

## Management Discussion Section

### Operator

Good morning. Welcome to the PNM Resources Fourth Quarter Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there'll 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 Jimmie Blotter, Director of Investor Relations. Please go ahead.

### **Jimmie Blotter** PNM Resources, Inc.

Thank you, Debbie; and thank you, everyone, for joining us this morning for the PNM Resources fourth quarter 2018 earnings conference call. Please note that the presentation for this conference call and other supporting documents are available on our website at [pnmresources.com](http://pnmresources.com).

Joining me today are PNM Resources Chairman, President and CEO, Pat Vincent-Collawn; and Chuck Eldred, our Executive Vice President and Chief Financial Officer; as well as several other members of our executive management team.

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.

And with that, I will turn the call over to Pat.

### **Patricia K. Vincent-Collawn** PNM Resources, Inc.

Thank you, Jimmie. And good morning, everyone. Thank you for joining us today on our fourth quarter earnings call which for those of you keeping track of a second consecutive year of announcing earnings on International Polar Bear Day. And for those of you that are wondering, none of us are dressed up as a polar bear.

So let's begin on slide 4, with the financial results and some company updates. Our GAAP earnings per share in the fourth quarter of 2018 reflect the loss of \$0.69 compared to a loss of \$0.68 in the fourth quarter of 2017. Ongoing earnings per share are \$0.18 compared to \$0.24 in the fourth quarter of last year. For the full year, GAAP earnings per share are \$1.07 in 2018 compared to a \$1 in 2017, and ongoing earnings are \$2 compared to a \$1.94 in 2017.

During the fourth quarter, we experienced continued increases in customer usage attributed to both slowed growth and weather in New Mexico. These factors contributed to earnings above the top end of our guidance range for 2018.

For 2019, we have also narrowed consolidated earning guidance to 210 to 218. Chuck will provide further details on the financials in a few minutes.

We begin 2018 with the implementation of tax reform and working towards regulatory approval of our settlement in the general rate review at PNM. We noted that 2018 would be a transitional year as the phasing of rates in our settlement at PNM and our inability to make T Cost filings

during our general rate review at TNMP would limit our earnings potential in 2018. We believe that we had started to turn the corner with low growth at PNM and with the things and positive impacts albeit not until 2019.

By the time we finished the second quarter though, the positive impact of weather and load growth had exceeded our expectations. The number of interconnection requests at TNMP was building rapidly, and PNM was no longer showing only leading indicators of the building economy, as load growth had reached positive territory.

Earnings from third party transmission were higher than expected. And to top things off, an early start to the cooling season in New Mexico brought about opportunities to dedicate some additional O&M dollars to support the new level of growth at PNM and support system reliability. We raised our expectations for load growth and earnings.

Our highlights for 2018 will be on earnings however. We remain committed to providing our customers with safe, reliable, affordable and environmentally sustainable power. By modifying our rate settlement to incorporate tax savings into rates, PNM became the first utility to begin returning those savings to customers. We began installing industry leading transmission relay equipment on the PNM grid to more quickly identify and restore power after outages.

We partnered with the City of Albuquerque to announce a new program designed to support governmental, tribal and large customers in meeting their sustainable energy goals. We announced the addition of another 100 megawatts of solar at New Mexico renewable power into our Facebook. We continue down the path laid out in our 2017 integrated resource plan to transform the PNM generation portfolio and to be call free by 2031. We have repeatedly allocated additional investments

to Texas to meet the unprecedented level of growth in our service territory, while still remaining maintaining reliability. We are doing all these things with our shareholders in mind also. We work to earn our allowed return by efficiently managing the business and seeking authorization for the recovery of certain investments before spending the capital. We utilize financing plans to support growth with our credit metrics in mind to maintain investment grade credit ratings. And finally, we increased the dividend by 9% in December bringing our expected payout ratio to 54% of the 2019 ongoing earnings guidance midpoint. All-in-all 2018 proved to be a pretty successful year.

Moving into 2019, the New Mexico legislative session, which ends on March 16, has taken center stage. The majority of the House and Senate along with the Governor in New Mexico are Democrats and energy policy has been a focus. Several bills have been brought forth in this year's legislative session which favor the addition of renewable and carbon free energy sources. Renewable portfolio standards have been proposed to take us from the current standard of 20% renewables by 2020 to new standards of 40% by 2025 50% by 2030 and 80% by 2040. A 100% carbon free goal by 2045 has also been introduced.

Senate bill 489 also known as the Energy Transition Act or ETA includes these standards along with the securitization measure [indiscernible] has supported. This bill also has the governor strong support. The bill provides needed assistance to workers in the San Juan area communities and helps keep costs low for customers. The bill passed the Senate Conservation Committee

with a vote of five to three on Saturday and is expected to be heard by the Senate Corporations and Transportation Committee soon. The Energy Transition Act to the securitization financing provides the means for PNM to be able to accomplish the Energy Policy goals of [indiscernible] (00:08:12). As we think about the challenging renewable and carbon free goals that are being considered in the legislature. We are encouraged by what we are seeing across the industry in terms of declining costs for renewable resources and storage. We are confident in our ability to maintain cost effective, reliable and ultimately emissions free energy for our customers. I know that some of you today want to ask questions about how our commission or others in New Mexico maybe thinking about Senate Bill 489 or other proposed legislation. As you can imagine with the legislature still in session it's a highly political environment right now. So we're not going to be taking any questions on those issues today. We continue to stand by our plans to make complete at the

end of filing for San Juan following the best and final pricing evaluation for the replacement power in RFP along with the completion of an updated load forecast and de-commissioning study.

So now let's turn to slide 5. First off, unfortunately I do not have any updates on our appeal with the New Mexico Supreme Court related to our 2015 general rate case. The next item relates to the San Juan generating station compliance filings that we made at the end of the year. We agreed under the terms of our BART settlement to make a filing stating our intentions with the San Juan plant after 2022. All but one of the San Juan participants have provided notice that they do not wish to extend the coal supply agreement beyond 2022. Farmington expressed an interest in keeping San Juan open. However, the deadline to consider plans for operations beyond 2022 under the San Juan owner participation [Technical Difficulty]. On December 31, 2018 we provided our notice to the New Mexico commission for the BART settlement agreement that we did not intend to continue serving PNM customers with energy from San Juan post 2022.

Following our December 31 notice filing **the commission chose to open a new docket** and ask parties from the previous docket and from the integrated resource plan to provide comment on the compliance filing and opinion on whether PNM should be required to initiate an abandonment filing. **On January 30, the commission ordered us to follow an application by March 1, with testimony in support of abandonment and the status of replacement power alternatives.** We requested that the commission reconsider the order noting the reasons against forcing a premature and incomplete filing by March 1, since updated information required to complete the filing is not yet available or finalized. Although parties provided responses last week the case is not on the commission's agenda for today's open meeting. **If the commission does not address the motion for rehearing today, it will be deemed denied by operation of law. We would then expect to promptly petition the New Mexico Supreme Court for an immediate stay.**

We agree that it is important to understand the financial impacts of something as significant as closing down a coal plant and replacing it with new resources and efforts have been underway for some time to focus in on those impacts. We have been very transparent over the last year and communicating our plans to complete the tasks required to file for abandonment of San Juan in the second quarter of 2019. We are working through the proposal submitted through our RFP process and a de-commissioning study is underway at the plant. Separately, we believe that it is prudent to wait until the New Mexico legislative session is complete to understand how the proposed changes to the state's energy policy could impact our plans. Changes to renewable portfolio standards or the introduction of carbon free standards should be considered before plans to add resources are submitted for commission approval.

**The Energy Transition Act also considers a preference for the location of replacement resources and outlines considerations for battery storage. Both of which could directly impact plans for replacement power.** We are the largest electric utility in New Mexico and have communicated a plan to close a large coal plant and make a significant change to our resource mix over the next five years.

We recognize that the legislators and numerous parties who have worked on the Energy Transition Act along with many other proposed energy bills have done this work with the intent to have new legislation play a significant role in our plans. These voices also represent the voices of our customers and if new legislation emerges from this session, we want to incorporate it into our plans. Again because this is all part of an open docket with the commission, and the legislative process continues for a few more weeks. We aren't going to comment beyond these points that we have already communicated in our filings.

Moving on to the Western Energy Imbalance Market filing, the commission issued an order allowing us to create a regulatory asset as we began investing in the hardware and software needed for our planned participation in this market in 2021.

PNM's participation is a net benefit for customers, and the benefits automatically flow through to customers through our fuel costs. The initial investments however would need to be recovered to a rate case. So we are looking for some assurance that we can recover those investments. After our newly elected commissioners came on board an intervening party requested that the commission reconsider their order and the commission agreed. As a result, we have stopped all related work. It is typically taken utilities 24 months to 28 months to build up their systems to begin trading in the imbalanced market and the market only allows new participants in April of each year. So, we may not be able to join the market in April 2021 as planned without an affirmation of the commission's original order for recovery associated costs to joint. To

other parties note that this is joint filing with the commission and requested an expedited decision. We are hopeful that we will be able to get back to work on this project, it has such significant financial benefits to customers and furthers the renewable energy potential in New Mexico. I'll also note that the San Juan entity provided notice of appeal with the New Mexico Supreme Court on our 2017 integrated resource plan. Their arguments will be due to the court in March. Similar to our rate case appeal there is no statutory timeline for this type of case. We have also provided some updates on other open dockets or dockets that have been closed since our last update. At PNM, the 2019 renewable plan was approved in November. At TNMP, our general rate review settlement was approved in December and rates were implemented in January. As previously communicated, we filed for a TCOS filing in January that would update recovery on transmission rate base through 2018 and we expect that new rates will be implemented in March. The requested increase is \$14.3 million, which is higher than our prior your request, because we were not able to file for updates and rates during our general rate review.

With that, I'll turn it over to Chuck for a detailed

look at the numbers.

**[06CHGP-E Charles N. Eldred]**

Thank you, Pat and good morning, everyone and thank you for joining. I'll apologize in advance. I have a slight cold, so there may be a little coughing or clear in my throat as I go through the information this morning. But again let me start with Slide 7 with a recap of 2018 segment earnings results, ongoing earnings per share is strong at \$2 for the year. PNM's earnings were up \$0.06 for the year. We have several items that affecting our earnings that were included in our guidance for the year such as the combined effects of the retail rate phase-in; changes in tax rates; and the generation portfolio changes that included bringing Palo Verde Unit 3 into rate base.

Lower gains from decommissioning and reclamation trust and appreciation and property tax expense increases from our capital investment. We also had some additional O&M expenses in the second half of the year to support growth across the PNM system, including routine maintenance at our plants as well as some additional work on our distribution system to support growth and maintain system reliability. These are offset by the lower interest expense at PNM due to refinancings. Additionally, the increased load that Pat mentioned and colder temperatures in the New Mexico during the fourth quarter further improved results with heating degree days 17% higher than normal and 65% higher than the prior year. Earnings from a third party transmission customers also came at the top of our expectations.

TNMP is up \$0.11 for the year compared to 2017. Drivers include continued strong load [ph] T cost filings that have been implemented during the timeframe and AFUDC. These are partially offset by the increase in depreciation and property tax expense

Finally corporate and other was down \$0.11 for the year. This was primarily for increased interest expense and reduction to the interest income that resulted from the early repayment of the Westmoreland loan in May. The quarter information as well as the full list of annual drivers are in the appendix.

Now turning to slide 8 for our loan information. 2018 results reflect a 0.6% increase in PNM load, just above the top end of our revised guidance of 0.5% for the year. Our 2019 guidance reflects a range of 0.3% to 1% which includes the additional load from the Facebook data center. The economy in the Mexico continues to be a positive story. Last quarter we reported that Netflix had announced its plans to bring \$1 billion in production to the Mexico over the next 10 years, creating up to 1,000 production jobs annually. Since then there have been announcements of new developments including business parks, hotels, retailers and restaurants. Employment growth in Albuquerque outpaced the U.S. average throughout the second half of 2018 and has continued that momentum into 2019.

Earlier this month the City of Albuquerque reported the expansion of Chicago-based lending solutions to Downtown Albuquerque. The expansion brings over 150 jobs without the use of any local economic development act funding incentives, demonstrating that Albuquerque has a growing economy that is getting the attention of companies looking to expand or relocate.

TNMP reported a 3.2% increase in volumetric load for 2018, just over our guidance range of 2% to 3% for the year. Demand-based load came in at 6.8% which was at the top end of our 5% to 7% guidance range. We continue to see customers line up with the request to interconnect to our system. Additionally, a recent study determined that even with our increased investment assumptions discussed in November the system requires additional investments and voltage control equipment to support the continued level of growth on the system. You'll see in a few slides that we've added \$30 million of capital in 2019 for these items.

Now turning to slide 9. We are starting the year off by nearing our 2019 ongoing earnings guidance. During the first two months of the year weather has been coming in stronger than expected at PNM. This impact alone has improved earnings by \$0.02. As a result, our new range is to \$2.10 to \$2.18. With PNM's range also nearer by \$0.02 and is now \$1.61 to \$1.65.

On slide 10 you'll see the impact of the continued growth at PNM and TNMP our capital plans. As we begin to realize the incremental investment opportunities that were introduced last quarter into our plan. We have moved more than \$250 million out of the opportunities bucket and in our capital plans at PNM and TNMP. We have added \$105 million of capital TNMP over the four years, \$30 million in 2019, \$25 million each year for 2020 through 2022. This brings the annual run rate for TNMP investment to \$245 million, a significant increase for the \$170 million run rate forecasted at this time last year. At PNM we added \$50 million of T&D spending per year for 2020 through 2022. These projects support an increased level of load and replace aging infrastructure that will maintain the stability of our system and reduce ongoing maintenance costs. As you can see on the capital slide we have incremental **growth opportunities at \$450 million. This reflects the opportunities for replacement power** and new transmission to support renewable energy. As the Energy Transition Act moves through the legislation, we support New Mexico's goals to become a sustainable energy leader. But based on the [indiscernible] process **provide the opportunity to procure the replacement resources** at competitive levels supporting our continued efforts to ensure affordable rates and strong reliability for our customers as we migrate to a carbon free generation portfolio. Further capital investments will continue to be based on prioritization of projects and allocated across the business segments. We have identified about \$245 million of future capital. They're now currently baked in the chart on slide 12. These investments would be time to address PNM's aging infrastructure as load and customer growth continues and support additional development at TNMP and eventually include further rig modernization at PNM including automated metering technology.

Turning to slide 11, you will see that we continue to target 5% to 6% earnings growth and have updated this calculation to reflect 2018 ongoing results of \$2 as the base plan. We've also added 2022 to the earnings potential and included the incremental growth opportunities along with the New Mexico Supreme Court appeal at the bottom of the chart. Note that the midpoint of 2019 ongoing earnings guidance of \$2.14 does not include the New Mexico Supreme Court decision. Overall, you will see an increase in the earnings potential of our base plan resulting from the increased capital that is supporting both PNM and TNMP. After the realization of these amounts of the base plan, we still have additional growth opportunities of up to \$0.10 in 2021 and up to \$0.24 in 2022. We remain confident in our plans and our ability to meet the targets and the potential to incorporate the more capital outside of our core investment plan as additional events develop throughout the year.

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

**Patricia K. Vincent-Collawn** PNM Resources, Inc.

Thanks [indiscernible] Chuck and thank you all for joining us today. [indiscernible] diligently for the last several years to move our action of our integrated resource plan and transform PNM's generation portfolio. It's been refreshing to see the number of stakeholders supporting this direction and joining efforts to move down this path together in a way that considers so many different positions. Out of respect for these ongoing efforts, let me remind you that we will not take any questions on the call today into the open docket speculate on the outcome of the legislature. You are welcome to contact Investor Relations to catch up on any previously discussed details related to these items and we will disclose any future events appropriately. Operator, let's please open it up for questions.

**Question & Answer Section**

**Operator**

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Paul Ridzon with KeyBanc. Please go ahead.

Good morning. I hope I'm not going to the forbidden [indiscernible] question, but...

That's okay, Paul, we will tell you. Good morning.

You already there, Paul. [ph] I don't answer the question.

What's happening with Farmington and [ph] Acme?

As we've said after interacting with Farmington for about two years. We were surprised that there was a meeting last week, the City of Farmington and [ph] Acme and here or there announcement to keep San Juan generating station open. So, as we said our contract calls for the orderly shutdown of the plant and we'll have to see. That's all we really know.

If for whatever reason that plant stayed open how could that impact your RFPs?

Well, at this point...

Yeah.

... this point, Paul, we have every intention to shut our ownership interest in San Juan. So regardless of what theoretically is being proposed by Farmington from our view we're exiting San Juan and will replace the power accordingly to meet the objectives of Hopefully supporting the Energy Transition Act in past. But we will in no way accept any sort of PPA or any continued involvement after 2022 for San Juan. We've made that decision. It's up to the Commission ultimately to decide the abandonment. But that's our plan and we'll continue to pursue it that way.

And there are several bills, Paul, to talk about higher renewable portfolio standards. So I can't see any coal fitting into our plans.

I just – so can't get the coyote out of my head right here?

So, well yeah. We do.

Thank you very much.

And for you younger folks that's Wile E. Coyote, so look it out.

**Operator**

So our next question comes from Ali Agha with SunTrust. Please go ahead.

**Ali Agha** SunTrust Robinson Humphrey, Inc.

Thank you. Good morning.

Good morning, Ali.

Good morning.

**Ali Agha** SunTrust Robinson Humphrey, Inc.

Just -- I don't want to get into the politics of the legislation et cetera. But can you just tell us the timeline of the process and what milestones we should be tracking from the outside?

Absolutely. I'm happy to talk about the process. It passed the first Committee which is the Senate Conservation. It should soon go to

Senate constitution -- excuse me, senate corporations and transportation. And then after that it would go to the full Senate and then it goes over to the House. It's probably going to be assigned to a committee in the House. But remember the -- one of the co-sponsors of the bill is the Speaker of the House and then it would be scheduled for a committee hearing read on the floor. It's got to have another committee hearing if it does have a second committee hearing and then it would be read out on the floor again. It's got to have a third read for both the Senate and the House and the governor and the governor has to act on bills by April 5th. If signed, the bill becomes law on June 14th.

Okay. And the legislative session itself when is it scheduled to end?

March 16th.

March 16th.

And just remember that a lot of the work that goes on in the New Mexico legislature in the first you know five weeks, six weeks these committee hearings, the budget that kind of stops. So most bills in the Mexico legislature get passed in the last two to three weeks of the session. It's just been a historical pattern, we went out and did a parade of bills passed, you'll see they're all passed in the last few weeks.

Got you. Secondly I wanted to clarify Chuck, the earnings power slide particularly the numbers for 2020 and 2021, the increase in both years, is that all driven by that incremental CapEx that you're now assuming in your base plan for 2020 and 2021 or is there some other changes embedded in those higher numbers. You know if you when you get through and work through the numbers, you'll see where we've added \$255 million for both TND, PNM and TNMP, so it's like \$50 million a year for PNM and 25 million a year for the next three years for TNMP on top of that the \$30 million we just added for 2019.

So the – the growth on that slide with the earnings potential if you look at the bottom section you can see where we've identified the \$350 million in 2021 which again represents new transmission and replacement power with San Juan, we assume that – that's the half of that amount just for planning purposes, and then the balance of that would be in 2022. So that particular amount is really based on the ultimate objectives and decisions that are made through what replacement power and transmission export renewables occurs in New Mexico but that you can see is outside the base plan. And again our base plan does support the earnings growth target of 5% to 6% from 2018 through 2022 as we previously stated.

Right. And last question to the extent that all of that growth CapEx does make it into base and everything falls in your favor. What kind of incremental rate impact does that sort of imply for New Mexico customers and is that sort of a constraint in your mind when you're thinking about that incremental CapEx.

We certainly are very careful of how we think about rate cases and customer impacts, but it's – it's important to realize that we're dropping about \$320 million of rate base at PNM and we're adding additional rate base. So you're really incremental now the rates is going to dependent upon what exceeds that amount of rate base in 2022 after we shut the plant down. So we're always sensitive about that, that's why we – we – we got \$245 million of additional capital for both PNM and TNMP that's in a – call it privatization bucket that's based on timing and that will be released as we begin to see what the development is on the replacement resources and new transmission in New Mexico. But again, we think we are clearly managing our expectations for the earnings target growth of 5% to 6%.

I got it. And...

**Unverified Participant**

And Ali, remember there's a couple of offsets right, securitization takes customers' bills down and then assumingly get the permission to recover investments in the energy imbalance market that's a significant savings for customers too. That goes to the fuel clause. So, there's offsets to what Chuck was talking about.

I got you. And that just remind us when is the next rate case in New Mexico expected to be filed?

We've been talking about the end of this year.

End of this year. Got you. Thank you.

**Unverified Participant**

Welcome.

**Operator**

[Operator Instructions] Our next question comes from Julien Smith with BOA. Please go ahead.

Good morning. This is Alex Morgan calling in for Julien.

**Unverified Participant**

Good morning, Alex.



How are you.

**Unverified Participant**

Good.

**Unverified Participant**

Good.

Congratulations on the results.

**Unverified Participant**

Thank you.

I have two further questions. First, I wanted to go off of the timeline process question and specifically touch base on when you would expect to release more information of the replacement generation for the San Juan generation facility?

Yeah, as we've said we really don't see the ability to finalize the announcement until second quarter pro rata for the second quarter around the June timeframe. So a lot of this is dependent upon other components, updated low growth, finalizing the process for the RFP and replacement power. Knowing what the Energy Transition Act ultimately passes and indicate. So, there's a number of factors that are still incomplete in our ability to file for abandonment and that application and identify replacement power. So I would look for that more along the June timeframe.

Okay. Thank you so much. And secondly, I wanted to just ask about amending the legislative bills. I know that at the last PRC meeting the Commissioners asked questions around this. And I was wondering if there's any updates on how easy it is to amend one of the proposed bills?

**Patricia K. Vincent-Collawn**PNM Resources, Inc.

Well, you have to get through the Committee process. And on Saturday for example, when it was in a Conservation Committee there were some friendly amendments made by the sponsor to clear up some technicalities. No other amendments were accepted. So you basically have to get your amendments into the Committee and have them accepted by the Committee. It's not that easy of a process because I think in general the people that have written the legislation have spent a lot of time on it. They've had huge involvement in parties. And so, they don't want folks coming in and mucking it up. That said, amendments can be made but I wouldn't – I don't consider it that easy of a process, because there's a lot of good sponsorship in both the House and the Senate and they're very protective of the work that they've done and the tradeoffs that they have made with all parties.

Okay. Thank you so much. That's all for me.

**Patricia K. Vincent-Collawn**PNM Resources, Inc.

Thank you.

**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**PNM Resources, Inc.

Thank you. And again thank you all for joining us today.