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PNM Resources, Inc. (PNM)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

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OTHER PARTICIPANTS

Paul Fremont

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Alex Morgan

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Jonathan Reeder

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the PNM Resources' Fourth Quarter 2019 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

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

Lisa Goodman

Director, Investor Relations, PNM Resources, Inc.

Thank you, Jason. And thank you everyone for joining us this morning for the PNM Resources fourth quarter 2019 earnings conference call. Please note that the presentation for this conference call and other supporting documents are available on our website at pnmresources.com.

Joining me today are PNM Resources' Chairman, President and CEO, Pat Vincent-Collawn and Don Tarry, our Senior Vice President and Chief Financial Officer as well as several other members of our executive management team.

Before I turn the call over to Pat, I need to remind you that some of the information provided this morning should be considered forward-looking statements pursuant to the Private Securities Litigation Reform Act of 1995. We caution you that all of the forward-looking statements are based upon current expectations and estimates, and that PNM Resources assumes no obligation to update this information.

For a detailed discussion of factors affecting PNM Resources results, please refer to our current and future Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, as well as reports on Form 8-K filed with the SEC.

With that, I will turn the call over to Pat.

Patricia K. Vincent-Collawn

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

Thank you, Lisa and good morning everyone. Thanks for joining us today for our fourth quarter and year end 2019 earnings call. Importantly, today is National Public Sleeping Day, but I'd ask that you please don't observe it during our call because it would really hurt our feelings.

With that I'm going to begin on slide 4. GAAP earnings per share in the fourth quarter of 2019 reflect earnings of \$0.40 compared to a loss of \$0.69 in the fourth quarter of 2018. Ongoing earnings per share are \$0.36 compared to \$0.18 in the fourth quarter of last year. For the full year, GAAP earnings are \$0.97 in 2019 compared with a \$1.07 in 2018 and ongoing earnings are \$2.16 compared to \$2 in 2018. Considering the significant New Mexico weather impacts that we experienced in the second quarter, these results demonstrate how well the team adapts our operations to changing business conditions. We are affirming our 2020 guidance of \$2.16 million to \$2.26 million. Don will provide further details on the financials in a few minutes.

As we review our overall results for 2019, we've had some pretty significant highlights. In March, the New Mexico Legislature passed the Energy Transition Act and the Governor then signed it into law. It established future RPS requirements and a 2045 carbon-free mandate and it allows securitization as a tool to aid in the transition. The final bill was a result of key partnerships and collaboration, and the bill and the governor received national attention and accolades.

Our team went back and evaluated what it would take to achieve these new requirements and we followed up on Earth Day with the announcement of our goal to reach emissions free energy by 2040 five years earlier than the state mandate. This made PNM the first US investor-owned utility to have a zero emissions goal by 2020 (sic) [2040]. The first step of this plan was to file for the retirement of the two remaining units, the San Juan generating station. We made that filing in July. We also added a 100 megawatts of solar in 2019, 50 megawatts that was previously approved through our renewable rider and another 50 megawatts in purchases from NMRD. Transmission growth is also key to increasing renewable energy and enabled New Mexico to become a clean energy leader. We announced on May 1 that we entered into an agreement to acquire the Western Spirit transmission line in 2021, facilitating the development of new wind power in the eastern part of the state. We received the necessary approval soon after. We also received approval for the BB2 transmission line, which will help deliver 140 megawatts of low cost wind energy to PNM customers.

In Texas, we had another year of continued strong load growth. Over the last few years, TNMP has been an important part of our growth story. We've continued to invest in this area of our business to meet the demands of the expanding economy in Texas. TNMP's EPS is 30% higher than in 2017. Don will talk about this in more detail, but we continue to see an accelerated pace of growth. Finally, as I mentioned earlier ongoing EPS came in at the top end of our guidance at \$2.16. All-in-all, 2019 was a successful year and we're taking that momentum with us into 2020.

January was off to a busy start, we kicked off the month with an equity offering of \$290 million and then at the end of the month, the New Mexico's Supreme Court weighed in on the Energy Transition Act confirming that the new law applies to our San Juan filings and allowing for securitization. I'll talk more about that filing on the next slide.

I also want to talk a bit about the New Mexico Legislative Session, which wrapped up on February 20. During this 30-day session, a few bills of interest were passed. First, the Industrial Revenue Bond Act was modified to include certain electric transmission facilities as projects that are eligible for bond funding. This recognizes that an

investment into the transmission grid is necessary to move to a carbon-free portfolio by 2040. The bill received bipartisan support as it encourages more renewable energy development in the state and can provide financial benefits through leasing agreements for landowners.

Several bills passed in support of initiatives to grow New Mexico's economy including an increase in capital for startup businesses, more flexibility in the state's economic investment programs to support rural communities, extension of the investment tax credit and general appropriations for job training and economic development.

Now let's turn to slide 5 for an update on the regulatory agenda including the San Juan filings. On February 21, the hearing examiners issued recommended decisions to approve abandonment and securitization. The Commission is scheduled to rule on this item before April 1. On the Replacement Power side of the filings, hearings wrapped up in January and parties are working through the briefing schedule. The order in this case is due by October 1.

A couple of other items wrapped up with the New Mexico Public Regulation Commission in January including the final approval of our 2020 Renewable Plan and a recommendation to improve our Solar Direct program, which should be decided by the end of March. At TNMP, we filed our first TCOS filing for this year for the recovery of \$59 million of transmission investments. As we've seen in prior years, we would expect new rates to be implemented in March for the annualized revenue request of \$7.8 million. We are still planning to file a DCOS for the distribution site in April.

At PNM, we are planning to file a general rate review in the second quarter along with our Annual Renewable Plans filing and updating our FERC formula rate. The New Mexico ballot initiative to move to an appointed commission will be part of the general election in November. And we would expect to start seeing more information about this towards the middle of the year. We'll keep you updated on all of these items throughout the year.

And now, I'd like to congratulate our new Chief Financial Officer, Don Tarry. We are thrilled to have such a talented [ph] vet (00:09:23) here at PNM. And we welcome Don to his new position. So Don, with that, I'm going to turn it over to you for a detailed look at the numbers.

Joseph D. Tarry

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

Thank you, Pat. And good morning, everyone and thanks for joining us. I'll get started with a recap of our 2019 results on slide 7. As Pat mentioned earlier, after our efforts to mitigate the impacts of mild weather in the second quarter 2019 ongoing EPS came in at \$2.16. PNM increased \$0.13 over 2018 and TNMP added an additional \$0.05. PNM and TNMP both benefited from rate relief and interest savings. And these were partially offset by higher depreciation and property tax expense from new capital investments. PNM also saw lower plant maintenance costs and an increased income from its decommissioning and reclamation trusts.

The Corporate and Other segment decreased \$0.02 as we saw higher debt balances and 2018 included \$0.01 of net income from Westmoreland loan agreement that was paid off in May of 2018. The detailed segment drivers for both the fourth quarter and the full year are available in the appendix.

Now turning to slide 8, let's take a look at the load impacts for 2019. In New Mexico, we continue to see customer growth being partially offset by customer's energy efficiency programs. In 2019, an increase in the fourth quarter brought our annual weather-normalized growth to 0.3% which was in line with our 2019 assumption of flat to 1%.

We are expecting increased growth in 2020 in the range of 0.5% to 1.5%. The weather impact in the second quarter was largely offset by above-normal impacts in the third and fourth quarters.

We continue to see inquiries and announcements of business openings and expansions in New Mexico along with groundbreakings and in-service dates for previous announcements. The Ben E. Keith broke ground on their new food distribution center that we told you about a year ago and a couple of hotels that we mentioned in previous calls broke ground in 2019 with opening dates later this year.

At TNMP, our 2019 demand base growth of 4.9% continues to demonstrate the strength of the Texas economy. Project delays that we saw early in 2019 were caught up by the end of the year providing good momentum into 2020. We expect demand base load to grow another 4% to 5% this year. We completed nine transmission interconnection requests in 2019 and we currently have 12 more being evaluated for interconnections in 2020 and 2021.

Longer term, ERCOT completed and released to study on load integration in the Delaware Basin that projected an increase in its forecasted demand. The study identified a number of reliability projects that would be needed to support this growth along with the associated economic expansions in this area. Some of these projects fall within the TNMP service territory and were part of the \$300 million increase-to-capital investments that we made last year. Also data from the Dallas Federal Reserve shows continued manufacturing expansion in January and February, and increases in both home sales and construction permits. So we don't see any signs of things slowing down in Texas.

Let's move on to slide 9 in our earnings guidance. In 2019, our consolidated results at the high end of guidance were driven by PNM which exceeded guidance due to colder temperatures in the fourth quarter and lower plant maintenance costs. TNMP and Corporate both came in within their projected guidance. We are affirming our 2020 guidance of \$2.16 to \$2.26, which incorporates our recent equity offering.

On slide 10, our 2020 to 2023 capital investment plans changed slightly from our December presentation. On our guidance call, we shared that [ph] Kyros (00:13:43) Power was bringing \$100 million of investments to New Mexico in 2020. With these new energy needs, as well as growth in this part of Albuquerque, we have added an additional \$20 million in capital to 2022 to build new electric infrastructure.

Now turning to slide 11, we've updated our earnings power slide to reflect that January forward equity offering and incorporate the dilution impact in the business segments. Rate base did not change. So these are the only impacts at PNM and TNMP. Our corporate proceeds for the issuance of the new shares are used to reduce our debt levels.

The line item for equity financing plans reflects our remaining equity needs. By bringing forward the January equity issuance of \$290 million in our plan, we have some additional flexibility for size and timing of our mandatory convertibles we had previously been assuming at mid-2021. This line now reflects a range of \$250 million to \$300 million of mandatory convertibles issued in the latter part of 2021. This equity will fund the Western Spirit transaction and strengthen our investment grade credit ratings as we facilitate the transition to emission-free resources.

Our target remains 5% to 6% earnings growth through 2023. As we work towards our strategic goals, we continue to manage our business plans to earn our authorized returns, maximize the earnings potential of our invested capital and deliver a financial and healthy utility that can reliably serve future energy needs.

Pat, I'll turn the call back to you and thank you.

Patricia K. Vincent-Collawn

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

Thanks, Don. The accomplishments in 2019 especially the passage of the Energy Transition Act and the 2020 confirmed applicability to our San Juan filing, have laid critical groundwork for our plans to transition to be emissions-free by 2040. The path to exit coal generation becomes more certain.

Our 200 megawatt ownership in the Four Corners power plant will be our only remaining coal exposure. We will review our current resources as well as look for future opportunities to replace base load power with more flexible resources. At the same time, our transmission and distribution grid must evolve to integrate this changing portfolio.

We would not have realized the accomplishments of 2019 without our dedicated team members. It was not an easy year in many ways, but our teams recognized the goals we are trying to achieve and they've shown tremendous commitment and resilience in working through challenges to reach success together. I can't say it enough to show how much I appreciate and value the members of our team, but I'll keep saying it. Thank you. I am proud to work alongside you.

Jason, with that, let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] First question is from Paul Fremont from Mizuho. Please go ahead.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Yeah. I just wanted to clarify on the earnings power slide, it just looks as if you've put the dilution directly into the business segments as opposed to putting the share dilution into the Corporate and Other line, which is why I guess you're showing degradation for PNM retail and also for TNMP. Is that a fair characterization?

Joseph D. Tarry

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

A

Good morning, Paul. Yes, that is. So, as it will roll through the accounting when we actually record it, it'll dilute each of the segments and you'll see the offset that are adding Corporate and Other as we pay down debt, [ph] just to both (00:17:46) fund that capital and firm up our balance sheet.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

And then on the converts, the amount of the convert, has that – that's come down a little bit in terms of what it had been previously or is that the same?

Joseph D. Tarry

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

A

We had previously mentioned \$300 million, I think, with our early equity issuance and pulling the equity forward, Paul. We have to have the flexibility to bring that down. So, we're looking at \$250 million up to the \$300 million. The timing of that would be later in 2021.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Great. And then last question for me. In terms of any update on the timing of when you would likely file a general rate case.

Patricia K. Vincent-Collawn

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

A

You know, Paul, we're still looking at the same timing.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

So early in the second quarter?

Patricia K. Vincent-Collawn

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

A

Correct.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Okay, great. Thank you.

Patricia K. Vincent-Collawn

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

A

Thank you, Paul.

Operator: [Operator Instructions] The next question is from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead.

Alex Morgan

Analyst, BofA Securities, Inc.

Q

Hi, good morning. This is Alex Morgan calling in for Julien.

Patricia K. Vincent-Collawn

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

A

Hi, Alex.

Alex Morgan

Analyst, BofA Securities, Inc.

Q

Thanks much for taking our question. Hey. I just wanted to double check on corporate drag on the earnings power slide. I know you mentioned that the proceeds of the issuance of the new shares are going to reduce debt. I just

wanted to check that that's the only thing that's changing this line compared to the December slide deck or if there's anything else that we should be accounting for?

Joseph D. Tarry

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

A

Yeah. So, good morning, Alex. That is correct. So, those proceeds would be used to pay down corporate debt. The other line item that would change would be from the previous slide would be the equity financing as now we've moved that up because we've issued into it. So, all that's left in that equity financing would be the mandatory convertibles.

Alex Morgan

Analyst, BofA Securities, Inc.

Q

Thank you very much. And is there any opportunity for, you know, maybe longer-term ownership, whether it be on solar, maybe wind – I know you haven't been looking at wind in the past, but just thinking about your RPS mandates and maybe any potential future opportunities? Thank you.

Patricia K. Vincent-Collawn

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

A

Yeah, Alex, we think there's some ownership opportunities out there. Obviously, the commission will go out to do requests for proposals because they want to make sure they get the lowest cost resources. But I think as you've seen in our replacement plan, there are times when it makes sense for us to own some of the solar and the batteries and we will continue to look at that as we go further out in our plans towards the emission-free portfolio.

Alex Morgan

Analyst, BofA Securities, Inc.

Q

Okay. Thank you so much. That's all from me. Have a great day.

Patricia K. Vincent-Collawn

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

A

Thank you. You too, Alex.

Operator: The next question comes from Jonathan Reeder from Wells Fargo. Please go ahead.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay. It didn't surprise me, you know, it doesn't surprise me one bit. How are you doing, [indiscernible] (00:20:54)?

A

I'm doing good, Jonathan. Thanks.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Good to hear your voice.

A

Yes.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Hey, two quick questions both are around the legislative session. The bond funding eligibility for the transmission projects, can you just kind of maybe explain a little more like how does that impact PNM, I wasn't familiar with that bill?

Patricia K. Vincent-Collawn

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

A

Well, it doesn't impact us, but it allows transmission projects for other than those built by a public utility to potentially qualify for IRB. So obviously that takes the costs down. We would not necessarily be the developers of these projects obviously, but it's going to help facilitate renewable energy. So if we would own any of it, it's going to make it easier to build transmission lines. So it's just kind of – I'd put it as another piece in the puzzle of helping New Mexico unlock its renewable energy potential, Jonathan.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay, that makes sense. And then can you just give us an update House Bill 11 that dealt with reorganizing the PRC [indiscernible] (00:21:57), it seemed like there is momentum behind that and it looked like it'd squeezed by the House on February 17, what kind of transpired there?

Patricia K. Vincent-Collawn

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

A

Well, I think what happened is and I think the words of one of the legislators who has actually voted for the constitutional amendment was – is that we may be putting the cart before the horse and wanted to wait and see if the constitutional amendment passed. So what happened instead though Jonathan, which was very positive was that there was another bill that passed on the last day House Bill 386 and what it does is set forth the process by which the commissioners will be nominated, so the Governor will set up a seven-person Nominating Committee, they will make recommendations. So that really helps set up the constitutional amendment because one of the questions obviously the voters are going to have is okay, if we have an appointed commission, how are they going to get appointed? So what the legislature really says is let's see if we can get this constitutional amendment passed first. If we can't get it passed then we can come back and talk about this other stuff. So I think it was more they thought it was a little too soon on that PRC reorganization.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay, okay. That helps. [indiscernible] (00:23:26)

Patricia K. Vincent-Collawn

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

A

Yeah. And the requirement is – House Bill 386, if you want to take a look at it because it lays out the fact that what the kind of a degree they have to have, what kind of experience in the energy sector, accounting, public

business administration, how many years as a professional, so that bill, I think, will help you see what the appointed commission would look like.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Yeah. Some of those kind of aspects, I guess, had been incorporated in House Bill 11, right?

Patricia K. Vincent-Collawn

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

A

Most of House Bill – yeah, there was part of that either – most of House Bill 11, the focus was really on moving the commission staff.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Right.

Patricia K. Vincent-Collawn

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

A

But, yes, this took the qualifications part out of House Bill 11 and put it into House Bill 386. I think the reason people might have missed that the title of the bill is Public Peace, Health, Safety & Welfare Transfer [ph] to (00:24:13) Fire Marshal's Office out of the PRC. It's a catchy title I know.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Yeah. Just rolled off the tongue.

Joseph D. Tarry

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

A

It does.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

And well, congrats on getting the Supreme Court weighing in there. That was a good surprise and appreciate that you taking my questions today.

Patricia K. Vincent-Collawn

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

A

No problem. Thank you. Have a great one.

Joseph D. Tarry

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

A

Thanks, Jonathan.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Pat Vincent-Collawn for any closing remarks.

Patricia K. Vincent-Collawn

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

Thank you, Jason and thank you, everyone. Please be safe and please make sure as we go through this coronavirus that you all protect yourself and we look forward to seeing many of you very soon. Thanks.

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

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