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PNM Resources, Inc. (PNM)

Q4 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the PNM Resources Fourth Quarter Earnings Conference Call. All participants will be in 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 Jimmie Blotter, Director of Investor Relations. Please go ahead.

Jimmie Blotter

Director-Investor Relations, PNM Resources, Inc.

Thank you, Lora, and thank everyone for joining us this morning for the PNM Resources fourth quarter 2016 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 Charles Eldred, our Executive 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.

And with that, I will turn the call over to Pat.

Patricia K. Vincent-Collawn

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

Thank you, Jimmie. Good morning everyone and Happy Mardi Gras. Thanks for joining us as we take one last look at 2016 results before moving on to 2017. I'll start on slide 4 with the financial results and some key highlights from the year.

On a GAAP basis, earnings was \$0.31 for the fourth quarter and \$1.46 for the full year in 2016. On an ongoing basis, fourth quarter 2016 earnings was \$0.34, up from \$0.23 in the fourth quarter of 2015. Full year earnings in 2016 were \$1.65 compared to \$1.64 in the prior year. Looking forward, we affirm our previously announced 2017 consolidated ongoing earning guidance of \$1.77 to \$1.87.

Certainly the implementation of new rates in New Mexico was an achievement after the full 13-month litigation schedule, but it also left us with some work to be done. I'll discuss the status of our appeal and other regulatory items in a minute. Before that, though, I want to revisit our discussion from our Analyst Day in December about staying focused in a changing environment.

The New Year has brought a new federal administration and potential changes in policy including tax reform, energy and infrastructure. We don't know exactly what the changes may entail and the devil is always in the details, but we know that we will navigate through these changes while keeping our focus on meeting our customers' needs.

Our customers continue to rank reliability and affordability at the top of their list and we plan to build upon the successes of 2016 in both of these areas. We mentioned the accomplishments shown on the slide for both PNM and TNMP in December, but I included these again to emphasize our efforts and the impacts from this customer focus.

The results from PNM's customer perception study last year were record high, but we know that we can always be better. So we will continue to look for ways to build trust and create innovative solutions for our customers.

We will also continue to play a strong supporting role in the efforts around economic development and public policy. We have shown that we are willing to step up and play our parts in working creatively to come with solutions for customers. Facebook's selection of New Mexico for its data center is just one example of how we work to develop a pricing structure that would support the state's effort to attract this new customer.

At the end of January, we announced that Affordable Solar, a local Albuquerque solar company was awarded the \$37 million contract for construction of the 30-megawatt solar generation project for Facebook. Another locally owned company is providing the tracking equipment for the panels. Construction will begin in 2017, with the first site operational beginning in January of 2018 and the final site operational by May of 2018. Each site will create between 50 and 100 construction jobs and Affordable Solar is anticipated to be hiring 40 additional employees in connection with the project.

We are supporting efforts in New Mexico's current legislative session, which began January 17th and runs through March 18th to protect customers against misleading sales pitches made by third-party solar companies. We are partnering not only with the other utilities operating in New Mexico, but with multiple chambers of commerce, realtor and trade associations, and some of the more prominent local solar companies. It is our priority

to participate in these types of partnerships with customers, legislators and the community as we work together towards solving problem and creating growth in our state.

Now, moving onto the updates on our current regulatory items on slide 5. In December, we filed the general rate case based on a 2018 future test year, which we covered in depth in our Analyst Day. The requested revenue increase is \$99 million, with 44% of this increase reflecting the items included in the New Mexico Public Regulation Commission's approval of our BART settlement in December of 2015 and the installation of SCRs at the Four Corners Power Plant.

The filing is based on a 10.125% return on equity with an expected implementation date of January 1, 2018. That lines up with the retirement of the two units at San Juan and the addition of Palo Verde Unit 3 capacity to meet our customers' needs. The Commission has set a date of March 7 for a settlement conference and March 27 for a settlement agreement to be filed if one can be reached.

We continue to work toward achieving settlement in this case, especially considering that so many of the parties were also parties in the BART settlement and agreed in that case not to oppose the BART-related components on this case. Now, admittedly, this is an aggressive timeline, especially for many parties that are involved in other cases at the Commission. But it encourages all parties to get to a settlement and plenty of time to work through all the necessary approvals before rates are represented on January 1, 2018.

Our filing to implement Advanced Metering Infrastructure, or AMI, in New Mexico has resumed and the hearings began yesterday. As a reminder, our application is clear that we will only proceed with AMI if the Commission approves recovery of the unappreciated investment in our current meters. If approved, we would spend \$87 million over 2017, 2018 and 2019. We estimate a net benefit to customers over 20 years of just over \$20 million.

Following the hearing, we expect a recommendation from the Hearing Examiner in March or early April and then, it should come before the Commission in May for a vote.

As you will remember from last year, we talked quite a bit about the importance of our Integrated Resource Plan that is to be filed in July of this year. We kicked off the process in 2016 and have held several public meetings to gain influence into this 20-year plan. In those public meetings, we not only review our existing power resources, but also explore issues around transmission, various regulations, integrating renewable resources with traditional energy sources, impacts on the environment, and the need to deliver affordable and reliable power.

Between now and July 3, we will be sharing more in-depth information, including the various resource portfolios that we are modeling. This information is all preliminary and enables the public to provide comments on the plan, giving an in-depth look at how we work to balance reliability and affordability while minimizing impacts on the environment.

For the IRP, keep in mind that the plan will identify the most cost effective portfolios in two different scenarios. One scenario includes the continued operation of San Juan Units 1 and 4 after 2022, and a second portfolio that does not include those two units past 2022. This facilitates a filing to be made by July of 2018 to determine the future for the San Juan Generating Station.

The parties in our BART stipulation agreed to resolve this particular filing within six months of the filing date, which is important for us, the other participants in San Juan and Westmoreland Coal Company so that we can all appropriate plan for future operations. We are on track to file the Integrated Resource Plan by July 3.

I mentioned earlier that we continue to pursue recovery of our investments that were disallowed by the Commission in the August 2015 general rate case. We filed our notice of appeal with the New Mexico Supreme Court on September 30, 2016. As a remainder, we are appealing the Commissions' decision to disallow three key items: recovery of the full purchase price for 64 megawatts of previously leased capacity at Palo Verde, the unrecovered value of past leasehold improvements in this capacity, and the disallowance of the Balanced Draft Technology installed at the San Juan Generating Station.

We are currently in the briefing period of the appeal. Briefing will be complete by June of this year.

The court may hear oral arguments prior to rendering a decision. There is no required timeframe for the court to act on this appeal, although utility appeals do have priority under New Mexico law. As we discussed in October, we have estimated that it will take about 15 months for this proceeding to be resolved.

Turning to Texas, TNMP made its latest TCOS filing on January 20. We anticipate the new rates will go into effect in March and will increase revenue by approximately \$4.8 million annually. We also began talking with you last year about our plans to file for a general rate case at TNMP. Our last general rate case at TNMP was in 2010.

While we've been utilizing the TCOS mechanism twice a year to update rates for transmission investments, our rates do not reflect any changes to the remainder of our rate base or O&M costs. We have agreed with PUCT to file a rate case by September of 2018. As we've mentioned before, it is likely that we would look at filing based on a 2017 calendar test year period and make that filing in the spring of 2018 with rates expected to be effective by January of 2019. As we move through the year, we will be providing you updates on each of these items.

I'd like to turn it over now to Chuck Eldred for a detailed look at the numbers.

Charles N. Eldred

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

Thank you, Pat, and good morning everyone. Beginning on slide 7, at PNM, we're continuing to see improvement in weather-normalized residential load, which was 40% of our total 2016 retail sales volumes. We're up 1.3% quarter-over-quarter which brought our total year number to a positive 0.1%. Commercial was up for the year at 0.5%. Industrial, however, continues to decline, down 8.8% year-over-year. This brings our total weather-normalized retail load for 2016 down 0.7% compared to 2015.

As you recall, our guidance for the 2016 was flat to down 2%. So this is slightly above the midpoint of a guidance for the year. We continue to see some good news coming as a result of economic development efforts in the area. For example, Keter Plastics announced that they plan to invest \$36 million to expand and renovate an existing facility in Belen, which is south of Albuquerque. This is expected to bring about 175 new jobs to the area. Lowe's also announced earlier this month that they plan to hire an additional 500 people for their Albuquerque call center by October of this year.

As a result of news like this, the employment growth in Albuquerque has grown 1% in a rolling 12-month period. Our customer growth is holding steady at 0.7%. As we look forward, we continue to expect 2017 load to be in the range of flat to down 1% compared to 2016.

TNMP continues to perform well. The volumetric load was up 3% for 2016, which is at the top end of our guidance range of 2% to 3% growth. Demand-based load also continues to show strength at 2.4% for the year.

The economic outlook in Texas continues to be strong as shown as Dallas continuing its trend of rolling 12-month employment growth. In December of 2016, [ph] ERCA (14:50) issued a press release reiterating the continued strength, stating that it is expected to be higher than previously forecasted in 2017. As a result, we expect TNMP's load growth 2% to 3% above 2016.

Now moving to slide 8, we had ongoing earnings of \$0.34 for the fourth quarter of 2016 compared to \$0.23 in fourth quarter of 2015. PNM was up \$0.10 and TNMP was up \$0.01. Corporate and other was flat year-over-year as the increased interest from the Westmoreland Financing was partially offset by additional interest expense at the holding company.

Turning to slide 9 for our earnings drivers. At PNM, I'll begin with the impact of the rate relief that was implemented on October 1 net of the renewable rider impacts. Quarter increase was \$0.08. We continue to expect the year-over-year increase in 2017 to be \$0.26.

We have \$0.05 of savings in our outage costs in the fourth quarter of 2016 compared to fourth quarter 2015. This is primarily driven by no planned outages occurring at the San Juan Generating Station and we also had better performance than Q4 2015 at several of our other facilities, including our largest gas-fired generator. As you saw last quarter, we have successfully implemented cost savings. This contributed \$0.03 reduction in O&M costs compared to the fourth quarter of last year.

As expected, the elimination of the Palo Verde Unit 2 lease cost net of depreciation results in increase of \$0.03. We also had some expenses in 2015 for the write-off of the exploration of alternative fuel supply contracts for San Juan that resulted in a pickup of \$0.02 in the fourth quarter of 2016.

FUDC continues to be a reduction, as expected, due to lower construction balances after last year's higher capital spending levels. This reduced earnings by \$0.03.

Mexico experienced very mild weather in Q4 of 2016. As a result, earnings were reduced by \$0.03. Heating degree days were 13% lower than the fourth quarter in 2015 and 15% lower than normal. Palo Verde Unit 3 sales were hedged for 2016 at a lower market price than 2015, which caused results to be \$0.02 lower. We also have higher depreciation and property tax expense of \$0.02 due to increased plant balances.

The Navopache FERC generation contract was also \$0.01 lower than fourth quarter 2015.

Moving to TNMP, the increases in load as discussed earlier added a \$0.01 compared to the fourth quarter in 2015 and rate relief in the TCOS filing added another \$0.01. Weather in our Texas service territory increased earnings \$0.01. Heating degree days were essentially flat compared to fourth quarter 2015. Cooling degree days were 32% between the periods. These increases were partially offset by higher depreciation expense and property tax of \$0.01 on the increased plant investment that's supporting this growing load.

Moving to slide 10, I want to spend a few minutes exploring how potential tax reform could impact us. As we all would agree, it will probably take some time before tax reform becomes reality. But based on how we think about it today, PNM Resources is well positioned and customer bill should be lower because of tax reform. The key elements that we think about in tax reform are the tax rate, interest non-deductibility and 100% bonus depreciation.

Starting with the tax rate, this will be lower tax expense at utilities which is good for customers. Normalization rules are important as they spread the change over several years to smooth the rate impacts across periods. At

the holding company, the reduced rate would result in reduced tax benefit from holding company losses. However, this amount is expected to be small.

The next item is interest non-deductibility. At the utilities, this will result in a higher tax expense included in customer rates. However, the decrease in tax rates should more than offset this. At the holding company, we do have some outstanding debt that is short term in nature. If the interest expense is no longer deductible, this would be a slight exposure there.

We also have interest income at the holding company. If you assume the net interest expense would be non-deductible, then this will help to reduce that exposure.

100% bonus depreciation would be beneficial at both at the utilities and the holding company from a cash flow perspective. Bonus depreciation paired with a lower tax rate will slow the utilization of net operating loss carryforwards and the delay of future cash tax expense.

The additional funds could be used to invest in system infrastructure and reduce debt. This aspect of tax reform is the most attractive and provides a lot of flexibility to our company.

Now, moving to slide 11. I want to reaffirm our five-year ongoing earnings growth goal of 7% to 8% through 2019. The potential earnings power of the company in 2019 is \$2.05 to \$2.23. This is achieved through recovery of continued investments in the system to serve our customers. The addition of Palo Verde Unit 3 to rate base in the high end of that target is affected by the ultimate outcome of the Supreme Court appeal.

We have also continued to grow our dividend with a 10% increase in December. This puts us at a 53% payout for 2017, which is still in the lower half of our 50% to 60% target payout range.

The earnings growth of the company paired with our ability to grow the dividend continues to provide above industry average returns for shareholders, while we maintain affordable rates, high reliability and service levels for our customers.

To wrap it up today, I want to emphasize what Pat said earlier about the rate case. We will work hard towards achieving the settlement of our current rate case. With many of the parties or signatories to the BART participating in this proceeding, we believe that we have a lot of common ground to start with.

Thanks for your time this morning and I'll turn the call back over to Pat.

Patricia K. Vincent-Collawn

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

Thanks, Chuck. I also want to reiterate some of the comments you've heard from other companies on industry efforts related to tax reform. We have been actively involved with EEI in analyzing the impacts of potential reform measures and determining the priorities of the electric utility industry for engagement with policymakers. Retaining the deductibility of interest expense and securing normalization rules are certainly a focus for the industry. We all have more questions than answers right now, but like everything else, we will be working towards the objective of balancing the interest of both customers and investors.

As we wrap up the call today, we've laid out another full year of activities for 2017. As always, it's our team of employees in both New Mexico and Texas that deserve the credit for showing our core values of safety, integrity and caring as they serve our customers every day and work towards finding creative solutions to meet their

needs. As we navigate through our regulatory agenda for the year and any policy changes, it's this continued focus on our customer that will be the basis for success in our future.

Thanks again for joining us today. Operator, let's open it up for questions, please.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question comes from Chris Ellinghaus of Williams Capital.

Christopher R. Ellinghaus

Analyst, The Williams Capital Group LP

Hey. Good morning, everybody.

Q

Patricia K. Vincent-Collawn

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

Good morning, Chris.

A

Charles N. Eldred

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

Good morning.

A

Christopher R. Ellinghaus

Analyst, The Williams Capital Group LP

Chuck, can you talk about the process improvement initiatives and give us a little color on what you're doing and the duration that you anticipate that will take?

Q

Charles N. Eldred

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

Yeah. We have been, for the last couple of years, have been working on process improvements throughout the company and operations in the service company as well and continue to find ways in which we can reduce our O&M costs. As you look at this current rate case that we filed, year-over-year, we're pretty flat in our O&M direct costs and really the only inflation is really driven by labor increases both for the union and the non-union employees.

A

We've also instituted a hiring freeze so that certainly motivates all the business units to look carefully at those processes and ensure if it is necessary to fill employees, but that's also driven the opportunity for us to avoid incremental cost as employees retire and as attrition occurs, particularly at San Juan, which is beginning to rightsize the generation unit to support the team and the operation.

So this is an ongoing part of our culture, the part of what Pat instituted when she took over as CEO and has been a very robust and a very thorough process to ensure that we capture every savings we can to benefit our customers and also to manage our businesses as well as we can while maintaining the reliability and ensuring affordability to customers through rate cases.

Christopher R. Ellinghaus
Analyst, The Williams Capital Group LP

Q

Okay. Have you also gotten any material feedback vis-à-vis the Supreme Court case?

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

A

No, nothing.

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

A

No.

Christopher R. Ellinghaus
Analyst, The Williams Capital Group LP

Q

Okay. How about as far as the AMI issue goes? What have you learned? How do you feel about that at this point?

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

A

Chris, they just started the hearings yesterday, so I think it's kind of too soon to tell. So, later this week or early next week, we'll probably have a better feel.

Christopher R. Ellinghaus
Analyst, The Williams Capital Group LP

Q

Okay. One more thing. Can you give us a little color on how you feel about the rate case settlement potential at this point? Are you feeling like the BART signatories are still on board?

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

A

Well, again, we just got started. I think they had their first meeting on Friday and so we don't have any real feedback yet. The BART, we're hopeful because of the fact that all of the BART signatories have agreed not to oppose the BART elements in this case, but again, kind of too soon to tell because we're just getting started on that process.

Christopher R. Ellinghaus
Analyst, The Williams Capital Group LP

Q

Okay. Thanks for the details.

Operator: And our next question comes from Anthony Crowdell of Jefferies.

Anthony C. Crowdell
Analyst, Jefferies LLC

Q

Hey, good morning.

Patricia K. Vincent-Collawn

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

Hey, Anthony.

A

Anthony C. Crowdell

Analyst, Jefferies LLC

I wanted to follow up on Chris's question with the O&M savings or the cost initiatives. Will those be included in – are those costs assumed in the current rate filing?

Q

Charles N. Eldred

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

Yes.

A

Patricia K. Vincent-Collawn

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

Yes.

A

Charles N. Eldred

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

They're assumed in that.

A

Anthony C. Crowdell

Analyst, Jefferies LLC

So just to make sure, I shouldn't carry them through in 2018.

Q

Charles N. Eldred

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

Well, in 2018, you just assume that those costs are built into the rate case and that would be the right assumption.

A

Anthony C. Crowdell

Analyst, Jefferies LLC

Great, okay. There was a couple of legislative – I don't know, they became bills or they're made it out of Committee that were proposed maybe early in February. I just want to know if you could give us any update, particularly the one about rate change request frequency and I think there was another bill on – I'm not sure what it was.

Q

Patricia K. Vincent-Collawn

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

Yeah. Sure. I mean, one thing to think about just overall for legislation is legislators often have something on their mind or something on a constituent's mind, then they introduce the bill. And if you go look back to 2015, which was the last 60-day legislative session here in New Mexico, only 14% of the bills introduced actually were approved and sent to the governor's desk. And then after the governor got done, only 11.6% of the bills got passed. So the likelihood of a bill getting passed is not real high in New Mexico. Probably in Washington, too.

A

The utility rate change frequency request is before Committee today. And just as a side note, somebody introduced one on water utilities, too. And then I think, Anthony, there was one on renewable requirements for utilities that would have 80% utilities. That's at the Committee today also.

And then the other one that maybe we're thinking about was the appointed three-member PRC, which goes to Committee on tomorrow actually. And our bill on distributed generation consumer protection legislation has already passed the Senate and is waiting to pass the House.

Anthony C. Crowdell

Analyst, Jefferies LLC

Q

Other than your bill I guess on – is it called [ph] solid protection (27:33), you call it, but every other bill that we just talked about has not left Committee and this session ends March 18, is that correct?

Patricia K. Vincent-Collawn

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

A

That's correct.

Anthony C. Crowdell

Analyst, Jefferies LLC

Q

Okay. And the change of the PRC going from elected to an appointed committee, does that require any change to the state constitutions for that to happen?

Patricia K. Vincent-Collawn

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

A

Yes, it does.

Anthony C. Crowdell

Analyst, Jefferies LLC

Q

Okay. Last question, I just wanted to follow up on the Supreme Court, I'm trying to make sure I heard correctly, you had said that there may be hearings held or I just may have not heard you correctly on it.

Patricia K. Vincent-Collawn

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

A

We have requested oral argument and the Supreme Court has never denied an oral argument request that we've made, but we just haven't heard back from them yet about if we would have oral arguments and when they would be. We're still in the briefing process right now.

Anthony C. Crowdell

Analyst, Jefferies LLC

Q

Great. Thanks for taking my questions.

Patricia K. Vincent-Collawn

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

A

Thanks, Anthony.

Operator: And the next question comes from Brian Russo of Ladenburg Thalmann.

Brian J. Russo

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Hi. Good morning.

Patricia K. Vincent-Collawn

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

A

Good morning, Brian.

Charles N. Eldred

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

A

Hey there.

Brian J. Russo

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Just curious, back to the general rate case and the possibility of settlement, were there any elements outside of the BART that would kind of be an impediment to a settlement? Rate design or separate class for distributed generation, et cetera?

Patricia K. Vincent-Collawn

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

A

Well, if you look at – we didn't make any major rate design changes. We're trying to change the fixed charge to better reflect the fixed cost elements of the business, but we didn't ask for a separate class for solar. We didn't ask for a solar access fee and that the fixed cost mechanism that would help us recover energy efficiency cost is exactly what the Hearing Examiner in the last case told us we should file.

So, those kinds of things shouldn't be particularly controversial. I'm sure there'll also be just some discussion about Four Corners, but other than that, there's nothing that I would consider a lightning rod in this case.

Brian J. Russo

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Got it. Okay. And then just back on the legislative proposal or the proposed bill to switch – to move from an elected commission to an appointed commission, can you give us a sense of what's the motivation behind that by whoever proposed it...

Patricia K. Vincent-Collawn

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

A

Well, I think...

Brian J. Russo

Analyst, Ladenburg Thalmann & Co., Inc.

Q

...and what are they trying to achieve?

Patricia K. Vincent-Collawn

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

A

This is not the first time that we've seen this bill come up in our legislature and I think there has always been some longing by some to go back to the way it was in New Mexico before when we had appointed commissioners.

I think that sometimes, this actually – the legislature that introduced us from the northwestern part of the state and that's the San Juan part of the state. So I haven't talked to this individual, but maybe they think that they would get different treatment or better treatment if they had appointed commissioners.

But this one has got a tough slog because it's got to get through the legislature and then you have to put it on the ballot, and it's tough for people to give up voting for something. It's like we all vote for judges, right? And if you ask us if we would stop voting for judges, we probably all say no. So, I think this one faces a tough slog, but it's not the first time at the rodeo for this.

Brian J. Russo

Analyst, Ladenburg Thalmann & Co., Inc.

Q

Okay. Thank you.

Patricia K. Vincent-Collawn

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

A

Thanks, Brian.

Operator: Next question will come from Lasan Johong of Auvila Research.

Lasan Johong

Founder & Chief Executive Officer, vira Research Consulting

Q

Thank you. Pat, I'm sorry, but you cut out when you were talking about the AMI spending. How much is it per year 2017 through 2019?

Patricia K. Vincent-Collawn

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

A

And my apologies for cutting out.

Lasan Johong

Founder & Chief Executive Officer, vira Research Consulting

Q

Well, it's probably my fault.

Patricia K. Vincent-Collawn

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

A

Lasan, what we said is we would spend \$87 million over 2017, 2018 and 2019.

Lasan Johong

Founder & Chief Executive Officer, vira Research Consulting

Q

Okay. For the whole project.

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer, PNM Resources, Inc.
Yeah.

A

Lasan Johong
Founder & Chief Executive Officer, v1a Research Consulting
And this is a...

Q

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer, PNM Resources, Inc.
And then the net benefit to customers is \$20 million.

A

Lasan Johong
Founder & Chief Executive Officer, v1a Research Consulting
Okay. And this is not SmartMeter; this is just automated meter reading, right?

Q

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer, PNM Resources, Inc.
It's automated meter reading, but it is – some people call it different things. It does have a component of smart meters in it. So it's not full grid automation, it's not full real-time pricing, et cetera, et cetera, but it is – to the gateway for the smart grid.

A

Lasan Johong
Founder & Chief Executive Officer, v1a Research Consulting
So you can turn off customers remotely, turn them on remotely?

Q

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer, PNM Resources, Inc.
Correct. Correct.

A

Lasan Johong
Founder & Chief Executive Officer, v1a Research Consulting
Okay. Okay. So it's not just the meter reading? Okay.

Q

Patricia K. Vincent-Collawn
Chairman, President & Chief Executive Officer, PNM Resources, Inc.
No. You can provide a lot of customer benefits, two-way communications so they can have more control over their usage, et cetera.

A

Lasan Johong
Founder & Chief Executive Officer, v1a Research Consulting
Perfect, perfect. In terms of the San Juan 1 and 4 generation past 2022, does PNM have a preference or is that something you don't want to discuss openly?

Q

Patricia K. Vincent-Collawn

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

A

We will let the numbers speak. I mean, there's a couple of factors. One is we have to see what the numbers are, and then two, you have to see what the effects on the local economies. So our preference will be whatever the number say and then the PRC approves.

Lasan Johong

Founder & Chief Executive Officer, v1a Research Consulting

Q

Let me see if I can approach with more taxable manner. Environmental considerations have a bearing on this, I assume?

Patricia K. Vincent-Collawn

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

A

Well, one of the things that the IRP process does take into account is environmental rules and regulations. The one caveat, I would say, to that right now is a lot of that is in flux with the new administration and the new EPA administrator, but all of the known rules and regulations, and we'll also take a look at what we think could be coming, that will all be part of that process.

Lasan Johong

Founder & Chief Executive Officer, v1a Research Consulting

Q

And by 2022, if the current administration remains in place, that might save San Juan staying in place.

Patricia K. Vincent-Collawn

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

A

Well, if we go back to the Clean Power Plan, which does have a high likelihood I think of going away, New Mexico would have still been in good shape with just the shutdown of Units 2 and 3 and all the renewables we had. The state was very close to meeting what was set out for it in the Clean Power Plan. So, what happens to the Clean Power Plan really doesn't change the results.

Charles N. Eldred

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

A

Yeah. And to add to that, Lasan, obviously, we're shutting two units down in 2018 as you know. So fixed costs are running the remaining two units. It's certainly a factor of amount of capital that goes into maintaining the continued operation of the units.

There's just a number of components of the market prices where gas is certainly is a driver, too, as alternative resources are considered. If we were to shut the two units down for replacement power. So there's just a lot of variability that goes into trying to come up with assumptions that maintain the reliability, the integrity of the system and the affordability to customers, and all that is a very rigorous and a robust process as Pat pointed out and it's been going on since July of last year. But the information will start to work itself through with public advisory groups to gain their input, which will begin here in April as we file a draft of the latest information.

Lasan Johong

Founder & Chief Executive Officer, v1a Research Consulting

Q

Is it possible for you to revise the tense of [ph] CPTG (34:49) project if San Juan 1 and 4 go away?

Patricia K. Vincent-Collawn

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

A

Well, I think if San Juan 1 and 4 go away, we'll see what the Integrated Resource Plan says about renewables because obviously if San Juan 1 and 4 go away, we will need new generation baseload and peaking generations. So...

Lasan Johong

Founder & Chief Executive Officer, vika Research Consulting

Q

Okay. Thank you very much.

Patricia K. Vincent-Collawn

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

A

Thanks, Lasan.

Operator: The next question comes from Paul Ridzon of KeyBanc.

Paul T. Ridzon

Analyst, KeyBanc Capital Markets, Inc.

Q

Good morning.

Patricia K. Vincent-Collawn

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

A

Good morning, Paul.

Charles N. Eldred

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

A

Hey, Paul.

Paul T. Ridzon

Analyst, KeyBanc Capital Markets, Inc.

Q

Just sorry if I missed it, when is the window for settlement discussions?

Patricia K. Vincent-Collawn

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

A

We're starting. We actually had a discussion, but the Commission set the time from March 7 through March 27.

Paul T. Ridzon

Analyst, KeyBanc Capital Markets, Inc.

Q

Okay. That was my only question. Thank you.

Patricia K. Vincent-Collawn

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

A

Thanks, Paul.

Operator: [Operator Instructions] Our next question will come from Paul Patterson of Glenrock Associates.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Good morning.

Patricia K. Vincent-Collawn

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

A

Good morning, Paul.

Charles N. Eldred

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

A

Good morning.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

So just to sort of follow up on the legislation, SB 360, which is this least-cost procurement – let me ask the question this way: other than the solar consumer protection bill, if I gather from listening to the Q&A and what have you, it doesn't look like much of this legislation is going to probably move the session, is that right?

Patricia K. Vincent-Collawn

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

A

I think that's a fair assumption.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Okay. And then, you also were talking support the smart meters and I guess the level of smartness, can you do voltage reduction? Is there any voltage reduction benefit that's associated with this type of meter?

Patricia K. Vincent-Collawn

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

A

There can be some, but you want to be careful when you do the business case for this that you don't promise what's not proven. But we will take a look at that.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Okay. So you aren't forecasting any decrease in load or anything as a result of the SmartMeter deployment?

Patricia K. Vincent-Collawn

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

A

No, because the SmartMeter deployment is really just sort of the turn on, turn off remotely, the two-way communication, the elimination of the four meter readers because those are pretty dangerous jobs. It will enable you to do real-time pricing and other things, but we would have to get that preapproved by the Commission and at that time, we would forecast any energy loss. And remember, part of this rate case is a loss fixed cost mechanism to help us recover lost energy sales through energy efficiency. So that helps us going forward, also.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Okay. And then you also mentioned that Washington legislation I think correctly, so often has a difficult time passing. Were you referring to tax legislation? Do you have any outlook on a potential for tax legislation or was that just a passing statement?

Patricia K. Vincent-Collawn

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

A

That was me being cynical having spent some time in DC two weeks ago.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

Okay

Patricia K. Vincent-Collawn

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

A

So it wasn't anything particular on tax reform or anything. So it was just a little cynicism coming from me. Sorry about that.

Paul Patterson

Analyst, Glenrock Associates LLC

Q

No, that's cool. I can understand it. And I actually think – oh, just one final thing. So with the SmartMeter deployment, back to that, you did see that there was some concern about job losses that was being voiced by some of the parties. How should we think that in context of your cost initiatives and everything else about this apparent concern in the environment that you guys are operating in?

Patricia K. Vincent-Collawn

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

A

Well, we obviously did some layoffs last year. There were no customer-facing employees in that layoff, so I think that that made the Commission feel better that we were not going to harm customer service and reliability and that we were doing the reductions at the staff level. And a lot of what we've done to tax point is we have a hiring freeze, little things like everybody here in this room can tell you what the trash day is on the 12th floor because we only get our trash picked up once a week. So all sorts of little things that add up to big savings.

I think the concern on the meter reading jobs whether those are union jobs, they are customer-facing jobs and one of the things that we would do is make sure we have some job trading money in there. And because the union – meter readers know it's coming, they'll have a chance to find other jobs, whether they bid in here for apprentice linemen.

When we did the automatic meter reading in Texas, we actually didn't have to let anybody go. We actually had to hire temporary meter readers towards the end because the folks there knew it was coming and were able to get other positions. So, there's always a little bit of concern about job loss, but I think we've managed to temper it.

Charles N. Eldred

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

A

And, Paul, just to add to that, just to refresh everyone's memory, we don't have AMS in our capital budget, nor the cost savings that Pat alluded to built into our projections. So the economics of what would ultimately come out of a full implementation of investing the capital and going forward with it is now built into our numbers.

Paul Patterson

Analyst, Glenrock Associates LLC

Okay. Great. Thanks a lot.

Q

Patricia K. Vincent-Collawn

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

You're welcome.

A

Operator: And 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. And again, everyone, thank you for joining us this morning. Stay safe, especially if you're planning to celebrate Mardi Gras, and we'll talk to you again later this spring. Thank you.

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

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