

31-Jul-2020

PNM Resources, Inc. (PNM)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

Lisa Goodman

Director-Investor Relations, PNM Resources, Inc.

Patricia K. Vincent-Collawn

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

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

Joseph D. Tarry

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

OTHER PARTICIPANTS

Ryan Greenwald

Analyst, BofA Securities, Inc.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the PNM Resources Second Quarter 2020 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'd now like to turn the conference over to Lisa Goodman, Director of Investor Relations. Please go ahead.

Lisa Goodman

Director-Investor Relations, PNM Resources, Inc.

Thank you, Cole, and thank you everyone for joining us this morning for the PNM Resources' second quarter 2020 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 a special guest, Chuck Eldred, Executive Vice President of Corporate Development and Finance.

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.

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. Good morning, and thanks to each of you for joining us today. It's been a few months since we've actually seen you all and we miss you. We hope that you continue to be as healthy and safe as we are.

It's July 31 today, which means not only is it National Avocado Day, it's the two-year anniversary of Chuck's favorite joke. He didn't quite nail it the first time, so we've set him up for success this time, and given him the punch line.

Chuck, what do you call an avocado that's been blessed by the Pope?

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

I had a similar comment when I heard the Commission make a decision on San Juan. And the answer to this question is "Holy Guacamole!"

Patricia K. Vincent-Collawn

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

Thank you, Chuck. Great. Well done.

Before I get started, I want to thank our teams across New Mexico and Texas for all of their continued efforts to support our customers, while also supporting their own families and communities. In the face of COVID-19, they are continuing to rise to the occasion, and I am extremely proud to be part of their team. On today's call, after I walk through earnings and other key updates, I'm going to highlight our ESG commitments and describe some examples of how these environmental, social and governance principles are a key part of our business priorities.

So let's begin on Slide 4. Our GAAP earnings per share in the second quarter of 2020 are \$0.72. Ongoing earnings per share are \$0.55 compared to \$0.38 in the second quarter of last year. Higher summer temperatures have helped us to offset the changes in load resulting from COVID-related closures. We are targeting the midpoint of our affirmed guidance range of \$2.16 to \$2.26.

Don will provide more on the financial details.

There has been progress on key regulatory dockets at PNM and TNMP. The most recent update is Wednesday's decision from the New Mexico Commission on San Juan replacement power. The Commission decided to replace power from San Juan with a combination of renewable and battery storage PPAs. This fits in well with our goals for emissions-free energy and we are committed to investing in the infrastructure needed to integrate these resources and enable New Mexico to realize its full renewable potential. Our Wired for the Future program is even more critical in order to reliably deliver clean energy at an accelerated pace.

In our decoupling filing at PNM, a procedural schedule has been set with hearings scheduled for October. This aligns with our request for a decision by the end of the year and implementation in 2021. In, late June, the Commission issued an order for regulatory asset treatment of COVID-19 related expenses. This gives us the ability to work with our customers and expand payment plans that meet their circumstances during this unique time.

In Texas, we filed a settlement in our distribution cost of service docket. We plan to implement the new rates in September. Also, in September, we anticipate implementing new rates for our second transmission cost of service filing. We submitted this filing last week for recovery of approximately \$11 million of transmission investments made, since our last filing.

Turning to Slide 5, I'll provide a status on COVID-19 impacts across our businesses. In both New Mexico and Texas, reopenings began in May at different levels. In New Mexico, it was gradual. And, as cases have risen, restrictions were reinstated for indoor dining at restaurants. In Texas, the reopening was at a faster pace and a greater number of restrictions have been reinstated based on case numbers.

Our customer assistance and relief programs remain in place at the PNM and TNMP. Our top priority continues to be the safety and well-being of our team, our customers and our communities. I have been so pleased with the way we have continued to operate under our pandemic plan.

We also continue to reach out and support our communities. In addition to the low-income assistance that we provide our customers, for electricity bills, we reached out to ensure that these customers know how to access other financial support and resources. We support local restaurants with takeout orders that are delivered to first responders and other frontline workers.

These examples are just scratching the surface on how our team is exhibiting our core values of safety, caring and personal integrity. They prove every day that these are much more than the crafted statements on our website. This same authenticity applies to the environmental, social and governance principles that are woven throughout our vision, strategy and objectives providing the direction for where we are headed as a company.

Turning to Slide 7, we are taking further steps in our commitment to an ESG strategy. Environmental, social and governance principles are demonstrated throughout our business in strategic plans, particularly as we work to deliver emissions-free energy, but they're also demonstrated in the way we manage our priorities. Our investment plans are fundamentally shaped around our sustainability strategy.

We are committed to turning the goals and policies for a clean energy future into reality. We understand that this cannot happen without a grid that can adapt and integrate changing resources and technology to deliver clean energy to customers. It should be reliable and secure to withstand threats and risks and also resilient to restore service quickly after unexpected disruptions.

As the amount of renewable energy on our system grows, investments in voltage support and system redundancies are needed to integrate a higher proportion of intermittent resources that continue to provide reliable electricity to customers. Don will talk more about the details of these great investments planned as part of our Wired for the Future program.

We will also continue to propose generation resources to support clean energy goals while continuing to balance costs and reliability impacts. At times, utility-owned resources may be the best option for customers, and in other times, third-party PPAs may present a better option. Regardless, we'll make sure that our infrastructure can deliver the energy.

We also recognize that stakeholders and investors are looking for more disclosure on ESG items. So, we have renewed our focus on disclosure. Slide 8 shows some of the ways that we have integrated these principles into our business, from our environmental goals, to Board diversity, and our robust ethics program. We'll revisit each

of these areas with you periodically and highlight examples of how these principles are moving our business forward. These are three areas that I'd like to highlight today.

On Slide 9, the first highlight is on our environmental goals and the new goals that we are now seeing today. We recognize that it is important not only to have our longer-term carbon-free goal by 2040, but also specific milestones, along the way, as we transition to cleaner energy. Additionally, our environmental strategy is about more than just carbon. It is also about reducing and eliminating other air emissions and dramatically reducing our freshwater consumption.

We've demonstrated environmental leadership for many years. We entered into our first wind contract in 2003. We participated, as a founding member of the U.S. Climate Action Partnership in 2007, and subsequently became one of the first in our industry to incorporate carbon costs into our resource modeling and decision-making.

We supported the Waxman-Markey bill and were active attendees at the Conference of Parties in the 2015 and 2019. Our goal to achieve 100% emissions-free energy by 2040 is leading the industry for the full removal of carbon from our generation portfolio. We're well down the path with significant reductions already achieved through investments in technology and the retirement of two units at San Juan.

Today, we are taking another step-forward in sharing our emissions reduction path to 2040, reductions in carbon dioxide, NOx and SOx through 2020, and what we expect to achieve over the next 20 years. We've also established goals around the reduction of freshwater used in our generation portfolio, especially because we operate in the arid Southwest, where water is a scarce resource. We're proud of the reductions we've achieved, and we're even more excited about where we're headed. When it comes to truly integrating ESG principles, we don't see the E, the S and the G as separate pieces.

Turning to Slide 10, our planned retirement of San Juan Generating Station is a good example. The environmental impacts are the first that come to mind. We've communicated that we are exiting coals no later than 2031, and hopefully sooner, as we explore alternatives for our ownership in the Four Corners Power Plant.

There is also a social component to consider here. We aren't simply going to walk away from the coal plants and mines that have been a way of life for generations of people and a mainstay of the region's economy. We may not serve the customers in this region, but we believe that we have a responsibility to our team of employees and to the impacted community.

The Energy Transition Act supports this responsibility with job training, severance and economic development funds. It also adds another component to how replacement power is considered for coal-fired generating facilities by requiring a preference for investments that will provide a property tax base for the impacted local school district. These items help PNM provide a just transition away from coal.

Securitization is also part of this legislation, resulting in savings for our customers. These social components are unique to New Mexico's plans for transitioning out of coal, and PNM is proud to shine a light on this comprehensive plan. It's not just a matter of getting out of coal. It's doing in a way that also benefits customers and supports communities.

Another area I want to highlight on Slide 11 for PNM Resources is diversity and inclusion. Now, this isn't something that we would normally highlight on an earnings call, although it demonstrate ways that our company excelled in the social category. We are proud that the diversity of our workforce is broadly reflective of our

communities that we serve, in Texas and New Mexico, and believe it is something that is important for our success.

We actively prioritize the hiring, training, retention, and engagement of a diverse workforce, including initiatives to hire a more diverse workforce. We believe this makes for a better work environment, promotes different perspectives and ideas that lead to innovation and more comprehensive decision-making. It also provides a better representation and connection to our customers and stakeholders and it broadens our own experiences for personal growth.

We look for ways to support diversity and inclusion in our communities as well. This summer, we were the first to support a local non-profit partnership to fund programs that support diversity, equity and inclusion. We also encouraged our employees, across New Mexico and Texas, to provide financial support for social justice organizations by tripling their impact with a 2:1 match and increasing the amount of donations that we match annually for each employee.

Our biggest highlight in this area is our fostering of tribal relationships. Native Americans comprise about 10% of New Mexico's population, and our team engages with numerous pueblos and tribes, across the State, seeking out ways to provide meaningful partnerships that have positive long-term impacts for these communities. We provide engineering internships, specifically for Native American students, to encourage pursuit of these careers. We recently renewed our commitment to our Navajo Nation Workforce Training Scholarship Program with additional funding for the next five years.

Last year, we took part in the initial pilot of the Light Up Navajo Project, which was created by a partnership between the Navajo Tribal Utility Authority and the American Public Power Association to energize hundreds of homes that were otherwise using generators or flashlights at night. Our teams that participated in this project were truly inspired by the joy these homeowners had when they flipped the switch for the first time, and we are proud to continue participating in this project.

Unfortunately, our tribal communities have been hit significantly harder by COVID-19 than other areas of the State. We've done some of the same things we've been doing in other areas, donating food and supplies that we knew that wasn't enough. We gathered available masks to deliver to the area. We collaborated to set up hotspots to provide internet access in multiple locations, something that most of us take for granted, when first responders are locating an emergency, or students are trying to keep up with their education.

None of these things will help cure the virus, but we hope that we can continue finding ways to make a difference in these areas that are struggling. These are the times when we are truly called to live our values and take care of each other.

On Slide 12, I'll wrap up by pointing you to the redesigned page on our website at pnmresources.com for our ESG commitment. There you can find details on all of our environmental, social and governance policies and programs. And this is also where you will be able to find the new reports that we are committing to publishing this year. We hope that this information will help you recognize the value inherent in our business.

With that, I'll turn the presentation over to Don for the financial details.

Joseph D. Tarry

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

Thanks, Pat and good morning everyone.

Turning to Slide 14, with an overview of our \$0.55 of ongoing EPS for the second quarter, the increase over last year is largely due to mild weather that we experienced at PNM in Q2 of 2019. We also saw a reduction in outage costs at San Juan Generating Station as we move towards its retirement in the summer of 2022. The \$0.55 also exceeded our expectations for the quarter due to strong weather impacts and shifting in discretionary plant maintenance from the spring to the fall for COVID-19 considerations.

Slide 15 provides the summary of how we are currently thinking about COVID impacts as we continue to progress through our planning scenarios. We've moved through this time period that was considered Stage 2 in our original plan. We've continue to see impacts in our customer class load trends, which we will update you on today, based on current information. We have not seen any significant impacts to our investment plans from workforce disruptions or from supply chain issues. We do not expect any significant impacts in these areas as we move forward.

Turning to Slide 16, I'll cover the load trends that we saw in the second quarter as well as what we have seen in July. At PNM, residential usage continues to be around 5% higher. While commercial usage has shown some improvements in New Mexico, our updated projection, moving forward, is for a 10% decline in commercial loads compared to a 15% decline earlier this year. At TNMP, increases for volumetric load have offset decreases in demand base load. The overall impact hasn't changed throughout the different phases of business restrictions in Texas. We'll continue to monitoring these trends across both PNM and TNMP.

On Slide 17, we feel comfortable with our results today, and these projected load impacts, and are affirming our guidance range of \$2.16 to \$2.26 with the target for the midpoint of this range. We have provided an updated quarterly expectation at the bottom, of this slide, to reflect our expectations for Q3 and Q4, based on this midpoint.

Now, turning to Slide 18, our \$3.3 billion investment plan for 2020 through 2023 incorporates our Wired for the Future program. These transmission and distribution infrastructure investments are necessary to maintain a reliable, secure and resilient grid that delivers clean energy to PNM customers. The planned additions of solar and battery storage accelerates need for these investments to happen sooner to facilitate a faster transition of our energy mix.

Overall, this plan continues to support our earnings growth target of 5% to 6% through 2023. We have taken advantage of capital markets this year to lock in long-term financings at lower rates. These interest savings benefit our customers long-term and allowed us to optimize our financing plans, at PNM, to reduce the amount of shorter-term financings that's not included in rates. There are also no change to our dividend growth plans, which are expected to be consistent with our earnings growth rate at 5% to 6%. Our liquidity position has been strengthened by the equity and debt financings that we've completed this year. Overall, financial profile remains strong.

On Slide 19, I've provided some details around our grid investments we have planned, as part of PNM's Wired for the Future program. We've categorized these investments into three buckets, delivering clean energy, enhancing customer satisfaction, and increasing grid resilience. An accelerated transition to clean energy requires changes to our grid design. The grid was originally designed to handle steady increasing flow of base load resources, flexible and intermittent resources like quick-start peaking gas units, solar and wind weren't contemplated in the way the equipment and power flows were designed.

Distributed generation resources and expectations for growth and distributed storage, and electric vehicles create a different type of strain on the system. This can be alleviated through expansion of existing substations with designs that will allow for more flexibility and expansion over time and newer technology. These improvements will allow our customers to benefit, as this transition is made, instead of having to wait for the infrastructure to catch up.

The second bucket includes investments designed to enhance customer satisfaction. Based on their original grid design, customers may be served through a single feeder or substation, increasing the time it takes to restore power during an outage. By rebuilding these feeders and integrating new technology, we can better pinpoint the cause of the outage and redirect power through different paths to restore service faster. Our existing infrastructure also doesn't provide much opportunity for new customer growth, so we've been adding substations across town to support new customers like the Amazon Distribution Center in Albuquerque.

Expanding our substations will allow for more reliable service to our existing customers, while ensuring new customers can seamlessly connect to our grid. We continue to see interest from companies looking to expand or develop in our service territory, and these investments will support the State's economic development efforts by offering these companies a quick interconnection to a clean, affordable energy profile – portfolio.

The last bucket of investment involves increasing our grid resilience. PNM has historically responded to aging infrastructure by changing out individual pieces of equipment as needed. Our more comprehensive plan will take better advantage of these situations to implement broader upgrades and redesigns in one area after another, the ultimate build, a better platform for energy of the future. This also provides opportunities to add needed redundancy into the grid design that makes it better-equipped to respond to a variety of major threats and risks, from cyber security to wildfires.

Now, turning to Slide 20, I'll cover the financial details around the program. The \$450 million of investments originally identified have been accelerated to reflect a faster transition of the system resources, with the majority of these projects now planned over the next three years. Just over half of that amount reflects transmission investments that are recovered 50/50 through FERC transmission rates and retail rates. Distribution investments are recovered entirely through retail rates. The greatest portion of these dollars fits into the bucket of grid resilience, as these projects often involve larger, more expensive equipment.

Now, let's turn to Slide 21 to look at how Wired for the Future fits into our overall investment plan that supports our earnings growth target. As we transition our focus, at PNM, to deliver a clean energy future, we have removed from our core plan new and generation investments. We have added \$362 million of Wired for the Future investments in 2021 to 2023. We have also added an additional \$20 million in 2021 at TNMP for additional distribution reliability improvement projects that have been identified.

In addition to removing San Juan replacement power, we've also removed the placeholder in 2023 for the replacement of leased capacity at Palo Verde. We provided notice that we return the capacity under the lease, and we are now conducting an RFP for replacement power proposals that will be filed with the Commission. We continue to look for ways to transform PNM's generation portfolio and optimize our mix of base load and flexible resources.

In addition, the Energy Transition Act included increases to New Mexico's Renewable Portfolio Standard, which may require additional resources. It is important to note that there is not an excess of transmission capacity on PNM system. And if new resources are added to serve retail customers, or to sell New Mexico renewables to other states, new transmission capacity will be needed. If any of these items result in additional investments for

new resources or transmission capacity, we will again look to the balance out different capital projects to find the best long-term value for our customers.

Now, turning to Slide 22, we'll walk you through updates to earnings power that incorporates the changes to our investment plan. Overall, increases in earnings outside of rate base have offset shifts and timing of when investments are added to rate base. Our total investment plan of \$3.3 billion did not change. But the timing of these new investments means that some of them will not show up in average rate base until 2024. The PNM retail FERC lines reflect these changes to rate base that incorporate our new Wired for the Future investment plans, and remove replacement generation for the retirement of San Juan Generating Station in 2022 and the Palo Verde lease replacement in 2023.

I also wanted to point out that the FERC growth is slightly lower in 2021 but returns to what you've seen in our previous presentation in 2022. Our purchase of the Western Spirit Transmission Line is now estimated to come online towards the end of 2021. The equity financing line in 2021 has also been adjusted taking into account the delay in the purchase of the Western Spirit Line, therefore, pushing off the need to issue mandatory convertibles until the end of 2021.

PNM's items not in rates has been updated to reflect interest savings, lower decommissioning costs related to Palo Verde, and the retirement of our 65 megawatts of unregulated generation at San Juan. By taking advantage of the capital markets this year, we were able to secure long-term interest rate savings for our customers and optimize our financing plans at PNM to reduce the amount of shorter-term financing that is not included in rates.

TNMP has increased in 2022 and 2023 due to additional interest savings compared to the cost of capital approved in the last General Rate Case.

As you can see, after incorporating all these changes, our earnings power for 2023 remains largely unchanged, and we have confidence in our ability to deliver on earnings growth target of 5% to 6% through 2023.

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

Patricia K. Vincent-Collawn

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

Thanks, Don. Before I open it up for questions, let me take one more opportunity to thank the team here, at PNM Resources, for continuing to perform brilliantly through these unique times. As we move forward, we are excited about our plan to deliver clean energy and the infrastructure growth that it will take us to realize the full potential of a clean energy economy.

We look forward to sharing updates with you each quarter. And, for example, just this week PNM and the PNM Resources Foundation won first place in the Corporate Champion category of the Philanthropy Awards, here in Albuquerque, sponsored by Business First.

So Cole, let's please open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Certainly. We will now begin the question-and-answer session. [Operator Instructions] And our first question today will come from Ryan Greenwald with Bank of America. Please go ahead.

Ryan Greenwald

Analyst, BofA Securities, Inc.

Q

Good morning, and thanks for taking our questions.

Patricia K. Vincent-Collawn

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

A

Good morning, Ryan.

Ryan Greenwald

Analyst, BofA Securities, Inc.

Q

So, following the order earlier this week, just curious how you guys are thinking about weighing your options. On the one hand, it seems like it kind of aligns with the ESG goals, but it may be causing some resiliency issues. So, how are you thinking about options here for potential appeal and then timing around any developments?

Patricia K. Vincent-Collawn

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

A

Yes, Ryan. Thank you. It doesn't make any sense to appeal the decision here. We may have some technical disagreements on some of the various statements. But we're really excited about the big step-forward in our plans to exit coal and fully supportive to move to clean energy. We've got, as Don laid out, and I'll turn it over to him in a minute, a lot of system investments here. And now, it's our job to solve, for the transmission side, to make this thing work. So, Don?

Joseph D. Tarry

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

A

Yes. So, if we look at Wired for the Future, a lot of our system in New Mexico, date back to 1960s and 1970s. And as we move the generation forward to renewables, it really requires a resilient system. And so, we've been in the works, and planning our updates and upgrades to the system for the past year. As the Commission made this ruling, and we move forward, we'll be able to execute on this at a quicker pace. And we'll need to execute on this at a quicker pace. And that kind of fits into our Wired for the Future in supporting a clean energy profile.

Ryan Greenwald

Analyst, BofA Securities, Inc.

Q

Got it. And then, can you provide a bit more color on trends so far in July, specifically as we've kind of seen reinstatement of some of the restrictions?

Joseph D. Tarry

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

A

Yes. So, I mean what we've laid out in assumptions, in both Texas and New Mexico, is what we have seen. We saw a little better trend in New Mexico [ph] commercially, we brought down from 15% (32:33) down to 10%. And I'll tell you, in July, it was a little less than that. And we've had also a warmer than normal July as well, too.

Patricia K. Vincent-Collawn

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

A

And, [ph] Cole (32:46), when you think about it, the only reinstatement of a restriction the Governor opposed was indoor dining. It's closed. And most of those folks, if they can, are still in their spaces. They're just having outdoor dining. She also makes us now wear – all wear a mask when we exercise. So, I think that what she's doing makes a lot of sense. She's trying to set us up for success in the long-term by closing indoor dining. But nothing else really changed in terms of what would impact our load.

Ryan Greenwald

Analyst, BofA Securities, Inc.

Q

Great. Appreciate the time.

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 Anthony Crowdell with Mizuho. Please go ahead.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Hey. Good morning, Pat. Good morning, Chuck. Good morning, Don.

Patricia K. Vincent-Collawn

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

A

Good morning, Anthony.

Joseph D. Tarry

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

A

Good morning.

Patricia K. Vincent-Collawn

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

A

It's good to hear your voice.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

I miss you guys. Just hopefully some easy questions, and Chuck, appreciate the avocado joke. I wasn't sure if it was an avocado joke or a Pope joke, but it sounds better as an avocado joke. [indiscernible] (33:54-33:56) I went to a...

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

Yes.

A

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

...I went to an all-boys Catholic high school, so all fine. I do have a lot of Pope jokes.

Q

But just if we could touch on just trends in uncollectibles or bad debt expense you're seeing in Texas and New Mexico. And then second question is when we look at Wired for the Future, are there any projects that – would that require big approvals or big signing approvals?

Joseph D. Tarry

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

Yes. So, in our collections, both the – the good news in both New Mexico and Texas is both of them have provided for a regulatory asset treatment. New Mexico – or Texas went a step further, and we've already started to collect those. Texas continues to grow. Remember, we delivered to the retail electric provider, not the end user customer. So, we are protected in Texas that way as well.

A

In New Mexico, we have seen our uncollectible or what we really call it our delinquent or balance go up. It's increased trends this time of year. About \$3 million to \$5 million is what we track in our 0 to 120 days of past due. It's up in the range of \$8 million to \$9 million, which we would expect with the disconnect policy turned off.

That being said, we do have the Reg Asset ability to report it to the Reg Asset. It's tied to the Governor's order, so when the Governor removes the order, then we are able to go collect. New Mexico, in general, once we move towards disconnection, that's when a portion of these customers will make their payment. That's pretty standard.

Patricia K. Vincent-Collawn

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

And, Anthony, our call center agents, obviously we're not getting a lot of inbound calls right now, are reaching out to people and getting many people set up on a payment arrangements because they don't want to necessarily pay when the big bill comes, as Don said. Some of them will, but a lot of them are getting on payment arrangements now.

A

So, do you want to answer the second question?

That is to your first question, Anthony. And then your second question, are there any big projects in the Wired for the Future that require signing approval, correct?

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Signing or it could have potential delays, a large transmission project that goes over a national park or something like that.

Q

Joseph D. Tarry

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

A

Yes. No regulatory type approvals in that element. Some of our substations might have some [ph] signing approvals (36:13) with the local communities. But again, a lot of it's restructuring and expanding existing substations and repowering transmission lines and replacing poles that we already have right of ways on associated with that, also improving our distribution feeder system as well, which we already have right of ways on that as well.

Patricia K. Vincent-Collawn

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

A

And, Anthony, when we do a big substation, there's a process called 440 that you go through a Commission, but it's just an informational filing so.

Anthony Crowdell

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks so much for taking my questions, and I hope everyone on the PNM team stays healthy.

Patricia K. Vincent-Collawn

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

A

Same with you. We hope to see you soon.

Operator: And our next question will come from Jonathan Reeder with Wells Fargo. Please go ahead.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Thanks for the humor at the front end of the call [ph] needed at the end of the hour (37:03).

Patricia K. Vincent-Collawn

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

A

Anytime, Jonathan.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Hey. A couple times you mentioned about needing to balance the needs in relation to potential future CapEx needs, whether that's company-owned generation or new T&D expansion. Does that mean you should not be thinking of those opportunities as being like additive to EPS power, but rather simply displacing otherwise planned spend?

Joseph D. Tarry

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

A

First of all, one of the balancing and one of the good things about our Wired for the Future is it's spread over a little period of time. So, adding the additional renewables in, from a customer impact, we don't see a significant impact. If you look at our earnings power, we'll actually see when we roll out 2024 that our rate base goes up because these are spread over a longer period of time. And we do have additional – we've kind of laid out the initial program for Wired for the Future, but there's additional capital that we'll look at, in this program, that our VP of Transmission is very focused on, as we kind of build the resilient system that's necessary, as we progress towards carbon-free by 2040.

Patricia K. Vincent-Collawn

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

A

Yes. Jonathan, we have plenty of investment opportunities, even with Wired for the Future above and beyond that. But, as Don said, we've always tried to balance the customer impact. So, if we don't have PNM-owned generation, we will be able to bring forward those capital [ph] impacts we're holding (38:31) those back if we would have had PNM-owned generation because we didn't want a huge impact on customer build.

So, this move to renewable energy is only going to make for more investments on the distribution and transmission side because we need to have a resilient, robust system and integrate those resources, and a lot of the renewable sources are not near the load centers, so you end up having to build transmission.

So, especially with the State policy aligned with renewables, and transmission, and our State Senators, depending on what happens on a national stage, in November, there will be plenty of opportunities so.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Right. So, I mean, I guess you can keep your rate increase requests – pressure on rates kind of reasonable, we could still see upside to, I guess, this pace of spend and potentially earnings growth because you have that opportunity. And maybe, I guess, if you find O&M costs or something like that that creates [ph] that lever of help (39:33), is that fair?

Patricia K. Vincent-Collawn

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

A

That's fair.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

And then, I know you said the procedural schedule for decoupling was set. Have you received any initial feedback on the request that might influence how you're thinking about the ability to get approval?

Patricia K. Vincent-Collawn

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

A

I think the initial feedback we've gotten is because of the legislation that was passed, I think some of the groups feel very favorable about it. There's always everybody that wants to tweak here and there, and there are some folks concerned with single issue rate making. But because of the back up in the legislation, we still feel very comfortable about it.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay. So, just might be more around the actual design versus getting it.

Patricia K. Vincent-Collawn

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

A

Yes. I mean I think that – I think a lot of people are going to spend time in decoupling cases. They always do arguing over design so.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay. And then lastly, the 2020 renewable plan filing [audio gap] (40:29-40:30) does it include any company-owned resources this time around?

Patricia K. Vincent-Collawn

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

A

No.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks so much.

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

A

Hey, Jonathan. This is Chuck. I had a question for you.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Oh-oh! Oh-oh! Don't turn the table. Let's talk about it.

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

A

No, I just want to know how you feel about playing – Notre Dame playing in the ACC Conference?

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Hey. That's kind of interesting, right? I mean I guess it takes a pandemic to get us to finally join a conference.

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

A

Well, it should be interesting. Now, you guys may have to play Clemson right?

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Probably, yes.

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

A

Yes. Yes. Anyway at least we got some football.

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

Q

Hey, [ph] hopefully it could be (41:04) played. Yes, that's the key, right?

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

Yes. That's right.

A

Jonathan Reeder

Analyst, Wells Fargo Securities LLC

If we can at least play the game, so.

Q

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

All right. That's all [ph] I wanted. I was just curious (41:12).

A

Patricia K. Vincent-Collawn

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

Thanks, Jonathan.

A

Charles N. Eldred

Executive Vice President-Corporate Development & Finance, PNM Resources, Inc.

We'll see you.

A

Operator: And this concludes our question-and-answer session. I'd 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, Cole. And I just want to recognize that Cole was our Operator two years ago, and actually told us that avocado joke. So, we have to give credit to Cole for the avocado joke. Thank you, Cole.

Thank you again, everybody, for joining us this morning. I hope you enjoy your guacamole that you're going to have this evening with your margarita or tequila, and just make a toast to Cole and Chuck. We look forward to seeing you all as soon as we can safely. Please stay healthy and safe. Thank you.

Operator: And the conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time and have a great National Avocado Day.

Patricia K. Vincent-Collawn

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

Thank you, Cole. Bye.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2020 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.