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Market Intelligence

TXNM Energy, Inc. NYSE:TXNM

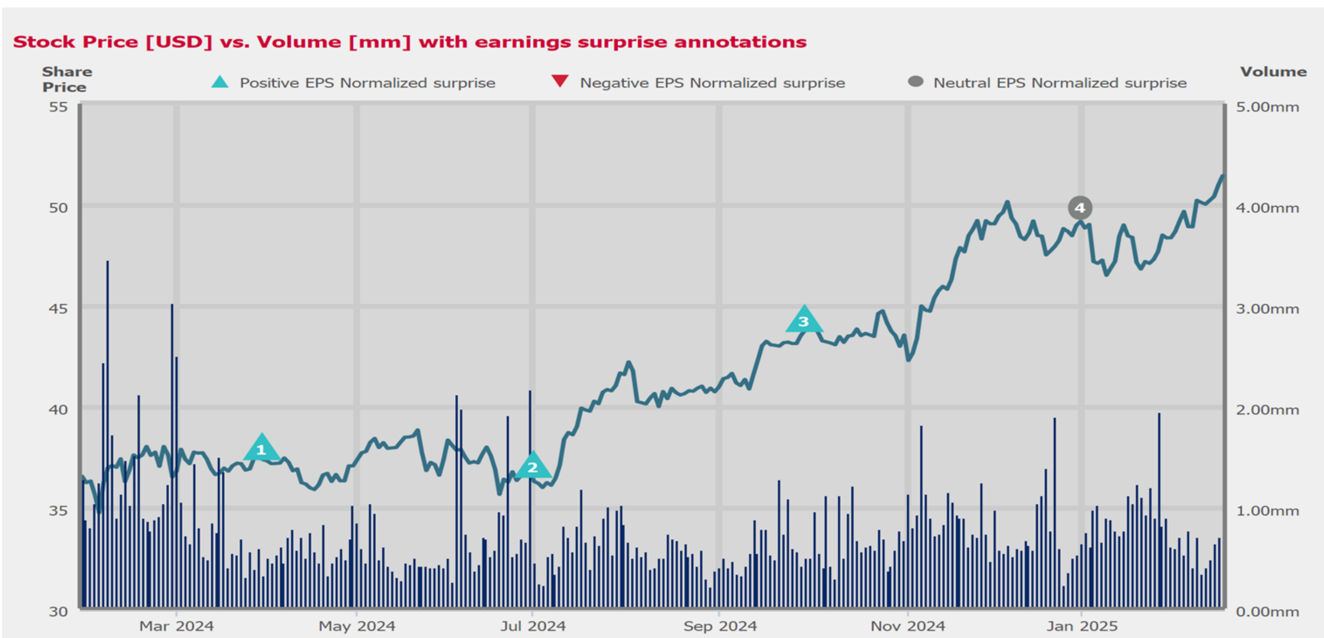
FY 2024 Earnings Call Transcripts

Friday, February 21, 2025 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.30	0.30	0.00	0.50	2.73	2.74	0.37	2.80
Revenue (mm)	496.05	476.96	(3.85 %)	457.79	2082.88	1971.20	(5.36 %)	2185.67

Currency: USD
Consensus as of Feb-11-2025 10:11 AM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FY 2024	2.73	2.74	0.37 %

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Call Participants

EXECUTIVES

Elisabeth A. Eden
Senior VP & CFO

Joseph D. T arry
President, COO & Director

Lisa Goodman
Executive Director of Investor Relations

Patricia K. V incent -Collawn
Chairman & CEO

ANALYSTS

Andrew Marc W eisel
Scotiabank Global Banking and Markets, Research Division

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

Julien Dumoulin-Smith

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Ryan Michael Levine
Citigroup Inc., Research Division

Presentation

Operator

Good day, and welcome to the TXNM Energy Q4 2024 Conference Call. [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 of Investor Relations

Thank you, Ashia, and thank you, everyone, for joining us this morning for the TXNM Energy 2024 Earnings Call. Please note that the presentation for this conference call and other supporting documents are available on our website at txnmenergy.com. Joining me today are TXNM Energy Chairman and CEO; Pat Vincent-Collawn, President and Chief Operating Officer; Don Tarry, 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 that TXNM Energy assumes no obligation to update this information. For a detailed discussion of factors affecting TXNM Energy 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 & CEO

Thank you, Lisa. Good morning, everyone, and thank you for joining us today on the Eve of National Margarita Day. We thought that bringing this day to your attention now would allow you to celebrate the holiday on its eve and on the actual day. You can thank us for that later. I'll start on Slide 4 with our financial results and company updates. Ongoing earnings for 2024 are $2.74 per share at the high end of our guidance for the year. This continues our strong track record of achieving our targets.

We are introducing guidance for 2025 at a range of $2.74 to $2.84 per share. This reflects strong growth in Texas and incorporates the unopposed settlement in our rate request in New Mexico, which I will talk more about in a minute. We also incorporated this PNM unopposed settlement into our long-term targets, along with the incremental investment opportunities we have shared over the last year.

Our 5-year investment plan in Texas has increased by over $1 billion. Our future is so bright with these increased investment levels that we are now targeting earnings growth of 7% to 9% through 2029. Lisa will provide more details on all those numbers.

Now for a few company updates. In December, the Board increased the dividend by 5%. This keeps us within our targeted payout ratio of 50% to 60% for 2025. Given our strong investment opportunities, the Board believes this is the appropriate target. Before I hand it over to Don for an update on our utilities, I want to highlight 2 outstanding regulatory accomplishments for the year. At PNM, the team's engagement with stakeholders has provided us the opportunity to bring an unopposed stipulation to the New Mexico Public Regulation Commission and our pending rate request.

This is a significant accomplishment, and I am very proud of the work that the team has done. At TNMP, our team put together their first system resiliency plan and reached a unanimous settlement with parties in the fourth quarter. This plan includes significant improvements to our system to strengthen resiliency against severe weather events, including wildfire prevention and vegetation management. Don, I'll turn it over to you for more details.

Joseph D. Tarry
President, COO & Director

Thank you, Pat, and good morning, everyone. I'll start on Slide 6 with TNMP. TNMP continues to set new system peak records, including another one in December, finishing the year with an 18% increase over the 2023 peak. We are still seeing growth across the board from our traditional volumetric and demand-based customers and from data centers on both distribution and transmission basis. Data center demand on our system totaled over 600 megawatts at the end of the year, which reflects 200 megawatts added during the fourth quarter.

Our interconnection requests in 2024 were 10% higher than the number of requests in 2023, leading to an increased growth expectation in 2025. We are expecting 2% to 4% growth from distribution customers billed on a volumetric basis and 4% to 6% from customers billed on a demand basis. On the regulatory front, Pat talked about the unopposed settlement in our system resiliency plan filing with $566 million of capital investments. This adds to the successful year of semiannual TCOS and DCRF filings that we discussed last quarter, recovering over $350 million of new rate base.

In West Texas, the projects described as common in ERCOT's Permian Basin reliability study are moving forward after receiving no protests. We are working through the process set forth by the commission in executing the local projects and developing schedules for the required CCN filings. We are also securing the equipment needed for these projects.

As we look forward to 2025 and beyond, on Slide 7, we will continue to focus on supporting the high level of growth in Texas with a reliable and resilient grid. We have increased our capital investments to support a higher level of core projects across our service territory. The capital spending for the Permian Basin reliability common projects has been incorporated into our 5-year plan. Approximately $350 million is included through 2029, while the remaining $400 million is in 2030. Projects will be cleared into service individually and included in our TCOS filings as they are completed.

There is still an opportunity for incremental investments associated with the 345 kV import pass, although we have not included this in our capital or earnings power. ERCOT has recommended in favor of the higher voltage alternatives, which will not [Technical Difficulty] is expected to make a decision on the [Technical Difficulty] voltage by May. We had already included the TNMP capital in our forecast 2025 through 2027. We expect that TNMP's capital will continue to include a similar level of spending [Technical Difficulty] at $200 million per year as we [Technical Difficulty] each of the specific and apply [Technical Difficulty] made a specific assumption around mobile generation as we expect the ongoing legislative session to [Technical Difficulty] in place.

In total, we increased [Technical Difficulty] by just over [Technical Difficulty] to a total of $4.2 billion. We expect to continue to utilize semiannual TCOS and DCRF mechanisms to recover our capital investments. We have talked about filing a base rate review in 2025, recognizing that the components of our base rates last approved in 2018 have changed over time. We will look to file this case near the end of the year after we make both of our TCOS and DCRF filings.

Let's move on to PNM on Slide 8. We continue to make progress on our transition to clean energy. We added another 500 megawatts of solar and storage to our system in November, bringing our total for the year to approximately 1,500 megawatts and nearly doubling our carbon free resource capacity. The resources approved for 2026 will bring our portfolio to 75% carbon free. The approval of our grid modernization plan was another PNM highlight in 2024 that will bring benefits to our customers.

The update to our grid will allow for more customer integration of renewable resources and will provide customers more information to better manage their energy usage. 2024 was a constructive regulatory year for us at PNM. In November, we reached an unopposed stipulation with the intervening parties to our general rate request. The details of the stipulation are in the appendix. The agreement balanced key issues from each of the parties and keeps customers at the forefront with a phased-in rate approach.

Earlier in the year, we received approval of our grid modernization plan and our 2026 resource application. Workshops held by the commission on regional markets helped us formalize our path to join the California day-ahead market, which is expected to bring significant benefits to PNM customers.

Turning to Slide 9. We will continue to focus on balancing customer affordability with our system's infrastructure needs. The phase-in of our proposed rates in our 2025 rate request is one example. Under the unopposed stipulation, we will phase in our rates beginning July 2025, with the full amount in April of 2026. Hearings on our stipulated agreement took place earlier this week, wrapping up on Tuesday. We would expect a decision from the commission in the second quarter, ahead of our requested implementation of rates in July.

Regional coordination that expands our energy imbalance market and day ahead market could also lower customers' net fuel costs. And we will continue to partner with the state on its efforts for economic development, which has the effect of reducing the per customer cost on system-wide investments. The New Mexico business community has been building momentum for multiple economic development bills in this year's legislative session, including bills focused on utility site readiness. This would allow us to better plan for expected load additions versus waiting to run through the regulatory processes after customer agreements are finalized, and reduce the amount of time it takes to bring new customers online.

Our 5-year investment includes the approved grid modernization plan and 2026 resource application and also now the 2028 resource application filed in November. Hearings on the 2028 resource are scheduled for early April, and we expect a decision from the commission in the third quarter. We have added transmission projects at PNM to build two 345 kV transmission lines to increase the connection to critical transmission paths serving our high load areas. These projects are designed to serve the expected increases in system peak demand and ease the constraints on existing lines.

We will need to file for a CCN at the commission, which we expect to do in the second half of this year. We also expect to file an application for new resources identified in our IRP. We issued an all-source RFP for resources available between 2029 and 2032, and we'll be working through those proposals this year. We forecasted a need of at least 500 megawatts of new capacity by 2030 with the actual amount dependent upon the types of resources selected from the independently monitored process.

We have not included any amounts associated with our investment plan, and we'll wait for that process to play out. As you can tell, it will be another busy year for us in Texas and New Mexico. With that, I'll turn it over to Lisa for a more detailed look at the numbers.

Elisabeth A. Eden
Senior VP & CFO

Thank you, Don, and good morning, everyone. I'll start on Slide 11 with a recap of 2024 results. Earnings per share were $2.74, coming in at the high end of our guidance for this year. Earnings benefited from recovery of capital investments through TCOS and DCRF mechanisms at TNMP. The implementation of new retail rates at PNM in January and our annual FERC rate update. Higher retail load growth, particularly at PNM, was partially offset by milder weather year-over-year. Improved market performance on our decommissioning trust also improved earnings. Lower market prices reduced our FERC transmission margins. We implemented new depreciation rates at PNM as part of the rate review finalized at the beginning of 2024, resulting in increased depreciation.

We also had higher depreciation, property tax and interest expense associated with new investments year-over-year. Lastly, dilution impacts from shares issued in December of 2023 lowered our per share amount of earnings. Now turning to 2025 on Slide 12. I'll cover the assumptions around our guidance introduced today at a range of $2.74 to $2.84. PNM includes the midyear implementation of the first phase of customer rates versus a full year of the cost associated with new investments. This also causes more of our quarterly distribution to be weighted to the second half of the year.

TNMP is expected to have another year of strong earnings growth as we recover transmission and distribution investments through the TCOS and DCRF mechanism before filing our rate case towards the end of the year. Detailed year-over-year drivers for each of our segments are available in the appendix. On Slide 13, we have rolled forward our capital plans to 2029 and incorporated the additional investments that Don discussed, increasing our 5-year forecast to $7.8 billion. This is a $1.6 billion increase from our prior 5-year total, largely at TNMP, where rate base growth 17% over the period and surpasses PNM Retail in 2027, total rate base growth over 12%.

I'll cover our financing plans on Slide 14. In 2024, we sold $100 million of equity through our ATM program and settled those shares in December. We also did another $50 million in forward sales under the program during the fourth quarter. We do not plan to settle those shares until December of 2025. In June, we issued $550 million of junior subordinated convertible bonds to refinance a portion of our term loans at the holding company, providing a debt for debt exchange with equity credit. Our financing plans in 2025 include the refinancing of the remaining $450 million balance of holding company term loans, and we will continue to utilize instruments that provide equity credit for this refinancing.

To fund our increased capital investment plans and maintain our credit metrics, we continue to assume the issuance of equity or equity linked securities, consistent with our previous statements. We have assumed the $1.6 billion of incremental capital is financed with 44% equity or $700 million. This brings our total equity needs for the $7.8 billion investment plan to $1.3 billion. This will be achieved through a variety of ways like our ATM program or other offerings and we will make those decisions based on market opportunities throughout the period.

On Slide 15, we have incorporated the updates from our capital and financing plans into our potential earnings power view through 2029. These updates support our increased EPS growth target of 7% to 9%. Our previous target was 6% to 7% using our 2024 guidance midpoint. We have rebased our growth target using this year's guidance midpoint of $2.79 and incorporated several updates. In this view of our business, the lines of PNM Retail, PNM FERC and TNMP reflect rate base math and assume we meet our goals to earn our authorized return using the allowed equity ratio.

At PNM Retail, we have incorporated the 9.45% ROE and 51% equity layer from our pending stipulation, the midyear implementation of new rates and the impact of the phase-in results in a lower earned return in 2025. However, the stipulated increase to our ROE and equity layer grows our earnings potential in future years. We also refreshed our capital plan and incorporated a new investments at PNM for our proposed 2028 resource application and planned transmission bill, bumping up the combined rate base for PNM Retail and FERC to $5 billion in 2028 and $5.4 billion in 2029, increasing PNM's earnings potential.

TNMP is the fastest-growing part of our business with rate base growth of 17% over the period. Our updated plans to add $500 million of rate base through 2028 and then continue the higher growth rate through 2029. The earnings growth -- earnings potential growth at a corresponding rate based on the 9.65% ROE and 45% equity layer last approved for TNMP in 2018. For those of you who may be comparing this slide to a prior version, I'll take a moment to note that the roll forward of our base period also includes a roll forward our share count to 2025.

This has the effect of shifting the 2025 amounts previously categorized as financing into each of the utilities to align with our earnings guidance. To provide additional transparency into our financing impacts, we're showing 2 separate lines. The existing financing line carries forward our 2025 holding company debt balance under a range of different financing alternatives. This line includes the impact of the junior subordinated convertible bonds issued in 2024, along with the refinancing of the remaining term loan.

The growth financing line contemplates the cost of any new equity or debt issuances at the parent to fund our capital investment plan. A total of $1.3 billion of equity content is assumed across the 5 years with ranges to include varying amounts of types or types of financing instruments. Taken together, these pieces add up to the potential earnings per share in 2029 of $3.86 at the midpoint, supporting the top half of our 7% to 9% earnings growth target. We are confident in our ability to achieve these targets and create value for shareholders.

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

Patricia K. V incent -Collawn
Chairman & CEO
Thank you, Lisa. We have our shades on here in New Mexico, in part because it is sunny here today, but most importantly, because 7% to 9% is a pretty significant growth rate, highlighting the high level of growth we are seeing in Texas. Before I open it up for questions, let me thank our teams across Texas and New Mexico for the wonderful accomplishments they achieved in 2024. I am looking forward to seeing what we can do in 2025. Ashia, let's open it up for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Julien Dumoulin-Smith with Jefferies.

Julien Dumoulin-Smith

Wow, you guys must be feeling pretty cool with your shades on I say.

Patricia K. Vincent-Collawn
Chairman & CEO

Julien, minor little [indiscernible] shades, green and yellow, courtesy of Roswell.

Julien Dumoulin -Smith

There we go. Very out proposed in New Mexico indeed. Excellent. And kudos on the update here, very nicely done, one of only a handful moving their EPS CAGRs of late. So very good indeed. Maybe to follow up on that, in fact, as you think about what's in the plan and maybe specifically what's not in the plan, can we go through a couple of nuances here? Obviously, you provided some degree of updates here on IRP, but ultimately, especially in the later dated portion of the plan, can you speak a little bit to what the incremental opportunity is?

Again, I just wanted to clarify what's not. And then also, I think you provided some additional commentary in the remarks here on the Permian and the total $750 million. But how do you think about the different potential scenarios that could play out in May around that $750 million and upside there as well as any related opportunities that could intertie into New Mexico?

Joseph D. Tarry
President, COO & Director

That was about 5 questions, Julien.

Patricia K. Vincent-Collawn
Chairman & CEO

What's the upside to the upside, JuliEn.

Joseph D. Tarry
President, COO & Director

Absolutely. Let me talk a little bit about New Mexico first because I think that's helpful, and then I'll jump to Texas. So in New Mexico, I mean, it's a balance for us about affordability in our CapEx plan, but there are 2 things that are happening in New Mexico that we're excited about. And one of them is economic development legislation, which would allow us to prebuild. And that really benefits prebuild CapEx infrastructure that we would need to serve larger customers. And that both benefits our existing customers based on rates and affordability in that arena. And it also benefits New Mexico as well.

The second element is we did add our first transmission, small transmission aligned to -- in the capital plan. And as we look at New Mexico going forward, the opportunity to help existing customers is to remove some of those constraints. So there's going to be opportunities as we think in the latter part of the plan, for continued transmission build to unlock some of those constraints that we have there. And I think the third thing in New Mexico is we're in the midst of the 2029 to 2033 RFP, and that's the replacement of Four Corners would be in there.

And again, we have to run through that process and don't want to get ahead of that because it is governed by an independent evaluator, but there would be opportunity there. In the Texas side, we've added a significant amount of opportunity, over $1 billion of capital, but Texas continues to perform well. And I talked a little bit about the interconnections, 10% interconnection requests between 2023 and 2024. And I'll tell you, that's in every service area that we operate in, that's the Gulf, that's north of Dallas. They're spread fairly evenly in West Texas. And it's interesting because we're seeing data center interest in each of those. And both the residential and we're seeing a significant data interconnection requests in both north of Dallas as well as the Gulf Coast area.

As we think about the play out of the Permian Basin, we're excited that we got the $750 million, and we've added that into our plan. Again, $400 million will be added in 2030 when we roll that out next year. I think the 345 kV as well as the 765 kV, it looks like parties have filed and there's about 10 that are pro with the commission and about 8 or 9 that are against. We'll just have to wait and see how it plays out. As I mentioned, ERCOT has pushed pretty hard for the larger 765 kV but we'll have to wait and see. If it goes that route, we wouldn't expect any more capital out of that plan. If it goes to 345 kV, we would see in the upwards of another $900 million.

So that's kind of the landscape both in Texas and New Mexico as we think forward.

Julien Dumoulin -Smith

Got it. Yes. A lot of moving pieces there, indeed, still on the upside to the upside, as you say. But -- sorry, in the more mundane sense, though, just to come back to the nitpicking on the commentary, for '25 financing activity, I think you said the remaining $450 million term loan. What structure are you assuming there? And just what's reflected in the updated long-term guidance? I think you alluded to this, but I just want to make it a little bit more explicit.

Elisabeth A. Eden
Senior VP & CFO

Yes, Julien. So we're looking at replacing that term loan really debt for debt, right, and then include equity content to strengthen our credit metrics. So that's what we're looking to do.

Julien Dumoulin -Smith

Got it. All right. And that's reflected in the -- some of that equity content is reflected in the updated EPS.

Elisabeth A. Eden
Senior VP & CFO

That's reflected in throughout the earnings period, and we've split out sort of existing financing. So the term loans are included in that existing financing line. And then you have the growth financing, and that's really the equity and all the things that are associated with growing investments and the growing capital budget that we have.

Operator

Our next question comes from Michael Lonegan with Evercore ISI.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

So in the Texas legislative session, House Bill 2868 was introduced. I know it's obviously early in the session. But as it stands now, it would require the PUC to use the utility's actual capital structure or the national average in determining rates. So my question is, when you file your Texas rate case towards the end of the year, what are you targeting for your actual capital structure going into the case?

Joseph D. T arry
President, COO & Director

I don't want to hop in front of us filing the actual rate case, but we're very cognizant of the House Bill 2868.

Michael B. Lonegan
Evercore ISI Institutional Equities, Research Division

Okay. Got it. And then in that rate case, are there any key components or big ticket items we should expecting aside from ROE and capital structure? Obviously, you have the TCOS and DCRF mechanisms covering that capital. But anything in particular we should keep note of? You haven't had the rate case since 2018, as you had mentioned?

Joseph D. T arry
President, COO & Director

Yes. Given the mechanisms in Texas, the TCOS and DCRF, we're fairly close to earning our ROE every year. So it would really be balancing between the distribution and transmission side of the businesses. And it's been -- we're starting our seventh year. So it's important to go in and allow that balance to happen.

Operator

Our next question comes from Anthony Crowdell with Mizuho.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

Just one housekeeping question first. What was the song was playing before the call started? Was it like an Eddie Rabbitt tune?

Patricia K. V incent -Collawn
Chairman & CEO

No, no, The Future's So Bright, I Gotta Wear Shades.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

Who's the artist on that?

Patricia K. V incent -Collawn
Chairman & CEO

Let me check.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

I could Google I wasn't familiar with it, but nicely done. I guess.

Patricia K. V incent -Collawn
Chairman & CEO

Timbuk 3.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

I must have a box set somewhere in my house, the CD box of that. I guess just quickly -- not to nitpick on Slide 15, you really lay out the earnings power potential. I don't know if you want to give more clarity, but I think when you talk about the, say, the growth financing line, I just picked one of the years, 2027, the $0.35 to $0.41. I think you talk about that the range there is really different alternatives for equity financing. Could you just tell me what the bookends are? This would assume all equity or this would assume a different type of instrument? Is there something like that, that you would be willing to share?

Elisabeth A. Eden
Senior VP & CFO

So Anthony, great to talk to you and great question. I think that when we look at it over the 5-year period, we put out that we're going to do $1.3 billion of equity-linked securities. And so what we included in this line is just a variety of ways of financing that, both from a timing and using different securities. And really, this line is trying to give you sort of guidance what that would look like in executing on that equity plan.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

I didn't do the math, but does this assume like a linear approach to issuing equity over the period? Or is there some lumpiness to your assumption of the $1.3 billion financing over the plan?

Elisabeth A. Eden
Senior VP & CFO

So Anthony, I mean, capital is not even every year, which means that rate base is not even and then you have different clearings depending on if you have sort of quicker projects or more long-term projects, which means that also financing will also be not evenly spread during that time period. So it's really matching your capital rate base with financing.

Anthony Christopher Crowdell
Mizuho Securities USA LLC, Research Division

Great. And Lisa had asked me to make sure I asked Pat a couple of questions. So Pat, just -- I know you probably just want to talk about the company, but your other job, I think you're President of EEI. I'm just curious, industry's approach to maybe wildfire. I mean, I guess my question would be, do you -- is there a buying with all the utilities where the wildfire sensitivity for your company maybe more focused on some other utilities where maybe an urban utility like a Con Edison or something may not be as focused on it. I'm just talking about -- I'm wondering any -- where is EEI or where is the industry focused on maybe wildfire legislation or whatever at the federal level? And is there support though, across all the utilities for it?

Patricia K. Vincent-Collawn
Chairman & CEO

I'll tell you what, Anthony, I would love to have that discussion with you, but I will have that offline because wildfire is a complicated story, and it is an EEI priority and the good news is the utilities are aligned. But let's take that one that we'll let Mr. Goodman set something up, and I can wear my shades for you.

Operator

[Operator Instructions] The next question comes from Andrew Weisel with Scotiabank.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

Here in New York, we need to wear sunglasses because it's so bright with the sun reflecting off the snow on the ground. So I'm a little bit jealous.

Patricia K. Vincent-Collawn
Chairman & CEO

We're sorry.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

First, one quick question to clarify for Don. I think you mentioned something about mobile generation units in Texas in the prepared remarks. Sorry if I missed it, but just to clarify, does the new CapEx plan include spending related to those temp gen units or not?

Joseph D. Tarry
President, COO & Director

No. We're going to wait until legislation works its way through and the rules were set and then legislate -- there's some legislation out there. So we'll wait until that happens and then make some decisions at that point.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

Then on the new CAGR, impressive numbers, certainly a good pickup there. I want to understand how should we think about the wider range at 200 basis points versus 100 previously. Is that a function of the higher numbers or a reflection of regulatory uncertainty? Or how should we think about that?

Elisabeth A. Eden
Senior VP & CFO

I think, Andrew, that we've just -- we used to have a 2 percentage points and then we narrowed it. And now it's a 5-year period. There's a lot of CapEx included in this budget. And so we were just comfortable with the 7% to 9% range, a little larger than we've had in the last year.

Andrew Marc Weisel
Scotiabank Global Banking and Markets, Research Division

Okay. Then lastly for me on the dividend growth, 5% increase. Is that a good bogey for how we should be thinking about the next few years, at least until you get to the middle of the targeted 50% to 60%? Then once you get there, should we think about dividends eventually accelerating to match the pace of earnings? Or is that not even a consideration at this point?

Patricia K. V incent -Collawn
Chairman & CEO

No, the Board looks at it every year, and there's a variety of factors. And one of it is the pace of earnings, it's our capital spending, et cetera, et cetera. So it can change during the year, but we just -- I think the biggest thing to keep in mind is we just targeted at the middle of that payout ratio. Some years, it will be a little over, some years, it will be a little under, but the target is the middle.

Andrew Marc W eisel
Scotiabank Global Banking and Markets, Research Division

Okay. So 5% until we get toward that middle probably?

Patricia K. V incent -Collawn
Chairman & CEO

It will change every year. It won't vary significantly, but it does -- it can vary by year.

Operator

The next question comes from Ryan Levine with Citi.

Ryan Michael Levine
Citigroup Inc., Research Division

Happy future Margarita Day. Given the history around Four Corners and the comments made in the prepared remarks, curious if there's any color you could share around the time line for stakeholder engagement this go around.

Joseph D. T arry
President, COO & Director

As it relates to Four Corners itself.

Ryan Michael Levine
Citigroup Inc., Research Division

Yes. And what type of solutions -- any decision there may.

Joseph D. T arry
President, COO & Director

We've committed to within our rate case and through our interveners that our plan is to exit Four Corners in 2031 when the operating agreement is done and so forth. And that's why we've issued -- one of the reasons why we've issued the 29 to 32 RFP is a replacement alternative for the Four corners or a couple of hundred megawatts that are there, plus the additional growth that we expect.

Ryan Michael Levine
Citigroup Inc., Research Division

I mean just as a follow-up for that. I mean given all the new generation being built in this country, are there any long lead time items that you need to take action this year or in the near term to be able to address that incremental generation in that way.

Joseph D. T arry
President, COO & Director

Yes. Good question. And we issued the RFP a lot sooner than we normally would for that specific reason. So we'll have the results of that RFP internally by midyear and then as we work through it and so forth. So we're well in advance of what we normally would have issued the RFP on, and it's a broader window of that as well to you. And that's the whole reason why we did that process.

Operator

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

Patricia K. Vincent-Collawn
Chairman & CEO

Thank you, and thank you all for joining us this morning. We hope you enjoy the Eve of National Margarita Day and then again tomorrow, we'll see, I'm sure many of you soon on the road. Thank you all. Bye-bye.

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