PNM to spend $2.7 bil on capital projects through 2022

Mark Watson, S&P Global, 31 Jul 2018 | 23:04 UTC

Houston — Leaders of PNM Resources, parent of utilities in New Mexico and Texas, on Tuesday outlined a $2.7 billion capital spending plan, including about $393 million to replace the capacity of the coal-fired San Juan Generating Station upon its proposed retirement in 2022.

PNM Resources in July 2017 filed an integrated resource plan (IRP) with the New Mexico Public Regulation Commission that "indicated that the most cost-effective plan for customers included the retirement of the remaining units at the coal-fired San Juan Generating Station after the existing coal contract expires in 2022," PNM CEO Pat Vincent-Collawn said during a Tuesday earnings conference call.

New Mexico regulators have yet to take action on the IRP, and they have no statutory time frame in which to rule. If the IRP is approved, PNM's Public Service Co. of New Mexico would have to request approval of a plant abandonment plan and a plan to replace that power.

"There is a regulatory process that we must follow, and we must obtain commission approval to abandon generation facilities as well as to secure sources of replacement power," Vincent-Collawn said. "We continue to work through the [request for proposal] process for potential sources of replacement power, and we expect to have the responses evaluated in the spring of 2019. Depending on that evaluation, ... we could then make an abandonment filing that includes a plan for replacement power."

CONTROVERSIAL BASELOAD PLANT

The San Juan Generating Station remains controversial because it is a major employer in the impoverished Four Corners area of the US, and replacing its 847 MW of baseload power in the region could require significant investment.

In 2017, the plant had a capacity factor of almost 74%, and its operating and maintenance expenses totaled $25.06/MWh, according to the S&P Global Market Intelligence power plant database.

Public Service Co. of New Mexico owns about 66% of the project, while Fortis unit Tucson Electric Power owns about 20%, the city of Farmington, New Mexico, owns about 5%, Los Alamos County, New Mexico, owns 4.3%, and the Utah Associated Municipal Power system owns 4.2%.

In all, PNM plans to spend about $514 million on capital expenditure in 2018, $525 million in 2019, $500 million in 2020, $503 million in 2021 and $680 million in 2022, according to the written earnings presentation from Chuck Eldred, PNM chief financial officer.

ECONOMICS, WEATHER

PNM's other significant business is Texas-New Mexico Power, where the company raised its planned capital expenditures for 2018 by about $30 million to $215 million, Eldred said. "We continue to see growth in our territory in West Texas due to continued oil-and-gas development in the Permian Basin," Eldred said, as well as in petrochemical complexes along the Gulf Coast.

Economic growth in New Mexico and Texas, as well as weather-related increased demand in the region, prompted PNM to raise its earnings per share guidance to a range of $1.91 to $1.98 in 2018 and $2.08 to $2.18

in 2019, Eldred said. The company previously projected EPS of $1.82 to $1.92 in 2018 and $2.04 to $2.16 in 2019.

"We believe we're finally seeing some strength in the local economy," Eldred said.

Cooling degree days in PNM's territories in the second quarter were 36% higher than Q2 2017 and the average Q2, and it was "the hottest second quarter in the last 20 years," Eldred said.

"We're certainly pleased with the strength of our business," said Vincent-Collawn.