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IDA - Q1 2020 Idacorp Inc Earnings Call

EVENT DATE/TIME: APRIL 30, 2020 / 8:30PM GMT



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PRESENTATION

Operator

Welcome to IDACORP's First Quarter 2020 Earnings Conference Call. Today's call is being recorded and our -- it is recorded -- our webcast is live. A complete replay will be available later today and for a period of 12 months on the company's website at idacorpinc.com. (Operator Instructions)

At this time, I'd like to turn the conference call over to Justin Forsberg, Director of Investor Relations and Treasury.

Justin S. Forsberg - *IDACORP, Inc. - Director of IR & Treasury*

Thanks, Jamie, and good afternoon, everyone. Before the markets opened this morning, we issued and posted to IDACORP's website our first quarter 2020 earnings release and quarterly report on 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 but are subject to several risks and uncertainties, including those related to the COVID-19 public health crisis. This cautionary note is also included in more detail for your review in our filings with the Securities and Exchange Commission. 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 and Chief Financial Officer of both companies. We also have other company representatives available to help answer any questions you may have after Darrel, Steve and Lisa provide updates.

On Slide 4, we present our quarterly financial results. IDACORP's 2020 first quarter earnings per diluted share were \$0.74, a decrease of \$0.10 per share from last year's first quarter. The 2020 first quarter results are IDACORP's second highest first quarter earnings in almost 20 years.

Today, we also affirm our full year 2020 IDACORP earnings guidance estimate to be in the range of \$4.45 to \$4.65 per diluted share, with our expectation that Idaho Power will not need to utilize any of the tax credits in 2020 that are available to support earnings in Idaho under its settlement stipulation with the Idaho Public Utilities Commission.



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These are our estimates as of today, as we have seen only a relatively small impact from the COVID-19 pandemic to date. However, as you would expect, it is difficult to predict the full long-term impact of evolving economic conditions on Idaho Power's customers and suppliers and how that could impact the upper end of the earnings guidance range or the use of tax credits if the pandemic worsens or is prolonged.

I will now turn the call over to Darrel.

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

Thanks, Justin, and thanks, everyone, for joining us on today's call. I want to start out -- I'm going to talk about some comments we get around COVID-19 pandemic, as a follow-up to Justin's remarks.

But before I do that, I just want to acknowledge a couple of things. First of all, I hope all of you on this call have safely kind of navigated through these crises. I know it's impacted many of you and your families and the organizations that you work for. And so on behalf of our organization, I hope that you guys are all hanging in there throughout all this chaos. And so we're glad that you can make it on the call today.

The other thing, I'm just going to give you heads-up. We have a pretty good raging storm going on outside right now and a pretty good little thunderstorm that's happening. So we're hoping the system hangs in there like it normally does, but you just never know. But it's -- we had a really warm spell yesterday, and that warm spell has translated into a few thunder bumpers out there. But -- so many of you on this call have lived through many -- much worse situations than that.

And so -- and the other thing is, for the first time, we're doing this fairly dispersed. So what you will see is we will try to move through this without much interruption. But we will -- may be calling on in the Q&A some folks who are remotely, so we're hoping the technology kind of hangs in there on that.

So beginning with the onset of the COVID crisis. Our company took swift action to ensure that we continue to safely provide reliable energy to our communities and to ensure the safety of our employees and our customers. We are an essential business, and our workforce is deemed essential to maintaining and operating the capital -- the critical infrastructure that powers our economy. Extra safety measures have been in place at our facilities and in the field, with special precautions being taken for our public-facing colleagues as well as our power plants and other critical work areas. We have been proactively communicating with our customers to let them know we remain committed to safely providing reliable energy. As we navigate this crisis, we are drawing on our robust business continuity, pandemic response and emergency management plans.

I am proud to report that, as noted on Slide 5, I our generation, transmission and distribution operations continue largely uninterrupted. In order to provide these essential services while protecting both our employees and our communities, we have closed all Idaho power facilities and recreation sites. However, some of those will be reopening effective tomorrow, May 1. We've upgraded IT capabilities to facilitate remote working for over half of our workforce. We've eliminated large in-person meetings and nonessential work travel. We've continued to monitor cyber and physical security threats. We've tested critical IT systems for business continuity purposes. We have closely monitored our supply chain, enhanced cleaning procedures at all our facilities and encouraged employees to practice responsible social distancing and other effective prevention measures.

We also understand the economic hardships facing many of our customers. In response, we have temporarily suspended disconnections and waived associated late fees. Our company's strong emphasis on safety is of particular importance during times of crisis. And I would like to thank and commend our employees for the efforts they have made to keep themselves, each other, our customers and communities across our service area safe.

Like most, if not all, companies, we remain somewhat uncertain how significantly COVID-19 will ultimately impact Idaho Power's 2020 operations and financial performance. We have yet to see a significant decrease in our overall loads during the stay-at-home orders, but we acknowledge it may soften if the crisis is prolonged. Certainly, some businesses across our service area have been closed or slowed down in recent weeks. Overall, we saw a 5% or less than \$1 million decrease in commercial sales during the month of March, and a portion of that was due to mild weather.



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On Slide 6, you can see the actual sales versus our forecasted and weather-adjusted sales showing March and much of April. With many of our large customers operating in the agriculture and food industry, a sizable number of those businesses continue to operate as do most industrial and large commercial companies in our service area. With more people working from their home offices, residential load could uptick. However, given that April and May are off-peak months, we do not expect a significant increase unless the crisis extends into summer, when customers run their air conditioners. We will continue to monitor these impacts and update you if conditions and expectations change.

In the state of Idaho, Governor Brad Little announced on April 23 that the state had entered a new phase in the virus response and launched a carefully crafted 4-stage process focused on an economic rebound. Each stage requires certain criteria and conditions be met, with stage 1 to begin opening up businesses after May 1. And if metrics are continued to be met, stage 4 would begin on June 13, with the state expected to be completely open by June 26. We are cautiously optimistic that the plan will enable Idaho's economy to recover in a measured fashion.

Oregon has made no such announcement yet but is coordinating with other states in the region to develop its reopening plan. And as a reminder, our Oregon jurisdiction accounts for approximately 5% of our business.

And with that, I would like to hand things off to Steve, who will walk us through our liquidity position and our first quarter financial results.

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

Thanks, Darrel, and good afternoon, everyone. Today, I'll first address where IDACORP and Idaho Power are from a liquidity standpoint as well as provide you reminders of some of our regulatory mechanisms.

IDACORP and Idaho Power continue to maintain strong balance sheets, including investment-grade credit ratings and sound liquidity, which enables us to fund ongoing capital expenditures and dividend payments. At the beginning of April, despite the volatile market conditions at the time, we successfully closed a bond offering that brought approximately \$260 million of cash proceeds to Idaho Power. We issued \$230 million of first mortgage bonds from an existing series of nearly 30-year medium-term notes at a 13% premium to the 4.2% coupon rate, which resulted in a reoffer yield of 3.42%. A bond issuance of this approximate size and tenure had been planned during 2020, even before the development of the COVID-19 crisis, to address long-term liquidity needs as well as to retire a \$100 million bond set to mature later this year. We are pleased with the outcome and feel both Idaho Power and IDACORP are now in a strong liquidity position to weather the potential impact from stay-at-home orders on Idaho Power's revenues, bad debts and associated cash collections.

IDACORP's operating cash flows, along with our liquidity positions as of the end of the first quarter, are included on Slide 7. Cash flows from operations were about \$23 million lower than the first quarter of 2019. The decrease was mostly related to the timing of net collections of regulatory assets and liabilities, especially those resulting from the power cost adjustment mechanism. The liquidity available under IDACORP's and Idaho Power's credit facilities is shown on the middle of Slide 7. At this time, we do not anticipate issuing additional equity this year other than relatively nominal amounts under our compensation plans. You'll note that including the current cash positions at both IDACORP and Idaho Power, as of April 24, we have access to liquidity of approximately \$200 million and \$570 million, respectively. While cash flows have been minimally affected thus far, our combined liquidity, along with expected regulatory support from our annual adjustment mechanisms, is a substantial backstop to our capital and operating needs.

I'll also briefly remind you of the funded status and regulatory treatment of Idaho Power's employee pension plan. Annually, Idaho Power collects approximately \$19 million of pension expenses from customers across all jurisdictions. In Idaho, Idaho Power accounts for its pension contributions on a cash basis, and any contributions above or below the amount currently collected in rates is deferred or accrued as a regulatory asset or liability. Idaho Power contributed \$10 million to its pension plan during the first quarter this year and is only required to make less than \$5 million in additional contributions during 2020. We currently plan to contribute up to an additional \$30 million to the plan but have flexibility, depending on market conditions, cash flows and effects of the health crisis.

I'll now point into Slide 8, where I will address the financial performance. Despite the mild winter weather, we had excellent first quarter results, and we feel well positioned as we move forward through the rest of 2020. Our strong, consistent financial results and cost management efforts



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during the past decade have preserved the \$45 million of tax credits available to support our current minimum Idaho jurisdictional return on equity of 9.4%, and we are continuing our efforts to preserve as many of those credits as possible going forward.

On the table of year-over-year changes, you'll see the that strong customer growth of 2.6% added \$3.6 million to operating income in the first quarter. A decline in usage per customer, mostly related to mild weather that impacted residential and commercial energy used for heating purposes and, to a lesser extent, due to a stay-at-home-related declines in sales to commercial customers, decreased operating income by \$6.1 million. As Darrel noted, we estimated the effect of COVID-19 on commercial customer revenues was less than \$1 million in this past quarter. The weather-related decline for residential and small commercial customers was largely offset by a \$4.5 million increase in fixed cost adjustment revenues, next on the table.

Net retail revenues per megawatt hour decreased operating income by \$2.1 million, partially caused by changes in customer mix, as volumes sold to residential customers in the first quarter of 2020 made up a smaller portion of the customer sales mix than in the same period last year. Also, the Idaho-jurisdiction PCA mechanism includes a cost-to-benefit ratio that allocates the deviations in certain net power supply expenses between customers, 95%; and Idaho Power, 5%. In the first quarter of 2019, net power supply expenses were partially offset by a significant amount of wholesale energy sales due to regional wholesale energy market conditions. Regional wholesale energy prices were elevated due to a combination of weather, import constraints and natural gas pipeline disruptions. This led to greater wholesale energy sales during the first quarter of 2019 at Idaho Power, and approximately 5% of that benefit was retained for the company through the PCA.

Next, Idaho Power's open access transmission tariff rates declined by 13% in October of 2019. This rate decrease, combined with the decrease in wholesale market activity which was expected, lowered transmission wheeling-related revenues by \$5.4 million. Remember, transmission wheeling volumes in the first quarter last year were also higher than typical due to regional energy conditions stemming in part from a gas pipeline explosion in Canada.

Next on the table, other operating and maintenance expenses increased by only \$0.9 million, primarily due to a slight increase in labor and benefit costs over last year's first quarter. You'll note that we continue to expect full year O&M expenses to be in line with 2019. These items collectively netted to a quarter-over-quarter decrease to Idaho Power's operating income of \$6.6 million. Overall, Idaho Power's and IDACORP's net income were \$4.8 million and \$5.2 million lower than last year, respectively.

Slide 9 shows our affirmed full year 2020 earnings guidance and our key financial and operating metric estimates. While it is difficult to predict the full long-term impact of evolving economic conditions on Idaho Power's customers and the associated potential impact on our earnings guidance, we continue to expect IDACORP's 2020 earnings to be in the range of \$4.45 to \$4.65 per diluted share. Our guidance continues to assume no use of additional tax credits and normal weather conditions. Other than a slightly lowered expectation of hydropower generation to the range of 6 million to 8 million megawatt hours, the remaining full year financial and operating metric forecasts are consistent with what was provided back in February.

With that, I'll turn the time to Lisa.

Lisa A. Grow - Idaho Power Company - President & Director

Thank you, Steve. You'll see our customer growth trajectory through the end of March on Slide 10. Idaho Power's pipeline for business development remains strong with a diverse number of potential projects throughout our service area.

On March 30, Idaho Governor Brad Little signed a bill removing sales tax on data center equipment that meets certain criteria effective July 1, opening the doors for Idaho to compete for large-scale enterprise data centers. Idaho Power's competitive prices, along with Idaho's positive business climate, low risk for natural disasters and arid climate, make our state well positioned to attract data center activity. Idaho Power is actively engaging with companies that operate in this space. Notable large load projects that came online during the first quarter include an expansion for a new oat-based yogurt line at Chobani in Twin Falls and an expansion by River Rock Sand & Gravel in Western Idaho. Despite COVID-19, most projects under construction continue to move forward with minimal delays so far.

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As Steve mentioned, we saw a 2.6% customer growth during the 12 months ending March 31, which continues the trajectory we've seen over the last couple of years. While employment and unemployment numbers in our service area have, of course, been negatively impacted by COVID-19, we continue to monitor the long-term economic impact of the crisis on our customers. Moody's forecasted GDP for our service area, which now have incorporated the most current expected impacts of COVID-19, calls for a 0.7% growth in 2020 and a 5% in 2021.

Despite hardships caused by the pandemic, we expect Idaho to remain one of the fastest-growing states in the country going forward, as many of the drivers for growth, including reliable, affordable, clean energy remain intact. In February, we stated Idaho Power did not plan to file a general rate case in Idaho or Oregon in the next 12 months. That remains true today. Steady customer growth, constructive regulatory outcomes and effective cost management all play significant roles as we look at the need and timing of a future general rate case.

I would like to echo Darrel's comments on -- in commending our employees for their work during the COVID-19 crisis. I cannot thank them enough for continuing to show their commitment to safety and to our customers and for their flexibility and adaptability that they have demonstrated, keeping our operations running smoothly. To their credit, we remain on track to execute our 2020 strategy and continue to expect to meet our goals, despite the onset of this pandemic and mild winter weather.

Slide 11 shows the recent outlook of precipitation and weather from the National Oceanic and Atmospheric Administration. Current projections for the May to July weather outlook suggest a 50% to 70% chance for above-normal temperatures and a 40% to 50% chance of below-normal precipitation in Idaho Power's service area. So things look to be trending hot and dry over a large portion of our irrigation season. If this weather materializes, it could help irrigation sales return closer to a more normal level following the impact of last year's wet second quarter. Our snowpack conditions and reservoir storage levels remain favorable for generating reliable, affordable, clean hydropower to the benefit of all customers as we head into the summer. As of April 29, 2020, snowpack above Brownlee Reservoir was 103% of normal, and the reservoirs in the system are entering the season in a strong position. Our slightly lowered hydropower forecast reflects higher irrigation draws and lower April precipitation than had been forecasted.

And with that, I will turn it back to you, Darrel.

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

Thanks, Lisa. Hopefully, you can see, and we believe, we are well positioned for the times ahead.

As most of you know, I'll be retiring effective on June 1. So this will be my last quarterly earnings call as CEO. I have enjoyed working with you throughout the years, and I appreciate all the support and feedback you and our owners and the investment community have provided as we have worked to make and keep IDACORP and Idaho Power such great companies. Our success would not be possible without your continued dialogue and support.

Also, I think as you are aware, upon my retirement, Lisa will take over as President and CEO of IDACORP and Idaho Power. As you have seen from her work over the years, the company is in great hands. I could not ask for a better partner to hand the reins over to lead this great organization. She is supported by an outstanding group of officers and other leaders that are committed to the continued overall success of the organization.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question today comes from Julien Dumoulin-Smith from Bank of America.



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Alex Morgan - BofA Merrill Lynch, Research Division - Analyst

This is Alex Morgan calling in for Julien. Congrats on the -- I wanted to specifically ask about O&M. From my understanding, your 2020 guidance assumes flat costs going from 2019 into 2020. I was wondering how many levers you might have just in case the COVID pandemic worsens a little bit more than current expectations? Potentially how much O&M cost savings could you factor in? And then also, if you think of the [order] of operations, would we expect to see cost cuts before you would pursue some of the ADITC?

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

Okay. Let me give that a shot, Alex. This is Steve. I'll answer them in reverse order. I would say, absolutely, we would look to pull levers that we have in order to preserve ADITC. I think depending on which levers they are, I mean, we've used O&M before to hit our targets and to exceed target. I mean, it would depend on which levers that we were pulling. I'd say, as we sit here today, I don't think we're ready to give a quantification of the number. But we have identified sort of our own series of choices that we have. And some, I would say, are going to be probably exercised regardless because, for instance, we all know that travel is gone. We have positions we're not hiring right this moment because we don't think it's the right environment to hire into. We've been able to function remotely, and we're capturing some savings even as we go. We don't plan to turn around and let those savings disappear. There are further levers. We can hold positions longer. We can make further cuts that probably aren't reflective of what you would do year in, year out forever, but they are things that we can do in the middle of a challenging year. And we've identified a lot of those. We know generally what is coming at us in Idaho, at least in terms of the initial plan and the rollout. We think Oregon will be similar. It's safe to say we've identified things that we think cover that sort of an approach, and there are levers that go beyond that, as you say, if it worsens. I don't think we have even -- feel good about trying to say where we think the absolute might be because we don't know. As we look at a crisis like this, you've got the President involved, the Governor involved, every mayor across our service territory involved, the communities, the businesses. We're looking at all that. And as you know, we approach things conservatively anyway. So we are planning for things that we think could be worse. But to try to put a -- hang a number on that exactly is really hard to do. And I think we're going to leave that to everyone else. Until we've got more real data. As we sit here today, it's just really early, and we don't have much indication of what that impact might be. But be assured, we will look to use those levers to preserve credits and hopefully also to deliver earnings in as good a spot on that range as we can accomplish.

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

Alex, this is Darrel. I'd like to add a couple of things to what Steve said. First of all, I think one of the overarching premises we have as we manage O&M is we're not going to sacrifice safety or reliability. I think those are 2 key points that everybody needs to understand. So things are -- associated with safety, we're not going to cut corners on where I can do those things as it relates to reliability. We're going to continue with our vegetation management programs. We have schedules on those. We're going to continue those. So those are things that we absolutely have to do. What we will look at is where do we have discretionary spending. And to the extent we have discretionary spending, we will focus really hard on those things. Part of this is going to be driven by the -- how long will it take from an employee and consumer confidence level to get back to business as normal. And I have the opportunity -- I was tapped by the Governor to sit on -- to chair the state economic recovery committee. And so one of the key drivers to the state reopening is how do you enhance consumer confidence and employee confidence coming back into the workplace. So we have to -- internally, we have to manage that ourselves, as we potentially look to bring people back over a period of time when it's safe in which to do that. We have a lot of people working from home. So what we are -- what we will be doing is looking at all of those costs. And Steve pointed to the things where we have -- where we're looking on the downward side. I will tell you that we have upward pressures also that we will be managing, and one that all utilities are facing today with the deferral of disconnects is bad debts. And so we are actively looking at how do we manage that. And the other thing, as you see in the 10-Q, we also made a filing with the Oregon and Idaho commissions around the potential to recover any excess costs that we might incur as a result of this COVID.

So we're looking at all different types of levers here in which to manage that. And if you look at our track record over the last 6 or 7 years on O&M, it's been pretty unbeatable as it relates to how we have managed that. So I think the leaders are looking under every rock to find ways to manage the upward pressure that's already there on O&M while trying to still stay within or beat the O&M targets that Steve just talked about. So we have all hands on deck on this because we absolutely understand the value of the credits.



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

Alex, one other thing is you guys have seen the last couple of years where we've had milder weather than we maybe would like to have had, particularly in the summer months. And if it turns out to be a hot summer, which we haven't had for a while, that'll bring some positives. So there's income that comes with that. But it will also be harder to control the O&M because usually, those kinds of summers bring more fires and respond to things that we have to do just generally because of what the heat does. And I think those net to a positive anyway. But when we say we're going to watch those levers, there will be some that you just, as Darrel said, that you -- we won't sacrifice safety or risk to anything. But if it's caused by the weather, and again, just a normal summer would be really nice to have. If it's a really hot summer, we haven't seen that for a few years. You go back to about '13, I think, is when the last really big summer was. Usually, there's some costs that come along with having those extra sales then, too. So we'll watch all that and balance it to the best outcome.

Alex Morgan - BofA Merrill Lynch, Research Division - Analyst

That's very, very comprehensive and helpful. I really appreciate it. My last question is just about your customers, both in terms of irrigation and electric sales for the industrial side, when thinking about the agriculture and dairy businesses. It's clear like in the media, there's a couple of articles about milk dumping and crops being tilled over. Would you be able to share how you might not be as impacted in terms of electricity sales and irrigation sales as well?

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

Sure, Alex. This is Darrel. I'm going to start -- we're going to ask Adam Richins to kind of talk a little bit about this, assuming he's still on and hadn't got dropped off the call, I hope. But the notion there is, is that we have spent a lot of time on this as we have moved through this -- the pandemic considerations as we look forward. And we have done a lot of outreach to our customers to kind of find out how they're doing, what they're doing with our customer reps to kind of be -- this is a time, in particular, where it really matters in understanding what your customers are doing. And so we've done a lot of that. And so I'll have Adam Richins kind of give you a brief update as to what we know today in an ever-evolving climate. Adam, are you there?

Adam J. Richins - Idaho Power Company - Senior VP & COO

Yes. I'm there. Thanks, Darrel, and thanks for the question, Alex. Yes, as Darrel mentioned, I've been reaching out to field personnel and customer folks. And I'll just say anecdotally, our teams are -- I think the best word is cautiously optimistic. On the ag front, we've received mostly good news from our customers. We had a dry spring. So the ag actually started a couple of weeks early. The water conditions appear to be favorable to sustain a full ag season, and we believe most farmers have planted their crops. They're pretty optimistic in that regard. So the big unknown there is always weather. But for the most part, again, we believe the news has been positive and favorable.

On the industrial side, I think you mentioned that too, Alex. It's not surprising that we experienced a decline in loads in April, and some customers slowed operations. But based on kind of my discussions with our key account advisers and in general, our major customers have provided positive outlooks as well. In terms of the food processing and packaging facilities in general, they continue to move forward in a steady pace. One area that's a little less optimistic that you mentioned is dairies because of the reduction in restaurant and school lunches. So we're keeping an eye on them. But I would say, generally, again, talking to the boots on ground, both on the ag side and on the industrial side, we remain, again, just cautiously optimistic about the next couple of months.

Operator

Our next question comes from Brian Russo from Sidoti.



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

So with the assumption that the lower end of your affirmed guidance range, supported by the 9.4% return on year-end shareholder equity, you have quite a strong track record of exceeding even the midpoint of your original guidance. And I'm just curious, outside of O&M, which maybe -- which you just discussed, and sales, I guess, what are the other assumptions that you can repeat that track record this year and going forward?

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

Yes. I think the good news is, Idaho is still experiencing all of this growth. So when that is going on, we are building a lot of capital assets, and that keeps our workforce deployed on the capital, which does, I guess, take some pressure off O&M. As you know, we've got a good amount of money allocated to O&M as well. But it's -- the fact that, that's continuing to go, and it typically -- hopefully brings some revenue growth that we have some in our plan, we hope it brings a little more. It also relieves that. What happens sometimes in these sort of disruption cycles is you have to pause your capital or you have to make a change there. And unless you make also a change in workforce, that often shifts your costs into O&M. We don't really see that right now. We think that the pressure of in-migration is really strong, and we've seen some articles that indicate Idaho is still the place to be. Real estate price is up. And even if you look back in our long history, when recessions have hit in the past, they often are delayed once they get here and sometimes don't get here when we've been in the major growth spurts. But certainly, the initial response if people around us are struggling is they often -- seems like it picks up the pace of who's coming here. So I think that's probably our biggest maybe differentiator between some other places in the country is to have that growth continuing and to be feeding really where our focus is, should be a good health for the year. And again, weather is one that -- it could go either way on you, but at least how it sets up right now or we would take some there if it happens.

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

Yes. Brian, as you saw Lisa's comments on the weather outlook and you take a look at that with lower-than-normal precip and a higher probability of warmer-than-normal temperatures, sets us up, I mean, potentially, again, for potentially good weather outcomes, depending on how it plays out, which, again, as we go into this irrigation season, that potentially bodes well, especially with what we're hearing from the folks on the ground, folks that are planting, are still being optimistic on the outlook despite some of the dairy-related issues and other things. So there's still an optimism out there in the farming community, as demonstrated by what they've been planting.

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

Got it. So hot and dry will help your irrigation sales. And at the same time, it will -- could help the air condition load for the residential customer in the summertime, where you have higher rates or tiered rates. Is that accurate?

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

Correct. Yes. That's a good point, Brian. You know as well that shift, it is an interesting bonus that we get in that if when you do have the super hot weather, and it's sometimes a hard shift on the customer side because as the volume really grows up, it jumps them into that third tier and then those rates are higher. And there's some tier 3 that's in our normal plan, but there's room for it to get bigger in a hot year, for sure.

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

Got it. And to be clear on the -- what is your sales forecast for 2020? Is it the net of 2% that we saw from mid-March to mid-April? And if not, what is it? And how does that triangulate to the Moody's outlook that was quoted earlier in the comments?



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

Well, from a planning phase, that number that's north of 2% is more customers coming in. And certainly, customer growth is clipping right along, as you see. It doesn't appear to be slowing. On the load side, it's more in the -- between 1% and 2% range, say 1.5% for -- just in terms of planning. But that's the part where we have had a lot of growth. We have put in a lot of installations. We have a lot of -- everything from homes to businesses that have come in, and I think we feel like there's a little -- we've always, in the last few years, done what we expected and maybe a little bit better. But it's feeling like, at some point, this has to jump above our line. So that would be another outlier that if this is the year we get more on than we maybe had in the original -- our original plan, that could be a help, too.

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

Got it. And clearly, the Idaho Power rate structure and mechanism differentiated you from your regional peers. But what about bad debt expense and other sensitivity that some of your peers have been citing as headwinds to guidance or margin, I should say, relative to you guys? It doesn't seem as bad (inaudible) or even through June, assuming you have a full reopening at that time?

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

Well, Brian, it has -- certainly, what we've seen through March, and the initial indications of what -- who's using power and everything in April, we're not seeing big numbers there. We would not say that we don't believe it could get higher. Certainly, during the '08, '09 recession, it took a lot longer because it was a drawn-out recession. But it's -- our bad debts grew a lot, and they would be several million above what we have in our current plan. And those are the kind of things, as we look at what levers might we employ, we can find things to help offset some of those. If it goes to some unprecedented level that we haven't seen, that's why we filed those orders with the states that we wouldn't be beyond looking for help if those kinds of things happen. I mean, I think even our commissioner appreciates that we don't initially look at that as the answer. If we can solve it ourselves, we'll do that. So we want -- we filed for the opportunities on some of those things. But that's the part. It's really hard to say that we know exactly where it is, because we just don't.

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

Brian, to your point, like you've heard from others, we have headwinds with bad debts, but we just don't know right now what the extent of that headwind is. As we saw through the first quarter, it was not really -- it didn't really register on the radar. But we do expect that there'll be some headwinds there, but we just can't tell you what it is right now.

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

And then just on the deferral mechanisms. Other than the staff, I guess, letter or filing to set up a procedural schedule in Idaho, has there been any movement in Oregon yet?

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

We filed -- yes, as you know, we filed in both states. And Tim is here. He can give us an update on the Oregon piece.

Tim Tatum - Idaho Power Company - VP of Regulatory Affairs

Yes. No movement on that. But it is important to note that in Oregon, the date of the filing is the trigger for when the deferral can begin. And so that starts the clock in Oregon. But as far as the process, Idaho, as you pointed out, has adopted a procedural schedule, yet to see one from Oregon.



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

Okay. Got it. And then just lastly, the dividend policy. Is that unchanged, recommending to the Board greater than 5% increases, and the Board usually makes that decision in September of each year?

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

Yes, Brian. This is Darrel. Yes, we are on that schedule. We continue to be on that schedule as we go into September, and we'll have that conversation with them at that point.

Operator

And our next question comes from Chris Ellinghaus from Siebert Williams.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Darrel, best of luck. Thanks for all your help through the years. I really appreciate it.

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

Thank you, Chris.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

As far as industrial goes, you obviously are very ag-oriented or ag derivative-oriented. Is that where you're really seeing some firmness, is because of the ag and the importance of those industries?

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

I'm going to let -- we'll let Adam kind of just chime in on that because he's been staying pretty close to this. So Adam, do you want to chat about that?

Adam J. Richins - *Idaho Power Company - Senior VP & COO*

Yes. Chris, yes. No, I think you're right. We feel pretty good about the food processing and packaging companies. The ones we've been able to chat with are moving ahead. Most of them kind of full steam ahead. And as I mentioned before, the ag looks strong, too. The farmers planted their crops optimistically. So we view this as positive for us. I mentioned before the season actually started a bit early, and we think the water is there. And they're out there growing the crops. In fact, I just had a call yesterday with some of our customer ag reps. And kind of across the board, across the region, again, they felt good about where we're at. So I think you're right. From our perspective, it's a strong point.

Christopher Ronald Ellinghaus - *Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst*

Okay. Lisa, you mentioned that the irrigation draw as part of your reduced hydro expectations for the year. How does hydro get communicated to your irrigation customers? Are they primarily just keeping an eye on the reservoir reporting websites? Or do you guys contribute to that to communicate to those customers where you're at in terms of having adequate resources? How does that work?



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Lisa A. Grow - Idaho Power Company - President & Director

That is not -- that is the Bureau of Reclamation in the state that runs all the water. We are just basically a taker. Now certainly, we share a lot of modeling information and what not, but we don't dictate the allocation in any way.

Christopher Ronald Ellinghaus - Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

But as far as the farmers knowing that there's a really -- that there's a high-quality resource available to them, are they just picking that up from the reporting websites that they can look at? Or how do they understand what the irrigation potential is?

Lisa A. Grow - Idaho Power Company - President & Director

In terms of water?

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

How much is available, I think.

Lisa A. Grow - Idaho Power Company - President & Director

Water or energy?

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

Water. Water.

Lisa A. Grow - Idaho Power Company - President & Director

Yes. That's the state and the Bureau Reclamation.

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

There's an incredible amount of communication that takes place between the ag and the state on a very regular basis, communicating with them to what the projections are, the forecasts are for water. So -- and it's done early on. Everybody is focusing on what snowpack looks like across the basins that -- where the state collects from. And so the ag guys are doing this early on in constant communication with the state, and they've been doing this for a long time. And so those channels are pretty good, are really good actually as to how they communicate back and forth. So they get an idea as to what they're going to -- have the opportunity in which to do, which drives -- what partially drives what it is they're going to put in -- what they're going to plant year-over-year. So there's a lot of communication that goes on between the state and the ag community.

Adam J. Richins - Idaho Power Company - Senior VP & COO

And Darrel, this is Adam. I'll just add that, that communication has been made to the farmers this year. And that -- again, they feel pretty good about where they're at from a water perspective.



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Christopher Ronald Ellinghaus - Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

And one last thing. Steve, as far as the guidance goes, can you give us a little color about what you're anticipating in terms of the fourth quarter? And have you reflected in your guidance some sort of expectation that there's a flare-up in the fourth quarter?

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

No. I guess I don't -- I know we've had some issues in the past with how people are -- where they estimate. As far -- you guys do your quarters. We've always kept our guidance to annual guidance. And I'll fully admit, we have some nuances that impact that. For instance, the oddity of it, one of them is that when we are having -- I think that we're going to be in the lower end of our earnings band. We may -- and we have booked credits in first quarter. That will skew the rest of the year because those credits come in earlier and actually make first quarter earnings a little higher. And...

Unidentified Company Representative

You have to clarify.

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

Are you talking about the flare-up of COVID coming back in the second half of the year?

Christopher Ronald Ellinghaus - Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

I'm thinking about, are you reflecting in the guidance -- you're talking about 1% to 2% per load. Is that incorporating some kind of assumption about a weaker fourth quarter coming up?

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

At this point, not particularly. I would say, it's more that we are on a steady -- we do this rollout. We factored it in, taking longer probably than what the minimums are. But I guess, if I had a sign held to me that maybe you were asking about the -- there was talk just, I think, today that maybe the recovery is a W. And it goes down, it comes back and then goes down. I think we're more factoring in just what we've seen in prior events and how we would cope with those sort of items without particular focus on the quarters. Because I don't know if that would hit -- I don't know when that hits. Maybe it hits the fourth quarter. For us, as you know, the bulk of our earnings are in the summer months. We do get a lift at the end of the year. And in that sense, it's the end of the fourth quarter. And we have a pretty good lift at the beginning of first quarter if the weather treats us right, with some pretty mild shoulders in the middle. So it would really depend on not only just the quarter but the timing of the quarter there.

And I think in terms of people hitting or predicting our fourth quarter, some of that's been more of a function of missing earlier quarters in some way that we didn't get the spread of our earnings and trying to find a normal year that you can look at to say, what should it be in a normal year. If we have a hot summer, it's going to make the summer quarters bigger. And we've -- the years when we've hit sharing and given money back to customers, fourth quarter can be really, really low because we've kind of stopped accruing a lot on the shareowner side, and it starts to all go to customers. So we have some anomalies there with our -- the spread between quarters. But at this point, we're just saying we still feel like our guidance is the right guidance. We're reaffirming what we came out with at the end of the year.

Christopher Ronald Ellinghaus - Siebert Williams Shank & Co., L.L.C., Research Division - Principal & Senior Equity Utility Analyst

Okay. Great. That's helpful. Darrel, I hope you get to take a retirement vacation at some point in the future.



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

Yes. I've canceled one so far. One's gotten canceled. We'll see, someday.

Operator

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

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

Thank you, and thank you all for participating on our call today. I would like to invite all of you to participate in the 2020 Annual Meeting of Shareholders, which will be held on Thursday, May '21, at 10 a.m. Mountain time. To safely practice social distancing, this year's meeting will be conducted virtually. A formal notice has been sent out to shareholders with instructions on how to attend virtually, and we also plan to issue a press release in a couple of weeks with instructions on how to listen online via the IDACORP website. We look forward to sharing updates from 2019 and listening to and responding to our shareholders' questions and comments.

We appreciate your continued interest in IDACORP, and we hope you guys have a great rest of your day and stay safe. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference call. We do thank you for participating. You may now disconnect your lines.

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