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PNM Resources, Inc. (PNM)

Q1 2022 Earnings Call

CORPORATE PARTICIPANTS

Lisa Goodman

Director-Investor Relations, PNM Resources, Inc.

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

OTHER PARTICIPANTS

Paul Fremont

Analyst, Mizuho Securities USA LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the PNM Resources First Quarter 2022 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask question. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Lisa Goodman, Director of Investor Relations. Please go ahead.

Lisa Goodman

Director-Investor Relations, PNM Resources, Inc.

Thank you very, Vaishnavi. And thank you everyone for joining us this morning for the PNM Resources first quarter 2022 earnings 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 Don Tarry, our Senior Vice President and Chief Financial Officer.

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.

With that, I will turn the call over to Pat.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

Thank you, Lisa. Good morning, everyone. Before we get started, I would like everyone to join me in congratulating the newly promoted, Lisa Goodman, our new Executive Director of Investor Relations and Shareholder Services. Congratulations, Lisa. It's a surprise to her, too.

So, thank you all for joining us today on National Superhero Day. We've all heard the phrase that not all heroes wear capes and around here, that holds true for everyone in our offices and in the field who are holding strong to our values and doing the right thing for our customers and communities. Our successes are the result of each team member contributing to our strategy and goals, and I thank the team here at PNM Resources for making this a reality.

On a lighter note, it is also National Great Poetry Reading Day. So, I have taken a stab at writing a haiku to summarize today's call, so here we go. Numbers looking good, steadfast and exiting coal, merger continues. Okay. So, it is definitely not great poetry, and it's certainly not what Japan's haiku master poets had in mind. So, I will promise you stick with my day job.

I'm going to start on slide 4 with our financial results and company updates. Ongoing earnings increased during the first quarter compared to last year, coming in at \$0.50. We are affirming our guidance for both 2022 and 2023 as we continue focusing on executing our business plans and delivering results. Don will cover the financials in more detail.

Before I move in to our regulatory update at PNM and TNMP, let me quickly touch on our proposed merger. Earlier this month, we filed our Brief-in-Chief with the New Mexico Supreme Court, that makes our arguments on the items previously laid out in the statement of issues. We also requested the court hear oral arguments. The next step will be for the New Mexico Public Regulation Commission to file their answer brief. Our final response brief will then be due in the first week of July, which will complete the briefing schedule. As a reminder, there is no statutory timeframe and we continue to expect a 12 to 18-month process from our initial filing in January.

So now moving on to our regulatory updates. At TNMP, we received approval for our first 2022 semi-annual transmission cost service filing at the end of March reflecting a \$14.2 million annual increase. TNMP also made its annual filing for recovery of distribution investments in early April and we expect to implement new rates associated with this filing in September. While these filings may seem fairly routine, our teams have consistently done a thorough job in making these filings to support the needed investments on our system, and we look forward to working with staff and other interveners for a successful outcome.

At PNM, yesterday, the New Mexico Commission issued an order in our decoupling docket originally filed back in 2020. Parties to the docket disagreed on the changes made by the legislature in 2019 that we believe were intended to allow for a full revenue decoupling and we asked the Commission to provide their interpretation through a petition for a declaratory order.

Despite opinions expressed by the Commission's general counsel, the Commission issued an order specifying that decoupling only applies to changes in customer usage tied to utility's approved energy efficiency plans. We will be reviewing the order to evaluate our options which do include an appeal to the New Mexico Supreme Court. And we are not backing down on our early exit of the Four Corners power plant and securitization of the under-appreciated investments.

Similar to the merger appeal, we have filed an appeal with the Supreme Court and filed our brief in March. The Commission will file an answer brief by May 12, and then we will have a response brief in early June. We have also requested oral arguments in this case, and as a reminder, there is no statutory clock for this appeal.

Turning to slide 5, remember that the Four Corners appeal is part of our strategy to exit coal as we fully eliminate carbon emissions from our generation portfolio. This is a tremendous shift for utility of our size that relied on coal for over half of our energy needs just five years ago and this transition is about more than just environmental benefits. It is also designed to reduce cost to customers and to support the communities impacted by the exit from coal. This was the intent of New Mexico's landmark legislation, the Energy Transition Act, that takes a comprehensive approach on moving the state forward into the clean energy future.

As an owner and the operator of the San Juan Coal Plant, we recognize the significance of closing down such a major economic contributor for Northwest New Mexico and the surrounding area. We began talking about the closure of the plant back in 2017 and working with stakeholders in the region to provide increased support for economic development opportunities for people and the community at large ahead of the planned shutdown. Our own teams, their families and heritage are part of this transition, and we did not take any decisions lightly.

We took steps to get funds to impacted workers early. PNM provides for the severances and assistance for any of our own workers, but securitization includes severance and job trading funding for the coal mine workers. We knew that it would be the first to feel the impacts. We had planned to prefund them out in 2021, but this was held up by the appeal of our securitization approval. Once the Supreme Court upheld our approval in January of this year, we were able to move forward with getting these funds where they were intended, even earlier, the Energy Transition Act had contemplated.

We have the same considerations for the Four Corners Power Plant, which is located in the same region. We own a much smaller share of the plant and are not the ultimate decision maker on when the plant shuts down. Our filing included securitization of under-appreciated investments as both have means to further reduce customer costs as we exit poll, and also to support this community with economic development funds that can be put to use years before the plant shuts down.

Does it mean that our states [indiscernible] (00:09:02) energy transition comes without challenges? The constitutionality of the Energy Transition Act, particularly, the portion governing recovery of unappreciated investment, was challenged first at the onset of the new law, and then again through the appeal of securitization approval for San Juan. The New Mexico Supreme Court upheld the Energy Transition Act, both times. The law is being challenged again with the Commission's denial of our application to exit and securitized Four Corners under the Energy Transition Act, as we have detailed in our arguments on our appeal.

Supply chain disruptions are also challenging the transition with delays in bringing the solar and storage PPAs online that would replace San Juan. We filed with the commission to extend one of the San Juan units for three months to provide sufficient reserve margin throughout our summer peak, and they responded that this planned extension did not require approval. The transition to lower cost resources will reduce costs for customers. This reduction will help to offset the bill impact from the recovery of new investments made since 2018 when our last rate review was completed.

We had planned to file our next rate review in 2020, but delayed the recovery on our growing rate base, recognizing the impact our rate increase would have on our customers during the midst of a global pandemic. We made the same decision to defer recovery as the pandemic continued in 2021. Then, as part of our negotiations with parties in our merger filing, we agreed to further delay the filing until after December 1, 2022, again, for the benefit of customers. We are now targeting the end of 2022 for a filing based on 2024 costs, reflecting the changes at San Juan.

The commission has taken up a motion to look at separating the San Juan cost reductions from other rate updates essentially asking us to continue delaying any new recovery while carving out the offsetting San Juan reduction. We do not think the law nor the facts and circumstances support the action requested by this motion. Our plans to exit coal are right for our customers, our communities, our environment, and our shareholders. These plans are also consistent with the goal of our ESG strategy.

Before I hand things over to Don, I want to touch on one recent ESG highlight. You can see on slide 6, we worked over the past several months to develop a new PNM Pueblo Scholarship Endowment Fund, continuing our support for tribal communities and also our focus on education. Our hope is for this investment to provide opportunities to create economies that are aligned with Pueblo cultural values and traditions leading to meaningful economic development in Pueblo communities.

We want to see these communities thrive in ways that ensure the Pueblo way of life remains sustainable for generations to come. I am proud of our partnership with All Pueblo Council of Governors and the American Indian Graduate Center to bring this collaborative vision to reality and look forward to the first scholarships being awarded this year.

With that, I will turn it over to Don to walk through the financials.

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

Thank you, Pat and good morning. I'm going to pick up on slide 8 with year-over-year results for the first quarter where we saw an increase in each of our segments. PNM and TNMP each increased \$0.08 over the first quarter of 2021. At PNM, the increase was largely driven by transmission margins. We continue to see higher network demand and new customers, including the Western Spirit contract that began in December of 2021.

At TNMP, recovery of investments through our TCOS and DCOS rate mechanisms was the primary driver. In both utility segments, we saw load growth and colder temperatures also contributed to increases and offset came from higher depreciation and property tax expense associated with new investments. At corporate, the refinancing of debt at a lower rate in May of last year provided year-over-year savings for the first quarter. These results are ahead of our expectations for the first quarter and provide a strong start to the year. I'll talk about guidance for the full year in a moment.

First, let's turn to slide 9, and I will share what we are seeing in terms of load growth across our service territories. At PNM, growth in our industrial class is driving our increase, consistent with our assumptions and guidance. This is a result of continued economic development efforts in the state to attract new customers. Some of this growth is coming in little slower than we expected as customers are experiencing a slower ramp up. Although, we still expect these load increases to materialize, remember that these customers have the lowest rate per kilowatt hour and the slower ramp-up have a small impact on our financials.

New Mexico continues to invest in economic development. And we continue to see benefits with announcements of companies moving in or expanding. During just the past month and a half, a bioscience company announced its plans to add 274 new employees, Northrop Grumman announced an expansion; and Universal Hydrogen was the big announcement with plans to invest over \$250 million and hire at least 500 people over the next seven years. The state's job training incentive program has been making monthly announcements of grant awards, and quarterly economic data has shown record levels of gross receipt taxes.

PNM's residential and commercial load growth is in line with our expectations. Compared to the first quarter of last year, residential load is lower and commercial load is higher, which we expected as more individuals working from home last year have returned to offices. At TNMP, growth from both volumetric and demand-based customers are in line with our guidance expectations. Volumetric load from residential customers is trending with customer growth. Demand base load reflects growth from existing customers and also new customers as we continue to see steady levels of interconnections for both transmission and distribution in Texas.

While oil prices have spiked, investments from the oil and gas industry has been more focused on new service to existing drilled wells as opposed to adding new drilling rigs. Remember that as these areas have grown in the past, many operations were served by generators until new service could catch up.

Turning to slide 10, we are affirming our guidance for both 2022 and 2023. As I noted earlier, our results through Q1 came in higher than our expectations. This provides some additional comfort with our plan as we navigate an environment of higher inflation and interest rates this year. 2022 earnings guidance is affirmed at a range of \$2.50 to \$2.60 and 2023 earnings guidance is affirmed at a range of \$2.60 to \$2.75. We have updated our quarterly distribution to account for the first quarter results and our current expectations for the remainder of the year.

On slide 11, we've included our capital investment plans which support our earnings growth target of 5% through 2025. We have not made any changes since our February guidance call. As we monitor supply chain and other market developments, we may need to shift the timing of certain projects to allow our teams to work the most effectively. If these shifts should result in changes to our investment plans or rate base expectations, we will provide those updates in future quarters. For now, we do not see a need to make any changes to these plans.

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

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

Thank you, Don. That wasn't much in terms of poetry, but I will say it did have its own flair. Vaishnavi, let's open it up for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Paul Fremont with Mizuho. Please go ahead.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Thank you very much. I guess my first question relates to the show cause and the argument for possible refunds. If the commission were to order either refunds for one unit or both units of San Juan, are you able to sort of quantify the impact of that on your income statement for this year?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

Good morning, Paul. I was kind of hoping you'd have a haiku for us.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

No, sorry about that, even though I work for a Japanese bank. Not my strength.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

All right. I'll turn it over to Don for that, Paul. Thanks.

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

A

Good morning, Paul. I wouldn't want to get in front of or speculate what the commission might do. We did file a testimony in that case, April 20, so you could defer to the different questions that the interveners and others asked in that case. I will reiterate what Pat talked about a few minutes ago. We feel like we have a strong legal argument under the ETA and the financing order and even under our protocol that the commission follows, which is called [indiscernible] (00:19:48) rate making. So, again, don't want to get ahead of any kind of commission decision or the hearings which will happen in May 22, 23 timeframe.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Great. And then on the timing of your merger with AVANGRID, any thoughts on what the timeframe would be for you to potentially consummate the transaction?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

But Paul, we've talked about that Supreme Court doesn't have any statutory timeframe on the case. As we've also discussed, there are ways for the commission to ask us to bring the case back. And those would not happen, I don't think, until next year. So, it will be some time in the beginning of the first half of next year.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

So, the case was – your interpretation is the case was not closed with a final NMPRC order in the merger proceeding?

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

A

Yes, Paul, I think that's exactly right. So, moving into the Supreme Court allowed the record to stay in place. And so, currently the records are in place in front of the Supreme Court. So the case has not been closed.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

The record in the stipulation.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Got it.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

And AVANGRID has still continued to come out. We just support the community in big ways. We just have been – we are the key of the corporate sponsors of the United States Hispanic Chamber of Commerce, first ever energy summit. We had a Big Earth Day event. So we're continuing on with their plan to actually to be able to kind of reintroduce AVANGRID into the community now that we've moved. As Dr. Fauci said, we've moved past the pandemic stage into the endemic stage.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

And then maybe a last question from me. There was supposed to be an initial meeting of the committee to sort of select the new commissioners by July of this year. Can you give us any update as to where things stand on the selection process and when you would think that the candidates would be selected for the committee?

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

A

Yes, Paul. You know, the committee actually gets organized in the July-August timeframe. I think kind of the process that you would look at is likely from there. I think by the end of September, early October, they would provide a list of at minimum of five potential commissioners onto the governor. And then, so just before the end of the year, the governor would make an announcement of which three she selected.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

A

And Paul, the primary elections here are in early June, and there's not much of a focus on anything here until the primaries get done. A lot of folks are facing primary challengers, and they're working to get through that.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Great. Thank you very much.

Q

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

Thank you, Paul.

A

Joseph D. Tarry

Chief Financial Officer & Senior Vice President, PNM Resources, Inc.

Thank you. Paul.

A

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

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer, PNM Resources, Inc.

Thank you again for joining us this morning, and again, my congratulations to Lisa Goodman. We have really enjoyed seeing some of you face-to-face over the last few months, and we will continue to do so. Please be sure to celebrate the superheroes in your life, and you might want to take some time to enjoy some real poetry tonight. Stay safe, everyone.

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

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