

TXNM ENERGY, INC.
Board of Directors

Policy and Procedure Governing Related Party Transactions
Approved: February 13, 2007

It is the policy of the Board of Directors of TXNM Energy, Inc. (the "Company") that any transaction, arrangement, or relationship or series of similar transactions, arrangements or relationships, including any indebtedness or guarantee of indebtedness, with a Related Party (defined below) where the aggregate amount involved is expected to exceed \$120,000 in any calendar year ("Related Party Transactions") shall be subject to approval or ratification in accordance with the procedures set forth below. It is the purpose of this Policy and Procedure to supplement, rather than displace, existing approval processes for Company transactions.

1. The Nominating and Governance Committee (the "Committee") of the Board of Directors shall review the material facts of any Related Party Transaction and either approve or disapprove the transaction, subject to the exceptions identified below. If advance approval is not feasible, then the Committee must ratify the Related Party Transaction at its next regularly scheduled meeting or the transaction must be rescinded. In determining if a Related Party Transaction should be approved or ratified, the Committee shall consider, among other factors it deems appropriate, such factors as (i) the extent of the Related Party's interest in the Related Party Transaction, (ii) if applicable, the availability of other sources of comparable products or services, (iii) whether the terms of the Related Party Transaction are no less favorable than terms generally available in unaffiliated transactions under like circumstances, (iv) the benefit to the Company, and (v) the aggregate value of the Related Party Transaction.
2. For purposes of this Policy and Procedure, "Related Party" means:
 - a. Any person who is or was an executive officer, director or nominee for election as a director (since the beginning of the last fiscal year); or
 - b. Any person or group who is a greater than 5% beneficial owner of the Company's voting securities; or
 - c. Any immediate family member of any of the foregoing, which means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law, and anyone residing in such person's home (other than a tenant or employee).
3. The Company's Corporate Governance Department shall collect and maintain a master list of all Related Parties and distribute that list to appropriate officers and employees so that such officers and employees may identify and bring forward any proposed Related Party Transactions. The Company's Corporate Governance Department, in consultation with the Company's Law Department, shall review each proposed transaction where the aggregate amount involved is reasonably expected to exceed \$120,000 in a calendar year and present it to the Committee for review.
4. No director of the Company may engage in any Committee or Board discussion or approval of any Related Party Transaction in which he or she is a Related Party; provided however, that such director must provide to the Committee or Board, as the case may be, all material information reasonably requested concerning the Related Party Transaction.
5. All ongoing Related Party Transactions must be reviewed and approved annually by the Committee.
6. The following types of transactions have been reviewed by the Committee and are hereby pre-approved ("Pre-Approved Transactions"):
 - a. Any compensation paid to a director if the compensation is pursuant to the Board-approved standard compensation arrangements for directors;

- b. Any compensation paid to an executive officer, solely resulting from the employment relationship with the Company if the compensation is reviewed and approved by the Compensation & Human Resources Committee or by the Board.
- c. Any transaction with another company at which a Related Party's only relationship is as director or beneficial owner of less than a 10% equity interest of that company's shares;
- d. Any transaction involving a Related Party where the rates or charges involved are determined by competitive bids, or any transaction with a Related Party involving the rendering of services as a common or contract carrier, or public utility, at rates or charges fixed in conformity with law or governmental authority;
- e. Any transaction with a Related Party involving services as a bank depository of funds, transfer agent, registrar, trustee under a trust indenture, or similar services;
- f. Any transaction in which the Related Party's interest arises solely from the ownership of the Company's equity securities and all holders of the Company's equity securities received the same benefit on a pro rata basis (e.g. dividends);
- g. Transactions available to employees generally;
- h. Transactions approved by another Committee or the Board in the normal fulfillment of its charter and responsibilities.

In conjunction with implementing this Policy and Procedure, the Committee shall review any existing Related Party Transactions entered into during 2006 and make a determination whether to ratify or rescind the transaction, unless the transaction is a Pre-Approved Transaction.