PNM Resources, Inc.

2016 Analyst Day

December 14, 2016 at 1:00 p.m. Eastern

CORPORATE PARTICIPANTS

Jimmie Blotter – *Director, Investor Relations*

Pat Vincent-Collawn – *Chairman, President and Chief Executive Officer*

Gerard Ortiz – *Vice President, PNM Regulatory Affairs*

Chuck Eldred – *Executive Vice President and Chief Financial Officer*

Ron Darnell – *Senior Vice President of Public Policy*

Patrick Apodaca – *Senior Vice President and General Counsel*

Lisa Eden – *Vice President and Treasurer*

Don Tarry – *Vice President, Corporate Controller and Chief Information Officer*

Lisa Goodman – *Investor Relations Manager*

PRESENTATION

Jimmie Blotter
Alright. Well, let's go ahead and get started. Thank you for coming this morning. We appreciate you being here with us at the 2016 PNM Resources Analyst Meeting. My name is Jimmie Blotter, in case there is someone in the room who doesn't know who I am. I think everybody here knows me. We have a lot of information to share with you this morning, but before we get started I want to cover just a few logistics.

First, everyone should have a copy of today's presentation. If you need a copy please raise your hand and we will deliver one to you. And of course I would appreciate everyone silencing their electronic devices. There are beverages and light snacks that are available out in the hallway right now. And when it's time for lunch it will also be set up just outside the doors. We are not planning to take a break today, so if you need anything please feel free to get up and move around. If you have any other needs during the meeting, please just let one of my team members know and we'll take care of you.

I would like to take a moment to acknowledge the members of management that we have with us today. I'll start with our Chairman, President and CEO, Pat Vincent-Collawn; and Chuck Eldred, our Executive Vice President and CFO; Ron Darnell, our Senior Vice President of Public Policy, Ron, if you can raise your hand, stand up; Patrick Apodaca, Senior Vice President and General Counsel; Gerard Ortiz, Vice President of PNM Regulatory Affairs is here to talk about one of the most important topics of the day, the general rate case that we filed last week; Lisa Eden, Vice President and Treasurer is at the back of the room; as is Don Tarry, Vice President, Corporate Controller and Chief Information Officer; and Lisa Goodman, our Investor Relations Manager.

So, let's go to Slide 3. Today we'll be talking about how we are staying focused in a changing environment. Pat will share information about the strategic direction of the company, including our mission to create enduring value for customers, communities and shareholders. As I mentioned earlier, Gerard will be talking about the general rate case; and Chuck will take us through 2017 guidance and a general financial update.

We will wrap up just before lunch with our Q&A. Pat will moderate that Q&A. And since our meeting today is being Webcast, I will ask that if you have a question please raise your hand. We will bring a microphone to you. And prior to asking your question if you would please state your name for the listeners online, we would appreciate that. We are planning to serve lunch at about noon, and I strongly encourage you to take that time not only to engage our speakers, but the other members of management who are here with us today.

Moving to Slide 4, please take a moment to read this, because I certainly am not going to read the entire thing. However, I will say that forward-looking statements are made pursuant to the Private Securities Litigation Reform Act of 1995, and you are cautioned that all forward-looking statements are based upon current expectations and estimates, and we are not obligated to update these statements. And please, be sure to read our SEC filings, including those made on Forms10-K, 10-Q, and 8-K for our risk factors. Additionally, we will be making reference to non-GAAP financial measures today. Please see our website, pnmresources.com for reconciliations of those measures.

And with that, please join me in welcoming our CEO. Pat?

Pat Vincent-Collawn
Thank you, Jimmie. Let me add my thanks to all of you for coming and visiting us with this busy holiday season. I'm happy to have you join us so that we can have the opportunity to tell you about the latest

at PNM Resources and you bring you up to date at what happened since our last Analyst Day in 2014, but most importantly focus on our plans going forward.

I want to start on Slide 6 by revisiting our vision and strategic objectives. These continue to guide our business operations. They remain a constant for us as we navigated through the last two years. And I think that you'll see while many of our discussions with you all have been focused on the challenges that we've faced, we've managed the business in light of those challenges and demonstrated progress in each of these areas. Whether it's the external recognition we've received for our reliability, customer satisfaction, and energy efficiency achievements, or the methodical regulatory filings paving the way to earn our allowed return, or the execution of those plans through capital investments, our day-to-day focus at PNM Resources remains on the vision of creating enduring value for customers, for communities and shareholders.

If we turn to Slide 7, we continue to work through these strategic goals and demonstrate success through the traditional utility model. The first of these goals, earning our authorized return, is a driving force in how we manage our business. If you look at the economic and the regulatory environment in Texas, it allows us to work within its constructs and earn our returns. The regulatory model in New Mexico, however, doesn't inherently solve for economic and policy changes. When we were here with you two years ago we were in the middle of our San Juan BART proceeding, and that was a two year proceeding about meeting EPA requirements. We were also filing our first general rate case under New Mexico's future test year, which is designed to mitigate regulatory lag. That ultimately required some further clarification from the commission, and the BART proceeding took two years. So, the road has not been quick, and it hasn't always been easy, but we've made careful decisions around the BART settlement and the litigation for the future test year which is going to help keep us on a successful path as we move to the future.

Similar, we took actions following the 2016 general rate case to keep us on this path. We are appealing to the New Mexico Supreme Court the disallowance of specific investments in order to set precedent on the recovery of investments, and we are working internally to align our operating costs with the commission approved rates.

While general rate cases and appeals can be challenging, we're continuing to work and take the necessary actions toward earning our returns. As you saw last week, we filed a 2018 rate case at PNM to secure recovery on the investments we are making now and to bring the BART approved settlement into rates. We believe that our prior efforts on the BART settlement and future test year definition will reduce the challenges that we will inevitably face on this case.

At TNMP we have been historically successful in earning our return. We are looking forward, however, to balance out the recovery of our investments in both transmission and distribution through the upcoming general rate case that is expected to be filed in 2018. Accomplishment of the goal to earn our allowed return is not a one-step process, but we are consistent in our actions to achieve it.

Our second financial goal is to provide above-industry average earnings and dividend growth. We continually review the earnings potential of the business and we have projected 7% to 8% earnings growth for 2015 through 2019, and are targeting a payout ratio that enables us to grow the dividend at the same rate or higher. Our dividend announcement this week announced the fifth consecutive year that the Board of Directors has increased the dividend spend and the second consecutive year of a 10% increase.

And lastly, our third financial goal is to maintain our solid investment credit ratings. Our work to navigate through the regulatory challenges and manage the business to achieve strong financial metrics has kept all three entities, the parent and both subsidiaries, at investment grade credit from both rating agencies. As we look forward in the future, we're going to continue to focus on these same strategic objectives and goals, although we recognize that the environment in which we are working is changing.

If we go to Slide 8, our regulatory environments, both in New Mexico and Texas, are changing. In January, Cynthia Hall will join the New Mexico Commission, replacing current Commissioner Karen Montoya. Commissioner Hall brings a legal background to the commission and she has former commission staff experience. In Texas we don't have any changes to the public utility commissioners, however, as I mentioned, we will be filing our first general rate case in several years in Texas.

The ways in which we serve our customers are also changing. In New Mexico, as we continue to partner with the state on economic development efforts we are encountering customers that are more focused on specific energy resource requirements and are working to meet those particular needs at competitive prices. In Texas we are seeing customer growth at a pace that requires additional investment in our supporting infrastructure and we have redeployed capital to meet that growth and those customer needs.

The focus on our generation mix at PNM is also changing. The 2017 Integrated Resource Plan is coming. We will explore options that consider the additional retirement of existing resources while meeting our customer demand in the future. So, let's look at each of these factors in depth, starting on Slide 9.

On the regulatory agenda we have three primary items of focus now. As I mentioned earlier, we filed the appeal on the decision in our 2016 general rate case. We believe that this decision imprudently deemed our investments in Palo Verde and San Juan balance draft imprudent and will continue to seek recoveries on these items.

Secondly, we filed a 2018 general rate case with the PRC last week, and Gerard is going to walk you through that in detail. It is important to note that 44% of our requested rate increase is a result of environmental compliance and the rate-based items for those items related to BART at San Juan have already been approved by the commission and a broad array of interveners. While I don't expect this filing is going to be met without opposition, I do think there is a reasonable chance that a settlement can be reached with key intervening parties, potentially allowing this rate case to proceed without full litigation.
You all know settlements are typically well received by the commission and we are open to do that assuming we can settle on a reasonable outcome.

We also recently filed to lift the suspension on our advanced meter infrastructure case and proceed with our plans to introduce this valuable technology to our customers in New Mexico; you all know that our customers in Texas already have it. In addition to the long term cost reductions, these meters help us more quickly identify and resolve outages, can help customers understand their energy use, and have the potential to support advanced rate making approaches.

I thought it was worth mentioning that there has been some activity at the commission around distributed generation. The commission filed a Notice of Inquiry in November of last year regarding utility construction and ownership of dedicated facilities serving retail customers. PNM provided comments in response to the Notice of Inquiry and participated in the workshop that was held last month. The other IOUs in the state have cooperatively participated, several private stakeholders, solar companies and advocacy organizations were also involved.

The Commission issued an order that provided for additional supplemental information to be submitted, and I mention this because it shows that the Commission is interested in exploring how to utilize larger scale solar opportunities in the state and is going about it the right way by partnering with all the organizations involved and considering the financial impacts to both the utilities and the customers. And while there may not be any current action on this, it shows that there could be opportunities in the future. We'll continue to provide you updates on all of these items throughout the year.

Turning to Slide 10 on TNMP, our primary regulatory focus is planning for the next rate case that I mentioned earlier. While the TCOS mechanism has provided us timely recovery on transmission investments, recovery of distribution assets has not been updated since 2010. Similarly, operating costs and load assumptions are only updated through a general rate case filing, and we have not updated those since 2010. We are currently earning our authorized return at TNMP. Recovery under the automated meter surcharge expires in September of 2018, and we have agreed with Commission staff to file a rate case by then.

Turning to Slide 11, as we continue to work through our rate case filings we know that our primary function is to serve our customers. We've spent a great deal of effort over the past few years on enhancing the customer experience. Research shows that for the majority of our customers, customers value a utility that is reliable, affordable and a good community partner. As a result, this is where we have focused our efforts, and we are seeing results. We conduct perception studies twice a year, we conducted them twice in 2016, and saw increasingly positive results. The overall impression of PNM increased in 2016 over 2015 despite that rate case that we had and the seemingly constant and sometimes not so flattering stuff that was in the local media about our rate case. Our customers' perception of our service has steadily increased over the last several years and very importantly, we are seeing notable increases in our trust ratings from our customers.

The results were presented to the Commission a couple weeks ago, we had the noted New Mexican pollster that did the research go to the Commission and present the results. The Commissioners expressed their appreciation and felt that the results were informative. I think you also saw that we demonstrated through Facebook site selection that we're able to partner with the state's Economic Development department to bring in new customers and we were able to work with regulators very quickly to build rate structures that meet these customer needs. This has set the stage and opened the door for other potential customers that are interested and see the value in relocating in New Mexico.

We're also partnering with others in New Mexico to build the economy. The city of Albuquerque has approved rapid transit plans that include the use of new electric buses. They can potentially add 60 buses over the next five years. We're also talking with various customers in our service territory, especially schools, that are interested in adding electric vehicles to their fleet. New Mexico is getting a significant amount of funds from the VW emissions settlement, and that's going to help support electric vehicle charging infrastructure.

Turning back to Texas, in our Texas service territory, retail customers that benefit from our system are high demand customers in the Gulf Coast, a lot of petrochemical refineries. Those customers depend on the constant reliability of our system. By investing in our system to improve reliability we are demonstrating that we understand what those customers need and we deliver to those customers.

We're also listening to customer concerns about some of the energy services they're offered. Some of the third party solar companies are known for making very aggressive sales pitches to customers and sometimes those sales pitches include less than truthful information about PNM and PNM's costs, along with not informing customers of all the terms of what they're signing up for. We'll be working with the New Mexico legislature this year to put consumer protection laws into place to help ensure that customers can make decisions based on truthful and accurate information.

And lastly on Slide 12, I want to talk about how the Integrated Resource Plan provides a roadmap for our resource mix as we move forward. As we work through the BART settlement and the 2016 general rate case, questions were raised about the resources that are currently serving our retail load. The Integrated Resource Plan is revisited every three years and filed with the Commission to help provide context around requests for additional resources. The plan is developed through a process that solicits and incorporates public input and its purpose is to develop the most cost efficient portfolio to meet future needs and also consider environmental impacts. Our 2017 Integrated Resource Plan is required to be submitted to the commission by July 3rd of 2017, and there is an element of this year's plan that is tied to our BART assessment. We will develop a portfolio that considers the continued operations of San Juan Units 1 and 4 post-2022 and we will also develop a portfolio that does not include San Juan Units 1 and 4 post-2022. This then facilitates a filing in 2018 to determine the future for the San Juan generating station.

In the BART stipulation, as you remember, the parties agreed that this is to be resolved within six months of the filing date. This timing was important to us as we work through the BART settlement to allow not only us but also Westmoreland to appropriately plan for the future operations of both the plant and the San Juan Coal Mine. It will also help provide increased clarity around the future capacity requirements from our ownership stake in Palo Verde and whether the capacity in the remaining leases should be secured beyond their expiration dates.

This plan is going to lay some groundwork for some significant decisions about how we operate and invest in the business going forward. Just like the challenges that we're seeing in our regulatory environments and how we serve customers changes, a transformation of our generation portfolio represents both opportunities and challenges for an evolving utility. By staying focused on the strategic objectives we've laid out we'll continue to ensure that we can create enduring value for our customers, our communities and our shareholders.

As Jimmie said, I'll open it up for Q&A at the end after Chuck's review of 2017 guidance, but now I'd like to turn our presentation over to Gerard Ortiz to walk through the details of the 2018 rate case.

Gerard Ortiz
Thank you, Pat. Good morning. I appreciate the opportunity to be here with you today. During my portion of the presentation I will walk you through the general rate case that we filed last week and the reasons behind our request.

Let's start with an overview of the filing on Slide 14. The proposed increase is $99 million. The filing is based upon a 2018 future test period and we requested a return on equity of 10.125%. You have heard us talk about this before, and we will continue to emphasize the point, we do not take filing a rate case lightly. We recognize that New Mexico is one of the poorest states and we know that rate increases pose a financial burden to our customers.

We also are aware that the New Mexico regulatory environment can be challenging at times. Pat has been talking about staying focused in a challenging environment, and this is very much the approach that we take when navigating our regulatory environment. We have put together a solid application that complies with the future test year filing requirements and a balance of stakeholder perspectives, ensuring that customers are provided with reasonably priced power while shareholders are provided an opportunity to earn an appropriate return for their investment. We will be working with the parties to the rate case to help them understand our filing. When the time is right, we will also work with them to engage in settlement discussions to see if the case can be settled.

The largest rate base additions in this application were addressed in the settlement that resolved our December 2013 San Juan BART filing and have already been approved by the commission. You may recall that most of the parties to that case joined in the settlement, we expect that these parties will support the elements associated with that settlement in the rate case. We also know that our customers value reliable, affordable and cleaner energy. While this rate case will result in an increase in customer bills, it also reflects a substantial change in the company's resource portfolio that will reduce our carbon footprint as we implement the BART agreement. This rate case also includes other investments in the system that will maintain PNM's high reliability level. Even after considering the full impact of the rate request, we will continue to be affordable compared to other utilities, both regionally and nationally. Finally, we are also proposing that if the filed rate request is approved, we phase in the rates over two years, thereby softening the impact to customers.

Once again, this case is primarily driven by capital, as new resource investments account for the majority of the increase. When you think about the components of this rate case there are four general categories driving the need for the case. The first is environmental compliance-related investments. Examples of these are the BART additions and the Four Corners SCRs. Second are capital expenditures for generation, transmission, and distribution projects, and other core capital items. Next, declining energy sales are once again a driver in this case. And finally, adjustments to our jurisdictional allocations between retail and wholesale customers are a contributing factor.

As I described, the elements of the filing that are associated with the BART agreement should be supported by several of the parties to this case. This includes the inclusion of the company's ownership interest in Palo Verde Unit 3 and rate base, the retirement and associated recovery of half of the remaining rate base value of San Juan Units 2 and 3, the addition of 132 megawatts of San Juan Unit 4 to rate base, and the accelerated depreciation through 2022 of the SNCR equipment. The other compliance capital is the investment in SCRs at the Four Corners generating station that is required by the EPA. The remaining capital represents investments that PNM has made to maintain reliability at the high level our customers expect and to meet planning and reliability criteria for our system.

Once again, energy sales continue to be a driver in this case, as our projected energy sales in the test period are lower than those upon which our current rates were set. We have updated our jurisdictional allocations, as is normally done in a rate case. It is resulting in a lower allocation to retail customers of transmission costs as the use of our transmission system by wholesale customers has increased. On the other hand, retail customers will receive a greater share of generation costs reflecting the fact that our wholesale contracts, including the one with Navopache, will end before the end of the test period and more of our resource portfolio will be dedicated to serving our retail customers. Finally, as I mentioned before, we are seeking approval of a 10.125% ROE for shareholders.

With respect to rate design, on the right hand side of the slide, we are seeking to continue to improve our fixed cost recovery. As we have discussed before, today we continue to recover most of our costs through volumetric charges even though the majority of our costs are fixed in nature. In the last general rate case we increased the amount of fixed costs that are recovered through fixed charges. For example, our monthly residential fixed charge increased from $5 to $7 in the last case. In this filing we are proposing to increase the residential fixed charge to $13.77.

You may also recall in the last case that PNM proposed to address energy efficiency disincentives with a decoupling mechanism which the commission rejected as being too broad. In response to the commission's direction in the last case, PNM is proposing to address the disincentives associated with EE programs with a loss contribution to fixed cost mechanism. I will review the details of this with you later in the presentation.

Finally on rate design, as I mentioned earlier, we're proposing that if our requested increase is approved that we are willing to phase the rates in over a two-year period. Under the phase-in, approximately half of the rate increase would be implemented in 2018 and the balance in 2019.

Turning to Slide 15, we have presented the drivers for this rate case on this slide. You can see that $73 million of the additional rate base in this filing is related to compliance items. Looking at the revenue requirement on the second column, you can see that $44 million, or nearly half of the increase, is related to compliance items. When you think about this list, recall that today we are not recovering any of the expenses related to Palo Verde Unit 3 or the additional 132 megawatts of San Juan Unit 4. Therefore, the increase in the revenue requirements for those items is considerably higher than if this was simply an update to the cost of service for assets that were already serving customers. As can be seen in the revenue requirement column, reduced energy sales and the requested ROE account for $21 million of the requested increase. Together with the other items, this brings the total revenue deficiency to $99 million.

Slide 16 more fully describes our energy sales and the lost contribution to fixed cost mechanism. As we saw on the previous slide, the reduction in load accounts for $11 million of the revenue requirement deficiency. You have seen in our earnings material that our industrial usage continues to decline. On the residential side, while there is residential customer growth, that growth is more than offset by declining consumption driven by our energy efficiency programs, building codes and standards, and distributed generation. These usage changes have caused the overall residential use per customer to drop. Looking at the chart, you can see that in the rate case that was just approved residential use per customer was 581 kilowatt hours per month. We are now projecting that UPC will be 564 kilowatt hours in 2018. If you were to add back energy efficiency, building codes and standards, and distributed generation UPC would be 599 in 2018.

Of these elements, our energy efficiency programs are the largest factor contributing to the decline. The LCFC mechanism will help to address this gap. The mechanism solves for the disincentives to PNM as authorized by New Mexico's Efficient Use of Energy Act. This law requires that a utility's identified regulatory disincentives associated with this energy efficiency program be removed. The LCFC would make the company hold for the lost fixed cost attributable to PNM's verified energy savings from our commission-approved energy efficiency programs. The LCFC will only apply to the residential and small power customers, because those customers pay for the majority of their fixed cost responsibility through volumetric charges.

As with the adjustment to the fixed charge, the LCFC will also contribute to an improved recovery of our fixed costs. Based on our current projection, the LCFC would contribute around $3.5 million of fixed cost recovery, which will increase our opportunity to earn our authorized return in 2019. The filing also requests small increases in the demand charges for other classes of customers that will also help fixed cost recovery.

Moving to Slide 17, at the beginning of this discussion I talked about how sensitive we are to price increases for our customers. We know that it is challenging for our customers to pay higher prices. While the total bill increase from this request is about 11%, we are proposing an increase of about 6% per year in 2018 and 2019 to help soften the impact to customers. Looking at the chart on the right, you can plainly see that PNM bills continue to be lower than both the United States and our regional average, which are represented by the red and yellow bars. While residential customers would see a slightly higher increase than other customer groups, our residential customer class will continue to be subsidized by other rate classes, although we are continuing to move toward more cost-based rates. Consequently, this will contribute to an improved business environment in New Mexico.

Moving to the last slide in my section of this presentation, I want to talk about the timeline for this filing. As you know, we filed the rate case one week ago today. The statutory timeline in New Mexico includes an automatic 30-day suspension period of the proposed rates, followed by an additional nine months, for a total of ten months for the commission to consider the rate application. The commission may extend the review of the rate case by a total of three additional months. We have filed for a January 1, 2018 implementation of new rates, which is consistent with the beginning of the test period. A hearing examiner has not yet been assigned to the case, although I expect one to be assigned very soon. In fact, the case is on the commission's open meeting agenda for today. I expect that it could be to assign a hearing examiner and to suspend the rates. Soon, the hearing examiner will hold a pre-hearing conference to set a schedule for the case. A reasonable schedule, assuming a ten-month suspension period, could include staff and intervener testimony that would be due sometime in May, with the hearing in July. Given that a significant portion of this filing has already been addressed by the commission a settlement may be easier to reach in this case. I expect that the most likely window for settlement discussion to begin is before the hearing.

With that, I will end my remarks today. Chuck will walk you through the 2017 guidance and financial updates next. Thank you.

Chuck Eldred
Thanks, Gerard. Ever since I did my Trump impression my script is the only one that has words like "Go slow," and "Gerard will turn the podium over to you." So, I get it. Okay.

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Chuck, give us a big smile.

Chuck Eldred
And the big smile, and they tell me when to smile. I've got it all right here. So, let me go through this and I will go slow and hopefully enable you to capture some of the themes that we're wanting to point out today.

Thanks a lot for joining us. As Pat indicated, we are staying focused in both a challenging and changing environment. Since we exited the unregulated businesses we have consistently delivered solid results in spite of the challenging regulatory environment that we have In New Mexico. For example, the commission's decision to approve the addition of Palo Verde 3 to rate base as replacement power for the shutdown of San Juan Unit 2 and 3 was an important milestone in the transformation to become a fully regulated business. The rate case that we have just filed seeks recovery of these items.

As we look forward, we will continue to balance the needs of our stakeholders, including our customers and investors, while delivering results. We're in an interesting time period when you consider the potentially dramatic changes to our generation resources with the 2017 integrated resources plan that Pat talked about, and the possibility of significant customer changes in light of the winning Facebook and opening the door for other data centers to consider locating in our service territory.

We also see renewable expansion in New Mexico. If that occurs, we will need to ensure that our grid continues to be stable through additional transmission upgrades and peaking capacity as needed. In addition, we will continue to serve new and existing customers by exploring transmission opportunities that arise in both New Mexico and Texas.

We will also provide additional returns to our shareholders through a growing dividend. As you saw yesterday, our board approved another 10% increase in our dividend, furthering our commitment to deliver total shareholder return. The next few years will be an exciting time for company, notwithstanding our already exciting time in history. This is where it says “Big smile to the crowd.”

So, let’s start with talking about the immediate future by walking you through 2016 and 2017 guidance. I’ll begin on Slide 20.
Yesterday we narrowed the 2016 guidance, this makes our starting point $1.60 to $1.65. We have provided a slide in the Appendix to this presentation that provides the details of our segment expectation for 2016. Today we’re issuing 2017 guidance, we expect it to be in the range of $1.77 to $1.87, which has a midpoint of $1.82. As a reminder, the latest 2017 potential earnings power information, which we shared in November at the EI financial conference, indicated a potential range of $1.80 to $1.87. The primary difference between the earnings power and the guidance is a slight regulatory lag of PNM for 2017. Now, looking at the segments, we expect PNM to be in the range of $1.30 to $1.37, TNMP to be $0.51 to $0.53, and Corporate and Other to be negative $0.04 to negative $0.03.

Now, turning to Slide 21, the Albuquerque metro economic conditions are stronger than the state as a whole, employment growth in Albuquerque and the surrounding area continues to show modest increases and has held in this range recently. In the metro area we have seen a number of wins where companies are either expanding or relocating to the area, you’re all aware that Facebook’s new data center will be built in Las Lunas. We have also seen several small firms that are adding headcount and expanding operations, including a healthcare technology firm that is adding about 300 jobs over the next few years.

The partnership in the Albuquerque metro area between government, economic development organizations and businesses is paying off, with new wins being announced with regularity. However, there are offsetting factors to these wins, mitigating expansion in energy sales. The chart on the right of this slide indicates that although our customer count continues to increase modestly, energy sales continue to decline. As you saw on the chart that Gerard spoke to earlier, energy efficiency is a major factor in both residential and commercial classes. We currently estimate that the energy efficiency programs reduce energy sales by approximately 1% to 2%. If the lost contribution to fixed cost mechanism is approved by the commission, some of this gap in the residential and small commercial customer class will be closed.

We’re also seeing more distributed generation customers come online in both our residential and commercial classes. About 1.7%, or 8,500 of our customers are now using some sort of solar system, whether they lease it or own it. While the solar penetration has increased in 2016, we’re still substantially lower than some of our neighboring states, like APS, who’s currently seeing about 5% of their customers using solar. In addition, it is no surprise that we continue to see decreasing load in our industrial sector, primarily driven by one major customer. Considering these factors, as we look forward to 2017 we expect PNM’s load to be flat to down 1%. We also expect customer growth to be around 0.7%. The next slide shows the year-over-year drivers that we expect for PNM in 2017.

The rate case that was recently approved is expected to improve earnings by $0.26. This amount is representative of all the aspects of the rate case, including our increased depreciation rates. As you’re aware, PNM has been controlling costs, offsetting the continued load degradation and delay in time of the 2016 rate case. The majority of these cost savings are permanent and were achieved through a hiring freeze, O&M savings from new and renegotiated contracts and discretionary spending. Furthermore, as a result of the final order PNM will reduce additional positions effective in January 2017. Between the hiring freeze and headcount reductions, this represents about 100 positions. Overall, the restructuring and the process improvements that had been implemented through 2016 and

2017 will contribute an additional $0.09 to $0.10 year-over-year. The majority of these savings will be realized in the first half of 2017. I'll also note that as a result of these savings the rate case filing is lower than it would have been otherwise. This demonstrates our continued efforts to control cost while running our operation safely and efficiently.

The next driver is related to transmission revenues. PNM continues to see increases in annual transmission revenues due to our annual transmission formula updates. Additionally, in 2017 we have two new wholesale contracts for wind farms in eastern New Mexico that will be transmitting power to customers in California. These new contracts further increase the recovery of costs from our FERC transmission customers. We expect these contracts to start receiving service in May of 2017.

In 2016 AFUDC was down, and in 2017 we expect it to come back to a level closer to 2015, primarily because of the capital investments in T&D for both PNM and TNMP. We expect a $0.03 pickup for Palo Verde Unit 3 market prices, we are fully hedged in 2017 at a price of $29, compared to the $26 that we hedged in 2016. We expect to see $0.02 of interest savings, primarily from the refinancing of $146 million of tax-exempt debt at the end of Q3 2016 that lowered interest rates to about 3%. Usage due to weather in 2016 was lower than normal, in our planning we assume normal weather. In order to compensate for that we expect 2017 to be up $0.02. We expect outage costs to be lower in 2017 than 2016 by $0.01 to $0.02 because there are no scheduled outages at San Juan. I've already provided the load projections for next year, a change of 1% point in load at PNM impacts the bottom line by about $0.05.

In the second quarter of 2016 we had an improvement in the earnings related to the interest refund from IRS of $0.02. We don't expect this to occur in 2017. We have been successful in the past few years capturing nuclear decommissioning trust gains. In 2016 we began a process to migrate to a more conservative asset allocation. This will result in less volatility and higher interest income. In 2017, while we expect to have some realized gains we do not expect the year-over-year amount to be as strong as it was in 2016. We estimate the bottom line impact to be down about $0.05.

We have discussed the exit of Navopache as a wholesale generation customer before, previously we delivered about 60 megawatts of power to them but in 2017 we'll sell about 10 megawatts. The related reduction in earnings would be about $0.06 compared to 2016. As Gerard discussed, in 2018 these generation resources will be fully dedicated to serving our retail customers. This move will also be considered in the 2017 Integrated Resources Plan as part of the resource mix that serves our retail customers following the shutdown of Units 2 and 3 at San Juan.

While I discussed restructuring cost savings earlier, the ongoing indirect costs of our business continue to rise. We are careful to control costs, but we did have normal factors like increasing medical expenses and labor escalations that will cause our O&M to increase. We expect to see $0.05 to $0.07 of increased O&M expense in 2017 at PNM.

Finally, as we continue to invest in our business, depreciation in property tax continues to go up. We expect additional expense of $0.06 to $0.08 in 2017. Again, I remind you that this does not include the depreciation rate increase from the rate case. This, along with the 2016 rate implementation in cost savings increases the FFO to debt metric by close to 2% in 2017 at the consolidated level, which supports a solid cash flow metric.

Now, let's look at Texas next on Slide 23. The economy in Texas is diverse and continues to be robust. We see strong employment growth in the Dallas metro area and in the state overall. While the low oil price environment has softened the economy from what it would have been otherwise, the diversity in the state has helped to keep the overall picture strong. In the Dallas area job growth is strong in a number of sectors, including computer systems design, technical consulting, agricultural and engineering services, aerospace and semiconductor. This diversity results in population growth. For example, the Princeton area, north of Dallas, which is in our service territory, continues to exhibit strong residential growth benefiting from people moving to that area.

In addition, while TNMP is very successful in their energy efficiency programs, winning awards for 11 consecutive years for their Energy Star program, they're able to focus their programs in areas such as new construction that does not cannibalize their current load. You can see on the chart on the right hand side of the page that both our end user counts and our load expectations continue to be strong. For 2017 we expect 2% to 3% load growth compared to 2016. We assume end user growth of about 1.6%.

Now, let's move to the next slide. Here are the expected year-over-year EPS drivers for TNMP. First, we plan to make two TCOS filings in 2017. These filings are expected to come in the first half of the year, as the Texas Commission will be undertaking a rule making related to ADIT and the TCOS filings in August. This is anticipated to be an increase of $0.04 to $0.05 compared to 2016. We just walked through load, each one percentage point of change in load at TNMP results in about a penny of earnings. Weather was below normal in 2016, so we expect a pickup of a penny in 2017. TNMP has experienced the same cost pressures as PNM, such as normal escalation of labor and higher medical costs. As a result, we expect this to impact earnings by as much as a penny.

We expect higher short term and long term debt levels due to a strong capital expenditure program, therefore, we expect to see more interest expense of about $0.02. As with PNM, the continued investments in our Texas business are expected to result in additional depreciation and property tax expenses in 2017. We expect that this will be an increase of $0.05 to $0.06.

On Slide 25, in 2016 we amortized some of the additional fees that Westmoreland paid to us associated with the financing agreements at Corporate and Other. This will result in earnings being down approximately $0.02 in 2017.

On Slide 26, at the midpoint of our 2017 guidance range we expect to have $589 million of ongoing EBITDA. This consists of $396 million at PNM and $162 million at TNMP. This is an increase of about $50 million compared to the midpoint of the narrow 2016 guidance range. I also want to highlight our quarterly earnings distribution for 2017. We expect to see normal seasonality in our business without the impact of a mid-year rate implementation like we had in 2016. As a result, the majority of our earnings should come in the second and third quarters of the year.

Now, let's move to Slide 27 and talk about our earnings growth opportunities. We continue to expect to achieve our 2015 to 2019 earnings growth target of 7% to 8%. We plan to accomplish this by running our business well, and ensuring appropriate rate recovery. This gives us the opportunity to earn our authorized returns. As you can see, in 2017 we expect to have some lag on our allowed regulated ROEs at PNM Retail and FERC.

At Retail, we have previously discussed that we expect a slight lag because of the lower than expected rate case outcome as well as the hybrid test year that was used in our rate case filing. The midpoint of our guidance assumes a 9.3% ROE versus the 9.575% that is allowed. I will also note that our overall rate base amount at PNM Retail is lower than we expected and a portion of it is now represented in a Supreme Court appeal on this slide.

At FERC, we have normal lag that is tied to the way that the historical formula rate process works. We've also implemented the increased depreciation rates from the Retail case. These higher rates will not be recovered at FERC until mid-year, when the formal rate filing is made. Therefore, we expect to earn approximately 7.9% in this business.

In 2018, Palo Verde 3 will begin providing carbon-free power to our New Mexico customers. Its addition to rate base in 2018 will remove the exposure that we currently have to the merchant market for this generation resource. As you're aware, we have an ongoing Supreme Court appeal related to our recent rate case order. Depending on the outcome, we could see a pickup up to $0.09 for the acquisition adjustment on the 64 megawatts of Palo Verde Unit 2, and the related leasehold improvements, as well as the balance draft equipment on San Juan Units 1 and 4. We have included this in 2019, as we are uncertain about when the decision may come, although our expectation is that it would take 15 to 20 months.

At TNMP, we plan to make two TCOS filings in 2017. We expect to file a general rate case at TNMP to avoid losing the MSCs that will expire in September 2018. Our current planning shows that we'll likely file in late spring or early summer of 2018, and we would expect that process to take a little less than a year. The staff in our last round of discussions were using a 9.7% ROE to model TNMP. Our initial analysis indicates that changing the ROE to 9.7% at TNMP on an annual basis is about a $0.02 change in earnings. I would like to note that by 2018 we expect TNMP to see some regulatory lag as we have continued to invest in the distribution side of the business. Filing the rate case will help us earn our authorized return on all of our rate base. Our current allowed capital structure at TNMP is 45% equity. TNMP's smaller size represents challenges in accessing the capital markets, which causes a lack of liquidity that may justify a higher equity ratio. We're considering asking for a 50/50 cap structure in that filing.

As we continue to manage our business well, we remain intensely focused on achieving the 7% to 8% earnings target by 2019, which should result in above average industry earnings, which hopefully will be viewed as a premium to our P/E.

On Slide 28, as you can see, we have added 2020 in our capital forecast, but this has not yet been finalized. We have much of the capital spending that you would expect in this forecast. We'll continue to invest in our generation facilities at PNM and in the transmission and distribution systems at both PNM and TNMP. There are a number of things that we did not have included in the capital forecast. Pat talked about the integrated resources planning that is occurring right now, depending on what happens with San Juan there could be additional replacement power if it's shut down, or additional investment in San Juan to keep it viable if we continue operating the plant. Whatever happens with San Juan, we'll need to plan for that capital as necessary when it comes into play.

With Facebook coming to New Mexico, we have seen other data center customers looking in our area. If any of those companies choose to locate in our service territory we would likely need to provide additional renewable and peaking generation as well as transmission resources to serve their load and balance our system. We continue to see renewables develop in our area. With the high solar and wind potential in New Mexico we expect that there may be additional opportunities for more transmission utilization and projects in the future.

We also have opportunities to modernize the grid in New Mexico. We have restarted the AMI filing with the New Mexico Commission. If this is approved we'll implement the project in the 2018/2019-time frame. As a result of these opportunities we expect to see future refinement in the capital forecast as we move forward and gain more clarity.

Moving to Slide 29, we continue to have strong liquidity, with more than $600 million available as of November 30th to fund the capital needs of the business. We have recently extended our revolvers to

2021 at PNM Resources and PNM. We do have a number of refinancings coming up in 2017 and 2018 at PNM. We expect to have some amount of interest savings associated with these actions. However, the savings will be passed to our customers and our rate case filing.

Both Moody's and S&P have our credit ratings at a solid investment grade and on stable outlook. We have an appropriate percentage of equity in our cap structures at both PNM and TNMP. While there is debt at the holding company, it is all short term, which gives us flexibility to reduce the debt over time.

Turning to Slide 30. To conclude my comments, Pat and I have talked about our focus on delivering earnings growth of 7% to 8% through 2019. Our growth is well justified through the capital that we will be allocating to support the infrastructure reliability, environmental compliance and generation portfolio that is being transformed to a cleaner mix of resources that reduces overall base load assets and provides a greater focus on building additional renewable and peaking units, all of which will still provide long term affordable and reliable service to our customers.

Furthermore, for our shareholders we will continue our commitment to increase the dividend at above industry average rates, as long as our payout ratio remains in the lower end of the target 50% to 60% payout range. We maintain the option to increase the range to even higher levels supporting a stronger dividend yield if our earnings growth reduces to normal industry levels. We have numerous opportunities influencing the direction of PNM Resources. We will keep our focus on appropriately investing in our companies, ensuring reliable service to our customers and value to our shareholders.

Again, thanks for joining us today, and now I'll turn it back over to Pat.

Pat Vincent-Collawn
Thanks, Chuck. Let's take a moment and turn to Slide 32. I know you've heard this a lot today, but I again want to emphasize that we remain focused on our strategic goals and objectives. We will first and foremost continue to focus our business operations on providing excellent service to our customers. We'll work through the regulatory filings, we'll minimize regulatory lag to provide us with the opportunity to earn our allowed return on equity and to support our investment grade credit ratings, and we'll continue to partner with our communities to enhance economic development and grow our service territories. As we work through the year, the integrated resource plan that will be filed mid next year will really be a significant milestone in the determination of our future portfolio. So, this certainly represents part of our changing environment, and we'll keep you updated on this process throughout the year.

I also want to once again talk about our sustainability portal that we introduced on PNM Resources this year. It's another tool that we use to communicate and ensure that the relevant information about PNM Resources' leadership in environmental, economic, social and governance gets out and is readily accessible to our stakeholders.

If we take a look at Slide 33, before I turn things over to Q&A I want to take a moment to recognize that 2017 is going to mark 100 years of serving customers in New Mexico. TNMP is a young 82 years old next year, and the older I get the younger that seems. PNM was originally formed as Albuquerque Gas and Electric Company in 1917, and we and our predecessors have certainly seen our share of changes over the past years, and the company has effectively navigated that changing environment to bring us where we are today. We're committed to navigating through those challenges and opportunities so we can give our customers reliable, affordable and sustainable power for years to come.

QUESTIONS AND ANSWERS

So, with that I'd like to open it up for questions. Lisa has a mic again because we're webcast, and Lisa will come around with the mic, if you would state your name so that the folks on the telephone know who's asking the question. Thanks.

Andy Levi
Good morning. It's Andy Levi from Avon Capital. Just three questions. On Page 22, where you have your earnings walk, the restructuring cost savings, is all that New Mexico?

Pat Vincent-Collawn
Most of it is in New Mexico, a little bit at the holding company, but not Texas.
Andy Levi
How much is at the holding company?

Pat Vincent-Collawn
It's very little, yes.

Andy Levi
A penny or two?

Pat Vincent-Collawn
Yes.

Andy Levi
Okay. And then, that we would pull out of '18 in some ways just because you give it back in the rate case?

M
That's correct.

Andy Levi
How much would the revenue requirement have been, so if you look at the $99 million, how much did that come down by?

Chuck Eldred
Well, it's a considerable amount. It's between $15 (million) to $20 million when you look at the entire savings that we've done in '16 and '17 that flows into 2018.

Andy Levi
And then, actually I'm not going to ask that question.

Pat Vincent-Collawn
Darn. Now, we all want to know what it is, Andy.

Andy Levi
To be honest, it would make me look stupid. So, the next one, if you turn to 27, I just want to make sure you guys are still doing things the same way. So, in the '18 earnings potential, theoretically the '19 as well, does that assume the full amount of rate relief in New Mexico, or have you deviated from that?

Gerard Ortiz
What year are you looking at?

Andy Levi

In ’18 and ’19.

Chuck Eldred
Yes.

Andy Levi
So, that assumes the full amount with the ROE.

Chuck Eldred
That’s correct.

Andy Levi
Or does that assume a lower ROE, or does that assume a lower ROE?

Chuck Eldred
That assumes the 9.575% calculated all the way through.

Andy Levi
Okay.

Chuck Eldred
Yes. And then if we get a higher ROE obviously we’ll update it. But we continue to use what we’re allowed to earn under current rates.

Pat Vincent-Collawn
And that’s just rate-based math there. So, it’s load, cost savings, anything else concerning—

Andy Levi
I just want to make sure you’re doing it like you always do.

Pat Vincent-Collawn
Yes.

Andy Levi
And then in ’19, that also assumes that the court cases go your way.

Chuck Eldred
It’s zero to $0.09 so it just assumes and gives you the details of what the outcome would be with the rate base. If you look at the details in the Appendix, you’ll see the rate base adjustments.

Andy Levi
Okay.

Chuck Eldred
So, you can actually make your—

Andy Levi
But it includes the full amount, right?

Pat Vincent-Collawn
The $0.09 is.

Chuck Eldred
The $0.09 is the full amount, zero if we don't get any of it.

Andy Levi
Perfect. Thank you very much.

Pat Vincent-Collawn
Thanks, Andy. Lisa's working her way from the back up, so I think Paul is.

Paul Ridzon
Thank you. Paul Ridzon from KeyBanc. What is the capital opportunity for AMI in New Mexico?

Chuck Eldred
If it's approved, then it will be about $80 million for the entire project.

Paul Ridzon
Is that '18/'19, that would be deployed?

Chuck Eldred
Yes. And it's not in the capital budget, obviously we haven't included that.

Paul Ridzon
And then I missed one of the regulatory comments. LCFC would be about $3.5 million of rate relief if enacted, per year?

Pat Vincent-Collawn
Gerard.

Gerard Ortiz
Yes. That would be about $3.5 million for one year of participation. It would build each year by an additional 3.5.

Paul Ridzon
And that only recovers losses to energy efficiency?

Gerard Ortiz
That's right, from the residential and small power business classes.

Pat Vincent-Collawn
If you remember, the last case we filed for faulty coupling, and that was what the hearing examiner did not like about it was that it covered some things other than energy efficiency.

Paul Ridzon
And Chuck you said if growth slows down you could see taking the dividend payout higher than 60%, or higher—

Chuck Eldred
If the earnings growth profile of a business begins to, let's just say, normalize to the industry, then you could see the board considering to change the payout ratio to be more on average to what the industry

is.

Paul Ridzon
So, above the 60%.

Chuck Eldred
Above the 60%. I think 64% is average today.

Paul Ridzon
And are there any hearing examiners who have a busy schedule who probably would not be given this case?

Pat Vincent-Collawn
I would suspect that Carolyn Glick was just assigned a case, she has the SPS case, so she probably is off the table because she's got the SPS case. The others are probably open for our case.

Paul Ridzon
You said she probably is off the table?

Pat Vincent-Collawn
Yes. If you remember on the dividend, we talked about the fact that we've got optionality, we can continue to grow earnings with capital if we get the appropriate return and have the appropriate opportunities. And if not, then we can take our payout ratio up.

Ali Agha
Ali Agha with SunTrust. First, just to clarify the point you made about the phased in option for your rate increase. Did I hear it right that you'd phase it in if you got all that you asked for, or would you still consider it if they gave you less than what you ask for?

Pat Vincent-Collawn
All that we ask for. There may be a smaller amount that you would take, but in order to phase it in you need to get a reasonable amount of what we've asked for.

Ali Agha
Okay. And generally speaking, locally what has been the reaction in terms of the rate increase impact given that the last case, as you mentioned, was delayed, so the timeline between the rate increase is probably shorter than it normally should have been. I'm just curious locally whether in the paper or otherwise it's been skewed.

Pat Vincent-Collawn
The paper actually wrote a very fair article, they have actually written two. They understand that a majority of the increase is for the BART settlement and the compliance at Four Corners, and that we really don't have any control over that timing. So, the local media has been fair and balanced on that. There is some surprise, I think, that it comes so soon, but we remind everyone that part of the reason is because of San Juan and in order to get those investments in place by '18 we need to do the case at this timing, and reminding them that the other case got delayed by the commission because they didn't like the filing and then they changed the future test year. So, I think it's been a little surprise but generally it's been fine.

Ali Agha
And if you do end up on the phased-in approach, is it fair to say that in '18 you probably under-earn a

little bit and then ’19 you start to earn the full amount? Is that—

Chuck Eldred
Yes. We would slightly under-earn in ’18 and then move that full earnings in 2019.

Ali Agha
Last question. As you’re starting to look forward into perhaps 2020 and even beyond that, IRP’s coming up, when at this point at the earliest do you think equity assurance comes back on the table?
Chuck Eldred
We’re still no equity in the capital through 2019. We just have to really see what the business looks like in 2020 and beyond. But with the lower taxes you’re going to generate more cash flow, reduce debt, so there’s a lot of different ways to optimize the business and allocation of capital to reduce any equity requirements. But it’s just too early at this point to draw any conclusions.

Pat Vincent-Collawn
Thanks, Ali.

Tim Winter
Tim Winter, Gabelli and Company. I was wondering if there’s any elements of the rate request that can be updated, or will be updated as you go through the process. Specifically, I’m thinking about the odd ROE, the request of 10.125 seems low given that the industry just fell under 10% recently and we’ve had a significant move in Treasury yields and perhaps some benchmark moves today. Then the other item, perhaps the sales forecast.

Gerard Ortiz
I would expect that we would not update the filing. There are some rules in place in New Mexico that if you make a material change to the filing after the initial application it can restart the clock. And so that puts a little bit of a constraint on it.

Pat Vincent-Collawn
Remember, this is to forecast a test year, so we did do when we looked at the ROE, we did forecast out interest rates, so it is based on a forecasted year. And if you look at the ROEs at New Mexico, we had 9.575% and El Paso had less than that, and we think the one we filed is a good one.

Tim Winter
Just one more question. As we consider a potential settlement in the case who are the key parties that you’re looking to settle with?

Gerard Ortiz
Well, generally the parties that we work with the most, the critical mass, our staff, the New Mexico Attorney General. There are some environmental groups, WRA, CCAE that we work with as well. Obviously we reach out to all of the parties, try and get as broadly supported a settlement as we can. And it will depend of course on the position that the parties take and what their interests are.

Pat Vincent-Collawn
I’d probably add the New Mexico industrial customers.

Gerard Ortiz
Correct. And the water—

Pat Vincent-Collawn

If you look at the group that signed on to the BART settlement, those are the key folks.

Insoo Kim
Insoo Kim, RBC Capital Markets. The guidance for TNMP in ’17, I believe, was $0.52 and the potential earnings power slide and previous slides were $0.48. Is that difference mostly just customer and load improvements from—

Chuck Eldred
Obviously we have a strong earnings profile with the continued TCOS recovery, so if you were to calculate it just as a straight rate base you’d be around $0.48, but then we added the additional CTC, which is $0.02, and the rest of it is on load growth and other aspects that are improving.

Pat Vincent-Collawn
If you look at that, also in the earnings power slide we use the ROE that the commission staff is using in their modeling. To Tim’s earlier question, who knows what’s going to happen with interest rates by then and now Texas has a historical test year, but we may see some change in that ROE.

Insoo Kim
Then, if there were to be a settlement, what’s the rough timing of such a settlement announcement?

Chuck Eldred
For this rate case, again, the rates go in effect in January of ’18, and we actually have a period of time in the slides that show you the settlement period would likely be—what’s the date on that?

Pat Vincent-Collawn
It’s usually before the hearing and, as Gerard said, we don’t have the schedule yet. The hearing’s probably about July approximately, so maybe June.

Chuck Eldred
It could go later than that obviously because we show on the slide anywhere from up to October the 8th, again, as the rates go into effect in ’18.

Insoo Kim
And then finally, looking at the mix between TN and PN in New Mexico going forward, as you look out on your cap ex plans, is the mix between PNM and TNMP roughly going to be the same four, five years down the line, or is TNMP going to take more of a share of I guess rate-based growth ratings from the T&D?

Chuck Eldred
Well, it depends on the growth profile, what happens in Texas. But certainly if they continue to grow as aggressively as they have, we’ll continue to allocate the necessary capital to support the business. A lot of what happens at PNM will be driven by what happens with San Juan, so in the sense of whether we end up continuing the operation or we have to do some replacement power, that could have an impact in increasing generation at PNM, which would increase the amount of capital we currently have planned.

Pat Vincent-Collawn
This is the business-as-usual case.

Andy Levi

It's Andy Levi again from Avon Capital. So, Chuck, you made a statement, something about that the lower taxes would add to cash and help on the equity side. Could you maybe just explain that, and then just in general maybe just go over your thoughts on the potential tax plans and how that may affect both jurisdictions and things to think about, whether it's deferred taxes, cash in, cash out, all of that, rating.

Chuck Eldred
Yes. And it's really, honestly, too early to get into very specific so we're modeling the different plans that Ryan has put out there and Trump has put to get a better feel for it. But the basic direction appears that the ADIT will be lower within the utilities, the benefits would be passed on to customers. There is some capital at the holding company of interest that wouldn't be deducted, we'd look at different ways to optimize that. The point I was trying to make is that the lower taxes in generating more cash flow and would reduce the amount of debt that would be required for the company. So, we do feel like there's ways to optimize and benefit from the lower taxes, but it's just way too early to get into specifics on that.

Andy Levi
So, there's a tax benefit at the parent, is what you're saying?

Chuck Eldred
I said that the fact that you have lower taxes will increase cash flow which will reduce the debt at the parent company.

Andy Levi
But where would the increased cash flow come from?

Chuck Eldred
From the lower taxes.

Andy Levi
No, but from the utilities? Wouldn't that go back—

Chuck Eldred
To the customers. But also just lower taxes overall, for TNMP, for example, which they'll generate additional cash flow. So, we wouldn't be—

Andy Levi
Is that, what, between filings? I'm just trying to understand it.

Chuck Eldred
Yes, between filings. You would actually have a benefit between filings.

Andy Levi
Okay.

Chuck Eldred
Yes.

Andy Levi
But wouldn't there be a true, the way we're thinking about it, I don't know what's going to happen and every jurisdiction is different, is that any kind of tax cost savings at the utilities flow back.

Chuck Eldred
Right.

Andy Levi
And so I don't understand the cash benefit there. I understand it, but I don't know if that will happen. How much debt do you have at the parent?

Chuck Eldred
Well, we have, there's a slide in here that shows you, about $150 million, $180 million with the LOCs at the parent company. Then we have some term loans of roughly around $250 (million) to $300 million at the parent.

Andy Levi
So, what's the total interest expense there, would you know that?

Chuck Eldred
I don't have that off the top of my head. It's very low interest rates.

Andy Levi
Then on the balance sheet, your deferred tax liability, how much is that for both jurisdictions?

Chuck Eldred
I don't have that information with me.

Andy Levi
Okay.

Chuck Eldred
Call Jimmie and she'll get that to you.

Andy Levi
Thank you.

Pat Vincent-Collawn
Lisa's taking note of questions.

Brian Russo
Hi. Brian Russo, Ladenburg Thalmann. Could you just elaborate on the recent commission turnover and how many commissioners had approved the BART settlement as well as the last rate case, will be reviewing the case you just filed.

Pat Vincent-Collawn
We have one new commissioner, so we mentioned Cynthia Hall is replacing Commissioner Montoya. On the BART settlement, Commissioner Lyons, Commissioner Jones and Commissioner Lovejoy all voted for that, and Commissioner Espinoza did not. On the rate case we had Lyons, Lovejoy and Karen. So, Commissioner Jones didn't vote for it, Commissioner Espinoza didn't vote for it, and Commissioner Montoya did, she'll be gone. So, I think, though, that this rate case is a bit different than the last rate case when you think about it because so much of what is in this case is BART, and what Commissioners Espinoza and Jones did not like about the last rate case was the San Juan and the Palo Verde, the balance draft in Palo Verde, but they've already voted for it on this case. So, I think

different facts and circumstances.

Brian Russo
And in terms of a settlement in this case, would that occur before or after a hearing examiner recommendation?

Pat Vincent-Collawn
Usually, usually you'd want to do it before the hearing, just because it helps workload, because people don't have to write all their testimony. So, that's when we typically do them. You can still do them after the hearing, but Gerard and team would try to do it beforehand.

Brian Russo
And how close does a hearing examiner recommendation take place to the actual hearing?

Gerard Ortiz
For a rate case, I would usually expect to see a recommended decision within 45 days of the conclusion of the hearing. You have to allow time for briefing and response briefs, if there are any.

Pat Vincent-Collawn
So, there's plenty of time, if we don't get a settlement before the hearing, to get one after the hearing, before the hearing examiner writes.

Brian Russo
And just remind us the name of the hearing examiner that made the recommendation in the last rate case and the hearing examiner's name on the forward test year recommendation.

Pat Vincent-Collawn
That was Carolyn Glick. And she is now working on the SPS case, to the earlier question she's probably not going to get assigned to our case because she's got the SPS case.

Brian Russo
So, Glick was on both?

Pat Vincent-Collawn
Yes.

Brian Russo
Thank you.

Pat Vincent-Collawn
I'm right, I hope. Yes. Okay.

Paul Ridzon
Paul Ridzon of KeyBanc again. Is there a precedent for a phased-in rate increase in Mexico?

Pat Vincent-Collawn
I'm getting my memory back, so I think it's yes.

Gerard Ortiz
There may be. In the 2010 case we also offered to phase-in the rate. Ultimately, we were able to settle it and a phase in was unnecessary. It's certainly within the commission's authority to accept an offer to

phase in a rate case.

Paul Ridzon
Does the earnings potential slide, does that contemplate a phase in, or is that just straight rate-based math?

Pat Vincent-Collawn
Straight rate-based math, yes.

Paul Ridzon
Thanks again.
Anthony Crowdell
Good morning. Anthony Crowdell from Jefferies. My question is on the earnings potential slide. If I think about a year ago when you guys gave us 2019, that was before a pretty major rate decision that you got in August, you're now letting us know that this rate filing is a little easier, 44%, as you already said that's already been approved by the commission, you gave us 2020 future capital, but you won't give us 2020 earnings potential with an easier rate case in front of you. Why not?

Pat Vincent-Collawn
We wanted to mess with your mind.

Chuck Eldred
Yes. At this point, we were really focusing, because we have this rate case, to focus on 2019, and because of the IRP and things that are going on with the filing of that, we mentioned it could change some of the capital allocations that we have in the future, to reflect any new generation replacement, that sort of thing. So, we really want to get it more refined and more clarity around 2020 and beyond based on what occurs with the IRP filing and the decision around San Juan. So, it's just a little bit too early for us to put that out there. At some point we will, but not yet.

Pat Vincent-Collawn
Because if a decision is made that San Juan's not part of our portfolio going forward, you can have significant capital investments in other generating sources, and we'd be speculating if we put anything else in there than what's in that capital, and we really want the process to move forward with the public input and letting the models run the numbers before we make any kind of speculation on the capital.

Anthony Crowdell
So, talking IRP, what's your reserve margin today in New Mexico?

Gerard Ortiz
It's in the neighborhood of 15%, I believe.

Pat Vincent-Collawn
Yes. We can get you the exact number.

Anthony Crowdell
Is there a target, do you guys target 12%, do you target 14%?

Gerard Ortiz
From a commission order settlement several years ago there's a target of 13%. I will note, however, that 13% is pretty thin for a system of our size, and so we view that as a planning requirement. But then there's a lot of other things you have to take into account when you're running the studies and

determining the need for resources.

Anthony Crowdell
The last question, you gave the slide on New Mexico, customer demand, you have a declining, roughly 1% each year and it stops in'17. Is there anything wrong with me keeping the decline at 1% going forward, and then when I get to 2020 just assuming a 15% reserve margin where or how much generation you should need on your system.

Pat Vincent-Collawn
Well, you can make the assumption that you want to on load, but we are seeing, and we saw more of a dramatic demand because the easy, low hanging energy efficiency stuff is done, the lighting standards are done, buildings and codes are done, it could very easily level out soon. So, you can stress test it any way you want to, is what I'm saying, but I don't see any reason for it to keep going massively down. I don't see the days of 2% to 3%, 5% to 6% load growth coming, but it could easily level off.

Chuck Eldred
Yes. Anthony, the way to look at it is we continue to be more of a peaking utility at PNM, and it's changing the dynamics of what kind of system generation requirements are necessary to balance the system, so if you think about all the renewables potentially that we talked about with Facebook and potentially other data centers, how we look at the generation going forward and balancing the system would be likely more peaking capacity even if you shut down San Juan. So, I wouldn't look at is as, for example, would it be a larger combined cycle, chances are it would be more multiple peaking types of units in order to serve and balance the load differently and to meet the peaking capacity. So, even though you see declining energy sales, the peaking capacity is going up, it's just not going up as rapidly as we've seen in the past. And that was the reason why we changed the peaking unit that we moved in 2019 and 2020, it's a different profile, a different way to look at the load, and that will be addressed in the integrated resources plan.

Anthony Crowdell
Thank you.

Pat Vincent-Collawn
Because the other part of that load is customer growth, and as we see the economy picking up in New Mexico, and we talked about some potential customers, your load growth on a UPC basis can still go down but your customer count goes up, because a lot of utilities now are seeing declining UPC but they're seeing really good customer growth. My friends in Florida, for example, their UPC is down but their customer growth is on fire. And we've got better weather in New Mexico.

M
Coming back to the earnings power slide, can you remind us why the PNM Retail rate base is flat '19 over '18?

Chuck Eldred
Yes, I think part of it, the Supreme Court appeal the zero to $150 million in rate base would have some adjustment to that.

M
Right. But excluding that, I'm just looking at it apples-to-apples.

Pat Vincent-Collawn
There's some rounding in there.

Chuck Eldred
Well, yes. Lisa, can you help me with that, there was a comment we made at one point that I was trying to recall.

Lisa Goodman
Bonus depreciation in the NOL.

Chuck Eldred
Bonus depreciation, that's what it was. Thank you. Thank you.

M
Bonus depreciation.

Chuck Eldred
Yes. Thank you.

M
And also the small decline in the renewable rate base, I know it's very miniscule but it's trending down in that same chart. Is that the same thing?

Chuck Eldred
Yes, that's still the depreciation of that. And we moved some of the renewables up, this last rate case that was built into Retail and included in the Retail rate base, which was part of the settlement and part of the agreement amongst the parties that that would be reflected in Retail and not into the rider itself.

M
And a question. Pat, is it fair to say while we are in the midst of this rate case proceeding that if there's any M&A trends, etc., that's probably not front and center while rate cases are going on? Is that a fair assessment?

Pat Vincent-Collawn
I think that's a fair assessment. It's hard to speculate what others would do, but I think that's a fair assessment.

Walter Banks
Walter Banks, Value Line. What common equity ratio are you asking for in the rate case?

Pat Vincent-Collawn
Gerard.

Gerard Ortiz
It's 50% equity, 0.6% preferred, 49% debt, 50/50 basically.

Chris Ellinghaus
Hi. Chris Ellinghaus from Williams Capital. A couple things for you, Gerard. Do you have any thoughts in regards to filings in Texas next year about the DCOS mechanism in Texas, have you got any generic thoughts there?

Pat Vincent-Collawn

Yes. You can only use the DCOS mechanism if you're not earning your return, and since we have been earning our return we won't be using the DCOS mechanism.

Chris Ellinghaus
Okay. But do you anticipate, post this rate case, that you might have the ability to stay out of DCOS for a period of time as well?

Pat Vincent-Collawn
Probably. A lot of the reason we've been able to stay out of rate cases in Texas is that we've had good cost control, but the volume there has grown so well, so assuming the Texas economy keeps growing we can stay out for a while after the next rate case.

Chris Ellinghaus
Okay. And, Gerard, what do you anticipate as far as acknowledgment, approval of the IRP in New Mexico, time frame?

Gerard Ortiz
And let me just be clear, what happened in New Mexico, the IRP is not technically approved. The most that you get out of it is it's accepted as being compliant with the rule. And it doesn't actually require any formal commission action, it will happen just as an operation of law unless there are protests.

Chris Ellinghaus
And you expect that will stay at the normal statutory time frame?

Gerard Ortiz
Yes, that's what I would expect. The last couple of IRPs that have been protested ultimately were never resolved because they were dismissed as part of settlements.

Chris Ellinghaus
Is there any chance this one could be contentious, given the changing mix of generation and San Juan being included?

Gerard Ortiz
Well, you have lots of different interests among the parties, but as Pat pointed out, one of the things that we will do in this case is we will evaluate the cost effectiveness of San Juan Units 1 and 4. To the extent that those assets prove to be part of the cost effective mix going forward we will also present an alternate portfolio. And so I think that it's going to be a very robust look and I think that all of the interested parties will have data there to evaluate and see exactly what the results are and what went into the analysis.

Pat Vincent-Collawn
And I think the key on this IRP is it sets up the filing that we promised to make in the BART settlement, so we'll make the filing in 2018 about the future of San Juan. And so what the IRP really is, is the math and the modeling in the portfolio that sets up that filing.

Chris Ellinghaus
Okay. And, Gerard, you were saying it's unlikely that there would be a material change to your filing numbers and that if you did make a change that was material it can reset the clock.

Gerard Ortiz
That's correct.

Chris Ellinghaus
Well, that gets me to wonder, the tax reform potential, does that fall into what you would consider the materiality clause?

Gerard Ortiz
Well, it would have to be a change that we would propose to make in the case itself.

Chris Ellinghaus
Okay. So, this is an exigent, external circumstance that—

Gerard Ortiz
Correct.

Chris Ellinghaus
So, it's not your fault, in that case.

Pat Vincent-Collawn
Right.

Chris Ellinghaus
It's Don's fault.

Pat Vincent-Collawn
Right. Chuck's fault, and depending on if it lowers tax rates, things that benefit customers are always easier.

Chris Ellinghaus
Okay. One last thing—

Pat Vincent-Collawn
Does that mean you know which tax plan's going to get approved?

Chris Ellinghaus
I have no idea. But I was just curious. It seems material as far as numbers go.

Pat Vincent-Collawn
Yes.

Chris Ellinghaus
But if it's Chuck's fault, that's okay.

Pat Vincent-Collawn
It's Chuck's fault, yes.

Chris Ellinghaus
One last thing for you, Chuck. The items not in PNM rates, can you just tell us what all is included in that.

Chuck Eldred

Yes. There's some of the compensation for executives, and actually it's footnoted if you take a look at the—

W
Page 30.

Chuck Eldred
—Page 30, and in 6 we've included the nuclear decommissioning gains and losses, as I mentioned, some of the incentive compensation, some of the items that are related to Navopache, the 65 megawatts at San Juan.

Chris Ellinghaus
So, just the normal—
Chuck Eldred
It's a bucket of things. And we tried not to go into specifics because we're looking at all the entire basket of different movements in earnings and give you a better perspective by us doing that for you and then giving you an idea this is how we see it. But that's pretty transparent as to what's in there when you look at the footnote.

Chris Ellinghaus
Okay. Thanks.

CONCLUSION

Pat Vincent-Collawn
Anybody else? Well, we will be available afterwards. And as Jimmie said, please feel free to engage not only with Chuck and myself and Gerard, but the other members of the management team. Again, we want to thank all of you for coming today. We appreciate your time. We know it's a busy holiday season. We appreciate your attention and your following our company, PNM Resources. Lunch should be outside, and so please stay for lunch. And have a wonderful, wonderful and safe holiday season to you all. Thank you.