

# Investor Conference Call



Sept. 23, 2011



# Safe Harbor Statement

## Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements made in this presentation that relate to future events or PNM Resources', Public Service Company of New Mexico's ("PNM"), or Texas-New Mexico Power Company's ("TNMP") (collectively, the "Company") 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 PNM Resources, 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, PNM Resources, PNM, and TNMP caution readers not to place undue reliance on these statements. PNM Resources', PNM's, and TNMP's business, financial condition, cash flow, 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 include: the risk that PNM Resources' agreed upon sale of First Choice Power to Direct Energy does not close as planned, the risk that PNM Resources' agreed upon purchase of preferred stock from Cascade Investment does not close as planned, conditions affecting the Company's ability to access the financial markets and the Company's ability to negotiate new credit facilities for those expiring in 2012, including disruptions in the credit markets and actions by ratings agencies affecting the Company's credit ratings, the potential unavailability of cash from PNM Resources' subsidiaries due to regulatory, statutory, or contractual restrictions, the impacts of decreases in the values of marketable equity securities on the trust funds maintained to provide nuclear decommissioning funding and pension and other postretirement benefits, including the levels of funding and expense, the recession and its impacts on the electricity usage of the Company's customers, state and federal regulatory, legislative, and judicial decisions and actions, including the outcomes of PNM's pending FERC electric rate case and transmission rate case, and appeals of prior regulatory proceedings, the ability of PNM to successfully defend the utilization of a future test year in its electric rate filings with the New Mexico Public Regulation Commission ("NMPRC"), including PNM's ability to withstand challenges by regulators and intervenors, the ability of the Company to successfully forecast and manage its operating and capital expenditures, particularly in the context of a future test year rate case with respect to PNM, the ability of PNM and TNMP to recover their costs and earn their allowed returns in their regulated jurisdictions, the ability of PNM to meet the renewable energy requirements established by the NMPRC, including the resource diversity requirement, within the specified cost parameters, the risk that replacement power costs incurred by PNM related to not meeting the specified capacity factor for its generating units under its emergency fuel and purchased power adjustment clause or for other reasons will not be approved by the NMPRC, state and federal regulation or legislation relating to climate change, reduction of greenhouse gas emissions, coal combustion byproducts, nitrogen oxide, and other power plant emissions, including the risk that the Company may have to commit to substantial capital investments and additional operating costs to comply with new environmental requirements, including requirements to address regional haze regulations and related Best Available Retrofit Technology requirements and concerns about global climate change, and the resultant impacts on the operations and economic viability of generating plants in which PNM have interests, the performance of generating units, including the Palo Verde Nuclear Generating Station ("PVNGS"), the San Juan Generating Station, and the Four Corners Power Plant, transmission systems, and distribution systems, which could be negatively affected by major equipment failures, major weather disruptions, disruptions in fuel supply, and other significant operational issues, financial and operational risks at PVNGS relating to the regulatory review and actions in response to the events at the Fukushima Daiichi Nuclear Power Plant in Japan, the risks associated with completion of generation, transmission, distribution, and other projects, including construction delays and unanticipated cost overruns, uncertainty regarding the requirements and related costs of decommissioning power plants owned or partially owned by PNM and coal mines supplying certain PNM power plants, as well as the ability to recover decommissioning costs from customers, uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational documents for the projects beginning in 2016 and potential changes in the objectives of the participants in the projects, the risk that recently enacted reliability standards regarding available transmission capacity may reduce certain PNM transmission rights used to transmit its generation resources and provide access to transmission customers resulting in a need to purchase additional transmission capacity, reduce sales of transmission capacity, or operate generation less economically, changes in Electric Reliability Council of Texas ("ERCOT") protocols, changes in the cost of power acquired by First Choice and changes in the retail price of power in ERCOT, the ability of First Choice to attract and retain customers, collections experience, fluctuations in interest rates, weather, water supply, changes in fuel costs, availability of fuel supplies, the effectiveness of risk management and commodity risk transactions, seasonality and other changes in supply and demand in the market for electric power, the impact of mandatory energy efficiency measures on customer energy usage, variability of wholesale power prices and natural gas prices, volatility and liquidity in the wholesale power markets and the natural gas markets, uncertainty regarding the ongoing validity of government programs for emission allowances, changes in the competitive environment in the electric industry, the outcome of legal proceedings, the extent of insurance coverage available for claims made in litigation, changes in applicable accounting principles, and the performance of state, regional, and national economies.

## Non-GAAP Financial Measures

For an explanation of the non-GAAP financial measures that appear on certain slides in this presentation (ongoing earnings, ongoing earnings per diluted share, and ongoing EBITDA), as well as a reconciliation to GAAP measures, please refer to the Company's website as follows: <http://www.pnmresources.com/investors/results.cfm>

# Overview

Pat Vincent-Collawn

President and CEO

# PNM Resources Strategic Goals



**Earn Authorized Return  
on Our Regulated Businesses**



**Maximize the Value  
of Our Competitive Businesses**



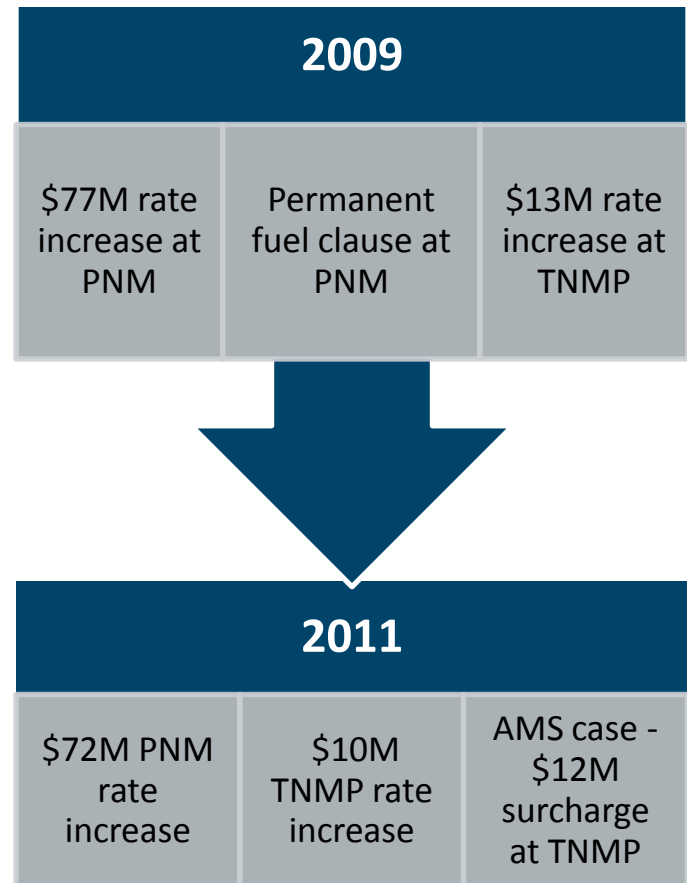
**Return to  
Solid Investment Grade  
Credit Ratings**

**Reposition PNM Resources as  
a pure-play electric utility**

# Progress of Regulated Businesses

## Recent Successes

- Received multiple rate increases at both utilities
- Reinstated permanent fuel clause at PNM
- Sold PNM gas operations and used proceeds for debt reduction
- Moved PNM merchant plants into rate base



# Exit of Competitive Businesses

## ■ Strategic Benefits

*Repositions PNM Resources as a pure-play electric utility*

- Focuses strategic direction on regulated utilities
- Dramatically reduces exposure to the energy commodity markets and competitive businesses

## ■ Financial Benefits

*Strengthens PNM Resources' financial position*

- Reduces earnings volatility
- Bolsters credit profile
- Strengthens balance sheet and allows for recapitalization
- Returns value to shareholders

# Transaction Details

Chuck Eldred

Executive Vice President and CFO

# First Choice Power Sale Details

	Summary
Purchaser	Direct Energy
Purchase Price	\$270M + working capital
Form of Transaction	Sale of PNM Resources' 100% equity interest
Financing Contingency	None
Required Approvals	Hart-Scott-Rodino / PUCT notification
Target Closing Date	Nov. 1, 2011



# Optim Energy Exit

	Summary
Previous Structure	50% Cascade 50% PNM Resources <ul style="list-style-type: none"><li>• Impaired investment in Optim to \$0 in 2010</li></ul>
New Structure	99% Cascade 1% PNM Resources
Financial Obligations	None
Required Approvals	None
Closing Date	Sept. 23, 2011
Ongoing Earnings	PNM Resources will no longer include Optim in ongoing earnings beginning Sept. 1, 2011

# Use of Proceeds—First Choice Power Sale

Business is being recapitalized by repurchasing debt and equity

## Source of proceeds:

- Purchase price \$270M + working capital

## Use of proceeds:

- Retire up to \$75M of PNM Resources 9.25% SUNs
- Repurchase up to \$230M of PNM Resources equity
  - Repurchase Series A convertible Preferred Stock
    - Held by Cascade Investment, L.L.C.
    - Market-based price
    - Reduce EPS share count by 4.8 million shares
  - Repurchase common stock

## Timing:

- Preferred Stock is expected to close early October
- Debt and equity: repurchases are expected within 12 months of close

# Updated 2011 Guidance (ongoing)

**\$0.80 ← Prior Consolidated EPS<sup>(1)</sup> → \$0.92**

Regulated  
\$0.89 - \$0.96

Corp/Other  
(\$0.17 - \$0.15)

Competitive  
\$0.06 - \$0.16

## Assumptions & Drivers:

Preferred Share Repurchase

- Weather
- Cost Control

- Optim Energy excluded from ongoing results beginning Sept. 1
- Close of First Choice Power sale Nov. 1
- Weather

Regulated  
\$1.00 - \$1.05

Corp/Other  
(\$0.17 - \$0.15)

Competitive  
\$0.14 - \$0.18

**\$0.98 ← Consolidated EPS<sup>(1)</sup> → \$1.05**

<sup>(1)</sup> Segments are not additive

# Key Strategic Goals and Checklist

## Earn Authorized Return on Our Regulated Businesses

- Achieve successful outcomes in:
  - PNM retail rate case
    - PNM FERC transmission rate case
  - TNMP AMS case
- Maintain strong electric reliability and power plant availability
- Control O&M and capital costs

## Maximize the Value of Our Competitive Businesses

- Maintain profitability of First Choice Power by achieving retail rate case
- Competitive generation conditions improve
- Achieved by monetizing competitive entities and returning value to shareholders

## Return to Solid Investment Grade Credit Ratings at PNMR

- Become fully investment grade at:
  - PNM
  - TNMP

# Questions & Answers

# Appendix

## Guidance (ongoing): First Choice Power & Optim Energy

Prior Guidance	First Choice Power (Jan – Dec 2011)	Optim Energy (Jan – Dec 2011)
Earnings (Loss) per Share	\$0.28 – \$0.35	\$(0.22)-\$(0.19)
EBITDA	\$43M-\$53M	\$20M-\$30M <sup>(1)</sup>

Current Guidance	First Choice Power (Jan – Oct 2011)	Optim Energy (Jan – Aug 2011) <sup>(2)</sup>
Earnings (Loss) per Share	\$0.20 – \$0.24	\$(0.06)
EBITDA	\$32M-\$37M	\$40.6M <sup>(1)</sup>

<sup>(1)</sup>100% of Optim Energy

<sup>(2)</sup> Actual results

