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# PNM General Rate Case Proposed Settlement

May 5, 2017



# Contact Information and Safe Harbor Statement

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## Safe Harbor Statement

Statements made in this presentation that relate to future events or PNM Resources, Inc.'s ("PNMR"), Public Service Company of New Mexico's ("PNM"), or Texas-New Mexico Power Company's ("TNMP") (collectively, the "Company") expectations, projections, estimates, intentions, goals, targets, and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates. PNMR, PNM, and TNMP assume no obligation to update this information. Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM, and TNMP caution readers not to place undue reliance on these statements. PNMR's, PNM's, and TNMP's business, financial condition, cash flow, and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. For a discussion of risk factors and other important factors affecting forward-looking statements, please see the Company's Form 10-K and 10-Q filings with the Securities and Exchange Commission, which factors are specifically incorporated by reference herein.

## Non-GAAP Financial Measures

Information on the Company's use of non-GAAP financial measures can be found at:

<http://www.pnmresources.com/investors/results.cfm>

# Key Points of Proposed Settlement Agreement


## Proposed Settlement Terms

- ROE unchanged at 9.575%
- \$62.3M settlement
- \$7.5M financial impact resulting from the amortization of excess deferred state taxes over 3 years<sup>(1)</sup>
  - PNM filed in December 2016 for a \$99.2 million non-fuel revenue increase and a 20 year amortization
- Revenue phase-in over 2018 and 2019 (\$32.3M in 2018; additional \$30.0M in 2019)
- Freeze for general rate increases through January 1, 2020
- No adjustments to amounts or terms of previous BART settlement
- Collects \$10M of additional annual depreciation for San Juan Generating Station in exchange for a reduction of \$10M annual depreciation on distribution assets
- Recovery of Selective Catalytic Reduction (SCR) investment at the Four Corners Power Plant at debt-only return
- Rate design, including PNM's proposed Lost Contribution of Fixed Costs (LCFC) rate mechanism, will be addressed in a separate phase, with testimony due 120 days following approval of the settlement

<sup>(1)</sup> See slide 4 for details

# Financial Impact of Proposed Settlement Agreement

| Financial View   | Proposed Settlement Agreement |                 |
|--|-------------------------------|-----------------|
|  | Phase I - 2018                | Phase II - 2019 |
|  | (in millions, except EPS)     |                 |
| Settlement increase (net revenue increase)                             | \$32.3                        | \$62.3          |
| Accelerated amortization of excess deferred state taxes <sup>(1)</sup> | 7.5                           | 7.5             |
| <b>Financial impact</b>  | <b>\$39.8</b>                 | <b>\$69.8</b>   |
| Income tax (38.62% statutory rate)                                     | (15.4)                        | (27.0)          |
| <b>After-tax financial impact</b>                                      | <b>\$24.4</b>                 | <b>\$42.8</b>   |
| <b>EPS (80M shares outstanding)</b>                                    | <b>\$0.30</b>                 | <b>\$0.53</b>   |

  
**Impact of phase-in: (\$0.23)**

(1) New Mexico phased-in a lower state corporate income tax rate from 2014 – 2018. Under the proposed settlement, PNM will begin the return of this benefit through customer rates in 2018, over a 3 year period. This also lowers PNM’s income tax expense in 2018, 2019, and 2020.

# 2018 - 2019 Potential Earnings Power

**2018 transitional year; 2019 midpoint EPS reflects 8% growth<sup>(1)</sup>**

|                            | Allowed Return<br>/ Equity Ratio | 2018 Earnings Potential |                        | 2019 Earnings Potential |                        |
|----------------------------|----------------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                            |                                  | Avg Rate Base           | EPS                    | Avg Rate Base           | EPS                    |
| PNM Retail                 | 9.575% / 50%                     | \$2.3 B                 | \$1.38                 | \$2.3 B                 | \$1.37                 |
| PNM Rate Case Phase-In     |                                  |                         | (\$0.23)               |                         |                        |
| Supreme Court Appeal       |                                  |                         |                        | \$0 - \$150 M           | \$0.00 - \$0.09        |
| PNM Renewables             | 9.575% / 50%                     | \$90 M                  | \$0.05                 | \$85 M                  | \$0.05                 |
| PNM FERC                   | 10% / ~50%                       | \$245 M                 | \$0.11 - \$0.14        | \$275 M                 | \$0.12 - \$0.16        |
| Items not in rates         |                                  |                         | (\$0.03) - (\$0.00)    |                         | (\$0.03) - (\$0.00)    |
| <b>Total PNM</b>           |                                  | <b>\$2.6 B</b>          | <b>\$1.28 - \$1.34</b> | <b>\$2.7 - \$2.9 B</b>  | <b>\$1.51 - \$1.67</b> |
| TNMP                       | 10.125% / 45%                    | \$815 M                 | \$0.48                 | \$965 M                 | \$0.56                 |
| Corporate/Other            |                                  |                         | (\$0.08) - (\$0.06)    |                         | (\$0.07) - (\$0.05)    |
| <b>Total PNM Resources</b> |                                  | <b>\$3.5 B</b>          | <b>\$1.68 - \$1.76</b> | <b>\$3.7 - \$3.9 B</b>  | <b>\$2.00 - \$2.18</b> |

Changes from potential earnings power presented on April 28, 2017:

- PNM Retail average rate base in 2018 and 2019 has been reduced by approximately \$65 million to represent the (\$0.04) EPS impact of the lost equity return on the Four Corners SCR investment (debt-only return included in the proposed settlement)
- PNM Rate Case Phase-In reflects the \$30 million of revenue collection delayed to 1/1/2019 as part of the proposed 2018 general rate case settlement as shown on Slide 4
- TNMP 2018 average rate base has been held at the 2017 level to reflect the required suspension of TCOS filings that occurs during the planned May 2018 general rate case filing
- Corporate/Other 2018 and 2019 EPS reflects updated interest expense forecasts

<sup>(1)</sup> Growth calculation assumes a base year of 2016

# Next Steps

## Procedural Schedule

(modified May 1, 2017)

|  |                  |
|--|------------------|
| Testimony in support of stipulation    | May 17, 2017     |
| Testimony in opposition to stipulation | June 14, 2017    |
| Stipulation rebuttal testimony         | June 21, 2017    |
| Pre-hearing conference                 | July 6, 2017     |
| Hearings                               | July 12-28, 2017 |
| Suspension period ends                 | November 6, 2017 |