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PNM Resources, Inc. (PNM)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

Jimmie Blotter

Assistant Treasurer and Director, Investor Relations and Shareholder Services, PNM Resources, Inc.

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

Joining me today are PNM Resources Chairman, President and CEO, Pat Vincent-Collawn; and 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 Report on Form 10-Q, as well as reports on Form 8-K filed with the SEC.

And with that, I'll turn it over to Pat for our call.

Patricia K. Vincent-Collawn

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

Thank you, Jimmie, and good morning, everyone. Thank you for joining us today for our first quarter earnings call. Let's begin on slide 4 with the financial results and some company updates.

Our GAAP earnings per share in the first quarter of 2019 reflect earnings of \$0.23 compared to \$0.19 in the first quarter of 2018. Ongoing earnings per share are \$0.13 compared to \$0.21 in the first quarter of last year. During the first quarter, load growth and weather in New Mexico once again contributed to increased earnings at PNM and as a result, we have raised the top end of our guidance range for 2019 to reflect increased expectations. Our guidance for 2019 is now \$2.10 to \$2.20. Chuck will provide further details on the financials in a few minutes.

The key highlight for the first quarter was the New Mexico legislative session. This year's session produced a solid energy policy for the state that was led by the governor and the legislature. The Energy Transition Act passed through the Senate and the House and the governor signed it into law on March 22. The new legislation is effective June 14 of 2019.

One of the key components of the bill was to allow for securitization, which helps make the transition to clean energy more affordable for customers. Another key component is the renewable standards set forth: 40% renewables by 2025, 50% by 2030, and 80% by 2040 and then 100% carbon-free resources by 2045.

Our previous Integrated Resource Plan brought us to over 70% emissions-free by 2032 that challenged us to solve the remaining 30% by 2045. As we've gone back to consider scenarios that would meet this requirement, we believe that changes can lend themselves to an earlier achievement date and has set a company goal to be emissions-free by 2040, five years earlier than the Energy Transition Act. We are identifying different paths to achieve this goal and plan to continue the collaborative efforts that were integral in the passing of new legislation to determine the right resource path for the next 20 years.

The Energy Transition Act also contained some guidance on how to choose replacement power. For example, the bill states that preference is to be given to locating the resources in the San Juan area and replacing the property tax base in that school district. The bill also states that the utility should have the discretion to control, operate, and maintain energy storage systems. We will take all the components of the bill into account as we prepare our filing for the abandonment of San Juan and replacement power alternatives, which I'll talk more about in a minute.

Looking out to next year, our Integrated Resource Plan required by July 1, 2020 will contemplate scenarios for our long-term resource plans for the next 20 years that will align with our goal of producing zero emissions by 2040.

The bill also provides needed assistance to workers in the San Juan area communities. We have been committed to supporting our employees and their families in this part of our state for many years and our commitment will not end with the retirement of the plant. Outside of the assistance provided to the Energy Transition Act, we have made plans to work with non-profit agencies in the community to ensure that services are available to provide the training and assistance needed to move forward.

Another significant piece of legislation that passed this session was a joint resolution to change the New Mexico Public Regulation Commission from its current make up of five elected commissioners to three appointed commissioners beginning in 2023. The resolution also narrows the mandatory responsibilities of the commission to focus on utilities and other public service companies as determined by the legislature and states that candidates for nomination would need to meet certain requirements around education or experience.

The bipartisan resolution was introduced by the Senate majority and minority leaders and was passed to the Senate and House with a combined votes of 95 to 13, demonstrating strong bipartisan support for these legislative changes. Three of the five current commissioners have endorsed the changes as well. Because the change requires an amendment to the state constitution, the next step is for the resolution to go on the ballot in the 2020 general election. A simple majority is required to pass the bill.

A more recent highlight was the announcement last week of an acquisition of the Western Spirit transmission line. While New Mexico has incredible potential for solar and wind energy, the transmission system must be developed to deploy these resources and move the energy to where it is needed. This has been a goal of the New Mexico Renewable Energy Transmission Authority or RETA for several years and we are happy to support their efforts along with our governor's goals to make New Mexico a clean energy leader.

RETA and Pattern Development have been developing the line and PNM has agreed to acquire it after its completion. This acquisition fulfills PNM's obligation to provide transmission service for the renewable generation facilities and will provide additional capacity on our grid, improving resiliency and the overall reliability of our system. The acquisition also aligns with the incremental capital growth opportunities that we have presented.

Of course, the transaction is subject to the necessary regulatory approvals and this week, we will be making a filing at FERC for an incremental rate tariff by which Pattern Development will pay for the use of the line. A filing at the New Mexico Public Regulation Commission will also be made related to this acquisition.

Now, turning to slide 5, I will walk through recent updates to the regulatory agenda and other filings to expect in the coming months. Regarding the San Juan compliance filing, the New Mexico Supreme Court issued a temporary stay of the Commission's order for an abandonment filing on March 1 and requested that parties file responses to the appeal of the Commission order by March 19. The Supreme Court has not taken further action following these responses. We plan to file for abandonment along with securitization of [ph] underappreciated (00:09:07) costs and CNNs for replacement power by the end of June.

I mentioned on last quarter's call that we are encouraged by what we are seeing across the industry in terms of breakthroughs for energy storage and pricing for renewable resources. We are confident in our ability to maintain cost-effective, reliable and ultimately emission-free energy for our customers. Our June filing will include the lease cost plan for replacing the energy needs currently served by San Juan, but will also consider alternatives based on the preferences included in the Energy Transition Act and resources that work toward meeting the future RPS standards.

In our filing on the Western Energy Imbalance Market, the Commission issued an order allowing for the creation of a regulatory asset to recover the costs necessary to participate in the market that will be considered in a future general rate case. We joined with other parties to ask the Commission for clarification of how the benefits of market participation would be evaluated when cost recovery is considered in a future rate case.

The Commission verified that quarterly reports from the California ISO may be used to quantify the benefits, providing us the confidence to invest in the market for the benefit of our customers. We are moving forward with our original plans to enter the Imbalance Market in April of 2021 and begin providing those expected savings to customers as soon as possible.

We also made a filing with the commission last week to rehear the case on the BB2 Transmission Project. This filing is for a transmission network service upgrade and while the Commission's order approved the CCN to

construct the line, it directly assigns certain cost to Facebook instead of across the full network of customers that receive the benefit of the upgrade. The rehearing would provide the Commission the opportunity to reconsider their order regarding cost allocation of the project and recognize that the upgrade increases overall system reliability, supports more renewable energy additions, and most importantly, provide the financial benefit to customers without directly assigning cost to one customer. The Commission has until May 19 to act on our request.

I want to point out that we will have our upcoming renewable plan filing at PNM to request an update to rate under our renewable rider. In this year's plan, we expect to request recovery for 140 megawatts purchase power agreement for wind power that is necessary to meet the requirement of our existing RPS standard and it would rely on the BB2 line to deliver power to our customers. We will provide an update on this filing along with our June abandonment filing during our second quarter earnings call.

Over at TNMP, after we implemented rates in January from our general rate case approved in December, we filed for a \$14.3 million TCOS increase that was approved and implemented at the end of March. This filing was larger than our typical TCOS filing because we had to delay our request for recovery of transmission rate base during our General Rate Review in 2018. We now expect to follow our usual pattern of twice yearly filings, with the second TCOS filing in the fall.

And with that, I'll turn it over to Chuck for a detailed look at the numbers.

Charles N. Eldred

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

Thank you, Pat, and good morning, everyone, and thank you for joining us. Beginning on slide 7 with a recap of the first quarter earnings results, our guidance for Q1 2019 was \$0.08 to \$0.09 of ongoing earnings per share, we came in at \$0.13. PNM's earnings were up \$0.02 compared to the first quarter of 2018. As planned, the second phase of our retail rate increase was implemented in January and we continue to see year-over-year interest savings from debt refinancing. These increases were offset by expected increases in O&M costs to support load growth that picked up in 2018 and to maintain reliability along with higher depreciation and property taxes from capital investments.

Load growth was 1.2% higher than Q1 of last year. This was also higher than our expectations for the quarter. Weather was colder for the first quarter of 2019, with heat in degree days 11% higher than normal at PNM. This led to a \$0.03 increase to earnings when compared to Q1 of 2018.

We also had a shift in our planned outage schedule. Four Corners accelerated its planned outages from second quarter to first quarter. To accommodate Four Corners being down, we moved the longer San Juan Unit 4 outage to start in the second quarter. This shifts most of our outage cost that were expected in the first quarter to the second quarter. We have revised our quarterly distribution earnings in the appendix to account for this movement.

TNMP is down \$0.07 for the quarter compared to 2018. This was an expected result of the new rates implemented in January. Our rate recovery was rebalanced between the wholesale transmission and retail distribution operations, and changes the rate design [indiscernible] (00:14:35) more our recovery to volumetric base rates from demand base rates.

While the rate increase in TCOS recovery will result in an overall increase for the year, more earnings will be pushed into the higher volume quarters of Q2 and Q3. For example, the base rate increase included an increased

depreciation rates that raises TNMP's expense ratably throughout the year while the offsetting recovery comes largely to volumetric rates that are heavier in Q2 and Q3.

We also did not have our typical second TCOS filing in 2018 to recover transmission investments because we're unable to file during our General Rate Review. As a result, we have higher depreciation in property tax expenses from these investments in Q1 without an offset in increase in revenues. As Pat mentioned earlier, our January TCOS filing of \$14.3 million was approved near the end of March so we'll begin seeing recovery of these investments in Q2.

Corporate and Other was down \$0.03 for the quarter. This was largely due to the early repayment of the Westmoreland loan in May of last year along with a higher fixed interest rate on the \$300 million of senior unsecured notes that we entered into in March of 2018.

Now, turning to slide 8 for our load information. As I mentioned, PNM load grew at 1.2% in the first quarter. Residential and commercial volumetric loads remain strong and continue to be in line with our annual guidance for the year. The growth that was above our expectations was driven by higher industrial usage, which includes the Facebook data center that made the news with its first of six expected buildings coming online.

Looking forward, we continue to see positive indicators in the New Mexico economy and our increase in our load growth expectations and earnings guidance for this year as a result. We have raised our industrial load expectations for the year, which brings our total load guidance to the year to a range of 0.5% to 1.5% from 0.3% to 1%.

Turning to TNMP, with the first quarter being a low volume quarter, small changes had a larger impact on the growth percentage. As we've seen before, volumetric load growth is negative in the first quarter this year but the annual expectation remains positive. In the business, we continue to see increases in new customer request and unprecedented levels of transmission interconnection request. Both are trending considerably higher so far in 2019 than they were in 2018. We're also seeing an increase in residential and small commercial meter additions. As a result, we remain confident in our expectations for the full year.

Now, turning to slide 9. In February, we raised the lower end of our guidance by \$0.02 to reflect the reduced downside risk associated with the stronger weather that PNM experienced in the first two months of the year. As we look out to the remainder of the year, we see more upside potential associated with our increased load expectations and are raising the top end of our guidance to \$2.20. That brings our new guidance range to \$2.10 to \$2.20 and we're confident in our ability to achieve the midpoint.

PNM's range was also raised to account for this increase along with further expected interest savings for short-term debt and is now at \$1.63 to \$1.70. The loss at Corporate and Other has been increased due to higher debt balances, some one-time miscellaneous Corporate expenses, and a lower anticipated effective tax rate results in lower tax benefits on our consolidated tax distribution.

Moving to slide 10 for our capital plan, first, I want to point out that 2021 PNM transmission expansion categories reflect the further realization of our incremental growth opportunities with the planned acquisition of the Western Spirit transmission line. This represents an investment of \$285 million in 2021.

We have also added \$40 million of T&D capital at PNM in 2022 as we continue to review our capital prioritizations to support reliability and our growth on our system and the replacement of aging infrastructure. This brings our

total rate base investment plan for 2019 to 2022 to \$2.6 billion from \$2.3 billion and this level of investment supports our earnings growth target over the same period of 5% to 6%.

As noted on the slide, we expect additions to our investment plan for San Juan replacement power as we transform PNM's generation portfolio which will be funded with securitization proceeds. After the San Juan abandonment filing is made in June, we will begin to reflect the additions for the replacement power investments on this chart. We expect the filing to be made near the end of June. After the filing is made, we will post information on our website related to our capital plans and potential earnings power.

Now, turning to slide 11, we have updated the potential earnings power to include the Western Spirit transmission acquisition, which reflects a \$0.16 increase in the PNM FERC line. The new base for PNM Resources is \$2.39 to \$2.50. We are clearly on track to meet our earnings growth target of 5% to 6%. This is prior to earnings from either the Supreme Court appeal or San Juan replacement power.

We've also consolidated the financings of our growth into the equity financing plans line. Initially, our plans are to issue up to \$150 million of common equity from 2020 to 2022 through our previously announced ATM program. The earnings power slide assumes \$50 million in 2020 and ramps up to a maximum of \$150 million in 2022.

Furthermore, we include an additional equity issuance model in the form of mandatory convertible security of \$250 million in mid-2021. This includes the funding for the Western Spirit transmission project. No firm decisions have been finalized on the mandatory convertible security versus other financing structures but to capture the possibility, it's included in the earnings power. Timing of the equity financing plans will be optimized to support the company's credit objectives.

Finally, as we realize our growth opportunities through 2022 and move forward to 2023, our financing plans reflect our commitment to maintain our investment grade credit metrics for PNM Resources and our utilities. To meet this plan, we continue to maintain the current regulatory cap structures at the [ph] operating entities (00:21:14). On a consolidated basis, we are targeting 16% FFO to debt ratio and holding company debt levels that are less than 20% of our consolidated debt.

Now, I'll turn it back over to Pat. Thank you.

Patricia K. Vincent-Collawn

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

Thanks, Chuck. We remain focused on executing our plans to transition PNM's generation portfolio to carbon-free resources by 2040. The Energy Transition Act has established an energy policy in New Mexico with clear goals and direction for the future to increase renewables and infrastructure investments. We hear that direction and accept the challenge.

In Texas, we're committed to supporting growth by strengthening in our system to provide reliable service that meets the needs of our customers. While meeting this growth, our TNMP team has also earned EPA recognition for the fourth consecutive year as an ENERGY STAR Partner of the Year for the energy efficiency programs and they were also selected for a Sustained Excellence Award, meaning that the program achievements continue to surpass those in prior years and that was the second consecutive year they won the award. We still have plenty of work to do but achievements like this show that we're on the right path.

Andrea, let's please open it up for questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] And our first question comes from Greg Gordon of Evercore ISI. Please go ahead.

Greg Gordon

Analyst, Evercore Group LLC

Q

Thanks. Hey, guys. How are you doing?

Charles N. Eldred

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

A

Good.

Patricia K. Vincent-Collawn

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

A

How are you?

Greg Gordon

Analyst, Evercore Group LLC

Q

Did you guys take advantage of National Comic Book Day this weekend?

Patricia K. Vincent-Collawn

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

A

Actually, when I was downtown I saw a bunch of people running around in comic book outfits so that was my extent of celebration.

Charles N. Eldred

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

A

But we're not in costume today.

Greg Gordon

Analyst, Evercore Group LLC

Q

[indiscernible] (00:23:26) take advantage of the sundry special days we have over the course of the year. So I thought [indiscernible] (00:23:30).

Patricia K. Vincent-Collawn

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

A

I know and we couldn't find a good day for the day, so we're boring.

Greg Gordon

Analyst, Evercore Group LLC

Q

Definitely not boring. My question is I guess with regards to the timing or pace of change in terms of the – at the regulatory commission, can you just review what we have to look forward to in terms of milestones to get to the point where that would be an executed change in the structure of the Commission?

Patricia K. Vincent-Collawn

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

A

Sure. The resolution goes on the ballot in the next general election in 2020 and it just needs a simple majority to pass. And then the changes will phase in so that by January 1, 2023, it will be the three appointed commissioners, no more than two from one party, and the legislature plans to set some pretty extensive education and experience requirement.

Now, the legislature still needs to put together the enabling legislation for that. They could either do it in 2021 after the legislation is passed or their current thinking is to put that legislation into place next year in 2020 before the constitutional amendment is on the ballot. So, that way, they'll give voters a way to see what the education is, what the experience is, and the selection process because they want to prove that there will be a very robust selection committee and process so that it won't just be sort of a – I won't say random but less robust appointments. So, that's where we are looking forward now. And the business community and obviously environmental community are both very supportive of moving to that appointed Commission.

Greg Gordon

Analyst, Evercore Group LLC

Q

Thanks. And second question, if I look at your last disclosure with regard to potential upside CapEx versus what you've been able to execute, in the Q4 deck, you had \$350 million in 2021, [ph] \$122 million (00:25:31) for a total \$400 million. You've executed on \$285 million. I mean, should we think about the incremental CapEx that might be needed to meet the state's goals with regard to the environmental transition as being in the ballpark of that or could it just be significantly higher or lower or overall a different timeframe, depending on how your resource planning comes out?

And then as a sub-question to that, because this is being financed with the securitization proceeds, should we see that as accretive to rate base and earnings or should we see that as a replacement for the earnings or that the economic contribution that would have otherwise come from the plant that you're retiring?

Charles N. Eldred

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

A

Yeah, Greg, to your point, we've – out of \$950 million we've invested, \$580 million between the PNM and TNMP customer growth aspects of the capital and then also the Western Spirit transmission investment, the additional capital will be driven by the decisions around the replacement power. Certainly we feel strongly that as we go through the RFP process, there will be some opportunities for ownership that will be justified for the values that we can create for serving customers with the changes in our load profile and the expectations to meet the new Energy Transition Act. And anything additional that we feel is maybe lacking from replacement power then we'll go back to look at other capital then our prioritization pipeline, if you will, of other opportunities to see if we need to fill any gaps.

So we're focusing on the 5% to 6% growth through 2022. We're comfortable that we're on track to do that and we feel like with the replacement power, it will clearly provide an opportunity but in the event that we fall slightly short there, then we'll look at other capital that we have in our prioritization bucket, so to speak, to add some additional growth.

Greg Gordon

Analyst, Evercore Group LLC

All right. Thanks. Have a great morning.

Q

Charles N. Eldred

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

Thanks.

A

Patricia K. Vincent-Collawn

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

Thanks. You too.

A

Operator: Our next question comes from Julien Dumoulin-Smith of Bank of America Merrill Lynch. Please go ahead.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Hey. Good morning.

Q

Charles N. Eldred

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

Good morning.

A

Patricia K. Vincent-Collawn

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

Good morning.

A

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Hey. Excellent. Got no punchy line like Greg here. Curious, though, if you can elaborate a little bit here on some of the excitement around the generation. So, just want to understand in a preview to June here, how many megawatts are we talking about here? I know the legislation was fairly prescriptive. I know that there is a replacement opportunity that's pretty fairly prescribed. How do you think about that? And in terms of cost, I mean there's nothing necessarily that would shift this away from what you would otherwise expect for the cost of a peaker type solution, right? Onsite?

Q

Charles N. Eldred

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

Yeah. So, Julien, it's about 450 megawatts replacement power and we don't want to get our – we're at a point yet to give a lot of details as to what we think around the actual replacement power will be. But we have said in other discussions that we feel a need for this additional peaking units that would allow for support and reliability to your system and that could certainly could be some assets that are built up in the San Juan area and then there'll be accommodations in some renewable generation, could be both either solar or wind. And then the additional piece could be battery storage but we're going through a very robust RFP process. We want to make sure that we have justified all aspects of what we think is the most affordable and reliable replacement resources and then when we

A

come out with the abandonment filing in June, then we'll update the earnings power and the capital slides to reflect that.

Patricia K. Vincent-Collawn

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

A

And, Julien, [indiscernible] (00:29:23) is that we'll put alternatives out, right, because there's more than one way to get to where we want to go. There's the lease cost of putting the resources up at San Juan to fulfill the tax base. There's using batteries instead of gas. So, we're going to have multiple scenarios so that the state can have that collective dialogue on where they want to go.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Okay. Fair enough. And the couple hundred million dollars wasn't – that was really a placeholder, right, that was going to reflect the [indiscernible] (00:29:54).

Charles N. Eldred

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

A

It's a placeholder to indicate that we do feel like there will be some replacement resources that will be justified for ownership and so certainly that was the intent when we identified the replacement power possibilities.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

And let me come back to this both in terms of this immediate RFP but also broadly in terms of PPAs or otherwise to meet the higher RPS. How do you think about build-own-transfer opportunities and just being able to compete given the challenges of having solar and rate base here?

Charles N. Eldred

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

A

We really feel on replacement power, on the peaking capacity of what's needed to provide some of the – just to support of the Imbalance Market that we can be very competitive and will be very competitive. So, we're very open to a procurement process to ensure that the decisions made around procurement are best serving customer needs and also the other stakeholders, shareholders, et cetera as we think about what's the greatest value of what is necessary to make decisions around affordability and reliability to include ownership as well as possibility of PPAs. So, we're just going to let the process work itself through but we're comfortable that we – as Pat pointed out, there'll be several options. But certainly we think ownership does create some additional value that PPAs don't bring.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Then that ownership route, if we see a PPA headline there, does that necessarily preclude a build-own-transfer opportunity in your mind? Just to be a little more clear about that.

Charles N. Eldred

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

A

No. No.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Okay. Excellent. And solar and rate base, something you could do from just structure and perspective.

Charles N. Eldred

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

A

Well, again, it depends. We have the JV that certainly has the capability of bidding on solar to make it competitive to third-party solar opportunities. So, we just let the [indiscernible] (00:31:56) process work itself through and then we'll make decisions around what we think is the right combination of replacement power.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Got it. In the transmission line, there's no incremental opportunity beyond the \$285 million like off that initial route?

Charles N. Eldred

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

A

Not initially. We think that'll cover what's necessary for meeting the needs of Pattern and certainly we continue to strengthen our own system with the BB2 line and overall, the net effect of creating value for a stronger infrastructure continues to be a focus but that's currently what we'd identified as the opportunities.

Julien Dumoulin-Smith

Analyst, Bank of America Merrill Lynch

Q

Excellent. Will leave it there. Thank you very much. Congrats.

Charles N. Eldred

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

A

Thank you.

Patricia K. Vincent-Collawn

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

A

Thank you.

Operator: [Operator Instructions] And our next question will come from Ali Agha of SunTrust. Please go ahead.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Thank you. Good morning.

Patricia K. Vincent-Collawn

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

A

Morning, Ali.

Charles N. Eldred

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

A

Hey, Ali.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Morning. First question, Chuck, I just wanted to be clear. When I look at the financing plan you laid out this time around as part of the earnings power versus what you had given us on the fourth quarter, there's a significantly higher amount of equity. I guess the mandatory convert has come into the equation. Can you just explain what's driving that in the sense that the total amount still looks to be similar to what you were talking about previously when you talked about growth plans? So, why more equity now than what you had previously shared with us?

Charles N. Eldred

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

A

Well, again, we do keep adding the growth opportunities that you're familiar with into our capital plan and so we're just making sure that as we think through financing the business that we maintain a strong credit focus of ensuring that we don't go over the 20% consolidated debt of the holding company and we maintain a target of 15% FFO to that. And so the financing plans are really reflective of what we think is appropriate to meet those types of requirements in that 2022, 2023 timeframe.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And then also, I believe the earnings power that you had given us back with the year-end numbers included some assumptions on the replacement plan. So, when you put it all together, that the real bottom line earnings power for the outer years was much higher than what you're sharing with us today. So, when you do firm up that replacement plan with your filings and update the earnings power slide, do we roughly end up at the same level where we were at year-end or are you now ahead of that given the transmission and other growth initiatives?

Charles N. Eldred

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

A

No, we're right on track to where we think is reflective of what the original expectation was with growth opportunities and we were a little bit higher on the FERC side for the Western Spirit transmission line. We certainly, as you pointed out, the earnings power potential slide does not include any replacement power, so there's certainly upside when we begin to think about the possibilities there. And everything else in the TNMP and the other aspects of the business reflect the additional capital we've put in for the growth expectations in Texas.

So I think we're clearly on the track of meeting the objective of 5% to 6% earnings growth with the added capital and the additional possibilities with the replacement power or other types of capital that we have in our prioritization pipeline.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Yeah. Last question, in the past, you folks have talked about the importance of scale in the yearly business and the fact that on a stand-alone basis perhaps PNM doesn't have that scale but nevertheless, you're increasing the CapEx plans and so on. What's your latest thinking about that and might you still be interested in growing beyond organic growth as you're looking at the optimal scale for this company?

Charles N. Eldred

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

A

Well, we continue to focus on our plan that we've laid out and the expectations set within the earnings power potential to business: our capital plan, meeting credit metric objectives, what we think is affordable for potential rate increases that we will file given this period of time; first one being in December of this year effective in 2021. So that's plenty for us to continue to do and if that's -- represents organic growth and opportunities that we think supports the transition to a different portfolio in New Mexico. And as we've said before, there's other third parties interested in the company in a different way involving M&A then certainly we would always take that to the board for consideration. But we've got our hands full right now of what we've got to do and we continue to focus on that and execute to deliver the results that we have set in these expectations.

Ali Agha

Analyst, SunTrust Robinson Humphrey, Inc.

Q

Fair enough. Thank you.

Patricia K. Vincent-Collawn

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

A

Thanks, Ali.

Operator: Our next question comes from Andrew Levi of ExodusPoint. Please go ahead.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Hey, guys. How are you?

Charles N. Eldred

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

A

Hey, Andy.

Patricia K. Vincent-Collawn

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

A

[indiscernible] (00:37:20). Morning, Andy.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Just a clarification on the financing. I understand what's being issued. Just on the potential capital or CapEx upside, does the financing kind of include potential capital upsizing or would that be incremental or not?

Charles N. Eldred

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

A

No. The financing plan includes what we have currently identified in our earnings power expectations to meet the capital growth that we've laid out in the plan. And keep in mind, replacement of power will be handled through securitization if there is a replacement of resources and we will finance it through that mechanism. So, that's not really reflected in the plan. So, at this point, what you have in the earnings power is what we think is the financing plan to meet the capital growth that we have identified.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Okay. And then just back on the financing, so is up to these amounts or these are the amounts?

Charles N. Eldred

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

A

No. They're up to these amounts because it gives us – as we all know, timing of financings, circumstances around where we think we want to execute for supporting the cap structures, the operating companies and the credit metrics I talked about. So, that particular category could have some movement on timing and even size based on what we think is appropriate for the business. But for the benefit of showing the earnings potential, we just made some basic assumptions that you can work with Lisa and Jimmie on to get a better understanding of what's built into the numbers. But certainly there's some flexibility as to how we think about optimizing the financing plans within the business as we go forward.

Andrew Stuart Levi

Portfolio Manager, ExodusPoint Capital Management LP

Q

Okay. Great. Thank you very much.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Pat Vincent-Collawn for any closing remarks.

Patricia K. Vincent-Collawn

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

Thank you, Andrea, and thank you all for joining us this morning. We look forward to talking to you on our next quarter earnings call and have a wonderful rest of your week.

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

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