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# PNM Resources, Inc. (PNM)

Q2 2022 Earnings Call

## CORPORATE PARTICIPANTS

**Lisa Goodman**

*Director-Investor Relations, PNM Resources, Inc.*

**Patricia K. Vincent-Collawn**

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

**Joseph D. Tarry**

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

**Elisabeth A Eden**

*Chief Financial Officer, Treasurer & Senior VP, PNM Resources, Inc.*

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## OTHER PARTICIPANTS

**Paul Fremont**

*Analyst, Mizuho Securities USA LLC*

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## MANAGEMENT DISCUSSION SECTION

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

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

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**Lisa Goodman**

*Director-Investor Relations, PNM Resources, Inc.*

Thank you, Dave, and good morning. And thank you, everyone, for joining us this morning for the PNM Resources second 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](http://pnmresources.com). Joining me today are PNM Resources' Chairman and CEO, Pat Vincent-Collawn; President and Chief Operating Officer, Don Tarry; and Senior Vice President and Chief Financial Officer, Lisa Eden.

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.

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**Patricia K. Vincent-Collawn**

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

Thank you, Lisa. Good morning, everyone, and thank you for joining us today. Today is special. You get to pick the National Day you want to celebrate with us: national chocolate chip cookie day, national IPA day or national white wine day? And I know the choice don't come easy.

On slide 4, I'll start with our financial results. Ongoing earnings increased during the second quarter compared to last year coming in at \$0.57. We are affirming our guidance for both 2022 and 2023. Don and Lisa will talk more about the detailed results and guidance considerations.

During the second quarter, we announced the promotion of Don Tarry to President and Chief Operating Officer and Lisa Eden to Senior Vice President and Chief Financial Officer. Many of you have already met with this team from their roles in the finance organization for over the last 20-some years. Both of them have been an integral part of our leadership team, and I congratulate them on their newest role.

Tomorrow, we will file our reply brief at the New Mexico Supreme Court in our merger appeal. As you know, we've requested the Court hear oral arguments and we'll be waiting to hear if the Court grants this request. There is no requirement for the Court to hear oral arguments, nor any timeframe for their consideration. As a reminder, there is also no statutory timeframe for a decision and we continue to expect a 12- to 18-month process from our initial filing in January.

The process for appointing commissioners in New Mexico is also ongoing. The seven members of the nominating committee have been announced and the committee held its first meeting earlier this week taking care of administrative items. According to their published schedule, candidate applications will be reviewed in October. Interviews will be held November 7 and 8 and finalist interviews and committee selections will be made November 14.

The committee must provide a list of at least five candidates and the governor will select three individuals for appointment prior to the end of the year. These commissioners will be seated January 1. The appointments will need to be confirmed by the Senate. However, they will be able to begin acting in their roles while pending confirmation.

Before I turn it over to Don for updates on PNMs and TNMP, I will cover some quick ESG highlights on slide 5. We retired Unit 1 of the San Juan Generating Station from service on June 30. This is a big step in our exit from coal and the next step will be the full retirement of the plant when unit forecloses on September 30. At that point, coal generation will comprise less than 10% of PNM's total generation portfolio and more than half of our resources will be carbon-free, moving towards our goal of a 100% carbon-free by 2040.

We have also joined a number of other utilities in every climate-ready initiative. As the impacts of physical climate risk grow more prevalent each year, a resilient and adaptive grid has become increasingly critical. This collaboration will allow us to integrate consistent science-based information into our planning processes and prioritize the investments that will best serve the grid and our customers in the phase of increasing climate challenges. These types of partnerships are a great way to leverage the strength and expertise from district organizations as we develop new solutions to today's challenges, and it is a model that we practice throughout our business.

We announced the partnership in June with the University of New Mexico with a goal to expand internship programs in terms of state education and economic development efforts. In addition to our own internships, we committed to building a coalition of businesses and universities across the state to create equitable employment opportunities for college students and keep skilled graduates employed in the state.

We have also partnered with Central New Mexico Community College in their continued efforts to further cybersecurity programs in the States. We brought together a tribal telecom utility with military cyber experts. The training event was part of the Department of Defense Innovative Readiness Training as one of the first events focused on cybersecurity. Military personnel carried out a vulnerability assessment on the tribal utility and provided instruction to participants for building their own programs and assessments.

These exercises are intended to defend critical infrastructure while leveraging military and community resources with careers available to bring opportunities to those who may not otherwise have access. As Internet and data communications become increasingly important for tribal communities to grow and thrive, we were particularly motivated to bring the program to one of the tribal utilities in the state. You can read more about our support for tribal communities and our broader ESG initiatives on our website where we have recently updated our reporting templates in Annual Sustainability report.

With that, I will turn it over to Don, for an operations update.

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## Joseph D. Tarry

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

Thanks, Pat, and good morning, everyone.

I'll start on slide 7 with an update on our clean energy transition. The first phase of this transition, our exit from coal, was designed to achieve more than environmental benefits. Each step of our plan has been carefully considered to also balance customer rates and provide support for the communities impacted by our transition. We continue to support New Mexico's goal to be a clean energy leader and follow the direction laid out in the Energy Transition Act. As Pat mentioned, we retired Unit 1 one of the San Juan Generating Station at the end of June. We have planned to keep Unit 4 running through September 30th to ensure we get through our summer peak season.

Our teams are doing a phenomenal job keeping our resources running, monitoring our system needs, and ensuring we have adequate power to meet our rising demand. I wanted to give a special thanks to the team at San Juan, who have been working towards these plant retirement days after serving New Mexico for decades. There is still plenty of work to be done to facilitate the decommissioning and reclamation of the plants to mine but these are significant occasions and I don't want to pass them up without acknowledging the contribution of our great teams.

In July, we completed the funding required by the Energy Transition Act to aid the communities and workers impacted by the closure. This has been a top priority, and you will remember that we have pre-funded some of these amounts earlier this year to support the mine employees who were impacted first and needed the severance and training dollars. In the meantime, the portions of the Energy Transition Act pertaining to when the utility issues bonds and resets customer rates has been challenged customer rates had been challenged once again and has gone back to the New Mexico Supreme Court for resolution. Since the onset of the pandemic, PNM has been deferring a general rate review to support our customers through these difficult times. Also, agreements with parties to the merger stipulation were to not file a rate review until December of 2022 and we have kept that commitment. By the time new rates are put in place in January of 2024, we will have made over \$2 billion of investments since our last rate review that are not part of our current customer rates.

Overall, cost control and cost reductions from retirement of San Juan partially offset this regulatory lag and allowed us to agree to defer any rate increases to our customers. Despite the overall plan that benefits

customers, the New Mexico Commission ordered us in June to separate out those pieces and provide a rate credit to customers tied to San Juan without any consideration for other investments that have been made since our last rate review.

We have appealed the order to the New Mexico Supreme Court and also requested to stay to positive rate credits during the appeal process. The request for this day is under consideration by the court and we have begun to implement the credits in the meantime. The appeal process does not have a statutory time period, but the monthly credits will end once new customer rates are implemented which is expected in January of 2024.

We also continue to pursue and exit from the Four Corners plant at the end of 2024 to complete our full exit from coal. This case is also under appeal with the New Mexico Supreme Court. We filed the final briefing under the schedule in mid-June and will also request oral arguments in this case.

The transition to clean energy is our industry's most significant change of our time. We also know that it is the right thing to do for our customers, our communities, the environment and our shareholders and we will continue down this path.

Now turning to slide 8 and our load growth by service area. At PNM, our growth expectations for the year are running a little behind guidance expectations for 2022. The primary driver of growth in guidance was from our industrial customers. This growth has been slightly delayed by supply chain and other customer-specific reasons. These customers have our lowest per kilowatt hour rate, so there's not a significant impact on earnings for this delay. On a positive note, residential and commercial load growth is slightly ahead of expectation.

Second quarter weather was milder than normal. We warmed up quickly in April and in the heating season earlier than usual. Temperature soared in May, but then cooler temperatures came in with some welcomed rain in June. As we move past the quarter into July, PNM had a stretch of several hundred degree day and hit a new system peak for the first time since 2013. This demonstrates that we've been – what we've been seeing on the PNM system for several years as energy efficiency and rooftop solar have kept our total load growing at a slower rate. The peak use on the system is growing and requires additional investments to meet the increased demand of the future. The state economic development efforts continue to attract businesses, relocations and expansions, and the current level of inquiries from potential customers is significant.

Turning to TNMP, weather and load had significant impacts in the second quarter. Both volumetric and demand base load is growing above our expectations as the Texas economy spurs expansion of our communities in North Texas and the Gulf Coast area. In West Texas, new crypto mining customers pushed demand base load higher for the quarter. Unlike New Mexico, temperatures in Texas were above during in the quarter and TNMP set a new system peak in June. These temperatures continued to rise in July, and several new system peaks were recorded.

Turning to slide 9. I'll cover the key regulatory filings and upcoming filings in each jurisdiction. At PNM, we have already talked about our merger. San Juan and Four Corners appealed at the New Mexico Supreme Court. I also wanted to update you on upcoming filings in the second half of the year.

We are scheduled to make a grid mod filing in October. This filing was originally requested by the Commission in March. In our communications with the Commission, we indicated that we were preparing a multiyear grid mod plan that would include automated meters as well as associated communication networks, automated control systems, investments related to reducing outage and restoration times, a customer portal, and enhanced cybersecurity measures. The Commission was supportive of these efforts and for granting more time to prepare

the corresponding application covering a five-year planning horizon. We will look to update our investment plan next quarter to align with our filing.

And then in December, we plan to file PNM's general rate review based on a future test year of 2024. We will share more information about the filing once it's made, but you can expect the primary driver to be recovery of rate base made since our last future test year filing in 2016.

On the FERC transmission side of the business, we continue to recover our PNM transmission investments under a FERC formula rate. And in this year's update, we are recovering an additional \$65 million of rate base with new rates that became effective June 1. At TNMP, progress continues on the regulatory agenda for this year. Following approval and implementation of our first transmission cost of service increase in March, we made an annual distribution recovery and filing in April.

recovery filing in April. We reached a settlement in principle with parties in this filing, and interim rates based on this agreement have been approved for implementation of on September 1. In this settlement, the recovery of replacement AMS meters is deferred until our next filing. The expenses and taxes associated with these meters are also deferred as part of the settlement, resulting in 99% of our requested net increase and a recovery of \$95.7 million of transmission investment. This marks our third year reaching a successful settlement on these filings.

On July 2022, we filed our second transmission cost service filing for 2022 for recovery of another \$36 million of new rate base. Based on previous years, we would expect rates associated with this filing to also be implemented in September. Overall, the Texas Economic and Regulatory Environment continues to positive TNMP well for continued growth and recovery of investments needed to maintain and expand our infrastructure.

I'm going to turn things over to Lisa to walk through earnings impacts for the quarter and considerations for guidance going forward.

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## Elisabeth A Eden

*Chief Financial Officer, Treasurer & Senior VP, PNM Resources, Inc.*

Thank you, Don. I'm going to pick up on slide 11 with our high level year-over-year results for the second quarter. The detailed drivers are available in the appendix. TNMP increased \$0.13 year-over-year in the second quarter due to higher load and weather along with rate relief from our TCOS and DCOS filings. PNM decreased \$0.07 compared to the prior year. Increased transmission margins, including the Western Spirit contract were more than offset by the realized market performance of our decommissioning trust and higher O&M including planned outage costs.

In addition, new investments at both PNM and TNMP increased depreciation and property tax expenses. At corporate, we're seeing the impacts of higher interest rates on our outstanding parent company debt. As a reminder, this debt was and still is intended to be paid off at the closing of our merger with AVANGRID. We expect interest expense to continue to be a driver for the remainder of the year to mitigate some of the exposure created by the current environment. We have entered \$450 million in interest rate swaps, which will limit part of the exposure.

Turning to slide 12, we are affirming our consolidated guidance for 2022 and 2023. The strength in our consolidated earnings for the past two quarters has provided room to cover any cost increases within our guidance. Historically, the third quarter has generated half of our annual earnings and can be significantly impacted by weather. Based on what we have seen so far and barring any significant, unexpected changes, we

are targeting results in the top half of our range for 2022. In addition, we have updated our quarterly distribution for 2022 to reflect actual earnings for the first half of the year and revised expectations for the second half.

Turning to slide 13, we're also maintaining our current capital plan focused on T&D infrastructure. As we indicated last quarter, we continue to monitor supply chain and inflation impacts and are shifting projects as necessary to allow our teams to work the most effectively and maintain current investment plans. Don mentioned that we will file a grid mod plan later this year. We will update our capital plan with this filing when we report third quarter results. As always, we will be mindful of the customer impact.

Our plans continue to support 5% annual EPS growth through 2025 with the majority of our forward-looking rate base growth recovered through the third formula rate and TNMP rate mechanisms. We have a strong track record of delivering results and remaining flexible and adaptable to changing market conditions. As always, we will continue to focus on ways to navigate in the current environment without losing sight of our long-term goal and strategic direction that supports our customers and communities and delivers shareholder results.

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

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### Patricia K. Vincent-Collawn

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

Thank you, Lisa. Before I open it up for questions, I'd like to add my thanks to the teams that are responsible for the retirement at San Juan and those who have been working through some incredibly hot summers to keep our systems running and to keep their fellow crewmembers safe in this heat. Safety is our top priority and one of our core values, whether you work in the field or in an office. Dave, let's open it up for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** We will now begin the question-and-answer session [Operator Instructions] The first question comes from Ryan Levine with Citi. Please go ahead.

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Ryan Levine

Q

Good morning.

A

Morning, Ryan.

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Ryan Levine

Q

I'm hoping just – hi. I'm hoping to start off in terms of the IRA. How do you see the proposed legislation impacting your core business outlook both as a stand-alone case and then also into the pending merger?

A

Okay. Ryan, we'll have Don answer that question. But before I do, which national day are you going to celebrate?

Ryan Levine

Q

They all sound pretty good to me.

A

Oh, what a diplomat. Okay. Over to Don.

Joseph D. Tarry

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

A

Hey, Ryan. Good morning. I'm a chocolate chip cookie guy so I'll go that route. Absolutely. I mean, in New Mexico and in our service territories in New Mexico and Texas, I'll talk specifically about New Mexico. I mean, we see it very beneficial. Obviously, we're below the \$1 billion so we don't have that threshold issue and some of the benefits that we've explained in the past of how New Mexico sits third and potential in wind and solar provides opportunities from a transmission development perspective as we look longer term and the benefits associated with that.

But specifically with the tax law change, a couple of the benefits that we really like relate to. The first one probably relates to allowing PTC for solar development and the benefit that allows utilities maybe to participate in more of these as PTC doesn't get caught up in the tax normalization. And it's also good for customers, any type of these credits that they get passed through in lower prices to customers. So, that part is beneficial. On the capacity side on the batteries, being able to do an [ph] ITZ 00:23:45 and with the [ph] ITZ 00:23:46 being able to self-select out of tax normalization is a benefit as well too. Because it allows us to be competitive from the utility perspective. So in essence, those would be the big areas and I think you'll find in most utilities very positive on this.

A

Yeah. And Ryan, those benefits continue even with the merger from AVANGRID. I'll let Pedro discuss AVANGRID's overall corporate benefits. But those are things that I think line up very well for utility ownership of storage and renewables. And as Don said, we've got a lot of renewable and storage potential here and we'll be having some more resource solicitations. So, we're looking forward to that new tax package, the IRA, excuse me, pass in Congress.

Ryan Levine

Q

Thank you. I guess to follow-up on that, if I'm hearing you correctly, you see incremental opportunities for capital deployment. Does that further the strategic rationale to partner with a larger, more capitalized entity? Or are there any other considerations that may speak to the pluses and minuses of the proposed transaction?



A

Yeah. No, I think Ryan, I think – I think that the strategic rationale for the merger in terms of better capitalized access to technology remains the same. And these tax credits just continue to help not only the transaction, but I think mostly help the transition to clean energy and carbon reductions in the US.

Ryan Levine

Q

Okay. Thanks for taking my question.

A

Thank you.

**Operator:** Our next question comes from Paul Fremont with Mizuho. Please go ahead with your question.

Paul Fremont

*Analyst, Mizuho Securities USA LLC*

Good morning.

Q

A

Good morning, Paul.

Paul Fremont

*Analyst, Mizuho Securities USA LLC*

Really, two questions this morning. The first question has to do with the timing of when we would expect you to issue securitization bonds?

Q

A

Okay. And I'm going to celebrate National White Wine Day. And what are you going to celebrate, Paul? half

Q

The end of second quarter earnings?

A

Yeah.

A

And I bet there might be an IPA involved in there. Okay, Don, Don's to talk about securitization.

**Joseph D. Tarry**

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

Good morning, Paul. I mean, our plan for securitization has been and will continue to be to align the securitization with new rates going into effect. And we expect that to be January of 2024. But clearly, we'll continue to evaluate the process as it goes to the Supreme Court of Hill.

A

**Paul Fremont**

*Analyst, Mizuho Securities USA LLC*

Okay. So I guess maybe a follow up on that. I mean, there was a proposal to sort of track changes in interest costs between now and when you actually issue the bonds. Is there any potential liability in delaying the issuance?

Q

**Joseph D. Tarry**

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

You know, we have reports that we -- you're right. We have reports that we have to file. And I think the first one comes October 1 and we're going through all the analysis that we need to do to do that. But again, you know, there's things we can do to position us to protect us from downside as we move forward so.

A

Q – [05KLG5-E Paul Fremont]>: Great. The other question that I had is on planned equity issuance. Is there any update to planned equity since the beginning of the year? Is it the same?

A

And Lisa Eden who is a National IPA day person is going to answer that question.

A

Hi, Paul. Thank you. So, yeah, our equity plans have not changed. We still have assumed in our plans that we will issue up to \$200 million of equity by the end of.

2023 and we are right in line with that cost.

**Paul Fremont**

*Analyst, Mizuho Securities USA LLC*

And can you give us any update – have issued any so far under a year to-date?

Q

A

No. We have not – I think you're referring to an ATM, right, and we are still in the process of putting that in place, Paul. And so, that's something that we're looking to do at the end of the year.

Paul Fremont

*Analyst, Mizuho Securities USA LLC*

Q

Right. I think that's it for questions for me. Thanks.

A

Thanks, Paul.

A

Thanks, Paul.

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

Patricia K. Vincent-Collawn

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

Thank you, Dave, and thank you all for joining us this morning. I hope you enjoy whichever National Day or other day you choose to celebrate this evening. We hope you enjoy the last of your summer and look forward to seeing many of you in the coming months. Stay safe.

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

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