

28-Oct-2016

# PNM Resources, Inc. (PNM)

Q3 2016 Earnings Call

## CORPORATE PARTICIPANTS

Jimmie Blotter

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Patricia K. Vincent-Collawn

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

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## OTHER PARTICIPANTS

Insoo Kim

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Ali Agha

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the PNM Resources Third Quarter 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 Jimmie Blotter, Director of Investor Relations. Please go ahead.

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**Jimmie Blotter**

*Director-Investor Relations, PNM Resources, Inc.*

Thank you, Danielle. And thank you everyone for joining us this morning for the PNM Resources third quarter 2016 earnings conference call. Please note that the presentation for this conference call and other supporting documents are available on our web site at [pnmresources.com](http://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.

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## Patricia K. Vincent-Collawn

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

Thank you, Jimmie. Good morning, everyone and happy three days before Halloween. Thank you all for joining us this morning to discuss the company's third quarter results.

We'll begin on slide 4, third quarter earnings per diluted share were \$0.68 on a GAAP basis including write-downs associated with the final rate case order at PNM. Ongoing earnings per diluted share were \$0.78 for the third quarter of 2016 up slightly from \$0.76 in the third quarter of 2015.

We continue to affirm our 2016 consolidated ongoing earnings guidance of \$1.55 to \$1.65. After 13 months, the general rate case at PNM resulted in a final order on September 28 granting a non-fuel revenue increase of \$61.2 million. While the order represents an improvement over the hearing examiners recommended decision in the case, it only represents about half of our 121.5 million requests and does not provide full recovery of all of the investments we have made in our system.

On September 30, we filed a notice of appeal with the New Mexico Supreme Court and this past Wednesday, we filed our statement of issues outlining how we believe the commission misapplied the law and facts with regard to our investments in Palo Verde and the Pollution Control Technology at the San Juan Generating Station. While some recovery is approved in the rate increase for the 64 MW's of Palo Verde Unit 2 purchase capacity and the half-price extended lease payments. Both the purchase and extensions were deemed imprudent in the final order.

This determination on prudence was used to disallow the fair market value price and limit recovery to know more than the estimated net book value of the 64 MW's to disallow the undepreciated value of past leasehold improvements associated with the 64 MW's and shift the future responsibility for Palo Verde decommissioning cost away from the customer's and on to shareholders. We do not believe that these determinations are consistent with either the law or the facts.

Outside of Palo Verde, [indiscernible] (04:24) determined that because PNM proposed the balanced draft conversion to the New Mexico Environment Department as part of the air permitting process for San Juan, PNM was responsible for this permit condition. The commission rejected the air permit condition as a justification of the cost of the balance draft and held that PNM was imprudent in proposing this condition.

As a result, the commission disallowed the investment. We clearly believe that this determination is also inconsistent with the law and the facts and failed to recognize properly the New Mexico Environment Department's authority over air quality compliance issues in the state.

After the commission file the case record, the New Mexico Supreme Court will set the calendar for the rest of the process. There is no required timeframe for the court to act on the appeal, although utility appeals do have priority under New Mexico law. For purposes of writing down the value of the assets under appeal, we have estimated a minimum of 15 months based on the timetable of other utility cases in the past.

The timing of this schedule will not affect our plan to file our next rate case using a 2018 future test year. We will file that case in December of this year.

Return to economic development for a minute, we continue to see promising results from our state's economic development efforts. As you are aware, Facebook selected New Mexico for its data center and the groundbreaking ceremony for their facility was held earlier this month. While this is not a significant earnings driver for us, it is a major win for New Mexico. It supports our ability to attract major companies. Since this announcement, we have seen increased interest from other companies.

The New Mexico partnership, which is the state official business recruiting organization was instrumental in recruiting Facebook to New Mexico. I am honored to chair this organization and I am pleased with the group's accomplishments, but we still have a lot to do. We continue to work with various organizations to bring new businesses to the state and help existing businesses expand. Site selectors are commenting on a noticeable improvement in the business friendliness of New Mexico. Remember though, relocation and expansion of companies has a long sales cycle.

As for existing businesses, we are seeing sector growth in the areas of education, healthcare services and professional services. New Mexico's nominal personal income is growing, housing prices are increasing and home inventory is decreasing. We have all of the leading indicators for residential and commercial growth. It will take some time to see the results reflected in our sales, but we are moving in the right direction.

I'll go ahead and turn the call over to Chuck to talk about the financial details of the quarter.

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## Charles N. Eldred

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

Thank you, Pat and good morning, everyone. Beginning on slide 6, we're beginning to see slight traction in the economic development efforts that Pat talked about. PNM's residential weather-normalized load was up 0.2% for the quarter and commercial continues to show strength with an increase of 1.8%. The strength in this segment is spread across various sectors and represents small business growth in our service territory, particularly in the Albuquerque Metro area. This sector is responsible for the employment growth in Albuquerque, which was 1.2% on a rolling 12-month average.

Industrial, however, was down 12.1% compared to third quarter 2015 and down 8.9% year-to-date. This brings total weather-normalized load at PNM down 0.4% compared to the third quarter of 2015 and down 0.6% year-to-date, which is in line with our guidance for the year of flat to down 2%. We continue to experience customer growth at 0.7%.

TNMP continues to perform well. The volumetric load was up 3.7% in third quarter this year compared to last year and is up 3% on a year-to-date basis. This is at the upper end of our guidance range of 2% to 3% growth for 2016. Demand-based load also continues to show strength at 4.2% for the third quarter and 2.9% on a year-to-date basis.

We continue to see growth in TNMP service territory, driven by employment growth in the diverse Houston and Dallas economies and the continued customer growth in the Permian Basin in West Texas.

For example, in TNMP South Houston area, end-user growth year-over-year has been 2.5% year-to-date, in North Texas 1.6% year-to-date and in West Texas 1.9% year-to-date. Other areas of our service territory continue to see end-user growth around 1%, which brings the total growth to 1.5% compared to the forecast of 1% growth.

Now, moving to slide 9, we had ongoing earnings of \$0.78 for the third quarter of 2016 compared to \$0.76 in the third quarter 2015. PNM was flat, TNMP was up \$0.01 and corporate and other was also up \$0.01 which represents a net interest income on the loan with Westmoreland that was entered into earlier this year.

Now turning to slide 8 to review the earning drivers. At PNM, you're aware that our rate case filing was [ph] vote (10:03) delayed and the final order did not include full recovery of our prudently-invested capital. As a result, we have been managing our business cautiously, implementing cost savings since June. This contributed to a \$0.04 reduction in O&M cost, compared to the third quarter of last year. It was part of the narrowed guidance range we provided last quarter.

As expected, the elimination of the Palo Verde Unit 2 lease costs represents an increase of \$0.03, although load overall was down during the third quarter, the increase in the residential and commercial segments to pay higher prices in industrial have caused the earnings to increase by \$0.02 compared to third quarter of 2015.

Looking forward to Q4, I expect the load will remain in the forecasted range, likely coming in flat to down 1% for the year. Given that fourth quarter is a seasonally weaker quarter, I would not expect to see an earnings pickup for the load in the quarter.

Given the October 1 implementation of new rates under the final order of the rate case, some higher revenue was recorded in September as the new rates are applied to any September usage that was built in October under our normal billing cycles. This increase results by \$0.01.

FEDC continues to be a reduction. As expected due to a lower construction balances after last year's peak spending levels and reduced earnings by \$0.04. We also had higher depreciation in property tax expense of \$0.02 due to increased [ph] plant (11:39) balances. Palo Verde Unit 3 sales were hedged for 2016 at a lower market price than 2015, which caused results to be \$0.02 lower and interest expense also reduced earnings by \$0.01, primarily because the additional long-term debt that PNM entered into August of 2015. The Navopache FERC generation contract was \$0.01 lower than Q3 of 2015.

Moving to TNMP, the increases in load that I discussed earlier added \$0.01 compared to the third quarter of 2015. Rate relief from TCOS filings added another \$0.01. These increases were partially offset by higher depreciation expense and property tax on the increased plant investments that support this growing load.

Now, moving to slide 9, I'll review our capital update. Today, we're providing both an update to our capital forecast into our potential earnings power slides. Overall, we've added \$184 million to the forecasted spending at PNM, TNMP and corporate. These changes that the company represents a net increase to PNM at \$42 million, \$90 million at TNMP and \$52 million at corporate.

Specifically, I want to point out the change in PNM's generation, which include the modifications to the plant 80 MW peaker. The rationale for this decision is coming out the analysis being done for the integrated resources plan which is due by July 3, 2017.

We're still early in the process, but one of the initial elements we are analyzing is the demand forecast. While our system continues to be a peak year that it has been historically, we are finding the highest points are not as high as we had been previously forecasted. As a result of this, we have decided to file a motion to withdraw the application for the 80 MW peaker later today. We believe that it is appropriate to change our capital forecast from the 80 MW peaker to a 40 MW peaker that is operational in 2020.

As a reminder, part of the BART agreement that was finalized in December last year is that we are required to file in 2018 to determine the extent to which San Juan should continue serving PNM's retail customers after June 30, 2022.

To facilitate the 2018 filing, we plan to develop two resource portfolios in our 2017 IRP. One with San Juan continued beyond 2022 and one where it shuts down. Consequently, the IRP which includes the public input process will be a valuable guiding document as we look at our total generation mix in the years to come.

Also at PNM, we have committed additional spending to TNMP. This additional spending enhances the transmission system to serve the additional renewable projects that are expected to come online in New Mexico. The 30 MW the solar we built for Facebook is included in the corporate and other category. Together, these changes result in rate base compound annual growth for 2015, 4% to 6% for PNM and 8% to 10% for TNMP.

Now, moving to slide 10, we've updated the potential earnings power slide to reflect the outcome of the PNM rate case including the reduction in PNM's retail and renewable ROE from 10% to 9.575% and the new capital forecast.

Corporate and other has also been updated for the Westmoreland loan an additional debt. As you can see, the result is, there is potential earnings power in 2017 of \$1.80 to \$1.87. The rate base for 2017 has been reduced for the Palo Verde Unit 2 and balanced draft disallowances, which are being appealed to the New Mexico Supreme Court.

In 2019, we have shown the full range of outcomes from the Supreme Court appeal. The result in earnings power in 2019 is 205 to 223. Let me point out that in 2018, we have presented the earnings power assuming that we will not realize any earnings related to the rate base items that are under appeal. We expect that those items will be ruled on sometime during 2018 and so there may be some upside depending on the timing of when the Supreme Court's decision and any resulting commission actions occur.

Now, moving to slide 11, we have reflected the rate case results particularly the lower ROE in our five-year earnings growth goal that began in 2014. As you can see, we expect to achieve 7% to 8% earnings growth through 2019. Also, I want to remind you that board will review the dividend in December. We continue to expect above average industry dividend growth there likely will be an increase similar to last year.

Overall, we continue to be on track with our preparations for the next rate case, which we expect to file in early December. Keep in mind that this rate case includes recovery for the shutdown of San Juan units two and three in addition to Palo Verde Unit 3 to rate base that was part of the BART settlement. We will discuss the rate case as well as the 2017 guidance during our Analyst Day in New York City on December 14. Again, we appreciate the continued support of our company and with that I will turn it back over to Pat.

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## Patricia K. Vincent-Collawn

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

Thanks, Chuck. Before I conclude the call today, I would like to draw your attention to the new sustainability portal that we have added to [pnmresources.com](http://pnmresources.com). We operate PNM Resources in an ethical open and transparent manner and have created the sustainability portal to give our stakeholders information about these activities.

The information provided here will be updated on a regular basis and is categorized by environmental, economic, social and governance information. I strongly encourage you to visit the site and learn about all of the great work that we do at PNM Resources to ensure that we are providing for a sustainable future.

As we wrap up the call today, we certainly continue to have a full plate of regulatory activities in New Mexico between the Supreme Court appeal, the integrated resource plan process and our upcoming general rate case filing. It's a testament to both the ability and the dedication of our employees as we move straight into these items from a lengthy rate case proceeding. And it's also a testament to the hundreds of employees that continue to provide reliable electricity and excellent customer service to our customers in both New Mexico and Texas.

PNM set another all-time high for overall customer satisfaction in the latest JD Power residential customer satisfaction survey. It is encouraging to see that our focus in this area has not gone unnoticed by our customers. And our crews in Texas, with [indiscernible] (18:38) in October traveling to aid in hurricane Matthew restoration efforts. I'd like to thank them for doing such great work with no injuries. This type of work is a true reflection of our company and our industries' value. Thank you, again, for joining us today. Operator, let's now open it up for questions.

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## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] The first question comes from Insoo Kim of RBC Capital Markets. Please go ahead.

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**Insoo Kim**  
*Analyst, RBC Capital Markets LLC*

Q

Hey, good morning, guys.

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Good morning, Kim.

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

A

Good morning.

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**Insoo Kim**  
*Analyst, RBC Capital Markets LLC*

Q

Just regarding the plan to withdraw in the middle of peaker CCN proposal. I guess, in your analysis, has the future potential build-out of renewables and the potential need for backup generation also been accounted on this decision?

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

A

Insoo, the decision is really primarily driven at this point with the demand forecast being slightly under what we projected. And the other factors that go into this is cost and the actual reliability of the system, which is important when you're beginning to add renewables in the system of making sure that we can maintain that reliability with more renewables to the system.

So, in our analysis that are preliminary at this point, we felt it was prudent to recognize that the demand forecast is falling slightly off when we originally projected. It basically just means the peaking has continue to grow, but not



at the pace that we anticipated. So, we need about 20 MW's in those years that we thought we would need to add the additional peaking capacity. And we can do that from just purchases in the market.

And then we see the growth in that peaking going into 2019 and 2020, and of course, if there is additional data centers or other components that could be considered at some point in time, that could certainly accelerate that. But at this point we think it's better to be conservative relative to where we are today, what we see in the forecast and the fact that we think we can solve less than 40 MW's of peaking capacity through purchases in the market. So we just push that capital into 2019 to 2020 at a 40 MW peaker.

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Remember Insoo, the next jump in that renewable portfolio stand that comes in 2020. When we go up to 20% by 2020, so that's when we have that need and as Chuck said, if we get some more data centers, we can obviously accelerate that peaker.

Insoo Kim

*Analyst, RBC Capital Markets LLC*

Q

Understood. I do not know if I missed this earlier, but what are some of the items that went into the additional CapEx at T&D, PNM as well as TNMP.

Charles N. Eldred

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

A

Yeah, there's a number. The TNMP's, certainly, we continue to invest in the transition component of the business, but also we're seeing growth in distribution side. So we're just seeing opportunities given the growth that we can continue to invest more to allocate capital to meet that continued above-average growth.

In New Mexico, we continue to see some opportunities, really on the transmission side, as we begin to see more renewables being built in our service territory, around in the territory in New Mexico and also in the distribution side, and mainly in substations and reliability aspects of our system.

So, we've had pipeline projects in anticipation of what would be an update when the time came to reallocate the capital to both businesses. And we've just completed that analysis and as a result of that, we're reflecting that of a new capital plan to be more current on what we see in the next several years to 2019 and 2020.

Insoo Kim

*Analyst, RBC Capital Markets LLC*

Q

Understood. And just lastly, turning to the earnings power slide. Given the implementation of the future test year and I know part of that was applied in the recent rate case and the full future test year that is going to be implemented in the upcoming rate case. How much do think that will help in reducing regulatory lag in New Mexico and allow you to earn close to that 9.575% allowed level.

Charles N. Eldred

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

A

Yes. For 2017, obviously, we didn't get the [ph] for test year (22:58) this rate increase went in October 1, so you'll start to see some regulatory lag in 2017 just by additional capital investment in depreciation that gets cleared with projects that clear in 2017.

But you are probably still in that 30 basis points range within the 9.575% return, so it's still an attractive earnings expectation, but you can't get to the allowed return and given the fact that you'll have some additional capital and



depreciation that will be picked up in 2017. And then in 2018, would be a full for a test year, we look in 2018 to begin to earn our live return, based on that being a true for test year.

Insoo Kim

*Analyst, RBC Capital Markets LLC*

Got it. Thank you very much.



<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Thank you, Insoo.

**Operator:** The next question comes from Ali Agha of SunTrust. Please go ahead.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Thank you. Good morning.



<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Good morning, Ali.

Charles N. Eldred

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

Hi, Ali.



Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Good morning. First question, Pat or Chuck, given the experience you had going through this current rate case and the kind of pushback on issues that you would have assumed were pretty settled. How does that influence your thinking as you file the next one in December, does that change much in terms of how you're thinking about that having gone through this one?



<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Ali, if you look at the last case and this upcoming case, they're really kind of different animals. The pushback in this current case was really around what value and was it prudent to buy Palo Verde and then the balanced draft. This next case what's going in is what's agreed-upon in the BART settlement is the majority case. Obviously, there's some catch-up T&D.

But in those items were already agreed on, the values have been set for those and we had everybody with a signatory to the case other than one party. So you've got an agreed-upon value for all of those and so the only discussion around those really should be around what the ROE. Obviously, no commission can bind a future commission, but again, since everybody signed onto it all of the interveners will have to support that.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

And roughly, I know the filing comes in December, but just to give us some perspective, what kind of a rough rate increase would be embedded in this next filing?



<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: December, [ph] December 4 (25:21) . When the rate case comes out, we will go over that with you.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Q

Okay. And then, I know, I believe a couple of seats are up for election in November. What's your read on what comes out of that and does that in any way in your mind change the tone of the composition of the commissions?

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: The two [ph] feature (25:42) already decided as both candidates are running unopposed. [indiscernible] (25:46) Espinoza up in Santa Fe ran unopposed and so she would be the Commissioner. Cynthia Hall here in Bernalillo County beat Karen Montoya in her primary, she is running unopposed, so she will also be the Commissioner.

Hard to tell where they're going to be. I think we're going to continue to have discussions and the main questions are going to be what is the future of our generation portfolio look like. And as Chuck mentioned, we're doing that integrated resource plan with the two separate scenarios and I think that will help sort of set the tone for the commission discussion more than anything else.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Q

Okay. But you would take Commissioner Hall, I mean, future Commissioner Hall wouldn't be much of a change from what we've been seeing so far?

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Hard to tell. They are very careful when they campaign not to say anything, because of the fact that it can get them taken off the cases, so it will be hard to call. And again, I think a lot of what's going to set the tone is what the generation portfolio is going to be, because if you look out what the discussion is at the commission, it's all around coal and nuclear. It's not around T&D.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Q

Last question, looking at the overall load picture in New Mexico, are you getting any signs to suggest that we may be close to a bottom? We've been still seeing this negative year-over-year comparisons, I guess industrial was the big driver this quarter, but any sign that you can point to that tells you we may have bottomed out here?

Charles N. Eldred

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

A

Ali, as Pat pointed out, there's a lot of economic development activity that's occurring and certainly, some successes that we're seeing, but it still takes time for that to be reflected in and incorporated into a more solid trend in our load growth.

And we still see a decline on the industrial side, but since the customer growth, although it being slightly above average with energy efficiency and renewables would still kind of offset any kind benefit we get from customer growth. So, if you net all of that against these slight declining on the industrial side, probably still feel like there's a slight trend downward. Maybe not as aggressive as much as 2% as we've seen in the last year and this year's guidance, but certainly a slight negative into 2017 just to be reflective of what we see today.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Q

I see. And just to clarify, Chuck, I think I heard you right, but did you say that given the test year issues, you think about a 30 basis point lag is probably what will happen in 2017?

Charles N. Eldred

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

A

I think that's a reasonable expectation. You're going to see some lag off of the 9.575%. So, I think, reasonably considering we haven't provided guidance in 2017, but I think that's probably fair just as a perspective of how we see some regulatory lag going into 2017 around 30 basis points, probably an area to think about.

Ali Agha

*Analyst, SunTrust RobinsonHumphrey, Inc.*

Q

Got it. Thank you.

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Thank you, Ali.

**Operator:** The next question comes from Anthony Crowdell of Jefferies. Please go ahead.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Good morning. First question I have is on the slide 9, depreciation, any chance you could break that out for us. Help us to separate this for PSNM and TNMP?

Charles N. Eldred

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

A

Yes. Anthony, I think, it would be better just to call Jimmie or [indiscernible] (29:06) have Jimmie call you and she will work that through with you.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Okay. Also when I look in 2017 and 2018, the PSNM, how much revenue each year do you get from the writers or for expanding like, there should be some rate increase in there that are not related to NMP or rate increases. What's a reasonable estimate to assume you get each year?

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Actually Anthony, if you look at slide 10, you can see the renewable writer and you can see FERC.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Right, but there's some lag – you mentioned, there is some lag there. So, have you provided any guidance on what type of revenue you get each year?

Charles N. Eldred

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

A

Well, you can calculate this, but on the FERC side, we talk about 7% to 9%, roughly 8% is probably a reasonable assumption, given the fact you're filing on a historical basis. And then, just obviously, you'll get a decline in the

rate base for the renewables for the depreciation of the assets that we have. We can break it down for you if that would help you, but Jimmie can do that for you and give you some detail.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Okay. Lastly, I just want to make sure I'm understanding all the peaker math. But, when I look at – so first, I think when you guys are on the road in October, or maybe September, you had mentioned the key elements of the next filing involving 80 MW gas peaker. That's lower to 40 MW's, but is that 40 MW's going to be in the next rate filing?

Charles N. Eldred

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

A

Actually a pickup in 2020 if we file a rate case, because if we start spending that in 2019 and finish and clear that peaker in 2020, so if we file for 2020 rate case that's when it would be picked up.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Okay. So it's not going to be part of the filing in December

Charles N. Eldred

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

A

No.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

And that's also the difference between the previous CapEx slide of TNM generation in [ph] 18 of 168 not a 112 (31:01) that is the loss of the peaker?

Charles N. Eldred

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

A

Yes. For the most part, it's -- the loss of the peaker, then we will reallocate with some capital both amongst the businesses and it's a net increase in PNM, but it's a slight amount but it still covers the fact that we moved the capital to 2019 and 2020.

We picked up a little bit for PNM in 2017 and the slight decrease in 2018 in a more significant pickup in infrastructure investment and the peaker that we will start building in 2019. So, again and that's out to be overall, a slight increase, and overall capital including PNM but a shifting of that capital to be more on the backend instead of the frontend that we had originally projected.

Patricia K. Vincent-Collawn

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

A

And we have been studying, Anthony. We've been studying a lot of capital and generation and so the transmission and distribution folks have a lot of projects that they would like to do here in New Mexico and in Texas, it continues to grow. So, there's opportunities for capital over there.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

If I think of it, just last question, if I think about the bumps that have gone on in the regulatory process for some time and also now with load growth looks like it's pretty anemic. It seems like getting generation built or generation in rates in New Mexico has clearly been the biggest challenge or maybe it is just fossil and nuclear generation rates. And also just not even looking at that and with the peaker going just PPA and just looking to maybe type of utility scale, solar or something else to meet the needs?

Patricia K. Vincent-Collawn

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

A

Yes. When we look at that integrated resource plan, we'll be able to look at what new sources make sense and is it the utility scale solar and actually in the San Juan replacement case when you just let the models run on their own. They did pick 40 MW's of utility scale solar. So, we will continue to look at that. We will look at PPA's where they makes sense, but one of the things we found is that, we tend to operate our plants better and we know how the maintenance is done and the permitting is done. So, if there's gas plants we tend to like to own them and the same with peakers. So we'll look at them.

But, I think, Anthony, it's mostly about coal and nuclear, and if you think about and just step back from New Mexico, that sort of where the national discussion and quite frankly, the international discussion in certain countries is on its coal and nuclear. And I think, what you see here is just a reflection of that broader conversation about what kind of generation this country should have.

Charles N. Eldred

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

A

And I will to add to that, Anthony, when you get to that 40 MW peaker, you really need the technology for quick start and you can't really dissolve that through PPA. So what we're indicating is that, we can use the PPA's when we are under 40 MW's and balance the system, but when it comes to uncertainty of that peak hitting that 40 MW requirement, we need to have the quick start capability to build the reliability in the system.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

And is it linear, previously I think the 80 MW peaker was roughly \$80 million is it \$40 million for this peaker?

Charles N. Eldred

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

A

Roughly, that's about right. Yeah.

Anthony C. Crowdell

*Analyst, Jefferies LLC*

Q

Great. Thanks for taking my questions.

Charles N. Eldred

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

A

Okay.

Patricia K. Vincent-Collawn

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

A

Welcome.

**Operator:** The next question comes from Lasan Johong of Auvila Research Consulting. Please go ahead.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

Good morning. Thanks for taking my questions.

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Good morning, Lasan.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

How are you?

Patricia K. Vincent-Collawn

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

A

Good.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

Okay. So, I wanted to follow up on these excellent question, should I say, I understand 2018 is mostly the BART agreement coming into place, so there's not a lot of maneuvering little more changes, but how do you – given the final decision on the commission, is that kind of shake your confidence about spending money going forward without getting prior approval?

Patricia K. Vincent-Collawn

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

A

Not really, because I think if you look at what the commission didn't like it was Palo Verde and it was balanced draft. And if you look at this next case, as we mentioned all but one party signed on to this agreement.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

But beyond this first, beyond this 2018 rate case, I'm talking about longer term for 2019, 2020 and beyond, did that kind of give you pause?

Patricia K. Vincent-Collawn

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

A

Well, if you look at generation, we always get a CCN before we would spend money on a power plant and we will continue with that or we get it approved through renewable writer. And so, we will continue on with that. And the T&D spending is not where there has been much pushback on.

So, either generation spending goes down and see if they're going to build there, if you are going to build the peaker, for example, we got peaker, we will have to get a CCN beforehand. So that gives you that assurance, obviously what was different in this case that we have taken to the Supreme Court is that we had CCN and that was challenged, so.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

Agreed. Okay. So going back to the peaker situation, the things change somewhat differently if you have San Juan coming back after June of 2022 or not coming back after June of 2022 or are you going to just kind of wait until you have more stability on that before you make any decisions on additional generation.

Patricia K. Vincent-Collawn

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

A

Yeah. That's the great part about this integrated resource plan process that we're going through. It's a public participatory process and as Chuck mentioned, we'll run the two scenarios, one with San Juan and one without San Juan. So that will give us clarity on under either scenario what our generation needs and mix looks like going forward.

So, you won't see us proposing a lot of new generation until we have that plant and because obviously, our needs would be very different if the commission decides that we should shut down San Juan, for example.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

So, if you shut down San Juan, could the 40 MW peaker turn into an 80 MW CCGT?

Patricia K. Vincent-Collawn

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

A

It's a very different scenario.

Charles N. Eldred

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

A

Look at this way, if you shut down San Juan you'd be shutting down 500 MW's of power. And so, 500 MW's is going to be a combination of base-load, peaking capacity, renewables, whatever that combination replacement power would be, it's going to be a different set of capital investments towards the generation over the next 20 years that would accommodate the fact you are shutting that 500 MW's down.

So the peaker is really more reflective how the demand forecast on the system occurs over the next few years and the potential addition of renewables in the system i.e. more data centers if that would have to come about in order to balance the system in a cost effective way.

Shutting down San Juan is a much different set of circumstances to determine the replacement power of the 500 MW's, which would begin with the accommodation of a lot of different resources to meet that requirement.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

Chuck, I understand that. but my point is, given that you already have a plan in place for your 40 MW, could that be upside to accommodate part of the base-load equation that you were just talking about? And then you do something else with the peaker and the renewables?

Charles N. Eldred

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

A



Yeah. You could have a larger gas unit, but again, the difference in how the system needs to balance itself, the peaking capacity being more for [indiscernible] (38:30) or quick start as opposed to a larger intermediate gas type plants.

So, it's a combination of both and that's what the integrator resources plan is intended to do is to take all the variables in consideration, lay out the next resource requirements over 20 years, making a necessary adjustments into how we look at that load requirement in the future with different generation mix.

The 40 MW peaker, right now, would be more isolated in our view towards what the peak demand forecast would be in the system. Not so much of the replacement of San Juan.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

I see. Any preference which way you want to go shutting down San Juan or not shutting down San Juan?

Patricia K. Vincent-Collawn

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

A

We'll let the numbers speak.

Charles N. Eldred

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

A

Good question. Yeah. You make me want to do my Trump impersonation, but I won't do that.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

No.

Charles N. Eldred

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

A

I'm getting close. Okay. I'm being held back.

Lasan Johong

*Chief Executive Officer, Auvila Research Consulting*

Q

Thank you very much.

Charles N. Eldred

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

A

Okay.

**Operator:** The next question comes from Paul Patterson of Glenrock Associates. Please go ahead.

Paul Patterson

*Analyst, Glenrock Associates LLC*

Q

Good morning.

Patricia K. Vincent-Collawn

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

Good morning, Paul.

A

Paul Patterson

*Analyst, Glenrock Associates LLC*

I actually would like to hear the Trump impersonation, if it's okay.

Q

Patricia K. Vincent-Collawn

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

Paul, the problem is, if he does that I've got a big can of hairspray here and I will aim it at him.

A

Charles N. Eldred

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

But, I've already got a sign that here is such a nasty woman.

A

Paul Patterson

*Analyst, Glenrock Associates LLC*

Okay. All of my questions have been answered, but just the smart [indiscernible] (40:10) thing, I know it's been suspended, I think what's the outlook for that? I don't think it is in your plan, but is that just off the table for now or how should we think about that?

Q

Patricia K. Vincent-Collawn

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

We are still looking at that. I'm talking with folks that are part of the case, we'd obviously still like to do that. It's a little tough sell right now, given the economy in New Mexico, because obviously, one of the things that AMI does is, over time it will eliminate meter reading jobs but we're still working on that one.

A

Paul Patterson

*Analyst, Glenrock Associates LLC*

Okay. And then, the sales forecast for the next three years, I apologize what is it that you guys are projecting weather adjusted?

Q

<<A – [06CHGP-E]Chuck Eldred – PNM Resources, Inc.>: Well, we didn't show a forecast over the next year, we just said that year-over-year we continue to see a slight decline driven more like -- more from the industrial side. Some benefit on the commercial, residential side, but again even though we have a slight improvement in customer growth, it's not enough to offset the impact of energy efficiency in some accommodation of growth in the solar residential solar. So, again, that would pretty much put it on a flat year-over-year basis and then slight decline because of the industrial load.

So maybe not as much as we had this year in the guidance, which was zero to minus 2, but maybe along the lines of a 1% reduction year-over-year. So again, slight decline, it's going to take a while for some of the benefits of the economic development activity that Pat alluded to in her earlier comments. We're making progress, things are beginning to show some slight improvement in tracking to that expectation, but just too early to pick that up into the forecast and know exactly when that will transform into some real benefit there.

Paul Patterson  
*Analyst, Glenrock Associates LLC*

Q

How should we think about next year or the year after that, I mean, was leap year in this number by the way?

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

A

Pardon me. What did you say? I'm sorry.

Paul Patterson  
*Analyst, Glenrock Associates LLC*

Q

Leap year was that in this 6.6% decrease that you guys have here [indiscernible] (42:04)

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

A

It's adjusted for leap year, yes. So, again, I would say to be reasonable based right now, probably minus 1% in the area of that range year-over-year.

Paul Patterson  
*Analyst, Glenrock Associates LLC*

Q

Okay. And then, I think, that's all my questions actually.

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

A

Thanks Paul.

Paul Patterson  
*Analyst, Glenrock Associates LLC*

Q

Thank you.

**Operator:** The next question comes from Chris Ellinghaus of Williams Capital. Please go ahead.

Christopher R. Ellinghaus  
*Analyst, The Williams Capital Group LP*

Q

Hey, good morning, guys.

<<A – [004273-E]Pat Vincent-Collawn – PNM Resources, Inc.>: Good morning, Chris.

Christopher R. Ellinghaus  
*Analyst, The Williams Capital Group LP*

Q

Can you just clarify, I wasn't sure on the load growth expectation in the earnings power does that sort of slight decline cover all three years?

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

A

The earnings power slide is just rate based math. So it's just taken the rate base and the ROE, so there's really no load upside or downside built into that.

Christopher R. Ellinghaus

*Analyst, The Williams Capital Group LP*

Q

Okay. So doesn't consider load at all?

Charles N. Eldred

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

A

No, no. We tried to do that when we do the guidance, but the earnings potential shows you what the potential earnings, obviously of the businesses from a rate base perspective. There's a few baskets of cost in there that we provide to you, there's a lot of moving variables that we try to give you some perspective on that. And then, once we tighten up guidance then we take everything else into consideration, O&M, cost controls, load, et cetera.

Christopher R. Ellinghaus

*Analyst, The Williams Capital Group LP*

Q

Can you give us a little color on the industrial weakness where it's coming from and why you think that might continue?

Charles N. Eldred

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

A

We don't have a strong industrial base as it is. We're around 12% for and the most utilities, so there's a larger customer here in New Mexico, in Albuquerque area that tends to be slowing down the operations, mainly because of some of the obsolescence of their technology. So the best that we now provide that publicly, but it wouldn't take too much to figure out who is in Albuquerque to understand what that – who that customer might be and they are global and nationally-recognized.

Christopher R. Ellinghaus

*Analyst, The Williams Capital Group LP*

Q

Right. I think we all know who that is.

Charles N. Eldred

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

A

So, I am just being very careful, although, I could do my Trump impersonation right now. Really, got to get this going but I won't do it. That is really what is driving it. There's a little bit of other variables on some cogeneration and dealing with New Mexico, University of New Mexico, things like that but again, it's really driven by that customer.

Christopher R. Ellinghaus

*Analyst, The Williams Capital Group LP*

Q

Is that really that one singular entity?

Charles N. Eldred

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

A

That's the driver. In all honesty, that's the driver.

Christopher R. Ellinghaus  
*Analyst, The Williams Capital Group LP*

Q

Okay. Pat, in light of the rate case and certainly the continuing long-duration of rate cases, have you got any thought about a legislative effort to maybe try to get some relief on that?

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

A

You can only ask for so much at a legislature and the fact that we now have a fully-forecasted test year. We got that and we're going to stick with that. We're filing 13 months ahead of the time we need rates, so the commission can have the entire time that they are allowed if they choose to do that.

The last rate case was obviously, a bit of an anomaly because of the fact that they set our filing wasn't complete and that we had used the wrong test year and two things have changed since then. One is, we have a ruling from the commission that the test year that we believe -- we and SPS believe is appropriate.

And then, secondly, we have worked out all the filing requirements with the staff. So, I think that our legislative agenda on that probably would not look to shorten that timeframe.

Christopher R. Ellinghaus  
*Analyst, The Williams Capital Group LP*

Q

Okay. And then, one last question about the San Juan process in determining what happens in 2022, can you just go through how that determination is going to be made and what sort of lead time you are going to get to make decisions in terms of replacement?

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

A

You If you look at the process, the integrated resource plan process, it started this year. It's a yearlong process. So it goes into the middle of next year and then, we will present an integrated resource plan to the commission. In New Mexico, IRP's are not formally approved by the commission. They are accepted and consistency with that integrated resource plan, if you put generation and constitutes prima facie evidence of that type of resource, but you still would get a CCN.

But we also agreed, as part of the BART settlement that we would present a plan to the commission one with San Juan and without San Juan and all of the signatories to the -- said they would support having a decision and the commission will make a decision on that in six months, probably in 2018. So there's a lot of lead-time there at 2018 and right now, San Juan coal contract goes all the way to 2022. So lots of lead time, long answer to that question, but.

Christopher R. Ellinghaus  
*Analyst, The Williams Capital Group LP*

Q

Okay, great. Thanks for the color. We'll see in a little bit.

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

A

Okay.

Charles N. Eldred

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

Thank you.

A

**Operator:** The next question comes from John Barta of KeyBanc. Please go ahead.

John J. Barta

*Analyst, KeyBanc Capital Markets, Inc.*

Hey, good morning, everyone. And can you hear me all right?

Q

Patricia K. Vincent-Collawn

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

Yes, John. Good morning.

A

John J. Barta

*Analyst, KeyBanc Capital Markets, Inc.*

Sorry, if I missed this, but on the peaker, are you completely withdrawing at or just revising it to the 40, the CCN.

Q

Charles N. Eldred

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

No. We're withdrawing the peaker completely. And then, as I mentioned, we're looking at an updated forecast on the demand side that's included in this IRP process that Pat has alluded to. But, currently our preliminary analysis which showed that the 80 MW peaker would adjust itself to about a 40 MW requirement that would begin to build out in 2019 and 2020.

A

John J. Barta

*Analyst, KeyBanc Capital Markets, Inc.*

Okay. And then, on the IRP you said 2017, do you have any timing first or back half of the year?

Q

Patricia K. Vincent-Collawn

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

It's July of 2017, it will be done.

A

John J. Barta

*Analyst, KeyBanc Capital Markets, Inc.*

And then, I guess lastly, are you aware if the commission is taking on an initiative or if they're looking at any potential workshops on better understanding some of the current rate design issues that are out there?

Q

Patricia K. Vincent-Collawn

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

They are not. They're looking at some workshops possibly on that metering, but nothing on the rest of rate design. We tend to handle that here in New Mexico through our rate cases. So, for example, in the last case we [indiscernible] (48:51) our fixed charge up a little bit and we were able to eliminate some of the residential subsidies and keep the large commercial and industrial customers much more harmless than before. So we deal with them, sort of individually through our rate cases here in New Mexico.

A

John J. Barta

*Analyst, KeyBanc Capital Markets, Inc.*

Q

All right. Well, that's all. Thank you.

Patricia K. Vincent-Collawn

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

A

Thank you.

**Operator:** This concludes our question-and-answer session. I would now like to turn the call back over to CEO, Pat Vincent-Collawn, for closing remarks.

Patricia K. Vincent-Collawn

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

Again, thank you all for joining us on this beautiful morning. I hope you all have a safe and happy Halloween and you get all the kind of candy that you want. And we look forward to seeing many of you at EEI in a couple of weeks. Have a great weekend.

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

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