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PNM Resources, Inc. (PNM)

Q4 2021 Guidance Call

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Paul Fremont

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the PNM Resources 2021 Earnings Guidance 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 today's event is being recorded.

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

Lisa Goodman

Director-Investor Relations, PNM Resources, Inc.

Thank you, Rocco, and thank you everyone for joining us this morning for the PNM Resources' 2021 earnings guidance conference call. Please note that the presentation for this conference call and other supporting documents are available on our website at pnmresources.com. Joining me today are PNM Resources' Chairman, President and CEO, Pat Vincent-Collawn; and Don Tarry, our Senior Vice President and Chief Financial Officer; along with other members of the senior management.

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. These forward-looking statements also include statements regarding the potential business combination transaction between PNM Resources and AVANGRID.

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. Additional information with respect to the proposed business combination transaction can be found in the forthcoming proxy statement, which we will file with the SEC. Information regarding the interest of participants and the solicitation of proxies in connection with the proposed transaction will be included in the proxy statement and other relevant materials PNM Resources intends to file with the SEC.

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

Patricia K. Vincent-Collawn

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

Thank you, Lisa, and good morning, everyone. Thank you all for joining us today for our 2021 earnings guidance call.

Last year, we released guidance on December 18, which was National Bake Cookies Day. We told you all our favorite cookies, invited you to send some to our offices. And you know what quite frankly we were disappointed that we did not receive one single cookie, but we're willing to give you all a second chance. So, this year we're talking to you on December 17, which is National Regifting Day and we invite you to regift us something, that's right. Send us that odd gift you received last year, you know you packed it up in the holiday decorations, found it again this year and you don't know what to do with it. So send it to us. We want to see it. And maybe we'll keep it re-going and regifted. We also know that you all have been working from home this year and have perfected those baking skills. So feel free to send some cookies along with that regift.

So now let's begin on slide 5. In our release this morning, we reaffirmed – excuse me, we affirmed our 2020 ongoing EPS guidance of \$2.23 to \$2.31 per share and we introduced 2021 ongoing EPS guidance at a range of \$2.27 to \$2.37. Don will go into more detail on the numbers. Earnings guidance reflects a full year of our current company structure, although we continued to expect that we will receive the necessary regulatory approvals for announced merger with AVANGRID to close in the second half of next year.

Earlier this month, our board increased the dividend on our common stock by 6.5%. This marks our 11th consecutive increase since 2012 and reflects a payout ratio at 56% of earnings based on the midpoint of our 2021 guidance. We will continue to make quarterly dividend payments until the close of the merger. Our proxy will be filed tomorrow and we are planning for the shareholder meeting in February. We are moving forward on the regulatory filings and you can find the list of those different approvals in the appendix of today's presentation.

Turning to slide 6, I'll talk about some of those filings along with our regulatory agenda for PNM and TNMP in 2021. At PNM, we filed for approval of the merger with both the New Mexico Public Regulation Commission and the Federal – Federal Energy Regulatory Commission on December – excuse me on November 23. The New Mexico filings focuses on commitments to maintain local jobs, charitable giving levels, and economic development support along with customer rate credits for three years. It's too early to have any updates on either of those filings just yet. We will have a few other filings in the first quarter of 2021 related to our generation resources at PNM. Our integrated resource plan is set to be filed at the end of January that will include a 20-year roadmap on our resources into the future. There was no doubt that technologies and markets will change over the course of those 20 years, and the IRP will not lock us into any particular option to achieve our clean energy goals, but this scenario analysis will show some different paths on how to move forward and identify those most cost effective paths based on expectations for load and demand, future cost curves, transmission needs, and a number of other variables.

In the near term, we will move forward on the regulatory processes for some specific resource changes. We will be filing our plan to replace the 114 megawatts of leased capacity at Palo Verde that we are returning to the lessors in 2023 and 2024. We will also be filing for the abandonment, securitization, and replacement of our ownership in the Four Corners Power Plant. Outside of those items, we'll have some of our regular annual filings during the year like our renewable rider and the FERC formula rate filings. Once we have received approval from

the New Mexico Public Regulation Commission on the merger, we will file our general rate review and the decoupling plans that were delayed in 2020.

In Texas, we also filed for approval of the merger with the PUCT on November 23. This filing focuses on a commitment to local jobs and rate credits to customers over three years. There are no updates yet to share on this filing. TNMP will continue to utilize the semi-annual TCOS filings and annual DCOS filing in 2021 for recovery of our transmission and distribution rate-based investments. Our teams remain focused on these items and executing our business plans at PNM and TNMP. At the core of these plans is our ongoing commitment to serving customers and supporting communities along with protecting the environment. We highlighted these commitments as part of our ESG strategy this year and we continue to demonstrate progress on this initiative.

Let's turn to slide 7 for some of our recent highlights. Our merger agreement and regulatory filings demonstrate the alignment of our ESG strategy with AVANGRID and recognize the value of prioritizing customers, employees and communities. Local jobs are retained for at least two years following the transaction closed in New Mexico and Texas along with continued financial support for our customers and communities. In New Mexico, continued contributions to economic development efforts are strengthened by a commitment to add jobs. Additionally, rate credits have been proposed for both PNM and TNMP customers in those regulatory filings. The merger agreement also supports our efforts to exit the Four Corners Power Plant. And on November 2, we announced an agreement to divest our 13% ownership share in that plant.

Our filing for approval with the commission will utilize securitization and begin to provide economic development support for the impacted region years ahead of the plants' expected closure by the remaining owners. Our efforts this year haven't gone unnoticed. Recently, PNM Resources was named to Newsweek's 2021 list of America's Most Responsible Companies in recognition of corporate social responsibility. Energy and Environment Leader also included PNM on its annual best stuff list of environment and energy professionals. This recognition may have highlighted my name, but there are many at PNM who have contributed to the development and implemented our plans in these areas and I share this recognition with all of them.

Before I hand things over to Don for a closer look at the numbers, I want to acknowledge that the teams supporting these efforts continue to go above and beyond to demonstrate a commitment to PNM and TNMP's long-term success. Whether it is the various changes to our business from COVID or the legal and regulatory efforts to support our merger applications, our teams know that these day-to-day challenges don't distract us from our ultimate objective to serve customers and partner with local communities to be a good neighbor and a good corporate citizen. These are the values that will carry PNM and TNMP onto continued success in the future.

With that, I'll turn it over to Don.

Joseph D. Tarry

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

Thanks, Pat, and good morning. I'll start on slide 9. As Pat mentioned, we are affirming our 2020 guidance of \$2.23 to \$2.31 per share and we are confident in achieving the midpoint of this range. We are introducing 2021 guidance at a range of \$2.27 to \$2.37 per share. Growth at the utilities and interest savings are partially offset by the impact of additional 6 million shares issued earlier this week to complete the forward equity offering from January of 2020. While the dilution impact of the additional shares lowers 2021 EPS by \$0.16, the equity strengthens our balance sheet after funding increased levels of capital investments at both PNM and TNMP over the past few years. Before considering this dilution impact, EPS at the utilities grows by \$0.15 even though 2020 included \$0.08 of positive weather impacts, retail load grows at both PNM and TNMP and we recover our rate base investments through the FERC formula rate at PNM and the TNMP TCOS and DCOS mechanisms.

I'll cover more detail on the utilities on the following slides. At Corporate, we expected to achieve significant interest savings as a result of the steps taken in 2020 to increase equity, to issue equity and refinance debt at lower interest rates.

Now turning to slide 10, you can see how this looks from a segment view. The dilution from additional shares is spread across each of the segments with \$0.12 impacting PNM, \$0.05 impacting TNMP with \$0.01 benefit at corporate. I'll cover the high level of drivers here and you can find the detailed drivers for each of the segments in the appendix. At PNM, earnings increase from retail load growth, FERC transmission growth and interest savings from the refinancing of debt, the more than offset the decrease from a return to normal weather and higher depreciation and property taxes from new investments that won't be recovered at rates until our next rate case filing. At TNMP, the use of TCOS and DCOS mechanisms recovers new depreciation in property taxes and provides a return on our transmission and distribution rate base investments with minimal regulatory lag, continued customer growth and low growth helps earn our authorized return. At Corporate, you see the decrease in losses in this segment nearly cut in half from interest savings driven by lower rates and the use of equity issuance proceeds. The remaining data at our holding company will be addressed through our merger transaction.

Turning to slide 11, I'll walk you through our load assumptions at both PNM and TNMP. We have assumed that we continue to see impacts on our load from COVID in 2021 with lesser impacts in the second half of the year as our business customers experience some recovery. At PNM, residential customers continue to grow and COVID impacts increase their usage as a result of more time spent at home. Commercial load begins to come back in the second half of the year. PNM industrial load has not seen – has not been significantly impacted by COVID, the addition of some of new customers this year increases load over 2020 levels. Overall, this leads to an increase in total retail load in 2021 in the range of 0.5% to 1.5%. At TNMP, COVID impact load in 2020 by increasing volumetric load for residential customers and decreasing demand base load for C&I customers. As we move into 2021, volumetric load increases due to customer growth and continued higher home energy usage in our North and Central Texas regions and the Gulf Coast region. Demand base load increases from the 2020 lows when business restrictions were implemented. We are finding capacity as holding steady within our service territory and we are seeing rapid growth in the number of interconnections from battery storage developers as some of the less populated areas within our service territory can more easily accommodate these facilities.

We continue to see new service request in West Texas as well where we have been upgrading our lines to high voltage capacity.

Slide 12 shows our capital investment plan, which has not changed from the plan shown in our third quarter call. Our \$4.1 billion plan is focused on transmission and distribution at both PNM and TNMP. PNM includes our Wired for the Future investment designed to deliver clean energy, enhanced customer satisfaction and improved grid resilience. TNMP's investments include the interconnection of renewable and battery projects, upgrades to existing transmission lines and the expansion of transmission system to support ERCOT and relieve congestion in North Texas.

Slide 13 covers our financing plans. The issuance of equity improves our credit metrics and preserves our investment grade credit ratings. As I mentioned earlier, our Corporate debt will be managed through the merger transaction and we'll be converting this to short-term debt without penalty for early repayment to prepare for this transaction.

PNM and TNMP will continue to fund capital investments through a mix of debt and parent equity infusions. The debt side includes the securitization bonds that will be issued at PNM in connection with the retirement of the San Juan Generating Station and our planned exit from the Four Corners Power Plant. In each of those situations, the bonds are designed so that the collection from the customer rates match up with the principal payments on the bond. So, we would line up the timing of those bond issuances with the implementation of the corresponding customer rates.

I'll wrap up with dividends on slide 14. As Pat mentioned, the board increased our common dividend by 6.5% earlier this month. We've been targeting the middle of our payout range of 50% to 60% and this puts us at 56% payout ratio on the 2021 earnings guidance midpoint of \$2.32. We will continue to make our quarterly dividends until the close of the transaction. That covers the financial details of our guidance. As we work through 2021, we will focus on the execution of our business plans at PNM and TNMP and maintaining credit metrics so that these business segments are prepared for their future growth opportunities.

With that, I'll turn the call back to Pat.

Patricia K. Vincent-Collawn

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

Thank you, Don. Before I open it up to Q&A, I just want to one more time say thank you to the women and men of PNM, TNMP and PNM Resources. This was an extraordinary year on many fronts and they never failed in their core mission of keeping the lights on for our customers, taking extra care of each other and our neighbors. So, thank you to everyone at PNM, TNMP and PNM Resources. Rocco, with that, if there are any questions, please open it up.

QUESTION AND ANSWER SECTION

Operator: Absolutely. We will now begin the question-and-answer session. [Operator Instructions] And today's first question comes from Paul Fremont with Mizuho. Please go ahead.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Yeah. Basically the – when you don't renew the nuclear leases, can you give us any insight in terms of what you think the replacement generation options are going to look like?

Q

Patricia K. Vincent-Collawn

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

Good morning, Paul. I'll let Don answer that and thank you for asking the question. I was – we were feeling kind of lonely here, so go ahead, Don.

A

Joseph D. Tarry

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

Good morning, Paul and happy holidays. On that we're in the midst of an all source RFP right now for the Palo Verde replacement and that'll be part of our filing in the first quarter when we file for our abandonment of the leases, we'll also file for our replacement power alternatives at that point in time or the choice alternative at that point in time.

A

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

And can you say whether is PNM part of – will they be a better in that process or not?

Joseph D. Tarry

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

A

It'll come out when we file the actual filing Paul, so.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

Great. Thank you.

Joseph D. Tarry

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

A

Thank you Paul.

Patricia K. Vincent-Collawn

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

A

Thanks, Paul. Happy holidays.

Paul Fremont

Analyst, Mizuho Securities USA LLC

Q

You too.

Operator: [Operator Instructions] And showing no further questions, I'd like to turn the conference back over to the management team for any final remarks.

Patricia K. Vincent-Collawn

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

Thank you. And I just do want to clarify that the preliminary proxy is being filed tomorrow not the final proxy, preliminary proxy. So, again thank you all for joining us. I hope you have a happy and very safe holiday season. And please don't forget those cookies and those regifts. We're looking forward to all of them. Thank you all. Bye-bye.

Operator: Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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