

# Investor Meetings



August 2012



# Safe Harbor Statement

Statements made in this presentation that relate to future events or PNM Resources' ("PNMR"), 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. 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 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 ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions; the ability of the Company to successfully forecast and manage its operating and capital expenditures; state and federal regulatory, legislative, and judicial decisions and actions on ratemaking, tax, and other matters; state and federal regulation or legislation relating to environmental matters, including the resultant costs of compliance and other impacts on the operations and economic viability of PNM's generating plants; the risk that recently enacted reliability standards regarding available transmission capacity and other FERC rulemakings may negatively impact the operation of PNM's transmission system; the performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, extreme weather conditions, terrorism, and cybersecurity breaches; 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; uncertainties surrounding the mine fire incident at the mine supplying coal to SJGS; uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational agreements for the projects; the risks associated with completion of generation, transmission, distribution, and other projects; regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties; uncertainty regarding the requirements and related costs of decommissioning power plants and coal mines supplying certain power plants, as well as the ability to recover decommissioning costs from customers; the impacts on the electricity usage of the Company's customers due to performance of state, regional, and national economies and mandatory energy efficiency measures, weather, seasonality, and other changes in supply and demand; the Company's ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates; the potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions; the impacts of decreases in the values of marketable equity securities maintained to provide for nuclear decommissioning and pension and other postretirement benefits; commodity and counterparty credit risk transactions and the effectiveness of risk management; the outcome of legal proceedings, including the extent of insurance coverage; changes in applicable accounting principles.

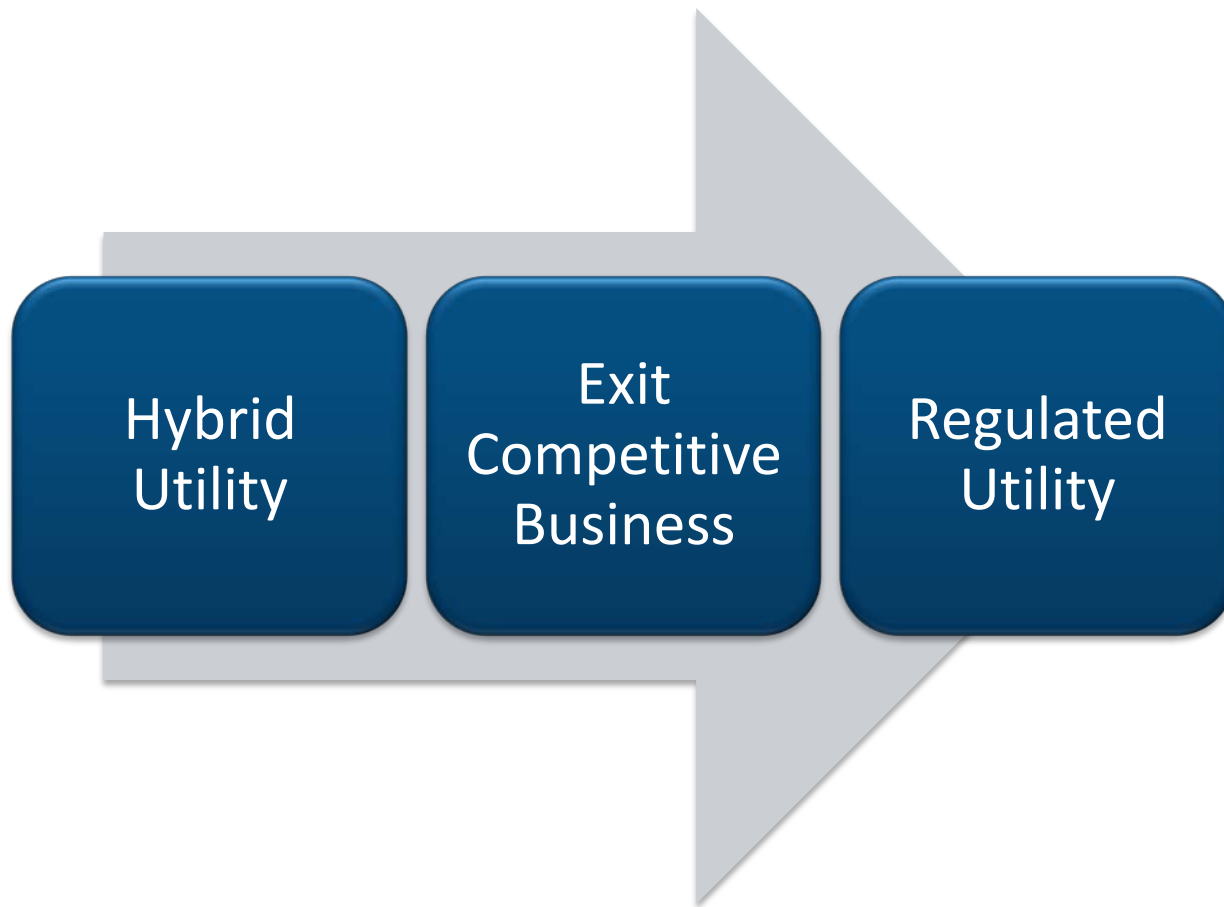
## Non-GAAP Financial Measures

For an explanation of the non-GAAP financial measures that appear on certain slides in this presentation (ongoing earnings and ongoing earnings per diluted share), as well as a reconciliation to GAAP measures, please refer to the Company's website as follows:

<http://www.pnmresources.com/investors/results.cfm>

# Company Overview

## Repositioned as Strong Regulated Utility



### Strategic Goals

Earn Authorized  
Return on our  
Regulated Businesses

Continue to Improve  
Credit Ratings

Provide Top Quartile  
Total Return

# PNM Resources Overview

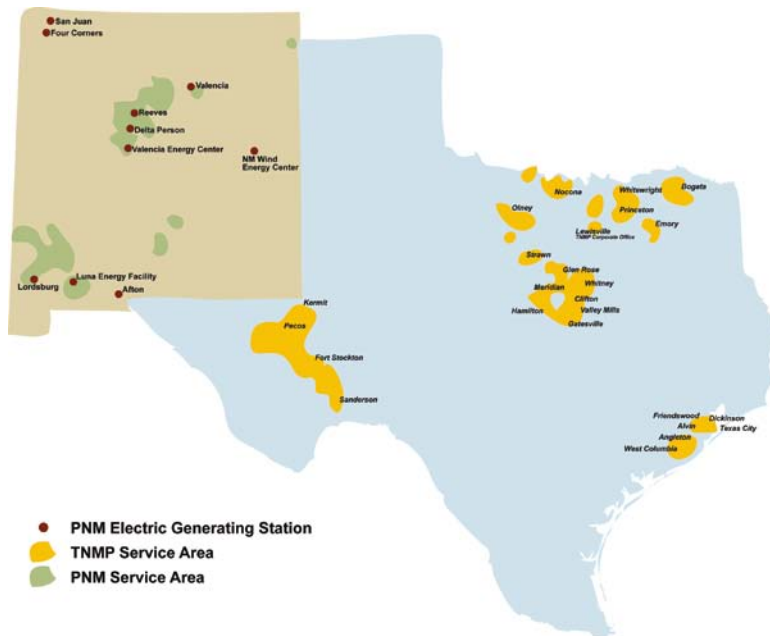
## Focus:

- Provide top quartile total return
- Continue to improve credit ratings

## By:

- Earning our allowed returns
- Controlling our costs

## New Mexico and Texas Service Territories



- Located in New Mexico
- 504,700 customers
- 14,562 miles transmission and distribution lines
- 2,548MW generation capacity



- Located in Texas
- 231,700 end-users
- 9,080 miles transmission and distribution lines

## Exit of Competitive Business

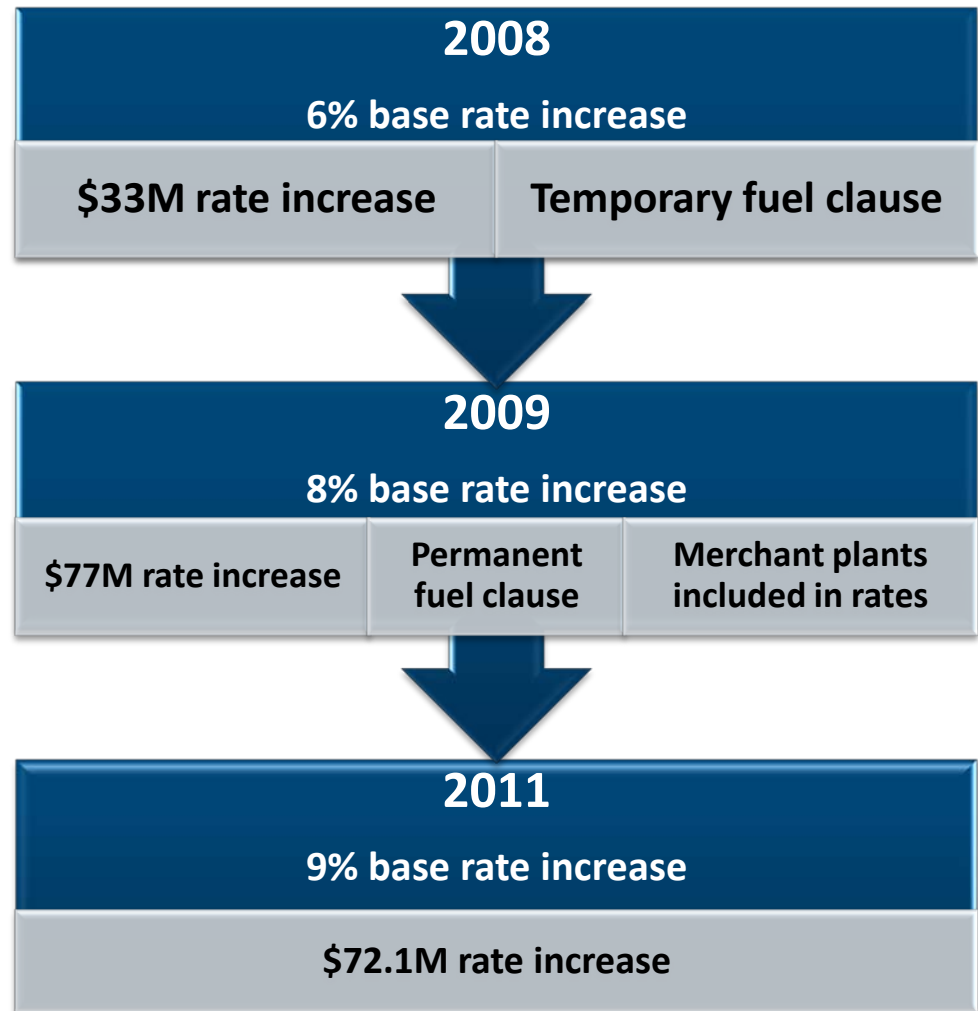
- Strengthened PNM Resources' financial position
- Eliminated financial and business risks associated with competitive entities
- Focused strategic direction on regulated utilities

### Recapitalized business using \$329M proceeds

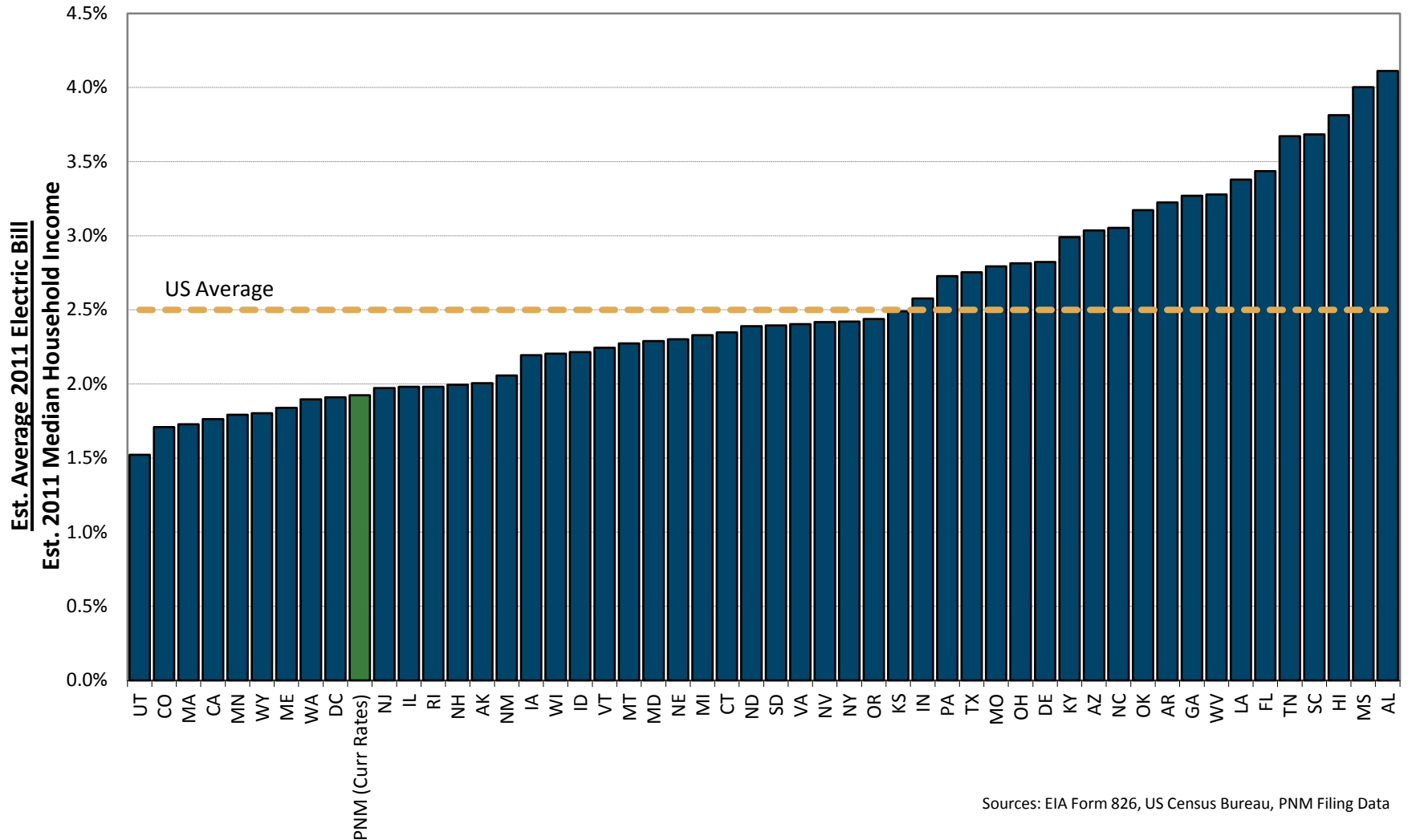
Equity – repurchased preferred shares	\$73.5M	4.8M shares	Closed Oct. 5
Equity – repurchased common shares	\$125.7M	7.0M shares	Closed Nov. 10
Debt – tendered 9.25% SUNs	\$50.0M principal	Fixed price at a 17% premium	Closed Nov. 22

# PNM: Recent Accomplishments

- Significant progress has been made to improve PNM's financial health
  - Three rate increases in the past four years
  - Exited gas operations, used 100% of the proceeds to reduce debt
  - Substantially improved credit metrics



# 2011 Electric Affordability by State



Sources: EIA Form 826, US Census Bureau, PNM Filing Data

PNM rates reflect the most recent rate increase. All others reflect U.S. Energy Information Administration's Forecasted Residential Rate increases through 2012.

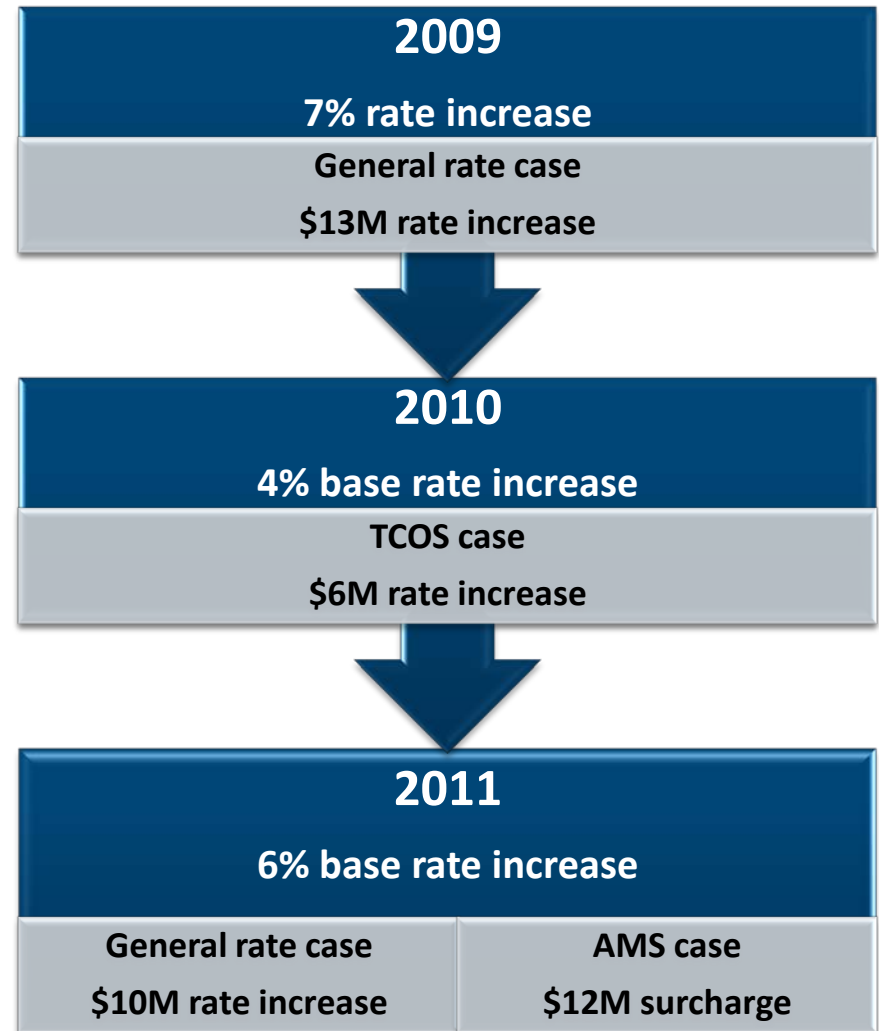


# PNM: Pathway to Continued Success

- Earn allowed return
  - Synchronize revenues and expenses
  - Use of future test year
  - Balance future rate increases for customers while ensuring the appropriate return is earned for our shareholders
- Continue to get positive regulatory outcomes
- Continue to strengthen investment grade credit metrics
- Continue to control costs

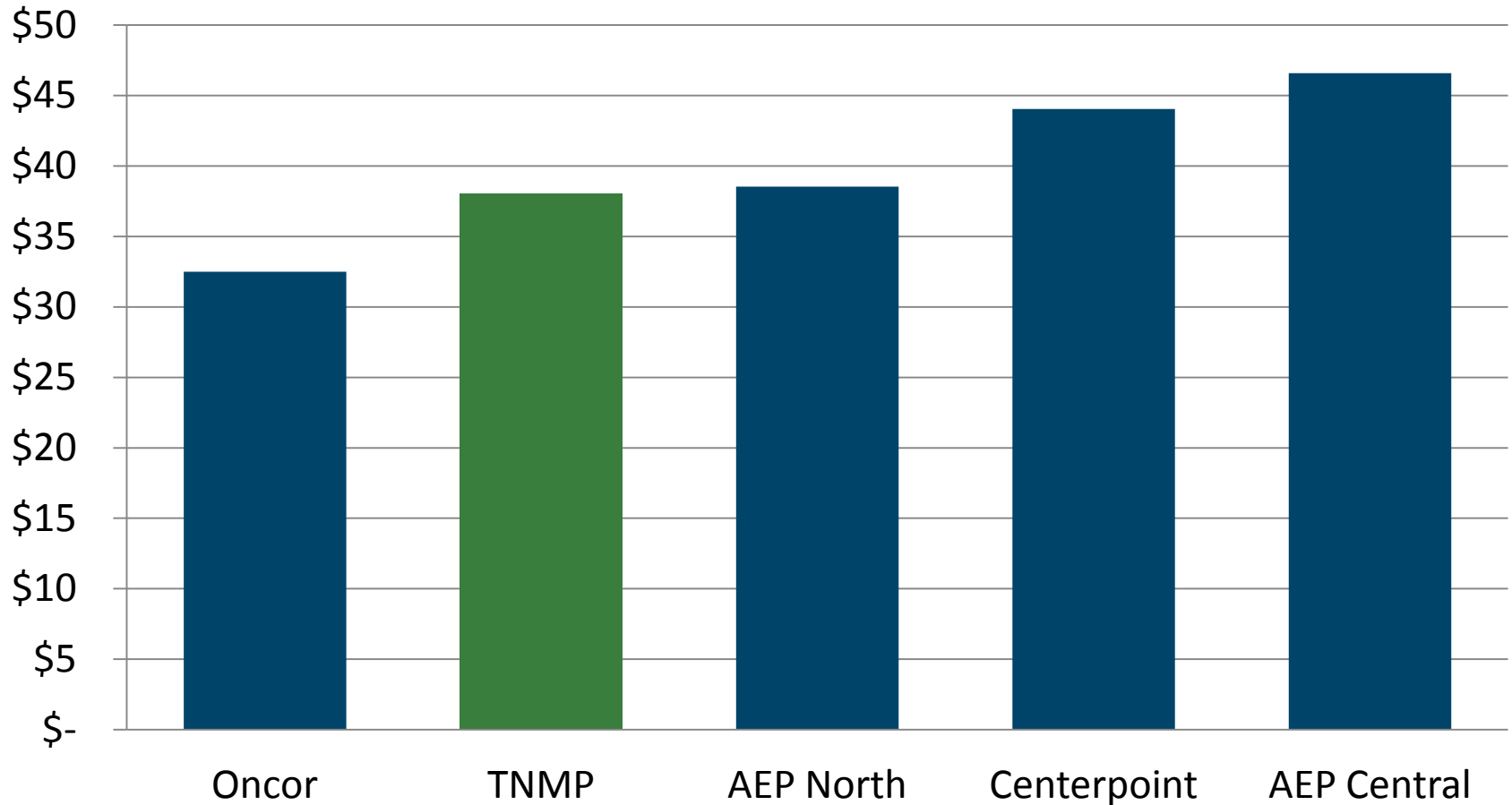
# TNMP: Recent Accomplishments

- Restored earnings potential working with a constructive Texas regulatory framework
  - Achieved successful outcomes in four cases over the past three years
  - No current plans to file another general rate case in the near-term
- Steady load growth since 2007



# TNMP Rates Compare Favorably

## Residential Total Wires Charge for 1,000 kWh



Source: TDU tariffs for retail delivery service, as of May 1, 2012

## TNMP: Pathway to Continued Success

- Continue to earn allowed rate of return
- Use transmission and distribution cost of service filings to
  - Minimize regulatory lag
- Retain solid credit metrics
- Invest in the business
- Continue to control costs

## ***Long-term goal: Provide top quartile total return to shareholders***

- Total return is 5-year ongoing EPS growth + 5-year average dividend yield
- Top quartile total return currently equal to an average annual rate of 10% - 13% over a 5 year period <sup>(1)</sup>
- Earnings growth driven primarily by rate base growth paired with earning allowed returns
  - Timing of rate cases and capital spending may cause the earnings growth trajectory to vary year to year
- Sustainable and growing dividend

<sup>(1)</sup> Beginning in 2012

# Common Stock Dividend

**2012 Dividend:**

**\$0.58**

**Payout ratio:**

**46% <sup>(1)</sup>**

**Dividend yield:**

**2.8% <sup>(2)</sup>**

<sup>(1)</sup> Assumes mid-point of the 2012 guidance range

<sup>(2)</sup> Based on 8/3/12 stock price of \$20.80

- The annual common stock dividend was raised by \$0.08 on February 29, 2012
- Long-term target: 50% - 60% payout ratio
- The Board will continue to evaluate the dividend on an annual basis, considering:
  - Sustainability and growth
  - Capital planning
  - Industry standards

# Recent Credit Rating Accomplishments

- Ratings upgraded Sept. 26, Nov. 1, Apr. 13
- Strength, stability and predictability recognized

## Moody's

	PNMR	PNM	TNMP
Debt rating	Ba1 <sup>(1)</sup>	Baa3 <sup>(1)</sup>	A3 <sup>(2)</sup>
Outlook	Stable	Stable	Stable

## S&P

	PNMR	PNM	TNMP
Debt rating	BB+ <sup>(1)</sup>	BBB- <sup>(1)</sup>	BBB+ <sup>(2)</sup>
Outlook	Stable	Stable	Stable

<sup>(1)</sup> Senior unsecured

<sup>(2)</sup> Senior secured

# Assumptions for Potential Earnings Power

*Reducing regulatory lag and improving market prices could improve EPS by \$0.15 to \$0.20 without growing rate base*

	Mid Point Guidance Range		Potential Earnings Power		Growth Potential EPS	Potential Achievement
	Return	EPS	Allowed Return	Resulting EPS		
<b>PNM</b>						
PNM Retail	10%	\$1.13	10%	\$1.13		
Renewables	7%	\$0.03	10%	\$0.05	\$0.02	2013
FERC Transmission	8%	\$0.08	9% - 11%	\$0.09 - \$0.10	\$0.01 - \$0.02	2012
FERC Generation	-5%	(\$0.02)	9% - 11%	\$0.04 - \$0.05	\$0.06 - \$0.07	2014 <sup>(1)</sup>
Costs not included in rate base		(\$0.05)		(\$0.03)	\$0.02	2014
PV3		(\$0.06)		(\$0.03) - \$0.00	\$0.03 - \$0.06	See Note 2
<b>TNMP</b>						
T&D	9.6%	\$0.26	10.125%	\$0.27	\$0.01	2013
Competitive transition charge (CTC)		\$0.03		\$0.03		
Automated meter system (AMS)		\$0.01		\$0.01		
<b>Corporate/Other</b>		(\$0.15)		(\$0.15)		
<b>Total</b>		<b>\$1.26</b>		<b>\$1.41 - \$1.46</b>	<b>\$0.15 - \$0.20</b>	

<sup>(1)</sup> FERC Generation's potential achievement would occur with the filing and resolution of new rates for the Gallup contract, which is expected in 2014

<sup>(2)</sup> PV3 generation is currently sold at market. The range assumes a market price of \$39 to \$42

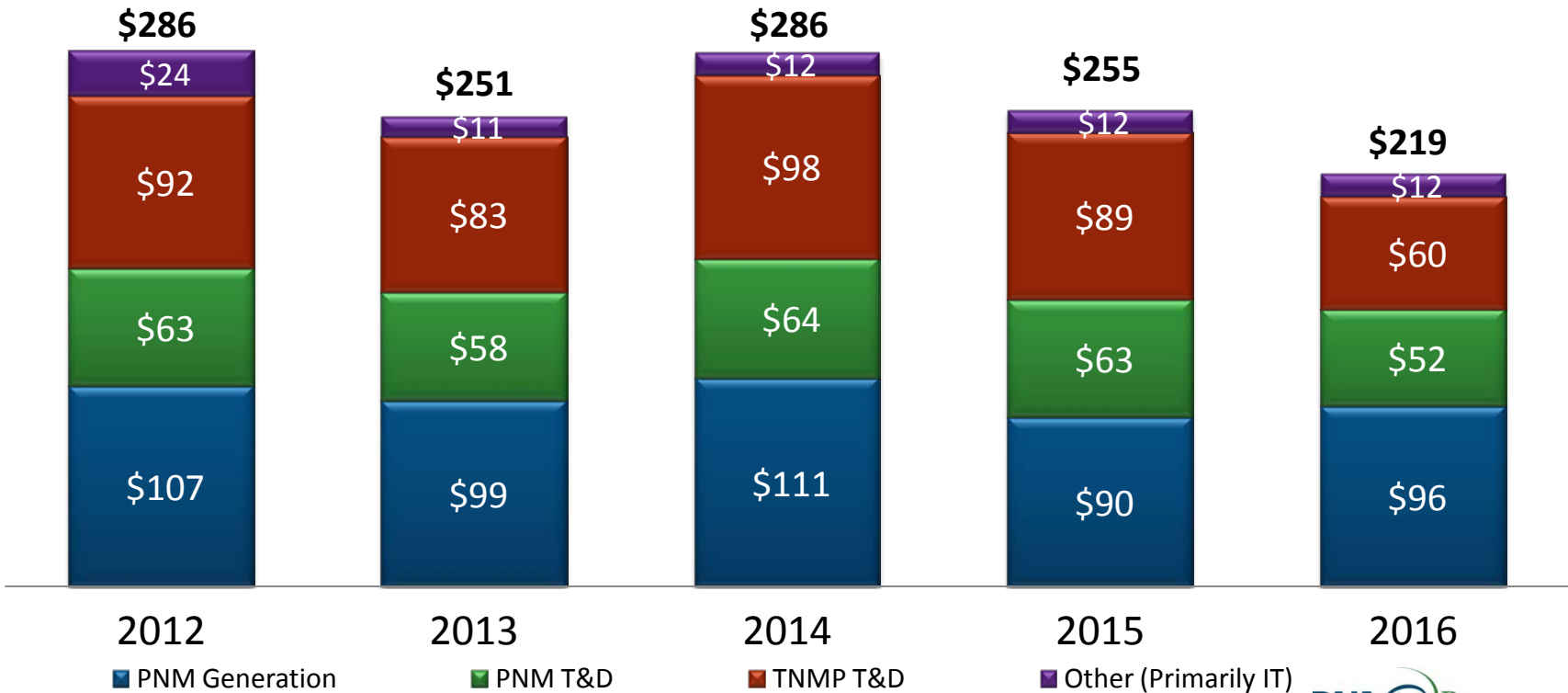


# PNM Resources 5-Year Capital Plan

Amounts do not include potential capital spending in 2013 – 2016 at PNM for SCRs, renewables and additional peaking capacity

2012 - 2016  
Total Capital Plan: \$1.3B

(In millions)

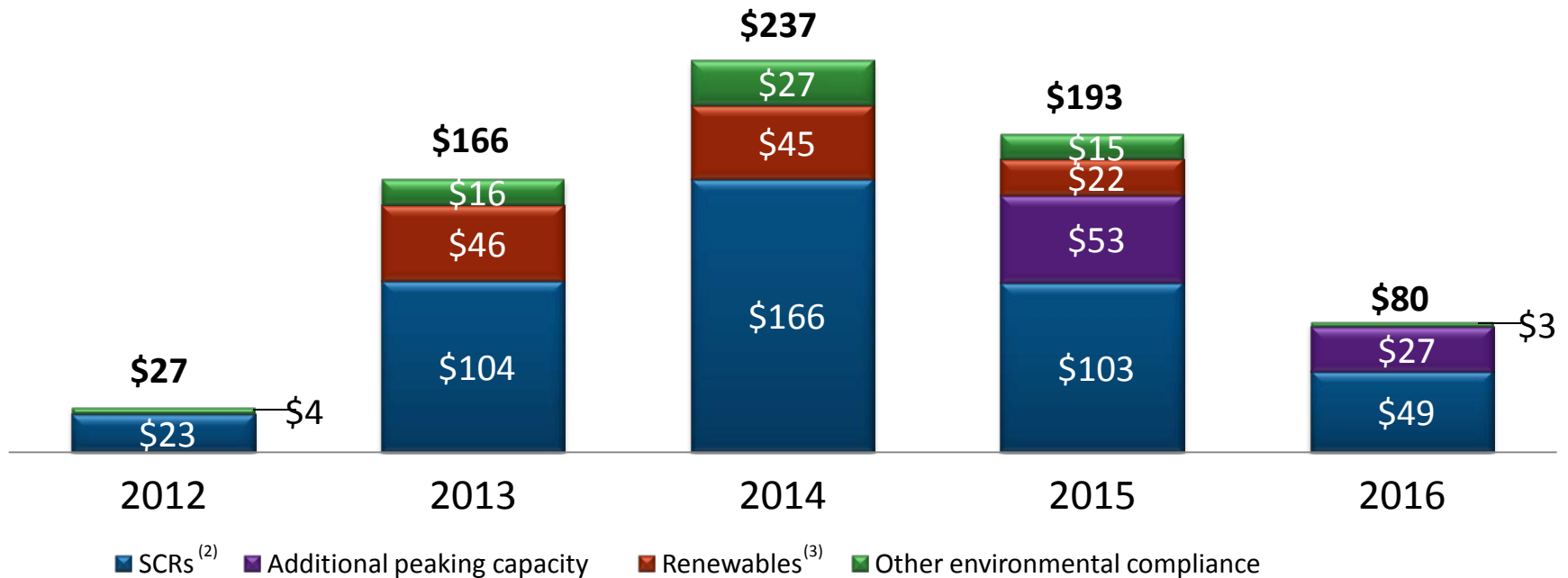


Amounts may not add due to rounding

# PNM Resources 5-Year Potential Capital Additions

2012 – 2016  
Total Potential Capital<sup>(1)</sup>: \$0.7B

(In millions)



<sup>(1)</sup> Not all potential capital expenditures will be realized. Amounts are representative of the middle of the potential range.

<sup>(2)</sup> PNM's portion of SCRs for San Juan and Four Corners. PNM is working to minimize near-term BART expenditures.

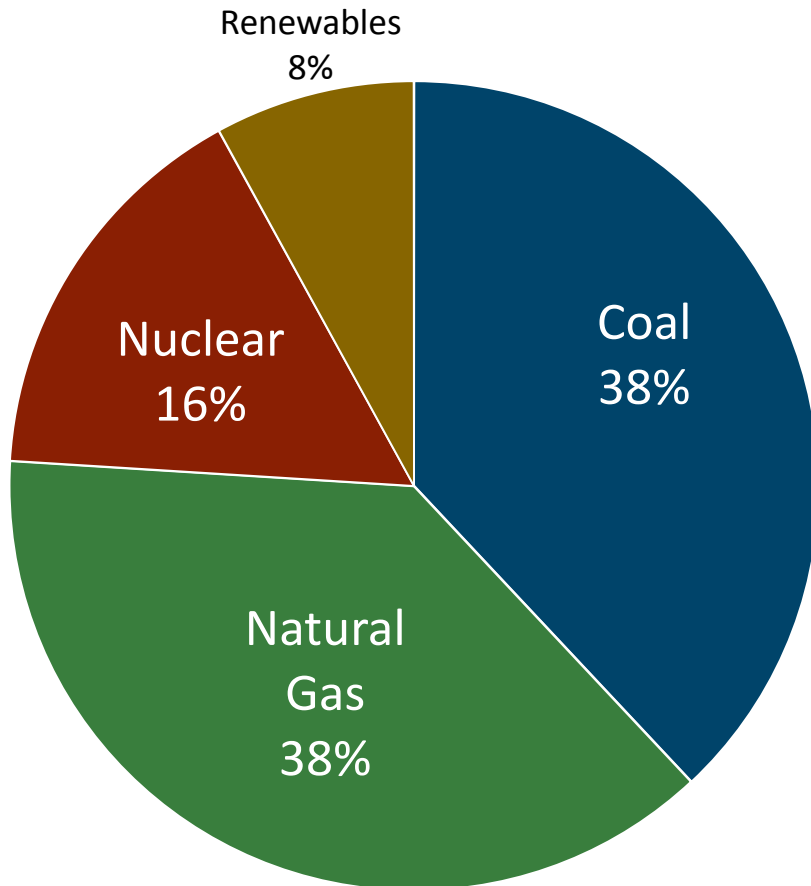
<sup>(3)</sup> Updated for recent renewable plan filing

Amounts may not add due to rounding

# PNM Diversified Fuel Mix

## Capacity

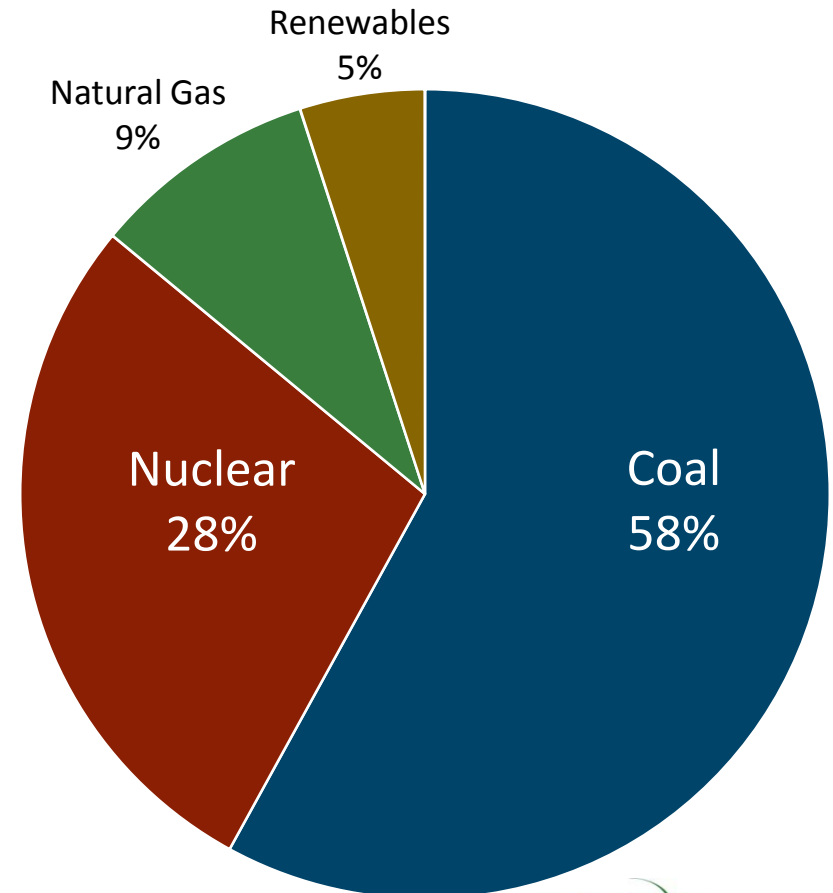
2,548MW



## Generation <sup>(1)</sup>

11,507 GWh

Based on last 12 months ending 12/31/11



<sup>(1)</sup> Includes PNM generation and PPAs

# Second Quarter Earnings

## Q2 2012 Financial Results

	Q2 2012	Q2 2011	YTD 2012	YTD 2011
Ongoing EPS	\$0.33	\$0.20	\$0.50	\$0.24
GAAP EPS	\$0.27	\$0.04	\$0.48	\$0.22

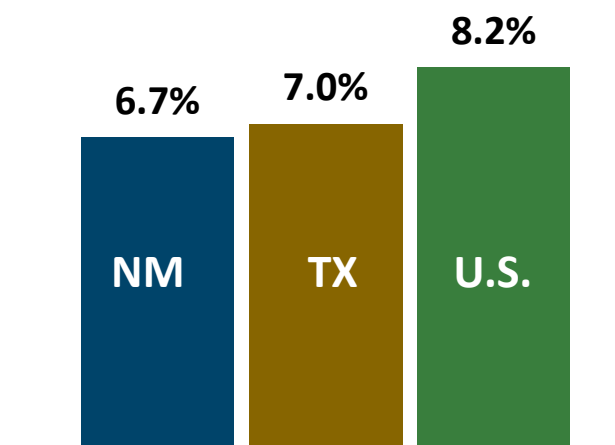
- Increased retail rates implemented in 2011, warmer June weather, and cost control improves PNM
- Strong TNMP load growth tempered by cooler weather in Texas
- Progress continues on multiple regulatory fronts

# Load Growth and Economic Conditions

## Regulated Retail Energy Sales Growth (weather-normalized)

	Q2 2012 vs. Q2 2011		Q2 YTD 2012 vs. Q2 YTD 2011	
	PNM <sup>(1)</sup>	TNMP <sup>(2)</sup>	PNM <sup>(1)</sup>	TNMP <sup>(2)</sup>
Residential	0.4%	8.5%	0.0%	7.1%
Commercial	-0.2%	4.2%	0.7%	1.4%
Industrial	1.3%	24.9%	1.7%	9.1%
<b>Total Retail</b>	<b>0.1%</b>	<b>7.0%</b>	<b>0.4%</b>	<b>4.4%</b>

## Unemployment Rate<sup>(3)</sup>



## YTD Residential and Commercial Average Customer Growth

PNM	TNMP
<b>0.3%</b>	<b>0.5%</b>

<sup>(1)</sup> Excludes Economy Service customers

<sup>(2)</sup> Excludes Transmission Service end-users

<sup>(3)</sup> U.S. Bureau of Labor Statistics, June 2012

# Regulatory Update

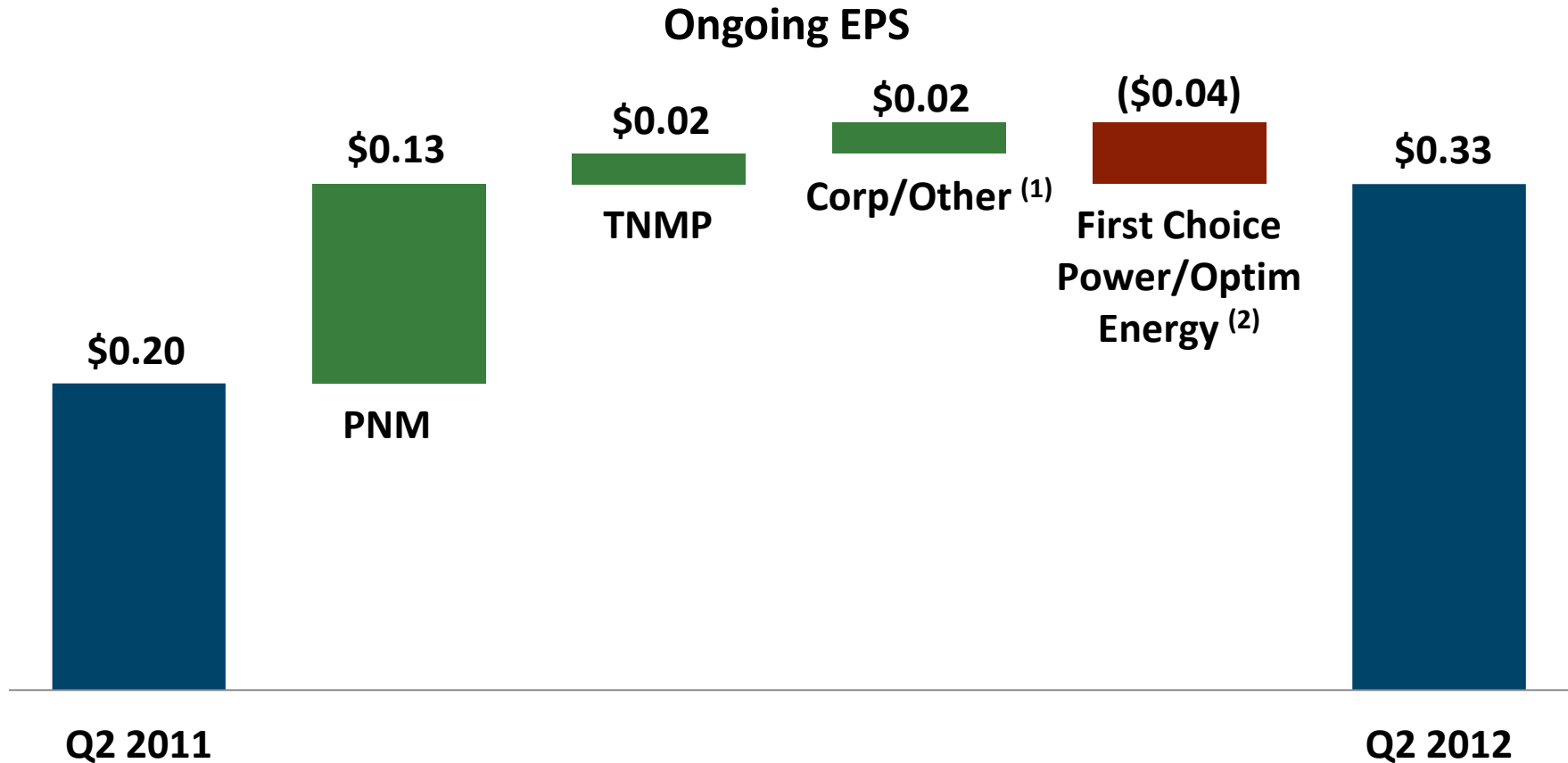
Item	Action	Timing	Docket No.
FERC transmission case	Settlement filed July 3; FERC Staff supports settlement	Awaiting FERC final approval	ER11-1915-002, et. al
FERC generation case (Navopache Electric Cooperative, Inc.)	Confidential settlement in principle reached	TBD	ER11-4535-000 and ER12-72-000
PNM renewable energy rider	Recommended decision: awaiting NMPRC action	Implementation currently expected Aug. 15	12-00007-UT
PNM 2013 renewable energy plan	Hearing scheduled	Sept. 4	12-00131-UT
Decoupling rulemaking	Workshops scheduled	Aug. 24	12-00144-UT
Future-test-year rulemaking	Hearing held June 13; NMPRC General Counsel to present draft order	TBD	12-00029-UT

# San Juan BART Update

- EPA granted 90-day “stay”
  - No extension of compliance date
- N.M. Environment Department process designed to identify potential alternatives to FIP and SIP through:
  - Series of public comment meetings (July 24 through approximately mid-September)
  - Working group sessions to be held in August and September
- 10<sup>th</sup> Circuit litigation
  - Oral arguments scheduled for October 23



# Q2 2012 Financial Summary

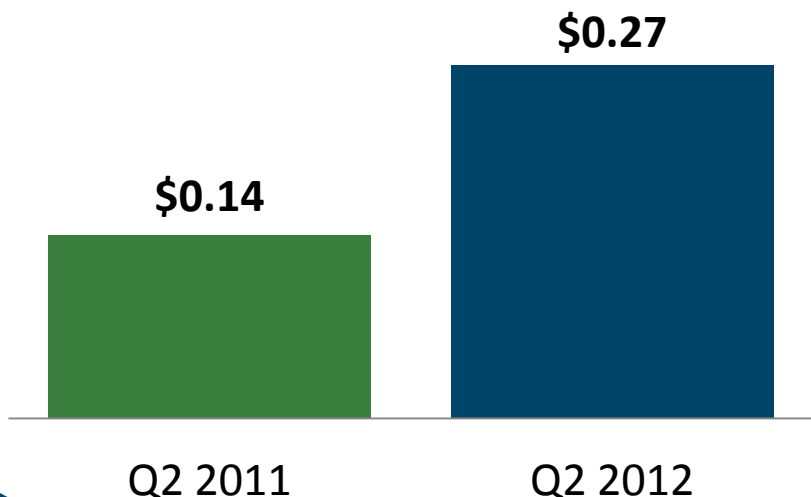


<sup>(1)</sup> \$0.01 is added due to rounding

<sup>(2)</sup> After August 31, 2011 Optim Energy's financial results were not included in PNM Resources' ongoing earnings results. Sale of First Choice Power was completed on November 1, 2011.

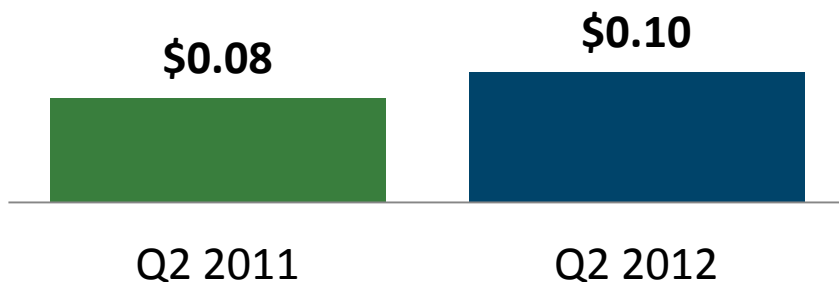
# PNM and TNMP: Q2 2012 vs Q2 2011 EPS (Ongoing)

## PNM



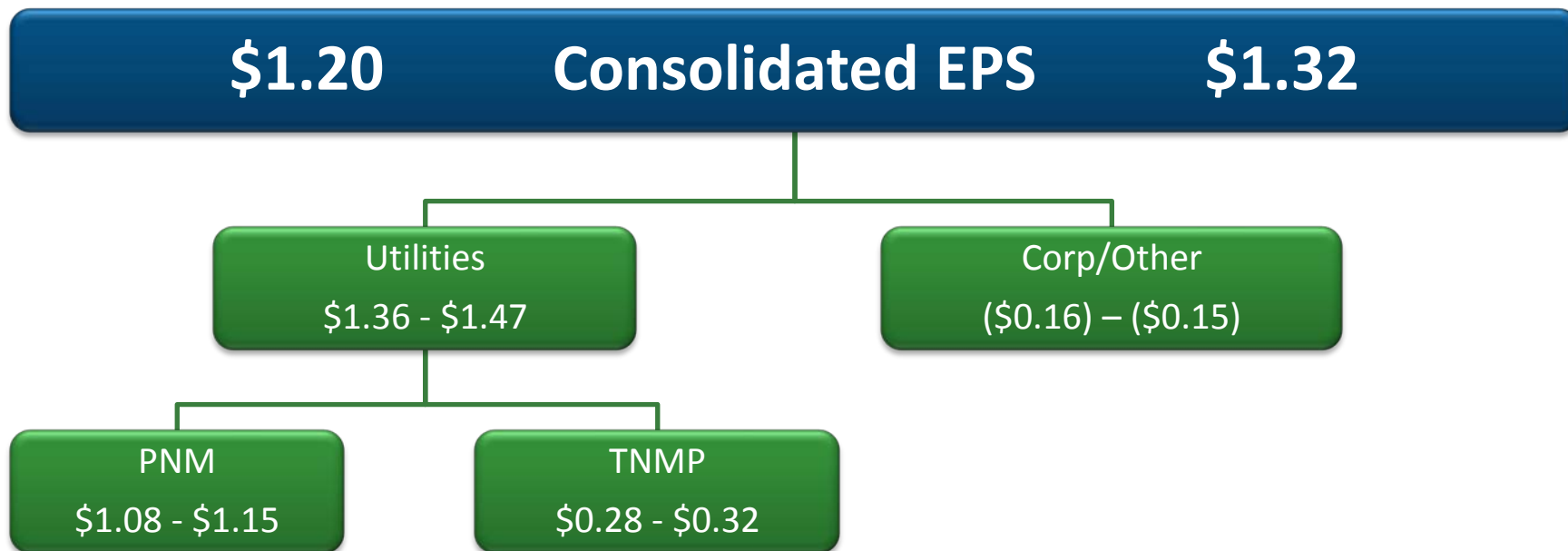
Q2 2012 Key Performance Drivers	Δ EPS
Rate relief	\$0.12
Weather	\$0.03
PNM Resources share repurchase	\$0.03
O&M reductions	\$0.01
Lower outage costs	\$0.01
Palo Verde 3 market price	(\$0.01)
Interest expense	(\$0.01)
Palo Verde Nuclear Decommissioning Trust	(\$0.04)
Other	(\$0.01)

## TNMP



Q2 2012 Key Performance Drivers	Δ EPS
Load	\$0.02
PNM Resources share repurchase	\$0.01
Weather	(\$0.01)

# Affirming 2012 EPS Guidance (Ongoing)



# Key Strategic Goals and 2012 Checklist

## Strategic Goals

Earn Authorized Return on our Regulated Businesses

Continue to Improve Credit Ratings

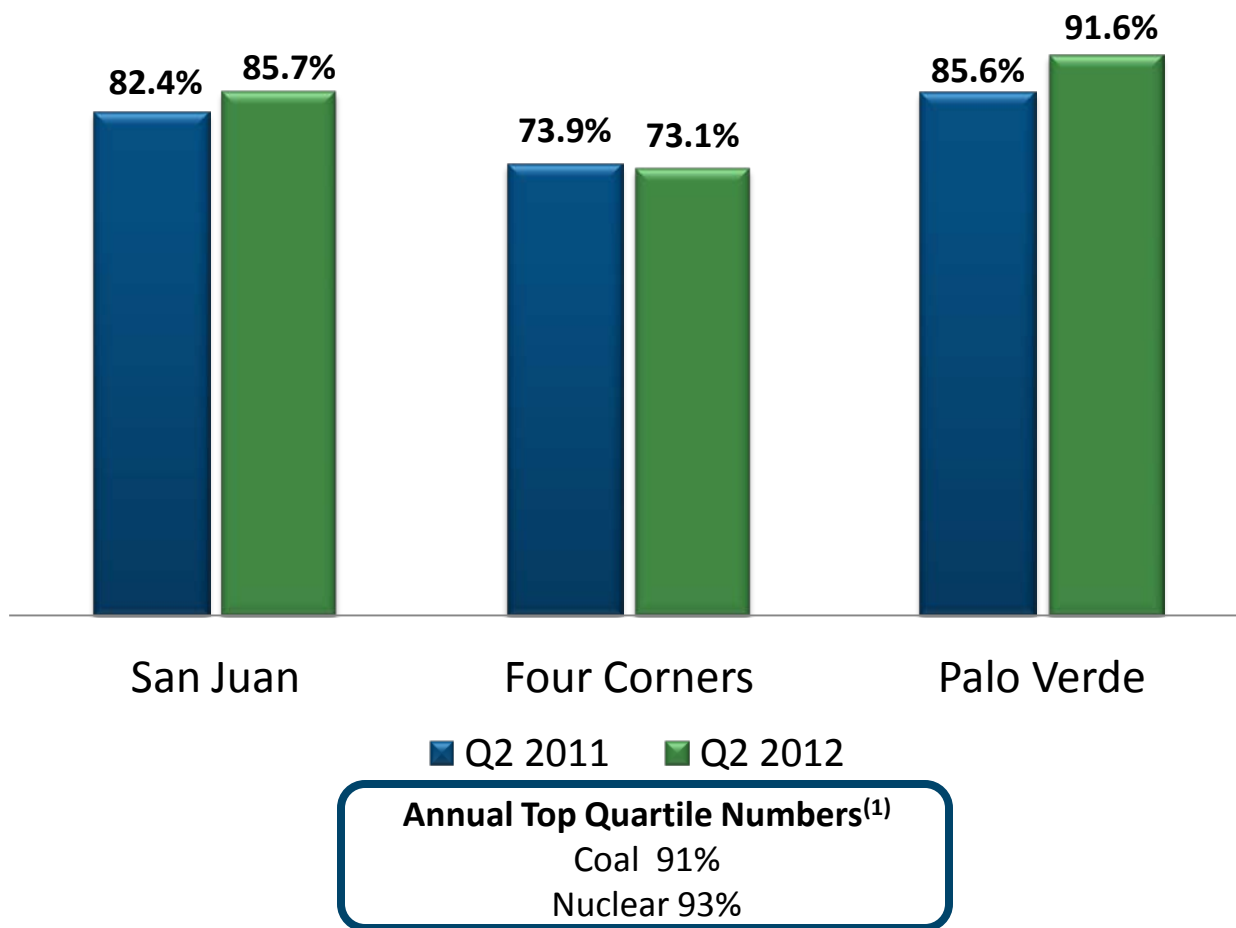
Provide Top Quartile Total Return

## 2012 Checklist

- Achieve successful outcomes in:
  - PNM future test year rulemaking
  - PNM FERC transmission rate case
  - PNM FERC generation rate case
  - PNM renewable rider
- Maintain strong electric reliability and power plant availability
- Control O&M and capital costs

# Appendix

# PNM Plant EAF and Outages



## 2012 and 2013 Outage Schedule

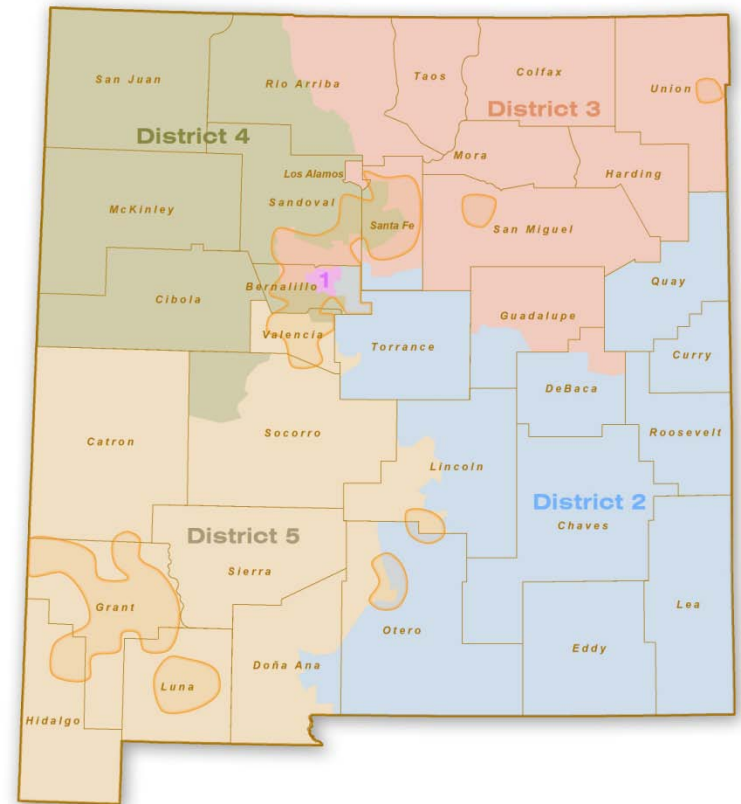
Unit	Duration in Days	Time Period
<b>San Juan</b>		
2	47	Q1 – Q2 2012
3	54	Q3 – Q4 2012
4	47	Q1 – Q2 2013
1	40	Q4 2013
<b>Four Corners</b>		
5	17	Q2 2012
4	21	Q2 2013
<b>Palo Verde</b>		
3	32	Q1 - Q2 2012
2	44	Q4 2012
1	40	Q1 – Q2 2013
3	42	Q3 – Q4 2013

<sup>(1)</sup>Annual top quartile numbers from the North American Electricity Reliability Corporation as of August 2011

# NMPRC Commissioners and Districts

Name	District	Term Ends	Party
Jason Marks <sup>(1)</sup>	District 1	2012	Democrat
Patrick Lyons Chairman	District 2	2014	Republican
Douglas Howe <sup>(2)</sup>	District 3	2012	Independent
Theresa Becenti-Aguilar Vice Chair	District 4	2014	Democrat
Ben Hall	District 5	2014	Republican

**NMPRC Districts and  
PNM Service Areas**



Commissioners are elected to four-year terms and are limited to serving two consecutive terms

<sup>(1)</sup> District 1 Candidates: Karen Montoya (D) and Christopher Ocksrider (R)

<sup>(2)</sup> District 3 Candidate: Valerie Espinoza (D) (Unopposed)

Election day is November 6, 2012

# Utility Rate Base and Return

PNM	Test Period <sup>(1)</sup>	Rate Base in Filing	Projected 2012 Avg. Rate Base	% of Rate Base	Allowed Equity Ratio	ROE	Increase
<b>Retail</b>							
Current Rates	June 30, 2010	\$1.8B	\$1.8B	86%	51.28%	10.00%	\$72.1M
Renewables	Dec. 31, 2011	\$68M	\$74M	4%	50.61%	10.00%	\$18.0M
<b>FERC Transmission</b>							
Current Rates <sup>(2)</sup>	Dec. 31, 2011	\$147.2M <sup>(3)</sup>	\$153M	7%	51.00% <sup>(3)</sup>	10.00% <sup>(3)</sup>	\$2.9M <sup>(3)</sup>
<b>FERC Generation <sup>(4)</sup></b>							
Current Rates <sup>(5)</sup>	Dec. 31, 2012	\$67.6M	\$68M	3%	49.46% <sup>(5)</sup>	11.00% <sup>(5)</sup>	\$8.7M <sup>(5)</sup>
TNMP	Test Period <sup>(1)</sup>	Rate Base in Filing	Projected 2012 Avg. Rate Base	% of Rate Base	Allowed Equity Ratio	ROE	Increase
Current Rates	Mar. 31, 2010	\$448.2M	\$482M	100%	45.00%	10.125%	\$10.3M

<sup>(1)</sup> Period is for the 12 months ending on stated date

<sup>(2)</sup> Rates implemented June 1, 2011, subject to refund pending final order by FERC, values represent settled amounts

<sup>(3)</sup> PNM agreed to and filed a "black box" settlement of \$2.9M rate increase on July 3, 2012. The settlement did not include a stated allowed equity ratio or ROE. The implied ROE is 10%. Rate base amount based on actual 2011 results.

<sup>(4)</sup> FERC Generation is comprised of three separate wholesale customer contracts under the jurisdiction of FERC: Navopache Electric Cooperative, Inc., City of Gallup, and City of Aztec

<sup>(5)</sup> Reflects the amount of annual increase filed with FERC under an unexecuted amended sales agreement between PNM and Navopache Electric Cooperative, Inc., which represents 62% of the total FERC Generation rate base amount. The increase for Navopache was implemented April 14, 2012, subject to refund.



# Palo Verde Nuclear Generating Station Unit 1 and 2 Leases

## Lease Expiration

- Unit 1: January 15, 2015
- Unit 2: January 15, 2016

## Notice Dates

	Unit 1	Unit 2
1 <sup>st</sup> Notice	January 2012	January 2013
2 <sup>nd</sup> Notice	January 2013	January 2014

- 1<sup>st</sup> Notice: Indicate whether or not control of the generation will be retained
- 2<sup>nd</sup> Notice: Indicate decision to extend lease or use purchase option

## Yearly Payment Amounts

- Total PV Units 1 and 2
  - \$56.8M initial lease payment per year
  - \$28.4M renewal lease payment per year at 50%

## MW Leased vs. Owned

Unit 1		
Owned	2.3%	30 MW
Leased	7.9%	104 MW
<b>Total</b>	<b>10.2%</b>	<b>134 MW</b>

Unit 2		
Owned	4.6%	60 MW
Leased	5.6%	74 MW
<b>Total</b>	<b>10.2%</b>	<b>134 MW</b>

# Selected Balance Sheet Information

(In millions)	Dec 31, 2011	Jun 30, 2012
<b>Long-Term Debt (incl. current portion)</b>		
PNM	\$1,215.5	\$1,215.6
TNMP	311.0	311.3
PNMR	147.5	147.5
<b>Consolidated</b>	<b>\$1,674.0</b>	<b>\$1,674.3</b>
<b>Total Debt (incl. short-term) <sup>(1)</sup></b>		
PNM	\$1,281.5	\$1,302.0
TNMP	311.0	311.3
PNMR	164.2	268.1
<b>Consolidated</b>	<b>\$1,756.7</b>	<b>1,881.3</b>

<sup>(1)</sup> Excludes inter-company debt  
Amounts may not add due to rounding

## Liquidity/Capital Structure

- In October 2011, refinanced PNMR and PNM revolvers (\$700M)
- Targeting cap structure of
  - 50/50 at PNM
  - 55/45 at TNMP

	PNMR	PNM	TNMP	Total
Financing Capacity as of July 27, 2011				
Total Capacity	\$305.0	\$400.0	\$75.0	\$780.0
Less short-term debt and LOC balances	(126.2)	(83.0)	(0.3)	(209.5)
<b>Total Available Liquidity</b>	<b>\$178.8</b>	<b>\$317.0</b>	<b>\$74.7</b>	<b>\$570.5</b>

# Environmental Compliance

# San Juan – BART Timeline

- Proposed State Implementation Plan revisions filed with EPA in July 2011
  - Called for SNCR technology estimated to cost ~\$77M (total plant cost)
  - EPA issued its proposed action on the SIP, including approval of all components of the SIP, except for the SJGS BART determination on May 31, 2012
    - EPA determined that with the FIP in place, it had met its obligation under the consent decree
    - EPA would issue a separate proposal or consider the withdrawal of the SIP in favor of an alternative developed through discussions between PNM and the State
- Final Federal Implementation Plan BART determination issued Aug. 5, 2011
  - Called for installation of SCR technology on all four units within five years.
  - Based on the bidding process to date, PNM believes it should be able to enter into contractual arrangements that would result in total installation costs within the range of ~\$750M - \$1B
  - A Petition for Review of the EPA decision was filed in the U.S. Court of Appeals for the Tenth Circuit on Sept. 16, 2011
    - U.S. Court of Appeals for the Tenth Circuit denied the motions to stay filed by PNM and NMED/Governor Martinez on March 1, 2012
    - Briefing for the 10th Circuit litigation to be completed by September 25, 2012
    - Oral arguments scheduled for October 23, 2012
- EPA 90-day stay of the FIP was published in the Federal Register on July 16, 2012
  - Opportunity to develop a revised SIP to be submitted as an alternative to the FIP
  - No change to the compliance date of September 21, 2016
- PNM issued RFP in January 2012 for the installation of SCR technology
  - Bids were received in April 2012, currently in contract negotiations
    - Bids estimate construction costs between ~\$750M - \$805M

# Environmental Control Equipment at Coal Units

Coal Unit	PNM Share Capacity (MW)	Low NOx Burners/ Overfired Air	Activated Carbon Injection <sup>(1)</sup>	SNCR <sup>(2)</sup>	SCR <sup>(2)</sup>	Baghouse <sup>(3)</sup>	Scrubbers
San Juan Unit 1	170	X	X			X	X
San Juan Unit 2	170	X	X			X	X
San Juan Unit 3	249	X	X			X	X
San Juan Unit 4	194	X	X			X	X
Four Corners Unit 4	97.5	Pre-2000 low NOx burners-considered outdated				X	X
Four Corners Unit 5	97.5	Pre-2000 low NOx burners-considered outdated				X	X

<sup>(1)</sup> Activated carbon injection systems reduce mercury emissions. For San Juan, the installation was completed in 2009, as part of a 3-year, \$320M environmental upgrade.

<sup>(2)</sup> SNCR refers to selective non-catalytic reduction systems. SCR refers to selective catalytic reduction systems. Both systems reduce NOx emissions.

<sup>(3)</sup> Baghouses collect flyash and other particulate matter. For San Juan, the installation was completed in 2009, as part of a 3-year, \$320M environmental upgrade.

# Impact of Proposed Environmental Regulation

	Estimated Compliance Costs (PNM Share)	Comments
<b>San Juan Generating Station</b>		
Clean Air Act – Regional Haze (FIP) – SCR	~\$340M - \$460M	See “San Juan – BART Timeline” slide
Clean Air Act – Regional Haze (SIP) – SNCR	~\$36M	State of NM submitted with EPA in early July 2011
Clean Air Act – National Ambient Air Quality Standards (NAAQS)	Included in SCR estimated project costs	BART upgrade would assist with compliance with NAAQS
Mercury Rules (MATS) (proposed)	None to minimal	Testing shows 99% removal
Resource Conservation and Recovery Act – Coal Ash (proposed)	Significant exposure	A hazardous waste designation of coal ash could result in significant costs to comply
Clean Water Act – 316(b) (proposed)	Minimal to some exposure	Performing analysis to determine cost of compliance
<b>Four Corners (Units 4 and 5)</b>		
Clean Air Act – Regional Haze - SCR	~\$69M	APS in negotiations with EPA
Mercury Rules (MATS) (proposed)	Slight exposure	APS evaluating options
Resource Conservation and Recovery Act – Coal Ash (proposed)	Significant exposure	A hazardous waste designation of coal ash could result in significant costs to comply
Clean Water Act – 316(b) (proposed)	Some exposure	Performing analysis to determine cost of compliance