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PNM Resources, Inc. (PNM)

Q1 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the PNM Resources First Quarter Conference Call. All participants will be in listen-only mode. [Operator Instructions] I would now like to turn the conference over to Jimmie Blotter. Please go ahead.

Jimmie Blotter

Director-Investor Relations and Shareholder Services

Thank you, Chad, and thank you everyone for joining us this morning for the PNM Resources first quarter 2015 earnings conference call. Please note that the presentation for this conference call and other supporting documents are available on our website at pnmresources.com.

Joining me today are PNM Resources' Chairman, President and CEO, Pat Vincent-Collawn and Chuck Eldred, our CFO, as well as several other members of our executive management team.

Before I turn the call over to Pat, I need to remind you that some of the information provided this morning should be considered forward-looking statements pursuant to the Private Securities Litigation Reform Act of 1995. We caution you that all of the forward-looking statements are based upon current expectations and estimates and that PNM Resources assumes no obligation to update this information.

For a detailed discussion of factors affecting PNM Resources' results, please refer to our current and future Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, as well as reports on Form 8-K filed with the SEC.

And with that, I will turn the call over to Pat.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Thank you, Jimmie, and good morning, everyone. Thank you for joining us on this beautiful May 1. As we outlined in the news release, we had another good quarter, building on the momentum we continued through 2014.

We're going to begin today on slide four. Our GAAP earnings per share for the first quarter of 2015 were \$0.18 compared to \$0.16 in the first quarter of last year. Ongoing earnings were \$0.21 compared to \$0.18 last year. We are pleased with the results of the quarter. We are also affirming our guidance for the year of \$1.50 to \$1.62.

Before Chuck walks us through the financial details, I want to take a few moments to talk about the regulatory proceedings that are under way, particularly in New Mexico. I will discuss both the BART and general rate case proceedings in New Mexico, and do a quick wrap up on proceedings at FERC and in Texas.

As most of you are aware, the hearing examiners in both the BART case and the general rate case issued disappointing recommendations. In the 2016 future test year general rate case, the hearing examiner is recommending that our filing be rejected for being incomplete. I will talk more about this in a few minutes.

For BART, the hearing examiner is going against established regulatory policies in recommending that the commission not approve the settlement agreement that we have reached with other parties in the case.

The negotiating process with the other parties included a lot of give and take that resulted in the best solution to not only the significant burden of compliance with the EPA's Clean Air Act, but also well positions the State for compliance with the recently announced Clean Power Plan.

I want to take a few minutes to outline the strong response we are using to earn approval from the commission, which will allow PNM to continue to deliver the safest, most reliable, most cost-effective and environmentally responsible power possible to our customers.

Let's turn to slide five to review the BART filing. The hearing examiner issued his recommendation in the decision case on April 8. It included the denial of the CCN for the 132-megawatts of additional capacity of Unit 4, which could be reconsidered when there is a substantially final ownership restructuring agreement and a contract for the post 2017 coal supply.

It also included approval of the CCN for the 134-megawatts at Palo Verde Unit 3 at the projected net book value as of December 31, 2017, which is estimated to be \$1,071 per kilowatt. The stipulated settlement agreement had valued Palo Verde 3 at \$1,650 per kilowatt.

It also included conditional approval of the abandonment of San Juan Units 2 and 3 and recovery of 50% of the undepreciated assets from Units 2 and 3, which would include \$26 million that the settlement assigned to the additional Unit 4 capacity. And finally, it included deferral of the determination for the balanced draft technology to the 2016 general rate case.

On April 20, PNM filed a robust series of exceptions to the hearing examiner's recommended decisions. Our exceptions were based on these key concepts. First, in recommending rejection of the stipulation, the hearing examiner fails to adhere to the important public policy of favoring settlements. The stipulation's recommendations upset the balance inherent in settlements. In recommending denial of a CCN for additional capacity in San Juan Unit 4, the commission would fail to properly apply its own standards for approval.

The concerns about uncertainties can adequately be addressed through appropriate conditions attached to the approval of a CCN. Denial of the CCN for additional capacity in San Juan Unit 4 and granting only conditional approval to retire San Juan Units 2 and 3 creates further uncertainty that is unnecessary.

It would jeopardize the continued operation of all San Juan units, which would negatively impact customers particularly in light of our substantially complete agreement that would provide significant customer benefits in the coal pricing. A full plant closure would also have a devastating impact on the Four Corners region.

Third, in recommending a lower valuation for Palo Verde Unit 3, the recommended decision improperly imposes additional burdens on shareholders to gain additional benefits for customers even though the recommended decision acknowledges that customers benefit from the valuation proposed in the settlement agreement.

Related to the SNCR and balanced draft capital, the record does not support the hearing examiner's view that serious doubt has been established about the need for balanced draft. Balanced draft is required by San Juan's new source review permit. There is no evidence in the record that justifies the hearing examiner's second-guessing the decision of another agency with jurisdiction to require balanced draft.

I want to go now to slide six for an update on the coal supply and restructuring agreements. I am pleased to announce that we intend to file two substantially final agreements with the commission later today; a new coal supply agreement and a participant restructuring agreement.

The coal supply agreement indicates that the new owner will be Westmoreland Coal Company, which will take over operations from BHP at the beginning of 2016 rather than the end of 2017, which is when our agreement with BHP would have terminated. Significantly, the cost of coal related to this contract will result in substantial savings for PNM customers. The earlier transaction date will allow PNM customers to more quickly benefit from fuel savings of approximately 15% to 20% in 2016 and 2017. This is a big win for PNM's electric customers and for New Mexico as a whole.

The new coal price further reduces the cost to customers of operating the San Juan plant, strongly reinforcing the conclusion that keeping two units running at San Juan is unequivocally the best option to continue to providing safe, reliable and cost-effective power to our customers, while also providing significant environmental benefits. As a PNM customer, I know how important this balance is.

We also have quite substantially final restructuring agreement among the participants. This agreement identifies who the ongoing owners of the plant will be. The agreement does identify that PNMR Development and Management Company, a subsidiary of PNM Resources, will take ownership of an additional 65 megawatts of San Juan Unit 4, which the City of Farmington had considered acquiring.

Chuck will provide you with more information about these agreements in a few moments. Final steps for both of these documents are the New Mexico Commission's approval of the CCN for an additional 132 megawatts in San Juan Unit 4 and the parties obtaining final approval from their respective governing bodies.

We are extremely pleased with the progress that has been made on these agreements. We strongly believe that, based on these significant developments, the commission will see the value in conditionally approving the CCN for 132 megawatts in Unit 4. This will then give us the ability to finalize the agreement and opens the door for us to provide customers with access to affordable, reliable power for years to come.

Moving to slide seven, I will review PNM's 2016 future test year general rate case filing. We received a substantial amount of attention on our general rate case filing with much of it focused on the DG Interconnection fees that we

have proposed. We anticipated this would be the case, and we are working through the many requests for data that are coming in on this topic as well as other items of interest as part of the discovery process.

In March, interveners raised a few specific issues regarding our filing. These were related to an appropriate date for our future test year, whether appropriate cost justification was included in our applications, and complaints that our electronic files were not fully functional. On April 17, the hearing examiner proposed her decision. It recommended that the commission find our rate application to be incomplete and reject it on the grounds that it does not meet the Future Test Year Rule.

The hearing examiner cites procedural defects in the filings, including insufficient justification of forecasted cost and a lack of fully functional electronic files. The hearing examiner does however allow keeping calendar year 2016 as our future test year. She also recognizes that an alternative to dismissing the application will be to allow PNM to supplement the filing.

We disagree with the hearing examiner's conclusion and filed exceptions to the initial recommended decision yesterday. We believe our filing meets the requirements established for our future test year. However, the commission finds that it needs more information. We will, of course, provide it. If that's necessary, we believe it can be done through a supplemental filing rather than having to refile the entire case.

The next steps in the case are for a reply to exceptions to be filed by May 5. Following that, the General Counsel's office will prepare a recommended order, and the commission will then consider that order. We expect the commission will vote at the end of May or the beginning of June.

If the commission were to accept the hearing examiner's recommendation, we believe that this could delay the implementation of new rates until mid-2016 and we would expect to make the needed filings very quickly. However, we are confident that our filing is complete and meets the necessary requirements, and we are hopeful that commission will put the case back on track.

Let's now move to slide eight and a quick overview of two other regulatory filings. In the FERC transmission case, we filed an uncontested settlement agreement on March 20 of this year, and the rates took effect April 1.

We were able to achieve a 10% ROE in this filing and based on our past experience, FERC approvals generally takes from six months to a year. In Texas, we made our first TCOS filing of the year for TNMP in January on January 16. It was approved and the \$4.4 million increase went into effect on March 16.

Now, I'll turn things over to Chuck for an in depth look at the numbers.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

Thank you, Pat, and good morning to everyone. Beginning on slide 10, let me give you a few more details on agreements that Pat discussed. Starting with the coal agreement with Westmoreland, this agreement goes through 2022, and can be extended beyond that timeframe. The agreement has significantly improved pricing due to today's competitive market. We expect this to represent fuel savings of about 15% to 20% in 2016 and 2017, with continued savings through the life of the contract. These savings will be passed on to customers through the fuel cost.

The contract with Westmoreland will be a fixed cost contract as opposed to the cost-plus agreement that we have with BHP today. BHP's contract would've expired at the end of 2017. With Westmoreland contract beginning in

January 2016, we're able to capture these savings for customers two years earlier. The contract with Westmoreland also has more stringent coal quality requirements. This will allow us to run the San Juan plant more efficiently, going forward.

Also included are details on mine reclamation and coal ash disposal, which will all help to preserve the viability and longevity of the plant. We're also filing a restructuring agreement that includes the economics around dealing with both exiters and remainers in the San Juan plant. Today, San Juan has nine owners and has a 1,684 megawatt plant. After we shutdown units 2 and 3, we'll have six remaining owners and 847 megawatts of generation. This represents a shutdown of 847 megawatts of coal generation that supports compliance with EPA's Clean Air Act.

Assuming that our CCN for the 132 megawatts in Unit 4 is approved, our total ownership in San Juan would go from 783 megawatts to 562 megawatts, a 28% reduction of San Juan-related coal generation for PNM Resources. The restructuring agreement addresses everything from capital expenditures to coal inventory supplies.

This is a complicated set of agreements. Today, we'll be filing the substantially complete restructuring agreements. We have committed to having the mine reclamation agreement completed by June 1 and we're also working on the decommissioning agreement, which is expected by July 1. Overall, we are committed to having final execution of all agreements by August 31 of this year.

Now, moving on to slide 11 for load; beginning with PNM, we saw a considerable improvement in residential load, up 2% compared to first quarter 2014. Both commercial and industrial, however, were down. This brought overall load down 1.3%, which is in-line with our guidance of flat to down 2%. We did see customer growth at PNM come in slightly better than forecasted at 0.7%.

We continue to see signs that the economy has stabilized and that some aspects may be growing as our residential load would indicate. For example, in February 2015, professional and business services were up 2,700 jobs or 4.8% on a year-over-year basis in Albuquerque. This is the largest gain we've seen since August of 2007 for this sector and the best year-over-year improvement of all sectors.

The University of New Mexico's Better Business and Economic Research commonly states that the professional and business services sector drives the local economy more than any other factor. We believe we are beginning to reach a point of stabilization in the New Mexico economy.

Moving to TNMP, load is up 1.7%. Residential is up 2.1% while commercial is up 1.6%. First quarter load growth is slightly below the guidance range. While the total degree days in the first quarter of this year and last year are comparable, Texas had severely cold weather early in the first quarter last year, which is likely skewing the weather normalization.

Our forecasts continue to indicate that for the year TNMP load should be up 2% to 3%. We also saw customer growth for TNMP come in higher than forecasted at 1.4% for the first quarter 2015 compared to the first quarter of last year.

The economy in Texas continues to perform well in spite of the downward pressure on oil prices. In fact, the Brookings Institute rated Houston and Dallas number two and three for the top economic recoveries since the recession and unemployment continues to outpace the U.S. average at 4.2%.

Now turning to slide 12 for the first quarter 2015 financial results. Ongoing earnings were \$0.21 compared to \$0.18 last year. Looking at the segments, PNM came in at \$0.03 higher than last year and TNMP was up \$0.01 while corporate and other was down \$0.01.

Now, for more detail on PNM and TNMP's drivers on slide 13. Starting with PNM, the half price renewal of Palo Verde leases caused a year-over-year improvement of about \$0.03. We had a \$0.01 pickup this quarter resulting from the Department of Energy reimbursement of spent fuel costs at Palo Verde from 2011 through 2014.

AFUDC contributed \$0.01 in the first quarter of 2015. This is attributable to higher capital spending related primarily to the 40 megawatts of solar coming on line this year and the installation of SNCRs. The new refined coal process in place at San Juan also improved earnings by \$0.01 and the Nuclear Decommissioning Trust had gains that were \$0.01 higher than first quarter last year.

Load caused earnings to be lower by \$0.01 as did higher depreciation and property taxes. The termination of the Gallup FERC generation contract caused results to be \$0.01 lower compared to the first quarter of last year. We have requested that these assets be reallocated to PNM retail jurisdiction in our 2016 rate case.

Moving to TNMP, we saw an improvement for rate relief in the semi-annual TCOS filings of \$0.02. Depreciation of property tax has caused results to be \$0.01 lower than the first quarter of 2014.

Now, turning to slide 14, we are pleased with the first quarter results. We're also affirming our 2015 guidance range of \$1.50 to \$1.62.

Moody's issued a statement on April 17. The comment was in response to the hearing examiner recommendations that we have received on BART and the general rate case. Although Moody's is not changing our rating at this time, they did indicate that if the commission were to adopt these recommendations, they would view this as a credit negative for PNM and PNM Resources. S&P did not issue a comment, but they are closely monitoring the regulatory developments at PNM.

Today, we're on a positive outlook both at Moody's and S&P. However, unfavorable regulatory outcomes in BART or the rate case would be considered credit negative. If downgrades were to happen, our financing cost would increase and those increases will be passed along to customers in the rate-making process.

We have filed strong exceptions to both the BART proceedings and the rate case, and today, we'll file agreements related to the restructuring and coal supply at San Juan. These developments should help us to improve the uncertainty in both of these cases as we continue to focus on executing our plans.

With that, I'll turn it back over to Pat.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Thanks, Chuck. While we had a good quarter financially, the regulatory environment in New Mexico has presented a series of challenges that our team at PNM has continued to meet. I'd like to take a moment to thank the many employees who are working tirelessly on the agreement, preparing regulatory documents, responding to a discovery request and all of those who are out communicating with the various stakeholders to help them understand the implications that would happen, depending upon various regulatory outcomes. While all of this is being done, our employees are continuing to deliver excellent customer service and reliable power. Their hard work and dedication is appreciated.

Operator, I'd like to now open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes today from Anthony Crowdell with Jefferies.

Anthony C. Crowdell
Jefferies LLC

Q

Good morning.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Good morning, Anthony.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Good morning, Anthony.

Anthony C. Crowdell
Jefferies LLC

Q

Just two quick questions, I guess, one is on the coal supply, the new coal supply agreement that you spoke about. You mentioned 15% to 20% savings. I'm sure you're not looking to giving us numbers behind that agreement. Is there a way we can maybe back into it, think of where coal price per ton was under the old agreement that we'd find and maybe a FERC Form 1 and knock off 15% to 20% from there?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Yeah. You could go to our rate case filing and look at what we have for the forward test year, which is around \$54 a ton. So that would be the basis of where we would expect to be under the BHP agreement and then you could assume some reduction off of that price that results into the 20% to 25% savings.

Anthony C. Crowdell
Jefferies LLC

Q

Okay. And I'm sure you guys are thinking positive there.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

15% to 20% savings, yeah.

Anthony C. Crowdell
Jefferies LLC

Q

Okay. I'm sure you're thinking positive but if the Westmoreland agreement predicated that there is fuel savings that could begin in 2016. Is that all predicated on if you get the BART approval or is the coal supply agreement done regardless of what happens?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Well, we need the rate cases and the BART approval to put the commission in order to grant the 132 megawatts to continue going forward. So, this would be comfort hopefully to the commission to be ready to make a decision for that 132 megawatts and the 65 megawatts and allow for the restructuring of San Juan, which will allow for the supply agreement to be put into execution to continue on.

Anthony C. Crowdell

Jefferies LLC

Q

Okay, great, and just lastly, when I look at the slide 10, the ownership restructuring changes. Just to make sure I'm clear, those will be the plant owners, I don't know if that's the right term but like the share of the output from 2018 to 2022, is that accurate?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

That's correct. Yeah.

Anthony C. Crowdell

Jefferies LLC

Q

Great. Thanks for taking my question, guys.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Okay, Anthony.

Operator: Our next question comes from Ali Agha with SunTrust.

Ali Agha

SunTrust Robinson Humphrey

Q

Thank you. Good morning.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Good morning, Ali.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Good morning, Ali.

Ali Agha

SunTrust Robinson Humphrey

Q

Good morning. Listen Pat, just if you can clarify, on the San Juan retrofit, given you filed your exceptions to the hearing examiner's proposal, when do you expect the commission to rule on that?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

We would hope late May or early June. At the latest, at the end of the third quarter, but we're thinking late May or late June.

Ali Agha

SunTrust Robinson Humphrey

Q

Okay. And then, the issues that have come up, clearly the hearing examiner has come up on both of these, but do you think behind that perhaps is also the issue that you do have significant rate increases that will go into effect with both of these, with the rate case and then with the BART filing two years later? And is that also a dynamic playing out there given the negative load growth and the economic outlook for New Mexico?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

We don't think so, Ali. We think the hearing examiners look strictly at what they had in front of them. So we don't think there's any overlap from that.

Ali Agha

SunTrust Robinson Humphrey

Q

Okay. Okay. And then on the load growth, you're talking about some stabilization in the economy, but I was looking back and I think it's now nine consecutive quarters, maybe it's even longer. I have to go back on there that we've been seeing this negative load growth, weather normalized in New Mexico, but is there any light at the end of the tunnel? How low can we go negative every quarter?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

I can't really predict that, Ali. We do think, based on the trends and what we've seen quarter-over-quarter and the continuation of some improvement in the economy that we'd begin to see some stabilization. But certainly, you're right, as far as what we've seen over the past. But at some point, you do begin to feel like it bottoms out and the economy begins to improve. We begin to see some improvement. But it's a very slow recovery process, and we continue to expect it to be slow as we look forward.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

I'd say Ali we're hitting a lot of singles. The governor is making an announcement actually at 10:00 this morning. It's public about some more new jobs here. But they're singles as opposed to home runs, so it's just going to take a while to rebuild up the economy.

Ali Agha

SunTrust Robinson Humphrey

Q

Got it. And last question, Chuck. I mean, can you remind us, embedded in your 2015 guidance for PNM, how big of a regulatory lag is built in in those 2015 numbers?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Yeah. I think if you go back and look at the earning power slide, you'd see that the midpoint of the calculations for 2015, we had about 8.4% ROE that we assumed for the retail jurisdiction.

Ali Agha
SunTrust Robinson Humphrey

Q

Yeah, I got it. Okay. Thanks.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Thanks, Ali.

Operator: Our next question is from Paul Ridzon with Key Banc.

Paul T. Ridzon
KeyBanc Capital Markets, Inc.

Q

Good morning and congratulations on these filings.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Thanks, Paul. Good morning.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Thanks, Paul.

Paul T. Ridzon
KeyBanc Capital Markets, Inc.

Q

The 15% to 20% savings in 2016 and 2017, does that contract step up after that?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

There's escalations that will be built into the contract. They're more inflationary indices that will be used relative to the longer-term portion of the contract. But again, overall, they're continued savings if you were to project it beyond the 2017 period that provides value to customers.

Paul T. Ridzon
KeyBanc Capital Markets, Inc.

Q

Great, great. Thank you very much.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Thanks, Paul.

Operator: Our next question is from [ph] Paul Fremont of Nexus (0:28:18).

Q

Thanks. In the order of permitting responses to exceptions, it looks like responses to exceptions should be filed eight days following the date of that order. So, is that today or Monday?

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

[ph] Paul (0:28:34), are you talking about the rate case?

Q

No. I'm talking about – it looks like BART.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

That's correct.

Q

So does that mean that the commission can basically then put this on the agenda after those exceptions are filed and when would you anticipate that the commission would actually rule on your BART case?

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Yeah. They can put it formally on the agenda when they get the draft order, which will probably be a little later in May and we would think, end of May early June is when they could vote on it.

Q

That's it from me. Thank you.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer

A

Thanks, [ph] Paul (28:34).

Operator: The next question is from Brian Russo of Ladenburg Thalmann.

Brian J. Russo
Ladenburg Thalmann & Co., Inc. (Broker)

Q

Hi. Good morning.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Good morning, Brian.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Good morning.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Assuming this new supply, coal supply contract. I believe that the net customer bill impact from the general rate case was 7% to 8%. And I'm just curious, with the lower priced coal supply, what kind of offset might that offer customers from that 7% to 8% impact?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

We would really look at – if you look at it from the customer impact and thinking of the savings flowing through the fuel clause, it would be around a 10% area benefit to customers on fuel itself.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

On the fuel piece, yes.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Fuel piece, yes.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Okay, got it. And then it seems odd on the weather normalized load growth in New Mexico that you'd have positive growth on the residential side, but meaningfully negative growth on the commercial and industrial side. Maybe can you just comment on the dynamic there?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Yeah, on the industrial side, Brian, there were a couple of big customers, actually including a mine that just is going through a different phase in their mining operations. So they use less electricity, and that's what's going on in the industrial side. And commercial and residential aren't always perfectly aligned. There's nothing big we see there.

There's always a turnover in restaurants and offices and small businesses, so it's nothing we see in particular. But I really do look at the residential growth as a good sign. And usually when you get that residential and we're also seeing job growth, job growth is usually the predecessor to commercial growth. So we're starting to see the job growth. So I think that commercial just may be lagging a little bit behind the residential.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Okay, great. Thank you.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Thanks.

Operator: [Operator Instructions] Our next question comes from Feliks Kerman with Visium Asset Management.

Feliks Kerman

Visium Asset Management

Q

Thank you and congratulations on a great quarter.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Thanks, Felix.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Thank you.

Feliks Kerman

Visium Asset Management

Q

Just a general question. Let's say hypothetically that the commission adopts the hearing examiner's recommendation, how should we think about the 2016 earnings potential? If we look at slide 17, we show a step-up from \$2 billion rate base to \$2.4 billion. If we can get something in the middle of the year, do we assume that kind of comes down to \$2.2 billion average rate base? How should we think about that?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Well, if you think about the rate base impact on the hearing examiner's recommendation on the BART piece of it, it's about a \$56 million adjustment to rate base. The rate case itself, it's just really too early to have any regard towards trying to think about the impacts with these things because the earnings power is clearly a plan of how we see, we're focusing on that to execute the business and earnings potential of the business. The rate case is more regarding the timing of when we are able to execute on that plan. And so, it's just too early at this point to speculate or have any particular details regarding our views to adjust in any numbers until we have more certainty out of the commission's decision.

Feliks Kerman

Visium Asset Management

Q

Okay. Thank you. And then just...

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Keep in mind, the rate base is staying the same. It's a question of timing and when the revenues are approved and settled in the rate cases as to what it does to the earnings of the business and affects the ROEs. So, from a rate base standpoint, we would still have the same rate base numbers. It is just more of a timing of when that revenue comes in.

Feliks Kerman

Visium Asset Management

Q

Okay. Thank you.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Okay.

Feliks Kerman

Visium Asset Management

Q

And then just on the new restructuring agreement with the 65 megawatts, how should we think about that? I believe on one of the slides we showed that we need a \$43 per megawatt hour price to breakeven. Would we need a comparable price to breakeven on this additional 65 megawatts as well?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

We put a footnote in the earnings power slide although we haven't reflected in the numbers itself. But it's – when we put the information and made it public, we anticipated about a \$0.02 to \$0.03 impact based on our assumptions of fuel costs at the time in the forward curve in the market, assuming we don't have a PPA tied to that 65 megawatts.

So there could be some improvement because of the contract we just mentioned that reflect to may be a slightly, bit of an improvement in that \$0.02 to \$0.03. But at this point, I think that's probably the right way to look at it. It's an earnings drag to the business and we'll continue as that goes into effect in 2018, trying to find solutions that would mitigate and offset that impact.

Feliks Kerman

Visium Asset Management

Q

Okay, thank you. And just one small bookkeeping item, on the quarter-over-quarter, we show a pickup of \$0.01 on the Palo Verde spent fuel reimbursement. Is that something we expect to have for the entire year, so like a \$0.04 annualized or is that just a one-time or for a quarter?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

No, no, no. This is really retro back to 2011 to 2014 and going forward, it would be really caught up at that point. And so we don't see any additional pickup year-over-year.

Feliks Kerman

Visium Asset Management

Q

Okay. Thank you, guys. Appreciate it.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Okay.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Pat Vincent-Collawn for any closing remarks.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Thank you, operator, and thank all of you for joining us today. We appreciate your interest in PNM Resources. We look forward to providing you updates. And once again, I just really want to thank all the folks. As you can see, there's been some really hard work done to come out with some very successful agreements. So, thank you all and we will talk to you all soon. Thank you.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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