

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the quarterly period ended September 30, 2022**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

Name of Registrant, State of Incorporation, Address Of Principal Executive Offices, Telephone Number, Commission File No., IRS Employer Identification No.

**PNM Resources, Inc.**  
(A New Mexico Corporation)  
414 Silver Ave. SW  
Albuquerque, New Mexico 87102-3289  
Telephone Number - (505) 241-2700  
Commission File No. - 001-32462  
IRS Employer Identification No. - 85-0468296

**Public Service Company of New Mexico**  
(A New Mexico Corporation)  
414 Silver Ave. SW  
Albuquerque, New Mexico 87102-3289  
Telephone Number - (505) 241-2700  
Commission File No. - 001-06986  
IRS Employer Identification No. - 85-0019030

**Texas-New Mexico Power Company**  
(A Texas Corporation)  
577 N. Garden Ridge Blvd.  
Lewisville, Texas 75067  
Telephone Number - (972) 420-4189  
Commission File No. - 002-97230  
IRS Employer Identification No. - 75-0204070

Securities registered pursuant to Section 12(b) of the Act:

<u>Registrant</u>	<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
PNM Resources, Inc.	Common Stock, no par value	PNM	New York Stock Exchange

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PNM Resources, Inc. ("PNMR")	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Public Service Company of New Mexico ("PNM")	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
Texas-New Mexico Power Company ("TNMP")	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

(NOTE: As a voluntary filer, not subject to the filing requirements, TNMP filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

Indicate by check mark whether each registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

PNMR	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
PNM	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
TNMP	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PNMR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
PNM	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
TNMP	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 21, 2022, 85,834,874 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM, no par value per share, outstanding as of October 21, 2022, was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP, \$10 par value per share, outstanding as of October 21, 2022, was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

**PNM AND TNMP MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H) (1) (a) AND (b) OF FORM 10-Q AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (H) (2).**

This combined Form 10-Q is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. When this Form 10-Q is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-Q that relate to each other registrant are not incorporated by reference therein.

**PNM RESOURCES, INC. AND SUBSIDIARIES  
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES  
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**

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**GLOSSARY**

## Definitions:

ABCWUA	Albuquerque Bernalillo County Water Utility Authority
ACE Rule	Affordable Clean Energy Rule
AEP OnSite Partners	AEP OnSite Partners, LLC, a subsidiary of American Electric Power, Inc.
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program
Avangrid	Avangrid, Inc., a New York corporation
BART	Best Available Retrofit Technology
Board	Board of Directors of PNMR
BSER	Best system of emission reduction technology
CAA	Clean Air Act
CAISO	California Independent System Operator
CCAIE	Coalition for Clean Affordable Energy
CCR	Coal Combustion Residuals
CFIUS	Committee on Foreign Investment in the United States
CFRE	Citizens for Fair Rates and the Environment
CO <sub>2</sub>	Carbon Dioxide
COVID-19	Novel coronavirus global pandemic
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DCOS	TNMP's applications for a distribution cost recovery factor
DOE	United States Department of Energy
Effective Time	The time the Merger is consummated
EGU	Electric Generating Unit
EIM	Western Energy Imbalance Market developed and operated by CAISO
ELG	Effluent Limitation Guidelines
End Date	The date at which the Merger Agreement may be terminated if the Effective Time has not yet occurred; January 20, 2022, subsequently extended to April 20, 2023.
Energy Transition Charge	Rate rider established to collect non-bypassable customer charges for repayment of the Securitized Bonds
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESG	Environmental, Social, and Governance principles
ETA	The New Mexico Energy Transition Act
EUEA	The New Mexico Efficient Use of Energy Act
Exchange Act	Securities Exchange Act of 1934
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Power Plant
Four Corners Abandonment Application	PNM's January 8, 2021 application for approval for the abandonment of Four Corners and issuance of a securitized financing order
Four Corners CSA	Four Corners' coal supply contract with NTEC
Four Corners Purchase and Sale Agreement	PNM's pending sale of its 13% ownership interest in Four Corners to NTEC
FPPAC	Fuel and Purchased Power Adjustment Clause
FTC	Federal Trade Commission
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
Grid Modernization Application	PNM's October 3, 2022 application for approval of grid modernization investments of approximately \$344 million for the first six years of a broader 11-year strategy
GWh	Gigawatt hours
HSR Act	Hart-Scott Rodino Antitrust Improvement Act of 1976
Iberdrola	Iberdrola, S.A., a corporation organized under the laws of the Kingdom of Spain, and 81.5% owner of Avangrid
INDC	Intended Nationally Determined Contribution
IRA	Inflation Reduction Act
IRP	Integrated Resource Plan

IRS	Internal Revenue Service
Joint Applicants	PNM, PNMR, Merger Sub, Avangrid and Iberdrola
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt Hour
La Joya Wind II	La Joya Wind Facility generating 140 MW of output that became operational in June 2021
Leased Interest	Leased capacity in PVNGS Unit 1 and Unit 2
Leeward	Leeward Renewable Energy Development, LLC
LIBOR	London Interbank Offered Rate
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Merger	The merger of Merger Sub with and into PNMR pursuant to the Merger Agreement, with PNMR surviving the Merger as a direct, wholly-owned subsidiary of Avangrid
Merger Agreement	The Agreement and Plan of Merger, dated October 20, 2020, between PNMR, Avangrid and Merger Sub, as amended by the amendment to the Merger Agreement dated January 3, 2022
Merger Sub	NM Green Holdings, Inc., a New Mexico corporation and wholly-owned subsidiary of Avangrid which will merge with and into PNMR at the effective time of the Merger (defined below)
Meta	Meta Platform, Inc., formerly known as Facebook Inc.
MMBTU	Million BTUs
Moody's	Moody's Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
NDT	Nuclear Decommissioning Trusts for PVNGS
NEE	New Energy Economy
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NM 2015 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on August 27, 2015
NM 2016 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on December 7, 2016
NM AREA	New Mexico Affordable Reliable Energy Alliance, formerly New Mexico Industrial Energy Consumers Inc.
NM District Court	United States District Court for the District of New Mexico
NM Supreme Court	New Mexico Supreme Court
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMMDM	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
NMRD	NM Renewable Development, LLC, owned 50% each by PNMR Development and AEP OnSite Partners, LLC
NOx	Nitrogen Oxides
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NTEC	Navajo Transitional Energy Company, LLC, an entity owned by the Navajo Nation
OATT	Open Access Transmission Tariff
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
Paris Agreement	A legally binding international treaty on climate change adopted on December 12, 2015
Pattern Wind	Pattern New Mexico Wind, LLC, an affiliate of Western Spirit and Pattern Development
PCRBs	Pollution Control Revenue Bonds
PM	Particulate Matter
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2017 New Mexico Credit Facility	PNM's \$40.0 million Unsecured Revolving Credit Facility
PNM 2021 Term Loan	PNM's \$75.0 million 18-month Unsecured Term Loan that matures December 18, 2022
PNM 2022 Delayed- Draw Term Loan	PNM's \$225.0 million Unsecured Term Loan that matures February 5, 2024
PNM Revolving Credit Facility	PNM's \$400.0 million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries

PNMR 2021 Delayed-Draw Term Loan	PNMR's \$1.0 billion Unsecured Delayed-Draw Term Loan that matures on May 18, 2025
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Revolving Credit Facility	PNMR's \$300.0 million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
PVNGS Leased Interest Abandonment Application	Application with the NMPRC requesting approval for the decertification and abandonment of 114MW of leased PVNGS capacity
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
RECs	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor's Ratings Services
SEC	United States Securities and Exchange Commission
Securitized Bonds	Energy transition bonds
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJGS Abandonment Application	PNM's July 1, 2019 consolidated application seeking NMPRC approval to retire PNM's share of SJGS in 2022, for related replacement generating resources, and for the issuance of Securitized Bonds under the ETA
SJGS CSA	San Juan Generating Station Coal Supply Agreement
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur Dioxide
SOFR	Secured Overnight Financing Rate
SRP	Salt River Project
SUNs	Senior Unsecured Notes
Tax Act	Federal tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TEP	Transportation Electrification Program
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2022 Bonds	TNMP's First Mortgage Bonds to be issued under the TNMP 2022 Bond Purchase Agreement
TNMP 2022 Bond Purchase Agreement	TNMP's Agreement for the sale of an aggregate \$160.0 million of TNMP's 2022 Bonds
TNMP Revolving Credit Facility	TNMP's \$75.0 million Secured Revolving Credit Facility (\$100.0 million as of May 13, 2022)
Tri-State	Tri-State Generation and Transmission Association, Inc.
TSAs	Transmission Service Agreements
U.S.	The United States of America
US Supreme Court	United States Supreme Court
Valencia	Valencia Energy Facility
VIE	Variable Interest Entity
Western Spirit Line	An approximately 150-mile 345-kV transmission line that PNM purchased in December 2021
Westmoreland	Westmoreland Coal Company
WFB LOC Facility	Letter of credit arrangements with Wells Fargo Bank, N.A., entered into in August 2020
WRA	Western Resource Advocates
WSJ LLC	Westmoreland San Juan, LLC, a subsidiary of Westmoreland Mining Holdings, LLC, and current owner of SJCC

**PART I. FINANCIAL INFORMATION**
**ITEM 1. FINANCIAL STATEMENTS**

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(In thousands, except per share amounts)				
<b>Electric Operating Revenues:</b>				
Contracts with customers	\$ 531,966	\$ 481,881	\$ 1,320,779	\$ 1,197,359
Alternative revenue programs	(11,643)	(9,483)	(14,569)	(3,156)
Other electric operating revenue	209,565	82,153	367,526	151,595
Total electric operating revenues	<u>729,888</u>	<u>554,551</u>	<u>1,673,736</u>	<u>1,345,798</u>
<b>Operating Expenses:</b>				
Cost of energy	334,339	199,380	698,349	467,452
Administrative and general	58,125	56,520	165,328	168,458
Energy production costs	34,469	32,374	110,534	106,709
Regulatory disallowances and restructuring costs	(567)	436	832	436
Depreciation and amortization	76,570	71,438	229,103	212,039
Transmission and distribution costs	21,538	19,996	61,160	56,166
Taxes other than income taxes	22,651	22,678	71,207	65,440
Total operating expenses	<u>547,125</u>	<u>402,822</u>	<u>1,336,513</u>	<u>1,076,700</u>
Operating income	<u>182,763</u>	<u>151,729</u>	<u>337,223</u>	<u>269,098</u>
<b>Other Income and Deductions:</b>				
Interest income	3,969	3,329	11,588	10,466
Gains (losses) on investment securities	(15,736)	1,948	(84,104)	16,108
Other income	5,364	5,686	14,845	14,592
Other (deductions)	(1,647)	(5,098)	(7,529)	(13,836)
Net other income and deductions	<u>(8,050)</u>	<u>5,865</u>	<u>(65,200)</u>	<u>27,330</u>
<b>Interest Charges</b>	<u>34,526</u>	<u>23,244</u>	<u>89,963</u>	<u>73,247</u>
<b>Earnings before Income Taxes</b>	<u>140,187</u>	<u>134,350</u>	<u>182,060</u>	<u>223,181</u>
<b>Income Taxes</b>	<u>13,450</u>	<u>16,668</u>	<u>16,982</u>	<u>26,533</u>
<b>Net Earnings</b>	<u>126,737</u>	<u>117,682</u>	<u>165,078</u>	<u>196,648</u>
<b>(Earnings) Attributable to Valencia Non-controlling Interest</b>	<u>(4,172)</u>	<u>(4,229)</u>	<u>(10,897)</u>	<u>(11,643)</u>
<b>Preferred Stock Dividend Requirements of Subsidiary</b>	<u>(132)</u>	<u>(132)</u>	<u>(396)</u>	<u>(396)</u>
<b>Net Earnings Attributable to PNMR</b>	<u>\$ 122,433</u>	<u>\$ 113,321</u>	<u>\$ 153,785</u>	<u>\$ 184,609</u>
<b>Net Earnings Attributable to PNMR per Common Share:</b>				
Basic	\$ 1.42	\$ 1.32	\$ 1.79	\$ 2.14
Diluted	\$ 1.42	\$ 1.32	\$ 1.78	\$ 2.14
<b>Dividends Declared per Common Share</b>	<u>\$ 0.3475</u>	<u>\$ 0.3275</u>	<u>\$ 1.0425</u>	<u>\$ 0.9825</u>

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
<b>Net Earnings</b>	\$ 126,737	\$ 117,682	\$ 165,078	\$ 196,648
<b>Other Comprehensive Income:</b>				
<b>Unrealized Gains on Available-for-Sale Debt Securities:</b>				
Net change in unrealized holding gains arising during the period, net of income tax (expense) benefit of \$(326), \$329, \$2,075, and \$246	956	(968)	(6,095)	(722)
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$129, \$632, \$870, and \$2,062	(380)	(1,856)	(2,556)	(6,058)
<b>Pension Liability Adjustment:</b>				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(451), \$(530), \$(1,353), and \$(1,590)	1,325	1,557	3,975	4,671
<b>Fair Value Adjustment for Cash Flow Hedges:</b>				
Change in fair market value, net of income tax (expense) of \$(1,764), \$0, \$(2,640), and \$(458)	5,179	—	7,751	1,346
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$148, \$0, \$449, and \$229	(434)	—	(1,318)	(674)
<b>Total Other Comprehensive Income (Loss)</b>	<u>6,646</u>	<u>(1,267)</u>	<u>1,757</u>	<u>(1,437)</u>
<b>Comprehensive Income</b>	<u>133,383</u>	<u>116,415</u>	<u>166,835</u>	<u>195,211</u>
<b>Comprehensive (Income) Attributable to Valencia Non-controlling Interest</b>	(4,172)	(4,229)	(10,897)	(11,643)
<b>Preferred Stock Dividend Requirements of Subsidiary</b>	(132)	(132)	(396)	(396)
<b>Comprehensive Income Attributable to PNMR</b>	<u>\$ 129,079</u>	<u>\$ 112,054</u>	<u>\$ 155,542</u>	<u>\$ 183,172</u>

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.



**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
(In thousands)		
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$ 165,078	\$ 196,648
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	255,808	238,963
Deferred income tax expense	15,036	25,293
(Gains) losses on investment securities	84,104	(16,108)
Stock based compensation expense	5,972	6,728
Regulatory disallowances and restructuring costs	832	436
Allowance for equity funds used during construction	(9,232)	(8,867)
Other, net	1,323	4,594
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(66,713)	(46,649)
Materials, supplies, and fuel stock	(6,630)	(333)
Other current assets	3,687	(20,005)
Other assets	6,676	17,551
Accounts payable	11,845	5,934
Accrued interest and taxes	17,875	7,713
Other current liabilities	(26,082)	17,679
Other liabilities	(32,083)	(21,065)
Net cash flows from operating activities	<u>427,496</u>	<u>408,512</u>
<b>Cash Flows From Investing Activities:</b>		
Additions to utility plant and non-utility plant	(702,878)	(496,185)
Proceeds from sales of investment securities	323,251	396,870
Purchases of investment securities	(332,490)	(405,142)
Distributions from NMRD	—	572
Other, net	692	108
Net cash flows used in investing activities	<u>(711,425)</u>	<u>(503,777)</u>

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
(In thousands)		
<b>Cash Flows From Financing Activities:</b>		
Revolving credit facilities borrowings (repayments), net	\$ (2,500)	\$ (18,100)
Long-term borrowings	558,000	1,370,000
Repayment of long-term debt	(179,500)	(1,165,000)
Awards of common stock	(7,846)	(10,082)
Dividends paid	(89,879)	(84,729)
Valencia's transactions with its owner	(12,455)	(14,238)
Transmission interconnection and security deposit arrangements	76,696	31,878
Refunds paid under transmission interconnection arrangements	(50,401)	(9,752)
Debt issuance costs and other, net	(3,668)	(3,159)
Net cash flows from financing activities	<u>288,447</u>	<u>96,818</u>
<b>Change in Cash, Restricted Cash, and Equivalents</b>	4,518	1,553
<b>Cash, Restricted Cash, and Equivalents at Beginning of Period</b>	1,104	47,928
<b>Cash, Restricted Cash, and Equivalents at End of Period</b>	<u>\$ 5,622</u>	<u>\$ 49,481</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid, net of amounts capitalized	<u>\$ 79,246</u>	<u>\$ 69,965</u>
Income taxes paid, net	<u>\$ 904</u>	<u>\$ 892</u>
<b>Supplemental schedule of noncash investing activities:</b>		
Decrease in accrued plant additions	<u>\$ 56,948</u>	<u>\$ 63,281</u>

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
(In thousands)		
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 5,622	\$ 1,104
Accounts receivable, net of allowance for credit losses of \$4,919 and \$7,265	179,604	123,292
Unbilled revenues	63,889	57,736
Other receivables	22,089	18,784
Materials, supplies, and fuel stock	64,835	65,061
Regulatory assets	45,040	14,785
Prepaid assets	18,407	37,325
Income taxes receivable	3,835	4,878
Other current assets	6,453	1,635
Total current assets	409,774	324,600
<b>Other Property and Investments:</b>		
Investment securities	376,662	463,126
Equity investment in NMRD	90,674	89,158
Other investments	160	265
Non-utility property, net	25,805	25,439
Total other property and investments	493,301	577,988
<b>Utility Plant:</b>		
Plant in service, held for future use, and to be abandoned	8,832,929	9,357,849
Less accumulated depreciation and amortization	2,621,112	2,952,743
	6,211,817	6,405,106
Construction work in progress	485,023	248,856
Nuclear fuel, net of accumulated amortization of \$47,734 and \$41,181	97,545	98,937
Net utility plant	6,794,385	6,752,899
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	820,832	514,258
Goodwill	278,297	278,297
Operating lease right-of-use assets, net of accumulated amortization	62,440	79,511
Other deferred charges	169,861	139,332
Total deferred charges and other assets	1,331,430	1,011,398
	\$ 9,028,890	\$ 8,666,885

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
(In thousands, except share information)		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 60,200	\$ 62,700
Current installments of long-term debt	184,684	179,339
Accounts payable	127,493	172,595
Customer deposits	5,917	5,095
Accrued interest and taxes	86,937	70,105
Regulatory liabilities	17,186	8,316
Operating lease liabilities	18,534	27,218
Dividends declared	29,960	132
Transmission interconnection arrangement liabilities	20,208	39,564
Other current liabilities	115,350	99,149
Total current liabilities	666,469	664,213
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	<b>3,893,500</b>	<b>3,519,580</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	806,630	764,850
Regulatory liabilities	772,355	841,393
Asset retirement obligations	220,899	234,146
Accrued pension liability and postretirement benefit cost	9,416	19,057
Operating lease liabilities	41,701	55,993
Other deferred credits	350,663	333,195
Total deferred credits and other liabilities	2,201,664	2,248,634
Total liabilities	6,761,633	6,432,427
<b>Commitments and Contingencies (Note 11)</b>		
<b>Cumulative Preferred Stock of Subsidiary</b>		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
<b>Equity:</b>		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 85,834,874 shares)	1,427,383	1,429,257
Accumulated other comprehensive income (loss), net of income taxes	(70,179)	(71,936)
Retained earnings	844,677	810,203
Total PNMR common stockholders' equity	2,201,881	2,167,524
Non-controlling interest in Valencia	53,847	55,405
Total equity	2,255,728	2,222,929
	\$ 9,028,890	\$ 8,666,885

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity	Non- controlling Interest in Valencia	Total Equity
	(In thousands)					
<b>Balance at June 30, 2022</b>	\$ 1,426,448	\$ (76,825)	\$ 781,899	\$ 2,131,522	\$ 54,165	\$ 2,185,687
Net earnings before subsidiary preferred stock dividends	—	—	122,565	122,565	4,172	126,737
Total other comprehensive income	—	6,646	—	6,646	—	6,646
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(59,655)	(59,655)	—	(59,655)
Awards of common stock	(221)	—	—	(221)	—	(221)
Stock based compensation expense	1,156	—	—	1,156	—	1,156
Valencia's transactions with its owner	—	—	—	—	(4,490)	(4,490)
<b>Balance at September 30, 2022</b>	<u>\$ 1,427,383</u>	<u>\$ (70,179)</u>	<u>\$ 844,677</u>	<u>\$ 2,201,881</u>	<u>\$ 53,847</u>	<u>\$ 2,255,728</u>
<b>Balance at December 31, 2021</b>	\$ 1,429,257	\$ (71,936)	\$ 810,203	\$ 2,167,524	\$ 55,405	\$ 2,222,929
Net earnings before subsidiary preferred stock dividends	—	—	154,181	154,181	10,897	165,078
Total other comprehensive income	—	1,757	—	1,757	—	1,757
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(119,311)	(119,311)	—	(119,311)
Awards of common stock	(7,846)	—	—	(7,846)	—	(7,846)
Stock based compensation expense	5,972	—	—	5,972	—	5,972
Valencia's transactions with its owner	—	—	—	—	(12,455)	(12,455)
<b>Balance at September 30, 2022</b>	<u>\$ 1,427,383</u>	<u>\$ (70,179)</u>	<u>\$ 844,677</u>	<u>\$ 2,201,881</u>	<u>\$ 53,847</u>	<u>\$ 2,255,728</u>
<b>Balance at June 30, 2021</b>	\$ 1,425,700	\$ (79,353)	\$ 741,884	\$ 2,088,231	\$ 57,167	\$ 2,145,398
Net earnings before subsidiary preferred stock dividends	—	—	113,453	113,453	4,229	117,682
Total other comprehensive income (loss)	—	(1,267)	—	(1,267)	—	(1,267)
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(56,222)	(56,222)	—	(56,222)
Awards of common stock	(129)	—	—	(129)	—	(129)
Stock based compensation expense	1,016	—	—	1,016	—	1,016
Valencia's transactions with its owner	—	—	—	—	(4,982)	(4,982)
<b>Balance at September 30, 2021</b>	<u>\$ 1,426,587</u>	<u>\$ (80,620)</u>	<u>\$ 798,983</u>	<u>\$ 2,144,950</u>	<u>\$ 56,414</u>	<u>\$ 2,201,364</u>
<b>Balance at December 31, 2020</b>	\$ 1,429,941	\$ (79,183)	\$ 698,707	\$ 2,049,465	\$ 59,009	\$ 2,108,474
Net earnings before subsidiary preferred stock dividends	—	—	185,005	185,005	11,643	196,648
Total other comprehensive income (loss)	—	(1,437)	—	(1,437)	—	(1,437)
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(84,333)	(84,333)	—	(84,333)
Awards of common stock	(10,082)	—	—	(10,082)	—	(10,082)
Stock based compensation expense	6,728	—	—	6,728	—	6,728
Valencia's transactions with its owner	—	—	—	—	(14,238)	(14,238)
<b>Balance at September 30, 2021</b>	<u>\$ 1,426,587</u>	<u>\$ (80,620)</u>	<u>\$ 798,983</u>	<u>\$ 2,144,950</u>	<u>\$ 56,414</u>	<u>\$ 2,201,364</u>

The accompanying notes, as they relate to PNMR, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(In thousands)				
<b>Electric Operating Revenues:</b>				
Contracts with customers	\$ 388,371	\$ 361,701	\$ 944,235	\$ 884,559
Alternative revenue programs	(599)	(8,331)	1,039	(5,469)
Other electric operating revenue	209,565	82,153	367,526	151,595
Total electric operating revenues	597,337	435,523	1,312,800	1,030,685
<b>Operating Expenses:</b>				
Cost of energy	303,351	170,902	606,129	383,556
Administrative and general	51,900	49,906	149,361	143,176
Energy production costs	34,469	32,374	110,534	106,709
Regulatory disallowances and restructuring costs	(567)	436	832	436
Depreciation and amortization	45,361	42,673	137,132	127,111
Transmission and distribution costs	12,549	12,844	37,678	34,906
Taxes other than income taxes	10,359	11,825	36,768	35,411
Total operating expenses	457,422	320,960	1,078,434	831,305
Operating income	139,915	114,563	234,366	199,380
<b>Other Income and Deductions:</b>				
Interest income	3,888	3,364	10,288	10,376
Gains (losses) on investment securities	(15,736)	1,948	(84,104)	16,108
Other income	2,086	2,940	7,997	8,232
Other (deductions)	(793)	(3,530)	(5,368)	(10,635)
Net other income and deductions	(10,555)	4,722	(71,187)	24,081
<b>Interest Charges</b>	15,467	12,509	44,562	38,441
<b>Earnings before Income Taxes</b>	113,893	106,776	118,617	185,020
<b>Income Taxes (Benefits)</b>	12,121	15,500	11,762	26,178
<b>Net Earnings</b>	101,772	91,276	106,855	158,842
<b>(Earnings) Attributable to Valencia Non-controlling Interest</b>	(4,172)	(4,229)	(10,897)	(11,643)
<b>Net Earnings Attributable to PNM</b>	97,600	87,047	95,958	147,199
<b>Preferred Stock Dividend Requirements</b>	(132)	(132)	(396)	(396)
<b>Net Earnings Available for PNM Common Stock</b>	\$ 97,468	\$ 86,915	\$ 95,562	\$ 146,803

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
<b>Net Earnings</b>	\$ 101,772	\$ 91,276	\$ 106,855	\$ 158,842
<b>Other Comprehensive Income:</b>				
<b>Unrealized Gains on Available-for-Sale Debt Securities:</b>				
Net change in unrealized holding gains arising during the period, net of income tax (expense) benefit of \$(326), \$329, \$2,075, and \$246	956	(968)	(6,095)	(722)
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$129, \$632, \$870, and \$2,062	(380)	(1,856)	(2,556)	(6,058)
<b>Pension Liability Adjustment:</b>				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(451), \$(530), \$(1,353), and \$(1,590)	1,325	1,557	3,975	4,671
<b>Total Other Comprehensive Income (Loss)</b>	<u>1,901</u>	<u>(1,267)</u>	<u>(4,676)</u>	<u>(2,109)</u>
<b>Comprehensive Income</b>	103,673	90,009	102,179	156,733
<b>Comprehensive (Income) Attributable to Valencia Non-controlling Interest</b>	(4,172)	(4,229)	(10,897)	(11,643)
<b>Comprehensive Income Attributable to PNM</b>	<u>\$ 99,501</u>	<u>\$ 85,780</u>	<u>\$ 91,282</u>	<u>\$ 145,090</u>

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2022</b>	<b>2021</b>
	(In thousands)	
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$ 106,855	\$ 158,842
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	161,303	151,775
Deferred income tax expense	11,762	24,034
(Gains) losses on investment securities	84,104	(16,108)
Regulatory disallowances and restructuring costs	832	436
Allowance for equity funds used during construction	(6,793)	(6,655)
Other, net	2,839	3,488
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(45,252)	(34,110)
Materials, supplies, and fuel stock	(3,809)	143
Other current assets	885	(20,398)
Other assets	7,958	14,541
Accounts payable	20,308	14,411
Accrued interest and taxes	14,799	13,370
Other current liabilities	(35,503)	12,442
Other liabilities	(24,717)	(34,394)
Net cash flows from operating activities	<u>295,571</u>	<u>281,817</u>
<b>Cash Flows From Investing Activities:</b>		
Utility plant additions	(322,412)	(247,064)
Proceeds from sales of investment securities	323,251	396,870
Purchases of investment securities	(332,490)	(405,142)
Other, net	492	108
Net cash flows used in investing activities	<u>(331,159)</u>	<u>(255,228)</u>

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.



**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended September</b>	
	<b>30,</b>	
	<b>2022</b>	<b>2021</b>
	(In thousands)	
<b>Cash Flows From Financing Activities:</b>		
Revolving credit facilities borrowings (repayments), net	\$ (7,400)	\$ (10,000)
Long-term borrowings	298,000	235,000
Repayment of long-term debt	(179,500)	(200,000)
Dividends paid	(85,396)	(60,396)
Valencia's transactions with its owner	(12,455)	(14,238)
Transmission interconnection and security deposit arrangements	70,296	28,278
Refunds paid under transmission interconnection arrangements	(41,401)	(2,450)
Debt issuance costs and other, net	(2,201)	(1,665)
Net cash flows from financing activities	<u>39,943</u>	<u>(25,471)</u>
<b>Change in Cash, Restricted Cash, and Equivalents</b>	4,355	1,118
<b>Cash, Restricted Cash, and Equivalents at Beginning of Period</b>	19	31,446
<b>Cash, Restricted Cash, and Equivalents at End of Period</b>	<u>\$ 4,374</u>	<u>\$ 32,564</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid, net of amounts capitalized	<u>\$ 37,269</u>	<u>\$ 33,189</u>
Income taxes paid (refunded), net	<u>\$ —</u>	<u>\$ —</u>
<b>Supplemental schedule of noncash investing activities:</b>		
Decrease in accrued plant additions	<u>\$ 21,069</u>	<u>\$ 45,441</u>

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30, 2022	December 31, 2021
	(In thousands)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,374	\$ 19
Accounts receivable, net of allowance for credit losses of \$4,919 and \$7,265	138,203	98,151
Unbilled revenues	45,711	44,759
Other receivables	17,411	16,538
Affiliate receivables	8,906	8,837
Materials, supplies, and fuel stock	54,895	57,942
Regulatory assets	44,906	8,721
Prepaid assets	10,315	30,266
Other current assets	6,500	1,456
Total current assets	<u>331,221</u>	<u>266,689</u>
<b>Other Property and Investments:</b>		
Investment securities	376,662	463,126
Other investments	24	129
Non-utility property, net	11,405	10,717
Total other property and investments	<u>388,091</u>	<u>473,972</u>
<b>Utility Plant:</b>		
Plant in service, held for future use, and to be abandoned	5,908,807	6,602,015
Less accumulated depreciation and amortization	1,879,406	2,235,068
	<u>4,029,401</u>	<u>4,366,947</u>
Construction work in progress	281,506	182,520
Nuclear fuel, net of accumulated amortization of \$47,734 and \$41,181	97,545	98,937
Net utility plant	<u>4,408,452</u>	<u>4,648,404</u>
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	740,175	428,981
Goodwill	51,632	51,632
Operating lease right-of-use assets, net of accumulated amortization	58,670	73,903
Other deferred charges	135,175	116,552
Total deferred charges and other assets	<u>985,652</u>	<u>671,068</u>
	<u>\$ 6,113,416</u>	<u>\$ 6,060,133</u>

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30, 2022	December 31, 2021
(In thousands, except share information)		
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ —	\$ 7,400
Current installments of long-term debt	184,684	179,339
Accounts payable	107,034	107,795
Affiliate payables	10,481	15,203
Customer deposits	5,917	5,095
Accrued interest and taxes	51,936	37,137
Regulatory liabilities	12,366	8,316
Operating lease liabilities	16,902	25,278
Dividends declared	132	132
Transmission interconnection arrangement liabilities	20,208	39,564
Other current liabilities	87,399	70,643
Total current liabilities	497,059	495,902
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	<b>1,815,951</b>	<b>1,701,771</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	656,814	630,682
Regulatory liabilities	571,483	653,830
Asset retirement obligations	220,088	233,383
Accrued pension liability and postretirement benefit cost	9,122	18,718
Operating lease liabilities	39,754	52,552
Other deferred credits	272,024	246,502
Total deferred credits and liabilities	1,769,285	1,835,667
Total liabilities	4,082,295	4,033,340
<b>Commitments and Contingencies (Note 11)</b>		
<b>Cumulative Preferred Stock</b>		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
<b>Equity:</b>		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,547,918	1,547,918
Accumulated other comprehensive income (loss), net of income taxes	(76,612)	(71,936)
Retained earnings	494,439	483,877
Total PNM common stockholder's equity	1,965,745	1,959,859
Non-controlling interest in Valencia	53,847	55,405
Total equity	2,019,592	2,015,264
	\$ 6,113,416	\$ 6,060,133

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
(Unaudited)

	Attributable to PNM			Total PNM Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock	AOCI	Retained Earnings			
	(In thousands)					
<b>Balance at June 30, 2022</b>	\$ 1,547,918	\$ (78,513)	\$ 481,971	\$ 1,951,376	\$ 54,165	\$ 2,005,541
Net earnings	—	—	97,600	97,600	4,172	101,772
Total other comprehensive income	—	1,901	—	1,901	—	1,901
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(85,000)	(85,000)	—	(85,000)
Valencia's transactions with its owner	—	—	—	—	(4,490)	(4,490)
<b>Balance at September 30, 2022</b>	<u>\$ 1,547,918</u>	<u>\$ (76,612)</u>	<u>\$ 494,439</u>	<u>\$ 1,965,745</u>	<u>\$ 53,847</u>	<u>\$ 2,019,592</u>
<b>Balance at December 31, 2021</b>	\$ 1,547,918	\$ (71,936)	\$ 483,877	\$ 1,959,859	\$ 55,405	\$ 2,015,264
Net earnings	—	—	95,958	95,958	10,897	106,855
Total other comprehensive income (loss)	—	(4,676)	—	(4,676)	—	(4,676)
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(85,000)	(85,000)	—	(85,000)
Valencia's transactions with its owner	—	—	—	—	(12,455)	(12,455)
<b>Balance at September 30, 2022</b>	<u>\$ 1,547,918</u>	<u>\$ (76,612)</u>	<u>\$ 494,439</u>	<u>\$ 1,965,745</u>	<u>\$ 53,847</u>	<u>\$ 2,019,592</u>
<b>Balance at June 30, 2021</b>	\$ 1,494,918	\$ (79,353)	\$ 448,224	\$ 1,863,789	\$ 57,167	\$ 1,920,956
Net earnings	—	—	87,047	87,047	4,229	91,276
Total other comprehensive income (loss)	—	(1,267)	—	(1,267)	—	(1,267)
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(60,000)	(60,000)	—	(60,000)
Valencia's transactions with its owner	—	—	—	—	(4,982)	(4,982)
<b>Balance at September 30, 2021</b>	<u>\$ 1,494,918</u>	<u>\$ (80,620)</u>	<u>\$ 475,139</u>	<u>\$ 1,889,437</u>	<u>\$ 56,414</u>	<u>\$ 1,945,851</u>
<b>Balance at December 31, 2020</b>	\$ 1,494,918	\$ (78,511)	\$ 388,336	\$ 1,804,743	\$ 59,009	\$ 1,863,752
Net earnings	—	—	147,199	147,199	11,643	158,842
Total other comprehensive income (loss)	—	(2,109)	—	(2,109)	—	(2,109)
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(60,000)	(60,000)	—	(60,000)
Valencia's transactions with its owner	—	—	—	—	(14,238)	(14,238)
<b>Balance at September 30, 2021</b>	<u>\$ 1,494,918</u>	<u>\$ (80,620)</u>	<u>\$ 475,139</u>	<u>\$ 1,889,437</u>	<u>\$ 56,414</u>	<u>\$ 1,945,851</u>

The accompanying notes, as they relate to PNM, are an integral part of these condensed consolidated financial statements.

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands)			
<b>Electric Operating Revenues:</b>				
Contracts with customers	\$ 143,595	\$ 120,180	\$ 376,544	\$ 312,800
Alternative revenue programs	(11,044)	(1,152)	(15,608)	2,313
Total electric operating revenues	<u>132,551</u>	<u>119,028</u>	<u>360,936</u>	<u>315,113</u>
<b>Operating Expenses:</b>				
Cost of energy	30,988	28,478	92,220	83,896
Administrative and general	12,548	11,708	35,746	34,960
Depreciation and amortization	24,960	23,031	72,914	67,696
Transmission and distribution costs	8,989	7,152	23,482	21,260
Taxes other than income taxes	11,229	9,817	30,495	26,730
Total operating expenses	<u>88,714</u>	<u>80,186</u>	<u>254,857</u>	<u>234,542</u>
Operating income	<u>43,837</u>	<u>38,842</u>	<u>106,079</u>	<u>80,571</u>
<b>Other Income and Deductions:</b>				
Interest income	148	—	1,435	—
Other income	2,691	2,144	5,151	4,853
Other (deductions)	(448)	(1,000)	(848)	(1,602)
Net other income and deductions	<u>2,391</u>	<u>1,144</u>	<u>5,738</u>	<u>3,251</u>
<b>Interest Charges</b>	<u>9,851</u>	<u>8,403</u>	<u>28,017</u>	<u>25,155</u>
<b>Earnings before Income Taxes</b>	<u>36,377</u>	<u>31,583</u>	<u>83,800</u>	<u>58,667</u>
<b>Income Taxes</b>	<u>4,946</u>	<u>3,642</u>	<u>11,258</u>	<u>6,341</u>
<b>Net Earnings</b>	<u>\$ 31,431</u>	<u>\$ 27,941</u>	<u>\$ 72,542</u>	<u>\$ 52,326</u>

The accompanying notes, as they relate to TNMP, are an integral part of these condensed consolidated financial statements.

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
(In thousands)		
<b>Cash Flows From Operating Activities:</b>		
Net earnings	\$ 72,542	\$ 52,326
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	73,536	68,378
Deferred income tax (benefit)	(3,587)	(6,377)
Allowance for equity funds used during construction and other, net	(2,441)	(2,152)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(21,461)	(12,539)
Materials and supplies	(2,821)	(476)
Other current assets	2,696	(4,927)
Other assets	(387)	5,168
Accounts payable	(3,791)	(4,050)
Accrued interest and taxes	14,449	10,800
Other current liabilities	7,769	(754)
Other liabilities	(4,324)	11,538
Net cash flows from operating activities	<u>132,180</u>	<u>116,935</u>
<b>Cash Flows From Investing Activities:</b>		
Utility plant additions	(359,441)	(233,381)
Net cash flows used in investing activities	<u>(359,441)</u>	<u>(233,381)</u>
<b>Cash Flows From Financing Activities:</b>		
Revolving credit facilities borrowings, net	2,600	—
Long-term borrowings	160,000	65,000
Equity contribution from parent	68,000	52,000
Transmission interconnection arrangements	6,400	3,600
Refunds paid under transmission interconnection arrangements	(9,000)	(7,302)
Debt issuance costs and other, net	(739)	(736)
Net cash flows from financing activities	<u>227,261</u>	<u>112,562</u>
<b>Change in Cash and Cash Equivalents</b>	—	(3,884)
<b>Cash and Cash Equivalents at Beginning of Period</b>	—	14,800
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ —</u>	<u>\$ 10,916</u>
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid, net of amounts capitalized	<u>\$ 26,810</u>	<u>\$ 25,085</u>
Income taxes paid, net	<u>\$ 904</u>	<u>\$ 892</u>
<b>Supplemental schedule of noncash investing activities:</b>		
Decrease in accrued plant additions	<u>\$ 24,773</u>	<u>\$ 14,166</u>

The accompanying notes, as they relate to TNMP, are an integral part of these condensed consolidated financial statements.

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>September 30, 2022</b>	<b>December 31, 2021</b>
(In thousands)		
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ —	\$ —
Accounts receivable	41,401	25,141
Unbilled revenues	18,178	12,977
Other receivables	6,792	4,108
Materials and supplies	9,940	7,119
Regulatory assets	134	6,064
Other current assets	2,836	1,989
Total current assets	79,281	57,398
<b>Other Property and Investments:</b>		
Other investments	136	136
Non-utility property, net	13,243	13,499
Total other property and investments	13,379	13,635
<b>Utility Plant:</b>		
Plant in service and plant held for future use	2,641,891	2,475,859
Less accumulated depreciation and amortization	573,240	563,004
	2,068,651	1,912,855
Construction work in progress	188,697	53,401
Net utility plant	2,257,348	1,966,256
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	80,657	85,277
Goodwill	226,665	226,665
Operating lease right-of-use assets, net of accumulated amortization	3,769	5,264
Other deferred charges	12,447	10,277
Total deferred charges and other assets	323,538	327,483
	\$ 2,673,546	\$ 2,364,772

The accompanying notes, as they relate to TNMP, are an integral part of these condensed consolidated financial statements.

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	September 30, 2022	December 31, 2021
(In thousands, except share information)		
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 3,000	\$ 400
Accounts payable	14,525	43,089
Affiliate payables	5,214	6,568
Accrued interest and taxes	54,454	40,005
Regulatory liabilities	4,820	—
Operating lease liabilities	1,631	1,882
Other current liabilities	7,868	4,968
Total current liabilities	91,512	96,912
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	<b>1,077,977</b>	<b>918,050</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	163,846	157,248
Regulatory liabilities	200,872	187,563
Asset retirement obligations	811	763
Accrued pension liability and postretirement benefit cost	294	339
Operating lease liabilities	1,947	3,155
Other deferred credits	54,188	59,185
Total deferred credits and other liabilities	421,958	408,253
Total liabilities	1,591,447	1,423,215
<b>Commitments and Contingencies (Note 11)</b>		
<b>Common Stockholder's Equity:</b>		
Common stock (\$10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	805,166	737,166
Retained earnings	276,869	204,327
Total common stockholder's equity	1,082,099	941,557
	<b>\$ 2,673,546</b>	<b>\$ 2,364,772</b>

The accompanying notes, as they relate to TNMP, are an integral part of these condensed consolidated financial statements.



**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
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**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY**  
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
(In thousands)				
<b>Balance at June 30, 2022</b>	\$ 64	\$ 737,166	\$ 245,438	\$ 982,668
Net earnings	—	—	31,431	31,431
Equity contribution from parent	—	68,000	—	68,000
<b>Balance at September 30, 2022</b>	<u>\$ 64</u>	<u>\$ 805,166</u>	<u>\$ 276,869</u>	<u>\$ 1,082,099</u>
<b>Balance at December 31, 2021</b>	\$ 64	\$ 737,166	\$ 204,327	\$ 941,557
Net earnings	—	—	72,542	72,542
Equity contribution from parent	—	68,000	—	68,000
<b>Balance at September 30, 2022</b>	<u>\$ 64</u>	<u>\$ 805,166</u>	<u>\$ 276,869</u>	<u>\$ 1,082,099</u>
<b>Balance at June 30, 2021</b>	\$ 64	\$ 737,166	\$ 164,833	\$ 902,063
Net earnings	—	—	27,941	27,941
<b>Balance at September 30, 2021</b>	<u>\$ 64</u>	<u>\$ 737,166</u>	<u>\$ 192,774</u>	<u>\$ 930,004</u>
<b>Balance at December 31, 2020</b>	\$ 64	\$ 685,166	\$ 140,448	\$ 825,678
Net earnings	—	—	52,326	52,326
Equity contribution from parent	—	52,000	—	52,000
<b>Balance at September 30, 2021</b>	<u>\$ 64</u>	<u>\$ 737,166</u>	<u>\$ 192,774</u>	<u>\$ 930,004</u>

The accompanying notes, as they relate to TNMP, are an integral part of these condensed consolidated financial statements.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
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(Unaudited)

**(1) Significant Accounting Policies and Responsibility for Financial Statements**

**Financial Statement Preparation**

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at September 30, 2022 and December 31, 2021, and the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2022 and 2021 and cash flows for the nine months ended September 30, 2022 and 2021. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could ultimately differ from those estimated. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2021 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2022 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2021 Annual Reports on Form 10-K.

GAAP defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. Based on their nature, magnitude, and timing, certain subsequent events may be required to be reflected at the balance sheet date and/or required to be disclosed in the financial statements. The Company has evaluated subsequent events accordingly.

**Principles of Consolidation**

The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM also consolidates Valencia. See Note 6. PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

PNMR Services Company expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost and are reflected as general and administrative expenses in the business segments. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, as well as equity transactions, and interconnection billings. See Note 15. All intercompany transactions and balances have been eliminated.

**Dividends on Common Stock**

Dividends on PNMR's common stock are declared by the Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of \$0.3475 per share in August 2022 and \$0.3275 per share in July 2021, which are reflected as being in the second quarter within Dividends Declared per Common Share on the PNMR Condensed Consolidated Statements of Earnings. The Board declared dividends on common stock for the third quarter of \$0.3475 per share in September 2022 and \$0.3275 per share in September 2021, which are reflected as being in the third quarter within Dividends Declared per Common Share on the PNMR Condensed Consolidated Statement of Earnings.

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PNMR made capital contributions to TNMP of \$68.0 million in the three and nine months ended September 30, 2022 and zero and \$52.0 million in the three and nine months ended September 30, 2021. PNMR did not make any contributions to PNM in the three and nine months ended September 30, 2022 and 2021. PNM declared and paid cash dividends on its common stock to PNMR of \$85.0 million in the three and nine months ended September 30, 2022 and \$60.0 million in the three and nine months ended September 30, 2021. TNMP did not declare or pay cash dividends on its common stock to PNMR in the three and nine months ended September 30, 2022 and 2021.

**(2) Segment Information**

The following segment presentation is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. A reconciliation of the segment presentation to the GAAP financial statements is provided.

**PNM**

PNM includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM also includes the generation and sale of electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity includes the asset optimization of PNM's jurisdictional capacity, as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale power and transmission rates.

**TNMP**

TNMP is an electric utility providing services in Texas under the TECA. TNMP's operations are subject to traditional rate regulation by the PUCT. TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. TNMP also provides transmission services at regulated rates to other utilities that interconnect with TNMP's facilities.

**Corporate and Other**

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. The activities of PNMR Development and the equity method investment in NMRD are also included in Corporate and Other. Eliminations of intercompany transactions are reflected in the Corporate and Other segment.

The following tables present summarized financial information for PNMR by segment. PNM and TNMP each operate in only one segment. Therefore, tabular segment information is not presented for PNM and TNMP.

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**PNMR SEGMENT INFORMATION**

	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
<b><u>Three Months Ended September 30, 2022</u></b>				
<b>Electric operating revenues</b>	\$ 597,337	\$ 132,551	\$ —	\$ 729,888
Cost of energy	303,351	30,988	—	334,339
<b>Utility margin</b>	293,986	101,563	—	395,549
Other operating expenses	108,710	32,766	(5,260)	136,216
Depreciation and amortization	45,361	24,960	6,249	76,570
<b>Operating income (loss)</b>	139,915	43,837	(989)	182,763
Interest income (expense)	3,888	148	(67)	3,969
Other income (deductions)	(14,443)	2,243	181	(12,019)
Interest charges	(15,467)	(9,851)	(9,208)	(34,526)
<b>Segment earnings (loss) before income taxes</b>	113,893	36,377	(10,083)	140,187
Income taxes (benefit)	12,121	4,946	(3,617)	13,450
<b>Segment earnings (loss)</b>	101,772	31,431	(6,466)	126,737
Valencia non-controlling interest	(4,172)	—	—	(4,172)
Subsidiary preferred stock dividends	(132)	—	—	(132)
<b>Segment earnings (loss) attributable to PNMR</b>	<u>\$ 97,468</u>	<u>\$ 31,431</u>	<u>\$ (6,466)</u>	<u>\$ 122,433</u>
<b><u>Nine Months Ended September 30, 2022</u></b>				
<b>Electric operating revenues</b>	\$ 1,312,800	\$ 360,936	\$ —	\$ 1,673,736
Cost of energy	606,129	92,220	—	698,349
<b>Utility margin</b>	706,671	268,716	—	975,387
Other operating expenses	335,173	89,723	(15,835)	409,061
Depreciation and amortization	137,132	72,914	19,057	229,103
<b>Operating income (loss)</b>	234,366	106,079	(3,222)	337,223
Interest income (expense)	10,288	1,435	(135)	11,588
Other income (deductions)	(81,475)	4,303	384	(76,788)
Interest charges	(44,562)	(28,017)	(17,384)	(89,963)
<b>Segment earnings (loss) before income taxes</b>	118,617	83,800	(20,357)	182,060
Income taxes (benefit)	11,762	11,258	(6,038)	16,982
<b>Segment earnings (loss)</b>	106,855	72,542	(14,319)	165,078
Valencia non-controlling interest	(10,897)	—	—	(10,897)
Subsidiary preferred stock dividends	(396)	—	—	(396)
<b>Segment earnings (loss) attributable to PNMR</b>	<u>\$ 95,562</u>	<u>\$ 72,542</u>	<u>\$ (14,319)</u>	<u>\$ 153,785</u>
<b>At September 30, 2022:</b>				
<b>Total Assets</b>	\$ 6,113,416	\$ 2,673,546	\$ 241,928	\$ 9,028,890
<b>Goodwill</b>	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

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	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
<b>Three Months Ended September 30, 2021</b>				
<b>Electric operating revenues</b>	\$ 435,523	\$ 119,028	\$ —	\$ 554,551
Cost of energy	170,902	28,478	—	199,380
<b>Utility margin</b>	<b>264,621</b>	<b>90,550</b>	<b>—</b>	<b>355,171</b>
Other operating expenses	107,385	28,677	(4,058)	132,004
Depreciation and amortization	42,673	23,031	5,734	71,438
<b>Operating income (loss)</b>	<b>114,563</b>	<b>38,842</b>	<b>(1,676)</b>	<b>151,729</b>
Interest income (expense)	3,364	—	(35)	3,329
Other income	1,358	1,144	34	2,536
Interest charges	(12,509)	(8,403)	(2,332)	(23,244)
<b>Segment earnings (loss) before income taxes</b>	<b>106,776</b>	<b>31,583</b>	<b>(4,009)</b>	<b>134,350</b>
Income taxes (benefit)	15,500	3,642	(2,474)	16,668
<b>Segment earnings (loss)</b>	<b>91,276</b>	<b>27,941</b>	<b>(1,535)</b>	<b>117,682</b>
Valencia non-controlling interest	(4,229)	—	—	(4,229)
Subsidiary preferred stock dividends	(132)	—	—	(132)
<b>Segment earnings (loss) attributable to PNMR</b>	<b>\$ 86,915</b>	<b>\$ 27,941</b>	<b>\$ (1,535)</b>	<b>\$ 113,321</b>
<b>Nine Months Ended September 30, 2021</b>				
<b>Electric operating revenues</b>	\$ 1,030,685	\$ 315,113	\$ —	\$ 1,345,798
Cost of energy	383,556	83,896	—	467,452
<b>Utility margin</b>	<b>647,129</b>	<b>231,217</b>	<b>—</b>	<b>878,346</b>
Other operating expenses	320,638	82,950	(6,379)	397,209
Depreciation and amortization	127,111	67,696	17,232	212,039
<b>Operating income (loss)</b>	<b>199,380</b>	<b>80,571</b>	<b>(10,853)</b>	<b>269,098</b>
Interest income	10,376	—	90	10,466
Other income (deductions)	13,705	3,251	(92)	16,864
Interest charges	(38,441)	(25,155)	(9,651)	(73,247)
<b>Segment earnings (loss) before income taxes</b>	<b>185,020</b>	<b>58,667</b>	<b>(20,506)</b>	<b>223,181</b>
Income taxes (benefit)	26,178	6,341	(5,986)	26,533
<b>Segment earnings (loss)</b>	<b>158,842</b>	<b>52,326</b>	<b>(14,520)</b>	<b>196,648</b>
Valencia non-controlling interest	(11,643)	—	—	(11,643)
Subsidiary preferred stock dividends	(396)	—	—	(396)
<b>Segment earnings (loss) attributable to PNMR</b>	<b>\$ 146,803</b>	<b>\$ 52,326</b>	<b>\$ (14,520)</b>	<b>\$ 184,609</b>
<b>At September 30, 2021:</b>				
<b>Total Assets</b>	\$ 5,723,176	\$ 2,311,559	\$ 221,335	\$ 8,256,070
<b>Goodwill</b>	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

**Non-GAAP Financial Measures**

The Company defines utility margin as electric operating revenues less cost of energy. Cost of energy consists primarily of fuel and purchase power costs for PNM and costs charged by third-party transmission providers for TNMP. The Company believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all such costs are offset in revenues as fuel and purchase power costs are passed through to customers under PNM's FPPAC and third-party transmission costs are passed on to consumers through TNMP's transmission cost recovery factor. Utility margin is not a financial measure required to be presented and is considered a non-GAAP measure. PNM and TNMP do not intend for utility margin to represent any financial measure as defined by GAAP however, the

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calculation of utility margin, as presented, most closely compares to gross margin as defined by GAAP. Reconciliations between utility margin and gross margin are presented below.

	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
<b><u>Three Months Ended September 30, 2022</u></b>				
Gross margin	\$ 201,607	\$ 67,614	\$ —	\$ 269,221
Energy production costs	34,469	—	—	34,469
Transmission and distribution costs	12,549	8,989	—	21,538
Depreciation and amortization	45,361	24,960	—	70,321 <sup>1</sup>
Utility margin	<u>\$ 293,986</u>	<u>\$ 101,563</u>	<u>\$ —</u>	<u>\$ 395,549</u>
<b><u>Nine Months Ended September 30, 2022</u></b>				
Gross margin	\$ 421,327	\$ 172,320	\$ —	\$ 593,647
Energy production costs	110,534	—	—	110,534
Transmission and distribution costs	37,678	23,482	—	61,160
Depreciation and amortization	137,132	72,914	—	210,046 <sup>1</sup>
Utility margin	<u>\$ 706,671</u>	<u>\$ 268,716</u>	<u>\$ —</u>	<u>\$ 975,387</u>
<b><u>Three Months Ended September 30, 2021</u></b>				
Gross margin	\$ 176,730	\$ 60,367	\$ —	\$ 237,097
Energy production costs	32,374	—	—	32,374
Transmission and distribution costs	12,844	7,152	—	19,996
Depreciation and amortization	42,673	23,031	—	65,704 <sup>1</sup>
Utility margin	<u>\$ 264,621</u>	<u>\$ 90,550</u>	<u>\$ —</u>	<u>\$ 355,171</u>
<b><u>Nine Months Ended September 30, 2021</u></b>				
Gross margin	\$ 378,403	\$ 142,261	\$ —	\$ 520,664
Energy production costs	106,709	—	—	106,709
Transmission and distribution costs	34,906	21,260	—	56,166
Depreciation and amortization	127,111	67,696	—	194,807 <sup>1</sup>
Utility margin	<u>\$ 647,129</u>	<u>\$ 231,217</u>	<u>\$ —</u>	<u>\$ 878,346</u>

<sup>1</sup> Corporate and Other depreciation and amortization represents corporate level activities that are billed at cost and reflected as general and administrative expenses at PNM and TNMP and therefore are not a component of gross margin or utility margin. See Note 1.

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**(3) Accumulated Other Comprehensive Income (Loss)**

Information regarding accumulated other comprehensive income (loss) for the nine months ended September 30, 2022 and 2021 is as follows:

	<b>Accumulated Other Comprehensive Income (Loss)</b>				
	<b>PNM</b>			<b>Corporate and Other</b>	<b>PNMR Consolidated</b>
	<b>Unrealized Gains on Available-for-Sale Debt Securities</b>	<b>Pension Liability Adjustment</b>	<b>Total</b>	<b>Fair Value Adjustment for Cash Flow Hedges</b>	<b>Total</b>
	(In thousands)				
<b>Balance at December 31, 2021</b>	\$ 11,715	\$ (83,651)	\$ (71,936)	\$ —	\$ (71,936)
Amounts reclassified from AOCI (pre-tax)	(3,426)	5,328	1,902	(1,767)	135
Income tax impact of amounts reclassified	870	(1,353)	(483)	449	(34)
Other OCI changes (pre-tax)	(8,170)	—	(8,170)	10,391	2,221
Income tax impact of other OCI changes	2,075	—	2,075	(2,640)	(565)
Net after-tax change	(8,651)	3,975	(4,676)	6,433	1,757
<b>Balance at September 30, 2022</b>	<u>\$ 3,064</u>	<u>\$ (79,676)</u>	<u>\$ (76,612)</u>	<u>\$ 6,433</u>	<u>\$ (70,179)</u>
<b>Balance at December 31, 2020</b>	\$ 20,403	\$ (98,914)	\$ (78,511)	\$ (672)	\$ (79,183)
Amounts reclassified from AOCI (pre-tax)	(8,120)	6,261	(1,859)	(903)	(2,762)
Income tax impact of amounts reclassified	2,062	(1,590)	472	229	701
Other OCI changes (pre-tax)	(968)	—	(968)	1,804	836
Income tax impact of other OCI changes	246	—	246	(458)	(212)
Net after-tax change	(6,780)	4,671	(2,109)	672	(1,437)
<b>Balance at September 30, 2021</b>	<u>\$ 13,623</u>	<u>\$ (94,243)</u>	<u>\$ (80,620)</u>	<u>\$ —</u>	<u>\$ (80,620)</u>

The Condensed Consolidated Statements of Earnings include pre-tax amounts reclassified from AOCI related to Unrealized Gains on Available-for-Sale Debt Securities in gains (losses) on investment securities, related to Pension Liability Adjustment in other (deductions), and related to Fair Value Adjustment for Cash Flow Hedges in interest charges. The income tax impacts of all amounts reclassified from AOCI are included in income taxes in the Condensed Consolidated Statements of Earnings.

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**(4) Earnings Per Share**

Dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share is as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands, except per share amounts)			
<b>Net Earnings Attributable to PNMR</b>	\$ 122,433	\$ 113,321	\$ 153,785	\$ 184,609
<b>Average Number of Common Shares:</b>				
Outstanding during period	85,835	85,835	85,835	85,835
Vested awards of restricted stock	266	237	291	230
<b>Average Shares – Basic</b>	<b>86,101</b>	<b>86,072</b>	<b>86,126</b>	<b>86,065</b>
<b>Dilutive Effect of Common Stock Equivalents:</b>				
Restricted stock	35	41	52	41
<b>Average Shares – Diluted</b>	<b>86,136</b>	<b>86,113</b>	<b>86,178</b>	<b>86,106</b>
<b>Net Earnings Per Share of Common Stock:</b>				
Basic	\$ 1.42	\$ 1.32	\$ 1.79	\$ 2.14
Diluted	\$ 1.42	\$ 1.32	\$ 1.78	\$ 2.14

**(5) Electric Operating Revenues**

PNMR is an investor-owned holding company with two regulated utilities providing electricity and electric services in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP. Additional information concerning electric operating revenue is contained in Note 4 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

**Accounts Receivable and Allowance for Credit Losses**

Accounts receivable consists primarily of trade receivables from customers. In the normal course of business, credit is extended to customers on a short-term basis. The Company estimates the allowance for credit losses on trade receivables based on historical experience and estimated default rates. Accounts receivable balances are reviewed monthly, adjustments to the allowance for credit losses are made as necessary and amounts that are deemed uncollectible are written off.

PNM updated its allowance for accounts receivable balances and recorded incremental reductions to credit losses of \$(0.8) million and \$(2.4) million in the three and nine months ended September 30, 2022 and increases of \$0.5 million and \$2.9 million in the three and nine months ended September 30, 2021. The NMPRC issued an order authorizing all public utilities to create a regulatory asset to defer incremental costs related to COVID-19, including increases in uncollectible accounts. See discussion regarding regulatory treatment in Note 12.

In addition to the allowance for credit losses on trade receivables, the Company has evaluated other receivables for potential credit related losses. These balances include potential exposures for other non-retail utility services. In the three and nine months ended September 30, 2022, there were no estimated credit losses related to these transactions. In the three and nine months ended September 30, 2021, PNM recorded \$0.8 million in estimated credit losses related to these transactions.

In February 2021, Texas experienced a severe winter storm delivering the coldest temperatures in 100 years for many parts of the state. As a result, the ERCOT market was not able to deliver sufficient generation load to the grid resulting in significant, statewide outages as ERCOT directed transmission operators to curtail thousands of firm load megawatts. TNMP complied with ERCOT directives to curtail delivery of electricity in its service territory and did not experience significant outages on its system outside of the ERCOT directed curtailments. During the weather event, generators experienced an extreme spike in market driven fuel prices and in turn charged REPs excessive market driven power prices which eventually get passed to end users on their electricity bill. Given the uncertainty of the collectability of end users' bills by REPs, ERCOT also increased the collateral required by REPs in order to do business within ERCOT's Balancing Authority. TNMP deferred bad



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debt expense (credit losses) from defaulting REPs to a regulatory asset which totaled \$0.8 million at both September 30, 2022 and December 31, 2021 and will seek recovery in a general rate case.

**Disaggregation of Revenues**

A disaggregation of revenues from contracts with customers by the type of customer is presented in the table below.

<u>Three Months Ended September 30, 2022</u>	<u>PNM</u>	<u>TNMP</u>	<u>PNMR Consolidated</u>
	(In thousands)		
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 150,682	\$ 60,878	\$ 211,560
Commercial	136,314	41,705	178,019
Industrial	25,609	9,450	35,059
Public authority	6,893	1,720	8,613
Economy energy service	11,784	—	11,784
Transmission	44,513	28,881	73,394
Miscellaneous	12,576	961	13,537
Total revenues from contracts with customers	388,371	143,595	531,966
Alternative revenue programs	(599)	(11,044)	(11,643)
Other electric operating revenues <sup>(1)</sup>	209,565	—	209,565
<b>Total Electric Operating Revenues</b>	<b>\$ 597,337</b>	<b>\$ 132,551</b>	<b>\$ 729,888</b>
 <b><u>Nine Months Ended September 30, 2022</u></b>			
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 368,159	\$ 146,367	\$ 514,526
Commercial	325,492	111,365	436,857
Industrial	68,351	27,388	95,739
Public authority	16,063	4,806	20,869
Economy energy service	31,726	—	31,726
Transmission	114,699	83,731	198,430
Miscellaneous	19,745	2,887	22,632
Total revenues from contracts with customers	944,235	376,544	1,320,779
Alternative revenue programs	1,039	(15,608)	(14,569)
Other electric operating revenues <sup>(1)</sup>	367,526	—	367,526
<b>Total Electric Operating Revenues</b>	<b>\$ 1,312,800</b>	<b>\$ 360,936</b>	<b>\$ 1,673,736</b>

<sup>(1)</sup> Increase in 2022 is primarily the result of participation in the EIM beginning in April 2021.

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	PNM	TNMP	PNMR Consolidated
<b>Three Months Ended September 30, 2021</b>			
(In thousands)			
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 155,035	\$ 51,839	\$ 206,874
Commercial	137,071	34,434	171,505
Industrial	24,856	7,282	32,138
Public authority	7,388	1,614	9,002
Economy energy service	7,389	—	7,389
Transmission	26,459	24,075	50,534
Miscellaneous	3,503	936	4,439
Total revenues from contracts with customers	361,701	120,180	481,881
Alternative revenue programs	(8,331)	(1,152)	(9,483)
Other electric operating revenues	82,153	—	82,153
<b>Total Electric Operating Revenues</b>	<b>\$ 435,523</b>	<b>\$ 119,028</b>	<b>\$ 554,551</b>

<b>Nine Months Ended September 30, 2021</b>			
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 377,794	\$ 121,600	\$ 499,394
Commercial	327,090	93,332	420,422
Industrial	66,593	21,621	88,214
Public authority	17,312	4,561	21,873
Economy energy service	24,722	—	24,722
Transmission	60,919	68,849	129,768
Miscellaneous	10,129	2,837	12,966
Total revenues from contracts with customers	884,559	312,800	1,197,359
Alternative revenue programs	(5,469)	2,313	(3,156)
Other electric operating revenues	151,595	—	151,595
<b>Total Electric Operating Revenues</b>	<b>\$ 1,030,685</b>	<b>\$ 315,113</b>	<b>\$ 1,345,798</b>

#### Contract Balances

Performance obligations related to contracts with customers are typically satisfied when the energy is delivered and the customer or end-user utilizes the energy. Accounts receivable from customers represent amounts billed, including amounts under ARPs. For PNM, accounts receivable reflected on the Condensed Consolidated Balance Sheets, net of allowance for credit losses, includes \$115.6 million at September 30, 2022 and \$86.8 million at December 31, 2021 resulting from contracts with customers. All of TNMP's accounts receivable results from contracts with customers.

Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance). Upon the completion of the Western Spirit Line, PNM entered into a TSA with Pattern Wind under an incremental tariff rate approved by FERC. The terms of the agreement provide for a financing component that benefits the customer. As such, the revenue that PNM recognizes will be in excess of the consideration received at the beginning of the service term resulting in a contract asset. The balance of the contract asset is \$9.1 million at September 30, 2022 and \$0.6 million at December 31, 2021. This contract asset is presented in Other deferred charges on the Condensed Consolidated Balance Sheet.

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Contract liabilities arise when consideration is received in advance from a customer before satisfying the performance obligations. Therefore, revenue is deferred and not recognized until the obligation is satisfied. Under its OATT, PNM accepts upfront consideration for capacity reservations requested by transmission customers, which requires PNM to defer the customer's transmission capacity rights for a specific period of time. PNM recognizes the revenue of these capacity reservations over the period it defers the customer's capacity rights. Other utilities pay PNM and TNMP in advance for the joint-use of their utility poles. These revenues are recognized over the period of time specified in the joint-use contract, typically for one calendar year. Deferred revenues on these arrangements are recorded as contract liabilities. PNM's, PNM's, and TNMP's contract liabilities and related revenues are not material for any of the periods presented. The Company has no other arrangements with remaining performance obligations to which a portion of the transaction price would be required to be allocated.

**(6) Variable Interest Entities**

How an enterprise evaluates and accounts for its involvement with variable interest entities, focuses primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity ("VIE"). This evaluation requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM's VIEs is contained in Note 10 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

**Valencia**

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 155 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three and nine months ended September 30, 2022, PNM paid \$5.0 million and \$14.6 million for fixed charges and \$0.7 million and \$1.1 million for variable charges. For the three and nine months ended September 30, 2021, PNM paid \$5.0 million and \$14.9 million for fixed charges and \$0.7 million and \$1.6 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM's assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

PNM sources fuel for the plant, controls when the facility operates through its dispatch, and receives the entire output of the plant, which factors directly and significantly impact the economic performance of Valencia. Therefore, PNM has concluded that the third-party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the Condensed Consolidated Financial Statements of PNM although PNM has no legal ownership interest or voting control of the VIE. The assets and liabilities of Valencia are set forth below and are not shown separately on the Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

	<b>Results of Operations</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)			
Operating revenues	\$ 5,640	\$ 5,719	\$ 15,670	\$ 16,425
Operating expenses	1,468	1,490	4,773	4,782
Earnings attributable to non-controlling interest	\$ 4,172	\$ 4,229	\$ 10,897	\$ 11,643

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	<b>Financial Position</b>	
	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(In thousands)	
Current assets	\$ 3,918	\$ 3,042
Net property, plant, and equipment	50,780	52,908
Total assets	54,698	55,950
Current liabilities	851	545
Owners' equity – non-controlling interest	\$ 53,847	\$ 55,405

#### **Westmoreland San Juan Mining, LLC**

As discussed in the subheading Coal Supply in Note 11, PNM purchased coal for SJGS under the SJGS CSA. PNM and Westmoreland also entered into agreements under which CCR disposal and mine reclamation services for SJGS would be provided. On October 9, 2018, Westmoreland filed a Current Report on Form 8-K with the SEC announcing it had filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. On March 15, 2019, Westmoreland emerged from Chapter 11 bankruptcy as a privately held company owned and operated by a group of its former creditors. Under the reorganization, the assets of SJCC were sold to Westmoreland San Juan Mining, LLC ("WSJ LLC"), a subsidiary of Westmoreland Mining Holdings, LLC. As successor entity to SJCC, WSJ LLC assumed all rights and obligations of SJCC including obligations to PNM under the SJGS CSA and to PNMR under letter of credit support agreements.

PNMR issued \$30.3 million in letters of credit to facilitate the issuance of reclamation bonds required in order for SJCC to mine coal to be supplied to SJGS. As discussed above, WSJ LLC assumed the rights and obligations of SJCC, including obligations to PNMR for the letters of credit. The letters of credit support results in PNMR having a variable interest in WSJ LLC since PNMR is subject to possible loss in the event performance by PNMR is required under the letters of credit support. PNMR considers the possibility of loss under the letters of credit support to be remote since the purpose of posting the bonds is to provide assurance that WSJ LLC performs the required reclamation of the mine site in accordance with applicable regulations and the reclamation services agreement provides WSJ LLC the ability to recover the cost of reclamation. Additionally, much of the mine reclamation activities will be performed after the SJGS CSA expired on September 30, 2022. As discussed in Note 11, each of the SJGS participants has established and actively fund trusts to meet future reclamation obligations.

WSJ LLC is considered a VIE. PNMR's analysis of its arrangements with WSJ LLC concluded that WSJ LLC had the ability to direct its mining operations and reclamation services, which are the factors that most significantly impact the economic performance of WSJ LLC. Other than PNM being able to ensure that coal was supplied in adequate quantities and of sufficient quality to provide the fuel necessary to operate SJGS in a normal manner and monitoring of reclamation activities, the mining operations and reclamation services were solely under the control of WSJ LLC, including developing mining and reclamation plans, hiring of personnel, and incurring operating and maintenance expenses. Neither PNMR nor PNM had any ability to direct or influence the mining operation or reclamation activities. PNM's involvement through the SJGS CSA and the reclamation services agreement is a protective right rather than a participating right and WSJ LLC still has the power to direct the activities that most significantly impact the economic performance of WSJ LLC. The SJGS CSA required WSJ LLC to deliver coal to fuel SJGS in exchange for payment of a set price per ton, which escalated over time for inflation. The reclamation services agreement requires WSJ LLC to perform reclamation services at a base price per activity, which escalates over time for inflation. If WSJ LLC had been able to mine or performs reclamation services more efficiently than anticipated, its economic performance would improve. Conversely, if WSJ LLC had not been able to mine or does not perform reclamation services as efficiently as anticipated, its economic performance would be negatively impacted. Accordingly, PNMR believes WSJ LLC is the primary beneficiary and, therefore, WSJ LLC is not consolidated by either PNMR or PNM. The amounts outstanding under the letters of credit support continue to be PNMR's maximum exposure to loss from the VIE at September 30, 2022.

#### **(7) Fair Value of Derivative and Other Financial Instruments**

Additional information concerning energy related derivative contracts and other financial instruments is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

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Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability varies based on commodity location, market liquidity, and term of the agreement. Valuations of derivative assets and liabilities take into account nonperformance risk, including the effect of counterparties' and the Company's credit risk. The Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimation technique.

**Energy Related Derivative Contracts**

**Overview**

The primary objective for the use of commodity derivative instruments, including energy contracts, options, swaps, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. PNM's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its customers. PNM is exposed to market risk for the needs of its customers not covered under the FPPAC.

Beginning January 1, 2018, PNM was exposed to market risk for its 65 MW interest in SJGS Unit 4, which was held as merchant plant as ordered by the NMPRC. PNM entered into agreements to sell power from 36 MW of that capacity to a third party at a fixed price for the period January 1, 2018 through June 30, 2022, subject to certain conditions. Under these agreements, PNM was obligated to deliver 36 MW of power only when SJGS Unit 4 was operating. In May 2022, PNM executed a new agreement to sell 50 MW of that capacity to a third party for the period from July 1, 2022 through September 30, 2022 on a system-contingent basis. These agreements were not considered derivatives because there was no notional amount due to the unit-contingent and system-contingent nature of the transactions.

PNM and Tri-State had a hazard sharing agreement that expired in May 2022. Under this agreement, each party sold the other party 100 MW of capacity and energy from a designated generation resource on a unit contingent basis, subject to certain performance guarantees. The agreement was accounted for as a commodity derivative. See below. In May 2022, PNM and Tri-State entered into another hazard sharing agreement that existed on a unit contingent basis through September 30, 2022, however this agreement did not include a performance guarantee. As a result, this agreement was not considered a derivative. Both the purchases and sales were made at the same market index price. These agreements served to reduce the magnitude of each party's single largest generating hazard and assist in enhancing the reliability and efficiency of their respective operations. PNM passed the sales and purchases through to customers under PNM's FPPAC.

In 2021, PNM entered into three agreements to purchase power from third parties at a fixed price in order to ensure that customer demand during the 2022 summer peak load period was met. Two of the agreements, the purchase of 85 MW from June through September 2022 and the purchase of 40 MW for the full year of 2022, were not considered derivatives because there were no notional amounts due to the unit-contingent nature of the agreements. The third agreement for the purchase of 150 MW firm power in June and September 2022 met the definition of an economic hedge described below and was accounted for accordingly. In June 2022, PNM entered into an agreement to purchase power from a third party in order to ensure that customer demand during the 2023 summer peak load period is met. The agreement for the purchase of 35 MW from June 1, 2023 through September 30, 2023 was not considered a derivative because there was no notional amount due to the unit-contingent nature of the agreement. In the third quarter of 2022, PNM entered into several additional agreements to purchase power from third parties in order to ensure that customer demand during the 2023 summer peak load is met. These agreements are primarily derivative agreements and are accounted for as such. For additional information related to 2023 summer peak resource adequacy, see Note 12.

PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases. TNMP does not enter into energy related derivative contracts.

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**Commodity Risk**

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing positions in the energy markets, primarily on a short-term basis. PNM routinely enters into various derivative instruments such as forward contracts, option agreements, and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the effect of market fluctuations. PNM monitors the market risk of its commodity contracts in accordance with approved risk and credit policies.

**Accounting for Derivatives**

Under derivative accounting and related rules for energy contracts, PNM accounts for its various instruments for the purchase and sale of energy, which meet the definition of a derivative, based on PNM's intent. During the nine months ended September 30, 2022 and the year ended December 31, 2021, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The derivative contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. PNM also uses such instruments under an NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. Changes in the fair value of instruments covered by its FPPAC are recorded as regulatory assets and liabilities. PNM has no trading transactions.

**Commodity Derivatives**

PNM's commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges and considered Level 2 fair value measurements, are presented in the following line items on the Condensed Consolidated Balance Sheets:

	<b>Economic Hedges</b>	
	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(In thousands)	
Other current assets	\$ 5,466	\$ 684
Other deferred charges	170	—
	5,636	684
Other current liabilities	(17,346)	(2,275)
Other deferred credits	(2,723)	—
	(20,069)	(2,275)
Net	\$ (14,433)	\$ (1,591)

Certain of PNM's commodity derivative instruments in the above table are subject to master netting agreements whereby assets and liabilities could be offset in the settlement process. PNM does not offset fair value and cash collateral for derivative instruments under master netting arrangements and the above table reflects the gross amounts of fair value assets and liabilities for commodity derivatives. Included in the table above are equal amounts of current assets and current liabilities aggregating \$0.5 million at December 31, 2021, resulting from PNM's hazard sharing arrangements with Tri-State that ended May 2022. The hazard sharing arrangements were net-settled upon delivery. As discussed above, PNM's most recent hazard sharing agreement with Tri-State was not considered a derivative.

As discussed above, PNM has NMPRC-approved guidelines for hedging arrangements to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes \$5.5 million of current assets, \$0.2 million of deferred charges, \$17.3 million of current liabilities, and \$2.7 million of deferred credits related to this plan at September 30, 2022. At December 31, 2021, amounts related to this plan included \$0.2 million of current assets and \$1.8 million of current liabilities.

At September 30, 2022 and December 31, 2021, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at both September 30, 2022 and December 31, 2021, amounts posted as cash collateral under margin arrangements were \$0.5 million, which is included in other current assets on the Condensed Consolidated Balance Sheets. At

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September 30, 2022 and December 31, 2021, obligations to return cash collateral were \$0.2 million and \$0.9 million, which is included in other current liabilities on the Condensed Consolidated Balance Sheets.

The effects of mark-to-market commodity derivative instruments on PNM's revenues and cost of energy during the three and nine months ended September 30, 2022 and 2021 were less than \$0.1 million. Commodity derivatives had no impact on OCI for any of the periods presented. Commodity contract volume positions are presented in MMBTU for gas related contracts and in MWh for power related contracts. The table below presents PNM's net buy (sell) volume positions:

	Economic Hedges	
	MMBTU	MWh
September 30, 2022	—	302,880
December 31, 2021	—	122,400

PNM has contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. In connection with managing its commodity risks, PNM enters into master agreements with certain counterparties. If PNM is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral if PNM's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that PNM will perform; and others have no provision for collateral.

Contractual liability represents those commodity derivative contracts recorded at fair value on the balance sheet, determined on an individual contract basis without offsetting amounts for individual contracts that are in an asset position and could be offset under master netting agreements with the same counterparty. Cash collateral posted under these contracts does not reflect letters of credit under the Company's revolving credit facilities that may have been issued as collateral. Net exposure is the net contractual liability for all contracts, including those designated as normal purchase and normal sale, offset by existing collateral and by any offsets available under master netting agreements, including both assets and liability positions. At September 30, 2022, PNM had \$20.1 million of contractual liability, zero posted cash collateral, and \$14.9 million of net exposure related to these contingent requirements for contracts in a net liability position. At December 31, 2021, PNM had no such contracts in a net liability position.

#### **Non-Derivative Financial Instruments**

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Investment securities are carried at fair value. Investment securities consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and trusts for PNM's share of final reclamation costs related to the coal mines serving SJGS and Four Corners. See Note 11. At September 30, 2022 and December 31, 2021, the fair value of investment securities included \$310.2 million and \$394.5 million for the NDT and \$66.5 million and \$68.6 million for the mine reclamation trusts.

PNM records a realized loss as an impairment for any available-for-sale debt security that has a fair value that is less than its carrying value. At September 30, 2022 and December 31, 2021, PNM had no available-for-sale debt securities for which carrying value exceeds fair value and there are no impairments considered to be "other than temporary" that are included in AOCI and not recognized in earnings. All gains and losses resulting from sales and changes in the fair value of equity securities are recognized immediately in earnings.

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Gains and losses recognized on the Condensed Consolidated Statements of Earnings related to investment securities in the NDT and reclamation trusts are presented in the following table:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
(In thousands)				
Equity securities:				
Net gains (losses) from equity securities sold	\$ (2,210)	\$ (309)	\$ 1,735	\$ 5,931
Net gains (losses) from equity securities still held	(4,061)	(3,153)	(52,320)	2,388
Total net gains (losses) on equity securities	(6,271)	(3,462)	(50,585)	8,319
Available-for-sale debt securities:				
Net gains (losses) on debt securities	(9,465)	5,410	(33,519)	7,789
Net gains (losses) on investment securities	\$ (15,736)	\$ 1,948	\$ (84,104)	\$ 16,108

The proceeds and gross realized gains and losses on the disposition of securities held in the NDT and coal mine reclamation trusts are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold. Gross realized losses shown below exclude the (increase)/decrease in realized impairment losses of \$(7.1) million and \$(28.7) million for the three and nine months ended September 30, 2022 and \$0.6 million and \$1.2 million for the three and nine months ended September 30, 2021.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
(In thousands)				
Proceeds from sales	\$ 92,371	\$ 128,683	\$ 323,251	\$ 396,870
Gross realized gains	2,366	10,986	20,089	30,290
Gross realized (losses)	(6,908)	(6,527)	(23,109)	(17,776)

At September 30, 2022, the available-for-sale debt securities held by PNM, had the following final maturities:

	<b>Fair Value</b>
	(In thousands)
Within 1 year	\$ 38,433
After 1 year through 5 years	64,326
After 5 years through 10 years	70,355
After 10 years through 15 years	15,098
After 15 years through 20 years	11,897
After 20 years	30,072
	<u>\$ 230,181</u>

**Fair Value Disclosures**

The Company determines the fair values of its derivative and other financial instruments based on the hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

For investment securities, Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For Level 2 fair values, the pricing provider predominantly uses the market approach using bid side market values based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in



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mutual funds are equal to net asset value. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company's long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. The valuation of Level 3 investments, when applicable, requires significant judgment by the pricing provider due to the absence of quoted market values, changes in market conditions, and the long-term nature of the assets. The Company has no Level 3 investments as of September 30, 2022 and December 31, 2021. Management of the Company independently verifies the information provided by pricing services.

Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy along with gross unrealized gains on investments in available-for-sale debt securities:

	<b>GAAP Fair Value Hierarchy</b>			<b>Unrealized Gains</b>
	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	
(In thousands)				
<b>September 30, 2022</b>				
Cash and cash equivalents	\$ 15,385	\$ 15,385	\$ —	
Equity securities:				
Corporate stocks, common	59,781	59,781	—	
Corporate stocks, preferred	5,955	1,314	4,641	
Mutual funds and other	65,360	65,360	—	
Available-for-sale debt securities:				
U.S. government	43,175	43,175	—	\$ 1,182
International government	9,540	—	9,540	318
Municipals	42,287	—	42,287	9
Corporate and other	135,179	—	135,179	2,635
	<u>\$ 376,662</u>	<u>\$ 185,015</u>	<u>\$ 191,647</u>	<u>\$ 4,144</u>
<b>December 31, 2021</b>				
Cash and cash equivalents	\$ 7,895	\$ 7,895	\$ —	
Equity securities:				
Corporate stocks, common	97,626	97,626	—	
Corporate stocks, preferred	9,114	3,775	5,339	
Mutual funds and other	75,285	75,241	44	
Available-for-sale debt securities:				
U.S. government	43,128	13,204	29,924	\$ 214
International government	16,001	—	16,001	1,508
Municipals	47,050	—	47,050	1,807
Corporate and other	167,027	—	167,027	12,212
	<u>\$ 463,126</u>	<u>\$ 197,741</u>	<u>\$ 265,385</u>	<u>\$ 15,741</u>

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The carrying amounts and fair values of long-term debt, all of which are considered Level 2 fair value measurements and are not recorded at fair value on the Condensed Consolidated Balance Sheets, are presented below:

	Carrying Amount		Fair Value	
<u>September 30, 2022</u>	(In thousands)			
PNMR	\$	4,078,184	\$	3,694,753
PNM		2,000,635		1,763,306
TNMP		1,077,977		931,447
<u>December 31, 2021</u>				
PNMR	\$	3,698,919	\$	3,915,010
PNM		1,881,110		1,975,987
TNMP		918,050		1,039,023

The carrying amount and fair value of the Company's other investments presented on the Condensed Consolidated Balance Sheets are not material and not shown in the above table.

**(8) Stock-Based Compensation**

PNMR has various stock-based compensation programs, which provide restricted stock awards under the Performance Equity Plan ("PEP"). Although certain PNM and TNMP employees participate in the PNMR plans, PNM and TNMP do not have separate employee stock-based compensation plans. Certain restricted stock awards are subject to achieving performance or market targets. Other awards of restricted stock are only subject to time vesting requirements. Restricted stock expected to be awarded under the PEP for performance periods ending after 2023 no longer have market targets. Additional information concerning stock-based compensation under the PEP is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

Restricted stock under the PEP refers to awards of stock subject to vesting, performance, or market conditions rather than to shares with contractual post-vesting restrictions. Generally, the awards vest ratably over three years from the grant date of the award. However, awards with performance or market conditions vest upon satisfaction of those conditions. In addition, plan provisions provide that upon retirement, participants become 100% vested in certain stock awards. The vesting period for awards of restricted stock to non-employee members of the Board is one-year.

The stock-based compensation expense related to restricted stock awards without performance or market conditions to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized. Compensation expense for other such awards is amortized over the shorter of the requisite vesting period or the period until the participant becomes retirement eligible. Compensation expense for performance-based shares is recognized ratably over the performance period as required service is provided and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At September 30, 2022, PNMR had unrecognized expense related to stock awards of \$5.6 million, which is expected to be recognized over an average of 1.7 years.

The grant date fair value for restricted stock and stock awards with internal PNMR performance targets is determined based on the market price of PNMR common stock on the date of the agreements reduced by the present value of future dividends that will not be received prior to vesting. The grant date fair value is applied to the total number of shares that are anticipated to vest, although the number of performance shares that ultimately vest cannot be determined until after the performance periods end. The grant date fair value of stock awards with market targets were determined using Monte Carlo simulation models, which provide grant date fair values that include an expectation of the number of shares to vest at the end of the measurement period.

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The following table summarizes the weighted-average assumptions used to determine the awards grant date fair value:

<b>Restricted Shares and Performance Based Shares</b>	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Expected quarterly dividends per share	\$ 0.3475	\$ 0.3275
Risk-free interest rate	1.46 %	0.32 %
<b>Market-Based Shares</b>		
Dividend yield	— %	2.76 %
Expected volatility	— %	33.69 %
Risk-free interest rate	— %	0.29 %

The following table summarizes activity in restricted stock awards, including performance-based and market-based shares for the nine months ended September 30, 2022:

	<b>Restricted Stock</b>	
	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value</b>
<b>Outstanding at December 31, 2021</b>	167,270	\$ 43.71
Granted	193,943	41.04
Released	(172,409)	42.48
Forfeited	(2,709)	42.48
<b>Outstanding at September 30, 2022</b>	<b>186,095</b>	<b>\$ 42.09</b>

PNMR's current stock-based compensation program provides for performance targets through 2024 and market targets through 2023. Included, as granted and released, in the table above are 92,343 previously awarded shares that were earned for the 2019 - 2021 performance measurement period and ratified by the Board in February 2022 (based upon achieving targets at below "maximum" levels). Excluded from the table above are 143,553, 144,175, and 150,050 shares for the three-year performance periods ending in 2022, 2023 and 2024 that will be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

The following table provides additional information concerning restricted stock activity, including performance-based and market-based shares:

<b>Restricted Stock</b>	<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>
Weighted-average grant date fair value	\$ 41.04	\$ 43.48
Total fair value of restricted shares that vested (in thousands)	\$ 7,804	\$ 10,018

**(9) Financing**

The Company's financing strategy includes both short-term and long-term borrowings. The Company utilizes short-term revolving credit facilities, as well as cash flows from operations, to provide funds for both construction and operating expenditures. Depending on market and other conditions, the Company will periodically sell long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under the revolving credit facilities or refinance other debt. Each of the Company's revolving credit facilities, term loans, and other debt agreements contains a single financial covenant that requires the maintenance of a debt-to-capitalization ratio. For the PNMR agreements this ratio must be maintained at less than or equal to 70%, and for the PNM and TNMP agreements this ratio must be maintained at less than or equal to 65%. The Company's revolving credit facilities, term loans, and other debt agreements generally also contain customary covenants, events of default, cross-default provisions, and change-of-control provisions. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual informational financing filing and short-term financing plan with the NMPRC. Additional information concerning financing activities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

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**Financing Activities**

On August 5, 2022, PNM entered into a \$225.0 million delayed-draw term loan agreement (the "PNM 2022 Delayed-Draw Term Loan"), among PNM, the lender parties thereto, and Royal Bank of Canada, as administrative agent. PNM initially drew \$180.0 million to repay the \$75.0 million PNM 2021 Term Loan ahead of its December 2022 maturity and for other corporate purposes. On September 30, 2022, PNM drew the remaining \$45.0 million and used the proceeds for general corporate purposes. Draws on the PNM 2022 Delayed-Draw Term Loan bear interest at a variable rate, which was 3.53% at September 30, 2022 and must be repaid on or before February 5, 2024.

At December 31, 2021, PNM had \$104.5 million PCRBs outstanding with a mandatory remarketing date of June 1, 2022, consisting of \$36.0 million at 1.05% issued by the Maricopa County, Arizona Pollution Control Corporation with a final maturity of January 2038; \$37.0 million at 2.125% issued by the City of Farmington, New Mexico with a final maturity of June 2040; \$11.5 million at 1.20% issued by the City of Farmington, New Mexico with a final maturity of June 2040; and \$20.0 million at 2.45% issued by the City of Farmington, New Mexico with a final maturity of September 2042. On June 1, 2022, PNM remarketed to new investors the \$36.0 million and \$37.0 million series in the tax-exempt market at 3.00% with a mandatory put date of June 1, 2024. PNM purchased and redeemed the remaining two series of PCRBs, totaling \$31.5 million, on June 1, 2022.

On May 2, 2022, PNMR entered into two separate 20-month hedging agreements for \$150.0 million and \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established a fixed interest rate of 2.65%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. On May 20, 2022, PNMR entered into a third 19-month hedging agreement for \$100.0 million to hedge an equal amount of its variable rate debt, whereby it effectively established a fixed interest rate of 2.52%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. On September 30, 2022, PNM entered into two additional 15-month hedging agreements for \$100.0 million each, totaling \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established fixed interest rates of 4.17% and 4.18%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. These hedge agreements are accounted for as cash flow hedges. The fair value of these hedges was a gain of \$8.6 million at September 30, 2022 which is included in Other deferred charges on the Condensed Consolidated Balance Sheets. The fair values were determined using Level 2 inputs under GAAP, including using forward SOFR curves under the mid-market convention to discount cash flows over the remaining term of the agreements. On October 31, 2022, PNM entered into two additional 14-month hedging agreements for \$100.0 million each, totaling \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established fixed interest rates of 4.66% and 4.65%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. These hedge agreements will also be accounted for as cash flow hedges.

On April 27, 2022, TNMP entered into an agreement (the "TNMP 2022 Bond Purchase Agreement") with institutional investors for the sale of \$160.0 million aggregate principal amount of two series of TNMP first mortgage bonds (the "TNMP 2022 Bonds") offered in private placement transactions. TNMP issued the first series of \$65.0 million of the TNMP 2022 Bonds on May 12, 2022, at a 4.13% interest rate, due May 12, 2052, and the second series of \$95.0 million of the TNMP 2022 Bonds on July 28, 2022, at a 3.81% interest rate, due July 28, 2032. The proceeds were used to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. The TNMP 2022 Bonds are subject to continuing compliance with the representations, warranties and covenants set forth in the supplemental indenture governing the TNMP 2022 Bonds. The terms of the supplemental indentures governing the TNMP 2022 Bonds include the customary covenants discussed above. In the event of a change of control, TNMP will be required to offer to prepay the TNMP 2022 Bonds at par. However, the definition of change of control in the supplemental indentures governing the TNMP 2022 Bonds will not be triggered by the close of the Merger. TNMP has the right to redeem any or all of the TNMP 2022 Bonds prior to their maturity, subject to payment of a customary make-whole premium.

On May 18, 2021, PNMR entered into a \$1.0 billion delayed-draw term loan agreement (the "PNMR 2021 Delayed-Draw Term Loan"), among PNMR, the lenders party thereto, and Wells Fargo Bank, N.A., as administrative agent. In 2021, PNMR drew \$900.0 million to repay and terminate existing indebtedness as discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K. On January 24, 2022, PNMR drew the remaining \$100.0 million available. On May 20, 2022, PNMR amended and restated the PNMR 2021 Delayed-Draw Term Loan, extending its maturity to May 18, 2025 and providing for assignment of the term loan to Avangrid upon completion of the Merger. Draws on the PNMR 2021 Delayed-Draw Term Loan bear interest at a variable rate which was 4.13% at September 30, 2022.

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On July 14, 2021, TNMP entered into the TNMP 2021 Bond Purchase Agreement with institutional investors for the sale of \$65.0 million aggregate principal amount of the TNMP 2021 Bonds offered in private placement transactions. On August 16, 2021, TNMP issued all \$65.0 million of the TNMP 2021 Bonds at 2.44% with a maturity of August 15, 2035 and used the proceeds to repay existing debt and for other corporate purposes. The TNMP 2021 Bonds are subject to continuing compliance with the representations, warranties and covenants set forth in the supplemental indenture governing the TNMP 2021 Bonds. The terms of the supplemental indenture governing the TNMP 2021 Bonds include the customary covenants discussed above. In the event of a change of control, TNMP will be required to offer to prepay the TNMP 2021 Bonds at par. However, the definition of change of control in the supplemental indenture governing the TNMP 2021 Bonds will not be triggered by the close of the Merger. TNMP has the right to redeem any or all of the TNMP 2021 Bonds prior to their maturity, subject to payment of a customary make-whole premium.

On July 14, 2021, PNM entered into the PNM 2021 Note Purchase Agreement with institutional investors for the sale and issuance of \$160.0 million aggregate principal amount of the PNM 2021 SUNs offered in private placement transactions. The PNM 2021 SUNs were issued on July 14, 2021. PNM issued \$80.0 million of the PNM 2021 SUNs at 2.59%, due July 15, 2033, and another \$80.0 million at 3.14%, due July 15, 2041. Proceeds from the PNM 2021 SUNs were used to repay the total amount of \$160.0 million of PNM's 5.35% SUNs, at par, earlier than their scheduled maturity of October 1, 2021. The PNM 2021 Note Purchase Agreement includes the customary covenants discussed above. In the event of a change of control, PNM will be required to offer to prepay the PNM 2021 SUNs at par. Although there are customary change of control provisions in the PNM debt agreements, the change of control provisions in these agreements, including the PNM 2021 Note Purchase Agreement, are not triggered by the close of the Merger. PNM has the right to redeem any or all of the PNM 2021 SUNs prior to their maturities, subject to payment of a customary make-whole premium.

On June 18, 2021, PNM entered into a \$75.0 million term loan (the "PNM 2021 Term Loan") between PNM and Bank of America, N.A., as lender. The PNM 2021 Term Loan was used to repay the PNM 2019 \$40.0 million Term Loan and for other corporate purposes and was set to mature in December 2022. On August 5, 2022, the PNM 2021 Term Loan was prepaid without penalty with proceeds from the PNM 2022 Delayed-Draw Term Loan.

On March 9, 2018, PNMR issued \$300.0 million aggregate principal amount of 3.25% SUNs (the "PNMR 2018 SUNs"), which matured on March 9, 2021. On December 22, 2020, PNMR entered into the \$300.0 million PNMR 2020 Delayed-Draw Term Loan with a January 2022 maturity and drew \$80.0 million to refinance existing indebtedness and for other corporate purposes. On March 9, 2021, PNMR utilized the remaining \$220.0 million of capacity under the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs. The remaining \$80.0 million repayment of the PNMR 2018 SUNs was funded through borrowings under the PNMR Revolving Credit Facility. The PNMR 2020 Delayed-Draw Term Loan was prepaid without penalty in May 2021 with proceeds from the PNMR 2021 Delayed-Draw Term Loan.

At September 30, 2022, variable interest rates were 4.13% on the PNMR 2021 Delayed-Draw Term Loan that matures in May 2025 and 3.53% on the PNM 2022 Delayed-Draw Term Loan that matures in February 2024. As discussed above, at September 30, 2022, PNMR has active hedging arrangements to effectively fix the interest rate on \$650.0 million of its consolidated, variable rate debt.

**Short-term Debt and Liquidity**

Currently, the PNMR Revolving Credit Facility has a financing capacity of \$300.0 million and the PNM Revolving Credit Facility has a financing capacity of \$400.0 million. On May 20, 2022, both PNMR and PNM extended the facilities to October 31, 2024 with two one-year extension options that, if exercised, would extend the maturity through October 2026, subject to approval by a majority of the lenders. Also on May 20, 2022, the \$40.0 million PNM 2017 New Mexico Credit Facility was extended to May 20, 2026. The TNMP Revolving Credit Facility had a financing capacity of \$75.0 million secured by \$75.0 million aggregate principal amount of TNMP first mortgage bonds. On March 11, 2022, the TNMP Revolving Credit Facility was amended to extend the maturity to September 23, 2024, with two one-year extension options that, if exercised, would extend the maturity to September 2026, subject to approval by a majority of the lenders. The amended TNMP Revolving Credit Facility also contained an accordion feature that would allow TNMP to increase the size of the revolver from \$75.0 million to \$100.0 million, subject to certain conditions. On May 13, 2022, TNMP exercised the accordion feature and increased the capacity of the TNMP Revolving Credit Facility to \$100.0 million, secured by \$100.0 million aggregate principal amount of TNMP first mortgage bonds. PNMR Development had a \$40.0 million revolving credit facility that was terminated on May 18, 2021. Variable interest rates under the PNMR, PNM, and TNMP revolving credit facilities are based on SOFR.

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Short-term debt outstanding consists of:

<u>Short-term Debt</u>	<u>September 30, 2022</u>	<u>December 31, 2021</u>
	(In thousands)	
PNM:		
PNM Revolving Credit Facility	\$ —	\$ 7,400
	—	7,400
TNMP Revolving Credit Facility	3,000	400
PNMR Revolving Credit Facility	57,200	54,900
	<u>\$ 60,200</u>	<u>\$ 62,700</u>

At September 30, 2022, the weighted average interest rates were 3.97% for the TNMP Revolving Credit Facility and 4.47% for the PNMR Revolving Credit Facility.

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of \$3.4 million, zero, and zero at September 30, 2022 that reduce the available capacity under their respective revolving credit facilities. PNMR also had \$30.3 million of letters of credit outstanding under the WFB LOC Facility. The above table excludes intercompany debt. As of September 30, 2022 and December 31, 2021, neither PNM, TNMP, nor PNMR Development had any intercompany borrowings from PNMR. PNMR had \$6.4 million in intercompany borrowings from PNMR Development at both September 30, 2022 and December 31, 2021.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR for three separate tranches, each of \$50.0 million, of its variable rate debt. On March 23, 2021, the 1.926% fixed interest rate hedge agreement expired according to its terms and the remaining agreements expired on May 23, 2021.

At October 21, 2022, PNMR, PNM, and TNMP had availability of \$241.2 million, \$400.0 million, and \$96.5 million under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit. PNM also had \$40.0 million of availability under the PNM 2017 New Mexico Credit Facility. Total availability at October 21, 2022, on a consolidated basis, was \$777.7 million for PNMR. As of October 21, 2022, PNM, TNMP, and PNMR Development had no borrowings from PNMR under their intercompany loan agreements. However, PNMR had \$6.4 million in intercompany borrowings from PNMR Development. At October 21, 2022, PNMR, PNM, and TNMP had invested cash of \$0.9 million, \$14.9 million, and zero.

The Company's debt arrangements have various maturities and expiration dates. PNM has \$55.0 million of SUNs that mature in May 2023 and \$130.0 million of PCRBs that mature in June 2023. Additional information on debt maturities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

#### **(10) Pension and Other Postretirement Benefit Plans**

PNMR and its subsidiaries maintain qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs (collectively, the "PNM Plans" and "TNMP Plans"). PNMR maintains the legal obligation for the benefits owed to participants under these plans. The periodic costs or income of the PNM Plans and TNMP Plans are included in regulated rates to the extent attributable to regulated operations. The Company presents the service cost component of its net periodic benefit costs in administrative and general expenses and the non-service costs components in other income (deductions), net of amounts capitalized or deferred to regulatory assets and liabilities, on the Condensed Consolidated Statements of Earnings. PNM and TNMP receive a regulated return on the amounts funded for pension and OPEB plans in excess of accumulated periodic cost or income to the extent included in retail rates (a "prepaid pension asset").

Additional information concerning pension and OPEB plans is contained in Note 11 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K. Annual net periodic benefit cost for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year. Differences between TNMP's annual net periodic costs (income) and amounts included in its regulated rates are deferred to regulatory assets or liabilities, for recovery or refund in future rate proceedings.

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**PNM Plans**

The following table presents the components of the PNM Plans' net periodic benefit cost:

	<b>Three Months Ended September 30,</b>					
	<b>Pension Plan</b>		<b>OPEB Plan</b>		<b>Executive Retirement Program</b>	
	2022	2021	2022	2021	2022	2021
	(In thousands)					
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ —	\$ —	\$ 2	\$ 5	\$ —	\$ —
Interest cost	4,215	4,036	479	476	90	90
Expected return on plan assets	(7,140)	(7,133)	(1,088)	(1,042)	—	—
Amortization of net loss	3,948	4,541	—	—	81	99
Amortization of prior service cost	—	—	—	—	—	—
<b>Net Periodic Benefit Cost (Income)</b>	<b>\$ 1,023</b>	<b>\$ 1,444</b>	<b>\$ (607)</b>	<b>\$ (561)</b>	<b>\$ 171</b>	<b>\$ 189</b>

	<b>Nine Months Ended September 30,</b>					
	<b>Pension Plan</b>		<b>OPEB Plan</b>		<b>Executive Retirement Program</b>	
	2022	2021	2022	2021	2022	2021
	(In thousands)					
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ —	\$ —	\$ 6	\$ 18	\$ —	\$ —
Interest cost	12,643	12,107	1,437	1,430	270	271
Expected return on plan assets	(21,422)	(21,398)	(3,264)	(3,125)	—	—
Amortization of net loss	11,846	13,624	—	—	245	296
Amortization of prior service cost	—	—	—	—	—	—
<b>Net Periodic Benefit Cost (Income)</b>	<b>\$ 3,067</b>	<b>\$ 4,333</b>	<b>\$ (1,821)</b>	<b>\$ (1,677)</b>	<b>\$ 515</b>	<b>\$ 567</b>

PNM did not make any contributions to its pension plan trust in the nine months ended September 30, 2022 and 2021 and does not anticipate making any contributions to the pension plan in 2022 through 2026 based on current law, funding requirements, and estimates of portfolio performance. In 2027 PNM does anticipate making a contribution of \$0.6 million based on current law, funding requirements, and estimates of portfolio performance. Funding assumptions were developed using a discount rate of 5.0%. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM did not make any cash contributions to the OPEB trust in the nine months ended September 30, 2022 and 2021, however, a portion of the disbursements attributable to the OPEB trust is paid by PNM and are therefore considered to be contributions to the OPEB plan. Payments by PNM on behalf of the PNM OPEB plan were \$0.9 million and \$2.4 million for the three and nine months ended September 30, 2022 and \$1.0 million and \$2.7 million for the three and nine months ended September 30, 2021. These payments are expected to total \$3.4 million in 2022 and \$15.1 million for 2023-2027. Disbursements under the executive retirement program, which are funded by PNM and considered to be contributions to the plan, were \$0.4 million and \$1.0 million in the three and nine months ended September 30, 2022 and \$0.3 million and \$1.1 million for the three and nine months ended September 30, 2021 and are expected to total \$1.3 million during 2022 and \$5.8 million for 2023-2027.

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**TNMP Plans**

The following table presents the components of the TNMP Plans' net periodic benefit cost:

	<b>Three Months Ended September 30,</b>					
	<b>Pension Plan</b>		<b>OPEB Plan</b>		<b>Executive Retirement Program</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)					
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ —	\$ —	\$ 9	\$ 12	\$ —	\$ —
Interest cost	430	435	77	77	2	4
Expected return on plan assets	(618)	(795)	(104)	(101)	—	—
Amortization of net (gain) loss	233	311	(130)	(81)	—	8
Amortization of prior service cost	—	—	—	—	—	—
<b>Net Periodic Benefit Cost (Income)</b>	<b>\$ 45</b>	<b>\$ (49)</b>	<b>\$ (148)</b>	<b>\$ (93)</b>	<b>\$ 2</b>	<b>\$ 12</b>
	<b>Nine Months Ended September 30,</b>					
	<b>Pension Plan</b>		<b>OPEB Plan</b>		<b>Executive Retirement Program</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)					
<b>Components of Net Periodic Benefit Cost</b>						
Service cost	\$ —	\$ —	\$ 27	\$ 34	\$ —	\$ —
Interest cost	1,290	1,306	231	231	8	13
Expected return on plan assets	(1,854)	(2,386)	(312)	(304)	—	—
Amortization of net (gain) loss	699	935	(390)	(242)	—	25
Amortization of prior service cost	—	—	—	—	—	—
<b>Net Periodic Benefit Cost (Income)</b>	<b>\$ 135</b>	<b>\$ (145)</b>	<b>\$ (444)</b>	<b>\$ (281)</b>	<b>\$ 8</b>	<b>\$ 38</b>

TNMP did not make any contributions to its pension plan trust in the nine months ended September 30, 2022 and 2021 and does not anticipate making any contributions to the pension plan in 2022 through 2027 based on current law, funding requirements, and estimates of portfolio performance. Funding assumptions were developed using a discount rate of 5.0%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP did not make any contributions to the OPEB trust in the three and nine months ended September 30, 2022 and 2021 and does not expect to make contributions to the OPEB trust during the period 2022-2027. Disbursements under the executive retirement program, which are funded by TNMP and considered to be contributions to the plan, were less than \$0.1 million in the three and nine months ended September 30, 2022 and 2021 and are expected to total \$0.1 million during 2022 and \$0.2 million in 2023-2027.

**(11) Commitments and Contingencies**

*Overview*

There are various claims and lawsuits pending against the Company. In addition, the Company is subject to federal, state, and local environmental laws and regulations and periodically participates in the investigation and remediation of various sites. In addition, the Company periodically enters into financial commitments in connection with its business operations. Also, the Company is involved in various legal and regulatory proceedings in the normal course of its business. See Note 12. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

With respect to some of the items listed below, the Company has determined that a loss is not probable or that, to the extent probable, cannot be reasonably estimated. In some cases, the Company is not able to predict with any degree of certainty the range of possible loss that could be incurred. The Company assesses legal and regulatory matters based on current



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information and makes judgments concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of any damages sought, and the probability of success. Such judgments are made with the understanding that the outcome of any litigation, investigation, or other legal proceeding is inherently uncertain. The Company records liabilities for matters where it is probable a loss has been incurred and the amount of loss is reasonably estimable. The actual outcomes of the items listed below could ultimately differ from the judgments made and the differences could be material. The Company cannot make any assurances that the amount of reserves or potential insurance coverage will be sufficient to cover the cash obligations that might be incurred as a result of litigation or regulatory proceedings. Except as otherwise disclosed, the Company does not expect that any known lawsuits, environmental costs, or commitments will have a material effect on its financial condition, results of operations, or cash flows.

Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

*Commitments and Contingencies Related to the Environment*

**Nuclear Spent Fuel and Waste Disposal**

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE that require the DOE to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE announced that it would not be able to open the repository by 1998 and sought to excuse its performance of these requirements. In November 1997, the DC Circuit issued a decision preventing the DOE from excusing its own delay but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE's delay, a number of utilities, including APS (on behalf of itself and the other PVNGS owners, including PNM), filed damages actions against the DOE in the Court of Federal Claims. The lawsuits filed by APS alleged that damages were incurred due to DOE's continuing failure to remove spent nuclear fuel and high-level waste from PVNGS. In August 2014, APS and the DOE entered into a settlement agreement that established a process for the payment of claims for costs incurred through December 31, 2019. In July 2020, APS accepted the DOE's extension of the settlement agreement for recovery of costs incurred through December 31, 2022. Under the settlement agreement, APS must submit claims annually for payment of allowable costs. PNM records estimated claims on a quarterly basis. The benefit from the claims is passed through to customers under the FPPAC to the extent applicable to NMPRC regulated operations.

PNM estimates that it will incur approximately \$59.6 million (in 2019 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the nuclear fuel is consumed. At September 30, 2022 and December 31, 2021, PNM had a liability for interim storage costs of \$12.0 million and \$13.0 million, which is included in other deferred credits.

PVNGS has sufficient capacity at its on-site Independent Spent Fuel Storage Installation ("ISFSI") to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027. Additionally, PVNGS has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047. If uncertainties regarding the U.S. government's obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation.

**The Energy Transition Act**

In 2019, the Governor signed into New Mexico state law Senate Bill 489, known as the Energy Transition Act ("ETA"). The ETA became effective as of June 14, 2019 and sets a statewide standard that requires investor-owned electric utilities to have specified percentages of their electric-generating portfolios be from renewable and zero-carbon generating resources. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA requires the NMPRC to review and approve utilities' annual renewable portfolio plans to ensure compliance with the RPS. The ETA also directs the New Mexico Environmental Improvement Board to adopt standards of performance that limit CO<sub>2</sub> emissions to no more than 1,100 lbs. per MWh beginning January 1, 2023 for new or existing coal-fired EGUs with original installed capacities exceeding 300 MW.

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The ETA provides for a transition from fossil-fuel generation resources to renewable and other carbon-free resources through certain provisions relating to the abandonment of coal-fired generating facilities. These provisions include the use of energy transition bonds, which are designed to be highly rated bonds that can be issued to finance certain costs of abandoning coal-fired facilities that are retired prior to January 1, 2023 for facilities operated by a “qualifying utility,” or prior to January 1, 2032 for facilities that are not operated by a qualifying utility. The amount of energy transition bonds that can be issued to recover abandonment costs is limited to the lesser of \$375.0 million or 150% of the undepreciated investment of the facility as of the abandonment date. Proceeds provided by energy transition bonds must be used only for purposes related to providing utility service to customers and to pay energy transition costs (as defined by the ETA). These costs may include plant decommissioning and coal mine reclamation costs provided those costs have not previously been recovered from customers or disallowed by the NMPRC or by a court order. Proceeds from energy transition bonds may also be used to fund severances for employees of the retired facility and related coal mine and to promote economic development, education and job training in areas impacted by the retirement of the coal-fired facilities. Energy transition bonds must be issued under a NMPRC-approved financing order, are secured by “energy transition property,” are non-recourse to the issuing utility, and are repaid by a non-bypassable charge paid by all customers of the issuing utility. These customer charges are subject to an adjustment mechanism designed to provide for timely and complete payment of principal and interest due under the energy transition bonds.

The ETA also provides that utilities must obtain NMPRC approval of competitively procured replacement resources that shall be evaluated based on their cost, economic development opportunity, ability to provide jobs with comparable pay and benefits to those lost upon retirement of the facility, and that do not exceed emissions thresholds specified in the ETA. In determining whether to approve replacement resources, the NMPRC must give preference to resources with the least environmental impacts, those with higher ratios of capital costs to fuel costs, and those located in the school district of the abandoned facility. The ETA also provides for the procurement of energy storage facilities and gives utilities discretion to maintain, control, and operate these systems to ensure reliable and efficient service.

The ETA will have a significant impact on PNM’s future generation portfolio, including PNM’s retirement of SJGS in 2022 and the planned Four Corners exit in 2024 (subject to regulatory approval). PNM cannot predict the full impact of the ETA or the outcome of its pending and potential future generating resource abandonment and replacement resource filings with the NMPRC. See additional discussion in Note 12 of PNM’s SJGS and Four Corners Abandonment Applications.

**The Clean Air Act**

*Regional Haze*

In 1999, EPA developed a regional haze program and regional haze rules under the CAA. The rule directs each of the 50 states to address regional haze. Pursuant to the CAA, states are required to establish goals for improving visibility in national parks and wilderness areas (also known as Class I areas) and to develop long-term strategies for reducing emissions of air pollutants that cause visibility impairment in their own states and for preventing degradation in other states. States must establish a series of interim goals to ensure continued progress by adopting a new SIP every ten years. In the first SIP planning period, states were required to conduct BART determinations for certain covered facilities, including utility boilers, built between 1962 and 1977 that have the potential to emit more than 250 tons per year of visibility impairing pollution. If it was demonstrated that the emissions from these sources caused or contributed to visibility impairment in any Class I area, BART must have been installed by the beginning of 2018. For all future SIP planning periods, states must evaluate whether additional emissions reduction measures may be needed to continue making reasonable progress toward natural visibility conditions.

In 2017, EPA published revisions to the regional haze rule in the Federal Register. The new rule delayed the due date for the next cycle of SIPs from 2019 to 2021, altered the planning process that states must employ in determining whether to impose “reasonable progress” emission reduction measures, and gave new authority to federal land managers to seek additional emission reduction measures outside of the states’ planning process. Finally, the rule made several procedural changes to the regional haze program, including changes to the schedule and process for states to file 5-year progress reports. EPA’s new rule was challenged by numerous parties. On January 19, 2018, EPA filed a motion to hold the case in abeyance in light of several letters issued by EPA on January 17, 2018 to grant various petitions for reconsideration of the 2017 rule revisions. EPA’s decision to revisit the 2017 rule is not a determination on the merits of the issues raised in the petitions.

On December 20, 2018, EPA released a new guidance document on tracking visibility progress for the second planning period. EPA is allowing states discretion to develop SIPs that may differ from EPA’s guidance as long as they are consistent with the CAA and other applicable regulations. On August 20, 2019, EPA finalized the draft guidance that was previously released as a companion to the regional haze rule revisions, and EPA clarified that guidance in a memorandum issued on July 8, 2021. SIPs for the second planning period were due in July 2021, which deadline NMED was unable to meet. NMED is

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currently preparing its SIP for the second compliance period and has notified PNM that it will not be required to submit a regional haze four-factor analysis for SJGS since PNM retired its share of SJGS in 2022. On April 7, 2022, EPA announced its intent to make findings by August 31, 2022 of the states that have failed to submit regional haze implementation plans for the second planning period and directed states to file their plans by August 15, 2022 to avoid inclusion in that finding. Despite that announcement, on April 13, 2022, four environmental groups sued EPA in the U.S. District Court for the Northern District of California seeking to compel EPA to issue a finding that 34 states failed to submit regional haze SIPs for the second planning period. On August 30, 2022, EPA published in the Federal Register an official "Finding of Failure to Submit" for states, including New Mexico, that have not yet submitted a round 2 regional haze SIP. This action by EPA starts a 2-year clock for it to issue a Federal Implementation Plan (FIP). NMED's current timeline indicates the proposed SIP will be submitted to EPA by October 2023.

*Carbon Dioxide Emissions*

On August 3, 2015, EPA established standards to limit CO<sub>2</sub> emissions from power plants, including (1) Carbon Pollution Standards for new, modified, and reconstructed power plants; and (2) the Clean Power Plan for existing power plants.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources in separate cases. Challengers successfully petitioned the US Supreme Court for a stay of the Clean Power Plan. However, before the DC Circuit could issue an opinion regarding either the Carbon Pollution Standards or the Clean Power Plan, the Trump Administration asked that the case be held in abeyance while the rules were reevaluated, which was granted.

On June 19, 2019, EPA repealed the Clean Power Plan, promulgated the ACE Rule, and revised the implementing regulations for all emission guidelines. EPA set the BSER for existing coal-fired power plants as heat rate efficiency improvements based on a range of "candidate technologies" that can be applied inside the fence line of an individual facility. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss the cases challenging the Clean Power Plan as moot due to EPA's issuance of the ACE Rule.

The ACE Rule was also challenged, and on January 19, 2021, the DC Circuit issued an opinion in *American Lung Association and American Public Health Association v. EPA, et al.*, finding that EPA misinterpreted the CAA when it determined that the language of Section 111 unambiguously barred consideration of emissions reduction options that were not applied at the source. As a result, the court vacated the ACE Rule and remanded the record back to the EPA for further consideration consistent with the court's opinion. While the DC Circuit rejected the ACE Rule, it did not reinstate the Clean Power Plan. EPA filed a motion seeking a partial stay of the mandate as to the repeal of the Clean Power Plan, to ensure the court's order will not render effective the now out-of-date Clean Power Plan. On February 22, 2021, the U.S. Court of Appeals for the DC Circuit granted EPA's motion, indicating that it would withhold issuance of the mandate with respect to the repeal of the Clean Power Plan until EPA responds to the court's remand in a new rulemaking action. EPA has commenced the rulemaking process under section 111 to establish new emission guidelines for CO<sub>2</sub> emissions from existing power plants. The agency indicates that it plans to publish a draft rule in March 2023 with no timetable yet for a final rule.

Four petitions for writ of certiorari were filed in the US Supreme Court seeking review of the DC Circuit's January opinion vacating the ACE Rule and the repeal of the Clean Power Plan. The petitioners include (1) West Virginia and 18 other states that had intervened to defend the ACE Rule, (2) North American Coal Corporation, (3) North Dakota (separately from the other states), and (4) Westmoreland Mining Holdings LLC. On October 29, 2021, the US Supreme Court granted the four petitions for writs of certiorari. Oral arguments in the US Supreme Court were held on February 28, 2022 and on June 30, 2022, the US Supreme Court ruled in the case. The US Supreme Court held 6 to 3 that the "generation shifting" approach in the Clean Power Plan exceeded the powers granted to EPA by Congress, though the Court did not address the related issue of whether Section 111 of the CAA only authorizes EPA to require measures that can be implemented entirely within the fence line at an individual source. Of broader significance in administrative law, the Court also expressly invoked the major question doctrine as a basis for rejecting EPA's statutory interpretation. The basic principle of the major question doctrine is that, if an agency seeks to decide an issue of "vast economic or political significance," its action must be supported by clear statutory authorization. In cases where there is no authority, courts need not defer to the agency's statutory interpretation. The decision sets legal precedent for future rulemakings by EPA and other federal regulatory agencies whereby the agencies' authority may be limited based upon similar reasoning.

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The litigation over the Carbon Pollution Standards remains held in abeyance but could be reactivated by the parties upon a determination by the court that the Biden Administration is unlikely to finalize the revisions proposed in 2018 and that reconsideration of the rule has concluded.

On January 27, 2021, President Biden signed an extensive Executive Order aimed at addressing climate change concerns domestically and internationally. The order is intended to build on the initial climate-related actions the Biden Administration took on January 20, 2021. It addresses a wide range of issues, including establishing climate change concerns as an essential element of U.S. foreign and security policy, identifying a process to determine the U.S. INDC under the Paris Agreement, and establishing a Special Presidential Envoy for Climate that will sit on the National Security Council. On April 22, 2021, at the Earth Day Summit, as part of the U.S.'s re-entry into the Paris Agreement, President Biden unveiled the goal to cut U.S. emissions by 50% - 52% from 2005 levels by 2030, nearly double the GHG emissions reduction target set by the Obama Administration. The 2030 goal joins President Biden's other climate goals which include a carbon pollution-free power sector by 2035 and a net-zero emissions economy by no later than 2050.

PNM's review of the GHG emission reductions standards that may occur as a result of legislation or regulation under the Biden Administration and in response to the court's ruling on the ACE Rule is ongoing. PNM cannot predict the impact these standards may have on its operations or a range of the potential costs of compliance, if any.

*National Ambient Air Quality Standards ("NAAQS")*

The CAA requires EPA to set NAAQS for pollutants reasonably anticipated to endanger public health or welfare. EPA has set NAAQS for certain pollutants, including NO<sub>x</sub>, SO<sub>2</sub>, ozone, and particulate matter.

*NO<sub>x</sub> Standard* – On April 18, 2018, EPA published the final rule to retain the current primary health-based NO<sub>x</sub> standards of which NO<sub>2</sub> is the constituent of greatest concern and is the indicator for the primary NAAQS. EPA concluded that the current 1-hour and annual primary NO<sub>2</sub> standards are requisite to protect public health with an adequate margin of safety. The rule became effective on May 18, 2018. PNM maintains compliance with the current NO<sub>x</sub> NAAQS standards.

*SO<sub>2</sub> Standard* – On February 25, 2019, EPA announced its final decision to retain, without changes, the primary health-based NAAQS for SO<sub>2</sub>. Specifically, EPA will retain the current 1-hour standard for SO<sub>2</sub>, which is 75 parts per billion, based on the 3-year average of the 99th percentile of daily maximum 1-hour SO<sub>2</sub> concentrations. PNM maintains compliance with the current SO<sub>2</sub> NAAQS standards.

On March 26, 2021, EPA published in the Federal Register the initial air quality designations for all remaining areas not yet designated under the 2010 SO<sub>2</sub> Primary NAAQS. This is EPA's fourth and final set of actions to designate areas of the U.S. for the 2010 SO<sub>2</sub> NAAQS. All areas of New Mexico have been designated attainment/unclassifiable through four rounds of designations by EPA.

*Ozone Standard* – On October 1, 2015, EPA finalized the new ozone NAAQS and lowered both the primary and secondary 8-hour standard from 75 to 70 parts per billion. With ozone standards becoming more stringent, fossil-fueled generation units will come under increasing pressure to reduce emissions of NO<sub>x</sub> and volatile organic compounds since these are the pollutants that form ground-level ozone. On July 13, 2020, EPA proposed to retain the existing ozone NAAQS based on a review of the full body of currently available scientific evidence and exposure/risk information. EPA finalized its decision to retain the ozone NAAQS in a notice published on December 31, 2020 making it immediately effective. The Center for Biological Diversity filed a lawsuit on February 25, 2021, challenging the decision to retain the existing ozone standard. In response to lawsuits brought by states and environmental groups, on October 29, 2021, EPA filed a motion in the DC Circuit indicating it will reconsider the 2020 ozone NAAQS. In April 2022, EPA released an External Review Draft Policy Assessment for the reconsideration of the ozone NAAQS, in which EPA Staff recommended that EPA retain the existing primary and secondary ozone NAAQS. EPA expects to issue a proposed rule in April 2023 with no timetable yet for a final rule.

On November 10, 2015, EPA proposed a rule revising its Exceptional Events Rule, which outlines the requirements for excluding air quality data (including ozone data) from regulatory decisions if the data is affected by events outside an area's control. The proposed rule is important in light of the more stringent ozone NAAQS final rule since western states like New Mexico and Arizona are subject to elevated background ozone transport from natural local sources, such as wildfires and stratospheric inversions, and transported via winds from distant sources in other regions or countries. EPA finalized the rule on October 3, 2016 and released related guidance in 2018 and 2019 to help implement its new exceptional events policy.

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During 2017 and 2018, EPA released rules establishing area designations for ozone. In those rules, San Juan County, New Mexico, where SJGS and Four Corners are located, is designated as attainment/unclassifiable and only a small area in Doña Ana County, New Mexico is designated as marginal non-attainment. Although Afton Generating Station is located in Doña Ana County, it is not located within the small area designated as non-attainment for the 2015 ozone standard. The rule became effective May 8, 2018.

On November 22, 2019, EPA issued findings that several states, including New Mexico, had failed to submit interstate transport SIPs for the 2015 8-hour ozone NAAQS. In response, in December 2019, NMED published the Public Review Draft of the New Mexico 2013 NAAQS Good Neighbor SIP that demonstrates that there are no significant contributions from New Mexico to downwind problems in meeting the federal ozone standard.

NMED has responsibility for bringing the small area in Doña Ana County designated as marginal/non-attainment for ozone into compliance and will look at all sources of NOx and volatile organic compounds. NMED has submitted the required elements for the Sunland Park Ozone Non-attainment Area SIP. This includes a transportation conformity demonstration, a 2017 baseline emissions inventory and emissions statement, and an amendment to the state's Non-attainment Permitting rules at 20.2.79 New Mexico Administrative Code to conform to EPA's SIP Requirements Rule for 2015 Q3 NAAQS (i.e., "implementation rule").

The SIP elements had staggered deadlines and were done in three submissions: (1) the transportation conformity demonstration was completed by the El Paso Metropolitan Planning Organization on behalf of New Mexico in 2019, which is responsible for transportation planning in that area, and the submission received concurrence from EPA and the Federal Highway Administration; (2) the emissions inventory and statement SIP was submitted to EPA in September 2020; and (3) the Non-attainment New Source Review SIP was submitted to EPA on August 10, 2021. On October 15, 2021, EPA proposed to approve New Mexico's SIP to meet the emissions inventory and statement requirements of the CAA for the Sunland Park Ozone Non-Attainment Area.

PNM does not believe there will be material impacts to its facilities because of NMED's non-attainment designation of the small area within Doña Ana County. Until EPA approves attainment designations for the Navajo Nation and releases a proposal to implement the revised ozone NAAQS, PNM is unable to predict what impact the adoption of these standards may have on Four Corners. With respect to EPA's reconsideration of the 2020 decision to retain the 2015 ozone standards, it is expected to be completed by the end of 2023. PNM cannot predict the outcome of this matter.

*PM Standard* – On January 30, 2020, EPA published in the Federal Register a notice announcing the availability of a final Policy Assessment for the Review of the NAAQS for Particulate Matter (the "PA"). The 2020 final PA was prepared as part of the review of the primary and secondary PM NAAQS. In the 2020 final PA, EPA recommended lowering the primary annual PM 2.5 standard to between 8 µg/m<sup>3</sup> and 10 µg/m<sup>3</sup>. However, on April 30, 2020, EPA published a proposed rule to retain the current standards for PM due to uncertainties in the data relied upon in the 2020 final PA and EPA published a notice of that final action on December 18, 2020, making it immediately effective. On January 14, 2021, several states and New York City filed a petition for review in the DC Circuit, challenging EPA's final rule retaining the current primary and secondary PM NAAQS and a similar lawsuit was filed by the Center for Biological Diversity in the DC Circuit. On June 10, 2021, EPA announced that it will reconsider the previous administration's December 2020 decision to retain the current primary and secondary PM NAAQS and on October 8, 2021, EPA announced the release of a new draft PA stating that available scientific evidence and technical information indicate that the current standards may not be adequate to protect public health and welfare, as required by the CAA. On June 1, 2022, EPA issued a new final PA that likewise indicates current standards may not be adequate and that available scientific evidence could support lowering the standards. EPA expects to issue a final rule in Spring 2023. PNM maintains compliance with the current PM NAAQS standards and cannot predict the impacts of the outcome of future rulemaking.

#### **Cooling Water Intake Structures**

In 2014, EPA issued a rule establishing national standards for certain cooling water intake structures at existing power plants and other facilities under the Clean Water Act to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens) and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures).

To minimize impingement mortality, the rule provides operators of facilities, such as SJGS and Four Corners, seven options for meeting Best Technology Available ("BTA") standards for reducing impingement. SJGS has a closed-cycle recirculating cooling system, which is a listed BTA and may also qualify for the "*de minimis* rate of impingement" based on the

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design of the intake structure. The permitting authority must establish the BTA for entrainment on a site-specific basis, taking into consideration an array of factors, including endangered species and social costs and benefits. Affected sources must submit source water baseline characterization data to the permitting authority to assist in the determination. Compliance deadlines under the rule are tied to permit renewal and will be subject to a schedule of compliance established by the permitting authority.

The rule is not clear as to how it applies and what the compliance timelines are for facilities like SJGS that have a cooling water intake structure and only a multi-sector general stormwater permit. However, EPA has indicated that it is contemplating a December 31, 2023 compliance deadline. PNM is working with EPA regarding this issue and does not expect material changes as a result of any requirements that may be imposed upon SJGS, particularly given the retirement of SJGS in 2022.

On May 23, 2018, several environmental groups sued EPA Region IX in the U.S. Court of Appeals for the Ninth Circuit Court over EPA's failure to timely reissue the Four Corners NPDES permit. The petitioners asked the court to issue a *writ of mandamus* compelling EPA Region IX to take final action on the pending NPDES permit by a reasonable date. EPA subsequently reissued the NPDES permit on June 12, 2018. The permit did not contain conditions related to the cooling water intake structure rule, as EPA determined that the facility has achieved BTA for both impingement and entrainment by operating a closed-cycle recirculation system. On July 16, 2018, several environmental groups filed a petition for review with EPA's Environmental Appeals Board ("EAB") concerning the reissued permit. The environmental groups alleged that the permit was reissued in contravention of several requirements under the Clean Water Act and did not contain required provisions concerning certain revised ELG, existing-source regulations governing cooling-water intake structures, and effluent limits for surface seepage and subsurface discharges from coal-ash disposal facilities. On December 19, 2018, EPA withdrew the Four Corners NPDES permit in order to examine issues raised by the environmental groups. Withdrawal of the permit moots the appeal pending before the EAB. EAB thereafter dismissed the environmental groups' appeal. EPA issued an updated NPDES permit on September 30, 2019. The permit was once again appealed to the EAB and was stayed before the effective date. Oral argument was heard on September 3, 2020. The EAB issued an order denying the petition for review on September 30, 2020. The denial was based on the EAB's determination that the petitioners had failed to demonstrate that review of the permit was warranted on any of the grounds presented in the petition. Thereafter, the Regional Administrator of the EPA signed a notice of final permit decision, and the NPDES permit was issued on November 9, 2020. The permit became effective December 1, 2020 and will expire on November 30, 2025. On January 22, 2021, the environmental groups filed a petition for review of the EAB's decision with the U.S. Court of Appeals for the Ninth Circuit. The September 2019 permit remains in effect pending this appeal. On March 21, 2022, EPA provided notice in the Federal Register of a proposed settlement agreement with the environmental groups. The parties subsequently executed the settlement agreement as of May 2, 2022. Under the settlement, the associated case was administratively closed through September 6, 2023, during which time a third-party consultant will spend 12 months sampling discharges from Four Corners and EPA will spend three months completing an analysis. PNM cannot predict whether the analysis to be conducted under the settlement agreement will result in changes to the NPDES permit, but does not anticipate that it will have a material impact on PNM's financial position, results of operations, or cash flows.

#### **Effluent Limitation Guidelines**

On June 7, 2013, EPA published proposed revised wastewater ELG establishing technology-based wastewater discharge limitations for fossil fuel-fired electric power plants. EPA signed the final Steam Electric ELG rule on September 30, 2015. The final rule, which became effective on January 4, 2016, phased in the new, more stringent requirements in the form of effluent limits for arsenic, mercury, selenium, and nitrogen for wastewater discharged from wet scrubber systems and zero discharge of pollutants in ash transport water that must be incorporated into plants' NPDES permits. The 2015 rule required each plant to comply between 2018 and 2023 depending on when it needs a new or revised NPDES permit.

The Steam Electric ELG rule was challenged in the U.S. Court of Appeals for the Fifth Circuit by numerous parties. On April 12, 2017, EPA signed a notice indicating its intent to reconsider portions of the rule, and on August 22, 2017, the Fifth Circuit issued an order severing the issues under reconsideration and holding the case in abeyance as to those issues. However, the court allowed challenges to other portions of the rule to proceed. On April 12, 2019, the Fifth Circuit granted those challenges and issued an opinion vacating several portions of the rule, specifically those related to legacy wastewater and leachate, for which the court deemed the standards selected by EPA arbitrary and capricious.

On September 18, 2017, EPA published a final rule for postponement of certain compliance dates. The rule postponed the earliest date on which compliance with the ELG for these waste streams would be required from November 1, 2018 until November 1, 2020. On November 22, 2019, EPA published a proposed rule revising the original ELG while maintaining the compliance dates. Comments were due January 21, 2020. On October 13, 2020, EPA published in the Federal Register the

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final Steam Electric ELG and standards for the Steam Electric Power Generating Point Source Category, revising the final 2015 guidelines for both flue gas desulfurization wastewater and bottom ash transport water. The rule will require compliance with new limits as soon as possible on or after October 13, 2021, but no later than December 31, 2025.

On August 3, 2021, EPA published notice that it will undertake a supplemental rulemaking to revise the ELG after completing its review of the 2020 Reconsideration Rule. As part of this process, EPA will determine whether more stringent limitations and standards are appropriate. EPA intends to publish a proposed rule in the fall of 2022.

Because SJGS is zero discharge for wastewater and is not required to hold a NPDES permit, it is expected that minimal to no requirements will be imposed. Reeves Station discharges cooling tower blowdown to a publicly owned treatment plant and holds an NPDES permit. It is expected that minimal to no requirements will be imposed at Reeves Station.

See "Cooling Water Intake Structures" above for additional discussion of Four Corners' current NPDES permit. Four Corners may be required to change equipment and operating practices affecting boilers and ash handling systems, as well as change its waste disposal techniques during the next NPDES permit renewal in 2023. PNM is unable to predict the outcome of these matters or a range of the potential costs of compliance.

#### **Santa Fe Generating Station**

PNM and NMED are parties to agreements under which PNM has installed a remediation system to treat water from a City of Santa Fe municipal supply well and an extraction well to address gasoline contamination in the groundwater at the site of PNM's former Santa Fe Generating Station and service center. A 2008 NMED site inspection report states that neither the source nor extent of contamination at the site has been determined and that the source may not be the former Santa Fe Generating Station. During 2013 and 2014, PNM and NMED collected additional samples that showed elevated concentrations of nitrate and volatile organic compounds in some of the monitoring wells at the site. In addition, one monitoring well contained free-phase hydrocarbon products. PNM collected a sample of the product for "fingerprint" analysis. The results of this analysis indicated the product was a mixture of older and newer fuels. The presence of newer fuels in the sample suggests the hydrocarbon product likely originated from off-site sources. In December 2015, PNM and NMED entered into a memorandum of understanding to address changing groundwater conditions at the site under which PNM agreed to continue hydrocarbon investigation under the supervision of NMED. Qualified costs are eligible for payment through the New Mexico Corrective Action Fund ("CAF"), which is administered by the NMED Petroleum Storage Tank Bureau. In March 2019, PNM received notice from NMED that an abatement plan for the site is required to address concentrations of previously identified compounds, unrelated to those discussed above, found in the groundwater. NMED approved PNM's abatement plan proposal, which covers field work and reporting.

Field work related to the investigation under both the CAF and abatement plan requirements was completed in October 2019. Activities and findings associated with the field work were presented in two separate reports and released to stakeholders in early 2020. Subsequent field work was completed in July 2020 and two reports were released supporting PNM's contention that off-site sources have impacted, and are continuing to impact, the local groundwater in the vicinity of the former Santa Fe Generating Station.

PNM submitted work plans to NMED in January 2021 for review and approval. In December 2021, NMED approved both workplans and work is underway. These activities are expected to be completed by the end of 2022.

The City of Santa Fe has stopped operating its well at the site, which is needed for PNM's groundwater remediation system to operate. As a result, PNM has stopped performing remediation activities at the site. However, PNM's monitoring and other abatement activities at the site are ongoing and will continue until the groundwater meets applicable federal and state standards or until the NMED determines remediation is not required, whichever is earlier. PNM is not able to assess the duration of this project or estimate the impact on its obligations if PNM is required to resume groundwater remediation activities at the site. PNM is unable to predict the outcome of these matters.

#### **Coal Combustion Residuals Waste Disposal**

CCRs consisting of fly ash, bottom ash, and gypsum generated from coal combustion and emission control equipment at SJGS are currently disposed of in the surface mine pits adjacent to the plant. SJGS does not operate any CCR impoundments or landfills. The NMMMD currently regulates mine reclamation activities at the San Juan mine, including placement of CCRs in the surface mine pits, with federal oversight by the OSM. APS disposes of CCRs in ponds and dry storage areas at Four Corners. Ash management at Four Corners is regulated by EPA and the New Mexico State Engineer's Office.

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EPA's final coal ash rule, which became effective on October 19, 2015, included a non-hazardous waste determination for coal ash and sets minimum criteria for existing and new CCR landfills and surface impoundments. On December 16, 2016, the Water Infrastructure Improvements for the Nation Act (the "WIIN Act") was signed into law to address critical water infrastructure needs in the U.S. and contains a number of provisions related to the CCR rules. Among other things, the WIIN Act allows, but does not require, states to develop and submit CCR permit programs for EPA approval, provides flexibility for states to incorporate EPA's final rule for CCRs or develop other criteria that are at least as protective as EPA's final rule, and requires EPA to approve state permit programs within 180 days of submission by the state. Because states are not required to implement their own CCR permit programs, EPA will implement the permit program in states that choose not to implement a program, subject to Congressional funding. Until permit programs are in effect, EPA has authority to directly enforce the CCR rule. For facilities located within the boundaries of Native American reservations, such as the Navajo Nation where Four Corners is located, EPA is required to develop a federal permit program regardless of appropriated funds.

On July 30, 2018, EPA published a rule that constitutes "Phase One, Part One" of its ongoing reconsideration and revision of the April 17, 2015 CCR rule. The final Phase One, Part One rule includes two types of revisions. The first revision extended the deadline to allow EGUs with unlined impoundments or that fail to meet the uppermost aquifer requirement to continue to receive coal ash until October 31, 2020. This deadline was again extended by subsequent amendments. The rule also authorized a "Participating State Director" or EPA to approve suspension of groundwater monitoring requirements and to issue certifications related to the location restrictions, design criteria, groundwater monitoring, remedy selection and implementation. The rule also modified groundwater protection standards for certain constituents, which include cobalt, molybdenum, lithium, and lead without a maximum contamination level.

On August 14, 2019, EPA published a second round of revisions, which are commonly referred to as the "Phase Two" revisions. Phase Two proposed revisions to reporting and accessibility to public information, the "CCR piles" and "beneficial use" definitions and the requirements for management of CCR piles. EPA has reopened and extended the Phase Two comment period several times. Most recently, on March 12, 2021, EPA reopened the comment period on its prior notice that announced the availability of new information and data pertaining to the Phase Two proposed rule. EPA extended the comment period for an additional 60 days, until May 11, 2021. EPA has not yet finalized provisions in Phase Two related to beneficial use of CCR and CCR piles. This activity is on EPA's long-term agenda, which means EPA has no plans to address these issues in the next 12 months.

Since promulgating its Phase Two proposal, EPA has finalized two other rules addressing various CCR rule provisions. On December 2, 2019, EPA promulgated its proposed Holistic Approach to Closure Part A ("Part A"), which proposed a new deadline of August 31, 2020, for companies to initiate closure of unlined CCR impoundments. In accordance with the DC Circuit Court of Appeals' vacatur of portions of the CCR Rule, Part A also proposed changing the classification of compacted soil-lined or clay-lined surface impoundments from "lined" to "unlined". In addition, Part A delineated a process for owners/operators to submit requests for alternative closure deadlines based on lack of alternate disposal capacity. EPA issued the final Part A on August 28, 2020, which became effective on September 28, 2020. This rule finalized the classification of soil-lined and clay-lined surface impoundments as unlined, thus, triggering closure or retrofit requirements for those impoundments. The final Part A also gave operators of unlined impoundments until April 11, 2021 to cease receipt of waste at these units and initiate closure.

On March 3, 2020, EPA issued the proposed Holistic Approach to Closure Part B ("Part B"), which delineated the process for owners/operators to submit alternate liner demonstrations for clay-lined surface impoundments that could otherwise meet applicable requirements. Part B also proposed regulations addressing beneficial use for closure of surface impoundments. On November 12, 2020, EPA issued the final Part B rule, which became effective December 14, 2020. This rule did not include beneficial use of CCR for closure, which EPA explains will be addressed in subsequent rulemaking actions. EPA intends to issue several other rulemakings covering legacy ponds and finalizing parts of previously proposed rules. Per the Spring 2022 Regulatory Agenda, EPA will issue a final rule in March 2023 on remaining Part B issues regarding closure options and annual reporting.

On February 20, 2020, EPA published a proposed rule establishing a federal permitting program for the handling of CCR within the boundaries of Native American reservations and in states without their own federally authorized state programs. Permits for units within the boundaries of Native American reservations would be due 18 months after the effective date of the rule. The final rule is not expected to be issued any earlier than Spring to Summer 2023. EPA is coordinating with the affected permits for the three facilities with CCR disposal units located on Native American lands. PNM cannot predict the



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outcome of EPA's rule making activity or the outcome of any related litigation, and whether or how such a ruling would affect operations at Four Corners.

The CCR rule does not cover mine placement of coal ash. OSM is expected to publish a proposed rule covering mine placement in the future and will likely be influenced by EPA's rule and the determination by EPA that CCRs are non-hazardous. PNM cannot predict the outcome of OSM's proposed rulemaking regarding CCR regulation, including mine placement of CCRs, or whether OSM's actions will have a material impact on PNM's operations, financial position, or cash flows. Based upon the requirements of the final Part A CCR rule, PNM conducted a CCR assessment at SJGS and made minor modifications at the plant to ensure that there are no facilities that would be considered impoundments or landfills under the rule. PNM would seek recovery from its retail customers of all CCR costs for jurisdictional assets that are ultimately incurred.

Utilities that own or operate CCR disposal units, such as those at Four Corners, as indicated above, were required to collect sufficient groundwater sampling data to initiate a detection monitoring program. Four Corners completed the analysis for its CCR disposal units, which identified several units that will need corrective action or will need to cease operations and initiate closure by April 11, 2021. As part of this assessment, Four Corners will continue to gather additional groundwater data and perform remedial evaluations. At this time, PNM does not anticipate its share of the cost to complete these corrective actions to close the CCR disposal units, or to gather and perform remedial evaluations on groundwater at Four Corners, will have a significant impact on its operations, financial position, or cash flows.

*Other Commitments and Contingencies*

**Coal Supply**

*SJGS*

The coal requirements for SJGS were supplied by WSJ LLC. In addition to coal delivered to meet the needs of SJGS, PNM prepaid the San Juan mine owner and operator, WSJ LLC, for certain coal mined but not yet delivered to the plant site. At September 30, 2022 and December 31, 2021, prepayments for coal, which are included in prepaid assets, amounted to zero and \$20.4 million. Additional information concerning the coal supply for SJGS is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

In conjunction with the activities undertaken to comply with the CAA for SJGS, PNM and the other owners of SJGS evaluated alternatives for the supply of coal to SJGS. On July 1, 2015, PNM and Westmoreland entered into a new coal supply agreement (the "SJGS CSA"), pursuant to which Westmoreland, through its indirectly wholly-owned subsidiary SJCC, agreed to supply all of the coal requirements of SJGS through June 30, 2022. PNM and Westmoreland also entered into agreements under which CCR disposal and mine reclamation services for SJGS would be provided. As discussed in Note 6, WSJ LLC assumed the rights and obligations of SJCC under the SJGS CSA and the agreements for CCR disposal and mine reclamation services.

Pricing under the SJGS CSA was primarily fixed, with adjustments to reflect changes in general inflation and takes into account that WSJ LLC has been paid for coal mined but not delivered. Substantially all of SJGS's coal costs were passed through the FPPAC. In November 2018, PNM provided notice to Westmoreland that PNM did not intend to extend the term of the SJGS CSA or negotiate a new coal supply agreement for SJGS, which would have resulted in the current agreement expiring on its own terms on June 30, 2022. On February 17, 2022, PNM and WSJ LLC entered into an amendment to extend the SJGS CSA through September 30, 2022, which FERC accepted on March 24, 2022. The SJGS CSA amendment provided for a fixed price increase of \$5.00 per ton, beginning April 1, 2022, which passed through the FPPAC. See additional discussion of PNM's SJGS Abandonment Application and summer peak resource adequacy in Note 12.

The SJGS Restructuring Agreement set forth terms under which PNM acquired the coal inventory, including coal mined but not delivered, of the exiting SJGS participants as of January 1, 2016, and supplied coal to the SJGS exiting participants for the period from January 1, 2016 through December 31, 2017, and supplied coal to the SJGS remaining participants over the term of the SJGS CSA. Coal costs under the SJGS CSA were significantly less than under the previous arrangement with SJCC. Since substantially all of SJGS's coal costs were passed through the FPPAC, the benefit of the reduced costs was passed through to PNM's customers.

In connection with certain mining permits relating to the operation of the San Juan mine, the San Juan mine owner was required to post reclamation bonds of \$118.7 million with the NMMMD. In order to facilitate the posting of reclamation bonds by sureties on behalf of the San Juan mine owner, PNM entered into the WFB LOC Facility under which letters of credit aggregating \$30.3 million have been issued. As discussed in Note 6, on March 15, 2019, the assets owned by SJCC were sold

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to WSJ LLC, a subsidiary of Westmoreland Mining Holdings, LLC. Under the sale agreement, WSJ LLC assumed the rights and obligations of SJCC including obligations to PNMR under the outstanding letters of credit.

*Four Corners*

APS purchases all of Four Corners' coal requirements from NTEC, an entity owned by the Navajo Nation, under the Four Corners CSA that expires in 2031. The coal comes from reserves located within the Navajo Nation. The contract provides for pricing adjustments over its term based on economic indices. PNM's share of the coal costs is being recovered through the FPPAC. In connection with the exit of Four Corners, PNM would make payments totaling \$75.0 million to NTEC for relief from its obligations under the coal supply agreements for Four Corners after December 31, 2024. PNM is not proposing to recover the \$75.0 million from ratepayers and, if approved, would not be recovered through the FPPAC. See Note 12 for additional information on PNM's Four Corners Abandonment Application. See additional discussion of the Four Corners CSA in Note 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

NTEC contracted with Bisti Fuels Company, LLC, a subsidiary of The North American Coal Corporation, for management and operation of the mine. Under the Four Corners CSA, NTEC had the right, after a specified period, to request approval from the Four Corners owners to replace Bisti Fuels Company as mine manager with NTEC's internal resources and perform all or some mine management functions. APS granted approval on behalf of the owners on June 16, 2021, subject to certain credit assurance requirements. On June 17, 2021, NTEC notified The North American Coal Corporation that the contract mining agreement between Bisti Fuels Company and NTEC was terminated effective September 30, 2021. NTEC assumed direct operations at Navajo Mine on October 1, 2021.

*Coal Mine Reclamation*

As indicated under Coal Combustion Residuals Waste Disposal above, SJGS currently disposes of CCRs in the surface mine pits adjacent to the plant and Four Corners disposes of CCRs in ponds and dry storage areas. As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K, in conjunction with the proposed shutdown of SJGS Units 2 and 3 and to comply with the BART requirements of the CAA, periodic updates to the coal mine reclamation study were requested by the SJGS participants. These updates have included adjustments to reflect the December 2017 shutdown of SJGS Units 2 and 3, the terms of the reclamation services agreement with WSJ LLC, and changes to reflect the requirements of the 2015 San Juan mine permit plan.

In late 2020, a mine reclamation cost study was completed for the mine that serves SJGS and in December 2020, PNM remeasured its liability, which resulted in an increase in the overall reclamation costs of \$3.6 million, due primarily to higher inflationary factors. As a result, PNM recorded a less than \$0.1 million decrease in the liability at December 31, 2020 related to the underground mine and a decrease to the regulatory assets on the Condensed Consolidated Balance Sheets and recorded a \$3.6 million increase in the liability associated with the surface mine as regulatory disallowances and restructuring costs on the Condensed Consolidated Statements of Earnings. PNM's estimate of the costs necessary to reclaim the mine that serves SJGS is subject to many assumptions, including the timing of reclamation, generally accepted practices at the time reclamation activities occur, and then current inflation and discount rates. PNM cannot predict the ultimate cost to reclaim the mine that serves SJGS and would seek to recover all costs related to reclaiming the underground mine from its customers but could be exposed to additional loss related to surface mine reclamation.

A coal mine reclamation study for the mine that serves Four Corners was issued in 2019. The study reflected operation of the mine through 2031, the term of the Four Corners CSA. The study resulted in a net increase in PNM's share of the coal mine reclamation obligation of \$0.8 million, which was primarily driven by lower overhead costs offset by an increase driven by a reduction in the discount rate used by PNM to measure the liability during the year ended December 31, 2019. As discussed in Note 12, PNM remains responsible for its share of costs associated with mine reclamation under the Four Corners Purchase and Sale Agreement with NTEC. NTEC and PNM will complete a reclamation study in 2024 providing the final mine reclamation cost estimate on the date of ownership transfer. PNM will make its final reclamation payment to NTEC based on the reclamation study in 2024 and will have no further obligations regarding the mine reclamation after 2024. PNM determined that events and circumstances regarding Four Corners, including the Four Corners Purchase and Sale Agreement with NTEC and the Four Corners Abandonment Application and subsequent appeal of the NMPRC decision, indicated that it is more likely than not that PNM's share of Four Corners coal mine reclamation obligation would be settled in 2024, rather than 2031. As of December 31, 2020, PNM remeasured its Four Corners coal mine reclamation liability and recorded a decrease to the liability of \$2.5 million on the Condensed Consolidated Balance Sheet and a decrease to regulatory disallowances and restructuring costs on the Condensed Consolidated Statement of Earnings.

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Based on the most recent estimates, PNM's remaining payments as of September 30, 2022 for mine reclamation, in future dollars, are estimated to be \$69.7 million for the surface mines at both SJGS and Four Corners and \$34.9 million for the underground mine at SJGS. At September 30, 2022 and December 31, 2021, liabilities, in current dollars, of \$64.3 million and \$67.4 million for surface mine reclamation and \$29.3 million and \$27.9 million for underground mine reclamation were recorded in other deferred credits.

Under the terms of the SJGS CSA, PNM and the other SJGS owners are obligated to compensate WSJ LLC for all reclamation costs associated with the supply of coal from the San Juan mine. The SJGS owners entered into a reclamation trust funds agreement to provide funding to compensate WSJ LLC for post-term reclamation obligations. As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K, as part of the restructuring of SJGS ownership, the SJGS owners negotiated the terms of an amended agreement to fund post-term reclamation obligations under the SJGS CSA. The trust funds agreement requires each owner to enter into an individual trust agreement with a financial institution as trustee, create an irrevocable reclamation trust, and periodically deposit funds into the reclamation trust for the owner's share of the mine reclamation obligation. Deposits, which are based on funding curves, must be made on an annual basis. As part of the restructuring of SJGS ownership discussed above, the SJGS participants agreed to adjusted interim trust funding levels. PNM funded \$5.2 million in 2021 and, based on PNM's reclamation trust fund balance at September 30, 2022, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be \$9.9 million in 2022 and zero in each of 2023 and 2024.

Under the Four Corners CSA, PNM is required to fund its share of estimated final reclamation costs in annual installments into an irrevocable escrow account solely dedicated to the final reclamation cost of the surface mine at Four Corners. PNM contributed \$2.4 million in 2022 and \$2.2 million in 2021, and anticipates providing additional funding of \$2.1 million in the years 2023 and 2024. As discussed above, under the terms of the Four Corners Purchase and Sale Agreement with NTEC, PNM will make its final reclamation payment to NTEC based on the reclamation study in 2024 and will have no further obligations regarding the mine reclamation.

PNM recovers from retail customers reclamation costs associated with the underground mine. However, the NMPRC has capped the amount that can be collected from retail customers for final reclamation of the surface mines at \$100.0 million for both SJGS and Four Corners. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. The impacts of changes in New Mexico state law as a result of the enactment of the ETA and regulatory determinations made by the NMPRC may also affect PNM's financial position, results of operations, and cash flows. See additional discussion regarding PNM's SJGS and Four Corners Abandonment Applications in Note 12. PNM is currently unable to determine the outcome of these matters or the range of possible impacts.

#### **SJGS Decommissioning**

On November 9, 2021, the San Juan County Commission approved the Coal-Fired Electricity Generating Facility Demolition and Remediation Ordinance ("Ordinance 121"), requiring the full demolition of SJGS upon its complete and permanent closure. Ordinance 121 requires the SJGS owners to submit a proposed demolition and remediation plan no later than three months after SJGS is retired. In connection with restructuring of the SJGS ownership on December 31, 2017, PNM and the other SJGS owners entered into the San Juan Decommissioning and Trust Funds Agreement, which requires PNM to fund its ownership share of final decommissioning costs into an irrevocable trust. Under the agreement, PNM is required to make an initial funding of \$14.7 million by December 31, 2022. The amount and timing of additional trust funding is subject to revised decommissioning cost studies, a decision by the current owners to permanently retire SJGS and agreement among the SJGS owners. PNM has posted a surety bond in the amount of \$46.0 million in connection with certain environmental decommissioning obligations and must maintain the bond or other financial assurance until those obligations are satisfied. The surety bond only represents a liability if PNM fails to deliver on its contractual liability. For information regarding the impact of Ordinance 121 on PNM's SJGS decommissioning ARO see Note 15 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

PNM records its share of the SJGS decommissioning obligation as an ARO on its Condensed Consolidated Balance Sheets. Studies on the decommissioning costs of SJGS are performed periodically and revisions to the ARO liability are recorded. In the third quarter of 2022, a new decommissioning cost study was completed, which required PNM to remeasure its SJGS decommissioning ARO. The new study resulted in an estimated decrease to PNM's share of the decommissioning obligation of \$21.1 million, which was recorded in September 2022. Additional information concerning the Company's SJGS decommissioning ARO is contained in Note 15 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

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**City of Farmington Opposition to Closure of SJGS**

On September 21, 2022, the City of Farmington ("Farmington") filed a lawsuit and requested injunctive relief in order to force the other SJGS owners to convey SJGS to Farmington and suspend decommissioning. The case was initiated in the 11th Judicial District Court in San Juan County, New Mexico, but was moved to federal district court. Subsequently, the San Juan Project Participation Agreement ("SJPPA") expired by its express terms on September 30, 2022. No injunctive relief has been issued by any court. Farmington voluntarily dismissed its complaint and request for injunctive relief on October 6, 2022. The parties are now engaged in arbitration in accordance with the SJPPA terms. On September 30, 2022, PNM filed a notice of cancellation of the SJPPA with FERC. On October 4, 2022, Farmington filed a protest to PNM notice of cancellation and requested a hearing. On October 20, 2022, PNM filed a motion requesting the FERC reject Farmington's request for hearing or alternatively hold the cancellation filing in abeyance while arbitration proceeds. Subsequently, The Incorporated County of Los Alamos, New Mexico, the City of Anaheim, California, M-S-R Public Power Agency, Southern California Public Power Authority, Tri-State and Tucson Electric Power Company filed at FERC in support of PNM's notice of cancellation of the SJPPA so that decommissioning can proceed. PNM intends to defend its interests but cannot predict the outcome of this matter.

**PVNGS Liability and Insurance Matters**

Public liability for incidents at nuclear power plants is governed by the Price-Anderson Nuclear Industries Indemnity Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both commercial sources and an industry-wide retrospective payment plan. In accordance with this act, the PVNGS participants are insured against public liability exposure for a nuclear incident up to \$13.7 billion per occurrence. PVNGS maintains the maximum available nuclear liability insurance in the amount of \$450 million, which is provided by American Nuclear Insurers. The remaining \$13.2 billion is provided through a mandatory industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, PNM could be assessed retrospective premium adjustments. Based on PNM's 10.2% interest in each of the three PVNGS units, PNM's maximum potential retrospective premium assessment per incident for all three units is \$42.1 million, with a maximum annual payment limitation of \$6.2 million, to be adjusted periodically for inflation.

The PVNGS participants maintain insurance for damage to, and decontamination of, property at PVNGS in the aggregate amount of \$2.8 billion, a substantial portion of which must first be applied to stabilization and decontamination. These coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). The primary policy offered by NEIL contains a sublimit of \$2.25 billion for non-nuclear property damage. If NEIL's losses in any policy year exceed accumulated funds, PNM is subject to retrospective premium adjustments of \$5.4 million for each retrospective premium assessment declared by NEIL's Board of Directors due to losses. The insurance coverages discussed in this and the previous paragraph are subject to certain policy conditions, sublimits, and exclusions.

**Navajo Nation Allottee Matters**

In September 2012, 43 landowners filed a notice of appeal with the Bureau of Indian Affairs ("BIA") appealing a March 2011 decision of the BIA Regional Director regarding renewal of a right-of-way for a PNM transmission line. The landowners claim to be allottees, members of the Navajo Nation, who pursuant to the Dawes Act of 1887, were allotted ownership in land carved out of the Navajo Nation and allege that PNM is a rights-of-way grantee with rights-of-way across the allotted lands and are either in trespass or have paid insufficient fees for the grant of rights-of-way or both. The allottees generally allege that they were not paid fair market value for the right-of-way, that they were denied the opportunity to make a showing as to their view of fair market value, and thus denied due process. The allottees filed a motion to dismiss their appeal with prejudice, which was granted in April 2014. Subsequent to the dismissal, PNM received a letter from counsel on behalf of what appears to be a subset of the 43 landowner allottees involved in the appeal, notifying PNM that the specified allottees were revoking their consents for renewal of right of way on six specific allotments. On January 22, 2015, PNM received a letter from the BIA Regional Director identifying ten allotments with rights-of-way renewals that were previously contested. The letter indicated that the renewals were not approved by the BIA because the previous consent obtained by PNM was later revoked, prior to BIA approval, by the majority owners of the allotments. It is the BIA Regional Director's position that PNM must re-obtain consent from these landowners. On July 13, 2015, PNM filed a condemnation action in the NM District Court regarding the approximately 15.49 acres of land at issue. On September 18, 2015, the allottees filed a separate complaint against PNM for federal trespass. On December 1, 2015, the court ruled that PNM could not condemn two of the five allotments at issue based on the Navajo Nation's fractional interest in the land. PNM filed a motion for reconsideration of this ruling, which was denied. On March 31, 2016, the Tenth Circuit granted PNM's petition to appeal the December 1, 2015 ruling. Both matters have been consolidated. Oral argument before the Tenth Circuit was heard on January 17, 2017. On May

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26, 2017, the Tenth Circuit affirmed the district court. On July 8, 2017, PNM filed a motion for reconsideration *en banc* with the Tenth Circuit, which was denied. The NM District Court stayed the case based on the Navajo Nation's acquisition of interests in two additional allotments and the unresolved ownership of the fifth allotment due to the owner's death. On November 20, 2017, PNM filed its petition for *writ of certiorari* with the US Supreme Court, which was denied. The underlying litigation continues in the NM District Court. On March 27, 2019, several individual allottees filed a motion for partial summary judgment on the issue of trespass. The Court held a hearing on the motion on June 18, 2019 and took the motion under advisement. PNM, the allottees and the United States have agreed to a framework for settlement. The parties are preparing the settlement agreement and the stipulated court order. PNM cannot predict the outcome of these matters.

**Texas Winter Storm**

In mid-February 2021, Texas experienced a severe winter storm delivering the coldest temperatures in 100 years for many parts of the state. As a result, the ERCOT market was not able to deliver sufficient generation load to the grid resulting in significant, statewide outages as ERCOT directed transmission operators to curtail thousands of firm load megawatts. TNMP complied with ERCOT directives to curtail the delivery of electricity in its service territory and did not experience significant outages on its system outside of the ERCOT directed curtailments. Various regulatory and governmental entities are conducting, or have announced they may conduct, inquiries, investigations and other reviews of the Texas winter storm event. Entities that have announced that they plan to conduct or are conducting such inquiries, investigations and other reviews include FERC, NERC, Texas Reliability Entity Inc., ERCOT, the Texas Legislature, the Texas Attorney General, the PUCT, and the Galveston County District Attorney. Further, lawsuits have been filed against various market participants relating to the power outages resulting from the Texas winter storm, including TNMP. As a utility operating during the Texas winter storm event, there is a risk TNMP could be named in additional lawsuits in the future. TNMP intends to vigorously defend itself against any claims raised. TNMP deferred bad debt expense from defaulting REPs to a regulatory asset which totaled \$0.8 million at both September 30, 2022 and December 31, 2021, and will seek recovery in a general rate case. At this time, the Company does not expect significant financial impacts related to this event, however, it cannot predict the outcome of such matters or the impact on the ERCOT market.

**(12) Regulatory and Rate Matters**

The Company is involved in various regulatory matters, some of which contain contingencies that are subject to the same uncertainties as those described in Note 11. Additional information concerning regulatory and rate matters is contained in Note 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

**PNMR**

*Merger Regulatory Proceedings*

On October 20, 2020, PNMR, Avangrid, and Merger Sub entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid. Among other conditions, consummation of the Merger is subject to receipt of all required regulatory approvals. In 2021, five federal agencies and the PUCT completed their reviews and approved the Merger, with the NMPRC as the only regulatory agency yet to approve the Merger. The original application before the NMPRC was filed in November 2020. For additional information on the Merger regulatory proceedings, including supplemental regulatory filings that were required due to the Merger Agreement being amended in January 2022, see Note 18.

**PNM**

*Renewable Energy Portfolio Standard*

As discussed in Note 11, the ETA amends the REA including removal of diversity requirements and certain customer caps and exemptions relating to the application of the RPS under the REA. The REA provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures that utilities recover costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. The ETA sets a RCT of \$60 per MWh using an average annual levelized resource cost basis. PNM makes renewable procurements consistent with the NMPRC approved plans and recovers certain renewable procurement costs from customers through the renewable energy rider billed on a KWh basis.

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Included in PNM's approved procurement plans are the following renewable energy resources:

- 158 MW of PNM-owned solar-PV facilities
- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 200 MW, and a PPA through 2035 for the output of Red Mesa Wind, having an aggregate capacity of 102 MW
- A PPA through 2040 for 140 MW of output from La Joya Wind II
- A PPA through 2042 for the output of the Lightning Dock Geothermal facility with a current capacity of 11 MW
- Solar distributed generation, aggregating 228.5 MW at September 30, 2022, owned by customers or third parties from whom PNM purchases any net excess output and RECs

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. In its 2022 renewable energy procurement plan, which became effective on January 1, 2022, PNM proposed to collect \$66.9 million for the year. PNM recorded revenues from the rider of \$12.7 million and \$44.5 million in the three and nine months ended September 30, 2022, and \$13.0 million and \$44.4 million in the three and nine months ended September 30, 2021. On June 1, 2022, PNM filed its renewable energy procurement plan for 2023 which proposes to collect \$61.0 million for the year. PNM is not proposing any new resource procurements, and the plan states that existing projects will meet the applicable RPS standards of 2023. A hearing was held September 8, 2022, briefs were filed September 23, 2022, and response briefs were filed September 28, 2022. On October 18, 2022, the hearing examiners issued a recommended decision recommending approval of all PNM's requests.

Under the renewable rider, if PNM's earned rate of return on jurisdictional equity in a calendar year, adjusted for items not representative of normal operations, exceeds the NMPRC-approved rate by 0.5%, PNM is required to refund the excess to customers during May through December of the following year. PNM did not exceed such limitation in 2021. The NMPRC currently has an open inquiry docket into the continued use of renewable riders by New Mexico utilities. PNM is unable to predict the outcome of the NMPRC's inquiry.

*Energy Efficiency and Load Management*

*Program Costs and Incentives/Disincentives*

The New Mexico Efficient Use of Energy Act ("EUEA") requires public utilities to achieve specified levels of energy savings and to obtain NMPRC approval to implement energy efficiency and load management programs. The EUEA requires the NMPRC to remove utility disincentives to implementing energy efficiency and load management programs and to provide incentives for such programs. The NMPRC has adopted a rule to implement this Act. PNM's costs to implement approved programs and incentives are recovered through a rate rider. During the 2019 New Mexico legislative session, the EUEA was amended to, among other things, include a decoupling mechanism for disincentives, preclude a reduction to a utility's ROE based on approval of disincentive or incentive mechanisms, establish energy savings targets for the period 2021 through 2025, and require that annual program funding be 3% to 5% of an electric utility's annual customer bills excluding gross receipt taxes, franchise and right-of-way access fees, provided that a customer's annual cost not exceed seventy-five thousand dollars.

On April 15, 2020, PNM filed an application for energy efficiency and load management programs to be offered in 2021, 2022, and 2023. The proposed program portfolio consists of twelve programs with a total annual budget of \$31.4 million in 2021, \$31.0 million in 2022, and \$29.6 million in 2023. The application also sought approval of an annual base incentive of 7.1% of the portfolio budget if PNM were to achieve energy savings of at least 80 GWh in a year. The proposed incentive would increase if PNM is able to achieve savings greater than 94 GWh in a year. On October 28, 2020, the NMPRC issued an order approving PNM's proposed efficiency and load management program.

On April 15, 2021, PNM filed its 2020 Energy Efficiency Annual Report which reconciles the actual 2020 profit incentive collections with the profit incentive authorized by the NMPRC resulting in an additional \$0.8 million incentive collected during the remainder of 2021. The additional incentive was authorized for 2020 because annual energy savings for the year exceeded 87 GWh, and was the maximum level of profit incentive allowed under the approved mechanism. PNM began collecting the additional incentive effective May 27, 2021. On April 15, 2022, PNM filed an advice notice which reconciles the actual 2021 energy efficiency profit incentive collections with the profit incentive authorized by the NMPRC resulting in an additional \$0.3 million incentive to be collected through the energy efficiency rider during the remainder of 2022. The additional incentive was authorized for 2021 because annual energy savings for the year exceeded 94 GWh. PNM began collecting the incentive effective May 31, 2022.

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*2020 Decoupling Petition*

As discussed above, the legislature amended the EUEA to, among other things, include a decoupling mechanism for disincentives. On May 28, 2020, PNM filed a petition for approval of a rate adjustment mechanism that would decouple the rates of its residential and small power rate classes. Decoupling is a rate design principle that severs the link between the recovery of fixed costs of the utility through volumetric charges. PNM proposed to record the difference between the annual revenue per customer derived from the cost of service approved in the NM 2015 Rate Case and the annual revenue per customer actually recovered from the rate classes beginning on January 1, 2021. If approved, PNM would collect the difference from customers if the revenue per customer from the NM 2015 Rate Case exceeds the actual revenue recovered, or return the difference to customers if the actual revenue per customer recovered exceeds the revenue per customer from the NM 2015 Rate Case. On July 13, 2020, NEE, ABCWUA, the City of Albuquerque, and Bernalillo County filed motions to dismiss the petition on the grounds that approving PNM's proposed rate adjustment mechanism outside of a general rate case would result in retroactive ratemaking and piecemeal ratemaking. The motions to dismiss also allege that PNM's proposed rate adjustment mechanism is inconsistent with the EUEA. Responses to the motions to dismiss were filed on August 7, 2020. On September 16, 2020, ABCWUA, Bernalillo County, CCAE, the City of Albuquerque, NEE, NMAG, NMPRC Staff ("Staff"), and WRA filed testimony. CCAE and WRA supported PNM's petition but recommended that the rate adjustment mechanism not take effect until new rates are approved in PNM's next general rate case. The other parties filing testimony opposed PNM's petition. On October 2, 2020, PNM requested an order to vacate the public hearing, scheduled to begin October 13, 2020, and staying the proceeding until the NMPRC decides whether to entertain a petition to issue a declaratory order resolving the issues raised in the motions to dismiss. On October 7, 2020, the hearing examiner approved PNM's request to stay the proceeding and vacate the public hearing and required PNM to file a petition for declaratory order by October 30, 2020. On October 30, 2020, PNM filed a petition for declaratory order asking the NMPRC to issue an order finding that full revenue decoupling is authorized by the EUEA. On November 4, 2020, ABCWUA and Bernalillo County jointly filed a competing petition asking the NMPRC to issue a declaratory order on the EUEA's requirements related to disincentives. On November 24, 2020, the NMAG requested that the NMPRC deny both petitions for declaratory orders and instead address disincentives under the EUEA in a rulemaking. On March 17, 2021, the NMPRC issued an order granting the petitions for declaratory order, commencing a declaratory order proceeding to address the petitions, denying the NMAG's request to initiate a rulemaking, and appointing a hearing examiner to preside over the declaratory order proceeding.

On January 14, 2022, the hearing examiner issued a recommended decision recommending the NMPRC find that the EUEA does not mandate the NMPRC to authorize or approve a full decoupling mechanism, defining full decoupling as limited to energy efficiency and load management measures and programs. The recommended decision also states that a utility may request approval of a rate adjustment mechanism to remove regulatory disincentives to energy efficiency and load management measures and programs through a stand-alone petition, as part of the utility's triennial energy efficiency application or a general rate case and that PNM is not otherwise precluded from petitioning for a rate adjustment mechanism prior to its next general rate case. Finally, the recommended decision stated that the EUEA does not permit the NMPRC to reduce a utility's ROE based on approval of a disincentive removal mechanism founded on removing regulatory disincentives to energy efficiency and load management measures and programs. The recommended decision does not specifically prohibit a downward adjustment to a utility's capital structure, based on approval of a disincentive removal mechanism. On April 27, 2022, the NMPRC issued an order adopting the recommended decision in its entirety. On May 24, 2022, PNM filed a notice of appeal with the NM Supreme Court. On June 23, 2022, PNM and other parties filed Statement of Issues with the NM Supreme Court. On September 6, 2022, PNM and other parties filed Briefs in Chief with the NM Supreme Court. On October 21, 2022, NEE filed Answer Briefs with the NM Supreme Court. PNM cannot predict the outcome of this matter.

*FPPAC Continuation Application*

NMPRC rules require public utilities to file an application to continue using their FPPAC every four years. On June 17, 2022, PNM filed the required continuation application and requested that its FPPAC be continued without modification. On July 21, 2022, the NMPRC issued an order requiring Staff to file a response to PNM's application and set certain procedural dates. On August 4, 2022, Staff filed a response to PNM's application stating that while PNM's filing demonstrates that PNM's FPPAC meets the requirements of NMPRC rules, it would support a hearing if the NMPRC desires one. On October 26, 2022, the NMPRC appointed a hearing examiner and a hearing is scheduled to begin April 24, 2023. PNM cannot predict the outcome of this matter.

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*Integrated Resource Plans*

NMPRC rules require that investor-owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period. On September 14, 2022, the NMPRC adopted revisions to the IRP Rule. The final order revamps and modernizes the planning process to accommodate increased stakeholder involvement. The IRP Rule establishes a collaborative facilitated process for a utility and stakeholders to agree on a statement of need for potential new or additional resources, as well as an action plan to guide procurement or development of resources to meet the stated need. A most-cost-effective portfolio of resources shall be derived from the statement of need analysis. The statement of need and action plan must be accepted before the utility begins the resource solicitation process pursuant to the IRP Rule. Following acceptance of the statement of need and action plan, a utility will provide the NMPRC and intervenors drafts of the request for proposals (“RFP”) and a timeline for issuing, receiving, evaluating, and ranking bids. The NMPRC will then appoint an Independent Monitor (“IM”) to oversee the RFP process, which allows for parties and the IM to comment on the RFP consistency with the IRP, after which the utility issues the RFP. Within 75 days of receiving bids the utility shall provide the IM with results including pricing and non-price evaluation criteria, ranking of bids, chosen portfolio and alternatives that also meet the needs; the IM then rules on the fairness of the RFP execution. Acceptance of the statement of need and action plan will not constitute a finding of prudence or pre-approval of costs associated with the additional resources. Following the RFP and IM processes, the utility may apply approvals, and any costs incurred to implement the action plan will be considered in a general rate case and/or resource acquisition proceeding. On October 14, 2022, PNM and other investor-owned utilities filed motions for rehearing with the NMPRC. On October 26, 2022, the NMPRC issued an order partially granting and partially denying certain aspects of PNM’s and the other investor-owned utilities’ motions for rehearing. On November 2, 2022, the NMPRC adopted an amended IRP Rule. PNM cannot predict the outcome of this matter.

*2020 IRP*

NMPRC rules required PNM to file its 2020 IRP in July 2020. On March 16, 2020, PNM filed a motion to extend the deadline to file its 2020 IRP to six months after the NMPRC issues a final order approving a replacement resource portfolio and closes the docket in the bifurcated SJGS Abandonment Application and replacement resource proceedings. On April 8, 2020, the NMPRC approved PNM’s motion to extend the deadline to file its 2020 IRP as requested. On January 29, 2021, PNM filed its 2020 IRP addressing the 20-year planning period, from 2020 through 2040. The plan focuses on a carbon-free electricity portfolio by 2040 that would eliminate coal at the end of 2024. This includes replacing the power from San Juan with a mix of approved carbon-free resources and the plan to exit Four Corners at the end of 2024 (subject to regulatory approval). The plan highlights the need for additional investments in a diverse set of resources, including renewables to supply carbon-free power, energy storage to balance supply and demand, and efficiency and other demand-side resources to mitigate load growth. On May 24, 2021, the hearing examiner issued a procedural schedule and required PNM, upon request, to provide modeling data and assumptions to parties within two weeks. Additionally, PNM was required upon request, to run modeling or provide reasonable access to PNM virtual machines at PNM’s expense. The alternative modeling deadline concluded on August 30, 2021, and Staff’s recommendation was filed on November 12, 2021. The recommendation found that PNM has met the requirements of the IRP rule, but not the requirements of the NM 2016 Rate Case. On April 6, 2022, the NMPRC issued an order requiring PNM to update its 2020 IRP and to identify material events, including the SJGS extension and replacement resource delays, and the related impact to its plan. On April 27, 2022, PNM responded to the NMPRC order, as required. On June 8, 2022, the NMPRC issued an order finding that PNM’s April 27, 2022 update offered additional information. Parties filed written responses on June 15, 2022, and PNM issued a reply to those responses on June 23, 2022. On June 29, 2022, Staff updated their recommendation, recommending the NMPRC consider accepting the 2020 IRP as filed and updated, and then possibly requiring another update be filed in the first quarter of 2023 to address further replacement resource delays that may occur and changing circumstance in advance of the summer of 2023. On July 13, 2022, the NMPRC issued a final order approving Staff’s recommendations but added language recommending PNM include a meaningful analysis of transmission and distribution plans in its 2023 IRP. This matter is now concluded.

*Abandonment Applications made under the ETA*

As discussed in Note 11, the ETA sets a statewide standard that requires investor-owned electric utilities to have specified percentages of their electric-generating portfolios be from renewable and zero-carbon generating resources. The ETA also provides for a transition from fossil-fuel generation resources to renewable and other carbon-free resources through certain provisions relating to the abandonment of coal-fired generating facilities. These provisions include the use of energy transition bonds, which are designed to be highly rated bonds that can be issued to finance certain costs of abandoning coal-fired facilities that are retired prior to January 1, 2023, for facilities operated by a “qualifying utility,” or prior to January 1, 2032, for facilities that are not operated by the qualifying utility.



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*SJGS Abandonment Application*

On July 1, 2019, PNM filed a Consolidated Application for the Abandonment and Replacement of SJGS and Related Securitized Financing Pursuant to the ETA (the "SJGS Abandonment Application"). The SJGS Abandonment Application sought NMPRC approval to retire PNM's share of SJGS after the existing coal supply and participation agreements end in June 2022, for approval of replacement resources, and for the issuance of energy transition bonds. PNM's application proposed several replacement resource scenarios. The SJGS Abandonment Application also included a request to issue approximately \$361 million of energy transition bonds (the "Securitized Bonds"). PNM's request for the issuance of Securitized Bonds included approximately \$283 million of forecasted undepreciated investments in SJGS at June 30, 2022, an estimated \$28.6 million for plant decommissioning and coal mine reclamation costs, approximately \$9.6 million in upfront financing costs, and approximately \$20.0 million for job training and severance costs for affected employees. Proceeds from the Securitized Bonds would also be used to fund approximately \$19.8 million for economic development in the Four Corners area.

On July 10, 2019, the NMPRC issued an order requiring the SJGS Abandonment Application be considered in two proceedings: one addressing SJGS abandonment and related financing, and the other addressing replacement resources. The NMPRC indicated that PNM's July 1, 2019 filing is responsive to the January 30, 2019 order. Hearings on the abandonment and securitized financing proceedings were held in December 2019 and hearings on replacement resources were held in January 2020.

On February 21, 2020, the hearing examiners issued two recommended decisions recommending approval of PNM's proposed abandonment of SJGS, subject to approval of replacement resources, and approval of PNM's proposed financing order to issue Securitized Bonds. The hearing examiners recommended that PNM be authorized to abandon SJGS by June 30, 2022, and to record regulatory assets for certain other abandonment costs that are not specifically addressed under the provisions of the ETA to preserve its ability to recover the costs in a future general rate case. The hearing examiners recommended that this authority only extend to the deferral of the costs and it not be an approval of any ratemaking treatment. The hearing examiners also recommended PNM be authorized to issue Securitized Bonds of up to \$361 million and establish a rate rider to collect non-bypassable customer charges for repayment of the bonds and be subject to bi-annual adjustments (the "Energy Transition Charge"). The hearing examiners recommended an interim rate rider adjustment upon the start date of the Energy Transition Charge to provide immediate credits to customers for the full value of PNM's revenue requirement related to SJGS until those reductions are reflected in base rates. In addition, the hearing examiners recommended PNM be granted authority to establish regulatory assets to recover costs that PNM will pay prior to the issuance of the Securitized Bonds, including costs associated with the bond issuances as well as for severances, job training, economic development, and workforce training. On April 1, 2020, the NMPRC unanimously approved the hearing examiners' recommended decisions regarding the abandonment of SJGS and the related securitized financing under the ETA.

On April 10, 2020, CFRE and NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's approval of PNM's request to issue securitized financing under the ETA. The NM Supreme Court granted motions to intervene filed by PNM, WRA, CCAE, and the Sierra Club. On May 8, 2020, CFRE and NEE filed a joint statement of issues with the NM Supreme Court which asserted that the NMPRC improperly applied the ETA and that the ETA violates the New Mexico Constitution. On August 17, 2020, the appellants filed a Brief in Chief and on October 5, 2020, PNM, WRA, CCAE, and Sierra Club filed answer briefs. On January 10, 2022, the NM Supreme Court issued its decision rejecting CFRE's and NEE's constitutional challenges to the ETA and affirmed the NMPRC final order.

In March 2020, PNMR and PNM recorded obligations of \$9.4 million and \$8.1 million for estimated severances, \$8.9 million for obligations to fund severances and other costs of WSJ LLC employees and to fund \$19.8 million to state agencies for economic development and workforce training. The total amount recorded for these estimates of \$36.9 million and \$36.0 million is reflected in other current liabilities and \$36.9 million as a corresponding deferred regulatory asset on PNMR's and PNM's Condensed Consolidated Balance Sheets at December 31, 2021. In the nine months ended September 30, 2022, PNM paid \$2.2 million for severances, \$8.9 million for obligations to fund severances and other costs of WSJ LLC employees and funded the \$19.8 million to state agencies. PNMR and PNM revised their estimates in 2022 to reflect other current liabilities of \$7.6 million and \$7.2 million and deferred regulatory assets of \$37.3 million on PNMR's and PNM's Condensed Consolidated Balance Sheets at September 30, 2022. In addition, PNM recorded \$1.6 million as Regulatory disallowance and restructuring costs on PNMR's and PNM's Condensed Consolidated Statements of Earnings for PNM's non-retail share of estimated severance in the nine months ended September 30, 2022. These estimates may continue to be adjusted in future periods as the Company refines its expectations.

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On September 29, 2022, SJGS was removed from service and as a result, PNM made the following adjustments on the Condensed Consolidated Balance Sheets as of September 30, 2022:

	Net Increase (decrease)
	(In thousands)
<b>Current Assets:</b>	
Inventory	\$ (6,430)
<b>Utility Plant:</b>	
Net utility plant	\$ (382,798)
<b>Deferred Charges and Other Assets:</b>	
Regulatory assets - ETA <sup>(1)</sup>	\$ 289,381
Regulatory assets - Non-ETA <sup>(2)</sup>	\$ 22,593
<b>Deferred Credits and Other Liabilities:</b>	
Regulatory liabilities <sup>(3)</sup>	\$ (77,254)
	\$ —

<sup>(1)</sup> To be recovered through the Energy Transition Charge, which includes undepreciated investments of \$274.9 million and plant decommissioning of \$14.5 million, previously reflected in Net utility plant.

<sup>(2)</sup> Authorized to be recorded as regulatory assets for certain other abandonment costs that are not specifically addressed under the provisions of the ETA to preserve its ability to recover the costs in a future general rate case, which includes obsolete inventory of \$6.4 million and plant decommissioning of \$16.2 million, previously reflected in Net utility plant.

<sup>(3)</sup> Includes cost of removal and accelerated depreciation of SNCRs.

On June 24, 2020, the hearing examiners issued a recommended decision on PNM's request for approval of replacement resources that addressed the entire portfolio of replacement resources, which superseded a previous partial recommended decision issued on March 27, 2020. The hearing examiners concluded that the ultimate selection of a portfolio of replacement resources involves policy considerations that are the province of the NMPRC and stated that they did not intend to make that decision for the NMPRC. On July 29, 2020, the NMPRC issued an order approving resource selection criteria identified in the ETA that would include PPAs for 650 MW of solar and 300 MW of battery storage. The order also granted in part PNM's request for an extension of time for PNM to file the application to implement the replacement resource portfolio. PNM had 60 days from the date of the order to file an application in a separate docket seeking approval of the proposed final executed contracts, for any replacement resources not in evidence that had been approved by the NMPRC.

On September 28, 2020, PNM filed its application for approval of the final executed contracts for the replacement resources. In addition, PNM provided updated cost estimates of \$8.1 million for the SJGS replacement resources, based on the NMPRC authorization to create regulatory assets granted in the abandonment order, which it plans to seek recovery of in a future general rate case. On November 13, 2020, the hearing examiner issued a recommended decision recommending approval of a 200 MW solar PPA combined with a 100 MW battery storage agreement and the 100 MW solar PPA combined with a 30 MW battery storage agreement. On December 2, 2020, the NMPRC issued an order adopting the recommended decision in its entirety. On October 14, 2022, PNM filed a motion for approval of amendments on the 200 MW solar PPA combined with the 100 MW battery storage agreement, as well as a letter agreement with the project developer providing payments to PNM for delay damages. The amendments included price increases on both the solar PPA and battery storage agreement and the commercial operation date extension to May 2024. No party filed objections and the amendments were deemed approved.

On February 28, 2022, WRA and CCAE filed a joint motion for order to show cause and enforce financing order and supporting brief, which requests that the NMPRC order PNM to show cause why its rates should not be reduced at the time SJGS is abandoned and to otherwise enforce the NMPRC's April 1, 2020 final order. On March 14, 2022, PNM filed its response to the joint motion to show cause refuting the movants' claims that the ETA and April 1, 2020 financing order require Securitized Bonds be issued at the time of abandonment and that rates be reduced upon abandonment as not being legally supportable. The movants filed joint replies on March 24, 2022. In response, on March 30, 2022, the NMPRC issued an order appointing hearing examiners to conduct a hearing, if necessary, and to issue a recommended decision to address the issues raised by the motion. PNM filed testimony on April 20, 2022, and a hearing was held on May 23, 2022.

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On June 17, 2022, the hearing examiners issued a recommended decision requesting the NMPRC issue an order that would require PNM to:

- Revise its rates to remove all of the costs of SJGS Unit 1 by issuing rate credits of \$21.1 million on an annual basis, to customers by July 1, 2022
- Revise its rates again, to remove all costs of SJGS Unit 1, Unit 4, and common facilities by increasing the rate credits to \$98.3 million on an annual basis, by October 1, 2022
- Transfer payments due and owing to the Indian Affairs Fund, Economic Development Assistance Fund, and the Displaced Workers Assistance Fund within 30 days of the abandonment of SJGS Unit 1
- Include (in its next rate case application) an explanation and defense of the prudence in the timing of the issuance of Securitized Bonds beyond the abandonment dates and what actions were taken to protect customers from interest rate increases occurring as well as the continued marketability of the Securitized Bonds issued

Following the filing of exceptions and responses, on June 29, 2022, the NMPRC issued its final order adopting and approving the recommended decision in its entirety with certain additions. The additions to the final order include requirements for PNM file a report, no later than October 15, 2022, that contains a record of all of its costs incurred in the show cause proceeding so that the prudence of those costs will be known and be subject to review in PNM's future rate case and that the prudency review shall include a compliance filing to enable a review of the prudence of PNM's decision to delay bond issuance beyond the dates of the SJGS abandonment. On June 29, 2022, PNM filed an Emergency Motion and Supporting Brief for Stay with the NMPRC ("PNM's NMPRC Emergency Motion"). On June 30, 2022, PNM filed a Notice of Appeal and an Emergency Motion for Partial Interim Stay of the NMPRC's Final Order with the NM Supreme Court ("PNM's NM Supreme Court Emergency Motion"). In the filing, PNM stated that if the stay is granted, and is unsuccessful in its appeal, customers can be held harmless with respect to any rate credits they would have received during the pendency of the appeal and in the event PNM's appeal is not successful, PNM would establish a regulatory liability for the benefit of the rate credits subject to the period during the stay, with a carrying charge calculated on the amount of the rate credits subject to the stay. On July 1, 2022, the NMPRC filed a motion at the NM Supreme Court claiming that the ordering paragraph in the June 29, 2022 final order only required PNM to file an advice notice by July 1, 2022, but not to implement a credit until 30 days afterward. In its motion, the NMPRC requested that the court not immediately order the interim stay of the final order, as requested in PNM's NM Supreme Court Emergency Motion, and instead issue an order setting out a briefing schedule for the NMPRC to respond and potential parties to file responses. On July 6, 2022, PNM filed a response to the NMPRC's July 1, 2022 motion at the NM Supreme Court stating that the urgency of a stay through the NM Supreme Court is still viable based on whether the NMPRC takes longer than 30 days to consider PNM's NMPRC Emergency Motion. On July 12, 2022, several parties filed responses to PNM's NMPRC Emergency Motion. On July 21, 2022, the NMPRC adopted an order denying PNM's NMPRC Emergency Motion. Subsequently, on July 25, 2022, PNM filed another emergency motion seeking an immediate and ongoing stay from the NM Supreme Court for the pendency of the appeal. In the interim, PNM began issuing rate credits effective July 31, 2022. On July 28, 2022, PNM made payments totaling \$19.8 million to the Indian Affairs Fund, Economic Development Assistance Fund, and the Displaced Workers Assistance Fund. On August 1, 2022, PNM filed its statement of issues with the NM Supreme Court. On September 2, 2022, the NM Supreme Court issued an order granting PNM's July 25, 2022 motion for partial stay and as a result PNM suspended issuing rate credits. On October 11, 2022, WRA filed a motion for emergency oral argument in PNM's NM Supreme Court Emergency Motion. On October 14, 2022, PNM made its required compliance filing under the NMPRC's June 29, 2022, final order. On November 1, 2022, the NM Supreme Court issued an order continuing the partial stay of the rate credits during the pendency of the appeal. PNM cannot predict the outcome of this matter.

PNM evaluated the consequences of the NMPRC's June 29, 2022 order and the related NM Supreme Court appeal and order granting partial stay as required under GAAP. Specifically, PNM assessed the likelihood PNM would be required to establish a regulatory liability for the benefit of the rate credits and the associated carrying charge during the pendency of the stay. These evaluations indicate that it is reasonably possible that PNM would be successful on the issues it was appealing, and therefore, no loss or regulatory liability has been recorded as of September 30, 2022.

Additional information concerning the SJGS Abandonment Application is contained in Note 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

*Four Corners Abandonment Application*

On November 1, 2020, PNM entered into the Four Corners Purchase and Sale Agreement with NTEC, pursuant to which PNM will sell its 13% ownership interest (other than certain transmission assets) in Four Corners to NTEC. The sale is contingent upon NMPRC approval and would close by the end of 2024. In connection with the sale, PNM would make

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payments of \$75.0 million to NTEC for relief from its obligations under the coal supply agreement for Four Corners after December 31, 2024. Pursuant to the Four Corners Purchase and Sale Agreement, PNM will retain its current plant decommissioning and coal mine reclamation obligations. PNM made an initial payment to NTEC of \$15.0 million in November 2020, subject to refund with interest upon termination of the Four Corners Purchase and Sale Agreement prior to closing. Under the terms of the Four Corners Purchase and Sale Agreement, upon receipt of the NMPRC approval, PNM would make a final payment of \$60.0 million. The initial \$15.0 million payment is recorded in other deferred charges on the Condensed Consolidated Balance Sheet as of September 30, 2022 and December 31, 2021.

On January 8, 2021, PNM filed the Four Corners Abandonment Application, which sought NMPRC approval to exit PNM's share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of Securitized Bonds as provided by the ETA. PNM's request for the issuance of Securitized Bonds included approximately \$272 million of forecasted undepreciated investments in Four Corners at December 31, 2024, an estimated \$4.6 million for plant decommissioning costs, an estimated \$7.3 million in upfront financing costs, and an estimated \$16.5 million for economic development in the Four Corners area. PNM intends to submit a separate application for NMPRC approval of a replacement resource portfolio following NMPRC action on this application.

On March 15, 2021, PNM filed an amended application and supplemental testimony for the approval of the abandonment and transfer of Four Corners and issuance of a financing order pursuant to the ETA and a motion to withdraw the January 8, 2021 Four Corners Application. The amended application and supplemental testimony provided additional information to support PNM's request to abandon its interest in Four Corners and transfer that interest to NTEC, and also provided additional detail explaining how the proposed sale and abandonment provides a net public benefit.

A hearing began August 31, 2021, briefs were filed October 1, 2021, and response briefs were filed October 13, 2021. On November 12, 2021, the hearing examiner issued a recommended decision recommending approval of the Four Corners Abandonment Application and the corresponding request for issuance of securitized financing. On December 15, 2021, the NMPRC issued a final order rejecting the hearing examiner's recommended decision and denying approval of the Four Corners Abandonment Application and the corresponding request for issuance of securitized financing. In its order, the NMPRC concluded that PNM needed to conduct a review of the actual replacement resource portfolio and determined that the record was insufficient to determine the prudence of PNM's investments in Four Corners. On December 22, 2021, PNM filed a notice of appeal with the NM Supreme Court of the NMPRC decision to deny the application. On January 21, 2022, PNM filed a statement of issues outlining the arguments for appeal asserting, among other things, that the NMPRC misinterpreted and improperly applied the ETA in concluding that the NMPRC needed to review the actual replacement resource portfolio before authorizing abandonment and that the NMPRC improperly deferred the issue of prudence with respect to certain of PNM's investments in Four Corners, where other parties were given the opportunity to present evidence and failed to demonstrate PNM was imprudent in its decisions. On March 24, 2022, PNM filed its Brief in Chief and answer briefs were filed on May 9, 2022. On June 17, 2022, PNM filed its Consolidated Reply Brief.

GAAP requires a loss be recognized when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. As of September 30, 2022, PNM evaluated the NMPRC order in the Four Corners Abandonment Application and determined it was reasonably possible that PNM would be successful in recovery of its undepreciated investment in a future proceeding. Therefore, no loss has been recorded.

The financial impact of an early exit of Four Corners and the NMPRC approval process is influenced by many factors outside of PNM's control, including the overall political and economic conditions of New Mexico. See additional discussion of the ETA in Note 11. PNM cannot predict the outcome of these matters.

*PVNGS Leased Interest Abandonment Application*

On April 2, 2021, PNM filed the PVNGS Leased Interest Abandonment Application, an application for the sale and transfer of related assets, and approval to procure new resources. As discussed in Note 13, PNM currently controls the Leased Interest under five separate leases that were approved and certificated by the predecessor agency to the NMPRC in the 1980s. Four of the five leases for 104 MW of Leased Interest terminate on January 15, 2023, while the remaining lease for 10 MW of Leased Interest terminates on January 15, 2024. Associated with the Leased Interest are certain PNM-owned assets and nuclear fuel that are necessary for the ongoing operation and maintenance of the Leased Interest and integration of the Leased Interest generation to the transmission network. PNM has determined that there will be net benefits to its customers to return the Leased Interest to the lessors in conformity with the leases, sell and transfer the related PNM-owned assets, and to replace the Leased Interest with new resources. In the application, PNM requested NMPRC authorization to decertify and abandon its Leased Interest and to create regulatory assets for the associated remaining undepreciated investments with consideration of

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cost recovery of the undepreciated investments in a future rate case. PNM also sought NMPRC approval to sell and transfer the PNM-owned assets and nuclear fuel supply associated with the Leased Interest to SRP, which will be acquiring the Leased Interest from the lessors upon termination of the existing leases. In addition, PNM sought NMPRC approval for a 150 MW solar PPA combined with a 40 MW battery storage agreement, and a stand-alone 100 MW battery storage agreement to replace the Leased Interest. To ensure system reliability and load needs are met in 2023, when a majority of the leases expire, PNM also requested NMPRC approval for a 300 MW solar PPA combined with a 150 MW battery storage agreement. PNM's application sought a six-month regulatory time frame.

On April 21, 2021, the NMPRC issued an order assigning a hearing examiner and stated PNM's request to abandon the Leased Interest does not have any statutory or rule time limitation and the six-month limit in which the NMPRC must issue an order regarding the request for approvals of the solar PPAs and battery storage agreements does not begin until after the NMPRC acts on the abandonment request. The NMPRC's April 21, 2021 order also stated that issues reserved to a separate proceeding in the NM 2015 Rate Case regarding the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2 shall be addressed in this case and PNM shall file testimony addressing the issue. On June 14, 2021 and June 25, 2021, PNM filed supplemental testimony responding to questions provided by the hearing examiner. On June 28, 2021, NEE and CCAE jointly filed a motion to dismiss a portion of the application claiming that since PNM's request to abandon the Leased Interest was filed after PNM had already provided irrevocable notice it would not acquire the Leased Interest, abandonment is no longer required. On July 28, 2021, the hearing examiner issued a recommended decision on NEE's and CCAE's joint motion to dismiss, recommending dismissal of PNM's requests for approval to abandon and decertify the Leased Interest; dismissal of PNM's request for approval to sell and transfer the related assets; and dismissal of PNM's request to create regulatory assets for the associated remaining undepreciated investments, but did not preclude PNM seeking recovery of the costs in a general rate case in which the test year period includes the time period in which PNM incurs such costs. The hearing examiner's recommended decision further provides that PNM's request for replacement and system reliability resources and the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2 should remain within the scope of this case.

On August 25, 2021, the NMPRC issued an order granting portions of the July 28, 2021 recommended decision that were not contested related to dismissal of PNM's request for approval to abandon and decertify the Leased Interest and dismissal of PNM's request for approval to sell and transfer the related assets. In addition, the order bifurcated the issue of approval for the two PPAs and three battery storage agreements into a separate docket so it may proceed expeditiously. On September 8, 2021, the NMPRC issued an order on the remaining issues in the recommended decision. The order found that PNM's request for a regulatory asset to record costs associated with obtaining an abandonment order should be dismissed. However, the requests for regulatory assets associated with the remaining undepreciated investments should be addressed at an evidentiary hearing. On September 20, 2021, ABCWUA, Bernalillo County, NEE, and the NMAG filed a joint motion to reconsider the September 8, 2021 NMPRC order. Also, on September 20, 2021, PNM filed a motion for rehearing of the September 8, 2021 order stating that certain requirements of the order would lead to compromising PNM's First Amendment rights. On October 6, 2021, the NMPRC issued an order granting the motions for reconsideration and vacated the September 8, 2021 order, without specifically addressing issues raised in the motions. On November 1, 2022, ABCWUA, Bernalillo County, CCAE, NEE, NM AREA, the NMAG, WRA, and Staff filed a Joint Motion for Accounting Order to require PNM to track in a regulatory liability, all costs associated with the PVNGS Leased Interests that will be abandoned in January 2023 and January 2024 that are still being collected in rates, which PNM opposes. PNM is unable to predict the outcome of this matter.

The hearing on the two PPAs and three battery storage agreements was held on November 12 and 15, 2021 and December 3, 2021 and post-hearing briefing was completed on January 18, 2022. On February 14, 2022, the hearing examiner issued a recommended decision recommending the NMPRC approve the 150 MW solar PPA combined with a 40 MW battery storage agreement, the stand-alone 100 MW battery storage agreement, and the 300 MW solar PPA combined with a 150 MW battery storage agreement. On February 16, 2022, the NMPRC adopted an order approving the recommended decision. On April 15, 2022, PNM made a compliance filing with the NMPRC in which it updated the NMPRC on the status of the PPAs and the battery storage agreements listed above. On June 16, 2022, PNM made a second compliance filing on the status of PPAs and battery storage agreements notifying the NMPRC that none of the developers of the two PPAs and three battery storage agreements have moved forward under the terms of the agreements approved by the NMPRC on February 16, 2022, and none of the replacement resource projects would be operational in 2023. All five projects will have significant delays and price increases as evidenced in the current alternative offers from the developers. PNM entered into amendments to the 300 MW solar PPA combined with a 150 MW battery storage agreement and proposed those amendments to the NMPRC for approval in a filing with the NMPRC on June 24, 2022. PNM determined the terms offered by the 150 MW solar PPA combined with a 40 MW battery storage agreement and the stand-alone 100 MW battery storage agreement are not satisfactory in comparison with other potential projects that might be utilized instead, and PNM did not support the proposed amendments to those agreements

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in the June 24, 2022 filing. No party filed objections following PNM's June 24, 2022 filing and pursuant to the NMPRC's February 16, 2022 order the 300 MW solar PPA combined with 150 MW battery storage agreement and the decision not to proceed with the other agreements, are deemed approved. On September 2, 2022, PNM entered into amendments to the 150 MW battery storage agreement to increase the capacity to 300 MW and proposed those amendments to the NMPRC for approval. On September 8, 2022, the NMPRC issued an order to extend the 10-day period for filing for an additional two days. No party filed objections within 12 days following PNM's September 2, 2022 filing and pursuant to the NMPRC's February 16, 2022 order the 300 MW solar battery storage agreement was deemed approved. PNM anticipates these facilities will be in service in 2024.

In addition to approval by the NMPRC, PNM and SRP received NRC approval for the transfer of the associated possessory licenses at the end of the term of each of the respective leases.

*Summer Peak Resource Adequacy*

Throughout 2021 and continuing into 2022, PNM provided notices of delays and status updates to the NMPRC for the approved SJGS replacement resource projects. All four replacement resource project developers notified PNM that completion of the projects are delayed and no longer available for the 2022 summer peak. The delays in the SJGS replacement resources, coupled with the abandonment of SJGS Units 1 and 4 presented a risk that PNM would have insufficient operational resources to meet the 2022 summer peak demand and reliably serve its customers unless PNM is able to place additional generation resources in service. PNM entered into three agreements to purchase power from third parties to minimize potential impacts to customers; the purchase of 85 MW, unit contingent from Four Corners for June through September of 2022; the purchase of 150 MW, firm power in June and September 2022; and the purchase of 40 MW, unit contingent from PVNGS Unit 3 for the full year of 2022. After considering these additional contracts, PNM projected a system reserve margin ranging from 0.9% to (3.4%) during the 2022 summer peak. As a result, on February 17, 2022, PNM filed a notice and request for modification to or variance from abandonment date for SJGS Unit 4 with the NMPRC. The filing provided notice that PNM had obtained agreement from the SJGS owners and WSJ LLC to extend operation of SJGS Unit 4 until September 30, 2022. SJGS Unit 4 provided 327 MW of capacity and along with the three agreements to purchase power, improved PNM's projected system reserve margin to a range from 17.4% to 9.8%. On February 23, 2022, the NMPRC issued an order finding that PNM did not require NMPRC approval to extend operation of SJGS Unit 4 for an additional three-month period. The NMPRC's order states that issues regarding the prudence or reasonableness of the decisions made, actions taken by PNM, and recoverability of costs related to the continued operation of SJGS Unit 4, including fuel costs collected through PNM's FPPAC, shall be subject to review in a future proceeding. On February 25, 2022, an amended San Juan Project Participation Agreement was filed with FERC. On March 18, 2022, PNM filed its compliance notice updating its January 26, 2022 compliance notice indicating that 65 MW of SJGS Unit 4 owned as a deregulated merchant resource would be available to PNM retail operations on a system contingent basis, which increased PNM's projected system reserve margin to a range from 20.7% to 12.5% during the 2022 summer peak. On March 24, 2022, FERC accepted the amended SJGS participation agreement. While PNM experienced a new system peak retail load of 2,071 MW on July 19, 2022, PNM's generation resources performed sufficiently with no significant challenges to resource adequacy during the 2022 summer peak season.

PNM faces similar concerns in the summer of 2023 as a result of continued delays in the SJGS replacement resources as well as delays in replacement resources for the PVNGS leased capacity that expires in January 2023. As discussed above, PNM has made a number of compliance filings with the NMPRC on the status of the PVNGS leased capacity interest replacement resources. In the third quarter, PNM entered into agreements totaling 125 MW of firm power purchases for June through September 2023, 35 MW of unit-contingent capacity from Four Corners for summer 2023, and the purchase of 40 MW of firm capacity at PVNGS for all twelve months of 2023, providing PNM with a projected system reserve margin with a range of 9.5% to 4.9% for the 2023 summer peak period. PNM continues to evaluate other potential firm power agreements with various providers, as well as all potential short-term resource options to address these resource adequacy concerns. PNM is unable to predict the outcome of this matter.

*Grid Modernization Application*

On October 3, 2022, in compliance with New Mexico Statute, PNM filed its Grid Modernization Application with the NMPRC. The projects included in the Grid Modernization Application improve customers' ability to customize their use of energy and ensure that customers, including low-income customers, are a top priority and will benefit consistent with the Grid Modernization Statute. PNM's proposal to modernize its electricity grid through infrastructure and technology improvements also increases the efficiency, reliability, resilience, and security of PNM's electric system. PNM's application seeks approval of grid modernization investments of approximately \$344 million for the first six years of a broader 11-year strategy. PNM's

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application requested NMPRC approval by July 1, 2023 for PNM's Grid Modernization plan in addition to approval of PNM's proposed Grid Modernization Rider by September 1, 2023. The proposed Grid Modernization Rider would recover capital costs, operating expenses, and taxes associated with the investments included in the Grid Modernization Application. PNM also requested authorization to create related regulatory assets and liabilities, permitting PNM to record costs incurred for the development and implementation of PNM's plan between the requested approval of the application on July 1, 2023, and the implementation of the Grid Modernization Rider by September 1, 2023; undepreciated investments associated with legacy meters being replaced with AMI meters; and over- or under-collection of costs through the Grid Modernization Rider. In addition, PNM requested approval of the proposed format of an Opt-Out Consent Form and methodology to determine PNM's proposed cost-based opt-out fees, which includes a one-time fee and a monthly fee. On October 25, 2022, the hearing examiner issued a procedural schedule with a hearing to begin March 20, 2023. PNM is unable to predict the outcome of this matter.

*COVID-19 Regulatory Matters*

In March 2020, PNM and other utilities voluntarily implemented a temporary suspension of disconnections and late payment fees for non-payment of utility bills in response to the impacts of COVID-19. On March 18, 2020, the NMPRC conducted an emergency open meeting for the purpose of adopting emergency amendments to its rules governing service to residential customers. The NMPRC's emergency order was applicable during the duration of the Governor of New Mexico's emergency executive order and allowed for the closure of payment centers, prohibited the discontinuance of a residential customer's service for non-payment, and suspended the expiration of medical certificates for certain customers. On April 27, 2020, PNM, El Paso Electric Company, New Mexico Gas Company, and Southwestern Public Service Company filed a joint motion with the NMPRC requesting authorization to track costs resulting from each utility's response to the COVID-19 outbreak. The utilities proposed these incremental costs and uncollected customer accounts receivable resulting from COVID-19 during the period March 11, 2020 through December 31, 2020, be recorded as a regulatory asset. On June 24, 2020, the NMPRC issued an order authorizing all public utilities regulated by the NMPRC to create a regulatory asset to defer incremental costs related to COVID-19, including increases to bad debt expense incurred during the period beginning March 11, 2020 through the termination of the Governor of New Mexico's emergency executive order. The NMPRC order requires public utilities creating regulatory assets to pursue all federal, state, or other subsidies available, to record a regulatory liability for all offsetting cost savings resulting from the COVID-19 pandemic, and allows PNM to request recovery in future ratemaking proceedings. As a result, PNM had deferred costs related to COVID-19 of \$5.7 million and \$6.9 million in regulatory assets on the Condensed Consolidated Balance Sheet at September 30, 2022 and December 31, 2021. In addition, PNM has costs savings related to COVID-19 of \$0.9 million in regulatory liabilities on the Condensed Consolidated Balance Sheet at both September 30, 2022 and December 31, 2021. Although PNM still intends to seek recovery for the increase in bad debt expense resulting from COVID-19 through a regulatory asset in future general rate case proceedings, it no longer intends to seek recovery of other incremental costs related to the pandemic.

On February 3, 2021, the NMPRC issued an order finding that the temporary mandatory moratorium on disconnections of residential utility customers would be in effect from the date of the order for 100 days, which ended May 14, 2021. At the end of the moratorium, the 90-day transition period began, which continued the temporary moratorium on disconnections to provide the utilities additional time to assist residential customers with arrearages to enter into installment agreements. On July 14, 2021, the NMPRC issued an order clarifying previous orders that the mandatory requirements of the NMPRC's previous order prohibiting residential disconnects should be voluntarily complied with by investor-owned utilities until August 12, 2021. PNM resumed disconnections at the end of the transition period.

*Transportation Electrification Program*

On December 18, 2020, in compliance with New Mexico Statute, PNM filed its PNM 2022-2023 TEP for approval with the NMPRC. PNM's requested TEP included a budget of approximately \$8.4 million with flexibility of 25%. As proposed, up to 25% of the program budget will be dedicated to low and moderate income customers and is based on a model with no company ownership of charging facilities. PNM's proposed TEP provides incentives through rebates to both residential and non-residential customers towards the purchase of chargers and/or behind-the-meter infrastructure. PNM's TEP includes a request for a modified rate to add an electric vehicle pilot with a time-of-use option, a new non-residential electric vehicle time-of-use rate pilot without demand charges and implementation of a new rider to collect the actual costs of the TEP. PNM's application requested NMPRC approval by the end of August 2021 and authority to file a new TEP by the end of June 2023. On August 30, 2021, the hearing examiner issued a recommended decision approving, among other things, PNM's budget flexibility proposal, PNM's proposed pilot time-of-use rate, and PNM's TEP Rider. On November 10, 2021, the NMPRC issued a final order approving PNM's TEP.

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*The Community Solar Act*

On June 18, 2021, Senate Bill 84, known as the Community Solar Act, became effective. The Community Solar Act establishes a program that allows for the development of community solar facilities and provides customers of a qualifying utility with the option of accessing solar energy produced by a community solar facility in accordance with the Community Solar Act. The NMPRC is charged with administering the Community Solar Act program, establishing a total maximum capacity of 200 MW community solar (applicable until November 2024) facilities and allocating proportionally to the New Mexico electric investor-owned utilities and participating cooperatives. As required under the Community Solar Act, the NMPRC opened a docket on May 12, 2021 to adopt rules to establish a community solar program no later than April 1, 2022. On June 15, 2021, the NMPRC issued an order which required utilities provide a notice to all future applicants and to any likely applicants that, until the effective date of the NMPRC's rules in this area the NMPRC's existing interconnection rules and manual remain in place until amended or replaced by the NMPRC, and further, that a place in a utility's applicant queue for interconnection does not and will not provide any advantage for selection as a community solar project. PNM has provided the required notices. On October 27, 2021, the NMPRC adopted an order issuing a NOPR starting the formal process for adoption of rules pursuant to the Community Solar Act. On March 30, 2022, the NMPRC issued an order that adopted a rule on the administration of the Community Solar Act program. The rule requires utilities to file proposed community solar tariffs with the NMPRC within 60 days from the publication of the rule. A number of motions for rehearing and requests for clarification were filed between April 7 and May 2, 2022. On May 18, 2022, the NMPRC issued an order partially granting motions for rehearing, reconsideration and clarification and staying implementation pending further rulemaking. On June 16, 2022, PNM requested clarification related to the existing interconnection queue, which would not delay implementation of the Community Solar Act program. On July 12, 2022, the NMPRC provided notice of publication of its final rule in the New Mexico Register, starting the 60-day clock for utilities to file their proposed community solar tariffs, forms, and other relevant agreements. On September 14, 2022, PNM filed Community Solar tariffs. On October 12, 2022, the NMPRC issued an order to suspend PNM's and two other investor-owned utilities tariffs and required the utilities to file information Staff has identified as necessary for a complete evaluation of the tariffs but did not appoint a hearing examiner or schedule a public hearing. Another investor-owned utility has filed an appeal with the NM Supreme Court seeking review of the NMPRC's decisions. PNM cannot predict the outcome of the pending matters.

*San Juan Generating Station Unit 1 Outage*

On June 30, 2021, a cooling tower used for SJGS Unit 1 failed resulting in a unit outage. SJGS Unit 1 was brought back online on July 25, 2021. Damages to the facility have been reimbursed under the existing property insurance policy that covers SJGS, subject to a deductible of \$2.0 million. PNM's share of the deductible is \$1.0 million, reflecting PNM's 50% ownership interest in SJGS Unit 1. On July 14, 2021, the NMPRC issued an order opening a formal docket and inquiry into the cooling tower incident. PNM has responded to a number of NMPRC questions in the inquiry, including questions about the cause of the cooling tower failure, cost and progress of the cleanup and remediation, whether customers experienced loss of service, how PNM provided power during the outage, safety practices and procedures at SJGS, and the history of inspections on the cooling towers. PNM is unable to predict the outcome of this matter.

*Formula Transmission Rates*

PNM charges wholesale electric transmission service customers using a formula rate mechanism pursuant to which wholesale transmission service rates are calculated annually in accordance with an approved formula. The formula reflects a ROE of 10% and includes updating cost of service components, including investment in plant and operating expenses, based on information contained in PNM's annual financial report filed with FERC, as well as including projected large transmission capital projects to be placed into service in the following year. The projections included are subject to true-up in the following year formula rate. Certain items, including changes to return on equity and depreciation rates, require a separate filing to be made with FERC before being included in the formula rate. On June 1, 2022, PNM submitted an informational filing regarding the annual update to FERC. The new rates are effective June 1, 2022 through May 31, 2023.

On April 21, 2022, FERC instituted a show cause proceeding under Section 206 of the Federal Power Act to investigate the justness and reasonableness of PNM's transmission formula rate protocols. The order directs PNM, within 60 days to revise its formula rate protocols to provide interested parties the information necessary to understand and evaluate the implementation of the formula rate for both the correctness of inputs and calculations, and the reasonableness and prudence of the costs to be recovered in the formula rate or show cause why it should not be required to do so. On June 21, 2022, PNM submitted a compliance filing pursuant to FERC's April 21, 2022 order, which proposes modifications to its formula rate protocols to enhance and provide greater transparency to its customers as well as fix other ministerial issues. On August 12, 2022, FERC Staff issued a deficiency letter to PNM's June 21, 2022 compliance filing seeking minor adjustments and additional clarity. On



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September 9, 2022, PNM filed a response to FERC's deficiency letter making adjustments to its June 21, 2022 proposal and providing additional clarity. On September 23, 2022, the DOE filed comments to PNM's deficiency letter response. On October 13, 2022, PNM responded to comments raised by the DOE. PNM is unable to predict the outcome of this matter.

*Unexecuted Transmission Service Agreements (TSAs) with Leeward Renewable Energy*

On March 12, 2021, PNM filed four unexecuted TSAs with FERC totaling 145 MW with Leeward. The unexecuted TSAs provide long-term firm, point-to-point transmission service on PNM's transmission system. The unexecuted TSAs are based on the pro-forma transmission service agreements with certain non-conforming provisions under Attachment A of PNM's OATT and include PNM's OATT rate. PNM filed the unexecuted TSAs at the request of Leeward because the parties were unable to reach an agreement on the terms and conditions for transmission service. In particular, Leeward believed the rate under the unexecuted TSAs should be an incremental rate while PNM believed the appropriate rate is its OATT rate.

On April 2, 2021, Leeward and Pattern Wind separately protested PNM's March 12, 2021 filing of four unexecuted TSAs with Leeward. The parties requested that FERC direct PNM to apply the same rate to the unexecuted TSAs as the incremental rate assessed to the Western Spirit transmission facilities, inclusive of Leeward's network upgrades and requested service, or, in the alternative, initiate hearing and settlement judge procedures to address the unjust and unreasonable application of the FERC's "higher of" policy. On April 19, 2021, PNM filed a motion for leave to answer and contested the arguments made by Leeward and Pattern Wind. In its response, PNM stated that it disagrees with the parties' pricing scheme because doing so would not recognize all the transmission facilities necessary to provide Leeward service, does not hold PNM's other transmission customers harmless, and is inconsistent with FERC pricing policy and precedent. PNM further explained that the proposal to include its FERC approved embedded rate in the unexecuted TSAs is just and reasonable and should be accepted by FERC. On May 11, 2021, FERC issued an order accepting PNM's four unexecuted TSAs. In the order, FERC stated that it agreed with PNM's pricing scheme and agreed that PNM's proposal to use the OATT rate will ensure that the benefit of Leeward's addition to the system will be spread among other existing system users, rather than simply transferred to Pattern Wind. On June 10, 2021, Pattern Wind and Leeward both filed a request for rehearing of the FERC order. On September 10, 2021, Leeward filed a petition in the United States District Court for the District of Columbia for review of FERC's order accepting PNM's four unexecuted TSAs. On November 15, 2021, FERC issued an order denying the rehearing. On December 3, 2021, Leeward filed an unopposed motion for voluntary dismissal with the United States District Court for the District of Columbia of its petition for review, which was granted on March 22, 2022. This matter is now concluded.

*FERC Compliance*

PNM conducted a comprehensive internal review of its filings with FERC regarding the potential timely filing of certain agreements that contained deviations from PNM's standard form of service agreement in its OATT and assessing any applicable FERC waivers or refund requirements. Upon completion of the comprehensive review, PNM identified service agreements containing provisions that do not conform to the standard form of agreement on file with FERC. On March 18 and March 21, 2022, PNM filed applications with FERC requesting acceptance of certain agreements as well as rejection of other service agreements and further requesting that FERC not assess time-value refunds on the accepted agreements. On May 17, 2022, FERC issued two delegated letter orders accepting the service agreements and requiring PNM to pay the time-value refunds on the revenues it received on unaffiliated, late-filed, service agreements which contained language alleged to be non-conforming.

On June 16, 2022, PNM filed two requests for rehearing on the two proceedings. In the first proceeding, PNM argues that FERC has failed to address PNM's request for waiver of unlawful time-value refunds requiring PNM to pay its customers approximately \$7 million, for a ministerial error. In this proceeding, PNM waived the requirement for a customer to reimburse PNM for line losses and limited the rollover rights of another customer, which was not specifically addressed under the OATT. In the second proceeding, PNM argues that FERC's assessment of approximately \$28 million in unlawful, time-value refunds is in error and FERC failed to address the substantive arguments regarding why the agreements do not materially deviate from the OATT and as such were not required to be filed with FERC. In this proceeding, PNM had non-material deviations to certain provisions of the service agreements which were consistent with the OATT. Also on June 16, 2022, FERC granted PNM's request for a 75-day extension for PNM to issue refunds and an additional 30 days thereafter to prepare and file refund reports. On July 18, 2022, FERC issued two notices of denial of rehearing by operations of law and providing for further consideration. On July 29, 2022, PNM filed two separate petitions for reviews of the FERC's May 17, 2022 delegated letter orders, with the DC Court of Appeals. On August 23, 2022, FERC granted PNM's request for a 45-day extension for PNM to issue refunds and an additional 30 days thereafter to prepare and file refund reports. On August 30, 2022, FERC filed with the DC Court of Appeals to consolidate the proceedings and hold the petitions for review in abeyance until the earlier of (i) the issuance of the

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rehearing orders or (ii) October 30, 2022. PNM filed another motion, which was granted by FERC, for extension to issue time value refunds to December 1, 2022, with reports due on January 3, 2023.

GAAP requires a loss be recognized when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. As of September 30, 2022, PNM evaluated whether the FERC letter orders requiring PNM to pay the time-value refunds constituted a loss in accordance with GAAP. PNM considered the merits of its arguments that such time-value refunds are unlawful, result of contract provisions that do not materially deviate from PNM's OATT or are the result of a ministerial error, and did not cause undue harm or create advantages to any customer. PNM intends to contest these orders vigorously at both FERC and on appeal to the DC Circuit Court of Appeals. As a result of this evaluation, PNM concluded that a loss was not probable and that it was reasonably possible that PNM would be successful in defending its position in future regulatory or legal proceedings. In addition, PNM also concluded that if they were ultimately assessed a penalty, after vigorously contesting the merits of its case, PNM could not reasonably estimate the amount of such loss. Therefore, no loss has been recorded as of September 30, 2022. PNM is unable to predict the outcome of these matters.

## TNMP

### *Transmission Cost of Service Rates*

TNMP can update its transmission cost of service ("TCOS") rates twice per year to reflect changes in its invested capital although updates are not allowed while a general rate case is in process. Updated rates reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, and the approved rate of return on such facilities. The following sets forth TNMP's recent interim transmission cost rate increases:

<u>Effective Date</u>	<u>Approved Increase in Rate Base</u>	<u>Annual Increase in Revenue</u>
	(In millions)	
September 20, 2021	41.2	6.3
March 25, 2022	95.6	14.2
September 22, 2022	36.0	5.3

### *Periodic Distribution Rate Adjustment*

PUCT rules permit interim rate adjustments to reflect changes in investments in distribution assets. Distribution utilities may file for a periodic rate adjustment between April 1 and April 8 of each year as long as the electric utility is not earning more than its authorized rate of return using weather-normalized data. Utilities are limited to four periodic interim distribution rate adjustments between general rate cases.

On April 5, 2021, TNMP filed its 2021 DCOS that requested an increase in TNMP annual distribution revenue requirement of \$14.0 million based on an increase in rate base of \$104.5 million. On July 1, 2021, TNMP reached a unanimous settlement agreement with parties that would authorize TNMP to collect an increase in annual distribution revenues of \$13.5 million beginning in September 2021. The Administrative Law Judge ("ALJ") issued an order on July 9, 2021 approving interim rates effective September 1, 2021 that the PUCT approved on September 23, 2021. On April 5, 2022, TNMP filed its 2022 DCOS that requested an increase in TNMP annual distribution revenue requirement of \$9.7 million based on an increase in rate base of \$100.7 million. TNMP reached a unanimous settlement agreement in principle with parties that would authorize TNMP to collect an increase in annual distribution revenues of \$6.8 million. The reduction from the filed increase reflects removal of AMS technological upgrades from the current year's DCOS revenue requirement, but allows for deferral of operating costs to a regulatory asset, along with carrying charges. The regulatory asset and AMS technological upgrades can be included in future DCOS or general rate filings. The ALJ abated the case on June 27, 2022. On July 18, 2022, the ALJ issued an order approving interim rates based on an increase in the annual distribution revenue requirement of \$6.8 million, effective September 1, 2022. On November 3, 2022, the PUCT approved the unanimous settlement.

### *Energy Efficiency*

TNMP recovers the costs of its energy efficiency programs through an energy efficiency cost recovery factor ("EECRF"), which includes projected program costs, under and over collected costs from prior years, rate case expenses, and performance bonuses (if programs exceed mandated savings goals). TNMP's 2021 EECRF filing requested recovery of

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\$7.2 million, including a performance bonus of \$2.3 million, and became effective March 1, 2022. On May 27, 2022, TNMP filed its request to adjust the EECRF to reflect changes in costs for 2023. The total amount requested was \$7.4 million, which includes a performance bonus of \$1.9 million based on TNMP's energy efficiency achievements in the 2021 plan year. On August 24, 2022, a unanimous stipulation and settlement was filed with the PUCT to recover \$7.3 million in 2023, including the performance bonus of \$1.9 million. On October 6, 2022, the PUCT approved the unanimous stipulation.

*COVID-19 Electricity Relief Program*

On March 26, 2020, the PUCT issued an order establishing an electricity relief program for electric utilities, REPs, and customers impacted by COVID-19. The program allowed providers to implement a rider to collect unpaid residential retail customer bills and to ensure these customers continued to have electric service. In addition, the program provided transmission and distribution providers access to zero-interest loans from ERCOT. Collectively, ERCOT's loans could not exceed \$15.0 million. The program had a term of six months unless extended by the PUCT. In a separate order, the PUCT authorized electric utilities to establish a regulatory asset for costs related to COVID-19. These costs included but were not limited to costs related to unpaid accounts.

TNMP filed its rider on March 30, 2020. The rider was effective immediately and established a charge of \$0.33 per MWh in accordance with the PUCT's order. Final collections under the rider exceeded unpaid residential retail customer bills and were presented net as a regulatory liability of \$0.1 million on the Condensed Consolidated Balance Sheet as of December 31, 2020. In 2021, TNMP refunded the net regulatory liability through its transmission cost recovery factor. Other COVID-19 related costs of \$0.7 million and zero were recorded as a regulatory asset on the Condensed Consolidated Balance Sheet as of September 30, 2022 and December 31, 2021.

On August 27, 2020, the PUCT issued an order determining that new enrollments in the program should end on August 31, 2020, and benefits under the program should end on September 30, 2020 to allow eligible customers a minimum of one month of benefits from the program. All requests for reimbursement were made by November 30, 2020. On December 4, 2020, TNMP filed to end collections under the tariff. Final collections under the rider were made on December 11, 2020. On January 14, 2021, TNMP made a final compliance filing for the electricity relief program.

*AMS Reconciliation*

On July 14, 2021, TNMP filed a request with the PUCT to consider and approve its final reconciliation of the costs spent on the deployment of AMS from April 1, 2018 through December 31, 2018 of \$9.0 million and approve appropriate carrying charges until full collection. On September 13, 2021, the PUCT Staff filed a recommendation for approval of TNMP's application for substantially all costs from April 1, 2018 through December 31, 2018. On February 10, 2022, the PUCT approved substantially all costs included in TNMP's AMS reconciliation application. TNMP will include recovery of these costs and associated carrying charges in a future general rate proceeding.

**(13) Lease Commitments**

The Company leases office buildings, vehicles, and other equipment. In addition, PNM leases interests in PVNGS Units 1 and 2 and certain rights-of-way agreements are classified as leases. All of the Company's leases with terms in excess of one year are recorded on the balance sheet by recording a present value lease liability and a corresponding right-of-use asset. Operating lease expense is recognized within operating expenses according to the use of the asset on a straight-line basis. Financing lease costs, which are comprised primarily of fleet and office equipment leases commencing after January 1, 2019, are recognized by amortizing the right-of-use asset on a straight-line basis and by recording interest expense on the lease liability. Financing lease right-of-use assets amortization is reflected in depreciation and amortization and interest on financing lease liabilities is reflected as interest charges on the Company's Condensed Consolidated Statements of Earnings.

See additional discussion of the Company's leasing activities in Note 8 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

*PVNGS*

PNM leases interests in Units 1 and 2 of PVNGS. The PVNGS leases were entered into in 1985 and 1986 and initially were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. Following procedures set forth in the PVNGS leases, PNM notified four of the lessors under the Unit 1 leases and one lessor under the Unit 2 lease that it would elect to renew those leases on the expiration date of the original leases. The four Unit 1

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leases now expire on January 15, 2023 and the one Unit 2 lease now expires on January 15, 2024. The annual lease payments during the renewal periods aggregate \$16.5 million for PVNGS Unit 1 and \$1.6 million for Unit 2.

The terms of each of the extended leases do not provide for additional renewal options beyond their currently scheduled expiration dates. PNM had the option to purchase the assets underlying each of the extended leases at their fair market value or to return the lease interests to the lessors on the expiration dates. On June 11, 2020, PNM provided notice to the lessors and the NMPRC of its intent to return the assets underlying both the PVNGS Unit 1 and Unit 2 leases upon their expiration in January 2023 and 2024. Although PNM elected to return the assets underlying the extended leases, PNM retains certain obligations related to PVNGS, including costs to decommission the facility. PNM is depreciating its capital improvements related to the extended leases using NMPRC approved rates through the end of the NRC license period for each unit, which expire in June 2045 for Unit 1 and in June 2046 for Unit 2.

On April 5, 2021, PNM and SRP entered into an Asset Purchase and Sale Agreement, pursuant to which PNM agreed to sell to SRP certain PNM-owned assets and nuclear fuel necessary to the ongoing operation and maintenance of leased capacity in PVNGS Unit 1 and Unit 2, which SRP has agreed to acquire from the lessors upon termination of the existing leases. The proposed transaction between PNM and SRP received all necessary approvals, including NRC approval for the transfer of the associated possessory licenses to SRP at the end of the term of each of the respective leases. See Note 12 for information on other PVNGS matters including the PVNGS Leased Interest Abandonment Application which included PNM's request to create regulatory assets for the associated remaining undepreciated investments.

PNM is exposed to loss under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to PVNGS or the occurrence of specified nuclear events), PNM would be required to make specified payments to the lessors and take title to the leased interests. If such an event had occurred as of September 30, 2022, amounts due to the lessors under the circumstances described above would be up to \$142.2 million, payable on January 15, 2023 in addition to the scheduled lease payments due on that date.

*Land Easements and Rights-of-Ways*

Many of PNM's electric transmission and distribution facilities are located on lands that require the grant of rights-of-way from governmental entities, Native American tribes, or private parties. PNM has completed several renewals of rights-of-way, the largest of which is a renewal with the Navajo Nation. PNM is obligated to pay the Navajo Nation annual payments of \$6.0 million, subject to adjustment each year based on the Consumer Price Index, through 2029. PNM's April 2022 payment for the amount due under the Navajo Nation right-of-way lease was \$7.9 million, which included amounts due under the Consumer Price Index adjustment. Changes in the Consumer Price Index subsequent to January 1, 2019 are considered variable lease payments.

PNM has other prepaid rights-of-way agreements that are not accounted for as leases or recognized as a component of plant in service. PNM reflects the unamortized balance of these prepayments in other deferred charges on the Condensed Consolidated Balance Sheets and recognizes amortization expense associated with these agreements in the Condensed Consolidated Statement of Earnings over their term. As of September 30, 2022 and December 31, 2021, the unamortized balance of these rights-of-ways was \$51.1 million and \$53.4 million. PNM recognized amortization expense associated with these agreements of \$0.9 million and \$2.9 million in the three and nine months ended September 30, 2022 and \$0.9 million and \$2.8 million in the three and nine months ended September 30, 2021.

*Fleet Vehicles and Equipment*

Fleet vehicle and equipment leases commencing on or after January 1, 2019 are classified as financing leases. Fleet vehicle and equipment leases existing as of December 31, 2018 are classified as operating leases. The Company's fleet vehicle and equipment lease agreements include non-lease components for insignificant administrative and other costs that are billed over the life of the agreement. At September 30, 2022, residual value guarantees on fleet vehicle and equipment leases are \$0.9 million, \$1.3 million, and \$2.2 million for PNM, TNMP, and PNMR Consolidated.

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Information related to the Company's operating leases recorded on the Condensed Consolidated Balance Sheets is presented below:

	September 30, 2022			December 31, 2021		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating leases:						
Operating lease assets, net of amortization	\$ 58,670	\$ 3,769	\$ 62,440	\$ 73,903	\$ 5,264	\$ 79,511
Current portion of operating lease liabilities	16,902	1,631	18,534	25,278	1,882	27,218
Long-term portion of operating lease liabilities	39,754	1,947	41,701	52,552	3,155	55,993

As discussed above, the Company classifies its fleet vehicle and equipment leases and its office equipment leases commencing on or after January 1, 2019 as financing leases. Information related to the Company's financing leases recorded on the Condensed Consolidated Balance Sheets is presented below:

	September 30, 2022			December 31, 2021		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Financing leases:						
Non-utility property	\$ 18,151	\$ 18,372	\$ 36,853	\$ 15,171	\$ 16,181	\$ 31,695
Accumulated depreciation	(6,843)	(7,256)	(14,340)	(4,550)	(4,923)	(9,660)
Non-utility property, net	11,308	11,116	22,513	10,621	11,258	22,035
Other current liabilities	\$ 3,248	\$ 3,508	\$ 6,827	\$ 2,731	\$ 2,994	\$ 5,813
Other deferred credits	7,962	7,620	15,602	7,732	8,273	16,075

Information concerning the weighted average remaining lease terms and the weighted average discount rates used to determine the Company's lease liabilities as of September 30, 2022 is presented below:

	PNM	TNMP	PNMR Consolidated
Weighted average remaining lease term (years):			
Operating leases	6.98	2.35	6.69
Financing leases	4.01	3.48	3.74
Weighted average discount rate:			
Operating leases	4.01 %	4.00 %	4.01 %
Financing leases	3.07 %	3.09 %	3.08 %

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Information for the components of lease expense is as follows:

	Three Months Ended September 30, 2022			Nine Months Ended September 30, 2022		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating lease cost:	\$ 6,736	\$ 466	\$ 7,205	\$ 20,085	\$ 1,489	\$ 21,623
Amounts capitalized	(166)	(410)	(577)	(524)	(1,336)	(1,860)
Total operating lease expense	6,570	56	6,628	19,561	153	19,763
Financing lease cost:						
Amortization of right-of-use assets	792	779	1,585	2,293	2,334	4,680
Interest on lease liabilities	84	85	170	231	238	471
Amounts capitalized	(588)	(829)	(1,417)	(1,648)	(2,309)	(3,957)
Total financing lease expense	288	35	338	876	263	1,194
Variable lease expense	262	—	262	629	—	629
Short-term lease expense <sup>(1)</sup>	568	1	567	2,837	4	2,884
Total lease expense for the period	\$ 7,688	\$ 92	\$ 7,795	\$ 23,903	\$ 420	\$ 24,470

<sup>(1)</sup> Includes expense of \$0.4 million and \$2.7 million for the three and nine months ended September 30, 2022 for rental of temporary cooling towers associated with the SJGS Unit 1 outage. These amounts are offset with insurance reimbursements of \$0.4 million and \$2.7 million for the three and nine months ended September 30, 2022. For additional information on the SJGS Unit 1 outage see Note 12.

	Three Months Ended September 30, 2021			Nine Months Ended September 30, 2021		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating lease cost:	\$ 6,569	\$ 594	\$ 7,192	\$ 20,020	\$ 1,880	\$ 22,006
Amounts capitalized	(199)	(517)	(716)	(645)	(1,618)	(2,264)
Total operating lease expense	6,370	77	6,476	19,375	262	19,742
Financing lease cost:						
Amortization of right-of-use assets	657	693	1,372	1,793	1,944	3,802
Interest on lease liabilities	66	78	145	193	230	426
Amounts capitalized	(452)	(709)	(1,161)	(1,235)	(1,967)	(3,202)
Total financing lease expense	271	62	356	751	207	1,026
Variable lease expense	106	—	106	274	—	274
Short-term lease expense	1,572	2	1,578	1,821	6	1,857
Total lease expense for the period	\$ 8,319	\$ 141	\$ 8,516	\$ 22,221	\$ 475	\$ 22,899

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Supplemental cash flow information related to the Company's leases is as follows:

	Nine Months Ended September 30, 2022			Nine Months Ended September 30, 2021		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
(In thousands)						
Cash paid for amounts included in the measurement of lease liabilities:						
Operating cash flows from operating leases	\$ 25,503	\$ 118	\$ 25,670	\$ 25,511	\$ 262	\$ 25,897
Operating cash flows from financing leases	67	32	101	65	24	92
Finance cash flows from financing leases	810	371	1,249	621	234	920
Non-cash information related to right-of-use assets obtained in exchange for lease obligations:						
Operating leases	\$ 2,924	\$ —	\$ 2,924	\$ —	\$ 317	\$ 317
Financing leases	3,032	2,349	5,381	2,898	2,642	5,567

Capitalized lease costs are reflected as investing activities on the Company's Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2022 and 2021.

Future expected lease payments are shown below:

	As of September 30, 2022					
	PNM		TNMP		PNMR Consolidated	
	Financing	Operating	Financing	Operating	Financing	Operating
(In thousands)						
Remainder of 2022	\$ 898	\$ 10,234	\$ 976	\$ 455	\$ 1,896	\$ 10,725
2023	3,497	8,779	3,698	1,546	7,251	10,465
2024	2,777	7,217	3,125	943	5,916	8,171
2025	1,940	7,076	2,192	770	4,134	7,847
2026	1,513	7,014	1,113	76	2,626	7,090
Later years	1,324	24,384	632	—	1,956	24,384
Total minimum lease payments	11,949	64,704	11,736	3,790	23,779	68,682
Less: Imputed interest	739	8,048	608	212	1,350	8,447
Lease liabilities as of September 30, 2022	<u>\$ 11,210</u>	<u>\$ 56,656</u>	<u>\$ 11,128</u>	<u>\$ 3,578</u>	<u>\$ 22,429</u>	<u>\$ 60,235</u>

The above table includes \$11.5 million, \$12.9 million, and \$24.4 million for PNM, TNMP, and PNMR at September 30, 2022 for expected future payments on fleet vehicle and equipment leases that could be avoided if the leased assets were returned and the lessor is able to recover estimated market value for the equipment from third parties.

#### (14) Income Taxes

In December 2017, comprehensive changes in United States federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made many significant modifications to the tax laws, including reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminated federal bonus depreciation for utilities, limited interest deductibility for non-utility businesses and limited the deductibility of officer compensation. During 2020, the IRS issued final regulations related to certain officer compensation and, in January 2021, issued final regulations on interest deductibility that provide a 10% "de minimis" exception that allows entities with predominantly regulated activities to fully deduct interest expenses. In addition, in 2020, the IRS finalized regulations interpreting Tax Act amendments to depreciation provisions of the Internal Revenue Code ("IRC") that allowed the Company to claim a bonus depreciation deduction on certain construction projects placed in service subsequent to the third

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quarter of 2017. See additional discussion of the impacts of the Tax Act in Note 18 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted. Among other things, the CARES Act includes tax provisions that generally loosen restrictions on Net Operating Loss ("NOL") utilization and business interest deductions, and accelerate refunds of previously generated alternative minimum tax ("AMT") credits. In addition, the CARES Act includes a temporary provision allowing businesses to defer payments to the government for some payroll taxes. In 2020, the Company applied for \$5.2 million of accelerated refunds of previously generated AMT credits and deferred \$7.0 million of payments for certain payroll taxes. The Company received the \$5.2 million refund of prior AMT credits in June 2021 and paid \$3.5 million of payroll taxes in December 2021. The CARES Act provisions related to NOL utilization and business interest deductions are not applicable for the Company.

Beginning February 2018, PNM's NM 2016 Rate Case reflects the reduction in the federal corporate income tax rate, including amortization of excess deferred federal and state income taxes. In accordance with the order in that case, PNM is returning the protected portion of excess deferred federal income taxes to customers over the average remaining life of plant in service as of December 31, 2017, and the unprotected portion of excess deferred federal income taxes to customers over a period of approximately twenty-three years. Excess deferred state income taxes were returned to customers over a three-year period, which concluded in the first quarter of 2021. The approved settlement in the TNMP 2018 Rate Case includes a reduction in customer rates to reflect the impacts of the Tax Act beginning on January 1, 2019. PNMR, PNM, and TNMP will amortize federal excess deferred income taxes of \$23.6 million, \$14.4 million, and \$9.2 million in 2022. See additional discussion of PNM's NM 2016 Rate Case and TNMP's 2018 Rate Case in Note 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

The Company makes an estimate of its anticipated effective tax rate for the year as of the end of each quarterly period within its fiscal year. In interim periods, income tax expense is calculated by applying the anticipated annual effective tax rate to year-to-date earnings before income taxes. Certain unusual or infrequently occurring items, including excess tax benefits or tax deficiencies related to stock awards and taxes on Merger-related costs are excluded from the estimated annual effective tax rate calculation. At September 30, 2022, PNMR, PNM, and TNMP estimated their effective income tax rates for the year ended December 31, 2022 would be 10.06%, 10.97%, and 13.40%. The primary difference between the statutory income tax rates and the effective tax rates is the effect of the reduction in income tax expense resulting from the amortization of excess deferred federal income taxes.

On October 13, 2022, the New Mexico Taxation and Revenue Department issued PNMR a Notice of Assessment of Taxes for the 2020 tax year. The assessment reflects \$3.6 million for New Mexico corporate income tax, plus penalties and interest, and relates to PNMR's consolidated net operating loss carryforwards from prior years. PNMR believes its tax positions are correct and will be protesting the assessment. PNMR does not believe an unfavorable resolution is probable. PNMR is unable to predict the outcome of this matter.

**(15) Related Party Transactions**

PNMR, PNM, TNMP, and NMRD are considered related parties, as is PNMR Services Company, a wholly-owned subsidiary of PNMR that provides corporate services to PNMR and its subsidiaries in accordance with shared services agreements. These services are billed at cost on a monthly basis to the business units. In addition, PNMR provides construction and operations and maintenance services to NMRD, a 50% owned subsidiary of PNMR Development. PNM purchases renewable energy from certain NMRD-owned facilities at a fixed price per MWh of energy produced. PNM also provides interconnection services to PNMR Development and NMRD. See Note 16 for additional discussion of NMRD.



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The table below summarizes the nature and amount of related party transactions of PNMR, PNM, TNMP, and NMRD:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)			
Services billings:				
PNMR to PNM	\$ 26,281	\$ 23,617	\$ 82,352	\$ 75,992
PNMR to TNMP	9,554	9,187	30,110	29,687
PNM to TNMP	107	107	322	319
TNMP to PNMR	35	—	106	24
PNMR to NMRD	81	55	226	165
Renewable energy purchases:				
PNM from NMRD	3,221	3,384	9,642	9,473
Interconnection and facility study billings:				
PNM to NMRD	—	225	—	225
PNM to PNMR	—	—	—	—
NMRD to PNM	—	—	—	1,276
Interest billings:				
PNMR to PNM	4	—	13	—
PNM to PNMR	73	36	143	108
PNMR to TNMP	50	—	166	—
Income tax sharing payments:				
PNMR to PNM	—	—	—	—
TNMP to PNMR	—	—	—	—

**(16) Equity Method Investment**

As discussed in Note 21 of the Company's 2021 Annual Reports on Form 10-K, PNMR Development and AEP OnSite Partners created NMRD in September 2017 to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. As of September 30, 2022, NMRD's renewable energy capacity in operation was 135.1 MW. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. The investment in NMRD is accounted for using the equity method of accounting because PNMR's ownership interest results in significant influence, but not control, over NMRD and its operations.

In the nine months ended September 30, 2022 and 2021, neither PNMR Development nor AEP OnSite Partners made any cash contributions to NMRD for its construction activities. In February 2021, NMRD paid both PNMR Development and AEP OnSite Partners a dividend of \$3.0 million. As PNMR Development's cumulative equity in earnings of NMRD as of March 31, 2021 was \$2.4 million, an equivalent amount was presented as cash flows from operating activities on the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2021 and the remaining portion of the dividend, in excess of PNMR Development's cumulative equity in earnings of NMRD, of \$0.6 million was presented as cash flows from investing activities.

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PNMR presents its share of net earnings from NMRD in other income on the Condensed Consolidated Statements of Earnings. Summarized financial information for NMRD is as follows:

	<b>Results of Operations</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
	(In thousands)			
Operating revenues	\$ 3,407	\$ 3,543	\$ 10,224	\$ 10,179
Operating expenses	2,381	2,422	7,172	7,360
Net earnings	\$ 1,026	\$ 1,121	\$ 3,052	\$ 2,819

	<b>Financial Position</b>	
	<b>September 30, 2022</b>	<b>December 31, 2021</b>
	(In thousands)	
Current assets	\$ 6,750	\$ 10,729
Net property, plant, and equipment	166,229	166,495
Non-current assets	9,749	2,289
Total assets	182,728	179,513
Current liabilities	1,017	824
Non-current liabilities	363	373
Owners' equity	\$ 181,348	\$ 178,316

**(17) Goodwill**

The excess purchase price over the fair value of the assets acquired and the liabilities assumed by PNMR for its 2005 acquisition of TNP Enterprises, Inc. and Subsidiaries ("TNP") was recorded as goodwill and was pushed down to the businesses acquired. In 2007, the TNMP assets that were included in its New Mexico operations, including goodwill, were transferred to PNM. PNMR's reporting units that currently have goodwill are PNM and TNMP.

The Company evaluates its goodwill for impairment annually at the reporting unit level or more frequently if circumstances indicate that the goodwill may be impaired. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, and determination of the fair value of each reporting unit.

In certain circumstances an entity may perform a qualitative analysis to conclude that the goodwill of a reporting unit is not impaired. Under a qualitative assessment an entity considers macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events affecting a reporting unit, as well as whether a sustained decrease (both absolute and relative to its peers) in share price has occurred. An entity considers the extent to which each of the adverse events and circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity places more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. An entity also considers positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity evaluates, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. A quantitative analysis is not required if, after assessing events and circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount.

In other circumstances, an entity may perform a quantitative analysis to reach the conclusion regarding impairment with respect to a reporting unit. An entity may choose to perform a quantitative analysis without performing a qualitative analysis and may perform a qualitative analysis for certain reporting units, but a quantitative analysis for others. The first step of the quantitative impairment test requires an entity to compare the fair value of the reporting unit with its carrying value, including goodwill. If, as a result of this analysis, the entity concludes there is an indication of impairment in a reporting unit having

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goodwill, the entity is required to perform the second step of the impairment analysis, determining the amount of goodwill impairment to be recorded. The amount is calculated by comparing the implied fair value of the goodwill to its carrying amount. This exercise would require the entity to allocate the fair value determined in step one to the individual assets and liabilities of the reporting unit. Any remaining fair value would be the implied fair value of goodwill on the testing date. To the extent the recorded amount of goodwill of a reporting unit exceeds the implied fair value determined in step two, an impairment loss would be reflected in results of operations.

PNMR periodically updates its quantitative analysis for both PNM and TNMP. The use of a quantitative approach in a given period is not necessarily an indication that a potential impairment has been identified under a qualitative approach.

When PNMR performs a quantitative analysis for PNM or TNMP, a discounted cash flow methodology is primarily used to estimate the fair value of the reporting unit. This analysis requires significant judgments, including estimations of future cash flows, which is dependent on internal forecasts, estimations of long-term growth rates for the business, and determination of appropriate weighted average cost of capital for the reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value and the conclusion of impairment.

When PNMR performs a qualitative or quantitative analysis for PNM or TNMP, PNMR considers market and macroeconomic factors including changes in growth rates, changes in the Weighted Average Cost of Capital ("WACC"), and changes in discount rates. PNMR also evaluates its stock price relative to historical performance, industry peers, and to major market indices, including an evaluation of PNMR's market capitalization relative to the carrying value of its reporting units.

For its annual evaluations performed as of April 1, 2021, PNMR performed a qualitative analysis for both the PNM and TNMP reporting units. In addition to the typical considerations discussed above, the qualitative analysis considered changes in the Company's expectations of future financial performance since the April 1, 2018 quantitative analysis performed for PNM and qualitative analyses through April 1, 2019, as well as the quantitative analysis performed for TNMP at April 1, 2020 and qualitative analysis through April 1, 2020. The April 1, 2018 quantitative evaluations indicated the fair value of the PNM reporting unit, which has goodwill of \$51.6 million, exceeded its carrying value by approximately 19%. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2021 carrying value of PNM exceeded its fair value. The April 1, 2020 quantitative evaluations indicated the fair value of the TNMP reporting unit, which has goodwill of \$226.7 million, exceeded its carrying value by approximately 38%. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2021 carrying value of TNMP exceeded its fair value.

For its annual evaluations performed as of April 1, 2022, PNMR performed a qualitative analysis for both the PNM and TNMP reporting units. In addition to the typical considerations discussed above, the qualitative analysis considered changes in the Company's expectations of future financial performance since the April 1, 2018 quantitative analysis and the previous qualitative analyses through April 1, 2021 performed for PNM, as well as the April 1, 2020 quantitative analysis and the previous qualitative analyses performed for TNMP. This analysis considered Company specific events such as the Merger, potential impacts of legal and regulatory matters discussed in Note 11 and Note 12, including potential outcomes in PNM's San Juan Abandonment Application, PNM's Four Corners Abandonment Application, and other potential impacts of changes in PNM's resource needs based on PNM's 2020 IRP. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2022 carrying values of PNM and TNMP exceeded their fair value. Since the April 1, 2022 annual evaluation, there have been no events or indications that the fair values of the reporting units with recorded goodwill have decreased below their carrying values.

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**(18) Merger**

On October 20, 2020, PNMR, Avangrid and Merger Sub entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid. Pursuant to the Merger Agreement, each issued and outstanding share of PNMR common stock at the Effective Time will be converted into the right to receive \$50.30 in cash.

The proposed Merger has been unanimously approved by the Boards of Directors of PNMR, Avangrid and Merger Sub and approved by PNMR shareholders at the Special Meeting of Shareholders held on February 12, 2021.

The Merger Agreement provided that it may be terminated by each of PNMR and Avangrid under certain circumstances, including if the Effective Time shall not have occurred by the January 20, 2022 End Date; however, either PNMR or Avangrid could extend the End Date to April 20, 2022 if all conditions to closing have been satisfied other than the obtaining of all required regulatory approvals. As discussed below, on December 8, 2021, the NMPRC issued an order rejecting the stipulation agreement relating to the Merger. In light of the NMPRC ruling, on January 3, 2022, PNMR, Avangrid and Merger Sub entered into an Amendment to the Merger Agreement pursuant to which PNMR and Avangrid agreed to extend the End Date to April 20, 2023.

The Merger is subject to certain regulatory approvals, including from the NMPRC. The Joint Applicants to the NMPRC application and a number of intervening parties had entered into an amended stipulation and agreement in the Joint Application for approval of Merger pending before the NMPRC. An evidentiary hearing was held in August 2021. On November 1, 2021, a Certification of Stipulation was issued by the hearing examiner, which recommended against approval of the amended stipulation. On December 8, 2021, the NMPRC issued an order adopting the Certification of Stipulation, rejecting the amended stipulation reached by the parties. On January 3, 2022, PNMR and Avangrid filed a notice of appeal with the NM Supreme Court. On February 2, 2022, PNMR and Avangrid filed a statement of issues outlining the argument for appeal. On April 7, 2022, PNMR and Avangrid filed their Brief in Chief with the NM Supreme Court. Answer briefs from the NMPRC were filed on June 14, 2022, and response briefs were filed on August 5, 2022.

With respect to other regulatory proceedings related to the Merger, in 2021 PNMR received clearances for the Merger from the FTC under the HSR Act, CFIUS, the FCC, FERC, the PUCT, and the NRC. As a result of the delay in closing of the Merger due to the need to obtain NMPRC approval, PNMR and Avangrid were required to make a new filing under the HSR Act and request extensions of approvals previously received from the FCC and NRC. On February 9, 2022, the request for extension was filed with the NRC and an order granting a one-year extension was received on May 10, 2022. PNM has received approval from the FCC that runs through March 9, 2023. PNMR and Avangrid expect to make a new filing under the HSR Act later in 2022. No additional approvals are required from CFIUS, FERC or the PUCT.

Consummation of the Merger remains subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the absence of any material adverse effect on PNMR, the receipt of required regulatory approval from the NMPRC, and the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made. The agreement relating to the divestiture of Four Corners has been entered into and is in full effect and related filings have been made with the NMPRC.

The Merger Agreement provides for certain customary termination rights. The Merger Agreement further provides that, upon termination of the Merger Agreement under certain specified circumstances (including if Avangrid terminates the Merger Agreement due to a change in recommendation of the Board or if PNMR terminates the Merger Agreement to accept a superior proposal (as defined in the Merger Agreement) and in either case prior to PNMR's shareholder having approved the Merger), PNMR will be required to pay Avangrid a termination fee of \$130.0 million. In addition, the Merger Agreement provides that (i) if the Merger Agreement is terminated by either party due to a failure of a regulatory closing condition and such failure is the result of Avangrid's breach of its regulatory covenants or (ii) Avangrid fails to effect the closing when all closing conditions have been satisfied and it is otherwise obligated to do so under the Merger Agreement, then, in either such case, upon termination of the Merger Agreement, Avangrid will be required to pay PNMR a termination fee of \$184.0 million as the sole and exclusive remedy. Upon the termination of the Merger Agreement under certain specified circumstances involving a breach of the Merger Agreement, either PNMR or Avangrid will be required to reimburse the other party's reasonable and documented out-of-pocket fees and expenses up to \$10.0 million (which amount will be credited toward, and offset against, the payment of any applicable termination fee).

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations for PNMR is presented on a combined basis, including certain information applicable to PNM and TNMP. The MD&A for PNM and TNMP is presented as permitted by Form 10-Q General Instruction H(2). This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. A reference to a "Note" in this Item 2 refers to the accompanying Notes to Condensed Consolidated Financial Statements (Unaudited) included in Item 1, unless otherwise specified. Certain of the tables below may not appear visually accurate due to rounding.

### *MD&A FOR PNMR*

#### EXECUTIVE SUMMARY

##### Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 813,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP. PNMR strives to create a clean and bright energy future for customers, communities, and shareholders. PNMR's strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power built on a foundation of Environmental, Social and Governance (ESG) principles.

##### Recent Developments

###### *Merger*

On October 20, 2020, PNMR, Avangrid and Merger Sub entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid. Pursuant to the Merger Agreement, each issued and outstanding share of PNMR common stock at the Effective Time will be converted into the right to receive \$50.30 in cash. The proposed Merger has been unanimously approved by the Boards of Directors of PNMR, Avangrid and Merger Sub and approved by PNMR shareholders at the Special Meeting of Shareholders held on February 12, 2021.

The Merger Agreement provided that it may be terminated by each of PNMR and Avangrid under certain circumstances, including if the Effective Time shall not have occurred by the January 20, 2022 End Date; however, either PNMR or Avangrid could extend the End Date to April 20, 2022 if all conditions to closing have been satisfied other than the obtaining of all required regulatory approvals. As discussed below, on December 8, 2021, the NMPRC issued an order rejecting the stipulation agreement relating to the Merger. In light of the NMPRC ruling, on January 3, 2022, PNMR, Avangrid and Merger Sub entered into an Amendment to the Merger Agreement pursuant to which PNMR and Avangrid agreed to extend the End Date to April 20, 2023.

The Merger is subject to certain regulatory approvals, including from the NMPRC. The Joint Applicants to the NMPRC application and a number of intervening parties had entered into an amended stipulation and agreement in the Joint Application for approval of Merger pending before the NMPRC. An evidentiary hearing was held in August 2021. On November 1, 2021, a Certification of Stipulation was issued by the hearing examiner, which recommended against approval of the amended stipulation. On December 8, 2021, the NMPRC issued an order adopting the Certification of Stipulation, rejecting the amended stipulation reached by the parties. On January 3, 2022, PNMR and Avangrid filed a notice of appeal with the NM Supreme Court. On February 2, 2022, PNMR and Avangrid filed a statement of issues outlining the argument for appeal. On April 7, 2022, PNMR and Avangrid filed their Brief in Chief with the NM Supreme Court. Answer briefs from the NMPRC were filed on June 14, 2022, and response briefs were filed on August 5, 2022.

With respect to other regulatory proceedings related to the Merger, in 2021 PNMR received clearances for the Merger from the FTC under the HSR Act, CFIUS, the FCC, FERC, the PUCT, and the NRC. As a result of the delay in closing of the Merger due to the need to obtain NMPRC approval, PNMR and Avangrid were required to make a new filing under the HSR Act and request extensions of approvals previously received from the FCC and NRC. On February 9, 2022, the request for extension was filed with the NRC and an order granting a one-year extension was received on May 10, 2022. On February 24, 2022, and August 10, 2022, the requests for a 180-day extension were granted by the FCC. PNMR and Avangrid expect to make a new filing under the HSR Act later in 2022. No additional approvals are required from CFIUS, FERC or the PUCT.

Consummation of the Merger remains subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the absence of any material adverse effect on PNMR, the receipt of required regulatory approval from the NMPRC, and the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable

regulatory filings associated therewith being made. The agreement relating to the divestiture of Four Corners has been entered into and is in full effect and related filings have been made with the NMPRC.

#### *Retirement of SJGS*

After nearly half a century of reliable service and several years of planning towards its retirement, the last unit of the coal-fired SJGS has been removed from service, as PNM achieves significant progress towards its ESG goals for reducing carbon emissions from its generation portfolio. The four-unit, coal-fired SJGS, whose first unit was brought online in 1973, was reduced to two units at the end of 2017 with the retirement of Units 2 and 3. Unit 1 was retired in June 2022, and Unit 4 was retired in September 2022. Coal-fired generation now comprises less than 10% of resource portfolio capacity for PNM. Carbon-free generation comprises 55% of the company's 2.7-gigawatt capacity serving New Mexico customers, with additional renewable resources under development for implementation in the coming years. The Company previously published emissions goals for 2025 including a 60% reduction of carbon emissions from owned generation facilities based on 2005 levels. The retirement of SJGS achieves this interim goal and places the company in position to reach its industry-leading goal to completely eliminate carbon emissions from its generation portfolio by 2040.

#### *Grid Modernization Application*

On October 3, 2022, in compliance with New Mexico Statute, PNM filed its Grid Modernization Application with the NMPRC. The projects included in the Grid Modernization Application improve customers' ability to customize their use of energy and ensure that customers, including low-income customers, are a top priority and will benefit consistent with the Grid Modernization Statute. PNM's proposal to modernize its electricity grid through infrastructure and technology improvements also increases the efficiency, reliability, resilience, and security of PNM's electric system. PNM's application seeks approval of grid modernization investments of approximately \$344 million for the first six years of a broader 11-year strategy. PNM's application requested NMPRC approval by July 1, 2023 for PNM's Grid Modernization plan in addition to approval of PNM's proposed Grid Modernization Rider by September 1, 2023. The proposed Grid Modernization Rider would recover capital costs, operating expenses, and taxes associated with the investments included in the Grid Modernization Application. See Note 12.

#### **Financial and Business Objectives**

PNMR is focused on achieving three key financial objectives:

- Earning authorized returns on regulated businesses
- Delivering at or above industry-average earnings and dividend growth
- Maintaining investment grade credit ratings

In conjunction with these objectives, PNM and TNMP are dedicated to:

- Maintaining strong employee safety, plant performance, and system reliability
- Delivering a superior customer experience
- Demonstrating environmental stewardship in business operations, including transitioning to an emissions-free generating portfolio by 2040
- Supporting the communities in their service territories

#### *Earning Authorized Returns on Regulated Businesses*

PNMR's success in accomplishing its financial objectives is highly dependent on two key factors: fair and timely regulatory treatment for its utilities and the utilities' strong operating performance. The Company has multiple strategies to achieve favorable regulatory treatment, all of which have as their foundation a focus on the basics: safety, operational excellence, and customer satisfaction, while engaging stakeholders to build productive relationships. Both PNM and TNMP seek cost recovery for their investments through general rate cases, periodic cost of service filings, and various rate riders. PNM anticipates filing a general rate case with the NMPRC by the end of 2022.

Fair and timely rate treatment from regulators is crucial to PNM and TNMP in earning their allowed returns and critical for PNMR to achieve its financial objectives. PNMR believes that earning allowed returns is viewed positively by credit rating agencies and that improvements in the Company's ratings could lower costs to utility customers.

The rates PNM and TNMP charge customers are subject to traditional rate regulation by the NMPRC, FERC, and the PUCT. Additional information about rate filings is provided in Note 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

### *The Energy Transition Act (“ETA”)*

On June 14, 2019, Senate Bill 489, known as the ETA, became effective. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA provides for a transition from fossil-fueled generating resources to renewable and other carbon-free resources by allowing utilities to issue Securitized Bonds, or “energy transition bonds,” related to the retirement of certain coal-fired generating facilities to qualified investors. See additional discussion of the ETA in Note 11 and in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

PNM expects the ETA will have a significant impact on PNM’s future generation portfolio, including PNM’s retirement of SJGS in 2022 and the planned Four Corners exit in 2024 (subject to regulatory approval). PNM cannot predict the full impact of the ETA on potential future generating resource abandonment and replacement filings with the NMPRC.

### *State Regulation*

*SJGS Abandonment Application* – As discussed in Note 12, on July 1, 2019, PNM filed a Consolidated Application for the Abandonment and Replacement of SJGS and Related Securitized Financing Pursuant to the ETA (the “SJGS Abandonment Application”). The SJGS Abandonment Application sought NMPRC approval to retire PNM’s share of SJGS in mid-2022, and for approval of replacement resources and the issuance of approximately \$361 million of Securitized Bonds as provided by the ETA. The application included several replacement resource scenarios including PNM’s recommended replacement scenario, which is consistent with PNM’s goal of having a 100% emissions-free generating portfolio by 2040 and would have provided cost savings to customers while preserving system reliability.

The NMPRC issued an order requiring the SJGS Abandonment Application be considered in two proceedings: one addressing SJGS abandonment and related financing and the other addressing replacement resources but did not definitively indicate if the abandonment and financing proceedings would be evaluated under the requirements of the ETA. After several requests for clarification and legal challenges, in January 2020, the NM Supreme Court ruled the NMPRC is required to apply the ETA to all aspects of PNM’s SJGS Abandonment Application, and that any previous NMPRC orders inconsistent with their ruling should be vacated.

In February 2020, the hearing examiners issued two recommended decisions recommending approval of PNM’s proposed abandonment of SJGS, subject to approval of the separate replacement resources proceeding, and approval of PNM’s proposed financing order to issue Securitized Bonds. The hearing examiners recommended, among other things, that PNM be authorized to abandon SJGS by June 30, 2022, to issue Securitized Bonds of up to \$361 million, and to establish the Energy Transition Charge. The hearing examiners recommended an interim rate rider adjustment upon the start date of the Energy Transition Charge to provide immediate credits to customers for the full value of PNM’s revenue requirement related to SJGS until those reductions are reflected in base rates. In addition, the hearing examiners recommended PNM be granted authority to establish regulatory assets to recover costs that PNM will pay prior to the issuance of the Securitized Bonds, including costs associated with the bond issuances as well as for severances, job training, and economic development funds. On April 1, 2020, the NMPRC unanimously approved the hearing examiners’ recommended decisions regarding the abandonment of SJGS and the Securitized Bonds. On April 10, 2020, CFRE and NEE filed a notice of appeal with the NM Supreme Court of the NMPRC’s approval of PNM’s request to issue securitized financing under the ETA. On January 10, 2022, the NM Supreme Court issued its decision rejecting CFRE’s and NEE’s constitutional challenges to the ETA and affirmed the NMPRC’s final order.

On June 24, 2020, the hearing examiners issued a second recommended decision on PNM’s request for approval of replacement resources that addressed the entire portfolio of replacement resources. On July 29, 2020, the NMPRC issued an order approving resource selection criteria identified in the ETA that include PPA’s for 650 MW of solar and 300 MW of battery storage. On October 14, 2022, PNM filed a motion for approval of amendments on the 200 MW solar PPA combined with the 100 MW battery storage agreement, as well as a letter agreement with the project developer providing payments to PNM for delay damages. The amendments included price increases on both the solar PPA and battery storage agreement and the commercial operation date extension to May 2024. No party filed objections and the amendments were deemed approved.

On February 28, 2022, WRA and CCAE filed a joint motion for order to show cause and enforce financing order and supporting brief, which requests that the NMPRC order PNM to show cause why its rates should not be reduced at the time SJGS is abandoned, and to otherwise enforce the NMPRC’s April 1, 2020 final order. On March 14, 2022, PNM filed its response to the joint motion to show cause refuting the movants’ claims that the ETA and April 1, 2020 financing order require Securitized Bonds be issued at the time of abandonment and that rates be reduced upon abandonment as not being legally supportable. In response, on March 30, 2022, the NMPRC issued an order appointing hearing examiners to conduct a hearing,

if necessary, and to issue a recommended decision to address the issues raised by the motion. PNM filed testimony on April 20, 2022 and a hearing was held on May 23, 2022.

On June 17, 2022, the hearing examiners issued a recommended decision requesting the NMPRC issue an order that would require PNM to:

- Revise its rates to remove all of the costs of SJGS Unit 1 by issuing rate credits of \$21.1 million on an annual basis, to customers by July 1, 2022
- Revise its rates again, to remove all costs of SJGS Unit 1, Unit 4, and common facilities by increasing the rate credits to \$98.3 million on an annual basis, by October 1, 2022
- Transfer payments due and owing to the Indian Affairs Fund, Economic Development Assistance Fund, and the Displaced Workers Assistance Fund within 30 days of the abandonment of SJGS Unit 1
- Include (in its next rate case application) an explanation and defense of the prudence in the timing of the issuance of Securitized Bonds beyond the abandonment dates and what actions were taken to protect customers from interest rate increases occurring as well as the continued marketability of the Securitized Bonds issued

On June 29, 2022, the NMPRC issued its final order adopting and approving the recommended decision in its entirety with certain additions. The additions to the final order include requirements for PNM file a report no later than October 15, 2022, that contains a record of all of its costs incurred in the show cause proceeding so that the prudence of those costs will be known and be subject to review in PNM's future rate case and that the prudency review shall include a compliance filing to enable a review of the prudence of PNM's decision to delay bond issuance beyond the dates of the SJGS abandonment. On June 29, 2022, PNM filed an Emergency Motion and Supporting Brief for Stay with the NMPRC ("PNM's NMPRC Emergency Motion"). On June 30, 2022, PNM filed a Notice of Appeal and an Emergency Motion for Partial Interim Stay of the NMPRC's Final Order with the NM Supreme Court ("PNM's NM Supreme Court Emergency Motion"). On July 1, 2022, the NMPRC filed a motion at the NM Supreme Court claiming that the ordering paragraph in the June 29, 2022 final order only required PNM to file an advice notice by July 1, 2022, but not to implement a credit until 30 days afterwards. In its motion, the NMPRC requested that the court not immediately order the interim stay of the final order, as requested in PNM's NM Supreme Court Emergency Motion, and instead issue an order setting out a briefing schedule for the NMPRC to respond and potential parties to file responses. On July 6, 2022, PNM filed a response to the NMPRC's July 1, 2022 motion at the NM Supreme Court stating that the urgency of a stay through the NM Supreme Court is still viable based on whether the NMPRC takes longer than 30 days to consider PNM's NMPRC Emergency Motion. On July 21, 2022, the NMPRC adopted an order denying PNM's NMPRC Emergency Motion. Subsequently, on July 25, 2022, PNM filed another emergency motion seeking an immediate and ongoing stay from the NM Supreme Court for the pendency of the appeal. On July 28, 2022, PNM made payments totaling \$19.8 million to the Indian Affairs Fund, Economic Development Assistance Fund, and the Displaced Workers Assistance Fund. PNM began issuing rate credits effective July 31, 2022. On August 1, 2022, PNM filed its statement of issues with the NM Supreme Court. On September 2, 2022, the NM Supreme Court issued an order granting PNM's July 25, 2022 motion for partial stay, and as a result PNM suspended issuing rate credits. On October 14, 2022, PNM made its required compliance filing under the NMPRC's June 29, 2022, final order. On November 1, 2022, the NM Supreme Court issued an order continuing the partial stay of the rate credits during the pendency of the appeal. See additional discussion of PNM's San Juan Abandonment Application in Notes 11 and 12.

*Four Corners Abandonment Application* - On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of Securitized Bonds as provided by the ETA. As ordered by the hearing examiner in the case, PNM filed an amended application and testimony on March 15, 2021. The amended application provided additional information to support PNM's request, provided background on the NMPRC's consideration of the prudence of PNM's investment in Four Corners in the NM 2016 Rate Case and explained how the proposed sale and abandonment provides a net public benefit. On December 15, 2021, the NMPRC issued a final order denying approval of the Four Corners Abandonment Application and the corresponding request for issuance of securitized financing. On December 22, 2021, PNM filed a notice of appeal with the NM Supreme Court of the NMPRC decision to deny the application. See additional discussion of the ETA and PNM's Four Corners Abandonment Application in Notes 11 and 12.

PNM enhanced its plan to exit Four Corners and emphasized its ESG strategy to reduce carbon emissions on March 12, 2021 with an announcement for additional plans allowing for seasonal operations at Four Corners beginning in the fall of 2023, subject to the necessary approvals. The solution for seasonal operations ensures the plant will be available to serve each owners' customer needs during times of peak energy use while minimizing operations during periods of low demand. This approach would result in an estimated annual 20 to 25 percent reduction in carbon emissions at the plant and retains jobs and royalty payments for the Navajo Nation.

*PVNGS Leased Interest Abandonment Application* - On April 2, 2021, PNM filed the PVNGS Leased Interest Abandonment Application. In the application PNM requested NMPRC authorization to decertify and abandon its Leased Interest and to create regulatory assets for the associated remaining undepreciated investments with consideration of cost recovery of the undepreciated investments in a future rate case. PNM also sought NMPRC approval to sell and transfer the



PNM-owned assets and nuclear fuel supply associated with the Leased Interest to SRP, which will be acquiring the Leased Interest from the lessors upon termination of the existing leases. In addition, PNM sought NMPRC approval for a 150 MW solar PPA combined with a 40 MW battery storage agreement, and a stand-alone 100 MW battery storage agreement to replace the Leased Interest. To ensure system reliability and load needs are met in 2023, when a majority of the leases expire, PNM also requested NMPRC approval for a 300 MW solar PPA combined with a 150 MW battery storage agreement. On August 25, 2021, the NMPRC issued an order confirming PNM requires no further NMPRC authority to abandon the PVNGS Leased Interest and to sell and transfer the PNM-owned assets and nuclear fuel supply associated with the Leased Interest to SRP. The order bifurcated the issue of approval of the two PPAs and three battery storage agreements into a separate docket so it may proceed expeditiously and deferred a ruling on the other issues. On February 16, 2022, the NMPRC approved the two PPAs and three battery storage agreements. On April 15, 2022, PNM made a compliance filing with the NMPRC in which it updated the NMPRC on the status of the PPAs and the battery storage agreements listed above. On June 16, 2022, PNM made a second compliance filing on the status of PPAs and battery storage agreements notifying the NMPRC that none of the developers of the two PPAs and three battery storage agreements have moved forward under the terms of the agreements approved by the NMPRC on February 16, 2022, and none of the replacement resource projects would be operational in 2023. All five projects will have significant delays and price increases as evidenced in the current alternative offers from the developers. PNM entered into amendments to the 300 MW solar PPA combined with a 150 MW battery storage agreement and proposed those amendments to the NMPRC for approval in a filing with the NMPRC on June 24, 2022. PNM determined the terms offered by the 150 MW solar PPA combined with a 40 MW battery storage agreement and the stand-alone 100 MW battery storage agreement are not satisfactory in comparison with other potential projects that might be utilized instead, and PNM did not support the proposed amendments to those agreements in the June 24, 2022 filing. No party filed objections following PNM's June 24, 2022 filing and pursuant to the NMPRC's February 16, 2022 order, the 300 MW solar PPA combined with 150 MW battery storage agreement and the decision not to proceed with the other agreements, are deemed approved. On September 2, 2022, PNM entered into amendments to the 150 MW battery storage agreement to increase the capacity to 300 MW and proposed those amendments to the NMPRC for approval. No party filed objections following PNM's September 2, 2022 filing, and the 300 MW solar battery storage agreement was deemed approved. PNM anticipates these facilities will be in service in 2024. PNM continues to pursue additional resources to replace the PVNGS leases that will be abandoned in 2023 and 2024. For additional information on PNM's Leased Interest and the associated abandonment application see Note 12 and Note 13.

*Summer Peak Resource Adequacy* - Throughout 2021 and continuing into 2022, PNM provided notices of delays and status updates to the NMPRC for the approved SJGS replacement resource projects. All four project developers have notified PNM that completion of the projects will be delayed and no longer available for the 2022 summer peak and some may also not be available for the 2023 summer peak. The delays in the SJGS replacement resources, coupled with the abandonment of SJGS Units 1 and 4, presented a risk that PNM would have insufficient operational resources to meet the 2022 summer peak to reliably serve its customers. PNM entered into three agreements to purchase power from third parties to minimize potential impacts to customers and on February 17, 2022, PNM provided a notice and request with the NMPRC that PNM had obtained agreement from the SJGS owners and WSJ LLC to extend operation of Unit 4 until September 30, 2022. SJGS Unit 4 provided 327 MW of capacity and, along with the three agreements to purchase power, improved PNM's projected system reserve margin to meet the 2022 summer peak. On February 23, 2022, the NMPRC issued an order finding that PNM did not require NMPRC approval to extend operation of SJGS Unit 4 for an additional three-month period. On March 24, 2022 FERC accepted the amended San Juan Project Participation Agreement, effectively extending the operations of SJGS Unit 4 through September 30, 2022. While PNM experienced a new system peak retail load of 2,071 MW on July 19, 2022, PNM's generation resources performed sufficiently with no significant challenges to resource adequacy during the 2022 summer peak season.

PNM faces similar concerns in the summer of 2023 as a result of continued delays in the SJGS replacement resources as well as delays in replacement resources for the PVNGS leased capacity that expires in January 2023. As discussed above, PNM has made a number of compliance filings with the NMPRC on the status of the PVNGS leased capacity interest replacement resources. In the third quarter, PNM entered into agreements totaling 125 MW of firm power purchases for June through September 2023, 35 MW from Four Corners for summer 2023, and the purchase of 40 MW of firm capacity at PVNGS for all twelve months of 2023, providing PNM with a projected system reserve margin with a range of 9.5% to 4.9% for the 2023 summer peak period. PNM continues to evaluate other potential firm power agreements with various providers, as well as all potential short-term resource options to address these resource adequacy concerns. PNM is unable to predict the outcome of this matter. See Note 12.

*2020 Decoupling Petition* – On May 28, 2020, PNM filed a petition for approval of a rate adjustment mechanism that would decouple the rates of its residential and small power rate classes. Decoupling is a rate design principle that severs the link between the recovery of fixed costs of the utility through volumetric charges. On October 2, 2020, PNM requested an order to vacate the public hearing and stay the proceeding until the NMPRC decides whether to entertain a petition to issue a declaratory order resolving the issues raised in the motions to dismiss. On October 7, 2020, the hearing examiner approved PNM's request to stay the proceeding and vacate the public hearing and on October 30, 2020 PNM filed a petition for declaratory order asking the NMPRC to issue an order finding that full revenue decoupling is authorized by the EUEA. On March 17, 2021, the NMPRC issued an order granting PNM's petition for declaratory order, commencing a proceeding to address petitions. On January 14, 2022, the hearing examiner issued a recommended decision recommending the NMPRC find that the EUEA does not mandate the NMPRC to authorize or approve a full decoupling mechanism, defining full decoupling as

limited to energy efficiency and load management measures and programs. The recommended decision also states that a utility may request approval of a rate adjustment mechanism to remove regulatory disincentives to energy efficiency and load management measures and programs through a stand-alone petition, as part of the utility's triennial energy efficiency application or a general rate case and that PNM is not otherwise precluded from petitioning for a rate adjustment mechanism prior to its next general rate case. Finally, the recommended decision stated that the EUEA does not permit the NMPRC to reduce a utility's ROE based on approval of a disincentive removal mechanism founded on removing regulatory disincentives to energy efficiency and load management measures and programs. The recommended decision does not specifically prohibit a downward adjustment to a utility's capital structure, based on approval of a disincentive removal mechanism. On April 27, 2022, the NMPRC issued an order adopting the recommended decision in its entirety. On May 24, 2022, PNM filed a notice of appeal with the NM Supreme Court. On June 23, 2022, PNM filed its Statement of Issues with the NM Supreme Court. On September 6, 2022, PNM and other parties filed Briefs in Chief with the NM Supreme Court. On October 21, 2022, NEE filed Answer Briefs with the NM Supreme Court. See Note 12. PNM cannot predict the outcome of this matter.

*PNM Solar Direct* - In 2019, PNM filed an application with the NMPRC for approval of a program under which qualified governmental and large commercial customers could participate in a voluntary renewable energy procurement program. PNM proposed to recover costs of the program directly from subscribing customers through a rate rider. Under the rider, PNM would procure renewable energy from 50 MW of solar-PV facilities under a 15-year PPA. PNM had fully subscribed the entire output of the 50 MW facilities at the time of the filing. In March 2020, the hearing examiner issued a recommended decision recommending approval of PNM's application that was subsequently approved by the NMPRC. These facilities began commercial operations in the second quarter of 2022.

*The Community Solar Act* - On June 18, 2021, Senate Bill 84, known as the Community Solar Act, became effective. The Community Solar Act establishes a program that allows for the development of community solar facilities and provides customers of a qualifying utility with the option of accessing solar energy produced by a community solar facility in accordance with the Community Solar Act. The NMPRC is charged with administering the Community Solar Act program, establishing a total maximum capacity of 200 MW community solar facilities (applicable until November 2024) and allocating proportionally to the New Mexico electric investor-owned utilities and participating cooperatives. As required under the Community Solar Act, on March 30, 2022, the NMPRC issued an order that adopted a rule on the administration of the Community Solar Act program. The rule requires utilities to file proposed community solar tariffs with the NMPRC within 60 days from the publication of the rule. A number of motions for rehearing and requests for clarification were filed between April 7 and May 2, 2022. On May 18, 2022, the NMPRC issued an order partially granting motions for rehearing, reconsideration and clarification and staying implementation pending further rulemaking. On June 16, 2022, PNM requested clarification related to the existing interconnection queue, which would not delay implementation of the Community Solar Act program. On July 12, 2022, the NMPRC provided notice of publication of its final rule in the New Mexico Register, starting the 60-day clock for utilities to file their proposed community solar tariffs, forms and other relevant agreements. On September 14, 2022, PNM filed Community Solar tariffs. On October 12, 2022, the NMPRC issued an order to suspend PNM's and two other investor-owned utilities tariffs and required the utilities to file information Staff has identified as necessary for a complete evaluation of the tariffs but did not appoint a hearing examiner or schedule a public hearing. Another investor-owned utility has filed an appeal with the NM Supreme Court seeking review of the NMPRC's decisions. PNM cannot predict the outcome of the pending matters. See Note 12.

*Advanced Metering* - Currently, TNMP has approximately 257,000 advanced meters across its service territory. Beginning in 2019, the majority of costs associated with TNMP's AMS program are being recovered through base rates. On July 14, 2021, TNMP filed a request with the PUCT to consider and approve its final reconciliation of the costs spent on the deployment of AMS from April 1, 2018 through December 31, 2018 of \$9.0 million, and approve appropriate carrying charges until full collection. The PUCT approved substantially all costs on February 10, 2022. On October 2, 2020, TNMP filed an application with the PUCT for authorization to implement necessary technological upgrades of approximately \$46 million to its AMS program by the first quarter of 2023, which the PUCT approved on January 14, 2021. TNMP will seek recovery of the investment associated with the upgrade in a future general rate proceeding or DCOS filing. PNM's Grid Modernization Application includes proposals for installation and deployment of advanced metering infrastructure investments. See Note 12.

*Rate Riders and Interim Rate Relief* - The PUCT has approved mechanisms that allow TNMP to recover capital invested in transmission and distribution projects without having to file a general rate case. The PUCT also approved rate riders that allow TNMP to recover amounts related to energy efficiency and third-party transmission costs. The NMPRC has approved PNM recovering fuel costs through the FPPAC, as well as rate riders for renewable energy, energy efficiency and the TEP. These mechanisms allow for more timely recovery of investments.

#### *FERC Regulation*

Rates PNM charges wholesale transmission customers are subject to traditional rate regulation by FERC. Rates charged to wholesale electric transmission customers, other than customers on the Western Spirit Line described below, are based on a formula rate mechanism pursuant to which rates for wholesale transmission service are calculated annually in accordance with an approved formula. The formula includes updating cost of service components, including investment in plant and operating

expenses, based on information contained in PNM's annual financial report filed with FERC, as well as including projected transmission capital projects to be placed into service in the following year. The projections included are subject to true-up. Certain items, including changes to return on equity and depreciation rates, require a separate filing to be made with FERC before being included in the formula rate.

In May 2019, PNM filed an application with FERC requesting approval to purchase and provide transmission service on the Western Spirit Line. All necessary approvals were obtained. In December 2021, PNM completed the purchase of the Western Spirit Line and service under related transmission service agreements was initiated using an incremental rate that is separate from the formula rate mechanism described above.

#### *Delivering At or Above Industry-Average Earnings and Dividend Growth*

PNMR's financial objective to deliver at or above industry-average earnings and dividend growth enables investors to realize the value of their investment in the Company's business. Earnings growth is based on ongoing earnings, which is a non-GAAP financial measure that excludes from GAAP earnings certain non-recurring, infrequent, and other items that are not indicative of fundamental changes in the earnings capacity of the Company's operations. PNMR uses ongoing earnings to evaluate the operations of the Company and to establish goals, including those used for certain aspects of incentive compensation, for management and employees.

PNMR targets a dividend payout ratio in the 50% to 60% range of its ongoing earnings. PNMR expects to provide at or above industry-average dividend growth in the near-term. The Board will continue to evaluate the dividend on an annual basis, considering sustainability and growth, capital planning, and industry standards.

Under the terms of the Merger Agreement, PNMR has agreed not to declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its equity securities, or make any other actual, constructive or deemed distribution in respect of any equity securities (except (i) PNMR may continue the declaration and payment of planned regular quarterly cash dividends on PNMR common stock for each quarterly period ended after the date of the Merger Agreement, which for any fiscal quarter in 2022 shall not exceed \$0.3475, with usual record and payment dates in accordance with past dividend practice, and (ii) for any cash dividend or cash distribution by a wholly-owned subsidiary of PNMR to PNMR or another wholly-owned subsidiary of PNMR).

The Board approved the following increases in the indicated annual common stock dividend:

<b>Approval Date</b>	<b>Percent Increase</b>
December 2020	6.5%
December 2021	6.1%

#### *Maintaining Investment Grade Credit Ratings*

The Company is committed to maintaining investment grade credit ratings in order to reduce the cost of debt financing and to help ensure access to credit markets, when required. On February 10, 2022, Moody's downgraded TNMP's issuer rating from A3 to Baa1 and changed the outlook from negative to stable. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. All of the credit ratings issued by both Moody's and S&P on the Company's debt continue to be investment grade.

#### **Business Focus**

To achieve its business objectives, focus is directed in key areas: Safe, Reliable and Affordable Power; Utility Plant and Strategic Investments; Environmentally Responsible Power; and Customer, Stakeholders, and Community Engagement. The Company works closely with its stakeholders to ensure that resource plans and infrastructure investments benefit from robust public dialogue and balance the diverse needs of our communities. Equally important is the focus of PNMR's utilities on customer satisfaction and community engagement.

#### *Safe, Reliable, and Affordable Power*

Safety is the first priority of our business and a core value of the Company. PNMR utilizes a Safety Management System to provide clear direction, objectives and targets for managing safety performance and minimizing risks and empowers employees to "Be the Reason Everyone Goes Home Safe".

PNMR measures reliability and benchmark performance of PNM and TNMP against other utilities using industry-standard metrics, including System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI"). PNM's and TNMP's investment plans include projects designed to support reliability and reduce

the amount of time customers are without power.

PNMR and its utilities are aware of the important roles they play in enhancing economic vitality in their service territories. Management believes that maintaining strong and modern electric infrastructure is critical to ensuring reliability and supporting economic growth. When contemplating expanding or relocating their operations, businesses consider energy affordability and reliability to be important factors. PNM and TNMP strive to balance service affordability with infrastructure investment to maintain a high level of electric reliability and to deliver a safe and superior customer experience. Investing in PNM's and TNMP's infrastructure is critical to ensuring reliability and meeting future energy needs. Both utilities have long-established records of providing customers with safe and reliable electric service.

The Company continues to closely monitor developments and has taken and continues to take steps to mitigate the potential risks related to the COVID-19 pandemic. The Company has assessed and updated its existing business continuity plans in response to the impacts of the pandemic through crisis team meetings and working with other utilities and operators. The Company has worked to protect the safety of its employees using a number of measures, including minimizing exposure to other employees and the public and supporting flexible arrangements for all applicable job functions. The Company is also working with its suppliers to manage the impacts to its supply chain and remains focused on the integrity of its information systems and other technology systems used to run its business. However, the Company cannot predict the extent or duration of the ongoing COVID-19 pandemic, its effects on the global, national or local economy, or on the Company's financial position, results of operations, and cash flows. The Company will continue to monitor developments related to COVID-19 and will remain focused on protecting the health and safety of its customers, employees, contractors, and other stakeholders, and on its objective to provide safe, reliable, affordable and environmentally responsible power. As discussed in Note 12, both PNM and TNMP suspended disconnecting certain customers for past due bills, waived late fees during the pandemic, and have been provided regulatory mechanisms to recover these and other costs resulting from COVID-19. See additional discussion below regarding the Company's customer, community, and stakeholder engagement in response to COVID-19.

#### *EIM*

On April 1, 2021, PNM joined and began participating in the EIM. The EIM is a real-time wholesale energy trading market operated by the CAISO that enables participating electric utilities to buy and sell energy. The EIM aggregates the variability of electricity generation and load for multiple balancing authority areas and utility jurisdictions. In addition, the EIM facilitates greater integration of renewable resources through the aggregation of flexible resources by capturing diversity benefits from the expanding geographic footprint and the expanded potential uses for those resources. PNM completed a cost-benefit analysis, which indicated participation in the EIM would provide substantial benefits to retail customers. In 2018, PNM filed an application with the NMPRC requesting, among other things, to recover initial capital investments and authorization to establish a regulatory asset to recover other expenses that would be incurred in order to join the EIM. The NMPRC approved the establishment of a regulatory asset but deferred certain rate making issues, including but not limited to issues related to implementation and ongoing EIM costs and savings, the prudence and reasonableness of costs to be included in the regulatory asset, and the period over which costs would be charged to customers until PNM's next general rate case filing. PNM has experienced an aggregate of \$35.6 million in cost savings to customers through participation in the EIM, which includes \$16.6 million and \$23.0 million occurring in the three and nine months ended September 30, 2022. PNM passes the cost savings through to customers under PNM's FPPAC.

#### *Utility Plant and Strategic Investments*

*Utility Plant Investments* – During the 2020 and 2021 periods, PNM and TNMP together invested \$1.6 billion in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. New Mexico's clean energy future depends on a reliable, resilient, secure grid to deliver an evolving mix of energy resources to customers. PNM has launched a capital initiative, which emphasizes new investments in its transmission and distribution infrastructure with three primary objectives: delivering clean energy, enhancing customer satisfaction and increasing grid resilience. Projects are aimed at advancing the infrastructure beyond its original architecture to a more flexible and redundant system accommodating growing amounts of intermittent and distributed generation resources and integrating evolving technologies that provide long-term customer value. In addition, projects included in the Grid Modernization Application improve customers' ability to customize their use of energy and modernize its electricity grid through infrastructure and technology improvements. See the subheading Capital Requirements included in the full discussion of Liquidity and Capital Resources below for additional discussion of the Company's projected capital requirements.

*Strategic Investments* – In 2017, PNMR Development and AEP OnSite Partners created NMRD to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. Abundant renewable resources, large tracts of affordable land, and strong government and community support make New Mexico a favorable location for renewable generation. New Mexico ranks third in the Nation for energy potential from solar power according to the Nebraska Department of Energy & Energy Sun Index and ranks third in the Nation for land-based wind capacity according to the U.S. Office of Energy Efficiency and Renewable Energy. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. Through NMRD, PNMR anticipates being able to provide additional renewable generation solutions to customers within and surrounding its regulated jurisdictions through partnering with a

subsidiary of one of the United States' largest electric utilities. As of September 30, 2022, NMRD's renewable energy capacity in operation was 135.1 MW, which includes 130 MW of solar-PV facilities to supply energy to the Meta data center located within PNM's service territory, 1.9 MW to supply energy to Columbus Electric Cooperative located in southwest New Mexico, 2.0 MW to supply energy to the Central New Mexico Electric Cooperative, and 1.2 MW of solar-PV facilities to supply energy to the City of Rio Rancho, New Mexico. In addition, the NMPRC approved PNM to enter into a 50 MW solar PPA to service the Meta data center, which will be owned by NMRD.

#### *Integrated Resource Plan*

NMPRC rules require that investor-owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period. On September 14, 2022 and November 2, 2022, the NMPRC adopted revisions to the IRP Rule. The revisions revamp and modernize the planning process to accommodate increased stakeholder involvement. See additional discussion of the NMPRC adopted revision to the IRP rule in Note 12.

NMPRC rules required PNM to file its 2020 IRP in July 2020. In April 2020, the NMPRC approved PNM's request to extend the deadline to file its 2020 IRP until six months after the NMPRC issues a final order approving replacement resources in PNM's SJGS Abandonment Application. On January 29, 2021, PNM filed its 2020 IRP. The plan focuses on a carbon-free electricity portfolio by 2040 that would eliminate coal at the end of 2024. This includes replacing the power from San Juan with a mix of approved carbon-free resources and the plan to exit Four Corners at the end of 2024 (subject to regulatory approval). The plan highlights the need for additional investments in a diverse set of resources, including renewables to supply carbon-free power, energy storage to balance supply and demand, and efficiency and other demand-side resources to mitigate load growth. See additional discussion regarding PNM's 2020 IRP filing in Note 12.

In the second quarter of 2022, PNM initiated its 2023 IRP process which will cover the 20-year planning period from 2023 through 2043. Consistent with historical practice, PNM will seek public input from interested parties as part of this process. PNM expects to issue a draft of its IRP by March 2023 and to submit its final 2023 IRP to the NMPRC by July 2023.

#### *Environmentally Responsible Power*

PNMR has a long-standing record of environmental stewardship. PNM's environmental focus is in three key areas:

- Developing strategies to provide reliable and affordable power while transitioning to a 100% emissions-free generating portfolio by 2040
- Preparing PNM's system to meet New Mexico's increasing renewable energy requirements as cost-effectively as possible
- Increasing energy efficiency participation

PNMR's corporate website ([www.pnmresources.com](http://www.pnmresources.com)) includes a dedicated section providing key environmental and other sustainability information related to PNM's and TNMP's operations and other information that collectively demonstrates the Company's commitment to ESG principles. This information highlights plans for PNM to be coal-free by 2024 (subject to regulatory approval) and to achieve an emissions-free generating portfolio by 2040.

In February 2022, PNM named its first Chief Sustainability Officer. The Chief Sustainability Officer is responsible for developing and implementing the Company's business strategy and positions on environmental and sustainability policy issues and is charged with establishing organization-wide policies, strategies, goals, objectives and programs that advance sustainability and ensure compliance with regulations. The role serves as the primary contact with various regulatory and stakeholder agencies on environmental matters. In addition, the role leads environmental justice work, incorporating impacts to tribal, worker and affected communities and advance ESG reporting.

On September 21, 2020, PNM announced an agreement to partner with Sandia National Laboratories in research and development projects focused on energy resiliency, clean energy, and national security. The partnership demonstrates PNMR's commitment to ESG principles and its support of projects that further its emissions-free generation goals and plans for a reliable, resilient, and secure grid to deliver New Mexico's clean energy future. PNM also recently joined the Electric Power Research Institute ("EPRI") Climate READi (REsilience and ADaptation) Initiative, a three-year initiative to develop a comprehensive and consistent approach to physical climate risk and facilitate the analysis and application of appropriate climate data among all stakeholders to enhance the planning, design and operation of a resilient power system.

The Infrastructure Investment and Jobs Act (IIJA), also commonly known as the Bipartisan Infrastructure Law ("BIL"), was signed into law on November 15, 2021. This Act represents a "once-in-a-generation" investment designed to modernize and upgrade America's infrastructure. The BIL includes historic investments to upgrade the transmission and distribution systems to improve reliability and resilience, and to facilitate the deployment of more affordable and cleaner energy across the country. In addition to the recent filing of its Grid Modernization Application with the NMPRC, the Company is currently

monitoring the release of grant opportunities by the U.S. Department of Energy and the State Energy, Minerals and Natural Resources Department, to determine if it will apply for funding to supplement the investment in the Grid Modernization Application.

On August 16, 2022, President Biden signed the Inflation Reduction Act of 2022 (the "IRA") into law. The IRA will provide significant benefits for PNMR and its customers by extending and enhancing clean energy incentives such as the investment tax credit and production tax credit. As the Company continues its transition away from carbon emitting sources, these credits will reduce the cost of renewable investments. In addition, the IRA includes a new production tax credit for existing nuclear facilities that is expected to create an added benefit for PNM's ownership in the carbon-free PVNGS. Other IRA provisions will encourage transportation electrification with new electric vehicle credits and added incentives in vehicle charging infrastructure.

#### *Electric Vehicles*

PNMR is building upon its ESG goal of 100% emissions-free generation by 2040 with plans for additional emissions reductions through the electrification of its vehicle fleet. Growing the number of electric vehicles within the Company's fleet will benefit the environment and lower fuel costs furthering the commitment to ESG principles. Under the commitment, existing fleet vehicles will be replaced as they are retired with an increasing percentage of electric vehicles. The new goals call for 25% of all light duty fleet purchases to be electric by 2025 and 50% to be electric by 2030.

To demonstrate PNMR's commitment to increase the electrification of vehicles in its service territory, PNM filed a TEP with the NMPRC on December 18, 2020. The TEP supports customer adoption of electric vehicles by focusing on addressing the barriers to electric vehicle adoption and encourage use. PNM's proposed program budget will be dedicated to low and moderate income customers by providing rebates to both residential and non-residential customers towards the purchase of chargers and/or behind-the-meter infrastructure. On November 10, 2021, the NMPRC issued a final order approving PNM's TEP. See Note 12.

In December 2021, PNM announced that it will be joining the National Electric Highway Coalition, which plans to build fast-charging ports along major U.S. travel corridors. The coalition, with approximately 50 investor-owned electric companies is committed to providing electric vehicle (EV) fast charging ports that will allow the public to drive EVs with confidence throughout the country's major roadways by the end of 2023.

#### *Other Environmental Matters*

Four Corners may be required to comply with environmental rules that affect coal-fired generating units, including regional haze rules and the ETA. On June 19, 2019, EPA repealed the Clean Power Plan, promulgated the ACE Rule, and revised the implementing regulations for all emission guidelines issued under the CAA Section 111(d). On January 19, 2021, the DC Circuit issued an opinion vacating and remanding the ACE Rule, holding that it was based on a misconstruction of Section 111(d) of the CAA, but stayed its mandate for vacatur of the repeal of the Clean Power Plan to ensure that the now-outdated rule would not become effective. On January 27, 2021, President Biden signed an executive order requiring a review of environmental regulations issued under the Trump Administration, which will include a review of the ACE Rule. The U.S. Supreme Court granted four petitions for certiorari seeking review of the DC Circuit's decision, and oral arguments in the case were held on February 28, 2022 and on June 30, 2022, the US Supreme Court ruled in the case. Their ruling states that EPA overstepped its authority under the Clean Power Plan by requiring generation shifting. Relying upon the Major Question Doctrine, the US Supreme Court found no clear statement in the CAA that would authorize EPA to force the power sector to shift from coal-fired power plants to gas-fired power plants and renewable energy resources. The ruling has an impact on EPA's current drafting of a new rule to replace the ACE Rule, which is expected to be published in March 2023.

#### *Renewable Energy*

PNM's renewable procurements include utility-owned solar capacity, as well as solar, wind and geothermal energy purchased under PPAs. As of September 30, 2022, PNM has 158 MW of utility-owned solar capacity in operation. In addition, PNM purchases energy from a customer-owned distributed solar generation program that had an installed capacity of 228.5 MW at September 30, 2022. PNM also owns the 500 KW PNM Prosperity Energy Storage Project. The project was one of the first combinations of battery storage and solar-PV energy in the nation and involved extensive research and development of advanced grid concepts. The facility also was the nation's first solar storage facility fully integrated into a utility's power grid. PNM also purchases the output from New Mexico Wind, a 200 MW wind facility, and the output of Red Mesa Wind, an existing 102 MW wind energy center. PNM's 2020 renewable energy procurement plan was approved by the NMPRC in January 2020 and includes a PPA to procure 140 MW of renewable energy and RECs from La Joya Wind II that became operational in June 2021. Under the Solar Direct program discussed above, PNM procures renewable energy from 50 MW of solar-PV facilities under a 15-year PPA. The NMPRC approved the portfolio to replace the retirement of SJGS resulting in PNM executing solar PPAs of 650 MW combined with 300 MW of battery storage agreements. In addition, the PVNGS Leased Interest Abandonment Application approved by the NMPRC includes a 300 MW solar PPA combined with a 300 MW

battery storage agreement. The majority of these renewable resources are key means for PNM to meet the RPS and related regulations that require PNM to achieve prescribed levels of energy sales from renewable sources, including those set by the recently enacted ETA, without exceeding cost requirements. See additional discussion of the ETA and PNM's Abandonment Applications in Notes 11 and 12.

As discussed in Strategic Investments above, PNM is currently purchasing the output of 130 MW of solar capacity from NMRD that is used to serve the Meta data center which includes two 25-year PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities constructed by NMRD to supply power to Meta, Inc. Additionally, PNM has entered into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply additional renewable power to the Meta data center. These PPAs include the purchase of power and RECs from two wind projects totaling 216 MW and a 50 MW solar-PV project which began commercial operations in June 2022. In addition, the NMPRC issued an order that will allow PNM to service the Meta data center for an additional 190 MW of solar PPA combined with 50 MW of battery storage and a 50 MW solar PPA.

PNM will continue to procure renewable resources while balancing the impact to customers' electricity costs in order to meet New Mexico's escalating RPS and carbon-free resource requirements.

#### *Energy Efficiency*

Energy efficiency plays a significant role in helping to keep customers' electricity costs low while meeting their energy needs and is one of the Company's approaches to supporting environmentally responsible power. PNM's and TNMP's energy efficiency and load management portfolios continue to achieve robust results. In 2021, incremental energy saved as a result of new participation in PNM's portfolio of energy efficiency programs was 107 GWh. This is equivalent to the annual consumption of approximately 12,689 homes in PNM's service territory. PNM's load management and annual energy efficiency programs also help lower peak demand requirements. In 2021, TNMP's incremental energy saved as a result of new participation in TNMP's energy efficiency programs is estimated to be approximately 19 GWh. This is equivalent to the annual consumption of approximately 2,469 homes in TNMP's service territory. TNMP's High-Performance Homes residential new construction energy efficiency program was honored for the sixth year in a row by ENERGY STAR. This recognition includes the program's fourth straight Partner of the Year Sustained Excellence Award. For information on PNM's and TNMP's energy efficiency filing with the NMPRC and PUCT see Note 12.

#### *Water Conservation and Solid Waste Reduction*

PNM continues its efforts to reduce the amount of fresh water used to make electricity (about 35% more efficient than in 2007). Continued growth in PNM's fleet of solar and wind energy sources, energy efficiency programs, and innovative uses of gray water and air-cooling technology have contributed to this reduction. Water usage has continued to decline as PNM has substituted less fresh-water-intensive generation resources to replace SJGS Units 2 and 3 starting in 2018, as water consumption at that plant has been reduced by approximately 50%. As the Company moves forward with its mission to achieve 100% carbon-free generation by 2040, it expects that more significant water savings will be gained. Shutting down SJGS in 2022 and exiting Four Corners in 2024 (subject to regulatory approval) will allow the Company to reach our goals for reduced freshwater use by 80% by 2035 and 90% by 2040 from 2005 levels. Focusing on responsible stewardship of New Mexico's scarce water resources improves PNM's water-resilience in the face of persistent drought and ever-increasing demands for water to spur the growth of New Mexico's economy.

In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. In 2021, 18 of the Company's 23 facilities met the solid waste diversion goal of a 65% diversion rate. The Company expects to continue to do well in this area in the future.

#### *Customer, Stakeholder, and Community Engagement*

Another key element of the Company's commitment to ESG principles is fostering relationships with its customers, stakeholders, and communities. The Company strives to deliver a superior customer experience. Through outreach, collaboration, and various community-oriented programs, the Company has demonstrated a commitment to building productive relationships with stakeholders, including customers, community partners, regulators, intervenors, legislators, and shareholders. In the third quarter of 2022, PNM made payments of \$19.8 million to promote economic development in areas impacted by the retirement of SJGS. In December 2021, PNM was named, for the second consecutive year, to Newsweek's list of America's Most Responsible Companies highlighting companies in areas of ESG. PNM continues to focus its efforts to enhance the customer experience through customer service improvements, including enhanced customer service engagement options, strategic customer outreach, and improved communications. These efforts are supported by market research to understand the varying needs of customers, identifying and establishing valued services and programs, and proactively communicating and engaging with customers. In the 2021 fourth quarter J.D. Power overall customer satisfaction results, PNM outperformed the West Midsize industry average by one point. In 2022, PNM and the utility industry as a whole, have experienced a decline in

customer satisfaction as measured by J.D. Power. However, PNM remains focused on continuously improving its customers' experience at every touchpoint and placing greater focus on customer assistance through economic uncertainty.

The Company has leveraged a number of communications channels and strategic content to better serve and engage its many stakeholders. PNM's website [www.pnm.com](http://www.pnm.com), provides the details of major regulatory filings, including general rate requests, as well as the background on PNM's efforts to maintain reliability, keep prices affordable, and protect the environment. The Company's website is also a resource for information about PNM's operations and community outreach efforts, including plans for building a sustainable energy future for New Mexico and to transition to an emissions-free generating portfolio by 2040. PNM has also leveraged social media in communications with customers on various topics such as education, outage alerts, safety, customer service, and PNM's community partnerships in philanthropic projects. As discussed above, PNM's corporate website, [www.pnmresources.com](http://www.pnmresources.com), includes a dedicated section providing additional information regarding the Company's commitment to ESG principles and other sustainability efforts.

With reliability being the primary role of a transmission and distribution service provider in Texas' deregulated market, TNMP continues to focus on keeping end-users updated about interruptions and to encourage consumer preparation when severe weather is forecasted. In both 2021 and 2022, TNMP provided 30-person teams in support of other utilities that experienced significant damage to their transmission and distribution system as a result of Hurricane Ida and Hurricane Ian. TNMP has been honored by the Edison Electric Institute four times since 2012 for its assistance to out-of-state utilities affected by hurricanes. TNMP has also been honored twice for hurricane response in its own territory.

Local relationships and one-on-one communications remain two of the most valuable ways both PNM and TNMP connect with their stakeholders. Both companies maintain long-standing relationships with governmental representatives and key electricity consumers to ensure that these stakeholders are updated on Company investments and initiatives. Key electricity consumers also have dedicated Company contacts that support their important service needs.

Another demonstration of the Company's commitment to ESG principles is the Company's tradition of supporting the communities it serves in New Mexico and Texas. This support extends beyond corporate giving and financial donations from the PNM Resources Foundation to also include collaborations on community projects, customer low-income assistance programs, and employee volunteerism.

During the three years ending December 31, 2021, corporate giving contributed \$10.4 million to civic, educational, environmental, low income, and economic development organizations. In 2022, corporate giving will maintain this strategic focus and will continue to highlight corporate citizenship through active involvement with sponsorships demonstrating PNM's commitment to the community. In addition, emergency relief funds in 2022 supported non-profits providing response to the fires in northern and southern New Mexico. PNM recognizes its responsibility to support programs and organizations that enrich the quality of life across its service territories and seeks opportunities to further demonstrate its commitment in these areas as needs arise. In response to COVID-19 community needs, PNM donated to an Emergency Action Fund in partnership with key local agencies to benefit approximately ninety nonprofits and small businesses facing challenges due to lack of technology, shifting service needs, and cancelled fundraising events. While its service territory does not include the Navajo Nation, PNM's operations include generating facilities and employees in this region. The PNM Navajo Nation Workforce Training Scholarship Program provides support for Navajo tribal members and encourages the pursuit of education and training in existing and emerging jobs in the communities in which they live. In 2019, PNM invested an additional \$500,000 into this scholarship program to further assist in the development and education of the Navajo Nation workforce. PNM has invested in paid summer college engineering internship programs for American Indian students available in the greater Albuquerque area, established the PNM Pueblo Education Scholarship Endowment to invest in higher education for Native American Indian students, and supported the Coalition to Stop Violence Against Native Women. PNM also continues to partner in the Light up Navajo project, piloted in 2019 and modeled after mutual aid to connect homes without electricity to the power grid. PNM has also partnered with key local organizations to initiate funding for programs focused on diversity, equity, and inclusion.

Another important outreach program is tailored for low-income customers and includes the PNM Good Neighbor Fund to provide customer assistance with their electric utility bills. COVID-19 has increased the needs of these customers along with customers who may not otherwise need to seek assistance. In addition to the suspension of residential customer disconnections from April 2020 through August 2021 and the expansion of customer payment plans, PNM responded with increased communications through media outlets and customer outreach to connect customers with nonprofit community service providers offering financial assistance, food, clothing, medical programs, and services for seniors. As a result of these communication efforts, 4,147 families in need received emergency assistance through the PNM Good Neighbor Fund during 2021. Additionally, PNM has worked closely with the New Mexico Department of Finance and Administration to implement strategies ensuring customers receive rent benefits, including utility bill assistance, from the Emergency Rental Assistance Program ("ERAP"). As a result of these efforts, the ERAP has paid over \$6.0 million in customer arrears since the launch of the program in March 2021. In the nine months ended September 30, 2022, the PNM Good Neighbor Fund has awarded approximately 2,922 families with a combined \$0.5 million.



Additionally, as a part of corporate giving, on October 1, 2020, PNM introduced \$2.0 million in funding for the COVID Customer Relief Programs which support income-qualified residential customers and small business customers who have been impacted by the financial challenges created by COVID-19 and have past due electric bills. Qualified customers that pay a portion of their past-due balance can receive assistance toward their remaining balance. In the nine months ended September 30, 2022, the COVID Customer Relief Programs have provided \$0.4 million in assistance to 2,506 families through 14 events.

Volunteerism is also an important facet of employee culture, keeping our communities safer, stronger, smarter and more vibrant. The Company continues to provide employees with COVID-safe projects through virtual, hybrid, and limited group gatherings. Employees and nonprofits remained resilient, creative, and innovative and responded to community need and selflessly gave their time and talents to organizations throughout New Mexico and Texas completing 8,741 volunteer hours with nonprofits and other community organizations. Volunteers also participate in a company-wide annual Day of Service at nonprofits across New Mexico and Texas along with participation on a variety of nonprofit boards and independent volunteer activities throughout the year. In addition, the Company facilitated employee and customer Earth Day cleanups across PNM's service territory resulting in over 2,200 gallons of trash collected.

In addition to the extensive engagement both PNM and TNMP have with nonprofit organizations in their communities, the PNM Resources Foundation provides nearly \$1.4 million in grant funding each year across New Mexico and Texas. These grants help nonprofits innovate or sustain programs to grow and develop their mission, develop and implement environmental programs, and provide educational opportunities. Beginning in 2020 and ending in 2022, the PNM Resources Foundation is funding grants with a three-year focus on decreasing homelessness, increasing access to affordable housing, reducing carbon emissions, and increasing community safety. The PNM Resources Foundation continued to expand its matching donation program and increased the annual amount of matching donations available to each of its employees. PNM Resources Foundation awarded additional grants to non-profits providing relief for the fires in northern and southern New Mexico in the first half of 2022. The PNM Resources Foundation also approved an increase to the amount awarded to employees, through the employee crisis management fund, who have been affected by the wildfires. The maximum amount was increased from \$2,500 to \$5,000 under a declared emergency such as was done during Hurricane Harvey in Texas. In December 2021, the PNM Resources Foundation was nominated for the Albuquerque Business First 2022 Philanthropy Award.

### **Economic Factors**

*PNM* – In the three and nine months ended September 30, 2022, PNM experienced a decrease of 1.9% and 1.2% in weather normalized residential load. Weather normalized commercial load experienced an increase of 3.1% and 2.5% compared to 2021. In addition, PNM experienced an increase in industrial load of 7.9% and 4.4% compared to 2021.

*TNMP* – In the three and nine months ended September 30, 2022, TNMP experienced an increase of 2.1% and 2.8% in volumetric weather normalized retail load compared to 2021. Weather normalized demand-based load, excluding retail transmission consumers increased 20.9% and 11.7% in the three and nine months ended September 30, 2022 compared to 2021.

Although the Company has experienced signs of recovery from state restrictions related to COVID-19, it is unable to determine the duration or final impacts from COVID-19 as discussed in more detail in Item 1A Risk Factors of the 2021 Annual Report on Form 10-K. The Company is also closely monitoring the impacts on the capital markets of other macroeconomic conditions, including actions by the Federal Reserve to address inflationary concerns or other market conditions, and geopolitical activity. The Company has not experienced, nor does it expect significant negative impacts to customer usage at PNM and TNMP resulting from these economic impacts. However, if current economic conditions worsen, the Company may be required to implement additional measures such as reducing or delaying operating and maintenance expenses and planned capital expenditures.

### **Results of Operations**

Net earnings attributable to PNMR were \$153.8 million, or \$1.78 per diluted share in the nine months ended September 30, 2022 compared to \$184.6 million, or \$2.14 per diluted share in 2021. Among other things, earnings in the nine months ended September 30, 2022 benefited from higher transmission margin at PNM and TNMP, higher volumetric and demand-based load at TNMP, warmer weather at PNM and TNMP, higher distribution rates at TNMP, higher unregulated margin at PNM, AMS carrying charges at TNMP, and lower costs related to the Merger at Corporate and Other. These increases were more than offset by decreased performance on PNM's NDT and coal mine reclamation investment securities, lower weather normalized retail load at PNM, increased operational and maintenance expense, including higher plant maintenance costs at PNM, higher employee related expense at PNM and TNMP, increased depreciation and property taxes at PNM and TNMP due to increased plant in service, and higher interest charges at PNM, TNMP and Corporate and Other. Additional information on factors impacting results of operations for each segment is discussed below under Results of Operations.

## Liquidity and Capital Resources

PNMR and PNM have revolving credit facilities with capacities of \$300.0 million and \$400.0 million that currently expire in October 2024, with two one-year extensions options that, if exercised, would extend the maturity to October 2026, subject to approval by a majority of the lenders. Both facilities provide for short-term borrowings and letters of credit. In addition, PNM has a \$40.0 million revolving credit facility with banks having a significant presence in New Mexico that expires in May 2026, and TNMP has a \$100.0 million revolving credit facility, which expires in September 2024 with two one-year extension options that, if exercised, would extend the maturity to September 2026, subject to approval by a majority of the lenders. Total availability for PNMR on a consolidated basis was \$777.7 million at October 21, 2022. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational expenditures. PNMR also has intercompany loan agreements with each of its subsidiaries.

PNMR projects that its consolidated capital requirements, consisting of construction expenditures and dividends, will total \$5.2 billion for 2022 - 2026, including amounts expended through September 30, 2022. These construction expenditures include expenditures for PNM's capital initiative that includes investments in transmission and distribution infrastructure to deliver clean energy, enhance customer satisfaction, and increase grid resilience. Construction expenditures also include investments proposed in PNM Grid Modernization Application.

To fund capital spending requirements to meet growth that balances earnings goals, credit metrics and liquidity needs, the Company has entered into a number of other financing arrangements. A complete listing of current financing arrangements is contained in Note 9 and Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K.

After considering the effects of these financings and the Company's short-term liquidity position as of October 21, 2022, the Company has consolidated maturities of long-term and short-term debt aggregating approximately \$243.9 million through August 2023. In addition to internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing in the form of debt refinancing, new debt issuances, and/or new equity in order to fund its capital requirements during the 2022-2026 period. The Company currently believes that its internal cash generation, existing credit arrangements, and access to public and private capital markets will provide sufficient resources to meet the Company's capital requirements for at least the next twelve months. As of September 30, 2022 and October 21, 2022, the Company was in compliance with its debt covenants.

## RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto. Trends and contingencies of a material nature are discussed to the extent known. Refer also to Disclosure Regarding Forward Looking Statements and to Part II, Item 1A. Risk Factors.

A summary of net earnings attributable to PNMR is as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(In millions, except per share amounts)					
Net earnings attributable to PNMR	\$ 122.4	\$ 113.3	\$ 9.1	\$ 153.8	\$ 184.6	\$ (30.8)
Average diluted common and common equivalent shares	86.1	86.1	—	86.2	86.1	0.1
Net earnings attributable to PNMR per diluted share	\$ 1.42	\$ 1.32	\$ 0.10	\$ 1.78	\$ 2.14	\$ (0.36)

The components of the change in net earnings attributable to PNMR are:

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
	(In millions)	
PNM	\$ 10.6	\$ (51.2)
TNMP	3.5	20.2
Corporate and Other	(5.0)	0.2
Net change	\$ 9.1	\$ (30.8)

Information regarding the factors impacting PNMR's operating results by segment are set forth below.

## Segment Information

The following discussion is based on the segment methodology that PNMR's management uses for making operating decisions and assessing performance of its various business activities. See Note 2 for more information on PNMR's operating segments.

### PNM

#### Non-GAAP Financial Measures

PNM defines utility margin as electric operating revenues less cost of energy, which consists primarily of fuel and purchase power costs. PNM believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all fuel and purchase power costs are offset in revenues as those costs are passed through to customers under PNM's FPPAC. Utility margin is not a financial measure required to be presented and is considered a non-GAAP measure. PNM does not intend for utility margin to represent any financial measure as defined by GAAP however, the calculation of utility margin, as presented, most closely compares to gross margin as defined by GAAP. Reconciliations between utility margin and gross margin are presented below.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(In millions)					
Gross margin	\$ 201.6	\$ 176.7	\$ 24.9	\$ 421.3	\$ 378.4	\$ 42.9
Energy production costs	34.5	32.4	2.1	110.5	106.7	3.8
Transmission and distribution costs	12.5	12.8	(0.3)	37.7	34.9	2.8
Depreciation and amortization	45.4	42.7	2.7	137.1	127.1	10.0
Utility margin	\$ 294.0	\$ 264.6	\$ 29.4	\$ 706.7	\$ 647.1	\$ 59.6

The following table summarizes the operating results for PNM:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(In millions)					
Electric operating revenues	\$ 597.3	\$ 435.5	\$ 161.8	\$ 1,312.8	\$ 1,030.7	\$ 282.1
Cost of energy	303.4	170.9	132.5	606.1	383.6	222.5
Utility margin	294.0	264.6	29.4	706.7	647.1	59.6
Operating expenses	108.7	107.4	1.3	335.2	320.6	14.6
Depreciation and amortization	45.4	42.7	2.7	137.1	127.1	10.0
Operating income	139.9	114.6	25.3	234.4	199.4	35.0
Other income (deductions)	(10.6)	4.7	(15.3)	(71.2)	24.1	(95.3)
Interest charges	(15.5)	(12.5)	(3.0)	(44.6)	(38.4)	(6.2)
Segment earnings before income taxes	113.9	106.8	7.1	118.6	185.0	(66.4)
Income (taxes)	(12.1)	(15.5)	3.4	(11.8)	(26.2)	14.4
Valencia non-controlling interest	(4.2)	(4.2)	—	(10.9)	(11.6)	0.7
Preferred stock dividend requirements	(0.1)	(0.1)	—	(0.4)	(0.4)	—
Segment earnings	\$ 97.5	\$ 86.9	\$ 10.6	\$ 95.6	\$ 146.8	\$ (51.2)

The following table shows total GWh sales, including the impacts of weather, by customer class and average number of customers:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Percentage Change	2022	2021	Percentage Change
	(Gigawatt hours, except customers)					
Residential	993.0	994.9	(0.2)%	2,557.4	2,577.1	(0.8)%
Commercial	1,089.8	1,048.1	4.0	2,778.8	2,701.8	2.8
Industrial	462.8	413.5	11.9	1,300.0	1,189.5	9.3
Public authority	66.5	67.9	(2.1)	165.6	172.6	(4.1)
Economy energy service <sup>(1)</sup>	137.4	123.4	11.3	402.6	365.5	10.2
Other sales for resale <sup>(2)</sup>	2,254.1	1,592.5	41.5	5,999.9	3,958.4	51.6
	<u>5,003.6</u>	<u>4,240.3</u>	<u>18.0 %</u>	<u>13,204.3</u>	<u>10,964.9</u>	<u>20.4 %</u>
Average retail customers (thousands)	<u>544.1</u>	<u>540.6</u>	<u>0.6 %</u>	<u>543.1</u>	<u>539.8</u>	<u>0.6 %</u>

<sup>(1)</sup> PNM purchases energy for a large customer on the customer's behalf and delivers the energy to the customer's location through PNM's transmission system. PNM charges the customer for the cost of the energy as a direct pass through to the customer with only a minor impact in utility margin resulting from providing ancillary services.

<sup>(2)</sup> Increase in other sales for resale is the result of participation in the EIM beginning in April 2021.

#### Operating Results – Three Months Ended September 30, 2022, compared to 2021

The following table summarizes the significant changes to gross margin:

	Three Months Ended September 30, 2022 Change
(In millions)	
<i>Gross margin:</i>	
Utility margin (see below)	\$ 29.4
Depreciation and amortization (see below)	(2.7)
Higher plant maintenance costs at PVNGS and Four Corners, partially offset by lower costs at SJGS and gas-fired plants	(1.2)
Lower employee related and vegetation management expenses, partially offset by higher outside service expenses	0.9
Higher transmission line maintenance and rights-of-way expense including for the Western Spirit Line	(1.0)
Other	(0.5)
Net Change	<u>\$ 24.9</u>

The following table summarizes the significant changes to utility margin:

	Three Months Ended September 30, 2022 Change
(In millions)	
<i>Utility margin:</i>	
<i>Retail customer usage/load</i> – Weather normalized retail KWh sales increased 3.1% for commercial customers and 7.9% for industrial customers which was offset by decreased sales to residential customers of 1.9%	\$ —
<i>Weather</i> – Warmer weather in the third quarter of 2022	2.8
<i>Unregulated margin</i> – Increased revenues driven by a higher price, partially offset by higher cost of energy associated with 65 MW of SJGS Unit 4	7.0
<i>Transmission</i> – Increase primarily due to higher revenues from the addition of new customers including on the Western Spirit Line, higher formula transmission rates, and higher volumes	19.2
<i>Rate riders</i> – Includes renewable energy, FPPAC, and energy efficiency riders	1.2
<i>Rate credits</i> - NMPRC ordered rate credits (See Note 12)	(1.2)
<i>Other</i>	0.4
Net Change	<u>\$ 29.4</u>

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Operating expenses:</i>	
Higher plant maintenance costs at PVNGS and Four Corners, partially offset by lower costs at SJGS and gas-fired plants	\$ 1.2
Lower property taxes due to favorable settlement of 2022 property values partially offset by increases in utility plant in service including the Western Spirit Line	(1.1)
Higher employee related and outside service expenses, partially offset by lower vegetation management expenses	4.0
Higher transmission rights of way expense including for the Western Spirit Line	0.4
2021 regulatory disallowance resulting from the PVNGS Leased Interest Abandonment Application (Note 12)	(1.3)
Higher regulatory disallowance due to change in estimated write-offs associated with SJGS BART determination and ownership restructuring	0.3
2021 non-retail credit loss	(0.8)
Decreased costs associated with the accelerated recovery of SNCRs on SJGS Units 1 and 4	(1.0)
Other	(0.4)
Net Change	<u>\$ 1.3</u>
<i>Depreciation and amortization:</i>	
Increased utility plant in service including the Western Spirit Line	\$ 2.6
Other	0.1
Net Change	<u>\$ 2.7</u>
<i>Other income (deductions):</i>	
Decreased performance on investment securities in the NDT and coal mine reclamation trusts	\$ (17.7)
Lower trust expenses and higher interest income related to investment securities in the NDT and coal mine reclamation trusts	0.8
Lower charitable donations in 2022	0.2
Carrying charges on payments under the ETA for SJGS made in advance of the Energy Transition Bonds (Note 12)	0.4
Higher non-service pension costs	1.1
Other	(0.1)
Net Change	<u>\$ (15.3)</u>
<i>Interest charges:</i>	
Issuance of \$150.0 million SUNs in December 2021	\$ (1.0)
Refinancing of \$160.0 million SUNs in July 2021	0.2
Higher interest on Term Loans	(0.9)
Higher interest on remarketed PCRBs	(0.1)
Interest on transmission customer deposits including the Western Spirit Transmission Line	(1.0)
Other	(0.2)
Net Change	<u>\$ (3.0)</u>
<i>Income (taxes) benefits:</i>	
Higher segment earnings before income taxes	\$ (1.8)
Higher amortization of federal excess deferred income taxes	4.4
Other	0.8
Net Change	<u>\$ 3.4</u>

Operating Results – Nine Months Ended September 30, 2022 compared to 2021

The following table summarizes the significant changes to gross margin:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Gross margin:</i>	
Utility margin (see below)	\$ 59.6
Depreciation and amortization (see below)	(10.0)
Higher plant maintenance costs at PVNGS and gas fired plants, partially offset by lower costs at SJGS and Four Corners	(3.5)
Higher outside service expenses, partially offset by lower employee related and vegetation management expenses	(0.4)
Higher transmission line maintenance and rights-of-way expense including for the Western Spirit Line	(2.4)
Other	(0.4)
Net Change	<u>\$ 42.9</u>

The following table summarizes the significant changes to utility margin:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Utility margin:</i>	
<i>Retail customer usage/load</i> – Weather normalized retail KWh sales decreased 1.2% for residential customers, partially offset by increased sales of 2.5% to commercial customers and 4.4% to industrial customers	\$ (0.6)
<i>Weather</i> – Cooler weather in the first quarter and warmer weather in the third quarter was partially offset by milder weather in the second quarter	2.2
<i>Transmission</i> – Increase primarily due to higher revenues from the addition of new customers including on the Western Spirit Line, higher formula transmission rates, and higher volumes	51.4
<i>Rate riders</i> – Includes renewable energy, FPPAC, and energy efficiency riders	(2.3)
<i>Unregulated margin</i> – Increased revenues driven by a higher price and lower cost of energy associated with 65 MW of SJGS Unit 4	9.4
<i>Rate credits</i> - NMPRC ordered rate credits (See Note 12)	(1.2)
<i>Other</i>	0.7
Net Change	<u>\$ 59.6</u>

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Operating expenses:</i>	
Higher plant maintenance costs at PVNGS and gas fired plants, partially offset by lower costs at SJGS and Four Corners	\$ 3.5
Higher property taxes due to increases in utility plant in service including the Western Spirit Line partially offset by favorable settlement property values	1.6
Higher employee related and outside service expenses, partially offset by lower vegetation management expenses	9.9
Higher transmission rights of way expense including for the Western Spirit Line	1.0
2021 regulatory disallowance resulting from the PVNGS Leased Interest Abandonment Application (Note 12)	(1.3)
Higher regulatory disallowance due to change in estimated write-offs associated with SJGS BART determination and ownership restructuring	1.7
Decreased costs associated with the accelerated recovery of SNCRs on SJGS Units 1 and 4	(1.4)
2021 non-retail credit loss	(0.8)
Other	0.4
Net Change	<u>\$ 14.6</u>
<i>Depreciation and amortization:</i>	
Increased utility plant in service including the Western Spirit Line	\$ 9.4
Other	0.6
Net Change	<u>\$ 10.0</u>
<i>Other income (deductions):</i>	
Decreased performance on investment securities in the NDT and coal mine reclamation trusts	\$ (100.2)
Lower trust expenses partially offset by lower interest income related to investment securities in the NDT and coal mine reclamation trusts	0.8
Lower charitable donations in 2022	0.7
Carrying charges on payments under the ETA for SJGS made in advance of the Energy Transition Bonds (Note 12)	0.4
Higher non-service pension costs	2.4
Other	0.6
Net Change	<u>\$ (95.3)</u>
<i>Interest charges:</i>	
Issuance of \$150.0 million SUNs in Dec 2021	\$ (3.1)
Refinancing of \$160.0 million SUNs in July 2021	2.2
Higher interest on Term Loans	(1.2)
Higher interest on remarketed PCRBs	(0.4)
Interest on transmission customer deposits including the Western Spirit Transmission Line	(3.3)
Other	(0.4)
Net Change	<u>\$ (6.2)</u>
<i>Income (taxes) benefits:</i>	
Lower segment earnings before income taxes	\$ 16.7
Lower amortization of federal excess deferred income taxes	(1.8)
Other	(0.5)
Net Change	<u>\$ 14.4</u>

**TNMP**
**Non-GAAP Financial Measures**

TNMP defines utility margin as electric operating revenues less cost of energy, which consists of costs charged by third-party transmission providers. TNMP believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since all third-party transmission costs are passed on to consumers through a transmission cost recovery factor. Utility margin is not a financial measure required to be presented and is considered a non-GAAP measure. TNMP does not intend for utility margin to represent any financial measure as defined by GAAP however, the calculation of utility margin, as presented, most closely compares to gross margin as defined by GAAP. Reconciliations between utility margin and gross margin are presented below.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(In millions)					
Gross margin	\$ 67.6	\$ 60.4	\$ 7.2	\$ 172.3	\$ 142.3	\$ 30.0
Transmission and distribution costs	9.0	7.2	1.8	23.5	21.3	2.2
Depreciation and amortization	25.0	23.0	2.0	72.9	67.7	5.2
Utility margin	\$ 101.6	\$ 90.6	\$ 11.0	\$ 268.7	\$ 231.2	\$ 37.5

The following table summarizes the operating results for TNMP:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(In millions)					
Electric operating revenues	\$ 132.6	\$ 119.0	\$ 13.6	\$ 360.9	\$ 315.1	\$ 45.8
Cost of energy	31.0	28.5	2.5	92.2	83.9	8.3
Utility margin	101.6	90.6	11.0	268.7	231.2	37.5
Operating expenses	32.8	28.7	4.1	89.7	83.0	6.7
Depreciation and amortization	25.0	23.0	2.0	72.9	67.7	5.2
Operating income	43.8	38.8	5.0	106.1	80.6	25.5
Other income	2.4	1.1	1.3	5.7	3.3	2.4
Interest charges	(9.9)	(8.4)	(1.5)	(28.0)	(25.2)	(2.8)
Segment earnings before income taxes	36.4	31.6	4.8	83.8	58.7	25.1
Income (taxes)	(4.9)	(3.6)	(1.3)	(11.3)	(6.3)	(5.0)
Segment earnings	\$ 31.4	\$ 27.9	\$ 3.5	\$ 72.5	\$ 52.3	\$ 20.2

The following table shows total sales, including the impacts of weather, by retail tariff consumer class and average number of consumers:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Percentage Change	2022	2021	Percentage Change
Volumetric load <sup>(1)</sup> (GWh)	1,107.5	1,024.4	8.1 %	2,688.7	2,439.9	10.2 %
Demand-based load <sup>(2)</sup> (MW)	5,961.5	5,469.7	9.0 %	17,749.4	15,896.2	11.7 %
Average retail consumers (thousands) <sup>(3)</sup>	268.5	264.1	1.7 %	267.3	262.9	1.7 %

<sup>(1)</sup> Volumetric load consumers are billed on KWh usage.

<sup>(2)</sup> Demand-based load includes consumers billed on monthly KW peak and also includes retail transmission customers that are primarily billed under TNMP's rate riders.

<sup>(3)</sup> TNMP provides transmission and distribution services to REPs that provide electric service to their customers in TNMP's service territories. The number of consumers above represents the customers of these REPs. Under TECA, consumers in Texas have the ability to choose any REP to provide energy.



Operating Results – Three Months Ended September 30, 2022, compared to 2021

The following table summarizes the significant changes to gross margin:

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Gross margin:</i>	
Utility margin (see below)	\$ 11.0
Depreciation and amortization (see below)	(2.0)
Higher employee related, outside services expenses, and vegetation management expenses, excluding administrative costs	(1.7)
Other	(0.1)
Net Change	<u>\$ 7.2</u>

The following table summarizes the significant changes to utility margin:

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Utility margin:</i>	
<i>Transmission rate relief</i> – Transmission cost of service rate increases in September 2021, March 2022 and September 2022	\$ 4.8
<i>Distribution rate relief</i> – Distribution cost of service rate increases in September 2021 and September 2022	3.5
<i>Volumetric-based consumer usage/load</i> – Weather normalized KWh sales increased 2.1%; the number of volumetric consumers increased 2.0%	0.8
<i>Demand-based consumer usage/load</i> – Weather normalized demand-based MW sales for large commercial and industrial consumers excluding retail transmission consumers increased 20.9% primarily due to new cryptocurrency loads	2.4
<i>Weather</i> – Warmer weather in the third quarter of 2022	2.3
<i>Rate Riders and other</i> – Impacts of rate riders, including the transmission cost recovery factor, energy efficiency rider, and rate case expense rider, which are partially offset in operating expenses and depreciation and amortization	(2.8)
Net Change	<u>\$ 11.0</u>

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Operating expenses:</i>	
Higher employee related, outside services expenses, and vegetation management expenses	\$ 3.4
Higher property taxes due to increased utility plant in service	1.0
Higher capitalization of administrative and general and other expenses due to higher construction expenditures in 2022	(1.3)
Higher energy efficiency expense and rate case amortization which are offset in utility margin	0.3
Other	0.7
Net Change	<u>\$ 4.1</u>

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Depreciation and amortization:</i>	
Increased utility plant in service	\$ 2.1
Decreased amortization related to rate riders offset in utility margin and other	(0.1)
Net Change	<u>\$ 2.0</u>
<i>Other income (deductions):</i>	
Higher CIAC	\$ 0.6
Higher Equity AFUDC	0.4
AMS Reconciliation carrying charges (Note 12)	0.1
Other	0.2
Net Change	<u>\$ 1.3</u>
<i>Interest charges:</i>	
Issuance of \$65.0 million first mortgage bonds in 2021	\$ (0.2)
Issuance of \$65.0 million first mortgage bonds in 2022	(0.7)
Issuance of \$95.0 million first mortgage bonds in 2022	(0.6)
Net Change	<u>\$ (1.5)</u>
<i>Income (taxes) benefits:</i>	
Higher segment earnings before income taxes	\$ (1.4)
Other	0.1
Net Change	<u>\$ (1.3)</u>

*Operating Results – Nine Months Ended September 30, 2022 compared to 2021*

The following table summarizes the significant changes to gross margin:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Gross margin:</i>	
Utility margin (see below)	\$ 37.5
Depreciation and amortization (see below)	(5.2)
Higher employee related, outside services expenses, and vegetation management expenses, excluding administrative costs	(1.9)
Other	(0.4)
Net Change	<u>\$ 30.0</u>

The following table summarizes the significant changes to utility margin:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Utility margin:</i>	
<i>Transmission rate relief/load</i> – Transmission cost of service rate increases in March 2021, September 2021, March 2022, and September 2022	\$ 14.8
<i>Distribution rate relief</i> – Distribution cost of service rate increases in September 2021 and September 2022	10.9
<i>Volumetric-based consumer usage/load</i> – Weather normalized KWh sales increased 2.8%; the number of volumetric consumers increased 2.8%	2.2
<i>Demand-based consumer usage/load</i> – Weather normalized demand-based MW sales for large commercial and industrial consumers excluding retail transmission consumers increased 11.7% primarily due to new cryptocurrency loads	4.5
<i>Weather</i> – Cooler weather in the first quarter and warmer weather in the second and third quarters	6.0
<i>Rate Riders and other</i> – Impacts of rate riders, including the transmission cost recovery factor, energy efficiency rider, and rate case expense rider, which are partially offset in operating expenses and depreciation and amortization	(0.9)
<b>Net Change</b>	<b>\$ 37.5</b>

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Operating expenses:</i>	
Higher employee related, outside services expenses, and vegetation management expenses	\$ 5.0
Higher property taxes due to increased utility plant in service	2.9
Higher capitalization of administrative and general and other expenses due to higher construction expenditures	(2.6)
Higher energy efficiency expense and rate case amortization which are offset in utility margin	0.4
Other	1.0
<b>Net Change</b>	<b>\$ 6.7</b>

*Depreciation and amortization:*

Increased utility plant in service	\$ 5.5
Decreased amortization related to rate riders offset in utility margin and other and other	(0.3)
<b>Net Change</b>	<b>\$ 5.2</b>

*Other income (deductions):*

AMS Reconciliation carrying charges (Note 12)	\$ 1.4
Higher CIAC	0.7
Higher Equity AFUDC	0.2
Other	0.1
<b>Net Change</b>	<b>\$ 2.4</b>

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Interest charges:</i>	
Issuance of \$65.0 million first mortgage bonds in 2021	\$ (1.0)
Issuance of \$65.0 million first mortgage bonds in 2022	(1.0)
Issuance of \$95.0 million first mortgage bonds in 2022	(0.6)
Other	(0.2)
Net Change	<u>\$ (2.8)</u>
<i>Income (taxes) benefits:</i>	
Higher segment earnings before income taxes	\$ (5.6)
Other	0.6
Net Change	<u>\$ (5.0)</u>

## Corporate and Other

The table below summarizes the operating results for Corporate and Other:

	<b>Three Months Ended September 30,</b>			<b>Nine Months Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>	<b>2022</b>	<b>2021</b>	<b>Change</b>
	(In millions)					
Electric operating revenues	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Cost of energy	—	—	—	—	—	—
Utility margin	—	—	—	—	—	—
Operating expenses	(5.3)	(4.1)	(1.2)	(15.8)	(6.4)	(9.4)
Depreciation and amortization	6.2	5.7	0.5	19.1	17.2	1.9
Operating income (loss)	(1.0)	(1.7)	0.7	(3.2)	(10.9)	7.7
Other income	0.1	—	0.1	0.2	—	0.2
Interest charges	(9.2)	(2.3)	(6.9)	(17.4)	(9.7)	(7.7)
Segment (loss) before income taxes	(10.1)	(4.0)	(6.1)	(20.4)	(20.5)	0.1
Income (taxes) benefit	3.6	2.5	1.1	6.0	6.0	—
Segment (loss)	<u>\$ (6.5)</u>	<u>\$ (1.5)</u>	<u>\$ (5.0)</u>	<u>\$ (14.3)</u>	<u>\$ (14.5)</u>	<u>\$ 0.2</u>

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP under shared services agreements. The amounts allocated include certain expenses shown as depreciation and amortization and other income (deductions) in the table above. The changes in operating expense for the three and nine months ended September 30, 2022 include decreases of \$1.0 million and \$8.2 million in costs related to the Merger that were not allocated to PNM or TNMP. Substantially all depreciation and amortization expense is offset in operating expenses as a result of allocation of these costs to other business segments.

### Operating Results – Three Months Ended September 30, 2022 compared to 2021

The following tables summarize the primary drivers for changes in other income (deductions), interest charges, and income taxes:

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Other income (deductions):</i>	
Decrease in donations and other contributions	\$ 0.2
Lower equity method investment income from NMRD	(0.1)
Net Change	<u>\$ 0.1</u>

	<b>Three Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Interest charges:</i>	
Higher interest on term loans	\$ (6.6)
Higher interest on short-term borrowings	(0.3)
Net Change	<u>\$ (6.9)</u>

<i>Income (taxes) benefits:</i>	
Impact of difference in effective tax rates used by PNMR and its subsidiaries in the calculation of income taxes in interim periods	\$ (0.3)
Higher segment loss before income taxes	1.5
Lower non-deductible Merger related costs	0.1
Higher investment tax credit amortization	0.1
Higher state income tax effective rate	(0.4)
Other	0.1
Net Change	<u>\$ 1.1</u>

*Operating Results – Nine Months Ended September 30, 2022 compared to 2021*

The following tables summarize the primary drivers for changes in other income (deductions), interest charges, and income taxes:

	<b>Nine Months Ended September 30, 2022 Change</b>
	(In millions)
<i>Other income (deductions):</i>	
Higher equity method investment income from NMRD	\$ 0.1
Decrease in donations and other contributions	0.1
Net Change	<u>\$ 0.2</u>

<i>Interest charges:</i>	
Higher interest on term loans	\$ (9.8)
Lower interest on short-term borrowings	0.1
Repayment of PNMR 2018 SUNs	2.0
Net Change	<u>\$ (7.7)</u>

<i>Income (taxes) benefits:</i>	
Impact of difference in effective tax rates used by PNMR and its subsidiaries in the calculation of income taxes in interim periods	\$ 0.9
Lower non-deductible merger related costs	0.8
Lower investment tax credit amortization	(0.8)
Higher state income tax effective rate	(0.9)
Net Change	<u>\$ —</u>

## LIQUIDITY AND CAPITAL RESOURCES

### Statements of Cash Flows

The changes in PNMR's cash flows for the nine months ended September 30, 2022, compared to September 30, 2021, are summarized as follows:

	<b>Nine Months Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>
	(In millions)		
Net cash flows from (used in):			
Operating activities	\$ 427.5	\$ 408.5	\$ 19.0
Investing activities	(711.4)	(503.8)	(207.6)
Financing activities	288.4	96.8	191.6
Net change in cash and cash equivalents	<u>\$ 4.5</u>	<u>\$ 1.6</u>	<u>\$ 2.9</u>

#### *Cash Flows from Operating Activities*

Changes in PNMR's cash flow from operating activities result from net earnings, adjusted for items impacting earnings that do not provide or use cash. See Results of Operations above. Certain changes in assets and liabilities resulting from normal operations, including the effects of the seasonal nature of the Company's operations, also impact operating cash flows.

#### *Cash Flows from Investing Activities*

The changes in PNMR's cash flows used in investing activities relate primarily to changes in utility plant additions. Cash flows from investing activities include purchases and sales of investment securities in the NDT and coal mine reclamation trusts as well as activity related to NMRD.

Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

	<b>Nine Months Ended September 30,</b>		
	<b>2022</b>	<b>2021</b>	<b>Change</b>
	(In millions)		
<b>Cash (Outflows) for Utility Plant Additions</b>			
PNM:			
Generation	\$ (58.0)	\$ (44.9)	\$ (13.1)
Transmission and distribution	(247.8)	(188.1)	(59.7)
Nuclear fuel	(16.6)	(14.1)	(2.5)
	<u>(322.4)</u>	<u>(247.1)</u>	<u>(75.3)</u>
TNMP:			
Transmission	(143.2)	(103.1)	(40.1)
Distribution	(216.2)	(130.3)	(85.9)
	<u>(359.4)</u>	<u>(233.4)</u>	<u>(126.0)</u>
Corporate and Other:			
Computer hardware and software	(21.1)	(15.7)	(5.4)
	<u>(702.9)</u>	<u>(496.2)</u>	<u>(206.7)</u>
<b>Other Cash Flows from Investing Activities</b>			
Proceeds from sales of investment securities	\$ 323.3	\$ 396.9	\$ (73.6)
Purchases of investment securities	(332.5)	(405.2)	72.7
Distributions from NMRD	—	0.6	(0.6)
Other, net	0.7	0.1	0.6
	<u>(8.5)</u>	<u>(7.6)</u>	<u>(0.9)</u>
Net cash flows used in investing activities	<u>\$ (711.4)</u>	<u>\$ (503.8)</u>	<u>\$ (207.6)</u>

### *Cash Flows from Financing Activities*

The changes in PNMR's cash flows from financing activities include:

- Short-term borrowings decreased \$2.5 million in 2022 compared to a decrease of \$18.1 million in 2021, resulting in a net increase in cash flows from financing activities of \$15.6 million
- In 2022, PNMR borrowed the remaining \$100.0 million available under the PNMR 2021 Delayed-Draw Term Loan
- In 2022, TNMP issued \$160.0 million aggregate principal amount of TNMP 2022 Bonds and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes
- In 2022, PNM purchased two series of PCRBs totaling \$31.5 million that were subject to maturity with available capacity under the PNM 2017 New Mexico Credit Facility
- In 2022, PNM entered into the 2022 Delayed Draw Term Loan and drew all \$225.0 million using the proceeds to prepay the \$75.0 million PNM 2021 Term Loan and for other corporate purposes

### **Financing Activities**

See Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K and Note 9 for additional information concerning the Company's financing activities. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual informational financing filing and short-term financing plan with the NMPRC.

The Company's ability to access the credit and capital markets at a reasonable cost is largely dependent upon its:

- Ability to earn a fair return on equity
- Results of operations
- Ability to obtain required regulatory approvals
- Conditions in the financial markets
- Credit ratings

The Company is continuing to closely monitor developments and is taking steps to mitigate the potential risks related to COVID-19. The Company is also closely monitoring the impacts on the capital markets of other macroeconomic conditions, including actions by the Federal Reserve to address inflationary concerns or other market conditions, and geopolitical activity. The Company currently believes it has adequate liquidity but cannot predict the extent or duration of the COVID-19 outbreak, the effects of any of these macroeconomic conditions on the global, national, or local economy, including the Company's ability to access capital in the financial markets, or on the Company's financial position, results of operations, and cash flows.

Each of the Company's revolving credit facilities and term loans contain a single financial covenant that requires the maintenance of a debt-to-capitalization ratio. For the PNMR agreements, this ratio must be maintained at less than or equal to 70%, and for the PNM and TNMP agreements, this ratio must be maintained at less than or equal to 65%. The Company's revolving credit facilities, term loans, and other debt agreements generally also contain customary covenants, events of default, cross-default provisions, and change-of-control provisions. The Company is in compliance with its debt covenants.

On August 5, 2022, PNM entered into the PNM 2022 Delayed-Draw Term Loan, among PNM, the lender parties thereto, and Royal Bank of Canada, as administrative agent. Upon closing, PNM drew \$180.0 million to repay the \$75.0 million PNM 2021 Term Loan ahead of its December 2022 maturity and for other corporate purposes. On September 30, 2022, PNM drew the remaining \$45.0 million and used the proceeds for general corporate purposes. Draws on the PNM 2022 Delayed-Draw Term Loan bear interest at a variable rate, which was 3.53% at September 30, 2022, and must be repaid on or before February 5, 2024.

At December 31, 2021, PNM had \$104.5 million PCRBs outstanding with a mandatory remarketing date of June 1, 2022, consisting of \$36.0 million at 1.05% issued by the Maricopa County, Arizona Pollution Control Corporation with a final maturity of January 2038; \$37.0 million at 2.125% issued by the City of Farmington, New Mexico with a final maturity of June 2040; \$11.5 million at 1.20% issued by the City of Farmington, New Mexico with a final maturity of June 2040; and \$20.0 million at 2.45% issued by the City of Farmington, New Mexico with a final maturity of September 2042. On June 1, 2022, PNM remarketed to new investors the \$36.0 million and \$37.0 million series in the tax-exempt market at 3.00% with a mandatory put date of June 1, 2024. PNM purchased and redeemed the remaining two series of PCRBs, totaling \$31.5 million on June 1, 2022.

On May 2, 2022, PNMR entered into two separate 20-month hedging agreements for \$150.0 million and \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established a fixed interest rate of 2.65%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. On May 20, 2022, PNMR entered into a third, 19-month, hedging agreement for \$100.0 million to hedge an equal amount of its variable

rate debt, whereby it effectively established a fixed interest rate of 2.52%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. On September 30, 2022, PNMR entered into two additional 15-month hedging agreements for \$100.0 million each, totaling \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established fixed interest rates of 4.17% and 4.18%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. On October 31, 2022, PNM entered into two additional 14-month hedging agreements for \$100.0 million each, totaling \$200.0 million, to hedge an equal amount of its variable rate debt, whereby it effectively established fixed interest rates of 4.66% and 4.65%, plus a customary spread over SOFR, which is subject to change if there is a change in PNMR's credit rating. These hedge agreements will also be accounted for as cash flow hedges.

On April 27, 2022, TNMP entered into the TNMP 2022 Bond Purchase Agreement with institutional investors for the sale of \$160.0 million aggregate principal amount of two series of the TNMP 2022 Bonds offered in private placement transactions. TNMP issued the first series of \$65.0 million of the TNMP 2022 Bonds on May 12, 2022, at a 4.13% interest rate, due May 12, 2052, and the second series of \$95.0 million of the TNMP 2022 Bonds on July 28, 2022, at a 3.81% interest rate, due July 28, 2032. The proceeds were used to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. The TNMP 2022 Bonds are subject to continuing compliance with the representations, warranties and covenants set forth in the supplemental indentures governing the TNMP 2022 Bonds. The terms of the supplemental indentures governing the TNMP 2022 Bonds include the customary covenants discussed above. In the event of a change of control, TNMP will be required to offer to prepay the TNMP 2022 Bonds at par. However, the definition of change of control in the supplemental indentures governing the TNMP 2022 Bonds will not be triggered by the close of the Merger. TNMP has the right to redeem any or all of the TNMP 2022 Bonds prior to their maturity, subject to payment of a customary make-whole premium.

On May 18, 2021, PNMR entered into the PNMR 2021 Delayed-Draw Term Loan, among PNMR, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent. In 2021, PNMR drew \$900.0 million to repay and terminate existing indebtedness as discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K. On January 24, 2022, PNMR drew the remaining \$100.0 million available. On May 20, 2022, PNMR amended and restated the PNMR 2021 Delayed-Draw Term Loan, extending its maturity to May 18, 2025 and providing for assignment of the term loan to Avangrid upon completion of the Merger. Draws on the PNMR 2021 Delayed-Draw Term Loan bear interest at a variable rate, which was 4.13% at September 30, 2022, and mature on May 18, 2025.

### Capital Requirements

PNMR's total capital requirements consist of construction expenditures, cash dividend requirements for PNMR common stock and PNM preferred stock.

Key activities in PNMR's current construction program include:

- Investments in transmission and distribution infrastructure
- Upgrading generation resources and delivering clean energy
- Purchasing nuclear fuel

Projected capital requirements, including amounts expended through September 30, 2022, are:

	2022	2023-2026	Total
	(In millions)		
Construction expenditures	\$ 895.6	\$ 3,679.1	\$ 4,574.7
Dividends on PNMR common stock	119.3	477.2	596.5
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	<u>\$ 1,015.4</u>	<u>\$ 4,158.4</u>	<u>\$ 5,173.8</u>

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. The construction expenditures above include amounts for PNM's capital initiative that includes investments in transmission and distribution infrastructure to deliver clean energy, enhance customer satisfaction, and increase grid resilience. Construction expenditures also include investments proposed in PNM's Grid Modernization Application, which provides for a more resilient, reliable, efficient, and decarbonized electric system. Not included in the table above are incremental expenditures for new customer growth in New Mexico and Texas, and other transmission and renewable energy expansion in New Mexico. The ability of PNMR to pay dividends on its common stock is dependent upon the ability of PNM and TNMP to pay dividends to PNMR. See Note 6 of the Notes to the Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K for a discussion of regulatory and contractual restrictions on the payment of dividends by PNM and TNMP.



During the nine months ended September 30, 2022, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements and the borrowings discussed in Financing Activities above.

In addition to the capital requirements for construction expenditures and dividends, the Company has long-term debt and term loans that must be paid or refinanced at maturity. PNM has \$55.0 million of SUNs that mature in May 2023, and \$130.0 million of PCRBs that mature in June 2023. See Note 9 for additional information about the Company's long-term debt and equity arrangements. The Company may also enter into new arrangements similar to the existing agreements, borrow under the revolving credit facilities, or issue new long-term debt or equity in the public or private capital markets, or a combination of these sources. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

## Liquidity

PNMR's liquidity arrangements include the \$300.0 million PNMR Revolving Credit Facility and the \$400.0 million PNM Revolving Credit Facility. On May 20, 2022, both PNMR and PNM extended the facilities to October 31, 2024 with two one-year extension options that, if exercised, would extend the maturity to October 2026, subject to approval by a majority of the lenders. Also on May 20, 2022, the \$40.0 million PNM 2017 New Mexico Credit Facility was extended to May 20, 2026. On March 11, 2022, the TNMP Revolving Credit Facility was amended to extend the maturity to September 2024, with two one-year extension options that, if exercised, will extend the maturity to September 2026, subject to approval by a majority of the lenders. The amended TNMP Revolving Credit Facility also contained an accordion feature that would allow TNMP to increase the size of the credit facility from \$75.0 million to up to \$100.0 million, subject to certain conditions. On May 13, 2022, TNMP exercised the accordion feature and increased the capacity of the TNMP Revolving Credit Facility to \$100.0 million, secured by \$100.0 million aggregate principal amount of TNMP first mortgage bonds. The Company believes the terms and conditions of these facilities are consistent with those of other investment grade revolving credit facilities in the utility industry. Variable interest rates under the PNMR, PNM, and TNMP revolving credit facilities are based on SOFR. The Company expects that it will be able to extend or replace these credit facilities under similar terms and conditions prior to their expirations.

The revolving credit facilities and the PNM 2017 New Mexico Credit Facility provide short-term borrowing capacity. The revolving credit facilities also allow letters of credit to be issued. Letters of credit reduce the available capacity under the facilities. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational expenditures. The Company's business is seasonal with more revenues and cash flows from operations being generated in the summer months. In general, the Company relies on the credit facilities to be the initial funding source for construction expenditures. Accordingly, borrowings under the facilities may increase over time. Depending on market and other conditions, the Company will periodically sell long-term debt and use the proceeds to reduce the borrowings under the credit facilities or refinance other debt.

Information regarding the range of borrowings for each facility is as follows:

Range of Borrowings	Three Months Ended September 30, 2022		Nine Months Ended September 30, 2022	
	Low	High	Low	High
(In millions)				
PNM:				
PNM Revolving Credit Facility	\$ —	\$ 86.3	\$ —	\$ 86.3
PNM 2017 New Mexico Credit Facility	—	40.0	—	40.0
TNMP Revolving Credit Facility	3.0	100.0	—	100.0
PNMR Revolving Credit Facility	30.0	79.1	—	79.1

At September 30, 2022, the weighted average interest rates were 3.97% for the TNMP Revolving Credit Facility and 4.47% for the PNMR Revolving Credit Facility. As discussed above, at September 30, 2022, PNMR has active hedging arrangements to effectively fix the interest rate on \$650.0 million of its consolidated, variable rate debt.

The Company currently believes that its capital requirements for at least the next twelve months can be met through internal cash generation, existing, extended, or new credit arrangements, and access to public and private capital markets as discussed above and in Note 9. The Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements and to balance its capital structure during the 2022-2026 period. This could include new debt and/or equity issuances. To cover the difference in the amounts and timing of internal cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements or other short-term loans.

Market conditions, such as rising interest rates, may raise the cost of borrowing under the Company's current and future liquidity arrangements or other variable debt. In addition, if market conditions worsen, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives.

As of October 21, 2022, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
<b>S&amp;P</b>			
Issuer rating	BBB	BBB	BBB+
Senior secured debt	*	*	A
Senior unsecured debt	BBB-	BBB	*
Preferred stock	*	BB+	*
<b>Moody's</b>			
Issuer rating	Baa3	Baa2	Baa1
Senior secured debt	*	*	A2
Senior unsecured debt	Baa3	Baa2	*

\* Not applicable

Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. On February 10, 2022, Moody's downgraded TNMP's issuer rating from A3 to Baa1 and changed the outlook from negative to stable. Investors are cautioned that a security rating is not a recommendation to buy, sell, or hold securities, that each rating is subject to revision or withdrawal at any time by the rating organization, and that each rating should be evaluated independently of any other rating.

A summary of liquidity arrangements as of October 21, 2022, is as follows:

	PNM	TNMP	PNMR Separate	PNMR Consolidated
(In millions)				
Financing capacity:				
Revolving Credit Facility	\$ 400.0	\$ 100.0	\$ 300.0	\$ 800.0
PNM 2017 New Mexico Credit Facility	40.0	—	—	40.0
Total financing capacity	440.0	100.0	300.0	840.0
Amounts outstanding as of October 21, 2022:				
Revolving Credit Facility	—	3.5	55.4	58.9
PNM 2017 New Mexico Credit Facility	—	—	—	—
Letters of credit	—	—	3.4	3.4
Total short-term debt and letters of credit	—	3.5	58.8	62.3
Remaining availability as of October 21, 2022	\$ 440.0	\$ 96.5	\$ 241.2	\$ 777.7
Invested cash as of October 21, 2022	\$ 14.9	\$ —	\$ 0.9	\$ 15.8

In addition to the above, PNMR has \$30.3 million of letters of credit issued under the WFB LOC Facility. See Note 9. The above table excludes intercompany debt. As of October 21, 2022, PNM, TNMP, and PNMR Development had no borrowings from PNMR under their intercompany loan agreements. However, PNMR had \$6.4 million in intercompany borrowings from PNMR Development. The remaining availability under the revolving credit facilities at any point in time varies based on a number of factors, including the timing of collections of accounts receivables and payments for construction and operating expenditures.

On March 2, 2022, PNMR filed a shelf registration that provides for the issuance of various types of debt and equity securities. The PNMR shelf registration statement expires March 2025. PNM has a shelf registration statement for up to \$650.0 million of senior unsecured notes that expires in May 2023.

#### Other Material Cash Requirements

PNMR, PNM, and TNMP have contractual obligations for long-term debt, minimum lease payments, coal contracts, coal mine reclamation, nuclear decommissioning, SJGS plant decommissioning, pension and retiree medical contributions, and

certain other long-term obligations. See MD&A – Other Material Cash Requirements in the 2021 Annual Reports on Form 10-K.

### Contingent Provisions of Certain Obligations

As discussed in the 2021 Annual Reports on Form 10-K, PNMR, PNM, and TNMP have a number of debt obligations and other contractual commitments that contain contingent provisions. Some of these, if triggered, could affect the liquidity of the Company. In the unlikely event that the contingent requirements were to be triggered, PNMR, PNM, or TNMP could be required to provide security, immediately pay outstanding obligations, or be prevented from drawing on unused capacity under certain credit agreements. The contingent provisions also include contractual increases in the interest rate charged on certain of the Company's short-term debt obligations in the event of a downgrade in credit ratings. The Company believes its financing arrangements are sufficient to meet the requirements of the contingent provisions. No conditions have occurred that would result in any of the above contingent provisions being implemented.

### Capital Structure

The capitalization tables below include the current maturities of long-term debt, but do not include short-term debt and do not include lease obligations as debt.

	September 30, 2022	December 31, 2021
<b>PNMR</b>		
PNMR common equity	35.0 %	36.9 %
Preferred stock of subsidiary	0.2	0.2
Long-term debt	64.8	62.9
Total capitalization	100.0 %	100.0 %
<b>PNM</b>		
PNM common equity	49.4 %	50.9 %
Preferred stock	0.3	0.3
Long-term debt	50.3	48.8
Total capitalization	100.0 %	100.0 %
<b>TNMP</b>		
Common equity	50.1 %	50.6 %
Long-term debt	49.9	49.4
Total capitalization	100.0 %	100.0 %

## OTHER ISSUES FACING THE COMPANY

### Climate Change Issues

#### Background

For the past several years, management has identified multiple risks and opportunities related to climate change, including potential environmental regulation, technological innovation, and availability of fuel and water for operations, as among the most significant risks facing the Company. Accordingly, these risks are overseen by the Board in order to facilitate more integrated risk and strategy oversight and planning. Board oversight includes understanding the various challenges and opportunities presented by these risks, including the financial consequences that might result from enacted and potential federal and/or state regulation of GHG; plans to mitigate these risks; and the impacts these risks may have on the Company's strategy. In addition, the Board approves certain procurements of environmental equipment, grid modernization technologies, and replacement resources.

Management is also responsible for assessing significant risks, developing and executing appropriate responses, and reporting to the Board on the status of risk activities. For example, management periodically updates the Board on the implementation of corporate environmental policy, and the Company's environmental management systems, including the promotion of energy efficiency programs, and the use of renewable resources. The Board is also informed of the Company's practices and procedures to assess the impacts of operations on the environment. The Board considers issues associated with climate change, the Company's GHG exposures, and the financial consequences that might result from enacted and potential federal and/or state regulation of GHG. Management has published, with Board oversight, a Climate Change Report available at <http://www.pnmresources.com/about-us/sustainability-portal.aspx>, that details the Company's efforts to transition to an emissions-free generating portfolio by 2040.

As part of management's continuing effort to monitor climate-related risks and assess opportunities, the Company has advanced its understanding of climate change by participating in the "2 Degree Scenario" planning conducted as part of the Electric Power Research Institute ("EPRI") Understanding Climate Scenarios & Goal Setting Activities program. The program focused on characterizing and analyzing the relationship of individual electric utility company's carbon emissions and global temperature goals. Activities include analyzing the scientific understanding of global emissions pathways that are consistent with limiting global warming and providing insight to assist companies in developing approaches to climate scenario planning. As PNM expands its sustainability efforts, EPRI's environmental and climate analysis programs have also been useful in gaining a better understanding of energy and environmental policy and regulations, advanced clean energy technologies, decarbonization trends and climate impacts.

The Company cannot anticipate or predict the potential long-term effects of climate change or climate change related regulation on its results of operations, financial position, or cash flows.

#### *Greenhouse Gas Emissions Exposures*

In 2021, GHG associated with PNM's interests in its fossil-fueled generating plants included approximately 5.5 million metric tons of CO<sub>2</sub>, which comprises the vast majority of PNM's GHG.

As of September 30, 2022, approximately 52% of PNM's generating capacity, including resources owned, leased, and under PPAs, all of which is located within the U.S., consisted of coal or gas-fired generation that produces GHG. This reflects the retirement of SJGS Units 2 and 3 that occurred in December 2017 and the restructuring of ownership in SJGS Unit 4. These events reduced PNM's entitlement in SJGS from 783 MW to 562 MW and caused the Company's output of GHG to decrease when compared to 2017. With the retirement of SJGS Unit 1 in June 2022 and SJGS Unit 4 in September 2022, the percentage of PNM's generating capacity from coal or gas-fired generation will be reduced to approximately 45%. Many factors affect the amount of GHG emitted, including total electricity sales, plant performance, economic dispatch, and the availability of renewable resources. For example, wind generation performance from PNM's largest single renewable energy resource, New Mexico Wind, varies each year as a result of highly seasonal wind patterns and annual wind resource variability. Similarly, if PVNGS experienced prolonged outages or if PNM's entitlement from PVNGS were reduced, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG.

PNM has several programs underway to reduce or offset GHG from its generation resource portfolio, thereby reducing its exposure to climate change regulation. As described in Note 16 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K, PNM received approval for the December 31, 2017 shutdown of SJGS Units 2 and 3 as part of its strategy to address the regional haze requirements of the CAA. The shutdown of SJGS Units 2 and 3 resulted in a reduction of GHG for the entire station of approximately 54% for 2018, reflecting a reduction of 32% of GHG from the Company's owned interests in SJGS, below 2005 levels. In 2020, PNM received authorization for a June 2022 abandonment of SJGS Units 1 and 4. On February 17, 2022, PNM notified the Commission that PNM had acquired permission of the SJGS owners and coal mine to temporarily extend operation of SJGS Unit 4 until September 30, 2022. This notification was due to SJGS replacement resources not being available for the summer 2022 peak load. In addition, PNM has filed the Four Corners Abandonment Application with the NMPRC for approval to sell its ownership interest in Four Corners by the end of 2024, although the NMPRC denied PNM's abandonment of Four Corners on December 15, 2021. On December 22, 2021, PNM filed a notice of appeal with the NM Supreme Court. On January 21, 2022, PNM filed its Statement of Issues regarding the appeal and on March 24, 2022, PNM filed its Brief in Chief. See additional discussion of the SJGS and Four Corners Abandonment in Note 12. Retiring PNM's share of SJGS and exiting participation in Four Corners would further reduce PNM's GHG as those two coal-fired stations represent approximately 86% of PNM's 2020 GHG emissions from generation.

As of September 30, 2022, PNM owned or procured power under PPAs from 1,057 MW of capacity from renewable generation resources. This is comprised of 158 MW of PNM owned solar as well as wind, solar-PV, and geothermal facilities aggregating to 658 MW, 230 MW, and 11 MW. These agreements currently have expiration dates beginning in January 2035 and extending through December 2047. The NMPRC has approved PNM's request to enter into additional PPAs for renewable energy for an additional 1,190 MW of energy from solar-PV facilities combined with 650 MW of battery storage agreements. The entire portfolio of replacement resources approved by the NMPRC in PNM's SJGS Abandonment Application includes replacement of SJGS capacity with the procurement of 650 MW of solar PPAs combined with 300 MW of battery storage agreements and the PVNGS Leased Interest Abandonment Application includes a 300 MW solar PPA combined with 300 MW battery storage agreement. In addition, the NMPRC issued an order that will allow PNM to service a data center for an additional 190 MW of solar PPA combined with 50 MW of battery storage and a 50 MW solar PPA expected to be operational in 2023. Approval of these renewable energy and battery resources should further reduce any exposure to GHG emissions risk. These estimates are subject to change due to underlying variables, including changes in PNM's generation portfolio, supplier's ability to meet contractual in-service dates and complex relationships between several factors. See additional discussion of these resources in Notes 11 and 12.

PNM also has a customer distributed solar generation program that represented 228.5 MW at September 30, 2022. PNM's distributed solar programs will generate an estimated 457.0 GWh of emission-free solar energy available this year to

offset PNM's annual production from fossil-fueled electricity generation. PNM has offered its customers a comprehensive portfolio of energy efficiency and load management programs since 2007. PNM's cumulative savings from these programs was approximately 5,936 GWh of electricity through 2021. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 9,500 GWh of electricity savings, which will avoid at least 1.0 million metric tons of CO<sub>2</sub> based upon projected emissions from PNM's system-wide resources. These estimates are subject to change because of the uncertainty of many of the underlying variables, including changes in PNM's generation portfolio, demand for electricity, energy efficiency, and complex relationships between those variables.

Because of PNM's dependence on fossil-fueled generation, legislation or regulation that imposes a limit or cost on GHG could impact the cost at which electricity is produced. While PNM expects to recover any such costs through rates, the timing and outcome of proceedings for cost recovery are uncertain. In addition, to the extent that any additional costs are recovered through rates, customers may reduce their usage, relocate facilities to other areas with lower energy costs, or take other actions that ultimately could adversely impact PNM.

#### *Other Climate Change Risks*

PNM's generating stations are located in the arid southwest. Access to water for cooling for some of these facilities is critical to continued operations. Forecasts for the impacts of climate change on water supply in the southwest range from reduced precipitation to changes in the timing of precipitation. In either case, PNM's generating facilities requiring water for cooling will need to mitigate the impacts of climate change through adaptive measures. Current measures employed by PNM generating stations such as air cooling, use of grey water, improved reservoir operations, and shortage sharing arrangements with other water users will continue to be important to sustain operations.

PNM's service areas occasionally experience periodic high winds and severe thunderstorms. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic hurricanes and other extreme weather conditions. In addition to potentially causing physical damage to Company-owned facilities, which disrupts the ability to transmit and/or distribute energy, weather and other events of nature can temporarily reduce customers' usage and demand for energy. In addition, other events influenced by climate change, such as wildfires, could disrupt Company operations or result in third-party claims against the Company. PNM has enhanced its wildfire prevention efforts and maintains a wildfire mitigation plan; however, PNM remains at risk for wildfires outside of its control and the resulting damages in its service areas.

#### *EPA Regulation*

In April 2007, the US Supreme Court held that EPA has the authority to regulate GHG under the CAA. This decision heightened the importance of this issue for the energy industry. In December 2009, EPA released its endangerment finding for GHG from new motor vehicles, stating that the atmospheric concentrations of six key greenhouse gases (CO<sub>2</sub>, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final Prevention of Significant Deterioration ("PSD") and Title V Greenhouse Gas Tailoring Rule to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, the PSD construction permit and Title V operating permit programs, to avoid impacting millions of small GHG emitters. On June 23, 2014, the US Supreme Court found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year, and thus held EPA may not require a source to obtain a PSD permit solely on the basis of its potential GHG. However, the court upheld EPA's authority to apply the PSD program for GHG to "anyway" sources - those sources that are required to comply with the PSD program for other non-GHG pollutants.

On June 25, 2013, then President Obama announced his Climate Action Plan, which outlined how his administration planned to cut GHG in the U.S., prepare the country for the impacts of climate change, and lead international efforts to combat and prepare for global warming. The plan proposed actions that would lead to the reduction of GHG by 17% below 2005 levels by 2020.

On August 3, 2015, EPA responded to the Climate Action Plan by issuing (1) the Carbon Pollution Standards for new, modified, and reconstructed power plants (under Section 111(b)); and (2) the Clean Power Plan for existing power plants (under Section 111(d)).

EPA's Carbon Pollution Standards for new sources (those constructed after January 8, 2014) established separate standards for gas and coal-fired units deemed achievable through the application of what EPA determined to be the BSER demonstrated for each type of unit efficient natural gas combined cycle technology for gas units, and partial carbon capture and sequestration for coal units. The Clean Power Plan established numeric "emission standards" for existing electric generating units based on emission reduction opportunities that EPA deemed achievable using technical assumptions for three "building blocks": efficiency improvements at coal-fired EGUs, displacement of affected EGUs with renewable energy, and displacement of coal-fired generation with natural gas-fired generation.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources in separate cases, and the challenges successfully petitioned the US Supreme Court for a stay of the Clean Power Plan. However, before the DC Circuit could issue an opinion regarding either the Carbon Pollution Standards or the Clean Power Plan, President Trump took office and his administration asked the court to hold both cases in abeyance while the rules were re-evaluated, which the court granted.

On June 19, 2019, EPA repealed the Clean Power Plan, promulgated the ACE Rule, and revised the implementing regulations for all emission guidelines issued under CAA Section 111(d). EPA set the BSER for existing coal-fired power plants as heat rate efficiency improvements based on a range of “candidate technologies” to be applied inside the fence-line of an individual facility. The ACE Rule was also challenged and, on January 19, 2021, the DC Circuit issued an opinion in *American Lung Association and American Public Health Association v. EPA, et al.* finding that EPA misinterpreted the CAA when it determined that the language of section 111 unambiguously barred consideration of emissions reductions options that were not applied at the source. As a result, the court vacated the ACE Rule and remanded the record to EPA for further consideration consistent with the court’s opinion. While the D.C. Circuit rejected the ACE Rule, it did not reinstate the Clean Power Plan. EPA filed a motion seeking a partial stay of the mandate as to the repeal of the Clean Power Plan, to ensure the court’s order will not render effective the now out-of-date Clean Power Plan. On February 22, 2021, the DC Circuit granted EPA’s motion, indicating that it would withhold issuance of the mandate with respect to the repeal of the Clean Power Plan until EPA responds to the court’s remand in a new rulemaking action. EPA has indicated it is developing a proposed rule under CAA Section 111(d) to establish guidelines for CO<sub>2</sub> emissions from existing EGUs. EPA expects to publish the draft rule in 2023 with no timetable yet for a final rule. On October 29, 2021, the US Supreme Court granted four petitions for certiorari seeking review of the DC Circuit’s decision vacating the ACE Rule and the repeal of the Clean Power Plan. Oral arguments in the US Supreme Court were held on February 28, 2022 and on June 30, 2022, the US Supreme Court ruled in the case. The Court held 6 to 3 that the “generation shifting” approach in the Clean Power Plan exceeded the powers granted to EPA by Congress, though the Court did not address the related issue of whether Section 111 of the CAA only authorizes EPA to require measures that can be implemented entirely within the fence line at an individual source. Of broader significance in administrative law, the Court also expressly invoked the major question doctrine as a basis for rejecting EPA’s statutory interpretation. The basic principle of the major question doctrine is that, if an agency seeks to decide an issue of “vast economic or political significance,” its action must be supported by clear statutory authorization. In cases where there is no authority, courts need not defer to the agency’s statutory interpretation. The decision sets legal precedent for future rulemakings by EPA and other federal regulatory agencies whereby the agency’s authority may be limited based upon similar reasoning.

The litigation over the Carbon Pollution Standards remains held in abeyance, but could be reactivated by the parties upon a determination by the court that the Biden Administration is unlikely to finalize the revisions proposed in 2018 and that reconsideration of the rule has concluded.

On January 20, 2021, President Biden signed an executive order “Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis,” which instructs agency heads to review all Trump Administration actions for inconsistency with the Biden Administration’s policy “to listen to the science; to improve public health and protect our environment; to ensure access to clean air and water; to limit exposure to dangerous chemicals and pesticides; to hold polluters accountable, including those who disproportionately harm communities of color and low-income communities; to reduce greenhouse gas emissions; to bolster resilience to the impacts of climate change; to restore and expand our national treasures and monuments; and to prioritize both environmental justice and the creation of the well-paying union jobs necessary to deliver on these goals.” Agency heads were directed to consider suspending, revising or rescinding any action that is inconsistent with the stated policy. Within 30 days of the executive order, agency heads submitted to the United States Office of Management and Budget (“OMB”) a preliminary list of those actions being considered for suspension, revision or rescission that would be completed by December 31, 2021, and would be subject to OMB review. Within 90 days of the executive order, agency heads submitted to OMB an updated list of such actions that would be completed by December 31, 2025. EPA is reconsidering the ACE Rule pursuant to this executive order.

#### *Federal Legislation*

President Biden has indicated that climate change is a top priority for his administration. On August 16, 2022, President Biden signed the IRA providing nearly \$370 million in climate action over the next decade. The legislation is aimed at reducing carbon emissions by investing in a variety of efforts, including tax credits for renewables, battery storage and electric vehicle sales. On April 22, 2021, at the Earth Day Summit, as part of the U.S.’s re-entry into the Paris Agreement, President Biden unveiled the goal to cut U.S. emissions by 50% - 52% from 2005 levels by 2030, nearly double the GHG emissions reduction target set by the Obama Administration. The 2030 goal joins President Biden’s other climate goals which include a carbon pollution-free power sector by 2035 and a net-zero emissions economy by no later than 2050.

#### *State and Regional Activity*

Pursuant to New Mexico law, each utility must submit an IRP to the NMPRC every three years to evaluate renewable energy, energy efficiency, load management, distributed generation, and conventional supply-side resources on a consistent and

comparable basis. The IRP is required to take into consideration risk and uncertainty of fuel supply, price volatility, and costs of anticipated environmental regulations when evaluating resource options to meet supply needs of the utility's customers. The NMPRC requires that New Mexico utilities factor a standardized cost of carbon emissions into their IRPs using prices ranging between \$8 and \$40 per metric ton of CO<sub>2</sub> emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the evolving nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. In its 2020 filing for Four Corners Abandonment, PNM analyzed resource portfolio plans for scenarios that assumed Four Corners will operate through 2031 and for scenarios that assumed PNM will exit Four Corners at the end of 2024. The key findings of the analysis include that exiting Four Corners in 2024 (subject to regulatory approval) would provide long-term economic benefits to PNM's customers. See Note 12.

The ETA was signed into New Mexico state law and became effective on June 14, 2019. The ETA, among other things, requires that investor-owned utilities obtain specified percentages of their energy from renewable and carbon-free resources. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring utilities to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. Under the ETA provisions, PNM will also be required to meet a generation emission standard of no more than 400 lbs. of CO<sub>2</sub> per MWh beginning in 2023 and not more than 200 lbs. per MWh beginning in 2032. PNM takes this requirement into account in its resource planning and it is expected that the standards will be met with the approved resource retirements and replacements. The ETA provides for a transition from coal-fired generating resources to carbon-free resources by allowing investor-owned utilities to issue Securitized Bonds, or "energy transition bonds," to qualified investors related to the retirement of coal-fired generating facilities. Proceeds from the energy transition bonds must be used only for purposes related to providing utility service to customers and to pay "energy transition costs" (as defined by the ETA). These costs may include coal mine reclamation, plant decommissioning, and other costs that have not yet been charged to customers or disallowed by the NMPRC or by a court order. Proceeds provided by energy transition bonds may also be used to pay for severances for employees of the retired coal-fired generating facility and related coal mine, as well as to pay for job training, education, and economic development. Energy transition bonds must be issued under a NMPRC financing order and are paid by a non-bypassable charge paid by all customers of the issuing utility. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA requires the NMPRC to prioritize replacement resources in a manner intended to mitigate the economic impact to communities affected by these plant retirements. See additional discussion of the ETA in Note 11. PNM expects the ETA will have a significant impact on PNM's future generation portfolio. In compliance with the ETA, on June 15, 2022, the NMED announced a new rulemaking, Carbon Dioxide Emission Standards for Electric Generating Facilities, to develop carbon emission standards for new and existing electric coal-fired generating facilities. An informal comment period for the draft proposal ran from June 15, 2022 through June 29, 2022. On July 1, 2022, NMED requested the Environmental Improvement Board to docket the matter and set a schedule for pre-filed technical testimony which was filed on September 14, 2022, pre-filed rebuttal testimony which was filed on October 12, 2022, and a public hearing that was held on October 26 and 27, 2022. On October 28, 2022, the rule was passed which adopts new carbon emission standards for new and existing coal-fired power plants.

In February 2020, the hearing examiners assigned to the SJGS abandonment and financing proceedings issued recommended decisions recommending approval of PNM's abandonment application and for the issuance of Securitized Bonds consistent with the requirements of the ETA. On April 1, 2020, the NMPRC approved the hearing examiners' recommendation to approve PNM's application to retire its share of SJGS in 2022 and for the issuance of Securitized Bonds. PNM has also requested approval of Securitized Bonds for the Four Corners Abandonment costs of that transition away from coal-fired generation. On December 15, 2021, the NMPRC denied approval of the Four Corners Abandonment Application and the corresponding request for issuance of securitized financing. On December 22, 2021, PNM filed a notice of appeal with the NM Supreme Court of the NMPRC decision to deny the application. PNM cannot predict the full impact of the ETA or the outcome of the NM Supreme Court decision with respect to the abandonment of Four Corners. See additional discussion of PNM's SJGS and Four Corners Abandonment Applications in Note 12.

#### *International Accords*

The United Nations Framework Convention on Climate Change ("UNFCCC") is an international environmental treaty that was negotiated at the 1992 United Nations Conference on Environment and Development (informally known as the Earth Summit) and entered into force in March 1994. The objective of the treaty is to "stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system." Parties to the UNFCCC, including the U.S., have been meeting annually in Conferences of the Parties ("COP") to assess progress in meeting the objectives of the UNFCCC.

On December 12, 2015, the Paris Agreement was finalized during the 2015 COP. The aim of the Paris Agreement is to limit global temperature rise to two degrees Celsius above pre-industrial levels. The agreement, which was agreed to by approximately 200 parties, requires that countries submit INDCs. INDCs reflect national targets and actions that arise out of national policies and elements relating to oversight, guidance and coordination of actions to reduce emissions by all countries. In November 2014, then President Obama announced the United States' commitment to reduce GHG, on an economy-wide basis, by 26%-28% from 2005 levels by the year 2025. The U.S. INDC was part of an overall effort by the former administration to have the U.S. achieve economy-wide reductions of around 80% by 2050. The former administration's GHG reduction target for the electric utility industry was a key element of its INDC and was based on EPA's GHG regulations for new, existing, modified, and reconstructed sources at that time. Thresholds for the number of countries necessary to ratify or accede to the Paris Agreement and total global GHG percentage were achieved on October 5, 2016, and the Paris Agreement entered into force on November 4, 2016. On June 1, 2017, then President Trump announced that the U.S. would withdraw from the Paris Agreement. As a result of the President's notice to the United Nations, the U.S. officially withdrew from the Paris Agreement on November 4, 2020. On January 20, 2021, President Biden signed an instrument that will allow the United States to rejoin the Paris Agreement on Climate Change. The instrument was deposited with the United Nations on January 21, 2021, and the United States officially became a party to the Agreement on February 19, 2021.

PNM has calculated GHG reductions that would result from scenarios that assume PNM's scheduled retirement of its share of the SJGS in 2022 and would exit from Four Corners in either 2024 or 2031 and PNM has set a goal to have a 100% emissions-free generating portfolio by 2040. While the Company has not conducted an independent 2 Degree Scenario analysis, our commitment to becoming 100% emissions-free by 2040 produces a carbon emissions reduction pathway that tracks within the ranges of climate scenario pathways that are consistent with limiting the global warming average to less than 2 degrees Celsius. In addition, as an investor-owned utility operating in the state of New Mexico, PNM is required to comply with the ETA, which requires utilities' generating portfolio be 100% carbon-free by 2045. The requirements of the ETA and the Company's goal compare favorably to the U.S. INDC of 50% to 52% carbon emissions reduction by 2030 and the Biden Administration's goal of net-zero carbon emissions economy-wide by 2050. On April 1, 2020, the NMPRC approved PNM's application to retire its share of SJGS in 2022. PNM filed for abandonment of Four Corners on January 8, 2021. See Note 12.

PNM will continue to monitor the United States' participation in the Paris Agreement and other parties' involvement in these types of international accords, but the potential impact that such accords may have on the Company cannot be determined at this time.

#### *Assessment of Legislative/Regulatory Impacts*

The Company has assessed, and continues to assess, the impacts of climate change legislation and regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding specific GHG limits; the timing of implementation of these limits; the possibility of a market-based trading program, including the associated costs and the availability of emission credits or allowances; the development of emission reduction and/or renewable energy technologies; and provisions for cost containment. Moreover, the assessment assumes various market reactions such as the price of coal and gas and regional plant economics. These assumptions are, at best, preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation or regulation could, among other things, result in significant compliance costs, including large capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Notes 11 and 12. While PNM currently expects the retirement of SJGS in 2022 will provide savings to customers, the ultimate consequences of climate change and environmental regulation could lead to increased costs to customers and affect results of operations, cash flows, and financial condition if the incurred costs are not fully recovered through regulated rates. Higher rates could also contribute to reduced usage of electricity. PNM's assessment process is evolving and is too speculative at this time for a meaningful prediction of the long-term financial impact.

#### **Transmission Issues**

At any given time, FERC has various notices of inquiry and rulemaking dockets related to transmission issues pending. Such actions may lead to changes in FERC administrative rules or ratemaking policy but have no time frame in which action must be taken or a docket closed with no further action. Further, such notices and rulemaking dockets do not apply strictly to PNM but will have industry-wide effects in that they will apply to all FERC-regulated entities. PNM monitors and often submits comments taking a position in such notices and rulemaking dockets or may join in larger group responses. PNM often cannot determine the full impact of a proposed rule and policy change until the final determination is made by FERC and PNM is unable to predict the outcome of these matters.

#### **Financial Reform Legislation**

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Reform Act"), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and record keeping and may impose margin requirements on swaps that are not centrally cleared. The U.S. Commodity Futures Trading



Commission (“CFTC”) has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge or mitigate commercial risk. PNM has elected the end-user exception to the mandatory clearing requirement. PNM expects to be in compliance with the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of implementing and complying with the Dodd-Frank Reform Act and related rules, PNM’s swap activities could be subject to increased costs, including from higher margin requirements. At this time, PNM cannot predict the ultimate impact the Dodd-Frank Reform Act may have on PNM’s financial condition, results of operations, cash flows, or liquidity.

#### **Other Matters**

See Notes 11 and 12 herein and Notes 16 and 17 of the Notes to Consolidated Financial Statements in the 2021 Annual Reports on Form 10-K for a discussion of commitments and contingencies and rate and regulatory matters.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with GAAP requires Company management to select and apply accounting policies that best provide the framework to report the results of operations and financial position for PNMR, PNM, and TNMP. The selection and application of those policies requires management to make difficult, subjective, and/or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

As of September 30, 2022, there have been no significant changes with regard to the critical accounting policies disclosed in PNMR’s, PNM’s, and TNMP’s 2021 Annual Reports on Forms 10-K. The policies disclosed included regulatory accounting, impairments, decommissioning and reclamation costs, pension and other postretirement benefits, accounting for contingencies, and income taxes.

#### ***MD&A FOR PNM***

#### **RESULTS OF OPERATIONS**

PNM operates in only one reportable segment, as presented above in Results of Operations for PNMR.

#### ***MD&A FOR TNMP***

#### **RESULTS OF OPERATIONS**

TNMP operates in only one reportable segment, as presented above in Results of Operations for PNMR.

### **DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS**

Statements made in this filing that relate to future events or PNMR’s, PNM’s, or TNMP’s expectations, projections, estimates, intentions, goals, targets, and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates and apply only as of the date of this report. PNMR, PNM, and TNMP assume no obligation to update this information.

Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM, and TNMP caution readers not to place undue reliance on these statements. PNMR’s, PNM’s, and TNMP’s business, financial condition, cash flows, and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. These factors, which are neither presented in order of importance nor weighted, include:

- The expected timing and likelihood of completion of the pending Merger, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the pending Merger that could reduce anticipated benefits or cause the parties to abandon the transaction
- The occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement
- The risk that the parties may not be able to satisfy the conditions to the proposed Merger in a timely manner or at all
- The risk that the proposed Merger could have an adverse effect on the ability of PNMR to retain and hire key personnel and maintain relationships with its customers and suppliers, and on its operating results and businesses generally
- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the prudence of PNM’s undepreciated investments in Four Corners and recovery of PNM’s investments and other costs associated with that plant, revisions to its rates to remove SJGS by issuing rate credits prior to issuing Securitized

Bonds and the establishment of the Energy Transition Charge, and the impact on service levels for PNM customers if the ultimate outcomes do not provide for the recovery of costs and operating and capital expenditures, as well as other impacts of federal or state regulatory and judicial actions

- The ability of the Company to successfully forecast and manage its operating and capital expenditures, including aligning expenditures with the revenue levels resulting from the ultimate outcomes of regulatory proceedings, or resulting from potential mid-term or long-term impacts related to COVID-19
- Uncertainty relating to PNM's decision to return the currently leased generating capacity in PVNGS Units 1 and 2 at the expiration of their lease terms in 2023 and 2024, including future regulatory outcomes relating to the ratemaking treatment
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects, including the changes in PNM's generation entitlement share for PVNGS following termination of the leases in 2023 and 2024, the proposed exit from Four Corners and the exit and abandonment of SJGS
- Uncertainty regarding the requirements and related costs of decommissioning power plants and reclamation of coal mines supplying certain power plants, as well as the ability to recover those costs from customers, including the potential impacts of current and future regulatory proceedings
- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies, energy efficiency measures, weather, seasonality, alternative sources of power, advances in technology, the impacts of COVID-19 on customer usage, and other changes in supply and demand
- Uncertainty related to the potential for regulatory orders, legislation or rulemakings that provide for municipalization of utility assets or public ownership of utility assets, including generation resources, or which would delay or otherwise impact the procurement of necessary resources in a timely manner
- The Company's ability to maintain its debt and access the financial markets in order to provide financing to repay or refinance debt as it comes due, as well as for ongoing operations and construction expenditures, including disruptions in the capital or credit markets, actions by ratings agencies, and fluctuations in interest rates, including any negative impacts that could result from the ultimate outcomes of regulatory proceedings, from the economic impacts of COVID-19, actions by the Federal Reserve to address inflationary concerns or other market conditions, geopolitical activity, or from the entry into the Merger Agreement
- The risks associated with completion of generation, transmission, distribution, and other projects, including uncertainty related to regulatory approvals and cost recovery, the ability of counterparties to meet their obligations under certain arrangements (including coal supply agreements, renewable energy resources, and approved PPAs related to replacement resources for facilities to be retired or for which the leases will terminate), and supply chain or other outside support services that may be disrupted
- The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions or subsidiary earnings or cash flows
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, fuel quality and supply chain issues (disruptions), unplanned outages, extreme weather conditions, wildfires, terrorism, cybersecurity breaches, and other catastrophic events, including the impacts of COVID-19, as well as the costs the Company may incur to repair its facilities and/or the liabilities the Company may incur to third parties in connection with such issues
- State and federal regulation or legislation relating to environmental matters and renewable energy requirements, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM's generating plants
- State and federal regulatory, legislative, executive, and judicial decisions and actions on ratemaking, and taxes, including guidance related to the Tax Act, and other matters
- Risks related to climate change, including potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG, including the impacts of the ETA
- Employee workforce factors, including cost control efforts and issues arising out of collective bargaining agreements and labor negotiations with union employees
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM's coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties
- The impacts of decreases in the values of marketable securities maintained in trusts to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits, including potential increased volatility resulting from international developments and the impacts of COVID-19
- Uncertainty surrounding counterparty performance and credit risk, including the ability of counterparties to supply fuel and perform reclamation activities and impacts to financial support provided to facilitate the coal supply at SJGS
- The effectiveness of risk management regarding commodity transactions and counterparty risk
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles or policies

Any material changes to risk factors occurring after the filing of PNMR's, PNM's, and TNMP's 2021 Annual Reports on Form 10-K are disclosed in Item 1A, Risk Factors, in Part II of this Form 10-Q.

For information about the risks associated with the use of derivative financial instruments, see Item 3. “Quantitative and Qualitative Disclosures About Market Risk.”

### SECURITIES ACT DISCLAIMER

Certain securities described or cross-referenced in this report have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be reoffered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. This Form 10-Q does not constitute an offer to sell or the solicitation of an offer to buy any securities.

### WEBSITES

The PNMR website, [www.pnmresources.com](http://www.pnmresources.com), is an important source of Company information. New or updated information for public access is routinely posted. PNMR encourages analysts, investors, and other interested parties to register on the website to automatically receive Company information by e-mail. This information includes news releases, notices of webcasts, and filings with the SEC. Participants will not receive information that was not requested and can unsubscribe at any time.

Our corporate internet addresses are:

- PNMR: [www.pnmresources.com](http://www.pnmresources.com)
- PNM: [www.pnm.com](http://www.pnm.com)
- TNMP: [www.tnmp.com](http://www.tnmp.com)

PNMR’s corporate website ([www.pnmresources.com](http://www.pnmresources.com)) includes a dedicated section providing key environmental and other sustainability information related to PNM’s and TNMP’s operations and other information that collectively demonstrates the Company’s commitment to ESG principles. This information highlights plans for PNM to be coal-free by 2024 (subject to regulatory approval) and to have an emissions-free generating portfolio by 2040.

The contents of these websites are not a part of this Form 10-Q. The SEC filings of PNMR, PNM, and TNMP, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are accessible free of charge on the PNMR website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. Reports filed with the SEC are available on its website, [www.sec.gov](http://www.sec.gov). These reports are also available in print upon request from PNMR free of charge.

Also available on the Company’s website at <https://www.pnmresources.com/esg-commitment/governance.aspx> and in print upon request from any shareholder are PNMR’s:

- Corporate Governance Principles
- Code of Ethics (*Do the Right Thing – Principles of Business Conduct*)
- Charters of the Audit and Ethics Committee, Nominating and Governance Committee, Compensation and Human Resources Committee, and Finance Committee
- Restated Articles of Incorporation and Bylaws

The Company will post amendments to or waivers from its code of ethics (to the extent applicable to the Company’s executive officers and directors) on its website.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages the scope of its various forms of market risk through a comprehensive set of policies and procedures with oversight by senior level management through the Risk Management Committee (“RMC”). The Board’s Finance Committee sets the risk limit parameters. The RMC has oversight over the risk control organization. The RMC is assigned responsibility for establishing and enforcing the policies, procedures, and limits and evaluating the risks inherent in proposed transactions on an enterprise-wide basis. The RMC’s responsibilities include:

- Establishing policies regarding risk exposure levels and activities in each of the business segments
- Approving the types of derivatives entered into for hedging
- Reviewing and approving hedging risk activities
- Establishing policies regarding counterparty exposure and limits
- Authorizing and delegating transaction limits
- Reviewing and approving controls and procedures for derivative activities
- Reviewing and approving models and assumptions used to calculate mark-to-market and market risk exposure
- Proposing risk limits to the Board’s Finance Committee for its approval
- Reporting to the Board’s Audit and Finance Committees on these activities

To the extent an open position exists, fluctuating commodity prices, interest rates, equity prices, and economic conditions can impact financial results and financial position, either favorably or unfavorably. As a result, the Company cannot predict with certainty the impact that its risk management decisions may have on its businesses, operating results, or financial position.

### Commodity Risk

Information concerning accounting for derivatives and the risks associated with commodity contracts is set forth in Note 7, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Condensed Consolidated Balance Sheets. During the nine months ended September 30, 2022, and the year ended December 31, 2021, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts that meet the definition of a derivative are recorded at fair value on the Condensed Consolidated Balance Sheets. In the nine months ended September 30, 2022 and 2021, the effects of mark-to-market commodity derivative instruments had no impact to PNM's net earnings and \$14.4 million and \$1.9 million of fair value losses have been recorded as a regulatory asset. All of the fair values as of September 30, 2022, were determined based on prices provided by external sources other than actively quoted market prices. The net mark-to-market amounts will settle by 2023.

PNM is exposed to changes in the market prices of electricity and natural gas for the positions in its wholesale portfolio not covered by the FPPAC. The Company manages risks associated with these market fluctuations by utilizing various commodity instruments that may qualify as derivatives, including futures, forwards, options, and swaps. PNM uses such instruments to hedge its exposure to changes in the market prices of electricity and natural gas. PNM also uses such instruments under an NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC.

### Credit Risk

The Company is exposed to credit risk from its retail and wholesale customers, as well as the counterparties to derivative instruments. The Company conducts counterparty risk analysis across business segments and uses a credit management process to assess the financial conditions of counterparties. The following table provides information related to credit exposure by the credit worthiness (credit rating) and concentration of credit risk for wholesale counterparties, all of which will mature in less than two years.

**Schedule of Credit Risk Exposure  
September 30, 2022**

<u>Rating</u> <sup>(1)</sup>	<u>Credit Risk Exposure</u> <sup>(2)</sup>	<u>Number of Counter-parties &gt;10%</u>	<u>Net Exposure of Counter-parties &gt;10%</u>
	(Dollars in thousands)		
External ratings:			
Investment grade	\$ 22,747	3	\$ 13,320
Non-investment grade	—	—	—
Split ratings	—	—	—
Internal ratings:			
Investment grade	2,317	—	—
Non-investment grade	—	—	—
<b>Total</b>	<b>\$ 25,064</b>		<b>\$ 13,320</b>

<sup>(1)</sup> The rating "Investment Grade" is for counterparties, or a guarantor, with a minimum S&P rating of BBB- or Moody's rating of Baa3. The category "Internal Ratings – Investment Grade" includes those counterparties that are internally rated as investment grade in accordance with the guidelines established in the Company's credit policy.

<sup>(2)</sup> The Credit Risk Exposure is the gross credit exposure, including long-term contracts, forward sales, and short-term sales. The gross exposure captures the amounts from receivables/payables for realized transactions, delivered and unbilled revenues, and mark-to-market gains/losses. Gross exposures can be offset according to legally enforceable netting arrangements but are not reduced by posted credit collateral. At September 30, 2022, PNMR held \$0.2 million of cash collateral to offset its credit exposure.

Net credit risk for the Company's largest counterparty as of September 30, 2022, was \$7.3 million.

Other investments have no significant counterparty credit risk.

**Interest Rate Risk**

The majority of PNM's and TNMP's long-term debt is fixed-rate debt, which does not expose earnings to adverse changes in market interest rates. PNM and TNMP earnings are exposed to adverse changes in market interest rates when long-term debt must be refinanced, repriced or redeemed. PNMR's debt and the revolving credit facilities of PNM and TNMP are exposed to interest rate risk to the extent variable interest rates continue to rise. The Company periodically makes plans to reduce its variable interest rate exposures through various instruments including fixed rate debt and equity and hedging arrangements like those executed by PNMR in May, September, and October 2022, and otherwise expects that it will be able to extend or replace variable rate debt under similar terms and conditions prior to their expirations. Variable interest rates under the PNMR, PNM, and TNMP revolving credit facilities and term loans are based on SOFR.

At October 21, 2022, variable rate debt balances and weighted average interest rates were as follows:

<b>Variable Rate Debt</b>	<b>Weighted Average Interest Rate</b>	<b>Balance Outstanding</b>	<b>Capacity</b>
		(In thousands)	
<b>Short-term Debt:</b>			
PNMR Revolving Credit Facility	4.79 %	\$ 55,400	\$ 300,000
PNM Revolving Credit Facility	—	—	400,000
PNM 2017 New Mexico Credit Facility	—	—	40,000
TNMP Revolving Credit Facility	4.02	3,500	100,000
		<u>\$ 58,900</u>	<u>\$ 840,000</u>
<b>Long-term Debt:</b>			
PNMR 2021 Delayed-Draw Term Loan	4.13 %	\$ 1,000,000	
PNM 2022 Term Loan	3.94	225,000	
		<u>\$ 1,225,000</u>	

The investments held by PNM in trusts for decommissioning and reclamation had an estimated fair value of \$376.7 million at September 30, 2022, of which 61.1% were fixed-rate debt securities that subject PNM to risk of loss of fair value with increases in market interest rates. If interest rates were to increase by 50 basis points from their levels at September 30, 2022, the decrease in the fair value of the fixed-rate securities would be 1.8%, or \$4.1 million.

PNM does not directly recover or return through rates any losses or gains on the securities, including equity investments discussed below, in the trusts for decommissioning and reclamation. However, the overall performance of these trusts does enter into the periodic determinations of expense and funding levels, which are factored into the rate making process to the extent applicable to regulated operations. The NMPRC ruled in the NM 2015 Rate Case that PNM would not be able to include future contributions made by PNM for decommissioning of PVNGS to the extent applicable to certain capacity purchased and leased by PNM in rates charged to retail customers. The NM Supreme Court ruled that the NMPRC's decision to disallow recovery of such future contributions for decommissioning denied PNM due process and remanded the matter back to the NMPRC for further proceedings. PNM is at risk for shortfalls in funding of obligations due to investment losses, including those from the equity market risks discussed below, to the extent not ultimately recovered through rates charged to customers.

**Equity Market Risk**

The investments held by PNM in trusts for decommissioning and reclamation include certain equity securities at September 30, 2022. These equity securities expose PNM to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 34.8% of the securities held by the trusts as of September 30, 2022. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$13.1 million.

**ITEM 4. CONTROLS AND PROCEDURES****Evaluation of disclosure controls and procedures**

As of the end of the period covered by this quarterly report, each of PNMR, PNM, and TNMP conducted an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer of each of PNMR, PNM, and TNMP concluded that the disclosure controls and procedures are effective.

## Changes in internal controls over financial reporting

There have been no changes in each of PNMR's, PNM's, and TNMP's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, each of PNMR's, PNM's, and TNMP's internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

See Notes 11 and 12 for information related to the following matters, for PNMR, PNM, and TNMP, incorporated in this item by reference.

#### Note 11

- Cooling Water Intake Structures
- Santa Fe Generating Station
- Navajo Nations Allottee Matters
- City of Farmington Opposition to Closure of SJGS

#### Note 12

- PNMR – Merger Regulatory Proceedings
- PNM – 2020 Decoupling Petition
- PNM – SJGS Abandonment Application
- PNM – Four Corners Abandonment Application
- PNM – PVNGS Leased Interest Abandonment Application
- PNM – Grid Modernization Application
- PNM – FERC Formula Transmission Rates
- PNM – FERC Compliance
- TNMP – Transmission Cost of Service Rates
- TNMP – Periodic Distribution Rate Adjustment

### ITEM 1A. RISK FACTORS

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in PNMR's, PNM's, and TNMP's Annual Reports on Form 10-K for the year ended December 31, 2021, except as set forth below.

#### *Changes in interest rates could adversely affect our business.*

Interest rates have increased and may continue to increase in the future. As a result, interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. In addition, because we use both fixed and variable rate debt, we are exposed to market risk due to the floating interest rates on our variable rate borrowings. Our results of operations, cash flows and financial position could be affected adversely by significant fluctuations in interest rates from current levels.

#### *The financial performance of PNMR, PNM, and TNMP may be adversely affected if power plants, other generation resources and transmission and distribution systems do not operate reliably and efficiently.*

The Company's financial performance depends on the successful operation of PNM's generation assets, as well as the transmission and distribution systems of PNM and TNMP. PNM's recent abandonment applications for SJGS and Four Corners will increase PNM's dependency on other generation resources, including renewable resources, gas-fired facilities, and PVNGS, and will reduce PNM's flexibility in managing those resources. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, inability to install or operate renewable resources, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the generation assets, unfavorable geologic conditions, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, cybersecurity attacks, wildfires, disruptions in the supply, quality, and delivery of fuel and water supplies, and other factors could result in PNM's load requirements being larger than available system generation capacity. Unplanned outages of generating units, extensions of scheduled outages and delays in replacement resources occur from time to time and are an inherent risk of the Company's business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM's and TNMP's ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs.

## ITEM 5. OTHER INFORMATION

None

## ITEM 6. EXHIBITS

2.1	PNMR	<a href="#">Amendment to Merger Agreement, dated as of January 3, 2022, by and among PNM Resources, Inc., Avangrid, Inc., and NM Green Holdings, Inc. (incorporated by reference to Exhibit 2.1 to PNMR's Current Report on Form 8-K filed January 3, 2022)</a>
3.1	PNMR	<a href="#">Articles of Incorporation of PNMR, as amended to date (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed November 21, 2008)</a>
3.2	PNM	<a href="#">Restated Articles of Incorporation of PNM, as amended through May 31, 2002 (incorporated by reference to Exhibit 3.1.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)</a>
3.3	TNMP	<a href="#">Articles of Incorporation of TNMP, as amended through July 7, 2005 (incorporated by reference to Exhibit 3.1.2 to TNMP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005)</a>
3.4	PNMR	<a href="#">Bylaws of PNMR, with all amendments to and including October 24, 2017 (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed October 25, 2017)</a>
3.5	PNM	<a href="#">Bylaws of PNM, with all amendments to and including July 1, 2022 (incorporated by reference to Exhibit 3.5 to PNM's Report on Form 8-K filed July 1, 2022)</a>
3.6	TNMP	<a href="#">Bylaws of TNMP, with all amendments to and including June 18, 2013 (incorporated by reference to Exhibit 3.6 to TNMP's Current Report on Form 8-K filed June 20, 2013)</a>
10.1	PNM	<a href="#">Term Loan Agreement, dated as of August 5, 2022, among Public Service Company of New Mexico, the lender parties thereto and Royal Bank of Canada, as Administrative Agent (incorporated by reference to Exhibit 10.1 to PNM's Report on Form 8-K filed August 5, 2022)</a>
31.1	PNMR	<a href="#">Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.2	PNMR	<a href="#">Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.3	PNM	<a href="#">Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.4	PNM	<a href="#">Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.5	TNMP	<a href="#">Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
31.6	TNMP	<a href="#">Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
32.1	PNMR	<a href="#">Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.2	PNM	<a href="#">Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
32.3	TNMP	<a href="#">Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS	PNMR, PNM, and TNMP	XBRL Instance Document - The instance document does not appear in the interactive data file because XBRL tags are embedded within the Inline XBRL document
101.SCH	PNMR, PNM, and TNMP	Inline XBRL Taxonomy Extension Schema Document
101.CAL	PNMR, PNM, and TNMP	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	PNMR, PNM, and TNMP	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	PNMR, PNM, and TNMP	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	PNMR, PNM, and TNMP	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	PNMR, PNM, and TNMP	Cover Page Inline XBRL File (included in Exhibits 101)

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

**PNM RESOURCES, INC.  
TEXAS-NEW MEXICO POWER COMPANY**

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(Registrants)

Date: November 4, 2022

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/s/ Henry E. Monroy

Henry E. Monroy  
Vice President and Corporate Controller  
(Officer duly authorized to sign this report)

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**PUBLIC SERVICE COMPANY OF NEW MEXICO**

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(Registrant)

Date: November 4, 2022

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/s/ Henry E. Monroy

Henry E. Monroy  
Vice President, Regulatory and Corporate Controller  
(Officer duly authorized to sign this report)



PNM Resources  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289

**EXHIBIT 31.1  
CERTIFICATION**

I, Patricia K. Collawn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PNM Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Patricia K. Collawn

Patricia K. Collawn  
Chairman and Chief Executive Officer  
PNM Resources, Inc.

PNM Resources  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289

**EXHIBIT 31.2  
CERTIFICATION**

I, Elisabeth A. Eden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of PNM Resources, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden  
Senior Vice President, Chief Financial Officer and  
Treasurer  
PNM Resources, Inc.

Public Service Company of New Mexico  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289

**EXHIBIT 31.3  
CERTIFICATION**

I, Joseph D. Tarry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Company of New Mexico;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
President and Chief Executive Officer  
Public Service Company of New Mexico

Public Service Company of New Mexico  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289

**EXHIBIT 31.4  
CERTIFICATION**

I, Elisabeth A. Eden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Public Service Company of New Mexico;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden  
Senior Vice President, Chief Financial Officer and  
Treasurer

Public Service Company of New Mexico

Texas-New Mexico Power Company  
577 N. Garden Ridge Blvd.  
Lewisville, Texas 75067

**EXHIBIT 31.5  
CERTIFICATION**

I, Joseph D. Tarry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Texas-New Mexico Power Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
Chief Executive Officer  
Texas-New Mexico Power Company

Texas-New Mexico Power Company  
577 N. Garden Ridge Blvd.  
Lewisville, Texas 75067

**EXHIBIT 31.6**  
**CERTIFICATION**

I, Elisabeth A. Eden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Texas-New Mexico Power Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (each registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2022

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden  
Senior Vice President, Chief Financial Officer and  
Treasurer  
Texas-New Mexico Power Company

PNM Resources  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289  
www.pnmresources.com

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2022, for PNM Resources, Inc. (“Company”), as filed with the Securities and Exchange Commission on November 4, 2022 (“Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

By: /s/ Patricia K. Collawn

Patricia K. Collawn  
Chairman and Chief Executive Officer  
PNM Resources, Inc.

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden  
Senior Vice President, Chief Financial Officer and  
Treasurer  
PNM Resources, Inc.

Public Service Company of New Mexico  
414 Silver Ave. SW  
Albuquerque, NM 87102-3289

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2022, for Public Service Company of New Mexico (“Company”), as filed with the Securities and Exchange Commission on November 4, 2022 (“Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
President and Chief Executive Officer  
Public Service Company of New Mexico

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden  
Senior Vice President, Chief Financial Officer and  
Treasurer  
Public Service Company of New Mexico



Texas-New Mexico Power Company  
577 N. Garden Ridge Blvd.  
Lewisville, Texas 75067

**EXHIBIT 32.3**

**CERTIFICATION PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE  
SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2022, for Texas-New Mexico Power Company (“Company”), as filed with the Securities and Exchange Commission on November 4, 2022 (“Report”), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2022

By: /s/ Joseph D. Tarry

Joseph D. Tarry

Chief Executive Officer

Texas-New Mexico Power Company

By: /s/ Elisabeth A. Eden

Elisabeth A. Eden

Senior Vice President, Chief Financial Officer and

Treasurer

Texas-New Mexico Power Company