last year's third quarter, Idaho Power recorded \$1.5 million as a provision against revenues for sharing of earnings with customers under the Idaho earnings support and sharing mechanism. As we currently anticipate Idaho jurisdictional return on year-end equity to be less than 10% this year, Idaho Power has not recorded any such provision in 2019. These items collectively net to an operating income that is comparable with last year's third quarter.

Earnings of equity method investments, which largely consist of earnings from Bridger Coal Company, returned to a more normal level this quarter, resulting in a \$2.5 million decrease to earnings. For the full year, we expect these earnings to be in line with the prior years. A \$2.2 million positive change in nonoperating income and expense offset much of this decrease.

As for income taxes, the third quarter of 2018 included \$5.7 million of tax benefits at Idaho Power from remeasurement of deferred taxes due to income tax reform. There was no such remeasurement in 2019.

Also, typical third quarter updates to deferred income tax and plant-related tax return adjustments increased Idaho Power's income tax expense this year compared to a decrease in last year's third quarter. Overall, Idaho Power's and IDACORP's net income were \$12.2 million and \$12.3 million lower than the third quarter of last year, respectively.

IDACORP and Idaho Power continue to maintain strong balance sheets, including investment-grade credit ratings and sound liquidity, enabling us to fund ongoing capital expenditures and dividend payment.

Regarding dividends, in September, the Board of Directors approved a 6.3% increase in the quarterly dividend from \$0.63 to \$0.67. This latest increase means that IDACORP has increased the annualized dividend by a total of 123% since 2011. We also expect to recommend an annual dividend increase of 5% or more to the Board of Directors in the coming year, and Darrel will be providing additional color on our dividend policy later on the call.



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In addition, Idaho Power purchased market and remarketed 2 of its outstanding series of pollution control tax-exempt bonds this August, totaling about \$166 million with a great outcome. These 2 bonds were remarketed with substantially the same remaining terms but with lower interest rates. The term interest rate on the \$49.8 million bond due in 2024 decreased from 5.15% to 1.45%, and the term interest rate on the \$116.3 million bond due in 2026 decreased from 5.25% to 1.7%. Going forward, we expect the lower interest rates to reduce interest expense by approximately \$5.6 million annually for the next 5 years until the smaller bond matures and \$3.9 million annually thereafter for the final 2 years of the long-life bonds. This successful transaction benefits both shareholders and customers.

On Slide 6, we show IDACORP's operating cash flows along with our liquidity positions as of the end of September 2019. Cash flows from operations were about \$79 million lower than the first 9 months of 2018, mostly related to changes in income tax balances and regulatory assets and liabilities as well as the timing of working capital receipts and payments and lower net income.

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 in the remainder of 2019 over the relatively nominal amounts under compensation plans.

Slide 7 shows our updated full year 2019 earnings guidance and our key financial and operating metrics estimates. With financial performance to date and our outlook for the balance of the year, we have lifted the lower end of IDACORP's 2019 earnings guidance to the range of \$4.40 to \$4.50 per diluted share. In the Idaho jurisdiction, we are currently forecasting Idaho Power to be at or above a 9.5% return on year-end equity, with our full \$45 million of allocated tax credit support still available if needed.

We have also changed our expected O&M range to \$345 million to \$355 million, which would not only be lower than last year's O&M expenses but also keep O&M close to the \$350 million level for the eighth straight year. We reaffirm our expectation that capital expenditures will be in the range of \$280 million to \$290 million.

Our current reservoir storage and stream flow forecasts suggest that hydropower generation should now be in the range of 8 million to 8.5 million megawatt hours. As always, our metrics reflect an assumption of normal weather conditions for the remainder of the year.

Looking ahead to this year's fourth quarter, keep in mind that in the fourth quarter of 2018, Idaho Power recorded \$3.5 million of revenue-sharing and the earnings from Bridger Coal Company were negative. Assuming normal weather conditions, we expect this year's fourth quarter earnings to be more typical because we do not expect it to include revenue-sharing adjustments under the Idaho sharing mechanism and we expect full year Bridger Coal Company results to be in line with prior years.

With that, I'll turn the presentation over to Darrel.

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

Thanks, Steve, and thanks to everyone for joining today's call. I will break format a little bit today and begin my remarks by acknowledging some organizational changes that reflect our long-term succession planning efforts. As we announced in September, and we show on Slide 8, Idaho Power's Board of Directors named Lisa Grow as President effective October 1. Lisa brings a tremendous level of leadership to this role and has a deep passion for our company, as she has demonstrated during an outstanding 32-year career with Idaho Power. Her deep industry experience has been key during a time of unprecedented operational and financial success. I continue as CEO of Idaho Power and President and CEO of IDACORP. Lisa has held many important roles over the years, primarily in leadership positions within engineering and operations. Most recently, she served as Idaho Power's Senior Vice President and Chief Operating Officer.

With Lisa's promotion to President, the Board also named Adam Richins as Idaho Power's new Senior Vice President and Chief Operating Officer. Adam brings a unique background in both engineering and law to his new role. He joined the company as legal counsel in 2011 and has since served in several key leadership positions, most recently as Vice President of Customer Operations and Business Development.

Lisa and Adam's promotions were among several changes to our executive team effective on October 1. These changes are highlighted on Slide 8, and more details are posted on IDACORP's and Idaho Power's websites.



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With that, I would like now to turn the next portion of the call over to Idaho Power's new President, Lisa Grow.

Lisa A. Grow - *Idaho Power Company - President*

Thank you, Darrel. I'm excited to be here with everyone today and I'm thrilled and honored to serve as the President of Idaho Power. With Darrel, our Board of Directors and the entire executive team, our company has an outstanding leadership group, and I am grateful for the opportunity to serve them -- serve with them.

I would like to walk through some of the high-level trends that are helping drive our business. Customer growth is at the forefront, as shown on Slide 9. As Steve noted, growth continued upward with a customer growth rate of 2.6% over the past 12 months. It continues to be an exciting time to live and work in Idaho, with new customers of all kinds moving into and expanding in our service area. We hear many of these customers -- we hear from many of these customers that the reliable, affordable, clean energy that Idaho Power provides is one of the key drivers for the economic decisions they are making in our region.

As far as the activity from large business customers goes, particularly the food processing, manufacturing and distribution sectors, I have a few to highlight today. Notable large load projects that came online during the third quarter include an expansion to the Tamarack mill in the Northern part of our service area and a large expansion of Idaho milk products in the agricultural area located in South Central Idaho that continues to see major growth. Some of you might not be aware, but Idaho is actually the third-largest milk-producing state in the country.

We also have several large industrial and commercial projects scheduled to begin taking service later in 2019 and beyond, including a recently announced 650,000 square foot Amazon distribution center in the Boise Valley. The center, which is expected to bring 1,000 jobs to the area, has a forecasted in-service date of September 2020.

Moody's current forecast of gross domestic product in Idaho Power service area predicts growth of 3.7% in 2019 and 4.2% in 2020. Employment within our region also remains on an upward trend. Compared with this time last year, employment within Idaho Power service area has grown 3.3%, with 543,000 people now employed. Again, a new record. Unemployment in Idaho Power service area at the end of the third quarter was 2.8% compared with 3.5% nationally.

Turning to Slide 10. In our most recently filed Integrated Resource Plan, Idaho Power identified ending its participation in 2 Jim Bridger coal-fired units in 2022 and 2026, respectively, supporting our clean by 2045 goal. With early exits already planned at Valmy and Boardman coal plants, the Jim Bridger plant represents the third and closing chapter along our path away from coal, and we are committed to working with all interested parties to ensure the timing of the exit -- to make sure that the timing of the exit will make sense for both shareholders and customers while looking for prudent new investment options to replace the lost capacity that will result.

As a reminder, we have been providing some additional modeling within our integrated resource planning process and we plan to supplement the currently filed IRP with additional information and modeling results by the end of 2019 or early 2020. The results of this effort could change the timing of potential exits from the Jim Bridger unit, which would ultimately be done in collaboration with PacifiCorp, the majority co-owner in the plant.

On another generation issue, recall that Idaho Power signed a 20-year power purchase agreement earlier this year for a planned 120-megawatt solar facility. This month, Idaho Power exercised its contractual right in the agreement to negotiate during the fourth quarter the acquisition of the facility. The power purchase agreement and acquisition are subject to state regulatory approvals.

Last quarter, Darrel stated 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 towards the next 12 months. Steady load growth, combined with increases in our customer base, constructive regulatory outcomes and effective management of operating expenses, all play significant roles as we look at the need and timing of our next general rate case.



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Next week, in connection with the EEI financial conference, we plan to publicly provide on IDACORP's website and in an 8-Ks we will file some further context surrounding where we see forecasted rate base today as well as explore some potential scenarios for Idaho Power's future rate base growth.

Before turning the presentation back over to Darrel, I would like to recognize our employees for the great work they have done on the customer experience front. You will see on Slide 11 that while Idaho Power scores in J.D. Power and other national rankings have traditionally been strong, we have made great strides over the last -- over the past 2 years and are continuing to improve. In fact, during the third quarter, the results of the 2019 residential study showed record high scores for our company, which put Idaho Power among the highest-scoring energy companies in the nation. From outstanding reliability and a better customer experience on our website to a redesigned bill and an enterprise-wide focus on customer service, virtually every Idaho Power employee has played a role in this success. It is something we are very proud of, and it raises the bar for measuring customer satisfaction going forward.

And with that, I will turn the time back over to Darrel.

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

Thank you, Lisa. Steve and Lisa's remarks here today have done a good job outlining some of the opportunities our company is facing as well as the excellent job our employees are doing to help ensure our continued financial and operational success.

I want to briefly return to the dividend topic. As Steve mentioned, and as you can see on Slide 12, our customer growth and financial success has enabled us to more than double the quarterly dividend since 2011. We continue to expect to stay near the upper end of our current target dividend payout range of between 50% and 60% of sustainable IDACORP earnings.

We expect to further discuss with the Board the appropriate target payout ratio in mid-November. We recognize that when we began raising the dividend about 8 years ago, we set the target payout ratio with the median of our utility peers in mind. We also recognize that many of our peers have increased their target payout ratios over the years and the median is now higher than the level we currently target. This fact will inform our discussion with the Board at its meeting next month as we consider a potential increase to the recommended target payout ratio range.

Since it is Halloween, we think it is only appropriate to end with 13 slides, and I will use the 13th slide for a look at the projected weather outlook. The National Oceanic and Atmospheric Administration currently suggests an equal chance of above or below normal precipitation levels throughout most of Idaho Power's service area and a 40% to 50% chance of above-normal temperatures into the early winter months. Of note, our early look at October weather statistics indicate it was the coldest October since 1985, with heating degree days showing about 50% above normal for the month. It looks to be a brisk evening tonight for those trick or treaters in our service area.

Reservoir storage levels continuing into this year's snow season should continue to provide favorable conditions for generation of low-cost hydropower next year. As a reminder, our power cost adjustment mechanisms in Idaho and Oregon significantly reduce earnings volatility related to changes in our resource mix and associated power supply costs that can fluctuate greatly due to weather. In addition, the fixed cost adjustment mechanism in Idaho reduces some of the volatility of temperature changes for residential and small commercial customer classes.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Brian Russo with Sidoti.



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Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Just are there any more PCB remarketing opportunities that we should be aware of?

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

No more -- no, I'm sorry. Brian, that's the end of our pollution control bonds. That is the only set that we've still got outstanding. So no, there won't be another set there. I think we will continue to monitor the rest of our bond portfolio. And it'll all depend on interest rates and where that stands, whether there's opportunities to refinance early or not. I do think we felt like we were through the majority of those. But if interest rates continue to stay where they are, there could be opportunities.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Got it. And then your comments earlier about the solar PPA and the option to purchase it or right of first offer, I guess. Any more insight onto that actual solar project, like number of megawatts? I guess you are the off-taker, but just anything -- any more detail on that would be great.

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

Brian, this is Darrel. It's a 120 megawatts project. So it's a pretty good size. It'd be the largest in Idaho.

Brian J. Russo - *Sidoti & Company, LLC - Research Analyst*

Okay. And it needs regulatory approval so that assumes at some point, you're going to want to add it to rate base?

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

Brian, it is structured as a PPA so it's a purchase of power. I think if -- as we pursue or look into whether we could be an owner, it may put us in that same position, that it would be some sort of a -- it would be a pricing constructed around it, what's in that purchase power agreement right now. I don't really envision it becoming a true rate base asset the way it's entered into the consideration.

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

It could -- Brian, it could become an investment outside of Idaho Power.

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

Could be non-reg.

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

A non-reg investment for us. Those are some of the things that we are looking at right now.



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

I would just say, Brian, a key component of why it's even being considered is the pricing. And so it is -- it would be around delivering that price that would make it an attractive thing that the commission might approve it. If that price -- and that will be what the commission will be deciding based on other information we still need to provide them that -- as to whether or not they feel like that's a good choice to take, make an investment or a commitment, I guess, you would say, for what they believe is a lower-cost opportunity going down the road against other things that might be in the IRP. So they will have to look at that and determine if it's prudent. They'll probably just lock it in on a price and make it a little more of that nature of an asset than something we would put in rate base.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Got it. Understood. Okay. And then not to jump ahead too far, but the expectation for rate base, current rate base disclosures at EEI. Just curious, how are you going to treat the CWIP balance on Hells Canyon? I mean is that going to be carved out? Or just any insight there?

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

I think what we envision is giving you an idea of the different buckets of spend over a couple of periods of time, maybe one in the near term that's kind of in our 5-year window and some that are a little longer. That amount has largely been reviewed from the standpoint of its prudence, at least the bulk of it. We've continued to spend dollars. So there's some beyond what was -- what went through the prudence review. But it will need to be close to plan at some time in the future, and we'll give you an idea of when that is without specifics because, as you know, that has been a difficult year to hit. But it isn't -- it's nearing the window where we have to start looking at that as a likely rate base item in the near future.

And it does extend beyond that. So yes. I'd say the other piece -- I think the new news with that one will be once it's closed, the obligations that come along with obtaining that license also will introduce new spending down the road, and that's a piece I don't think we've talked to you very much about.

Brian J. Russo - Sidoti & Company, LLC - Research Analyst

Okay. And then lastly, just -- could you just comment on your participation in the EIM? How is that going? Is it actually reducing costs? And where do you see that whole EIM construct going in the future?

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

So Brian, we're going to -- Tess Park, who heads up our Power Supply group, is with us today and she was sort of instrumental at EIM effort with her and her team. So we will ask Tess to just briefly comment on how EIM is working for us and maybe a regional perspective.

Tessia R. Park - IDACORP, Inc. - VP of Power Supply - Idaho Power Company

So the EIM continues to provide benefits to Idaho Power and the region, the Cal ISO posts regional benefits for that. As always, there's some question about the total value, but we continue to see benefits at the local level and increases in the dispatch of units in our service territory supplying the market as well as opportunities to buy at lower cost than what we could dispatch.

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

And Brian, as a reminder, the benefits of the EIM end up going back to our customers, which does help us manage the price impacts to customers, which kind of -- when you look at the bigger picture regulatory, that's a real positive that way. So it's been -- today, it's been good, and it continues



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to get larger with more participants coming on. And we got Bonneville now scheduled to join and some others coming on down. So it's getting a much larger footprint.

Operator

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

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

Gary, thank you so much, and thank you for all on participating on our call today. We appreciate your continued interest in our company, and we look forward to seeing many of you in Orlando at the EEI Conference in a little over a week or so. So thanks very much. Happy Halloween.

Operator

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

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