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PNM Resources, Inc. (PNM)

Q2 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the PNM Resources Second Quarter Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Jimmie Blotter, Ms. Blotter. Please go ahead.

Jimmie Blotter
Director-Investor Relations

Thank you, Keith, and thank you everyone for joining us this morning for the PNM Resources second quarter 2016 earnings conference call. Please note that the presentation for this 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 Chuck 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

Thank you, Jimmie, and good morning everyone. I hope your morning is as beautiful as our sunny New Mexico morning is here. Thank you for joining us this morning to discuss this company's second quarter results and the Hearing Examiner's recommended decision in the New Mexico rate case. We will begin on slide four.

As expected, second quarter earnings were lower than last year. Consolidated ongoing earnings were \$0.40 per diluted share compared with \$0.44 per diluted share in the second quarter of 2015. In addition, we have narrowed our 2016 consolidated ongoing earnings guidance to \$1.55 to \$1.65 per diluted share to reflect the financial impact of the procedural delays on 2016 earnings.

In the PNM general rate case, the recommended decision would grant \$41.3 million of our requested \$121.5 million non-fuel increase and is based on a 9.575% ROE. Many of the intervening parties in this case expressed strong oppositions to several of our investments in rate base including the purchase of previously leased capacity at the Palo Verde nuclear generating station and the installation of balance draft equipment at San Juan. We strongly disagree with those positions and believe the case record shows that these investments were not only prudent but quite simply were the right thing to do for our customers.

August 17 is the deadline to file exceptions and we plan to file strong exceptions that emphasize the importance of recovering our investments. August 25 is the deadline for reply to the exceptions. The recommended decision must still go before the Commission for a final decision before rates can be implemented, and this schedule permits the Commission to reach a decision before the current suspension period ends on August 31. At this point, we continue to anticipate implementation of new rates by September 1. Chuck will talk in more detail about the financial details of the recommended decision.

Let's move on to slide five for a regulatory update. Since I've already given the update on the rate case, let's move to the San Juan generating station natural gas-fired plant CCN. In April, PNM filed with the New Mexico Commission requesting a CCN for an \$87 million 80 megawatt gas-fired peaker at the San Juan site. That process is now moving ahead and a hearing of the Commission is scheduled for November 7. Our goal is to have the facility on line by June 2018 before the summer peak season.

Last Friday, we filed to suspend PNM advanced meter infrastructure proceeding. We have requested the suspension to provide time to evaluate the pending rate case outcome and determine if the company needs to reprioritize its capital spending to ensure that our balance sheet and credit ratings remain strong. After we receive the final order on the rate case, we can determine whether we proceed with the [indiscernible] (05:25) filing or withdraw it.

As of June, FERC accepted PNM's remaining compliance filing in the FERC's formula transmission rate case and this docket is now closed. Under the formula rate, we will file annually to update rates in June based on the most recently filed FERC financials with a 10% return on equity. Our first annual update was effective this year on June 1, reflecting an increase of \$1.3 million. TNMP made its latest TCOS filing on July 19. We anticipate that new rates will go into effect in September and will increase revenues by approximately \$1.8 million annually.

Now, I'll turn it over to Chuck Eldred, our Chief Financial Officer, for a more detailed look at the numbers.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

Thank you, Pat, and good morning everyone. Beginning on slide seven, we had an ongoing earnings of \$0.40 for the second quarter of 2016 compared to \$0.44 in second quarter of 2015. PNM was down \$0.05, TNMP was down \$0.02, and Corporate and Other was up \$0.03. The earnings drivers for the second quarter 2016 versus the second quarter of last year are available to you in the appendix. Majority of the drivers are in line with the expectations that were established when we issued guidance for this year. However, there is one item at PNM that is new. We received interest income from the IRS that resulted in an increase in ongoing EPS of \$0.02 during the second quarter of 2016.

Now, moving to slide eight to review load information for the quarter. Load at PNM was down 0.4% compared to the second quarter of 2015 and 0.7% year-to-date, in line with our guidance for the year are flat to down 2%. While the second quarter shows significant changes in residential and commercial, on a year-to-date basis, these customer classes are normalized and are showing that there were some tiny differences between the first and second quarter of this year. As expected, industrial is down about 7% for both second quarter and year-to-date.

We are getting some traction with the state's economic development efforts. For example, Safelite AutoGlass is opening an insurance claims and support center that is expected to employ more than 900 people in Rio Rancho. We are also seeing expansions in current businesses, particularly in healthcare. Presbyterian Rust Medical Center has opened their second medical tower. They've also been expanding their clinic openings and are planning to build a new hospital in Santa Fe next year. As a result of these and other efforts in the area, the employment growth in Albuquerque continued its upward trend at 1.3%. For the month of June 2016 compared to June of 2015, Albuquerque had employment growth of 1.6%, even customer growth also continues to be higher than forecast at 0.7%.

TNMP continues to perform well. Volumetric load was up 6.2% in second quarter of this year compared to last year. As you recall, in the first quarter, this comparison was negative 1.6%. On a year-to-date basis, these metrics blend to show 2.6% growth year-over-year, which is in line with our guidance of 2% to 3% growth for 2016. Demand-based load is also up 2.8% for the second quarter and 2.2% on a year-to-date basis.

We continue to see growth in the Texas economy. Although it's been muted by the continued low oil price environment, the employment growth, particularly, in Dallas continues to increase. For example, Mary Kay recently announced they are planning to build a \$100 million state-of-the-art manufacturing and R&D facility in Lewisville. We also continue to receive request for additional capacity to serve petroleum processing facilities in our service territory. These factors result in a number of our end users being up 1.5% compared to the forecast of 1%.

On slide 9, we revised our 2016 ongoing earnings guidance last week to \$1.55 to \$1.65. PNM now is expected to be at \$1.08 to \$1.16, which reflects the delays in the rate case. We expect PNM's load for the year to come in near the midpoint of the guidance range or down 1% compared to last year. Although we're still waiting on the final Commission Order, we're already working hard to achieve results within the guidance range.

TNMP's range has been narrowed to reflect their business results for the first half of the year. We now expect it to be at \$0.50 to \$0.51. Corporate and Other guidance has been updated, primarily to recognize the financing that have been put in place earlier this year with Westmoreland, which is expected to be up a total of \$0.05 compared to last year.

Turning to slide 10, let's review the Hearing Examiner's recommendation decision on PNM general rate case. I'd like to iterate that we communicated before, we're disappointed with the Hearing Examiner's recommendation. It does not provide for the balanced treatment of needed resources for our customers and shareholders.

Depending on the Commission's final order, we may have to pursue a direct appeal to the Mexico Supreme Court. The key elements of the Hearing Examiner's August 4th recommended decision are listed here. The recommendation included an ROE of 9.575% compared to our requested 10.5%. The Hearing Examiner also recommended that we're not to be allowed to recover two significant capital investments, the Palo Verde 2 assets that were previously leased and our investment in balanced draft equipment which was required by our San Juan air permit.

The recommendation does support our request for CWIP, the pre-paid pension asset and supports our requested depreciation rate increase. However, it recommends against the collection of Palo Verde lease and property tax expense. We see no basis for this as we have been collecting these expenses since we entered into the leases in the mid-80s. The only change that has occurred is the extension of the leases which caused the payment to be cut in half, resulting in savings of our customers of approximately \$17 million per year through 2022.

The next steps in the rate case will be for the parties to file their exceptions and reply to exceptions before the Commission decides the case. We plan to issue a press release or an 8-K when the Commission issues their order. After we have this information, we will update our potential earnings power through 2019. We remain committed to managing our business and recovering our capital investments, resulting in a balanced outcome for both customers and shareholders.

Thank you for time this morning, and I will turn the call back over to Pat.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Thanks Chuck. It's unfortunate that the Hearing Examiner has issued a recommendation that may ultimately threaten our ability to provide reliable, affordable and carbon-free power to our customers while maintaining a strong balance sheet and credit metrics.

I'd like to wrap up my comments with something that which we are very proud. PNM set an all-time company high for overall satisfaction in the April-May J.D. Power residential customer satisfaction study. In addition, almost all the components that comprise the score including power quality and reliability, corporate citizenship and communications continued to grow. These results show that our employees' unrelenting focus on the customer experience is resonating.

Thank you again for joining us today. Operator, let's now open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Insoo Kim with RBC Capital Markets.

Insoo Kim

RBC Capital Markets LLC

Q

Hey good morning.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Good morning Insoo.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Good morning.

Insoo Kim

RBC Capital Markets LLC

Q

Hi. Just regarding the rate case, the Commission does side mostly with the HE's recommendation and you do so seek legal action. Are you planning to include all three of those items that PV 3 purchase, balanced draft and the extension of the leases into that litigation?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Insoo, if the recommended decision hold and of course, we're very focused right now in following the exceptions and try to see if we can get the Commission to reconsider the recommendations for the Hearing Examiner to address those significant capital items that you mentioned. In the event that the Commission does vote not to pursue correcting those items and doesn't allow the PV leases or Palo Verde purchase price as well as the balance draft, then we will definitely pursue aggressively our legal options including the appeal to the Supreme Court.

Insoo Kim

RBC Capital Markets LLC

Q

And then, at the Commission level, if this does not get approved for recovery, do you – is there a potential for you to, I guess, reapply for recovery of this in the next rate case for 2018?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

The Hearing Examiner provided the possibility of considering that, and we'll just have to wait and see what the recommended decision or what the actual final order is of the Commission. But again, we really think the important focus at this point is to file the exceptions and pursue our legal options and focus on the next rate case, which includes capital items that we have invested that we'll place in this forward test here and don't really want to carry over items that really should be addressed in this rate case.

Insoo Kim

RBC Capital Markets LLC

Q

All right. Understood. And then, turning away from that, could you provide a little bit of color on except for proceeding going on in the Commission regarding the PNM's proposal to propose renewable generation for Facebook's potential new data center? I know it's going to be between Utah and New Mexico. I was just reading some documentation in the press release [indiscernible] (15:33).

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Yes. Insoo, the hearing is today. It's going on right now and beyond that, we have no further comments.

Insoo Kim

RBC Capital Markets LLC

Q

Okay. And then, in terms of the proposed generation from what I read, is that 90 megawatts of wind as well as 90 megawatts of solar proposed or is that more of a hypothetical calculation that [ph] you guys do (15:54)?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Well, the filing really reflects 30 megawatts, which is supporting the data center which Facebook would proposed to build in the event they pursue it here in the New Mexico. And then there is certainly growth beyond that 30 megawatt capacity that goes into potential expansion of facility and growth over time. But the filing itself addresses the 30 megawatts that they require.

Insoo Kim

RBC Capital Markets LLC

Q

Okay. And then sorry, I don't know if you clarified, is that both, is that just solar or is that a combination of wind and solar?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Solar and rack purchase.

Insoo Kim

RBC Capital Markets LLC

Q

Got it. And do you know what the expected timeline on a final decision on all this would be?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

I don't know what our Commission would vote on it, we would have an order coming up on the August 12 and the Commission would vote on it after that. I do not know what Facebook's timing will be.

Insoo Kim

RBC Capital Markets LLC

Q

Understood. Okay. Thank you very much.

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

A

Thanks Insoo.

Operator: Thank you. And the next question comes from Ali Agha with SunTrust Robinson Humphrey.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Good morning.

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

A

Good morning, Ali.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Morning. First question, Chuck that \$0.02 of interest income from the IRS, was that a one-time item or should we assume that continues going forward?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

It was a one-time item.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Okay. And then also another...

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

So, I'd like to think that IRS would give us a refund every year with that, but we can't expect it.

Ali Agha
SunTrust Robinson Humphrey, Inc.

Q

Okay. And then, you talked about the interest you get on the Westmoreland loan. Net-net, your corporate number was actually positive for the quarter. Is that something to think about in terms of – on an annualized basis, can we multiply this quarter by four or are there other costs that come in to keep that overall still slightly negative?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

There is – certainly the incorporate in the Westmoreland financing in the Corporate and Other is something we'll be providing in guidance that we didn't include this last year but it's roughly around \$0.04 is what you can expect over the next few years if you were to think about it on a going forward basis.

Ali Agha

SunTrust Robinson Humphrey, Inc.

Q

Okay. Okay. And then coming to the – where we stand on the rate case, so [indiscernible] (18:08) the outcome from this rate case, will that have bearing on both the timing, it certainly could have bearing on the size but on the timing of the next filing, are you still planning a filing in December?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Absolutely, we're still planning on filing this December, Ali.

Ali Agha

SunTrust Robinson Humphrey, Inc.

Q

Okay. And so that won't change regardless of what happens here?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

That's correct.

Ali Agha

SunTrust Robinson Humphrey, Inc.

Q

Okay. Okay. And assuming that the Commission does keep that ROE at that level that is being recommended here, does this decision, as proposed, give you enough of leeway or tools to actually earn that ROE or could there be challenges as well based on some of the other disallowances?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

We'll wait and see what the recommended decision is but as we've always said and continue to say, we remain very focused on earning the allowed return granted by the Commission. So, we will remain focused on executing our business plans to earn that allowed return.

Ali Agha

SunTrust Robinson Humphrey, Inc.

Q

Yeah. Okay. And last question, as you mentioned, I mean, the disallowance of the PV 2 moving from lease to rate base, that should not impact the potential move of the PV 3 to rate base as part of the San Juan retrofit, should it, or is that a read through that causes you concern the way the Hearing Examiner is thinking about these nuclear units?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Two separate issues. We have the approval on the Palo Verde 3, as you well know in the BART settlement which includes a lot of different factors associated with that settlement and approval by the Commission. So, we look at it as two isolated separate decisions relating to this rate case.

Ali Agha

SunTrust Robinson Humphrey, Inc.

Got it. Thank you.

Q

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Thanks Ali.

A

Operator: Thank you. And the next question comes from Paul Patterson with Glenrock Associates.

Paul Patterson

Glenrock Associates LLC

Good morning.

Q

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

Good morning, Paul.

A

Charles N. Eldred

Chief Financial Officer & Executive Vice President

Good morning.

A

Paul Patterson

Glenrock Associates LLC

So, just first on the tax issue that gave you \$0.02 in the quarter; could you elaborate a little bit more on that?

Q

Charles N. Eldred

Chief Financial Officer & Executive Vice President

This goes back I think in 2004 to 2008 in some of the refunds that we were owed by the IRS and the interest income that was calculated against those refunds, and we were able to file evidence and facts to show that the interest income calculation on those refunds should have been higher. And so as a result of that, we were successful and the IRS granted us the additional amounts through interest income and we booked that this year to represent the \$0.02.

A

Paul Patterson

Glenrock Associates LLC

Okay. And then on the smart meter decision and obviously your unhappiness with the ALJ or Hearing Examiner's proposed decision. How should we think about CapEx in general, I mean, or other things like, I think you guys had expected above average dividend growth et cetera? I mean, it sounds like this proposal is something that you guys are quite concerned about. And I was just wondering if you could elaborate a little bit more about how we should think about what you guys might do in light of the potential of this becoming adopted by the Commission?

Q

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

The CapEx that we have in the appendix and what we have in our business plan that you see in the presentation today, does not include AMI. And so, what we're pointing out is we remain focused and committed to execute our plan that we have in place and continue to file for the exceptions and try to see if we can get some of these items corrected by the Commission. But we want to make sure that we don't add additional capital and provide some additional pressure on our balance sheet. As you know, we are well committed to our credit in making sure that we maintain a solid balance sheet and good credit metrics for the company. And so we will focus at this point in making sure we execute on our current capital plan, any additional capital, we'll just have to make a determination based on the final outcome of the Commission.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

And when you think about the AMI, we didn't ask to withdraw the application. It was a temporary suspension. And until we can evaluate the outcome of this rate case, and if the outcome of this rate case turns out favorably, we will just get right back on track again with the AMI. But we really want to have the optionality on that AMI because as Chuck said it's not in the current capital forecast.

Paul Patterson

Glenrock Associates LLC

Q

Right. I guess, what I am wondering though is, is it just limited to AMI and we don't – I mean, in another words, is it just limited to that because when one looks at this, and it's not just the Hearing Examiner, it looks to me like it's some of the other parties whatever basically, sort of, are challenging, what you guys have done sort of 2020 hindsight, kind of, approach or whatever, second guessing. And I am just wondering whether or not that if this were to be adopted, this kind of methodology that the Hearing Examiner is proposing, does that give you [ph] paws (23:23) in terms of how you go about additional ways to serve your customers? Because clearly they are challenging, sort of, they are retroactively kind of challenging what you've paid for things and what have you. And how do we think about that in the context of – I mean, is it just limited to the smart meter? In other words, you're suspending that, we'll see what happens to the rate case and that sort of the book ends that we're talking about or is there a greater risk to other potential investments you might make or timing of investments you might make?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Yes, I think, Paul, when you look at the three items that were just allowed in the case, two were associated with Palo Verde, the leases and then putting it in rate base, and the balanced draft. Those are very specific things. One goes into San Juan and the other is nuclear. No T&D capital was touched in this case. We got full recovery of T&D capital; as Chuck said, we got the CWIP. So I think this is a very specific issue about two very specific assets.

So, it doesn't give me a cause to worry about other things, but we do want to suspend the AMI just to take a look because we want to make sure – as you know we're very protective of our balance sheet and our credit ratings. So we just want that extra time to make sure we're still going to be okay. And like I said, I don't think you can generalize the Hearing Examiner's decision on Palo Verde and balanced draft to the rest of the capital spend, given that you didn't touch anything else.

Paul Patterson

Glenrock Associates LLC

Q

Okay. Thanks so much.

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

A

Welcome.

Operator: Thank you. And the next question comes from Anthony Crowdell with Jefferies.

Anthony C. Crowdell
Jefferies LLC

Q

Good morning. Just a couple of questions. What's the date were you expecting order in the current New Mexico proceeding?

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

A

Well, Anthony, right now – and good morning, right now, it's set for the August 31 that they could do it.

Anthony C. Crowdell
Jefferies LLC

Q

If there was an extension when would we – when would that come out that the Commission is going to extend an additional 30 days?

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

A

Probably Wednesday.

Anthony C. Crowdell
Jefferies LLC

Q

Wednesday, tomorrow Wednesday.

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

A

No, the following Wednesday. They have their open meetings on Wednesday. So, it's going to happen, it's going to happen on Wednesday.

Anthony C. Crowdell
Jefferies LLC

Q

Got it.

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

A

Probably not tomorrow because the agenda for tomorrow is out, and it's not on tomorrow's agenda. And the agendas for Wednesday come out usually late Friday.

Anthony C. Crowdell
Jefferies LLC

Q

Okay, great. Now, any El Paso proceeding in New Mexico, something I've never seen before in rate cases, a general counsel had issued some recommendations on ROE. Is that something we could expect also in this case or was there something unique in that El Paso case that would not cause to happen in this proceeding?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Anthony, you never know; we would not expect it to happen. And I think if you look at our El Paso's ROE and our ROE, our ROE is higher but it's not significantly higher than El Paso's. So, I suspect, since they've already gone through that, probably not. But could it happen? Yes.

Anthony C. Crowdell

Jefferies LLC

Q

Okay. I just wanted to jump on Paul Patterson's question before me. With the CapEx, and if you do get a decision that's really not that balanced, how quickly can PNM change their CapEx plans in New Mexico?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Anthony, I think to Pat's point, is that this is more about how we think about prioritizing our capital with the objective to serving our customers in meeting reliability and making sure that we do everything we can to run this business well as you'd expect us to. What we're really talking about is AMI and some capital that could be potentially reprioritized against other capital that would be focused on reliability and investing in the business to maintain that objective for our customer.

So the current capital we have in the budget that you see in the appendix remains our focus. We update that every year around December timeframe, we give guidance, and certainly we'll prioritize capital according to what the needs are for the business and to focus again on the customer priorities of serving their needs. And so, at this point, we're just focusing on AMI as something that we don't have to prioritize immediately. We'll reconsider that once we know the final decision and then make a determination if it fits into our plans going forward.

Anthony C. Crowdell

Jefferies LLC

Q

Okay. And second to last question I have is, if this recommendation was adopted, there is an appeal process, just the timing of how that works and do they just deny the entire rate increase? Let's say it was adopted, but you don't get the – there were just slight rate increase that the Hearing Examiner did recommend; does the whole thing just turn, get, I guess, stayed in the company now, is it current rates until decision is issued?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

No, Anthony, if you make the assumption that the decision would stand with the Commission, the rates that the Commission authorize will automatically go into effect and then we would appeal our items to the Supreme Court right away. But the amounts that are already allowed by the Commission would go ahead and go into rates.

Anthony C. Crowdell

Jefferies LLC

Q

And is there a normal, an average of when Supreme Court acts on this appeal? Is it weeks, months or years?

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

A

There is no statutory clause for the Supreme Court and the folks – the lawyers have gone back and looked at it, and it's probably about 12 months to 18 months that it would take to get it done.

Anthony C. Crowdell
Jefferies LLC

Q

Okay. And last question and it's probably also an iteration of these previous questions is, you had reaffirmed that the company does plan on filling another rate case in December, we talked about changing CapEx plans. I mean, do you think recommendation like this poisons the well for like balanced treatment for the utility in New Mexico?

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

A

No, I think that this is real specific to these three items. And while we were very disappointed with those, the balance of the decision, I think, is relatively constructive. If you look at rate design for example, while we didn't get decoupling, we got a small increase in our fixed charge; the Hearing Examiner approved the economic development tariff; and we had recommended some banding of increases to start getting rates back to parity and she didn't take our exact banding, but she took some pretty good banding. So I think it's just really related to three specific things here.

Anthony C. Crowdell
Jefferies LLC

Q

But you could understand from an investor's point of view, although you're looking it as like three items, they are three rather larger items.

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

A

Absolutely. And I don't mean to minimize the fact because these are very large items and we really believe that the decision is not the right one and we are going to fight it. What I'm just trying to say is, I don't take the decision on those three items and project it on to other spending of other utilities, not only PNM, but the other utilities in New Mexico.

Anthony C. Crowdell
Jefferies LLC

Q

Great. I'll jump back in the queue. I have one more. So I'll just jump back. Thanks for taking the questions.

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

A

Thanks, Anthony.

Operator: Thank you. And next question comes from Lasan Johong with Auvila Capital Consulting.

Lasan Johong
Auvila Research Consulting

Q

Good morning. How are you?

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

A

Good morning, Lasan. Good. How are you?

Lasan Johong
Auvila Research Consulting

Q

Good. Thank you. Does this have or should I say, have the credit agencies commented on the preliminary decision?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Lasan, no, they haven't. Of course, we keep them well-informed. They are very informed of the Hearing Examiner's recommendation. And they'll take that information and discuss it internally. I think, in general, they're surprised and discouraged with the regulatory treatment regarding the rate case and they – it seems like they probably be won't take any action, if any at all, until after the final order is issued.

Lasan Johong
Auvila Research Consulting

Q

So they haven't indicated any directional change?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

No, they haven't.

Lasan Johong
Auvila Research Consulting

Q

I see. Are you concerned about it?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Well, we're concerned of, just to what Pat pointed out, [ph] is not (32:01) recovering capital that we know is prudent and made under decisions at the time that were very supportive to meeting our customer needs and their generation supply, particularly nuclear going forward in future years. So we're disappointed in that regard.

We're very focused on our credit and that's why, for example, we delay the – pursuant to the AMI to make sure that we understand clearly what the final order is and how we interpret that information relative to our balance sheet and our strength going forward. But we remain committed to our capital budget that we have in our plan today and will just be very careful of how we think about investing in the business to ensure that we maintain solid credit metrics and a good balance sheet as we think through the business as a result of this final order.

Lasan Johong
Auvila Research Consulting

Q

Okay. Off the topic, kind of a more macro question, in Texas, as you know, NEE bought Oncor; do you see any kind of changes in how things are – in a big picture way, how things might change for TNMP with this new development?

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

A

No, I think it's business as usual for TNMP over in Texas.

Lasan Johong
Auvila Research Consulting

Q

Okay, great. Thank you very much.

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

A

Thank you, Lasan.

Operator: Thank you. And the next question comes from Brian Russo with Ladenburg Thalmann.

Brian J. Russo
Ladenburg Thalmann & Co., Inc. (Broker)

Q

Hi. Good morning.

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

A

Good morning, Brian.

Brian J. Russo
Ladenburg Thalmann & Co., Inc. (Broker)

Q

What are some of the other levers that you have to kind of maintain your current credit profile if the Hearing Examiner's recommendation is taken by the Commission?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Yeah. Brian, our credit metrics have been strong and solid using the FFO to debt metric as a measure of the strength in our credit. So I would view that we have some cushion in those credit metrics in how the rating agencies have rated the company at this point. And I think the concern is that we're beginning to lose some of that cushion and losing some of that margin we have for maintaining the credit profile that we have prior to this decision being made.

We'll continue to focus on our capital, our spend, and the next rate case and ensure that we can execute on our plans and keep the rating agencies informed as we do periodically to ensure they understand what our expectations are. I do know the numbers that they were working with and what their expectations were on the rate case, and I think we have a good clear communication and very transparent open dialog and we're comfortable with where we are. We're just disappointed in the regulatory recommendation on this rate case particularly with the items that we've already discussed. And I think as Pat pointed out, we see that being more isolated issues that need to be addressed hopefully by this Commission in their final order or if we have to through the appeal process with the Supreme Court. And then, we'll focus on the next rate case and our ability to execute on that plan as well.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Got it. And then just to clarify, where did the \$0.02 of positive EPS in that tax item? Is that in corporates?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Yes. It's in PNM; yeah, PNM.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

So it's at the corporate level. So the \$0.03 to \$0.02 drag that you're now assuming...

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

It's actually in PNM, it's not Corporate and Others, it's in PNM.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Okay, got it. So the decline in the corporate drag, that's all part of the new coal contract and the loan on that interest?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

That's correct. Yes.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

So the \$0.02 to \$0.03 drag, that's kind of the new base for Corporate and Other when we look forward?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

We haven't really – we haven't updated the Corporate and Other in regards to the earnings power slide, but certainly in the guidance it's factored in for this year.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Got it. And I'm just curious is this – is the Hearing Examiner in the rate case, is this a different Hearing Examiner than the one that was involved in the forward test year docket and then the one that was involved in the San Juan environmental compliance docket?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

It was a different hearing – can't even talk this morning, Brian, sorry. It was a different Hearing Examiner in San Juan.

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Okay. This Hearing Examiner was the one...

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Same one for the forward test year.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

It was the same one for the forward test year [indiscernible] (36:26).

Brian J. Russo

Ladenburg Thalmann & Co., Inc. (Broker)

Q

Got it. Got it. Got it. Okay. Thank you very much.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Thanks, Brian.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Brian.

Operator: Thank you. And the next question comes from John Barta with KeyBanc.

John J. Barta

KeyBanc Capital Markets, Inc.

Q

Hey. Good morning everyone.

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Hey. John.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Good morning, John.

John J. Barta

KeyBanc Capital Markets, Inc.

Q

Just to clarify, so if you had to go the litigation route, hypothetically that takes 12 months to 18 months. So then you wouldn't be allowed to put those items in the GRC as well come December?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

Yeah. I mean, the Hearing Examiner indicated we could if we wanted to pursue that, but if that decision hold, we'll focus more on the appeal process and the information and the record that was discussed and provided during this rate case. So our expectation would be to address this now and not try to carry this as an issue going forward.

John J. Barta

KeyBanc Capital Markets, Inc.

Q

Okay. I mean, so you could litigate it and then put it in the next GRC as well, if you wanted to?

Charles N. Eldred

Chief Financial Officer & Executive Vice President

A

The Hearing Examiner gave the option to consider that, but again, our focus is going to address on how we can best pursue the appeal and address the issue relative to this rate case and focus on the next rate case with – the plan is not to pursue those if we don't feel it's appropriate.

John J. Barta

KeyBanc Capital Markets, Inc.

Q

Okay. And then just in the general sense, the next rate case, that's really just truing up expenses potentially to peaker and then the rate design or decoupling?

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

It would be the fully forecasted test year, now that we have that decision. So it would be fully forecasted. And then, it also has Palo Verde 3 and San Juan, the settlement that we came to would be part of that and then it's truing up and then whatever rate design, things that we would decide to carry forward.

John J. Barta

KeyBanc Capital Markets, Inc.

Q

Okay. Thank you.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

You're welcome.

Operator: Thank you. And the next question comes from Bill Appicelli with Nexus.

Bill Appicelli

Nexus Asset Management LLC

Q

Hi, good morning.

Patricia K. Vincent-Collawn

Chairman, President & Chief Executive Officer

A

Good morning, Bill.

Charles N. Eldred
Chief Financial Officer & Executive Vice President
Hi, Bill.

A

Bill Appicelli
Nexus Asset Management LLC

Q

Just following up on a question that Insoo asked earlier, on this potential investment with Facebook. I mean, I guess, could you just elaborate on the structure of this? This is something that's outside of rate base or can you just maybe elaborate on how the structure of ownership do would work?

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Yeah. If you actually look at the Q that shows you a description on what this structure looks like and gives you some feedback on that, it's on page 69 of the Q that we filed this morning. So I would suggest you take a look at that. And if there is questions, you can follow-up with IR. We really don't want to make a lot of comments, because it is not a hearing today and so we've just – what we've disclosed, I think, very adequately covers your question in the Q, if you don't mind.

Bill Appicelli
Nexus Asset Management LLC

Q

Okay. All right. That's fine. Thank you very much.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Thank you.

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

A

Thanks, Bill.

Operator: [Operator Instructions] And the next question is a follow-up from Anthony Crowdell with Jefferies.

Anthony C. Crowdell
Jefferies LLC

Q

Chuck, [indiscernible] (39:37).

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

Anthony, you've used up your time, I am sorry.

Anthony C. Crowdell
Jefferies LLC

Q

I have, I'll just look at the Q. I am good. Thank you.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

No, no, no, I was just kidding. Go ahead.

Anthony C. Crowdell
Jefferies LLC

Q

No. It was more on friending you on Facebook. So I'd rather just look at the Q; and if not, I'll follow up.

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

A

Great. Thank you.

Charles N. Eldred
Chief Financial Officer & Executive Vice President

A

[indiscernible] (39:55) Facebook to answer to you as well.

Anthony C. Crowdell
Jefferies LLC

Q

Perfect.

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

A

Yeah. You can friend us on PNM's Facebook page.

Anthony C. Crowdell
Jefferies LLC

Q

I look at that a lot.

Operator: Okay. Thank you. And we also have a follow-up from Lasan Johong with Auvila Research Consulting.

Lasan Johong
Auvila Research Consulting

Q

Thank you. Last question. There is a hard deadline of October 1 for the implementation of the GRC, correct? The Commission can't respond past October 1, right?

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

A

That is correct.

Lasan Johong
Auvila Research Consulting

Q

Great. Thank you very much.

A

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

You're welcome.

Operator: Thank you. And there are no more questions at the present time. So I would like to return the call over to management for any closing comments.

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

Thank you and thank you everyone for joining us today and your interest in PNM Resources. As development happen on today's hearing and on the general rate case, we will definitely keep you informed through 8-Ks or investor releases. So we look forward to continuing to talk with you and have a great rest of your day.

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

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