PNM Resources, Inc. NYSE:PNM

Guidance/Update Call

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Call Participants

EXECUTIVES

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Lisa Goodman

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

ANALYSTS

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Unknown Analyst

Presentation

Lisa Goodman

Good morning, everyone.

Unknown Analyst

Good morning, Lisa.

Lisa Goodman

Thank you for joining us for PNM Resources' 2017 Financial Update. My name is Lisa Goodman. Joining me today are PNM Resources' Chairman, President and CEO, Pat Vincent-Collawn; and Chuck Eldred, our Executive Vice President and Chief Financial Officer; as well as Don Tarry, our Vice President, Finance and Controller; and Lisa Eden, our Vice President and Treasurer.

I want to remind you that today's event is also being held via conference call and the presentation is available on our website at pnmresources.com. After the prepared remarks, we will take Q&A from the room first and then from the phone.

Before I turn the presentation over to Pat, I need to remind you that some of the information provided this morning should be considered forward-looking statements pursuant to the Private Securities Litigation Reform Act of 1995. We caution you that all of the forward-looking statements are based upon current expectations and estimates and that PNM Resources assumes no obligation to update this information. For a detailed discussion of factors affecting PNM Resources' results, please refer to our current and future annual reports on Form 10-K, quarterly reports on Form 10-Q as well as reports on Form 8-K filed with the SEC.

With that, I will turn things over to Pat.

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

Thank you, Lisa, and thank you to all of us that are joining us here this morning at the New York Stock Exchange or by telephone. Now the setup here is a little more formal than it is for our normal earnings calls in Albuquerque, so for those of you that are not in the room, I'm going to save you the suspense, we do not have any Halloween costumes on today, we're here in traditional business attire. But I have to tell you, this room here at the New York Stock Exchange is just beautiful.

We're looking forward today to providing you company updates and discussing the details of our 2018-2019 guidance.

Let's get started this morning on Slide 4. Earlier this morning, we announced 2018 ongoing EPS guidance of $1.70 to $1.80 per share. This reflects the phase-in of the retail rate settlement at PNM that is currently under consideration by the New Mexico Public Regulation Commission, with approximately half of the proposed increase implemented in 2018 and the second half implemented in 2019.

2019 ongoing earnings guidance of $2 to $2.16 reflects the full implementation of retail rates. Chuck will walk through the guidance in detail in just a couple of minutes. We also announced last week that the board voted to increase our common dividend by $0.09 to $1.06 per share, representing a 9.3% increase. The increase is consistent with our targeted payout ratio of 50% to 60%, although this will look a little higher in 2018 due to the reduction in earnings caused by PNM's retail rates phase-in.

As we wrap up 2017, we continue to have several regulatory items on our agenda that are critical pieces to moving the business forward. So let's move on to Slide 5, and I'll provide an update on each of these items. In PNM's current general rate case, the hearing examiner's recommended decision was issued October 31. After months of negotiating with intervenors to produce a settlement in which 13 parties agreed and only 1 party opposed, the recommended decision did not call for approval of the settlement as filed. Instead, it proposed modifications that altered the balanced agreement. The parties that had signed on to the settlement filed exceptions to the recommended decision and requested that the commission approve the settlement as filed. We remain hopeful that the commission will recognize the efforts of parties to balance the outcome and resolve the case by approving the settlement as filed. If the settlement is not approved, the case will move to a litigated path. The commission may issue an order as soon as next Wednesday. The current suspension period in the case is January 6, with the option for the PRC to extend to March 6. At that time, customer rates would be implemented as originally filed if no order has been approved. But again, we hope the commission will recognize the settlement and all the work that went in to settle.

Moving next to PNM renewable plans filing. Despite the hearing examiner's recommendation in this case to disallow portions of our filing, the commission voted in November to approve the plan as originally filed. Some parties took exception to that approval and filed motions for rehearing, but those were denied by the commission last week. The resources approved in this plan will allow PNM to meet New Mexico's 2020 renewable portfolio standard through the addition of 50 megawatts of utility-owned solar and increased purchases from existing wind and geothermal PPAs.

Now moving on to PNM's 2017 Integrated Resource Plan that was filed in July. We don't have any update since our last call, but I'll just remind you that a number of parties filed protests to the plan. They range from concerns about the regional economic impact of the proposed shutdown at the San Juan Generating Station to the RFP process for replacement power. The hearing examiner set a schedule for requiring parties to file briefs by today and has indicated that she will subsequently present an order on the scope and any procedural schedule for the case. The plan sets a pathway to coal-free generation portfolio through the exit of San Juan Generating Station after the current coal supply and participation agreement expire in 2022 and an exit from the Four Corners Generating Station when its current coal supply agreement expires in 2031. The plan represents the most cost-effective resource portfolio for our customers over the 20-year period. Keep in mind that the IRP process does not involve a commission approval of the plan, but any additions or retirement of retail generation resources would require commission approval through separate filings. And also, as a part of our BART settlement approved in December of 2015, PNM is required to make a filing with the commission on the future of the San Juan Generating Station, and we need to make this filing by the end of 2018.

Moving on to Advanced Metering Infrastructure. In our proceeding to implement smart meters in New Mexico, hearings on the required supplemental filings were completed in October. We await a recommended decision by the hearing examiner and expect an order from the commission in the first quarter of 2018. This is a technology that continues to be adopted across our industry in various jurisdictions. Our current case shows that this technology provides net financial benefit to customers and as we've seen in Texas, provides opportunities to improve system reliability.

In the docket opened by the commission to address ratemaking policies, 2 rounds of workshops were held this fall, and an additional workshop has been scheduled for January 23. The policy changes proposed in the docket were divided up into working groups for detailed discussion. The intention of the workshops is to bring the parties back to report on the issues and the level of consensus reached for each of the policy changes such as a standardized ROE methodology. After the workshops are completed, it will be up to the commission to determine the appropriate next steps.

In the Supreme Court appeal of certain items from PNM's prior rate case, oral arguments were heard on October 30. There is no statutory time frame for the Supreme Court to rule on this case. In addition, remember that any modification to the MNPRC's original decision would be sent back to the commission before being implemented in rates.

Now moving over to TNMP, we are on track to file a general rate case in May of 2018. The case will be based on a 2017 calendar-test-year period, and rates are expected to become effective in January of 2019. We are planning to make a TCOS filing in early 2018, prior to the filing of the general rate case, to gain recovery on the transmission investments made through year-end 2017. The general rate case is then going to serve as a true-up for both distribution and transmission. And remember that once we file the general rate case in May, we are not permitted to make additional TCOS filings until that general rate case is resolved, so you won't see our typical second TCOS filing in 2018.

With that, I'm going to turn it over to Chuck, who will walk through the financial impacts of these items along with our key business drivers, then I'll come back up to close, and we'll take questions.

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Well, good morning. So go back and look at the video for the closing bells that -- which we did yesterday because I was told that on CNBC that I bashed the gavel pretty hard. So I got on the news, for a change. Maybe better news than we're getting in New Mexico right? So we'd like to, again, thank you for joining us today. And as Pat talked about, I'm going to review the financial impacts, specifically for 2018 and 2019 guidance and the potential earnings power through 2021.

So looking at Page 7 of the presentation, before we get into 2018 and '19, I want to note that we've had updated the range for 2017 to $1.85 to $1.90. This is reflective of our third quarter earnings call discussions about expecting to be at the top of our earnings range. The segment ranges are included in the presentation.

Moving to 2018, we have been discussing for some time now that this will be a transition year for PNM Resources. The guidance range of 2018 is $1.70 to $1.80. We expect PNM to have earnings between $1.25 and $1.32, which reflects the initial phase of the rate settlement. TNMP will earn $0.53 to $0.55 during 2018, and Corporate and Other is projected to be at a loss of $0.07 to $0.08.

Now moving this to 2019, we expect to implement PNM's full rate recovery. As a result, we're planning to come in at $2 to $2.16. PNM will represents $1.50 to $1.59, which does not include any amounts for the items under appeal at the New Mexico Supreme Court. At TNMP, we're expecting a $0.60 to $0.65 contribution to earnings. We expect Corporate and Other to be a loss of $0.08 to $0.10 in 2019.

Now turning to Page 8 for economic and load expectations. Economic conditions in New Mexico continue to show signs of recovery, including a continued positive employment growth, which is our strongest leading indicator of load. We have seen some positive announcements in our service territory over the past couple of months. Intel has developed a new technology at the Rio Rancho facility that has garnered some press. On November 7, they announced that they would be -- no further no further layoffs due to a $200 million investment at this facility. In addition to these announcements, we've seen, roughly, the number of economic development inquiries in 2017 compared to 2016 increase significantly. In addition to more inquiries, the projects are also larger than those that we have seen historically. While an inquiry may or may not ultimately land in a win, we are pleased to see the increase in the activity. And most important, as we speculated about a year ago, we are seeing more data center inquiries being made.

With regard to the PNM load forecast, overall residential and commercial load increases from customer growth will be largely offset by the continued adoption of energy efficiency and distributed generation. We are forecasting some growth in industrial as Facebook is expected to come online in 2018 and will be included in this category. This growth drives our overall load higher. It's important to keep in mind that industrial as a general rule has tighter margins because of the rate design.

In total, our 2018 low guidance is a range of flat to down 0.7% compared to 2017. In 2019, we expect load growth of down 0.5% to up 0.5%. Customer growth is expected to be about 0.5% for 2018 and 2019.

We continue to see significant economic growth in Texas. Businesses are moving or expanding operations in the state, and employment growth continues to be stronger than the national average. West Texas is a key force in driving the growth as we have 6 new customers projected to come online in the third and fourth quarter of 2018, bringing about 220 megawatts of demand in 2019. We expect volumetric load to increase 2% to 3% in both 2018 and 2019. We expect demand-based load to increase 2% to 3% in 2018 and 7% to 8% in 2019. We expect end user growth of 1.5% to 2% in each year.

On Page 9, let's review PNM's guidance. 2018 will be a transitional year, with only partial rates implemented. For guidance, we assume that the rates are implemented in March. If rates were to be implemented in January, we'd expect to see an improvement of an additional $0.03 in 2018 compared to what we were forecasting. The 2018 rate case impacts also reflects certain elements related to the BART plan, including the retirement of San Juan Units 2 and 3, the additional 132 megawatts in Unit 4 and the shift to Palo Verde Unit 3 from being an unregulated asset to serving the New Mexico jurisdiction.

In 2019, guidance reflects the full implementation of rates. Detailed information on the EPS drivers for each of our segments is available in the appendix of the presentation.

Now on Page 10. TNMP continues to experience growth across its service territory. We expect to file the general case in May of 2018 using the historical test period of calendar year 2017. Rates are expected to be implemented in January 2019. While we're not providing any specific drivers for the rate filing as we do not want to get in front of the regulatory process, there are a few things to keep in mind. The rate filing will reflect a true-up of rate base between the transmission and distribution customers and move recovery that is currently part of the rate riders into the rate base. We're expecting also of exploring whether to make sense to request a different capital structure. We're a small T&D utility, as you know, in Texas, and it's important maintain a strong balance sheet and our current credit metrics. We plan to file for an increase to allow 45% equity ratio to reflect the current capitalization of the business, and we'll provide more information about the rate case after it's filed in May.

During the rate filing, we are prohibited from filing for TCOS recoveries. As a result, we are only planning to file for 1 TCOS adjustment in early 2018. That request will be to recover transmission investments made in 2017. We will not be able to make another of TCOS filing in -- until 2019, after the rate case is finalized.

In 2019, we also expect to refinance the $172 million of 9.5% debt. We are forecasting an interest rate reduction for this financing that will result in cost savings to begin in April 2019.

Now turning to Page 11 for capital. As we've shared on the third quarter earnings call, we have updated our capital spend to reflect our current expectations. We are supporting the growing TNMP economy by dedicating capital to serve the growing needs across all of our service territories there. Over the 5-year window, we are spending roughly 45% of the capital in West Texas, 30% in the Gulf Coast region and also 25% in North Texas for rate base growth of 11.4% through 2021 using 2016 as a base year.

At PNM, the ongoing core T&D capital investments on projects that will accommodate customer growth and strengthen our system by replacing aging infrastructure and modernizing equipment. These additions will maintain reliability and allow for increased visibility, greater security, more robust data analytics, which also result in faster and more automated restorations of our system. We expect to have some sizable transmission expansion projects that will be serving a third-party renewable development customers who are transmitting power to California. Overall, system benefits to customers in New Mexico.

We also have replacement generation that puts us back on track to be coal-free in 2031. The investments in 2021 and 2022 are related to the San Juan replacement power. This is for flexible gas units to support the growing percentage of renewables that are on our system. In total, this represents rate base compound annual growth of 4.5% to 5.5% through 2021 using 2016 as a base year. Keep in mind that our earnings growth will come in stronger than the rate base growth due to the dedication of Palo Verde Unit 3 to serving the New Mexico jurisdiction.

We also talked in the earnings call about the need for a 3-year at-the-market equity issuance program to dribble in some equity to fund these capital plans beginning in 2020. On Page 12, let's review the potential earnings power through 2021. We are targeting earnings growth of 6% through 2021 using 2016 as the base year. Growth of PNM is related to the full implementation of rates in 2019 and the additional 50 megawatts of solar investments needed for the 20% by 2020 RPS goal. Third-party renewable developers who are transmitting power to California also contributes to growth in the FERC transmission.

At TNMP, growth is driven by nearly $900 million of capital supporting economic expansion across our service territory. This represents roughly an additional $180 million of investments compared to our previous 5-year forecast. We show the impact of at-the-market equity program at the bottom of the chart. We expect that we would issue up to $150 million of equity from 2020 to 2022. The impact we're showing represents $25 million to $75 million of issuance in 2020 and up to the full $150 million issued by 2022. The timing of the issuance that we are showing here illustrates this. We plan to use the program to balance the capital structure and support the growing investments at TNMP and PNM's replacement power plants.

Now turning to Page 13. When we think about financing our business, we have 3 main goals that we keep in mind. First, to maintain appropriate credit metrics, we are focused on remaining at solid investment-grade credit ratings, and we target to maintain our regulatory capital structures. We have also taken a number of actions this year to preserve the liquidity in our business. We have $450 million of debt that comes due in 2018 at PNM. We have used the private placement market to secure funding for these loan maturities at the average life of nearly 15 years and reduces the 7.5% and the 7.9% interest rates to an average of 3.85%. Other changes to our liquidity involve extending our existing credit facilities. In addition to the at-the-market program, we also expect to issue new debt at the utilities of about $375 million to fund capital investments through 2021.

On Slide 14, let's discuss tax reform. With the Senate passing its tax reform bill last week and the reconciliation process beginning this week, we may all believe there's a greater likelihood that legislation could be passed this year. If corporate taxes are reduced, customers will receive that benefit. It also appears that interest deductibility will be maintained, which is an important element to us and the industry as a whole. Based on what we have seen so far, we believe that reform may have a slightly negative impact to us because of the lower tax benefit for the losses at the holding company. We think this would be $0.02 if it's passed.

The rate case settlement at PNM has a mechanism to true up the cost of service. If reform is passed by November 2018, assuming that happens, we'd true up the collection from customers in 2019. Any cash benefit in 2018 would be retained under the settlement, and any earnings benefits would be included in our GAAP earnings but excluded from ongoing earnings.

So to wrap it up on Page 15, we review the dividend. Pat talked about the dividend increase that the board approved last week. We had a 9.3% increase to $1.06 on an annualized basis. We continue to target the dividend payout ratio to be in the range of 50% to 60% of ongoing earnings. We expect to have 6% compounded annual earnings growth through 2021 using 2016 as the base year. If this earnings growth rate reduces to industry average of 3% to 5% in the future, we have the option to increase the dividend payout ratio. If we move to a higher payout ratio, it would result in above-average dividend growth, which demonstrates our commitment to provide strong total return for shareholders.

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

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

Thank you, Chuck. So for our Q&A today, I'm going to start off by taking questions from the room while the operator assembles question from those on the phone. So for those of you here in person, if you'd please raise your hand, and Don Tarry will bring you a microphone. And for the benefit of those on the phone or the webcast, if you please state your name and your company before you ask your questions so everybody knows who's asking.
So first I want the operator to please provide the instructions for questions on the phone, and then we will get started.

Question and Answer

Operator

[Operator Instructions]

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

You got to be nice to Don, he's the one doing the order of the questions.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Ali Agha, SunTrust. Two questions. First [indiscernible] Chuck, you mentioned the growth rate off the '16 base, you are targeting that 6% growth rate through 2021, but the fact is you have a pretty big jump in earnings in '17. So if we were to use '17 as the base, since we're almost at the end of the year, mathematically, that brings that number down to around 4% or so. So just wondering, if you're looking at that profile, where are the areas where you think you could see further growth? And given customer rate constraints, are there opportunities for you to accelerate that growth '17 through '21, call it?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, Ali, thanks. We're using 2016 as a base because '17 we see as a phase-in approach. And so -- or excuse me, 2018 as a phase-in approach. And so for our view, we look at a 5-year outlook. And so I know there's going to be some variability year-over-year as to how you might slice it and look at growth. Keep in mind, I said that the guidance we put out there has no information to reflect any earnings pick-up for the Supreme Court rulings. We don't have in our budget any information on the possibility of AMI, so that's another possible upside. I think at this point it's -- even though 2017 is a strong year, we just have to allow for the phase-in approach and the continued thinking through over the next 5 years to how we think about the growth of the business because we're trying to set dividend policy guidelines, et cetera, off of that 5-year window to get to the total returns that we think are appropriate. And there may be some other opportunities at FERC side. Again, we show a reasonable range there. And certainly, there's some upside on that part of it as well. So I think -- and then there's probably some upside, frankly, in TNMP. We show you a range of variability in TNMP based on what we think is some sensitivities around ROE. We don't talk about that because we haven't filed a case, but I think there's some potential upside for TNMP well.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And my second question, Pat, one of the advantages you currently have is you have a very strong currency. Your stock valuation relative to the sector peers is at a premium. Is that a thought in your mind to use that strong currency and perhaps look to diversify outside of New Mexico, look for growth opportunities which would be accretive mathematically as well? What's your thinking, just strategically, about potential consolidation opportunities out there?

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

Thank you, Ali. We're happy with our footprint. I mean, we like our balance sheet. So -- and as you can tell from our regulatory slide up there, we've got a lot on our plate. So we're just going to stay focused on those key things in our business in terms of moving to a clean generation portfolio and doing our TNMP rate case. Thanks. And all we need is a fireplace up here and Santa Claus.

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, fire chat.

Unknown Analyst

First, I just wanted to confirm my understanding, in the current settlement agreement that you have in New Mexico, is there a stay-out provision in that settlement agreement? And that goes to...

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, thanks for bringing that up, too. It -- we have till January 2020, I think we have to stay it up to that point. So we haven't announced anything, but in our thinking, probably around the range of 2021, we might look for another rate case in that as you think about your modeling and your basic assumptions. But it's too early for us to make any public announcements. But we're just trying to say in our planning purposes, that's probably the time frame that you might see some possible rate increases, 2021.

Unknown Analyst

That's a '21 effective or '21 filing?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Pardon me?

Unknown Analyst

'21 effective or '21 filing?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

'21 effective, yes.

Unknown Analyst

And my second question is on taxes. So you've laid out the impact on the holdco very clear. Can you remind us what your status is in terms of are you a cash taxpayer? And if you are willing to tell us if you are a cash taxpayer throughout, I guess, through 2021?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, we actually -- we start paying taxes in 2020. So we have some ITC credits that will carry us through 2019 and start paying taxes in 2020.

Insoo Kim
RBC Capital Markets, LLC, Research Division

Insoo Kim from RBC Capital Markets. Could you give any update on clarification of the hearing examiner's modifications to the settlement proposal? And seems like there may have been, at least on our end, some confusion to what that means for potential earnings or recovery. Is there going to be some kind of clarification process with the commission before they decide on whether to accept the settlement?

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

And so I'll just give you an update about where the case is, and then Chuck can talk about the earnings impact. It could have been on the agenda as early as this week, they held a meeting on Thursday. It was not on the agenda, so we expect it could be on the agenda this week. What happens is the right -- the hearing examiner did the recommended decision, so now the general council prepares an order or orders depending upon what they do. Sometimes they do multiple orders for the commission to look at and vote on. So that could happen as early as next Wednesday. Then typically, if anybody wants a rehearing, they have to file very quickly after that. Some -- we think it would move to a litigated path because the -- everybody that's signed on to the hearing -- or excuse me, to the stipulation, wants that stipulation. And I think that there is great frustration that the commission encourages people to settle, and we had a settlement with 13 parties for and only 1 party as opposed. So I think that if the commission doesn't approve the settlement, it would end up in a litigated path.

Charles N. Eldred
Chief Financial Officer and Executive Vice President

So the financial impact if the modified stipulation were pursued, as you recall, the revenue of $62.3 million was still intact. So from that standpoint, the rates remain -- the revenue remains intact. But the potential write-off of taking away the debt return on Four Corners could result in around $60-some-odd million additional write-off. The hearing examiner did recommend, again, questioning and raising the subject of coal investment in New Mexico, took the additional investments in Four Corners and put a little more gray area as to how we're supposed to handle the continued investment as we use that plant, the 200 megawatts that we're participating in for Four Corners with APS. If you were to run the numbers, the sensitivity of that could be a $0.05 potential impact to earnings if we're no longer allowed to recover any costs associated with Four Corners. They didn't say it was -- we couldn't file, but they did the same thing with San Juan. They took roughly $38 million out of the forward test year that was to be included in this rate case, and although it didn't affect the revenues, they said we have to bring the $27 million, $37 million back -- I think it was $37 million -- back to the next rate case and ask for recovery at that point. So I think the thinking there was, gee, you're getting ready to shut these plants down, and how do we know that this is capital that's necessary? But I can assure you, all our planning for capital of San Juan is geared towards beginning to phase down and shut the plant down in 2022. So that was disappointing, but certainly forces us, if it's approved, to go back and ask for recovery of that capital. So we'll just have to see how the recommendation comes or approval comes out of the commission and what the order is, but certainly, it's very focused on coal. And I think Pat's pointed out very clearly, you don't shut these plants down overnight, you have to slowly transition and address all of the stakeholders' impacts, the tax consequences, the economic impacts in the Four Corner region and do it in a very orderly and manageable fashion. So we hope that the commission will regard that as ultimately the decision to support the intervening parties and their original stipulation.

Insoo Kim
RBC Capital Markets, LLC, Research Division

Got it. And just one more question on TNMP. The '19 -- 2019 earnings contribution seems like it was a little bit higher than what you guys have put in the potential earnings power before. Is that mostly due to the upside in load growth in '19?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

The upside of what, please?

Insoo Kim
RBC Capital Markets, LLC, Research Division

The earnings contribution from TNMP for '19 seems at least $0.02 or $0.03 higher than where you guys had estimated in your earnings power slides before, is that coming from just increased load? Or is it...

Charles N. Eldred
Chief Financial Officer and Executive Vice President

It's -- well, on the earnings power, it's really more the increase on the capital that we're putting in.

Insoo Kim
RBC Capital Markets, LLC, Research Division

Right, okay. So it's just more capital that...?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, yes. Yes.

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

We'll go to the other side of the room next, Paul.

Lasan A. Johong
Auvila Research Consulting LLC

Lasan Johong, Auvila Research Consulting. Have you guys taken a look at the tax reform impact on your customers? And whether that's a net positive or a negative? In other words, could that be an additional upside potential factor that is not in your guidance going forward?

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

The settlement that Chuck talked about that we have on our current rate case, if tax reform is passed before November of this year, it will flow back to customers starting in '19. So we would have it in 2018, but our customers will get in 2019.

Lasan A. Johong
Auvila Research Consulting LLC

No, I was thinking more what that -- what the tax reform package may do to the economic activity of New Mexico, which would then translate into potentially more growth, more volumetric growth, more customer growth and how that might impact...

Charles N. Eldred
Chief Financial Officer and Executive Vice President

The tax reform itself, it drops customer rates roughly around 3%, so it's a good thing. New Mexico is all about keeping rates affordable and keeping them low. It -- the ADIT adjustments over time for normalization rules only has about a $15 million impact, so it's not substantive. But to Pat's point, we're focused on trying to make sure that we have room to recover our current capital plans, and certainly, if it -- they are benefit to customers in reducing rates because of that -- their lower tax rate, then that'll -- that puts us in a pretty good position of how we deal with future rate cases and recovery of capital.

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

And I think I would say the administration is projecting economic growth. So as the country grows, we would have our fair share of it. But remember, a lot of what's in New Mexico is government and related to the government, so tax reform, theoretically, doesn't do those businesses. A lot of the growth we see, and we are looking at it in data centers, which are worldwide anyway and probably wouldn't change because of the tax reform. So I think we're going to continue to see our economy grow steadily, but I'm not sure tax reform will give us a huge jolt in New Mexico.

Lasan A. Johong
Auvila Research Consulting LLC

Okay. Last question, the 100% tax reduction on CapEx investments going forward, again, if the tax reform passes, could that give you an opportunity to accelerate your investment program? And where would you look at doing that?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Accelerate what?

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

What are we -- the acoustics in here are just awful. Do you mind repeating your question? I got something about tax reform and the 100% deduction or the sensing, yes.

Lasan A. Johong
Auvila Research Consulting LLC

The tax reform package allows for a 100% deduction of capital investments immediately. And so does that provide PNM with an opportunity to potentially accelerate some investments? And where would you guys look to do that?

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

Utilities are exempted from that 100% immediate deduction. There's a utility carve-out in exchange for interest deductibility, so it wouldn't have any impact on us.

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes.

Paul Basch Michael Fremont
Mizuho Securities USA LLC, Research Division

Paul Fremont with Mizuho. If you were to securitize your remaining investment in San Juan, how would that affect the rate base numbers that we are looking at here, the equity need and also the, sort of, your projected earnings power or earnings growth?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, I guess the way to look at it is you -- obviously, you're pulling out the undepreciated costs at a rate base for San Juan, but our numbers reflect that we're reinvesting in new rate base. So there's a little bit of slight increment to rate base because of the replacement power, so that part of it helps from that standpoint. Securitization certainly is -- helps us with how we think about equity. If we carve that piece out and we get securitization passed in legislation, then I'm comfortable where we are in our plans using an at-the-market program, so we haven't made any other decisions or any consequences if that legislation doesn't pass. But again, it's important for us to get that legislation because it does keep us from having any further write-downs in the event that we go back to this 50-50 percent scenario with the other 2 units of San Juan being shut down. So I think at this point, our assumptions are: there's slight capital growth from replacement power, you pull out the dollars of San Juan out of rate base, securitization allows you for a funding mechanism to reinvest into that new generation, and we would be clearly within the planned expectations that we've laid out.

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

Nick Campanella, Bank of America. I'm just curious on tax reform, if you could just expand on the treatment of parent debt in the scenario, does the parent get the utility exception? And then how does that change the implications around the tax shield?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, Nick, if you look at the slide, we showed $0.02 impact, that's -- we've actually done that analysis. So if you look at how we allocate corporate assets both from PNM and TNMP and then the unregulated piece of the holding company, we have a very, very insignificant impact if you use the 30% of EBITDA. So we've actually calculated the numbers and it's in the $0.02 that we've shown you in the slide.

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

Slide 14.

Charles N. Eldred
Chief Financial Officer and Executive Vice President

On Page 14.

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

14. We'll put the slide back up again.

Nicholas Joseph Campanella
BofA Merrill Lynch, Research Division

Is there an offset from the Westmoreland interest income?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

There's a little bit offset on Westmoreland interest income, but that winds down in 2019 and should be paid for in 2020.

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

There's no more questions here. We have one on the phone. We'll go ahead and take that question.

Operator

At this point we do not have any questions on the phone. [Operator Instructions]

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Well, we've answered your questions, you're not allowed to ask any more questions. Probably one more. Go ahead.

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

Okay. Operator, we'll go ahead and take questions from the room here.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

One question, but 2 parts to it.

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

Ali, you always find a way to get around Chuck's one-question rule.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

First, Chuck, just mapping out that CapEx that you laid out for us and the earnings growth that goes with it, is that a rough way to think about what kind of a customer rate impact that would imply because presumably you want to return on that investment? What kind of rate increases would be required to support that 5-year CapEx plan?

Charles N. Eldred
Chief Financial Officer and Executive Vice President

Yes, if you really were to break down the CAGR and the growth for PNM and TNMP, as I mentioned, it's 11.4% in TNMP, so we're allocating significant capital to Texas. And so we'll continue after the rate case to have the TCOS mechanism and possibly the DCOS mechanism to recover capital and use that as our way of moving forward. So -- and then rates will be trued up, transmission customer rates will slightly decrease and distribution customers will increase in the rate case. So not concerned about that going forward because the mechanisms are placed to support the recovery of prudent capital investments that we continue to make in Texas to support organic growth. If you look at the growth in PNM, it's the -- it's not substantive, frankly. The amount of rate base growth is at 2% to 4% range, and that 4%, really, is assuming the Supreme Court appeals get -- all of it gets put back into rates. And so you're probably looking more like the 3% CAGR. So it's not a substantive, and I can assure you that if we talk about and eventually decide to may -- have a rate case in 2021, it would be very reasonable. Not a substantive rate increase.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Got it. And perhaps, just...

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

Remember, Ali, if you get tax reforms in, right, that goes and reduces customer costs. And as you segue out of coal and into more renewables, your fuel cost declines, right? So it's -- we haven't because we don't want to forecast rate increases until we tell the regulators where we are, but there's bunch of things working to help keep rates at a good level for customers.

Ali Agha
SunTrust Robinson Humphrey, Inc., Research Division

Right. And Pat, just again, big-picture-wise, when you look at the current composition of the commission in New Mexico versus last couple of years or even few years before, any major changes? Is it relatively the same? I mean, just what's your perception right now?

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

Yes, I think the commission has been relatively constant in its composition. We have 4 Democrats right now and 1 Republican. Although, I think those labels are not as meaningful in New Mexico and on the commission. We have a couple of commissioners up for election next year. Commissioner Lyon has termed out, so we will have a new commissioner from that neck of the woods. Commissioner Jones is up for a reelection and will run again. And Commissioner Lovejoy is up, and I -- she hasn't announced whether she's going to run or not. I suspect she will run. But I think that they are spending a lot of time familiarizing their selves with their issues. They are going to [indiscernible] a lot. So I think it's -- we're never going to be Wisconsin, but I think our commissioners are listening. And I think you've seen, for example on some of their decisions, they've have acted the -- very independently from the hearing examiner. So we're comfortable with where they are. [indiscernible] Okay, very well. Well, all right, everybody. Thank you so much for coming today. Thank you to that are on the phone. For those of you that are on the phone, I hate to tell you that we have a lovely lunch waiting for us. So everyone, please have a wonderful, safe and happy holiday season. And we look forward to seeing everybody in the new year. Thank you.

Operator
Ladies and gentlemen, the conference has concluded. Thank you for attending this presentation. You may now disconnect your lines.