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PNM Resources, Inc. (PNM)

Q3 2020 Earnings Call

CORPORATE PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the PNM Resources Third Quarter 2020 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this 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, Chuck, and thank you everyone for joining us this morning for the PNM Resources' third 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 other members of 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. Good morning, everyone, and thanks to each of you for joining us today. And yes, it is the day before Halloween and I'm sure all of you were wondering what costumes we are in this year. We've been political characters, world leaders, Chuck, who is here with us today, was an incredibly convincing Kim Jong-un, and we were Western characters. One of our thoughts this year was posing for the parody Back to the Future poster showing Doc telling Marty whatever happens don't go to 2020. Good to know we argued over who got to be Doc and who got to be Marty and who got to be Einstein. So, this year we ended up being the scariest characters we could think of and, yes, that is ourselves.

So, now, let's begin on slide 4. Our GAAP earnings per share in the third quarter of 2020 are \$1.52. Ongoing earnings per share are \$1.40 compared to a \$1.31 in the third quarter of last year. Higher summer temperatures increased earnings again this quarter including the hottest August in New Mexico in more than a century. We set aside a portion of those earnings to fund additional customer relief programs, and I'll talk more about that in a minute. And we updated our earnings guidance range to reflect our revised expectations for 2020. We are targeting the midpoint of this range of \$2.23 to \$2.31 per share. Don will provide more on the financial details.

Last week we announced a strategic merger with AVANGRID. Both companies are focused on ESG and T&D infrastructure growth and the transition to clean energy. This combination creates a larger, more diverse entity that provides PNM and TNMP with the resources to take their next steps forward. We've structured the transaction that provides benefits to customers, communities, employees and shareholders. We expect to close in the fourth quarter of next year. In the meantime, we are focused on executing our business plans and delivering safe, reliable, affordable and sustainable energy to customers. We have carried forward our investment plans to 2024 with a continued focus on T&D infrastructure that supports a reliable, resilient grid in New Mexico and Texas.

Turning to slide 5, I'll walk through the steps for approval of the merger. We expect to file our proxy in the latter part of December with the shareholder meeting and vote in February. On the regulatory side, we are currently working on our filings for the New Mexico and Texas Commissions which should be submitted in November. This will be followed soon after by the other remaining filings. In New Mexico, we will delay our general rate review and decoupling until after we receive transaction approval from the New Mexico Public Regulation Commission. We still have the ability to continue with rate making filings under the annual FERC formula rate filings and TCOS and DCOS filings at TNMP.

Turning to slide 6, I'll cover some of our environmental, social and governance highlights for the third quarter. We continue to provide environmental leadership and lead by example with our own goals in addition to partnering with communities and customers to make a more meaningful impact. We announced an agreement to partner with Sandia National Laboratories in R&D projects focused on energy resiliency, clean energy and national security. Our combined expertise will advance New Mexico as a clean energy leader and help fill the technology gap in providing emissions free energy.

Caring for our communities is part of our core values and we are committed to finding big and small ways to drive positive change in the world around us. We continue to foster our relationships with tribal communities throughout New Mexico including with our new PNM Tribal Fiber Plan to support online learning, economic development, healthcare and public safety. Our team stand ready to assist. It's how we operate.

Our strongest highlight for the quarter relates to customer support. Many of our customers have been staying at home during the pandemic and record high August temperatures led to increased customer bills. PNM set aside \$2 million of shareholder money to create its COVID Customer Relief Programs (sic) [COVID Customer Relief Program] (00:07:33) to provide additional assistance to residential and small business customers who are behind

on their electric bills. We also found a non-profit partner that could match our donations with CARES Act funding to make this program go twice as far. Even before this program, our focus on providing an excellent customer experience has not gone unnoticed. In recent industry rankings by J.D. Power, PNM was among the top electric utilities for our improvement in our scores based on our response to COVID-19.

Before I hand things over to Don to take a look at the numbers, I want to give a special recognition to our customer experience teams for the work they have done to show our best side to our customers and live our core values. With that, I will turn the presentation over to Don for the financial details.

Joseph D. Tarry

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

Thank you, Pat, and good morning everyone. I'll start on slide 8 with an overview of our \$1.40 ongoing EPS for the third quarter compared to last year. We went into the quarter expecting a decrease due to the \$0.10 of weather impact in the third quarter of 2019. Instead we saw an increase at PNM as residential usage grew higher as more customers are staying home in response to COVID-related business restrictions and as summer temperatures peaked. The cooling degree days for the quarter in total were very similar to prior year, but a greater portion of the degree days and usage fell into August this year when customers usage is particularly sensitive to hot temperatures and higher seasonal rates are in effect. This decrease more than offset the decline in September when temperatures dropped below prior year levels and came in closer to normal.

PNM is also benefiting year-over-year from the refinancing of debt at lower interest rates that we discussed last quarter. TNMP hit a new all-system peak during the third quarter but an overall decrease in cooling degree days compared to 2019, offset this increase. Rate relief from TCOS and DCOS filings were offset by an increase in planned operational spending and higher depreciation and property taxes from new capital investments.

Turning to slide 9, I'll cover the COVID-related load trends that we saw in the third quarter as well as what we have seen in October. At PNM, residential usage continues to be around 5% higher while commercial usage continues to be down around 10%. At TNMP, increases from volumetric load continue to offset decreases in demand-based load.

On slide 10, we have increased our 2020 guidance at the beginning of the month and are affirming this range of \$2.23 to \$2.31 with a target at the midpoint of \$2.27. The increased guidance reflects the higher load and weather experienced through Q3, debt refinancings and lower interest rates and a reduced level of property tax increases based on settlements with the state. As we finish out the year, planned increases in operational spending will reduce fourth quarter earnings below prior levels. We will focus on completing plant maintenance that was deferred from earlier this year, along with work on vegetation management, system outage prevention and restoration and incident response planning.

Now, turning to slide 11. We have rolled out our investment plan to 2024. The five-year \$4.1 billion plan continues to focus on transmission and distribution infrastructure investments that are necessary to maintain a reliable secure and resilient grid and support the transition to clean energy. PNM's Wired for the Future investment continue as well as TNMP's investment to expand its transmission system as supported by ERCOT. In fact, TNMP's investment increased by \$30 million in 2021, primarily to support the interconnections of several new storage facilities throughout the service territory as well as relief transmission congestion in North Texas.

We previously communicated that we will be returning 114 megawatts of leased capacity at Palo Verde in 2023, and we'll look to propose a plan for replacement power for those megawatts in the first quarter of 2021. We've also been transparent about our intention to exit the Four Corners Power Plant before the contract expires in

2031. We have seen significant progress on this front and we'll announce a plan soon that will bring customer savings from an earlier exit, while allowing PNM to execute on its plan to be coal-free.

On slide 12, with announcement of our merger that is expected to close next year, we are showing our earnings power for 2020 and 2021 that reflects our business until the close of the acquisition. The earnings power after that point will be realized through AVANGRID's business plans. 2020 has been updated to reflect our new guidance range at a midpoint of \$2.27. As we move into 2021, remember that EPS is calculated on an increased number of shares to reflect the December drawdown of our forward equity offering from earlier this year. Rate base at PNM FERC and TNMP grows as a result of the investments in T&D infrastructure. We have revised the financing plans to reflect the acquisition of the Western Spirit Transmission project with short-term debt until we close the merger.

I'll wrap up on slide 13 with our credit metrics. Both S&P and Moody's reported last week following our announcement that the transaction would be credit positive. S&P raised their outlook to positive for PNM Resources, PNM and TNMP. The comments from the rating agencies demonstrates that the new entity will be much better equipped to provide low cost funding that will support investment growth and, ultimately, benefit the customers of PNM and TNMP. The larger company also provides other benefits such as [ph] great (00:14:04) purchasing power for our supply chain and procurement, the ability to share best practices and other knowledge sharing opportunities. Having a broader view of the fundamental transformation that is happening with electric utilities can only help PNM and TNMP provide better service to customers.

With that I'll turn the time back over 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. Our merger announcement adds to our special circumstances for this year and I'm excited to provide new and bigger opportunities to our teams [ph] having proven (00:14:49) their expertise and dedication in serving our customers. So, Chuck, please let's open it up for questions.

QUESTION AND ANSWER SECTION

Operator: Yes, ma'am. [Operator Instructions]

Well, all right everyone. It's a quiet group this morning. So, thank you for joining us this morning. We look forward to seeing you all virtually during our EEI meetings in November. Please stay healthy. Stay safe. And remember to vote. Thank you, all.

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

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