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IDA - Q2 2019 Idacorp Inc Earnings Call

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PRESENTATION

Operator

Welcome to IDACORP's Second 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.

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

Thanks, Carrie, and welcome, everyone.

Before the market opened this morning, we issued and posted to IDACORP's website both our second quarter 2019 earnings release and our corresponding Form 10-Q. The slide 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, including earnings guidance, 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. This cautionary note is 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, 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; 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 and Darrel provide updates.

On Slide 4, we present our quarterly financial results. IDACORP's 2019 second quarter earnings per diluted share were \$1.05, a decrease of \$0.18 per share over last year's second quarter. IDACORP's earnings per diluted share for the first 6 months of 2019 were \$1.90, a decrease of \$0.05 per share over the first 6 months of 2018.

Today, we also raised our full year 2019 earnings guidance estimate to the range of \$4.35 to \$4.50 per diluted share. I will now turn the call over to Steve.

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

Thanks, Justin, and welcome, everyone. Despite some challenging weather, we had a good quarter and have improved our outlook for the full year. As Justin mentioned, combined with the strong first quarter performance year-to-date, our earnings are only \$0.05 less than last year. Customer



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growth has continued to increase Idaho Power's -- in Idaho Power service area with an annual growth rate of 2.5% over the last 12 months. This growth, along with lower expenses the last year's second quarter, partially offset the decreases in revenues resulting from cool and wet springtime weather conditions.

Turning to Slide 5, our reconciliation of changes from the second quarter of 2018 to the second quarter of this year starts with customer growth which added \$4.2 million to operating income in the quarter. Overall usage per customer, mostly related to irrigation sales, decreased operating income by \$13.4 million. You can see an increase of \$1.8 million in fixed cost adjustment revenues next on the table which offsets most of the portion of lower usage per customer that relates to residential and small general service customers. Precipitation in the Boise area for the quarter was 85% above normal levels and 93% higher than last year. In addition, overall cooling degree days during the quarter was 13% below normal and 17% less than in 2018.

Next on the table, net retail revenues per megawatt hour decreased operating income by \$7 million. The settlement stipulations associated with last year's tax reform implementation on June 1 reduced revenues more significantly in this year's second quarter as 2019 reflects the amounts we expected for the ongoing full quarter. To a lesser extent, changes in the customer sales mix decreased retail revenues per megawatt hour as a greater percentage portion of the quarter's sales went to industrial customers in lower per megawatt rate classes. These revenue items net to a \$14.4 million decrease to operating income.

Transmission wheeling-related revenues were down roughly 13% or \$2 million as the Open Access Transmission Tariff rates declined by about 11% last October. As a reminder, wheeling rates reset annually to align more closely with cost and revenue impacts. Wheeling volumes remained relatively consistent with the levels we saw during last year's second quarter.

Next on the table, other operating and maintenance expenses were \$5.3 million lower. Other O&M related to hydro-generation decreased \$1.1 million due primarily to fewer maintenance projects at hydropower locations this quarter. Labor and benefit costs decreased \$1.5 million largely due to the levels of accruals for variable employee-related costs, \$1.1 million of the decrease in O&M related to income tax reform in 2018 as the second quarter of last year included noncash amortization of regulatory deferrals that would otherwise have been a future liability of Idaho customers. Altogether, these items net to a decrease in operating income of \$10.9 million over last year's second 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 \$1.4 million increase to earnings. For the full year, we expect these earnings to be in line with prior years. Overall, Idaho Power's and IDACORP's net income were \$9.5 million and \$9.1 million lower than the second quarter of last year, respectively.

IDACORP and Idaho Power continue to maintain strong balance sheets including investment-grade credit rating and sound liquidity, enabling us to fund ongoing capital expenditures and dividend payments. Over the past several years, the board has approved increases in the dividend in September for a total increase of 110% in the annualized dividend since 2011. We continue to expect to recommend to the Board of Directors annual dividend increases of 5% or more to approach the upper end of our target dividend payout range of between 50% and 60% of sustainable IDACORP earnings.

On Slide 6, we show IDACORP's operating cash flows, along with our liquidity positions as of the end of June 2019. Cash flows from operations were approximately \$30 million lower than the first half of 2018 mostly related to changes in regulatory assets and liabilities, the timing of working capital receipts and payments and lower net income, partially offset by changes in the timing of benefit plan contributions. 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 2019 other than 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 raised IDACORP's 2019 earnings guidance to the range of \$4.35 to \$4.50 per diluted share, and we continue to expect to preserve the full \$45 million of additional ADITC under our Idaho regulatory stipulation for future years. We reaffirm our expected O&M range of \$350 million to \$360 million as well as our expectation that capital expenditures will be between \$280 million and \$290 million. Our current reservoir storage and stream flow forecasts suggest that hydroelectric generation should now be in the range of 8 million to 9 million megawatt hours. As always, our guidance assumptions reflect a return to normal weather conditions.



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

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

Okay. Thanks, Steve. And we appreciate everyone joining us on today's call. As Steve noted, a mild wet spring did lead to lower energy sales in the second quarter compared with last year's. Still the company remains on track to meet our financial targets for the year, and we have made substantial progress on several important initiatives during the second quarter.

On Slide 8, we see that customer growth remains strong at a rate of 2.5% over the past 12 months. This is an increase from the 2.4% growth noted at the end of the first quarter. As new customers move to our service area, our company benefits from increased energy sales and further business development opportunities. The clean, reliable, affordable energy Idaho Power provides remains a key driver for continued economic growth in our region.

Idaho Power continues to experience robust growth in the pipeline of new and potential large business customers, particularly in the food processing, manufacturing and technology sectors. Several notable large load projects came online during the second quarter, including a \$30 million expansion finalized by Syngenta Corp production in Nampa, east of Boise -- excuse me, west of Boise. 175,000 square-foot facility will manage most of Syngenta's North American corn trade conversion work, and it will be a winter peaking load. We also energized a large load project for Oak Valley Dairy in Burley and a major expansion of the wastewater treatment facility for Jerome, a city in the southern region of our service area that has been the recipient of a significant increase in new business. We also expect additional commercial projects to begin taking service later this year and beyond.

Moody's current forecast of gross domestic product in Idaho Power service area predicts growth at 3.6% in 2019 and 4.3% 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 2.7% with 536,000 people now employed, another new record.

Unemployment in Idaho Power service area at the end of the second quarter was 2.9% compared with the 3.7% nationally. Idaho Power recently filed its 2019 integrated resource plan or IRP. The IRP is a 20-year plan that examines the cost, reliability and potential risk of the company's current energy sources and additional resources needed to serve growing demand. With a projected 11,000 new customers moving to our service area each year over the next 2 decades, the company expects peak load to grow an average of 50 megawatts per year and energy needs to increase by more than 20 average megawatts per year. The IRP identifies the Boardman to Hemingway 500 kilovolt transmission line as a preferred resource for meeting capacity needs. The 2019 IRP was Idaho Power's first IRP to use a long-term capacity expansion modeling system to identify economic resource portfolios under a range of future system conditions. This model simulates the entire western interconnection system to find an optimized Western interconnection resource portfolio. After filing the 2019 IRP, we had inquiries about the methodology used by the modeling software, and we concluded that there was a need to perform additional modeling to optimize the IRP to an Idaho Power-specific system. So Idaho Power is conducting further analysis and simulations now, and we expect to supplement the currently filed 2019 IRP with additional information and modeling results from the Idaho Power-specific system optimization view. If we identify significant differences in the results associated with the additional modeling, it could modify the preferred resource portfolio, identified in the 2019 IRP which could alter the anticipated timing of planned additions and retirements. We expect to have updated information by the end of October.

Hells Canyon relicensing continues to progress. Our certifications regarding fish passage in Section 401 of the Federal Clean Water Act have been issued by Idaho and Oregon following the settlement agreement both states signed earlier this year. Several parties filed lawsuits in Oregon state court related to the Section 401 certifications though there were no challenges filed in Idaho. We will continue to actively pursue relicensing and monitor progress as the Federal Energy Regulatory Commission or FERC relicensing process continues. Idaho Power continues to make progress to obtaining a new long-term license for Hells Canyon from the FERC in 2022 or beyond.

The Boardman to Hemingway transmission line project or B2H also continues to move forward. The Oregon Department of Energy issued a draft proposal order in May, the next major milestones are the issuance of a proposed order which we expect later this year or early 2020 and a final order and site certificate which we anticipate in 2021. As I have mentioned on previous calls, we expect B2H to play a significant role in helping Idaho Power achieve its 100% clean energy goal by 2045 as well as in our IRP long-term planning process.



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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 our customer base, constructive regulatory outcomes and prudent management operating expenses all play significant roles as we look at the need and timing of our next general rate case.

On Slide 9, we present current projections from the National Oceanic and Atmospheric Administration that suggests an equal chance of above or below normal precipitation levels and a 50% to 60% chance of above normal temperatures for the remainder of the summer and as we head into fall. As Steve indicated earlier, reservoir storage levels should provide favorable conditions for the generation of low-cost hydropower. As a reminder, our power cost adjustment mechanisms in Idaho and Oregon significantly reduced earnings volatility related to changes in our resource mix and associated power supply costs that can fluctuate greatly due to weather.

In closing, I wanted to acknowledge our recent 2019 J.D. Power Electric Utility Residential Customer Satisfaction results. We achieved a record score for Idaho Power that places the company among the top utilities nationally and second among the less mid-sized utilities. Our continued emphasis in areas of price, reliability, corporate citizenship and customer service continues to have positive impacts on our customers.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question will come from Chris Ellinghaus of Williams Capital.

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

Steve, if I look at the usage and the FCA adjustments, I think you said that's primarily irrigation, which is what you would expect with the FCA. Can we impute there that the irrigation impact was something like \$10 million, \$11 million?

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

It's certainly the majority of that number, yes. And we kind of anticipated you would be taking a look at that, and I think the one thing this year is a little unique, I'm not sure we've had it set up like this. But if you look back at last year, it is fairly close to a normal weather year. It's about as close as we get. The temperatures might have been off slightly but precip was really close to normal. And so if you look at where we are off of that this year, that's kind of a decent proxy, not 100% of that adjustment of \$13 million, but it's a good portion of it.

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

Okay. Yes, I was thinking netting that against the FCA would be (inaudible).

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

Yes. You need, yes, an FCA counter piece that relates to the small business, the small commercial and residential. And it's not 100% either, but it's pretty close. So that gives you an idea of the magnitude of what's in that \$13 million. You take that, the math you did is pretty close.



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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. What was July's weather like? Did it meet NOAA's expectations?

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

I don't know if I heard an exact, but it's -- I don't know if NOAA hit their expectations but...

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

Chris, this is Darrel. We were not as warm as last year in this July. So it was not a lot of precip, but it was still warm but not as warm as it was last year. And we don't have the numbers as it relates to normal. But from a comparative year-over-year basis, I'll just tell you as we sit here today, if you look at the next 10 days, it's pretty warm. It's coming up -- we have a couple of triple-digit days come on and high 90s, and so we're -- I think summer may be riding just a little bit later than it was last year. So it's a good heating trend that -- here in the electricity business.

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

Chris, the one -- if there's a comforting item to it, it's the, as Darrel mentioned, the precipitation wasn't anything at all like it was earlier. So I don't think that would have had an impact on irrigation, but it's still going on. It does taper off as the season moves through. But we didn't have the wetness that we did earlier that really that was probably the biggest thing that impacted irrigation was how moist it was.

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

Right. Darrel, you sort of mentioned that there was some other business development sort of in the pipeline. Can you give us any color about what you're seeing?

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

So I mentioned a couple of entities that actually have -- actually are coming online. New companies that are actually generating or taking energy from us now. We've got a series that are in the pipeline. I can't refer to any of them directly today, but I will just tell you that our pipeline continues to be robust as I look at that. And it's -- again, as I mentioned in my comments, it's really driven by a couple of things. One of them is price, is the affordability side of it. But also as entities are looking for clean energy, places to land for clean energy, they always see -- they know that we are already in a good position from a clean perspective. And so that just I think enhances at least our scorecard with respect to some of these enterprises so...

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

And the IRP -- the inquiries that you referred to that led to you doing some more modeling from the IRP, was that related to suspect load forecast or suspect growth in customers? Or what was it that was a question mark that led to the additional modeling?

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

So Chris, it was really about -- remember, this is a new modeling system that we used this year. And the -- what was -- the question that came up were around west-wide versus Idaho-specific. And what came out of it was really we needed to run some additional scenarios on Idaho-specific versus just the west-wide applications. So I think that's the main thing. And these are just kind of standard inquiries that came up as people ask questions about the IRP as part of the normal process. So there wasn't anything special particularly. But we noted that it appeared that we should run some additional scenarios that focused on Idaho-specific.



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Operator

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

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

Carrie, thank you, and thanks for all that were on the call today. We appreciate your continued interest in IDACORP. And we hope you enjoy the rest of the week. Thanks much.

Operator

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

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