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PNM General Rate Case Revisions to Proposed Settlement

May 23, 2017



Contact Information and Safe Harbor Statement

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Safe Harbor Statement

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Non-GAAP Financial Measures

Information on the Company's use of non-GAAP financial measures can be found at:

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

Key Points of Proposed Settlement Agreement

May 23 Revisions	Original May 5 Proposed Settlement Terms
None	<ul style="list-style-type: none"> • ROE unchanged at 9.575%
None	<ul style="list-style-type: none"> • \$62.3M settlement • \$7.5M financial impact resulting from the amortization of excess deferred state taxes over 3 years⁽¹⁾ <ul style="list-style-type: none"> • PNM filed in December 2016 for a \$99.2 million non-fuel revenue increase and a 20 year amortization
None	<ul style="list-style-type: none"> • Revenue phase-in over 2018 and 2019 (\$32.3M in 2018; additional \$30.0M in 2019) • Freeze for general rate increases through January 1, 2020
None	<ul style="list-style-type: none"> • No adjustments to amounts or terms of previous BART settlement
Eliminated (see p5) None	<ul style="list-style-type: none"> • Collects \$10M of additional annual depreciation for San Juan Generating Station in exchange for a reduction of \$10M annual depreciation on distribution assets • Recovery of Selective Catalytic Reduction (SCR) investment at the Four Corners Power Plant at debt-only return
Revised (see p5)	<ul style="list-style-type: none"> • Rate design, including PNM's proposed Lost Contribution of Fixed Costs (LCFC) rate mechanism, will be addressed in a separate phase, with testimony due 120 days following approval of the settlement
11 current; ability to file joinder (see p8)	<ul style="list-style-type: none"> • 13 signatories, including PNM (9 signatories on May 5 filing; 4 subsequent joinders)

⁽¹⁾ See slide 4 for details

Financial Impact of Proposed Settlement Agreement

No changes to financial impacts

Financial View	Proposed Settlement Agreement	
	Phase I - 2018	Phase II - 2019
	(in millions, except EPS)	
Settlement increase (net revenue increase)	\$32.3	\$62.3
Accelerated amortization of excess deferred state taxes ⁽¹⁾	7.5	7.5
Financial impact	\$39.8	\$69.8
Income tax (38.62% statutory rate)	(15.4)	(27.0)
After-tax financial impact	\$24.4	\$42.8
EPS (80M shares outstanding)	\$0.30	\$0.53


Impact of phase-in: (\$0.23)

(1) New Mexico phased-in a lower state corporate income tax rate from 2014 – 2018. Under the proposed settlement, PNM will begin the return of this benefit through customer rates in 2018, over a 3 year period. This also lowers PNM's income tax expense in 2018, 2019, and 2020.

Key Components of Revised Proposed Settlement Agreement

Revisions to proposed settlement terms to address Hearing Examiners' May 12th Order:

To address Hearing Examiners' concern regarding prejudgment of San Juan and Four Corners Power Plant issues:

- Elimination of \$10M of additional annual depreciation for San Juan Generation Station in exchange for \$10M of annual depreciation on distribution assets
- Specific language that the New Mexico Public Regulation Commission ("NMPRC") is not bound by the settlement regarding PNM commitment to propose changes in the depreciable life at Four Corners Power Plant in PNM's next general rate case

To address Hearing Examiners' concerns regarding two phase hearing scheme and other regulatory principles:

- Rate design included within revised settlement
 - Lost Contribution to Fixed Costs ("LCFC") mechanism withdrawn; energy efficiency disincentive to be addressed in separate docket and outcome included in PNM's next general rate case

2018 - 2019 Potential Earnings Power

***No changes to Potential Earnings Power presented on May 5, 2017
2018 transitional year; 2019 midpoint EPS reflects 8% growth⁽¹⁾***

	Allowed Return / Equity Ratio	2018 Earnings Potential		2019 Earnings Potential	
		Avg Rate Base	EPS	Avg Rate Base	EPS
PNM Retail	9.575% / 50%	\$2.3 B	\$1.38	\$2.3 B	\$1.37
PNM Rate Case Phase-In			(\$0.23)		
Supreme Court Appeal				\$0 - \$150 M	\$0.00 - \$0.09
PNM Renewables	9.575% / 50%	\$90 M	\$0.05	\$85 M	\$0.05
PNM FERC	10% / ~50%	\$245 M	\$0.11 - \$0.14	\$275 M	\$0.12 - \$0.16
Items not in rates			(\$0.03) - (\$0.00)		(\$0.03) - (\$0.00)
Total PNM		\$2.6 B	\$1.28 - \$1.34	\$2.7 - \$2.9 B	\$1.51 - \$1.67
TNMP	10.125% / 45%	\$815 M	\$0.48	\$965 M	\$0.56
Corporate/Other			(\$0.08) - (\$0.06)		(\$0.07) - (\$0.05)
Total PNM Resources		\$3.5 B	\$1.68 - \$1.76	\$3.7 - \$3.9 B	\$2.00 - \$2.18

Changes from potential earnings power presented on April 28, 2017:

- PNM Retail average rate base in 2018 and 2019 has been reduced by approximately \$65 million to represent the (\$0.04) EPS impact of the lost equity return on the Four Corners SCR investment (debt-only return included in the proposed settlement)
- PNM Rate Case Phase-In reflects the \$30 million of revenue collection delayed to 1/1/2019 as part of the proposed 2018 general rate case settlement
- TNMP 2018 average rate base has been held at the 2017 level to reflect the required suspension of TCOS filings that occurs during the planned May 2018 general rate case filing
- Corporate/Other 2018 and 2019 EPS reflects updated interest expense forecasts

⁽¹⁾ Growth calculation assumes a base year of 2016

Next Steps

- NMPRC to consider 1-month extension to suspension period (from November 6th, 2017 to December 6th, 2017)
- Hearing Examiners to consider further revisions to existing procedural schedule:

Procedural Schedule (Settlement/Litigation)	As of May 1, 2017	Revisions made on May 17, 2017
Testimony in support of stipulation / Staff and intervenor testimony	May 17, 2017	June 7, 2017
Testimony in opposition to stipulation / Rebuttal testimony	June 14, 2017	June 21, 2017
Stipulation rebuttal testimony	June 21, 2017	
Pre-hearing conference	July 6, 2017	
Hearings	July 12-28, 2017	
Suspension period ends	November 6, 2017	

Parties by Position

May 23 Settlement Signatories	May 5 Settlement Position
Staff	Signatory
New Mexico Attorney General	Signatory
Albuquerque Bernalillo County Water Utility Authority (ABCWUA)	Signatory
Coalition of Clean Affordable Energy (CCAЕ)	Signatory
Kroger Company	Signatory
New Mexico Industrial Energy Consumers (NMIEC)	Signatory
Renewable Energy Industrial Association (REIA)	Signatory
Sierra Club	Signatory
Western Resource Advocates (WRA)	Signatory
Wal-Mart Stores East LP and Sam's East Inc.	Signatory

May 23 Settlement Undetermined Positions (at time of filing)	May 5 Settlement Position
Bernalillo County	Signatory
Buckman Direct Diversion Board	Will Not Oppose
City of Albuquerque	Signatory
Energy Freedom Coalition of America	Will Not Oppose
IBEW Local 611	Will Not Oppose
New Mexico Gas Company	Will Not Oppose
New Energy Economy	Opposed