

Company Name: PNM Resources
Company Ticker: PNM US
Date: 2024-04-30
Event Description: Q1 2024 Earnings Call

Market Cap: 3366.2783033530272
Current PX: 37.31999969482422
YTD Change(\$): -1.79
YTD Change(%): -4.577

Bloomberg Estimates - EPS
Current Quarter: 0.523
Current Year: 2.694
Bloomberg Estimates - Sales
Current Quarter: 481
Current Year: 2192.25

Q1 2024 Earnings Call

Company Participants

- Lisa Goodman, Executive Director, Investor Relations
- Patricia K. Collawn, Chairman and Chief Executive Officer
- Don Tarry, President and Chief Operating Officer
- Lisa Eden, Senior Vice President and Chief Financial Officer

Other Participants

- Ryan Levine, Analyst

Presentation

Operator

Good day and welcome to the PNM Resources Quarter One 2024 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 Lisa Goodman, Investor Relations. Please go ahead.

Lisa Goodman, Executive Director, Investor Relations

Thank you, Megan, and thank you, everyone, for joining us this morning for the PNM Resources First Quarter 2024 Earnings 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 and CEO, Pat Vincent Kalan; President and Chief Operating Officer, Don Terry; and Senior Vice President and Chief Financial Officer, Lisa Eden.

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 the 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. Collawn, Chairman and Chief Executive Officer

Thank you, Lisa. Good morning, everyone, and thank you for joining us today on National Bugs Bunny Day. Bugs is a fan favorite here in Albuquerque, and not because of his What's Up, Doc? But for admitting he should have made a left turn in Albuquerque.

I'll get started on Slide 4 with our financial results and company updates. The beat does go on. Our ongoing earnings for the first quarter are \$0.41, exceeding expectations. We are affirming our guidance for 2024 at a range of \$2.65 to \$2.75. We are also affirming our long-term rate-based growth and earnings growth targets. Lisa will cover the financials in

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more detail. Don will cover a number of operational updates at TNMP and PNM where we are making progress on our goals, and it has already been shaping up to be a busy year. Before I hand things off, I have one quick update. We closed the sale of NMRD in February and received the expected proceeds of \$117 million.

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

Don Tarry, President and Chief Operating Officer

Thank you, Pat, and good morning, everyone. Yes, it's shaping up to be a busy year for both Texas and New Mexico.

I'll start with TNMP on Slide 6. Growth in Texas continues to drive our business. Last week, ERCOT announced a new planning effort at its Board of Directors meeting in response to the electric demand growth expected in the next five to seven years. ERCOT recognized the forecast pace of load growth exceeds the pace of transmission capacity to support it. This reflects what we've been seeing in our service territory, particularly in West Texas and the Permian Basin where transmission has been working to catch up to demand for several years now.

At the end of February, the ERCOT Board approved \$100 million reliability project in our West Texas service territory. The project involves new construction and rebuilding of higher rated transmission lines along with the new substation. This is one of the larger individual projects in our capital investment plan. Construction of the new line requires a CCN approval from the commission. We expect to receive this approval in early 2025 and plan to put the project in service for customers in 2027.

Looking ahead, our expectations for increased expansion in West Texas has been part of the ERCOT planning process. Last year's legislation for West Texas transmission planning called for updated assumptions and these new projections are showing substantial growth beyond the levels seen in previous studies, particularly for load that is not tied to oil and gas.

ERCOT final assessments is expected to be considered by the PUCT this summer and could result in additional projects needed in this part of our service territory. We do not have any incremental spending for this in our current investment plans and we'll await the final ERCOT and PUCT assessments. Also this summer, we expect to make our system resiliency plan filing during the third quarter. This plan will be based on an independent evaluator's assessment and we'll initially look forward three years to determine what is needed to ensure reliable and resiliency of our grid with the potential for large system wide investments.

As a reminder, we have already included \$450 million in our capital investment plans. When the assessment is complete and we make our filing, we will adjust our capital plans to include any incremental amounts included in the filing. Under the rules for these filings, depreciation for projects included and the plan may be deferred until recovery begins, eliminating the regulatory lag on these investments. Wildfire mitigation will also be a key piece of these plans. We have been increasing our spending for vegetation management as part of our mitigation plans over the last several years. Under the legislation, these increased expenses as well as other wildfire mitigation expenses, can be recovered outside of a general rate case as part of an approved resiliency plan.

Turning to Slide 7, I'll cover updates for PNM. We've been working for some time on formalizing a public safety power shutoff plan for the higher wildfire risk areas in New Mexico. As we've neared completion on our plan, we've been holding community meetings in different parts of our service territory to talk about the mitigation plans and what we are already doing. We are working to create awareness and preparedness for this circumstance that would cause us to consider proactively turning off power and to build coordination with emergency management personnel, first responders and tribal and community leaders in these areas.

This is a topic that has been at the forefront of our industry and we are participating in discussions at the statewide and regional levels along with national level through EEI. We are focused on doing the right thing for the safety of our customers and taking steps to mitigate the risk associated with our infrastructure. We will file our plan with New Mexico Public Regulatory Commission tomorrow.

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Another highlight at PNM is the integration of an additional 300 megawatt solar PPA in the first quarter, bringing our portfolio to 60% carbon free. As we integrate the solar and storage resources that have already been approved, including the 12 megawatts of distribution battery storage planned for this summer. We will continue to move closer to our goal of carbon free generation by 2040. As it relates to our participation in Four Corners Coal Plant, we are not seeing a cost benefit to our customers by exiting the plant earlier than when our agreement expires in 2031. As a result, 6% of our current capacity is related to this plant and we will retain those 200 megawatt until 2031.

I also wanted to highlight some of the activities taking place at the New Mexico Commission. Over the last year with the new commission have increased a number of workshops and outside presentations on various topics tied to potential rulemaking and other important issues. Workshops are a helpful tool for the commission, utilities and other stakeholders to engage on various topics. They help us understand how commissioners are seeing various issues, where they might have a concern or how they want to address change. The topics have varied from items such as resource adequacy, reliability metrics, grid modernization, distribution planning and regional transmission planning. We appreciate the commission's leadership and direction on these workshops and the opportunity to engage with all stakeholders.

Turning to Slide 8, I'll cover some regulatory updates at both utilities. In Texas, our first TCOS filing for the year has already been approved and was implemented in March, a \$13 million increase recovery, nearly \$100 million of incremental transmission rate base. We plan to follow our typical schedule and make our second filing early in the third quarter.

On the distribution side, our first DCRF for the year was filed at the beginning of April for an incremental \$200 million of rate base. The amendment passed last year calls for a 60-day clock, although we've seen some other dockets running a little longer. We plan to make our second filing in the third quarter for rates effective before the end of the year.

As I previously mentioned, we also plan to make our resiliency plan filing in the third quarter. At PNM, we have a couple of key proceedings already in progress with the commission that should reach decisions in the coming months. First is our proposal for additional solar and battery resources in 2026. We proposed 100 megawatts of solar PPAs, 250 megawatts of storage agreements and 60 megawatts of utility owned battery storage. We expect a decision on this case in the second quarter.

Grid modernization is our other ongoing proceeding with the New Mexico Commission. Carried over from initial filing in 2022, we were asked to provide a supplemental cost benefit analysis and hearings are wrapping up today. We expect a decision on this docket by the third quarter. Looking forward, we still plan to make our next retail rate filing in early June. Our filing will be based on a 13-month regulatory process for rates that would become effective in July of 2025 and reflect costs for a future test year running from July 2025 through June of 2026. We are looking forward to working with parties on this filing with some of the other more challenging legacy issues that have been part of the prior cases behind us.

With that, Lisa, I'm going to turn it over to you to talk the numbers.

Lisa Eden, Senior Vice President and Chief Financial Officer

Thank you, Don, and good morning, everyone. I'll start on Slide 10 with a summary of the key year over year changes in the first quarter earnings. Earnings per share in the first quarter of 2024 were \$0.41, exceeding our expectations of \$0.37 to \$0.39. Rate relief from the TCOS and DCRF mechanisms increased year-over-year earnings at TNMP.

At PNM, we implemented new retail rates in the first quarter. These rates were based on a 2024 future test year and incorporate our expected year over year cost increases, enabling us to earn our authorized return in 2024. Income from our PNM decommissioning and reclamation trust also increased earnings.

Load growth at PNM, primarily from industrial customers, increased year over year. This was offset by a return to normal weather compared to colder temperatures in the first quarter of 2023. PNM transmission margins were unusually high in the first quarter of 2023 as a result of spikes in market power prices in January and February. A return to more normal pricing was the biggest driver of PNM's expected decrease in the first quarter. Depreciation and interest expense

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associated with new rate-based investments at both utilities reduced earnings.

Turning to Slide 11, I'll cover our guidance assumptions for the rest of the year. We are affirming our annual guidance range for 2024 of \$2.65 to \$2.75. As I mentioned, our first quarter earnings were a few cents ahead of expectations and we have adjusted the quarterly earnings distribution to reflect these small movements. The third quarter continues to account for about half of our earnings as low as both utilities peaks in the hot summer months.

We have not made any changes to our capital investment plans or rate-based growth on Slide 12. We continue to expect 10% rate-based growth overall with TNMP growth leading the utilities at nearly 13%. As we work through regulatory filings at PNM and TNMP this summer, we will give consideration to any shifting between projects or growth in our investments needs.

Turning to Slide 13, we are also affirming our long-term earnings growth target supported by our earnings growth -- earnings power calculations shown here. The rate-based growth on the previous slide is shown in the PNM Retail, FERC and TNMP rows, and we have calculated EPS for each year using rate-based math, assuming our currently authorized return and our current shares outstanding.

We have also included the modeling estimates of our financing plan, which includes the refinancing of current debt at the holding company and the issuance of new equity to support our strong rate base growth. The \$600 million hedges we have in place largely mitigates the potential risk of continued higher interest rates this year on the parent level term loans. We have continued -- we have talked about our plans to refinance the holding company debt with more permanent instruments that also provide equity credit and we are continuing down this path. In terms of new equity, we continue to assume the total of \$500 million or \$100 million per year on average through 2028. Based on what we are seeing in the market, we remain confident with our earnings guidance for this year along with our long-term earnings growth target of 6% to 7%.

With that, I'll turn it back over to Pat.

Patricia K. Collawn, Chairman and Chief Executive Officer

Thank you, Lisa. Before I open it up for questions, I want to thank our teams for their continued contributions to serving our customers. It takes a steady beat to deliver consistent, reliable power and excellent customer service and our teams haven't missed the beat. Megan, let's open it up for questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Ryan Levine with Citi. Please go ahead.

Ryan Levine, Analyst

Good morning.

Patricia K. Collawn, Chairman and Chief Executive Officer

Good morning, Ryan.

Don Tarry, President and Chief Operating Officer

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Good morning, Ryan.

Ryan Levine, Analyst

Hi. What's the current amount of wildfire insurance that the company has in Texas and New Mexico? And are you able to share what the cost that you paid to procure that insurance and when it expires?

Patricia K. Collawn, Chairman and Chief Executive Officer

You know, Ryan, we're actually right in the midst of renegotiating our insurance that will expire this summer. So giving kind of information publicly during that negotiating period probably isn't a good idea. So we're not talking about that right now.

Ryan Levine, Analyst

Okay. In the prepared remarks it was mentioned an opportunity to potentially increase vegetation management. To the extent that that were to be supported, any sense around the impact to O&M outlook in your plan as an effort to harden the system or reduce risk?

Don Tarry, President and Chief Operating Officer

Yeah. No, absolutely, Ryan. Just a little bit of background, we've continuously increased our vegetation management both in Texas and New Mexico over the last several years. The resiliency filing in Texas allows you to take any amount over your last rate case. And our last rate case was in the 2018 time period and be able to collect that through a writer along with what other plans you put in place for veg -- additional veg management that you would look at doing. So, that will be part of our resiliency filing that we file in the third quarter.

Ryan Levine, Analyst

Okay. And then any update around the CapEx opportunity for mobile generation or the legislative process or regulatory process to pursue that?

Don Tarry, President and Chief Operating Officer

Yeah, thanks, Ryan. Let me hit a few of those legislative factors, because I think they're important. DCRF, we've checked that box and we filed our first one and we'll look to file another one in the September timeframe. If you go to the system resiliency, we talked about that. We plan to file that in the third quarter. The mobile gen, we expect a proposed rule in June, but that will then take comments into plays from all the different intervenors and so forth. And so we expect a rule by the end of the year. So I'm not going to get in front of where that CapEx would come into, but we would expect that at the final rule at the end of the year.

And then the West Texas planning, I talked a little bit about that with -- and ERCOT just released some pretty strong information about they expect to file their plan with the PCT in July and then we'll kind of work through the process to see what comes out of that.

Ryan Levine, Analyst

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Okay. And then last question for me. In terms of some of the recent disclosure around new potential load in Texas that came out of ERCOT or any implications for your business?

Don Tarry, President and Chief Operating Officer

No, absolutely. So, as we've talked before, one of the areas that we serve in Texas is kind of that West Texas area. And that's -- if you look at the ERCOT presentation, I think one of the bullets said they recommend transmission projects to meet large loads starting in the premium basin. And that's where we operate at. So I think we have to wait to see what comes out in July and then how the PCT deals with it. But there are opportunities for incremental investments as you look at the load that's expected in that area.

Ryan Levine, Analyst

Thanks for taking my questions.

Don Tarry, President and Chief Operating Officer

Thank you, Ryan.

Patricia K. Collawn, Chairman and Chief Executive Officer

Thanks, Ryan.

Lisa Eden, Senior Vice President and Chief Financial Officer

Thanks, Ryan.

Operator

(Operator Instructions) This concludes our question-and-answer session. I would like to turn the conference back over to CEO, Pat Vincent-Collawn with any closing remarks.

Patricia K. Collawn, Chairman and Chief Executive Officer

Thank you, Megan, and thank you all for joining us this morning. Remember to take that left turn and come see us when you get to Albuquerque. Stay safe.

Operator

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

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