PARTICIPANTS

Corporate Participants

Jimmie Blotter – Investor Relations Manager, PNM Resources, Inc.
Patricia K. Vincent-Collawn – Chairman, President & Chief Executive Officer, PNM Resources, Inc.
Charles N. Eldred – Executive Vice President & Chief Financial Officer, PNM Resources, Inc.

Other Participants

Paul B. Fremont – Analyst, Jefferies LLC
Ali Agha – Analyst, SunTrust Robinson Humphrey
Brian J. Russo – Analyst, Ladenburg Thalmann Securities

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the PNM Resources' 2014 Guidance Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Jimmie Blotter, Investor Relations Manager. You may begin.

Jimmie Blotter, Investor Relations Manager

Thank you, Nicole, and thank you everyone for joining us this morning for the PNM Resources' 2014 guidance 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 most 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. I hope you all had a nice, happy Thanksgiving. This morning, I'll introduce our earnings guidance for 2014 and our new dividend payout. Then I'll take a quick look at economic conditions and load, and give an update on the timeline for San Juan Generating Station and BART, then I'll turn it over to Chuck for details of our guidance.

Let's start on slide 4. The 2014 consolidated guidance range for PNM Resources is $1.42 to $1.52, which based on the midpoint, is approximately a 6% increase over 2013. In addition, on Wednesday, the Board of Directors unanimously voted to increase the company's dividend payment by 12% to an indicated annual rate of $0.74 per share of common stock. That is a 50% payout ratio based on the 2014 midpoint, which puts us into our stated target payout range of 50% to 60%.

We are on track to reach our targeted total return range of 10% to 13% by 2016. This reflects the company's continued solid performance and strong balance sheet, our focus on effective management of the business, and our ongoing success in achieving constructive regulatory outcomes.

Move now to slide 5 for a look at the economic factors in Texas. You know they say, everything is bigger in Texas, and that is certainly true right now for that state's economy. TNMP provides service to communities in Central Texas and along the Texas Gulf Coast; and as that graph on the left shows, employment growth rate there are above the already robust state average. The Texas economic engine is expected to continue to fuel growth at TNMP in 2014 with load projected to increase in a range of 1% to 3% and customer growth at 1%.

We take a look at New Mexico on slide 6, the picture is not yet quite as bright as it is in Texas. There is, however, some good news in New Mexico, as the Albuquerque Metro is seeing year-over-year job growth averaging 0.6% through October. There have also been some positive economic indicators although we're still not seeing those reflected in our sales number. In 2014, we expect to see slight customer growth continue offset by a slight decline in energy sales.

We'll move to slide 7 for an update on BART. This month, we will be making a comprehensive BART-related filing with the New Mexico Public Regulation Commission. The filing will include the retirement of Units 2 and 3 at the San Juan Generating Station, and the recovery of the $205 million of the undepreciated plant assets. It will request approval to bring Palo Verde 3 into rate base as replacement power for part of the retired capacity. We will also request approval for the proposed ownership changes in San Juan, and we'll request approval for selective non-catalytic reduction installation on Units 1 and 4 at San Juan.

The filing will also outline possible addition of replacement power assets, including construction of 177 megawatts gas peaker and 40 megawatts of solar. It's interesting to note that during our resource planning process, modeling showed that solar is a cost-effective alternative replacement power resource. So, at this point, we're including the solar alternative.

Looking at the BART timeline moving forward, once we make the filing with the New Mexico commission, the official review period is nine months with an optional extension period of six months, making a ruling possible in the fourth quarter of 2014 or the first quarter of 2015. And of course, there is always a possibility of a settlement throughout that time period. The revised State Implementation Plan has been submitted to the EPA for its final review, and we expect a decision in September or October of 2014.

Now I'll turn it over to Chuck Eldred, our Chief Financial Officer, for a closer look at the numbers.

Charles N. Eldred, Executive Vice President & Chief Financial Officer

Thank you, Pat, and good morning to everyone, and thank you for joining us today. Once again, we've made considerable progress towards achieving our goals in 2013. We reached the Landmark BART agreement with the state and the EPA early in the year, and have successfully been working to execute those plans. We've managed our business well in spite of lot of challenges in New Mexico and have laid a strong foundation to build on for 2014.

Now turning to slide 9 for details of the 2014 guidance. Our ongoing earnings guidance for 2013 is $1.35 to $1.41, and for 2014 is $1.42 to $1.52. We expect to be near the midpoint for 2014. PNM's contribution is $1.15 to $1.21, and TNMP is $0.38 to $0.40; and Corporate and Other segment is expected to be a loss of $0.11 to $0.09. For 2014, both PNM retail and TNMP should earn a return on rate base close to 10% and we expect our FERC businesses to earn about 6%.

Then moving to slide 10, we'll review the drivers for PNM. We're doubling our solar generation resources in 2013 with the addition of another 20 megawatts. These investments will be recovered in the renewable rider beginning in January and should add $0.03 to earnings for 2014. Palo Verde 3 unit pricing is also expected to be stronger in 2014 than 2013. We're fully hedged at an average price of $37. This compares to 2013 average price of $34 and this will add $0.03 in 2014.

We plan to close in the Delta Person Generating Station in the first quarter of 2014, and it should add few cents to earnings. At FERC there are a couple of drivers. The first is the Gallup contract. We're currently operating under an interim contract that began on July 1 of this year and will run through the end of June 2014, which adds $0.01. Gallup's RFP process is ongoing, and we believe that we are well situated to continue serving them. A decision should come in the spring on this contract.

We're in the midst of the FERC transmission formula rate case, settlement discussions are continuing. We also will do the annual reset of the formula rates in the spring of 2014 with the rates effective July 1. As a result, earnings should increase by an additional $0.01.

The increased levels of capital spending should bump AFUDC up by as much as $0.02. In the BART filing, we'll be making a request to have Palo Verde 3 to rate base including requesting that customers fund their pro rata portion of Palo Verde 3 decommissioning.

In conjunction with this request, we need to ship the asset allocation for Palo Verde 3 Nuclear Decommissioning Trust to correspond to the strategies in the place for Units 1 and 2. Although we typically do not forecast NDT gains, since we know that we'll be changing the investment strategy, we are forecasting the recognition of $6 million to $9 million in realized gains this year, which results in a year-over-year increase of $0.00 to $0.02.

We will continue to budget gains through 2017, as we transition that trust to be more reflective of how the Unit 1 and Unit 2 portfolios are structured. Outage costs are expected to be higher in the fourth quarter of 2014 and will increase expenses by $0.01. We always assume that we will have normal weather when we provide guidance. The first nine months of 2013 were warmer than normal, which has contributed $0.02 to earnings this year. So we expect 2014 will be lower by this amount.

As we continue to increase rate base, depreciation and property taxes will also increase by about $0.04 to $0.05. The load forecast for PNM is flat to down 1%, which results in up to $0.05 reduction year-over-year. You should also note that O&M expenses are now expected to be a driver as we are expecting to hold them flat in 2014.

Now moving to slide 11 for TNMP. We will continue to make TCOS filings in 2014 and expect that these, along with the filing from 2013, will add $0.04 to earnings. The 1% to 3% increase in the load forecast at TNMP should result in additional earnings of $0.01 to $0.03. The first nine months of 2013 were cooler than normal, which has a negative effect of $0.01 in earnings this year, so expect 2014 will be higher by this amount. Like PNM, we will continue to see depreciation and property tax increases. We expect these expenses to be $0.02 higher.

Slide 12 reflects the major drivers that we're expecting in the next couple years. At PNM, we expect to have increases from the renewable rider in 2015. The lease payments of Palo Verde Unit 1 will be cut in half beginning in January 2015. We will be able to capture that reduction until new rates go into effect. This will help us to manage the timing of when we make PNM's next general rate case filing.

We expect to file the new rates of PNM no later than the end of 2014 based on a 2016 forward test year, which means that rates will become effective at the beginning of 2016. This rate case would reflect SNCR costs, renewables and any other PV2 leases that we may purchase.

At TNMP, we expect to utilize the TCOS filing mechanism that permits filing for transmission capital twice per year. We will continue to monitor our ability to earn our authorized return at TNMP, and we may file a general rate case sometime in this timeframe.

Finally at Corporate, the 9.25% debt is due in May of 2015. We expect to pay this debt with dividends and short-term financings at the utilities.

On slide 13, let's look at the five-year capital forecast. We have combined the core capital and BART capital slides that you have seen before. This slide shows the SNCR equipment and the 177 megawatt gas peaker in the PNM generation portion and the 40 megawatts of solar are included as renewables.

In total, we expect our CapEx to be $2.1 billion over the next five years. The expenditures are frontend loaded. We'll have additional T&D spending during the timeframe of PNM and TNMP that will help us to continue providing reliable service for our customers.

Rate base CAGRs from 2014 to 2018 are expected to be 5% to 7% for both PNM and TNMP. The PNM rate case CAGR includes the addition of Palo Verde Unit 3 in 2018, although there's no corresponding capital expenditure since an asset it's already owned by us.

We did not include any forecast for Palo Verde Unit 2 lease purchases, as we will not make the final determination and give notice on those leases until January 2014. We expect the five-year capital expenditures without issuing equity, our liquidity remained strong with the revolving capacities of $775 million. PNM is expected to close this month on a $50 million revolver with the local New Mexico banks that will provide additional flexibility over the next five years.

Now moving to slide 14. As Pat indicated at the start of the call, the Board of Directors increased the dividend by 12% this week. This is the third increase in two years. Importantly, this increase puts us inside our target payout ratio range of 50% to 60% of ongoing earnings. Going forward, we expect that the board will continue to increase the dividend at an above industry average rate, but we'll moderate the size slightly compared to recent increases. So we may stay inside our target payout ratio range during the period that we have high capital expenditures. The next dividend increase will be considered in December 2014.

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

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

Thanks, Chuck. We'll finish up on slide 15 with a review of our strategic goals and objectives. We remain focused on exceptional financial performance including earning our operating returns, delivering top quartile total returns, and continuing to strengthen our credit ratings. We'll accomplish back by continuing to focus on achieving constructive regulatory outcomes, maintaining operational excellence, improving customer satisfaction, and by running the business efficiently and diligently manning cost – managing costs.

Operator, I'm now happy to open up the call for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Paul Fremont of Jefferies. Your line is now open.

<Q – Paul Fremont – Jefferies LLC>: Thank you very much. I think I just want to start with the Nuclear Decommissioning Trust gain. The base in 2012, is that about $13 million and then can you give us what the numbers would be for 2013 and 2014?

<A – Chuck Eldred – PNM Resources, Inc.>: You know, that Paul, we really probably have to have you call Investor Relations and get the details on those numbers, I really don't have that with me right now. But going forward, I think we're clearly trying to indicate the amount that we'd expect and which is slightly different from last year but it's really a strategy that will be supported of the filing that we do with BART that indicates our movement in the funds that that we think will meet what's necessary to meet the regulatory requirements for Units 1 and 2 that we have in rates today. So there'll be a slight funding of the lower $2 million over the next several years, a re-adjustment and re-balance in the portfolio that results in gains and position the portfolio to be equivalent to what we have in rates for Units 1 and 2.

<Q – Paul Fremont – Jefferies LLC>: Okay. But 2013, I think you had said earlier in the year that 2013 had gains at a level that were higher than had been in 2012, right? If I'm not...

<A – Chuck Eldred – PNM Resources, Inc.>: A little bit higher, I think, in 2013 than in 2012, yes.

<Q – Paul Fremont – Jefferies LLC>: Okay, and then..

<A – Chuck Eldred – PNM Resources, Inc.>: And a lot of it, too, because again these are obviously realized gains, but we've had – in 2013, we had a portfolio manager that was added to the portfolio. We have about $200 million in Nuclear Decommissioning Trust with one manager that was managing about $94 million, we added another manager. That resulted in a rebalancing and a change in the portfolio with the new manager that created some additional gains. So I don't recall exactly what that number was, but that was the reason for the gains in 2013.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Jimmie can give you the exact numbers, Paul.

<Q – Paul Fremont – Jefferies LLC>: Okay. And then in terms of capital spending, you've already said that Palo Verde 2 lease purchases are not included. What about the 78 megawatts of San Juan Unit 4, is that in your capital spend?

<A – Chuck Eldred – PNM Resources, Inc.>: No, not at this point, no.

<Q – Paul Fremont – Jefferies LLC>: Nuclear fuel?

<A – Chuck Eldred – PNM Resources, Inc.>: Nuclear fuel is yes.

<Q – Paul Fremont – Jefferies LLC>: And should we assume pretty much like roughly at historical levels $30 million to $35 million?

<A – Chuck Eldred – PNM Resources, Inc.>: Yeah, that's pretty much what we average each year.

<Q – Paul Fremont – Jefferies LLC>: And then last question from me is what – right now, what are you expecting for the timing of when you're going to file the BART rate case?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Paul, it will be in the next couple of weeks. Obviously, everybody wants to get it done before Christmas. It's pretty much done, but we're double and triple checking numbers, so probably a couple weeks.

<Q – Paul Fremont – Jefferies LLC>: And should we expect the resolution on San Juan before you file or not?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: We're going to keep working on that, Paul. If we get a resolution, great. If not, we'll file. And just as a technical note, it's really not a rate case. It's a BART filing, it's a CCN and some other stuff, so it's not the official rate case.

<Q – Paul Fremont – Jefferies LLC>: Thank you very much.

<A – Chuck Eldred – PNM Resources, Inc.>: Thank you. Thank you, Paul.

Operator: Thank you. Our next question comes from Ali Agha of SunTrust. Your line is now open.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Thank you. Good morning.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Good Morning.

<A – Chuck Eldred – PNM Resources, Inc.>: Hey, Ali.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Morning. One – first question, going back to the Nuclear Decommissioning Trust, does that change or gain that you're modeling for us. Does that assume that you – do you need the commission approval to move PV3 to rate base to do all these steps or are these steps going to be done regardless?

<A – Chuck Eldred – PNM Resources, Inc.>: We need – yeah, [ph] probably (18:50) we need approval to get it in the rates as you know, but we don't – the fact that the gain itself is not something the commission weighs in on and that's why their BART filing will reflect, the need to move Palo Verde Unit 3 into the same level of reallocation of the portfolio, which is a 50-50 match of equity and debt. So it matches the other assets. So it's not an approval, it's just a positioning to prepare the asset to go in rates if it's approved by the commission.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Okay. So you will make that adjustment to the trust regardless?

<A – Chuck Eldred – PNM Resources, Inc.>: Yeah. Regardless – yes.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Understood. Okay.

<A – Chuck Eldred – PNM Resources, Inc.>: Yeah.

<Q – Ali Agha – SunTrust Robinson Humphrey>: And then looking at the TNMP numbers, just doing some quick math, it looks to me that they are going to be again earning above their authorized returns. Am I right in that, and if so, is there any risk for the commission to call you guys in and potentially look for a rate decrease?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: No. TNMP does very well over there. We set it to earn about its rate of return, sometimes if the weather is a little hotter, it might earn a little bit more. But as long as you're not outside of a huge range around your allowed ROE, you're okay.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Okay, okay. And remind me again, I don't know if you guys updating this, but the total return CAGR that you folks are targeting the 10% to

13%, is that still – are we still looking at a 2012 through 2016 period? Have you moved a year forward to 2013? Can you just remind me what we're looking at?

<A – Chuck Eldred – PNM Resources, Inc.>: You're right. It was a base year 2013 and setting up a five-year strategy of total return.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Base of 2012.

<A – Chuck Eldred – PNM Resources, Inc.>: Excuse me, base of 2012. 2012 was a base year using total return of the dividend yield and the earnings growth.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Okay. Is it five years, Chuck? I thought it was through 2016?

<A – Chuck Eldred – PNM Resources, Inc.>: Through 2016, yes.

<Q – Ali Agha – SunTrust Robinson Humphrey>: 2012 through 2016, okay.

<A – Chuck Eldred – PNM Resources, Inc.>: That's correct. Yeah, yeah.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Okay, okay. So the 2017, 2018 pickup particularly PV3 moving in and all of that, you're not yet factoring all of that into the equation?

<A – Chuck Eldred – PNM Resources, Inc.>: That's correct.

<Q – Ali Agha – SunTrust Robinson Humphrey>: Okay. Thank you.

<A – Chuck Eldred – PNM Resources, Inc.>: Thank you.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Thanks, Ali.

Operator: [Operator Instructions] Our next question comes from the line of Brian Russo of Ladenburg Thalmann. Your line is now open.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Hi, good morning.

<A – Chuck Eldred – PNM Resources, Inc.>: Hi, Brian.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Hi, Brian.

<Q – Brian Russo – Ladenburg Thalmann Securities>: The upcoming PNM general rate case with the 2016 test year, so just to be clear on slide 21, you show a 2016 PNM average rate base of $2.5 billion. So that's going to be the rate base for that 2016 test year rate case, correct?

<A – Chuck Eldred – PNM Resources, Inc.>: That's correct.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Approximately, yeah.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay. And what's driving the rate base from $2.2 billion in 2015 up to $2.5 billion in 2016?

<A – Chuck Eldred – PNM Resources, Inc.>: The additional generation add-ons will be the biggest driver for that.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay.

<A – Chuck Eldred – PNM Resources, Inc.>: Hold on. Just a second [indiscernible] (21:53). Yeah, mostly the generation would be the – probably the pickup in the rate base.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay. And I think you said that, you're earning a roughly – or your guidance in 2014 assumes a roughly 6% earn return on your FERC assets. What initiatives are in place to get that up to closer to the 9% to 10% allowed?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Couple things. On the FERC generation side, the one piece is the Gallup RFP that's out there. If we win that, which we think we have a very good shot at, ultimately we'll get a full year of that in and that will help get the FERC generation up to its return. And then on the transmission side, we file for the formula rates. We're still in settlement discussions on those, but once we get those formula rates into play and we can update those; that will help us get the other FERC piece back.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay. So I guess in 2015, if all goes well on those two initiatives, you could earn closer to the allowed return at FERC?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: A little closer, I don't think we get exactly up to it until 2016, but we move our way up another step in 2015.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay. And Chuck, you mentioned in the – that the five-year capital budget that there is no external equity needed to finance it. But what if you were to buy out the leases on PV1 and PV2, would that require external equity or could that [indiscernible] (23:22).

<A – Chuck Eldred – PNM Resources, Inc.>: Yeah. I hear you Brian, and that certainly haven't published or worked on any price yet. But based on our views, we'd still be comfortable with our current five-year outlook.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Of no equity?

<A – Chuck Eldred – PNM Resources, Inc.>: Of no equity even with the Palo Verde 2 lease purchases to what amount we would agree to on that.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay, great. And lastly, the TCOS earnings contribution of $0.04 TNMP in 2014, is that kind of a good kind of ongoing run rate for EPS contribution for TNMP.

<A – Chuck Eldred – PNM Resources, Inc.>: Yeah. We're seeing the filings, in this case, it's – rates will go effect in April in October. They're about $3 million each, and that seems to be very consistent to what we've done in the last year. And I would say that given the amount of transmission, we'll continue to invest in that business. That would be fair to say.

<Q – Brian Russo – Ladenburg Thalmann Securities>: Okay. And then lastly, you guys have done a very good job of controlling O&M to help support your earned returns at the time of unstable, uncertain load growth at the PNM electric. I'm just curious, can you just kind of elaborate a little bit on the specific O&M control initiatives that enable you to maintain flat year-over-year?

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: It's Chuck and ours nice mean personalities. That's the main one. Actually it's – you're due to send us Christmas cards as nobody else is. It's actually just a lot of little things, I mean, literally from paying attention to every vacancy that we hire to looking at every expense. Some years ago we went through and did a lot of the big savings, but it's continual process improvement. $100,000 here, $100,000 there along with looking at the big things. So it's a lot of little things, you don't have really one or two big initiatives. It's blocking and tackling.

<Q – Brian Russo – Ladenburg Thalmann Securities>: And then just also on the Corporate, the decline and the drag in 2014 over 2013, does that imply you're taking out or you're going to buyout some more of that parent debt or what's driving it in 2014?

<A – Chuck Eldred – PNM Resources, Inc.>: Well, we certainly have the opportunity to do that relative to how markets can initially be at the time we're making those decisions on what's available to purchase. But keep in mind, we talked about a little bit last year, moving and reallocating some costs from the holding company that are actually now costs reflected in both of the subsidiaries. We typically would show that on allocation basis, but as we think about the business and the rate case filings potentially going forward, we'll have those costs residing within the operating subsidiary. So you're seeing some reduction in the Corporate and Other that reflects there.

<Q – Brian Russo – Ladenburg Thalmann Securities>: All right. Great. Thank you very much.

<A – Chuck Eldred – PNM Resources, Inc.>: Okay.

<A – Pat Vincent-Collawn – PNM Resources, Inc.>: Thank you.

Operator: Thank you. And I'm showing no further questions at this time. I would now like to turn the call back over to CEO, Pat Vincent-Collawn, for any further remarks.

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

Thank you, and thank you all for joining us this morning. I hope you all have a wonderful, wonderful holiday season and we look forward to seeing you all in the New Year. Thank you.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Have a great day, everyone.