

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

**FORM 10-K**

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

**For the fiscal year ended December 31, 2019**

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 Right 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 each exchange on which registered</u>
PNM Resources, Inc.	Common Stock, no par value	PNM	New York Stock Exchange

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

<u>Registrant</u>	<u>Title of each class</u>
Public Service Company of New Mexico	1965 Series, 4.58% Cumulative Preferred Stock (\$100 stated value without sinking fund)

Indicate by check mark whether each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

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

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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.

PNMR	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
PNM	Yes	<input checked="" type="checkbox"/>	No	<input type="checkbox"/>
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 each 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 the registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 21, 2020, shares of common stock outstanding were:

PNMR	79,653,624
PNM	39,117,799
TNMP	6,358

On June 28, 2019, the aggregate market value of the voting common stock held by non-affiliates of PNMR as computed by reference to the New York Stock Exchange composite transaction closing price of \$50.91 per share reported by The Wall Street Journal, was \$4,055,165,998. PNM and TNMP have no common stock held by non-affiliates.

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

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the following document are incorporated by reference into Part III of this report:

Proxy Statement to be filed by PNMR with the SEC pursuant to Regulation 14A relating to the annual meeting of shareholders of PNMR to be held on May 12, 2020.

This combined Form 10-K 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-K 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-K 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:**

2014 IRP	PNM's 2014 IRP
2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
ABO	Accumulated Benefit Obligation
AEP OnSite Partners	AEP OnSite Partners, LLC, a subsidiary of American Electric Power, Inc.
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
AMS	Advanced Meter System
Anaheim	City of Anaheim, California
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
ARP	Alternative Revenue Program
ASU	Accounting Standards Update
August 2016 RD	Recommended Decision in PNM's NM 2015 Rate Case issued by the Hearing Examiner on August 4, 2016
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
BHP	BHP Billiton, Ltd
Board	Board of Directors of PNMR
BSER	Best system of emission reduction technology
BTMU	MUFG Bank Ltd., formerly the Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan	NM Capital's \$125.0 Million Unsecured Term Loan
BTU	British Thermal Unit
CAA	Clean Air Act
Casa Mesa Wind	Casa Mesa Wind Energy Center
CCN	Certificate of Convenience and Necessity
CCR	Coal Combustion Residuals
CIAC	Contributions in Aid of Construction
CO <sub>2</sub>	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
December 2018 Compliance Filing	PNM's December 31, 2018 filing with the NMPRC regarding SJGS
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIM	California Independent System Operator Western Energy Imbalance Market
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
EPE	El Paso Electric Company
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
ETA	The New Mexico Energy Transition Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board

FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC
FPPAC	Fuel and Purchased Power Adjustment Clause

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FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers
IRC	Internal Revenue Code
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody's	Moody's Investor Services, Inc.
MSR	M-S-R Public Power Agency
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NEE	New Energy Economy
NEPA	National Environmental Policy Act
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 Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR, now known as New Mexico PPA Corporation
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
NOPR	Notice of Proposed Rulemaking
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NTEC	Navajo Transitional Energy Company, LLC, an entity owned by the Navajo Nation
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits



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PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2014 New Mexico Credit Facility	PNM's \$50.0 Million Unsecured Revolving Credit Facility
PNM 2014 Term Loan	PNM's \$175.0 Million Unsecured Term Loan
PNM 2016 Term Loan	PNM's \$175.0 Million Unsecured Term Loan
PNM 2017 New Mexico Credit Facility	PNM's \$40.0 Million Unsecured Revolving Credit Facility
PNM 2017 Senior Unsecured Note Agreement	PNM's Agreement for the sale of Senior Unsecured Notes, aggregating \$450.0 million
PNM 2017 Term Loan	PNM's \$200.0 Million Unsecured Term Loan
PNM 2018 SUNs	PNM's Senior Unsecured Notes issued under the PNM 2017 Senior Unsecured Note Agreement
PNM 2019 \$40.0 Million Term Loan	PNM's \$40.0 Million Unsecured Term Loan
PNM 2019 \$250.0 Million Term Loan	PNM's \$250.0 Million Unsecured Term Loan
PNM Multi-draw Term Loan	PNM's \$125.0 Million Unsecured Multi-draw Term Loan Facility
PNM Revolving Credit Facility	PNM's \$400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan	PNMR's \$150.0 Million Three-Year Unsecured Term Loan that matured on March 9, 2018
PNMR 2016 One-Year Term Loan	PNMR's \$100.0 Million One-Year Unsecured Term Loan that matured on December 14, 2018
PNMR 2016 Two-Year Term Loan	PNMR's \$100.0 Million Two-Year Unsecured Term Loan that matured on December 21, 2018
PNMR 2018 One-Year Term Loan	PNMR's \$150.0 Million One-Year Unsecured Term Loan that matured was December 13, 2019
PNMR 2018 SUNS	PNMR's \$300.0 Million Senior Unsecured Notes issued on March 9, 2018
PNMR 2018 Two-Year Term Loan	PNMR's \$50.0 Million Two-Year Unsecured Term Loan
PNMR 2020 Forward Equity Sale Agreements	PNMR's Block Equity Sale of 6.2 million Shares of PNMR Common Stock with Forward Sales Agreement
PNMR 2019 Term Loan	PNMR's \$150.0 Million Unsecured Term Loan
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development's \$25.0 million Unsecured Revolving Credit Facility
PNMR Development Term Loan	PNMR Development's \$90.0 Million Unsecured Term Loan
PNMR Revolving Credit Facility	PNMR's \$300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan	PNMR's \$150.0 Million One-Year Unsecured Term Loan that matured on December 21, 2016
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider



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RFP	Request For Proposal
Rio Bravo	Rio Bravo Generating Station, formerly known as Delta
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
S&P	Standard and Poor's Ratings Services
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
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
SJGS RA	San Juan Project Restructuring Agreement
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur Dioxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
Tax Act	Federal tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2018 Rate Case	TNMP's General Rate Case Application Filed May 30, 2018
TNMP 2018 Term Loan	TNMP's \$35.0 Million Unsecured Term Loan
TNMP 2019 Bonds	TNMP's First Mortgage Bonds to be issued under the TNMP 2019 Bond Purchase Agreement
TNMP 2019 Bond Purchase Agreement	TNMP's Agreement to Issue an Aggregate of \$305.0 Million in First Mortgage Bonds in 2019
TNMP Revolving Credit Facility	TNMP's \$75.0 Million Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power Systems
UG-CSA	Underground Coal Sales Agreement for San Juan Generating Station
U.S.	The United States of America
US Supreme Court	United States Supreme Court
Valencia	Valencia Energy Facility
VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
Western Spirit Line	A 165-mile 345-kV transmission line that PNM has agreed to purchase, subject to certain conditions being met prior to closing
Westmoreland	Westmoreland Coal Company
Westmoreland Loan	\$125.0 Million of funding provided by NM Capital to WSJ
WSJ	Westmoreland San Juan, LLC, an indirect wholly-owned subsidiary of Westmoreland
WSJ LLC	Westmoreland San Juan, LLC, a subsidiary of Westmoreland Mining Holdings, LLC, and current owner of SJCC
WSPP	Western Systems Power Pool



## PART I

### ITEM 1. BUSINESS

#### THE COMPANY

##### Overview

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. PNMR is focused on achieving three key strategic goals:

- 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 goals, 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

PNMR's success in accomplishing these strategic goals is highly dependent on two key factors: fair and timely regulatory treatment for its utilities and the utilities' strong operating performance. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. PNM filed general rate cases with the NMPRC in August 2015 and December 2016. The NMPRC issued rate orders in those cases in September 2016 and January 2018. TNMP filed a general rate case in May 2018 and the PUCT issued an order in that case in December 2018. Additional information about rate filings is provided in Operations and Regulation below and in Note 17.

PNMR's common stock trades on the New York Stock Exchange under the symbol PNM. PNMR was incorporated in the State of New Mexico in 2000.

##### Other Information

These filings for PNMR, PNM, and TNMP include disclosures for each entity. For discussion purposes, 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. A reference to "MD&A" in this report refers to Part II, Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations. A reference to a "Note" refers to the accompanying Notes to Consolidated Financial Statements.

Financial information relating to amounts of revenue, net earnings, and total assets of reportable segments is contained in MD&A and Note 2.

#### 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)

The PNMR website includes a link to PNMR's Sustainability Portal, [www.pnmresources.com/about-us/sustainability-portal.aspx](http://www.pnmresources.com/about-us/sustainability-portal.aspx). This portal provides access to key sustainability information, including a Climate Change Report, related to the operations of PNM and TNMP and reflects PNMR's commitment to do business in an ethical, open, and transparent manner, and

outlines PNM's plans to exit all coal-fired generation by 2031 (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-K. 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 <http://www.pnmresources.com/corporate-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.

## OPERATIONS AND REGULATION

### Regulated Operations

#### *PNM*

PNM is an electric utility that provides electric generation, transmission, and distribution service to its rate-regulated customers. PNM was incorporated in the State of New Mexico in 1917. PNM's retail electric service territory covers a large area of north-central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. Service to retail electric customers is subject to the jurisdiction of the NMPRC. The largest retail electric customer served by PNM accounted for 2.6% of its revenues for the year ended December 31, 2019. Other services provided by PNM include wholesale transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. PNM owns transmission lines that are interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. Regulation encompasses the utility's electric rates, service, accounting, issuances of securities, construction of major new generation, abandonment of existing generation, types of generation resources, transmission and distribution facilities, and other matters. See Notes 16 and 17 for additional information on rate cases and other regulatory matters.

#### *NMPRC Regulated Retail Rate Proceedings*

Customer rates for retail electric service are set by the NMPRC. On October 1, 2016, PNM implemented a NMPRC order in PNM's NM 2015 Rate Case that approved an increase in non-fuel base rates of \$61.2 million annually. PNM appealed certain aspects of the NMPRC's order to the NM Supreme Court and other parties in that rate case filed cross-appeals contesting other aspects of the NMPRC ruling. On May 16, 2019, the NM Supreme Court affirmed all but one of the NMPRC's decisions in the NM 2015 Rate Case and remanded the case to the NMPRC for further proceedings consistent with the court's findings. As a result, during the second quarter of 2019 PNM recorded a pre-tax regulatory disallowance related to certain matters it had appealed in the case. On January 8, 2020, the NMPRC issued its order in response to the NM Supreme Court's remand. The NMPRC order reaffirmed its September 2016 order except for the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2. The NMPRC indicated that PNM's ability to recover these costs will be addressed in a future proceeding and closed the NM 2015 Rate Case docket.

In December 2016, PNM filed the NM 2016 Rate Case with the NMPRC. After extensive settlement negotiations and public proceedings, the NMPRC issued a Revised Order Partially Adopting Certification of Stipulation dated January 17, 2018. The key terms of that order include an increase in base non-fuel revenues of \$10.3 million, which includes a reduction to reflect the impact of the decrease in the federal corporate income tax rate and updates to PNM's cost of debt (aggregating an estimated \$47.6 million annually), a ROE of 9.575%, a requirement to return to customers over a three-year period the benefit of the reduction in the New Mexico Corporate income tax rate, a disallowance of PNM's ability to collect an equity return on certain investments aggregating \$148.1 million at Four Corners, and a requirement to consider the prudence of PNM's decision to continue its participation in Four Corners in PNM's next general rate case filing. In accordance with the NMPRC's final order, PNM

implemented 50% of the approved rate increase for service rendered beginning February 1, 2018 and the rest of the increase for service rendered on January 1, 2019.

PNM has a NMPRC-approved rate rider to collect costs for renewable energy procurements that are not otherwise being collected in rates. If PNM's earned return on jurisdictional equity in a calendar year, adjusted for weather and other items not representative of normal operation, exceeds the NMPRC-approved rate by 0.5%, the rider provides that PNM would refund the excess to customers during the following year. PNM did not exceed the limitation in 2018 and does not expect to exceed the limitation in 2019. The NMPRC has also approved riders designed to allow PNM to bill and collect substantially all of fuel and purchased power costs and costs of approved energy efficiency initiatives.

#### *FERC Regulated Wholesale Operations*

Rates charged to wholesale electric transmission customers 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 in the formula rate for the following year. 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 a new 165-mile 345-kV transmission line and related facilities (the "Western Spirit Line"). Under related agreements, which are subject to certain conditions being met prior to closing, the Western Spirit Line will be purchased by PNM to serve approximately 800 MW of wind generation to be located in eastern New Mexico beginning in 2021. FERC approved PNM's request to provide transmission to the facilities using an incremental rate based on construction and other ongoing costs for the line, including adjustments for construction costs funded by the customer, effective July 9, 2019 and approved PNM's request to purchase the Western Spirit Line on August 8, 2019. The NMPRC approved PNM's planned purchase of the Western Spirit Line on October 2, 2019. See Note 17.

PNM currently has no full-requirement wholesale generation customers.

#### *Operational Information*

Weather-normalized retail electric KWh sales increased by 0.3% in 2019 and increased by 0.6% in 2018. The system peak demands for retail and firm-requirements customers were as follows:

	<b>System Peak Demands</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	<b>(Megawatts)</b>		
Summer	1,937	1,885	1,843
Winter	1,440	1,351	1,289

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow the utility to access public rights-of-way for placement of its electric facilities. Franchise agreements have expired in some areas PNM serves, including Albuquerque. Because PNM remains obligated under New Mexico state law to provide service to customers in these areas, the expirations should not have a material adverse impact. The Albuquerque, Rio Rancho, and Santa Fe metropolitan areas accounted for 40.5%, 7.3%, and 6.7% of PNM's 2019 revenues and no other franchise area represents more than 5%. PNM also earns revenues from its electric retail operations in its service areas that do not require franchise agreements.

As discussed in Note 16, PNM and other utilities challenged the legal validity of an ordinance passed by the County Commission of Bernalillo County, New Mexico that proposed utilities pay a fee for operating facilities on county rights-of-way. After court-ordered settlement discussions, PNM and Bernalillo County executed a franchise agreement whereby PNM will pay franchise fees to the county and will recover those fees as a direct pass-through to customers located in Bernalillo County. The agreement is subject to approval by the New Mexico Second District Court in Bernalillo County. PNM is unable to predict the outcome of this matter.

PNM owns 3,206 miles of electric transmission lines that interconnect with other utilities in New Mexico, Arizona, Colorado, Texas, and Utah. PNM owns transmission capacity in an area of eastern New Mexico with large wind generation potential and in recent years there has been substantial interest by developers of wind generation to interconnect to PNM's transmission system in this area. PNM plans to invest approximately \$377 million for anticipated expansions of PNM's transmission system by from 2020-2024 to provide additional service to transmit power from these generation resources to customers in New Mexico and California.

Shareholders realize any earnings or losses from generating resources that are not included in retail rates. Through December 31, 2017, PNM's 134 MW share of Unit 3 at PVNGS was excluded from retail rates and was being sold in the wholesale market. Effective January 1, 2018, the NMPRC authorized PNM to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers and to acquire 65 MW of SJGS Unit 4 as merchant plant. PNM has executed agreements to sell the majority of the power generated by its 65 MW interest in SJGS Unit 4 to a third-party through June 2022. PNM plans to begin participating in the EIM beginning in April 2021. PNM expects participation in the EIM will provide substantial cost savings to customers. The NMPRC has granted PNM authority to seek recovery of costs associated with joining the EIM in a future general rate case and to pass the benefits of participating in EIM to customers through the FPPAC. See Note 16 and Note 17. PNM also engages in activities to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-ahead, week-ahead, and other sales of excess generation not required to fulfill retail load and contractual commitments. These activities are credited to customers through PNM's FPPAC.

#### *Use of Future Test Year ("FTY")*

Under New Mexico law, the NMPRC must set rates using the test period, including a FTY that best reflects the conditions the utility will experience when new rates are anticipated to go into effect. The NMPRC also must include certain construction work in progress for environmental improvement, generation, and transmission projects in rate base. These provisions are designed to promote more timely recovery of reasonable costs of providing utility service.

The use of a FTY should help PNM mitigate the adverse effects of regulatory lag, which is inherent when using a historical test year. Accordingly, the utility's earnings should more closely reflect the rate of return allowed by the NMPRC. PNM believes that achieving earnings that approximate its allowed rate of return is an important factor in attracting equity investors, as well as being considered favorably by credit rating agencies and financial analysts.

As with any forward-looking financial information, utilizing a FTY in a rate filing presents challenges. These include forecasts of both operating and capital expenditures that necessitate reliance on many assumptions concerning future conditions and operating results. In the rate making process, PNM's assumptions are subject to challenge by regulators and intervenors who may assert different interpretations or assumptions.

#### *Renewable Energy*

The REA was enacted to encourage the development of renewable energy in New Mexico. Prior to the enactment of the ETA, utilities operating in New Mexico were required to acquire a renewable energy portfolio equal to 15% of retail electric sales by 2015 and 20% by 2020. The ETA amended 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 REA provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, provides utilities recovery of costs incurred consistent with approved procurement plans, and sets a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. PNM files required renewable energy plans with the NMPRC annually and makes procurements consistent with the plans approved by the NMPRC. See Note 17.

#### *The Energy Transition Act ("ETA")*

The ETA became effective on June 14, 2019. As discussed above, the ETA amends the REA and requires utilities operating in New Mexico to provide 100% zero-carbon energy by 2045. The ETA also 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. Proceeds from the energy transition bonds must be used to provide utility service to customers and for other costs as defined by the ETA. On January 29, 2020, the NM Supreme Court issued a ruling requiring the NMPRC apply the ETA to all aspects of PNM's SJGS Abandonment Application. The NMPRC is expected to provide a final order on the abandonment and securitization portion of PNM's filing by April 1, 2020.

PNM expects the ETA will have a significant impact on PNM's future generation portfolio, including PNM's planned retirement of SJGS in 2022 and PNM's participation in Four Corners after the agreements governing that facility expire in 2031.

PNM cannot predict the full impact of the ETA or the outcome of its pending and potential future generating resource abandonment and replacement filings with the NMPRC.

### *TNMP*

TNMP is a regulated utility operating and incorporated in the State of Texas. TNMP's predecessor was organized in 1925. TNMP provides transmission and distribution services in Texas under the provisions of TECA and the Texas Public Utility Regulatory Act. TNMP is subject to traditional cost-of-service regulation with respect to rates and service under the jurisdiction of the PUCT and certain municipalities. TNMP's transmission and distribution activities are solely within ERCOT, which is the independent system operator responsible for maintaining reliable operations for the bulk electric power supply system in most of Texas. Therefore, TNMP is not subject to traditional rate regulation by FERC. TNMP serves a market of small to medium sized communities, most of which have populations of less than 50,000. TNMP is the exclusive provider of transmission and distribution services in most areas it serves.

TNMP's service territory consists of three non-contiguous areas. One portion of this territory extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red River, and to communities north, west, and south of Fort Worth. The second portion of its service territory includes the area along the Texas Gulf Coast between Houston and Galveston, and the third portion includes areas of far west Texas between Midland and El Paso.

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. See Notes 16 and 17 for additional information on rate cases and other regulatory matters.

For its volumetric load customers billed on KWh usage, TNMP experienced a decrease in weather-normalized retail KWh sales of 2.0% in 2019 and an increase of 3.2% in 2018. For its demand-based load customers, TNMP experienced increases of 4.9% in 2019 and 6.8% in 2018. As of December 31, 2019, 103 active REPs receive transmission and distribution services from TNMP. In 2019, the three largest REP customers of TNMP accounted for 22%, 17%, and 12% of TNMP's operating revenues. No other customer accounted for more than 10% of revenues.

### *Regulatory Activities*

The PUCT approved interim adjustments to TNMP's transmission rates of \$0.6 million in March 2018, \$14.3 million in March 2019, and \$3.3 million in September 2019. On February 6, 2020, TNMP filed an application to further update its transmission rates, which would increase revenues by \$7.8 million annually. The application is pending before the PUCT.

On January 1, 2019, TNMP implemented a PUCT order in TNMP's 2018 Rate Case to increase annual base rates by \$10.0 million based on a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. The increase reflects the reduction in the federal corporate income tax rate to 21%. Under the approved settlement stipulation TNMP was granted authority to update depreciation rates and refund the regulatory liability related to federal tax reform to customers.

### *Franchise Agreements*

TNMP holds long-term, non-exclusive franchise agreements for its electric transmission and distribution services. These agreements have varying expiration dates and some have expired. TNMP intends to negotiate and execute new or amended franchise agreements with municipalities where the agreements have expired or will be expiring. Since TNMP is the exclusive provider of transmission and distribution services in most areas that it serves, the need to renew or renegotiate franchise agreements should not have a material adverse impact. TNMP also earns revenues from service provided to facilities in its service area that lie outside the territorial jurisdiction of the municipalities with which TNMP has franchise agreements.

### **Corporate and Other**

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and the activities of PNMR Services Company. PNMR Services Company provides corporate services through shared services agreements to PNMR and all of PNMR's business units, including PNM and TNMP. These services are charged and billed at cost on a monthly basis to the business units. The activities of PNMR Development, NM Capital, and NMRD are also included in Corporate and Other.

## SOURCES OF POWER

### PNM

#### *Generation Capacity*

As of December 31, 2019, the total net generation capacity of facilities owned or leased by PNM was 2,152 MW. PNM also obtains power under long-term PPAs for the power produced by Valencia, New Mexico Wind, Red Mesa Wind, Casa Mesa Wind, La Joya Wind, the Lightning Dock Geothermal facility, and the NMRD-owned solar facilities.

PNM's capacity in electric generating facilities, which are owned, leased, or under PPAs, in commercial operation as of December 31, 2019 is:

Type	Name	Location	Generation Capacity (MW)	Percent of Generation Capacity
Coal	SJGS	Waterflow, New Mexico	562	20.4%
Coal	Four Corners	Fruitland, New Mexico	200	7.2%
Coal-fired resources			762	27.6%
Gas	Reeves Station	Albuquerque, New Mexico	154	5.6%
Gas	Afton (combined cycle)	La Mesa, New Mexico	230	8.3%
Gas	Lordsburg	Lordsburg, New Mexico	80	2.9%
Gas	Luna (combined cycle)	Deming, New Mexico	189	6.8%
Gas/Oil	Rio Bravo	Albuquerque, New Mexico	138	5.0%
Gas	Valencia	Belen, New Mexico	158	5.7%
Gas	La Luz	Belen, New Mexico	40	1.4%
Gas-fired resources			989	35.8%
Nuclear	PVNGS	Wintersburg, Arizona	402	14.6%
Solar	PNM-owned solar	Twenty-four sites in New Mexico	157	5.7%
Solar	NMRD-owned solar	Los Lunas, New Mexico	80	2.9%
Wind	New Mexico Wind	House, New Mexico	204	7.4%
Wind	Red Mesa Wind	Seboyeta, New Mexico	102	3.7%
Wind	Casa Mesa Wind	House, New Mexico	50	1.8%
Geothermal	Lightning Dock Geothermal	Lordsburg, New Mexico	15	0.5%
Renewable resources			608	22.0%
			2,761	100.0%

The NMPRC has approved plans for PNM to procure energy and RECs from additional wind and solar-PV renewable resources totaling 316 MW. In addition, the NMPRC approved a PPA for 140 MW of wind energy in PNM's 2020 renewable energy procurement plan. PNM's SJGS Abandonment Application seeks NMPRC approval to abandon SJGS in 2022 and for related replacement resources. See Note 17. If adjusted for these plans, the table above would reflect the percentage of generation capacity from fossil-fueled resources of 43.0%, from nuclear resources of 11.8%, and from renewable and battery storage resources of 45.2%.

#### *Fossil-Fueled Plants*

SJGS is operated by PNM and, until December 2017, consisted of four units. As discussed in Note 16, SJGS Units 2 and 3 were retired in December 2017 and the ownership interests in SJGS Unit 4 were restructured as of December 31, 2017. PNM is seeking NMPRC approval to retire its remaining ownership in SJGS in 2022. See Note 17.

The table below presents the rated capacities and ownership interests of each participant in each unit of SJGS before and after these events:

	Unit MW Capacity and Ownership Interests					
	Prior to Restructuring				After Restructuring	
	Unit 1	Unit 2	Unit 3	Unit 4	Unit 1	Unit 4
Capacity (MW)	340	340	497	507	340	507
PNM <sup>(1)</sup>	50.000%	50.000%	50.000%	38.457%	50.000%	77.297%
Tucson	50.000	50.000	—	—	50.000	—
SCPPA	—	—	41.800	—	—	—
Tri-State	—	—	8.200	—	—	—
MSR	—	—	—	28.800	—	—
Anaheim	—	—	—	10.040	—	—
Farmington	—	—	—	8.475	—	8.475
Los Alamos	—	—	—	7.200	—	7.200
UAMPS	—	—	—	7.028	—	7.028
Total	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

<sup>(1)</sup> After restructuring includes a 12.8% interest held in SJGS Unit 4 as a merchant plant.

Four Corners Units 4 and 5 are 13% owned by PNM. These units are jointly owned with APS, SRP, Tucson, and NTEC, and are operated by APS. Prior to July 22, 2018, NTEC's 7% share of Four Corners was owned by an affiliate of APS, which had acquired the interest from EPE on July 7, 2016. PNM had no ownership interest in Four Corners Units 1, 2, or 3, which were shut down by APS on December 30, 2013. The Four Corners plant site is located on land within the Navajo Nation and is subject to an easement from the federal government. APS, on behalf of the Four Corners participants, negotiated amendments to extend the owners' right to operate the plant on the site to July 2041. See Note 16 for additional information about Four Corners.

PNM owns 100% of Reeves, Afton, Rio Bravo, Lordsburg, and La Luz and one-third of Luna. The remaining interests in Luna are owned equally by Tucson and Samchully Power & Utilities 1, LLC. PNM is also entitled to the entire output of Valencia under a PPA. Reeves, Lordsburg, Rio Bravo, La Luz, and Valencia are used primarily for peaking power and transmission support. As discussed in Note 10, Valencia is a variable interest entity and is consolidated by PNM as required by GAAP.

*Nuclear Plant*

PNM is participating in the three units of PVNGS with APS (the operating agent), SRP, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2%, including portions that are leased to PNM, of the power and energy generated by PVNGS. Currently, PNM has ownership interests of 2.3% in Unit 1, 9.4% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 0.8% in Unit 2. The lease payments for the leased portions of PVNGS are recovered through retail rates approved by the NMPRC. See Notes 16 and 17 for information on other PVNGS matters, including the NMPRC's approval for PNM to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers beginning in 2018 and for information concerning the NMPRC's treatment of the purchased assets and extended leases in PNM's NM 2015 Rate Case. See Note 8 for additional information concerning the PVNGS leases including PNM's option to purchase or return the assets underlying four leases in PVNGS Unit 1 and one lease in PVNGS Unit 2 that expire January 2023 and January 2024, as well as waivers obtained that extend PNM's required notice to purchase or return the assets underlying the PVNGS Unit 1 leased interests to March 16, 2020.

*Solar*

At December 31, 2019, PNM owns a total of 157 MW of solar facilities in commercial operation. PNM is also entitled to the entire output from 80 MW of NMRD-owned solar facilities. PNM expects it will begin purchasing power from an additional 50 MW of NMRD-owned solar facilities in June 2020. As discussed in Note 1, NMRD is a 50% equity method investee of PNMR Development. If approved by the NMPRC, PNM's recommended resource scenario to replace the planned retirement of SJGS would result in PNM executing PPAs to purchase renewable energy and RECs from an additional 350 MW of solar-PV facilities and to procure energy and construct a total of 130 MW of battery storage facilities. If approved, PNM would procure power under a PPA from one of the United States' largest solar facilities and would have one of the nation's highest percentage of battery storage capacity integration. See additional discussion of the SJGS Abandonment Application in Note 17.

*Plant Operating Statistics*

Equivalent availability of PNM's major base-load generating stations was:

<b>Plant</b>	<b>Operator</b>	<b>2019</b>	<b>2018</b>
SJGS	PNM	73.1%	71.4%
Four Corners	APS	78.2%	61.7%
PVNGS	APS	90.8%	88.6%

*Joint Projects*

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different entities. Some participants in the joint projects are investor-owned entities, while others are privately, municipally, or co-operatively owned. Furthermore, participants in SJGS have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in July 2022 for SJGS, July 2041 for Four Corners, December 2046 for Luna, and November 2047 for PVNGS. SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. An agreement for coal supply for SJGS, which expires on June 30, 2022, became effective on January 31, 2016. At that same time, an agreement to restructure the ownership in SJGS became effective. The restructuring agreement provided for certain participants in SJGS to exit ownership at December 31, 2017, by which time SJGS Units 2 and 3 were required to be permanently shut down. See Note 16 for a discussion of the restructuring of SJGS ownership. In December 2013, a coal supply arrangement for Four Corners that runs through July 6, 2031 was executed. As described above, Four Corners is located on land within the Navajo Nation and is subject to an easement from the federal government. Portions of PNM's interests in PVNGS Units 1 and 2 are held under leases. See Nuclear Plant above and Note 8 regarding PNM's actions related to these leases.

On July 1, 2019, PNM submitted its SJGS Abandonment Application with the NMPRC requesting approval to retire SJGS in 2022, for replacement resources, and for issuance of securitized financing under the ETA. Many of the assumptions and findings included in PNM's July 1, 2019 filing were consistent with those identified in PNM's 2017 IRP. In addition, PNM's 2017 IRP also indicates customers would benefit from PNM's exit from Four Corners when the current coal supply agreement for that facility expires in 2031. See Notes 16 and 17 for additional information about PNM's coal supply, PNM's SJGS Abandonment Application, PNM's 2017 IRP, and PNM's 2020 IRP. It is possible that other participants in the joint projects have circumstances and objectives that have changed from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of GHG, other air emissions, and CCRs, as well as the impacts of the costs of compliance and operational viability of all or certain units within the joint projects. It is unclear how these factors will enter into discussions and negotiations concerning the status of the joint projects as the expiration of basic operational agreements approaches. PNM can provide no assurance that its participation in the joint projects will continue in the manner that currently exists.

*PPAs*

In addition to generating its own power, PNM purchases power under long-term PPAs. PNM also purchases power in the forward, day-ahead, and real-time markets.

PNM has agreements to purchase renewable energy and RECs to serve New Mexico retail customers, including a data center located in PNM's service territory. At December 31, 2019, renewable energy procured under these agreements from wind, solar-PV, and geothermal facilities aggregated to 356 MW, 80 MW, and 15 MW. These agreements currently have expiration dates beginning in December 2034 and extending through December 2046. The NMPRC has approved PNM's request to enter into additional PPAs for renewable energy and RECs for an additional 166 MW of wind energy from the La Joya Wind Facility, which is expected to be operational in November 2020, and for an additional 100 MW of energy from solar-PV facilities that are expected to be operational by December 2021. PNM's 2020 renewable energy procurement plan, which was approved by the NMPRC in January 2020, includes a 20-year PPA to purchase an additional 140 MW of renewable energy and RECs from the La Joya Wind Facility beginning in 2020. The costs of these PPAs are passed through to PNM's New Mexico jurisdictional retail customers under NMPRC approved rate riders. PNM's recommended replacement scenario for the retirement of SJGS in 2022 includes a request to enter into additional PPAs for 350 MWs of renewable energy from solar-PV facilities and 60 MWs from battery storage facilities. See Note 17.

A summary of purchased power, excluding Valencia, is as follows:

	Year Ended December 31,	
	2019	2018
Purchased under long-term PPAs		
MWh	1,853,225	1,626,300
Cost per MWh	\$ 31.62	\$ 32.49
Other purchased power		
Total MWh	333,137	444,347
Cost per MWh	\$ 43.74	\$ 41.46

#### TNMP

TNMP provides only transmission and distribution services and does not sell power.

#### FUEL AND WATER SUPPLY

#### PNM

The percentages (on the basis of KWh) of PNM's generation of electricity, including Valencia, fueled by coal, nuclear fuel, and gas and oil, and the average costs to PNM of those fuels per MMBTU were as follows:

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2019	44.2%	\$ 2.80	33.7%	\$ 0.66	19.1%	\$ 1.35
2018	44.7%	\$ 2.60	34.1%	\$ 0.58	18.5%	\$ 2.43

In 2019 and 2018, 3.0% and 2.7% of PNM's generation was from utility-owned solar, which has no fuel cost. In December 2017, SJGS Units 2 and 3 were retired and PNM assumed a greater interest in SJGS Unit 4, which results in a lower percentage of PNM's electric generation capacity being fueled by coal. The generation mix for 2020, including power procured under PPAs, is expected to be 41.9% coal, 31.9% nuclear, 13.1% gas and oil, and 13.1% from renewable resources, including solar, wind, and geothermal. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits, and the generally adequate supply of nuclear fuel, PNM believes that adequate sources of fuel are available for its generating stations into the foreseeable future. See Sources of Power – PNM – PPAs for information concerning the cost of purchased power. PNM recovers substantially all of its fuel and purchased power costs through the FPPAC.

#### Coal

A coal supply contract for SJGS, which expires on June 30, 2022, became effective on January 31, 2016. Coal supply has not been arranged for periods after the existing contract expires. Substantially all of the benefits of lower coal pricing under the new contract are being passed through to PNM's customers under the FPPAC. PNM believes there is adequate availability of coal resources to continue to operate SJGS through mid-2022.

In late December 2013, a fifteen-year coal supply contract for Four Corners, which began in July 2016, was executed. Since that time, certain amendments have been made to the contract including amendments to reduce annual take-or-pay minimums and to change the annual contract period to end in May rather than in July of each year. None of these amendments have extended the contract beyond its July 2031 expiration. The contract provides for pricing adjustments over its term based on economic indices.

See Notes 16 and 17 for additional information about PNM's December 2018 Compliance Filing and PNM's SJGS Abandonment Application which seeks NMPRC approval to retire SJGS in 2022. As discussed in Note 17, PNM's 2017 IRP also indicates that PNM exiting ownership in Four Corners after the end of its current coal supply agreement in 2031 would provide long-term cost savings to PNM's customers.

#### Natural Gas

The natural gas used as fuel for the electric generating plants is procured on the open market and delivered by third-party transportation providers. The supply of natural gas can be subject to disruptions due to extreme weather events and/or pipeline or facility outages. PNM has contracted for firm gas transmission capacity to minimize the potential for disruptions due to extreme

weather events. Certain of PNM's natural gas plants are generally used as peaking resources that are highly relied upon during seasonally high load periods and/or during periods of extreme weather, which also may be the times natural gas has the highest demand from other users. PNM's reliance on its natural gas generating resources has increased with the December 2017 retirement of SJGS Units 2 and 3. Substantially all of PNM's natural gas costs are recovered through the FPPAC.

#### *Nuclear Fuel and Waste*

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNGS participants have contracted for 100% of PVNGS's requirements for uranium concentrates through 2025, and 30% of its requirements through 2028; 100% of its requirements for conversion services through 2025, and 40% through 2030; 100% of its enrichment services through 2021, 90% for 2022, and 80% through 2026; and 100% of its fuel assembly fabrication services through 2027.

The Nuclear Waste Policy Act of 1982 required the DOE to begin to accept, transport, and dispose of spent nuclear fuel and high-level waste generated by the nation's nuclear power plants by 1998. The DOE's obligations are reflected in a contract with each nuclear power plant. The DOE failed to begin accepting spent nuclear fuel by 1998. APS (on behalf of itself and the other PVNGS participants) pursued legal actions for which settlements were reached. See Note 16 for information concerning these actions.

The DOE had planned to meet its disposal obligations by designing, licensing, constructing, and operating a permanent geologic repository at Yucca Mountain, Nevada. In March 2010, the DOE filed a motion to dismiss with prejudice its Yucca Mountain construction authorization application that was pending before the NRC. Several legal proceedings followed challenging DOE's withdrawal of its Yucca Mountain construction authorization application. None of these lawsuits have been conclusively decided. However, the DC Circuit ordered the NRC to resume its review of the application. The results of the NRC's review publications do not signal whether or when the NRC might authorize construction of the repository.

All spent nuclear fuel from PVNGS is being stored on site. PVNGS has sufficient capacity at its on-site ISFSI to store all of the nuclear fuel that will be irradiated during the initial operating license periods, which end 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 extended license periods, which end in November 2047. If uncertainties regarding the United States government's obligation to accept and store spent fuel are not favorably resolved, the PVNGS participants will evaluate alternative storage solutions. These may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the extended license periods.

#### *Water Supply*

See Note 16 for information about PNM's water supply.

### **ENVIRONMENTAL MATTERS**

Electric utilities are subject to stringent laws and regulations for protection of the environment by local, state, federal, and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews. The liabilities under these laws and regulations can be material. In some instances, liabilities may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. See MD&A – Other Issues Facing the Company – Climate Change Issues for information on GHG. In addition, Note 16 contains information related to the following matters, incorporated in this item by reference:

- PVNGS Decommissioning Funding
- Nuclear Spent Fuel and Waste Disposal
- Environmental Matters under the caption "The Clean Air Act"
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Cooling Water Intake Structures
- Effluent Limitation Guidelines
- Santa Fe Generating Station
- Environmental Matters under the caption "Coal Combustion Residuals Waste Disposal"

### **COMPETITION**

Regulated utilities are generally not subject to competition from other utilities in areas that are under the jurisdiction of state regulatory commissions. In New Mexico, PNM does not have direct competition for services provided to its retail electric

customers. In Texas, TNMP is not currently in any direct retail competition with any other regulated electric utility. However, PNM and TNMP are subject to customer conservation and energy efficiency activities, as well as initiatives to utilize alternative energy sources, including self-generation, or otherwise bypass the PNM and TNMP systems.

PNM is subject to varying degrees of competition in certain territories adjacent to or within the areas it serves. This competition comes from other utilities in its region as well as rural electric cooperatives and municipal utilities. PNM is involved in the generation and sale of electricity into the wholesale market although PNM has decided to stop pursuing wholesale generation contracts. PNM is subject to competition from regional utilities and merchant power suppliers with similar opportunities to generate and sell energy at market-based prices and larger trading entities that do not own or operate generating assets.

### EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM, and TNMP as of December 31, 2019:

	PNMR	PNM	TNMP
Corporate <sup>(1)</sup>	388	—	—
PNM	915	915	—
TNMP	365	—	365
Total	1,668	915	365

(1) Represents employees of PNMR Services Company.

As of December 31, 2019, PNM had 466 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW Local 611 that is in effect through April 30, 2020. In December 2019, PNM and IBEW Local 611 agreed to a successor collective bargaining agreement effective May 1, 2020 through April 30, 2023. As of December 31, 2019, TNMP had 194 employees represented by IBEW Local 66 covered by a collective bargaining agreement that is in effect through August 31, 2021. The wages and benefits for PNM and TNMP employees who are members of the IBEW are typically included in the rates charged to electric customers and consumers, subject to approval of the NMPRC and PUCT.

### 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. 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 include:

- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the impacts of the NMPRC orders in PNM's NM 2015 Rate Case, the NM Supreme Court's decisions in the appeal of that order, the NM 2016 Rate Case and related deferral of the issue of the prudence of PNM's decision to continue participation in Four Corners to PNM's next general rate case and recovery of PNM's investments and other costs associated with that plant, any actions resulting from PNM's SJGS Abandonment Application, which requests NMPRC approval to retire PNM's share of SJGS in 2022 and for recovery of undepreciated investments and other costs associated with the retirement, and/or the conclusions reached in PNM's 2017 IRP (collectively, the "Regulatory Proceedings") 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 the Regulatory Proceedings and supporting forecasts utilized in FTY rate proceedings
- Uncertainty regarding what actions PNM may take with respect to the generating capacity in PVNGS Units 1 and 2 that is under lease at the expiration of the lease terms in 2023 and 2024, including PNM's decisions related to purchasing or returning the assets underlying the leases, or upon the occurrence of certain specific events, as well as the related treatment for ratemaking purposes by the NMPRC
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects, including the 2022 scheduled expiration of the operational and fuel supply agreements for SJGS, the outcome of PNM's SJGS Abandonment Application, the results of PNM's 2017 IRP filing, which indicates that PNM's customers would benefit from PNM's

exit from Four Corners in 2031, including regulatory recovery of undepreciated investments and other costs in the event the NMPRC orders generating facilities be retired, and the impacts of the ETA

- 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 the ultimate outcomes of the 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, and other changes in supply and demand
- The Company's ability to 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 the Regulatory Proceedings
- The risks associated with completion of generation, transmission, distribution, and other projects, including uncertainty related to regulatory approvals and cost recovery, and the ability of counterparties to meet their obligations under certain arrangements
- 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 issues, unplanned outages, extreme weather conditions, wildfires, terrorism, cybersecurity breaches, and other catastrophic events, 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 recently enacted 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, as well as PNM's ability to recover future decommissioning and reclamation costs from customers
- 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

For information about the risks associated with the use of derivative financial instruments see Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

#### **SECURITIES ACT DISCLAIMER**

Certain securities described 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-K does not constitute an offer to sell or the solicitation of an offer to buy any securities.

## ITEM 1A. RISK FACTORS

The business and financial results of PNMR, PNM, and TNMP are subject to a number of risks and uncertainties, many of which are beyond their control, including those set forth below and in MD&A, Note 16, and Note 17. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement contained in this report, see Disclosure Regarding Forward Looking Statements in Item 1. Business. TNMP provides transmission and distribution services to REPs that provide electric service to consumers in TNMP's service territories. References to customers in the risk factors discussed below also encompass the customers of these REPs who are the ultimate consumers of electricity transmitted and distributed through TNMP's facilities.

### *Regulatory Factors*

**The profitability of PNMR's utilities depends on being able to recover their costs through regulated rates and earn a fair return on invested capital, including investments in its generating plants. Without timely cost recovery, including recovery of undepreciated investments and other costs associated with abandoning generation facilities, and the opportunity to earn a fair return on capital investments, PNMR's liquidity and results of operations could be negatively impacted. Further, PNM and TNMP are in a period of significant capital expenditures, including costs of replacing generating capacity as it is retired. While increased capital investments and other costs are placing upward pressure on rates charged to customers, energy efficiency initiatives and other factors are placing downward pressure on customer usage. The combination of these matters could adversely affect the Company's results of operations and cash flows.**

The rates PNM charges its customers are regulated by the NMPRC and FERC. TNMP is regulated by the PUCT. The Company is in a period requiring significant capital investment and is projecting total construction expenditures for the years 2020-2024 to be \$3.8 billion. See Note 14. PNM and TNMP anticipate a trend toward increasing costs, for which they will have to seek regulatory recovery. These costs include or are related to costs of asset construction for generation, transmission, and distribution systems necessary to provide electric service, including new generation and transmission resources, as well as the cost to remove and retire existing assets, environmental compliance expenditures, regulatory mandates to acquire power from renewable resources, increased regulation related to nuclear safety, increased costs related to cybersecurity, increased interest costs to finance capital investments, and depreciation.

At the same time costs are increasing, there are factors placing downward pressure on the demand for power, thereby reducing customer usage. These factors include changing customer behaviors, including increased emphasis on energy efficiency measures and utilization of alternative sources of power, rate design that is not driven by economics, which could influence customer behavior, unfavorable economic conditions, reduced new sources of demand, and unpredictable weather patterns.

The combination of costs increasing relatively rapidly and the technologies and behaviors that are reducing energy consumption places upward pressure on the per unit prices that must be charged to recover costs. This upward pressure on unit prices could result in additional efforts by customers to reduce consumption through alternative measures. Without timely cost recovery and the authorization to earn a reasonable return on invested capital, the Company's liquidity and results of operations could be negatively impacted.

Under New Mexico law, utilities may propose the use of a FTY in establishing rates. As with any forward-looking financial information, a FTY presents challenges that are inherent in the forecasting process. Forecasts of both operating and capital expenditures necessitate reliance on many assumptions concerning future conditions and operating results. Accordingly, if rate requests based on a FTY cannot be successfully supported, cash flows and results of operations may be negatively impacted. This could result from not being able to withstand challenges from regulators and intervenors regarding the utility's capability to make reasonable forecasts.

As discussed in Note 17, in August 2015, PNM filed an application (the "NM 2015 Rate Case") with the NMPRC for a general rate increase, which included a request to recover certain costs related to environmental upgrades at SJGS and for the purchase of certain interests in PVNGS. The NMPRC disallowed recovery of certain capital investments made by PNM in SJGS and PVNGS. PNM filed an appeal of these disallowances at the NM Supreme Court and other parties filed cross-appeals to PNM appeal. In May 2019, the NM Supreme Court issued its decision on the case. The NM Supreme Court rejected the matters appealed by the cross-appellants and affirmed the NMPRC's disallowance of certain investments in SJGS and PVNGS. The NM Supreme Court's decision also ruled that the NMPRC's decision to permanently disallow PNM recovery of future decommissioning costs related to certain interests in PVNGS deprived PNM of its right to due process of law and remanded the case to the NMPRC for further proceedings consistent with the court's findings. In July 2019, the NMPRC heard oral argument from parties in the case on how to best proceed with the NM Supreme Court's remand. At oral argument, parties presented various positions ranging from re-litigating the value of PVNGS resources determined by the NMPRC and affirmed by the NM Supreme Court to re-affirming

the NMPRC's final order with a single modification to address recovery of future PVNGS decommissioning costs in a future case. On January 8, 2020, the NMPRC issued its order in response to the NM Supreme Court's remand. The NMPRC reaffirmed its decisions in the NM 2015 Rate Case except for the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS. The NMPRC indicated that PNM's ability to recover these costs will be addressed in a future proceeding and closed the NM 2015 Rate Case docket.

In December 2016, PNM filed a request for a general increase in rates of \$99.2 million (the "NM 2016 Rate Case"). In January 2018, the NMPRC issued an order approving a comprehensive settlement stipulation allowing for an increase in annual non-fuel retail rates of \$10.3 million. The NMPRC's order also included a partial disallowance of PNM's share of certain environmental upgrades and other investments in Four Corners and deferred further consideration of the prudence of PNM's continued participation in Four Corners to PNM's next general rate case filing.

As discussed in Note 16, PNM submitted the December 2018 Compliance Filing to the NMPRC on December 31, 2018 indicating that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS (subject to future NMPRC approval) after the current SJGS CSA expires in mid-2022. In January 2019, the NMPRC issued an order initiating a proceeding and requiring PNM to submit an application for the abandonment of PNM's share of SJGS in 2022 and for replacement resources by March 1, 2019. The NMPRC's January 2019 order was subsequently stayed by the NM Supreme Court pending review of PNM's petition in the matter. On June 26, 2019, and after the effective date of the ETA, the NM Supreme Court lifted the stay and denied PNM's petition without discussion. On July 1, 2019, PNM filed the SJGS Abandonment Application seeking 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," as provided by the ETA. PNM's application proposes several replacement resource scenarios including PNM's recommended replacement scenario as well as three other replacement resource scenarios that would place a greater amount of resources in the San Juan area, or result in no new fossil-fueled generating facilities, or no battery storage facilities being added to PNM's portfolio. The SJGS Abandonment Application includes a request to issue up to \$361 million of energy transition bonds (the "Securitized Bonds"). The amount of Securitized Bonds to be issued will be dependent upon several factors, including NMPRC approval.

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 but did not definitively indicate if the abandonment and financing proceedings would be evaluated under the requirements of the ETA. The NMPRC denied motions for clarification regarding the applicability of the ETA to PNM's SJGS Abandonment Application and the Hearing Examiners assigned to the application required PNM to file legal brief regarding the extent to which the state constitution might prevent the ETA from applying to the issues in each proceeding, and provided parties the opportunity to file testimony on the merits of their claims regarding the SJGS abandonment and replacement resources if the ETA is ultimately determined to not apply to PNM's application.

NEE and other advocacy groups filed an emergency petition for a *writ of mandamus* requesting the NM Supreme Court stay the SJGS abandonment and financing proceedings, declare the ETA inapplicable to such proceedings and declare certain provisions of the ETA unconstitutional because they limit the regulatory oversight responsibilities of the NMPRC. PNM and other parties also filed a petition for a *writ of mandamus* requesting the NM Supreme Court clarify that the reason underlying its June 2019 decision denying the stay was due to the passage of the ETA and to clarify that the ETA applies to any application filed after the stay had been lifted. The NM Supreme Court denied both PNM's and NEE's petitions for *writ of mandamus* without discussion. In December 2019, the Governor of the State of New Mexico, the President of the Navajo Nation, and several New Mexico state senators and representatives filed an emergency petition for a *writ of mandamus* requesting the NM Supreme Court require the NMPRC to comply with its constitutional duties and apply the ETA to every aspect of PNM's SJGS Abandonment Application. In January 2020, the NM Supreme Court denied NEE's and other parties petitions, granted PNM's motion to intervene, and scheduled oral argument to be presented by the NMPRC and PNM. On January 29, 2020, and after oral argument, the NM Supreme Court issued a ruling requiring the NMPRC apply the ETA to all aspects of PNM's SJGS Abandonment Application, indicating any previous NMPRC orders inconsistent with their ruling should be vacated, and denying parties' request for stay.

On February 21, 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 a rate rider to collect non-bypassable customer charges for repayment of the bonds (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 costs. Exceptions to the recommended decisions are due March 4, 2020 and responses to exceptions are due March 6, 2020. The Hearing Examiners also found that the statutory deadline for action by the Commission is April 1, 2020.

PNM's 2017 IRP also indicates PNM's customers would benefit from PNM's exit from participation from Four Corners in 2031. The SJGS Abandonment Application and the 2017 IRP are not final determinations of PNM's future generation portfolio. Retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings. NMPRC approval of new generation resources through CCN, PPA, or other applicable filings, would also be required. The NMPRC has issued regulatory orders requiring depreciation (and resultant regulatory recovery) of significant portions of these resources through estimated lives of 2053 for SJGS and 2041 for Four Corners.

In April 2019, NEE and other parties filed a joint petition requesting the NMPRC open an investigation regarding PNM's option to purchase the assets underlying the PVNGS Unit 1 and 2 leases that will expire in January 2023 and 2024. In response to a NMPRC order, in May 2019 PNM submitted a filing indicating the joint petition should be denied and that PNM has not yet made a decision to purchase or return the assets underlying the leases that expire in January 2023 and 2024. In September 2019, NEE and the other parties filed a motion reiterating their initial petition and seeking the appointment of a hearing examiner to preside over the requested proceeding and PNM filed a response opposing the motion. On January 3, 2020, PNM notified the NMPRC that PNM had obtained 60-day waivers of the deadline to notify the lessors of its intent to purchase or return the assets underlying the PVNGS Unit 1 leases. The deadline for PNM to provide irrevocable notice of its intent to purchase or return these interests is now March 16, 2020. The deadline to provide notice under the PVNGS Unit 2 lease has not changed and remains January 15, 2021. On January 8, 2020, the NMPRC issued an order denying the petition for investigation. PNM has committed to provide the NMPRC with updates on any decisions related to these interests and will file any necessary requests for approval associated with its decisions.

An adverse decision of the NMPRC regarding PNM's ability to recover certain PVNGS decommissioning costs, PNM's SJGS Abandonment Application, the prudence of PNM's continued participation in Four Corners in PNM's next rate case, or in any future decision made by PNM to purchase or return certain leased interests in PVNGS could negatively impact PNM's financial position, results of operation, and cash flows. Likewise, if the NMPRC does not authorize appropriate recovery of any undepreciated generating resources at the time those resources cease to be used to provide service to New Mexico ratepayers, including required future investments, and does not authorize recovery of the costs of obtaining power to replace those resources, PNM's financial position, results of operation, and cash flows could be negatively impacted.

The inability to operate SJGS or Four Corners prior to the planned retirement dates, or the NMPRC's denial, modification or delay of PNM's application for replacement resources, would require PNM to obtain power from other sources in order to serve the needs of its customers. There can be no assurance the NMPRC will determine PNM's decision to continue its participation in Four Corners was prudent and continue to provide PNM recovery of its costs related to that facility. In addition, there can be no assurance the NMPRC will approve any future application by PNM to retire Four Corners or other generation interests. There can be no assurance the NMPRC will allow PNM to recover undepreciated investments in retired facilities through rates charged to customers, that adequate sources of replacement power would be available, that adequate transmission capabilities would be available to bring that power into PNM's service territory, or whether the cost of obtaining those resources would be economical. Any such events would negatively impact PNM's financial position, results of operation, and cash flows unless the NMPRC authorized the collection from customers of any un-recovered costs related to the retired facilities, as well as costs of obtaining replacement power.

It is also possible that unsatisfactory outcomes of these matters, the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of certain generating facilities or the ability or willingness of individual participants to continue their participation through the periods currently contemplated in the agreements governing those facilities.

PNM currently recovers the cost of fuel for its generation facilities through its FPPAC. A coal supply contract for SJGS, which expires on June 30, 2022, became effective on January 31, 2016. In December 2013, a new fifteen-year coal supply contract for Four Corners beginning in July 2016 was executed. The contracts provide for pricing adjustments over their terms based on economic indices. Although PNM believes substantially all costs under coal supply arrangements would continue to be recovered through the FPPAC, there can be no assurance that full recovery will continue to be allowed.

**PNMR has counterparty credit risk in connection with financial support that was provided to facilitate the coal supply arrangement for SJGS. Adverse developments from these factors could have a negative impact on the business, financial condition, results of operations, and cash flows of PNM and PNMR.**

The restructuring of SJGS ownership and obtaining the new coal supply for SJGS from the current San Juan mine operator were integral components of a process to achieve compliance with the CAA at SJGS. PNMR has an arrangement with a bank under which the bank has issued \$30.3 million of letters of credit in favor of sureties in order for the sureties to post reclamation bonds that are required under the miner's operating permit. The Company's financial position, results of operation, and cash flows could be negatively impacted in the event the current mine operator were to not provide sufficient quantities of coal at sufficient quality for PNM to operate SJGS, or if the current mine operator were to default on its obligations to reclaim the San Juan mine and PNMR is required to perform under the letter of credit support agreement.

**PNMR's utilities are subject to numerous comprehensive federal, state, tribal, and local environmental laws and regulations, including those related to climate change, which may impose significant compliance costs and may significantly limit or affect their operations and financial results.**

Environmental policies and regulations remain significant concerns for PNMR. Compliance with federal, state, tribal, and local environmental laws and regulations, including those addressing climate change, air quality, CCRs, discharges of wastewater originating from fly ash and bottom ash handling facilities, cooling water, effluent, and other matters, may result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emission obligations. These costs could include remediation, containment, civil liability, and monitoring expenses. The Company cannot predict how it would be affected if existing environmental laws and regulations were to be repealed, revised, or reinterpreted, or if new environmental laws or regulations were to be adopted. See Note 16 and the Climate Change Issues subsection of the Other Issues Facing the Company section of MD&A.

Under the Obama Administration, EPA's Clean Power Plan required states to develop and implement plans to ensure compliance with emissions guidelines that would limit GHG from existing power plants. Individual states would develop and implement plans to ensure compliance with the proposed standards. The Trump Administration repealed the Clean Power Plan and has published the Affordable Clean Energy rule, which requires states to set performance standards consistent with the EPA's determination of "best system of emission reduction" technology. In addition, on June 1, 2017, President Trump announced that the U.S. would withdraw from the Paris Agreement. On November 4, 2019, President Trump announced that the U.S. has notified the United Nations that the U.S. will withdraw from the Paris Agreement on climate change. While the U.S. will be able to withdraw officially from the Paris Agreement in November 2020, a future administration would have the opportunity to rejoin. Therefore, PNMR is dealing with an uncertain regulatory and policy environment. While EPA and other federal agencies may be seeking to reduce climate change regulations, some state agencies, environmental advocacy groups, and other organizations have been focusing considerable attention on GHG from power generation facilities. See discussion above and Note 17, regarding PNM's SJGS Abandonment Application and the ETA. PNM currently depends on fossil-fueled generation for a significant portion of its electricity. As discussed under Climate Change Issues, this type of generation could be subject to future EPA or state regulations requiring GHG reductions. This includes new, existing, and modified or reconstructed EGUs which are also being considered in a proposed rule by EPA to revise the GHG NSPS rule. The uncertainty regarding climate change regulation presents challenges and represents a shift of greater authority to the states to make decisions and issue and enforce regulations. Federal and/or state regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

CCRs from the operation of SJGS are currently being used in the reclamation of a surface coal mine. These CCRs consist of fly ash, bottom ash, and gypsum. Any new regulation that would affect the reclamation process, including any future decision regarding classification of CCRs as hazardous waste or non-hazardous waste, could significantly increase the costs of the disposal of CCRs and the costs of mine reclamation. In addition, PNM would incur additional costs to the extent the rule requires the closure or modification of CCR units at Four Corners or the construction of new CCR units beyond those already anticipated or requires corrective action to address releases from CCR disposal units at the site. See Note 16.

A regulatory body may identify a site requiring environmental cleanup, including cleanup related to catastrophic events such as hurricanes or wildfires, and designate PNM or TNMP as a responsible party. There is also uncertainty in quantifying exposure under environmental laws that impose joint and several liability on all potentially responsible parties. Failure to comply with environmental laws and regulations, even if such non-compliance is caused by factors beyond PNM's or TNMP's control, may result in the assessment of civil or criminal penalties and fines.

BART determinations have been made for both SJGS and Four Corners under the program to address regional haze in the "four corners" area. Those determinations require facilities to reduce the levels of visibility-impairing emissions, including NOx. Significant capital expenditures have been made at SJGS and at Four Corners for the installation of control technology, resulting

in operating cost increases. The final guidance document for how states are to address the second implementation period (“2nd Planning Period”) of the Regional Haze rule was issued on August 20, 2019. In accordance with that guidance and EPA’s revised regional haze rule, states must submit Regional Haze SIPs by July 2021. NMED is preparing its next regional haze SIP and has notified PNM that they will not require PNM to complete a regional haze four-factor analysis for SJGS, provided the plant under PNM’s ownership is planning to close in 2022. The agency may ask for some documentation of PNM’s plans as the state moves closer to filing their SIP and setting the schedule for hearings on regional haze.

If PNM fails to timely obtain, maintain or comply with any required environmental regulatory approval, operations at affected facilities could be suspended or could subject PNM to additional expenses and potential penalties. Failure to comply with applicable environmental laws and regulations also could result in civil liability arising out of government enforcement actions or private claims. In addition, PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of the implementation of EPA’s regulations regarding climate change, CCRs and other power plant emissions, including changes to the ambient air quality standards, the promulgation and implementation of such regulations could have a material impact on operations. The Company is unable to estimate these costs due to the many uncertainties associated with, among other things, the nature and extent of future regulations and changes in existing regulations, including the changes in regulatory policy under the Trump Administration. Timely regulatory recovery of costs associated with any environmental-related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company’s business, financial position, results of operations, and liquidity.

**PNMR, PNM, and TNMP are subject to complex government regulation unrelated to the environment, which may have a negative impact on their businesses, financial position and results of operations.**

To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT, FERC, NRC, EPA, and NERC. Oversight by these agencies covers many aspects of the Company’s utility operations including, but not limited to: location, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers. FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. The significant level of regulation imposes restrictions on the operations of the Company and causes the incurrence of substantial compliance costs. PNMR and its subsidiaries are unable to predict the impact on their business and operating results from future actions of any agency regulating the Company. Changes in existing regulations or the adoption of new ones could result in additional expenses and/or changes in business operations. Failure to comply with any applicable rules, regulations or decisions may lead to customer refunds, fines, penalties, and other payments, which could materially and adversely affect the results of operations and financial condition of PNMR and its subsidiaries.

#### ***Operational Factors***

**Customer electricity usage could be reduced by increases in prices charged and other factors. This could result in underutilization of PNM’s generating capacity, as well as underutilization of the capacities of PNM’s and TNMP’s transmission and distribution systems. Should this occur, operating and capital costs might not be fully recovered, and financial performance could be negatively impacted.**

A number of factors influence customers’ electricity usage. These factors include but are not limited to rates charged by PNM and TNMP, rates charged by REPs utilizing TNMP’s facilities to deliver power, energy efficiency initiatives, availability and cost of alternative sources of power, and national, regional, or local economic conditions.

These factors and others may prompt customers to institute additional energy efficiency measures or take other actions that would result in lower energy consumption. If customers bypass or underutilize PNM’s and TNMP’s facilities through self-generation, renewable, or other energy resources, technological change, or other measures, revenues would be negatively impacted.

PNM’s and TNMP’s service territories include several military bases and federally funded national laboratories, as well as large industrial customers that have significant direct and indirect impacts on the local economies where they operate. The Company does not directly provide service to any of the military bases or national laboratories but does provide service to large industrial customers. The Company’s business could be hurt from the impacts on the local economies associated with these customer groups as well as directly from the large industrial customers for a number of reasons including federally-mandated base closures, significant curtailment of the activities at the bases or national laboratories, and closure of industrial facilities or significant curtailment of their activities.

Another factor that could negatively impact the Company is that proposals are periodically advanced in various localities to municipalize, or otherwise take over PNM's facilities, which PNM believes would require state legislative action to implement, or to establish new municipal utilities in areas currently served by PNM. If any such initiative is successful, the result could be a material reduction in the usage of the facilities, a reduction in rate base, and reduced earnings.

Should any of the above factors result in facilities being underutilized, the Company's financial position, operational results, and cash flows could be significantly impacted.

**Advances in technology could make electric generating facilities less competitive.**

Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy storage, and energy efficiency. PNM generates power at central station power plants to achieve economies of scale and produce power at a cost that is competitive with rates established through the regulatory process. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, and solar cells, which have become increasingly cost competitive. It is possible that further advances in technology will continue to reduce the costs of these alternative methods of producing power to a level that is competitive with that of central station power production. Continued advances being made in the capabilities of energy storage could further decrease power production and peak usage through the dispatch of more battery systems. This could result in demand reduction that could negatively impact revenue and/or result in underutilized assets that had been built to serve peak usage. In addition, certain federal, state, or local requirements that regulated utilities such as PNM are required to follow could result in third parties being able to provide electricity from similar generation technologies to consumers at prices lower than PNM is able to offer. As these technologies become more cost competitive or can be used by third-parties to supply power at lower prices than PNM is able to offer, PNM's energy sales and/or regulated returns could be eroded, and the value of its generating facilities could be reduced. Advances in technology could also change the channels through which electric customers purchase or use power, which could reduce the Company's sales and revenues or increase expenses. These advances can also create more uncertainty in load shapes and forecasts, which could have implications for generation and system planning.

**Costs of decommissioning, remediation, and restoration of nuclear and fossil-fueled power plants, as well as reclamation of related coal mines, could exceed the estimates of PNMR and PNM as well as the amounts PNM recovers from its ratepayers, which could negatively impact results of operations and liquidity.**

PNM has interests in a nuclear power plant, two coal-fired power plants, and several natural gas-fired power plants and is obligated to pay its share of the costs to decommission these facilities. PNM is also obligated to pay for its share of the costs of reclamation of the mines that supply coal to the coal-fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning and reclamation obligations and it is important to PNM that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, reclamation, and restoration. The NMPRC has established a cap on the amount of costs for the final reclamation of the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal obligations for decommissioning and reclamation in accordance with GAAP. These estimates include many assumptions about future events and are inherently imprecise. As discussed above, on July 1, 2019, PNM submitted its SJGS Abandonment Application requesting NMPRC approval to retire PNM's share of SJGS in 2022. The SJGS Abandonment Application includes a request to recover PNM's share of reclamation related to the underground mine that serves SJGS as well as other costs associated with retiring the facility. In addition, PNM's 2017 IRP indicates that exiting PNM's ownership interest in Four Corners in 2031 would provide long-term cost savings for customers. See additional discussion of PNM's December 2018 Compliance Filing, the SJGS Abandonment Application, and its 2017 IRP in Notes 16 and 17. In the event the costs to decommission those facilities or to reclaim the mines serving the plants exceed current estimates, or if amounts are not approved for recovery by the NMPRC, results of operations could be negatively impacted. In addition, the NMPRC's order in the NM 2015 Rate Case disallowed recovery of future contributions for the decommissioning of certain portions of PVNGS. The NM Supreme Court determined that the NMPRC's decision to not provide PNM recovery of future contributions for the decommissioning of certain portions of PVNGS denied PNM due process of law and remanded the matter to the NMPRC for consideration consistent with the court's findings. On January 8, 2020, the NMPRC amended its order in the case to remove the disallowance of certain decommissioning costs and indicated this matter will be addressed in a future docket. See Note 17.

The costs of decommissioning any nuclear power plant are substantial. PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS, including portions under lease both during and after termination of the leases. PNM maintains trust funds designed to provide adequate financial resources for decommissioning PVNGS and for reclamation of the coal mines serving SJGS and Four Corners at the end of their expected lives. However, if the PVNGS units are decommissioned before their planned date or the coal mines are shut down sooner than expected, these funds may prove to be insufficient.

**The financial performance of PNMR, PNM, and TNMP may be adversely affected if power plants 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 SJGS Abandonment Application requests NMPRC approval to retire PNM's share of SJGS after the coal supply agreement for that facility expires in mid-2022. PNM's 2017 IRP also indicates that PNM exiting its ownership interest in Four Corners in 2031 would provide long-term cost savings for customers. These actions will increase PNM's dependency on other generation resources, including 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, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the generation assets, 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 and extensions of scheduled outages 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.

**PNMR, PNM, and TNMP are subject to information security breaches and risks of unauthorized access to their information and operational technology systems as well as physical threats to assets.**

The Company faces the risk of physical and cybersecurity attacks, both threatened and actual, against generation facilities, transmission and distribution infrastructure used to transport power, information technology systems, and network infrastructure, which could negatively impact the ability of the Company to generate, transport, and deliver power, or otherwise operate facilities in the most efficient manner or at all.

The utility industry in which the Company operates is a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure, some of which are deemed to be critical infrastructure under NERC guidelines. Certain of the Company's systems are interconnected with external networks. In the regular course of business, the utilities handle a range of sensitive security and customer information. PNM and TNMP are subject to the rules of various agencies concerning safeguarding and maintaining the confidentiality of this information. Despite steps the Company may take to detect, mitigate and/or eliminate threats and respond to security incidents, the techniques used by those who wish to obtain unauthorized access, and possibly disable or sabotage systems and/or abscond with confidential information and data, change frequently and the Company may not be able to protect against all such actions.

In the event a capable party attempts to disrupt the generation, transmission, or distribution systems in the U.S., the Company's computer and operating systems could be subject to physical or cybersecurity attack. Although the Company has implemented security measures to identify, prevent, detect, respond to, and recover from cyber and physical security events, critical infrastructure, including information and operational technology systems, are vulnerable to disability, failures, or unauthorized access, which could occur as a result of malicious compromise, employee error, and/or employee misconduct. A successful physical or cybersecurity attack or other similar failure of the systems could impact the reliability of PNM's generation and PNM's and TNMP's transmission and distribution systems, including the possible unauthorized shutdown of facilities. Such an event could lead to disruptions of business operations, including the Company's ability to generate, transport, and deliver power to serve customers, to bill customers, and to process other financial information. A breach of the Company's information systems could also lead to the loss and destruction of confidential and proprietary data, personally identifiable information, trade secrets, intellectual property and supplier data, and could disrupt business operations which could harm the Company's reputation and financial results, as well as potential increased regulatory oversight, litigation, fines, and other remedial action. The costs incurred to investigate and remediate a physical or cybersecurity attack could be significant. A significant physical or cybersecurity attack on the Company's critical infrastructure could have an adverse impact on the operations, reputation and financial condition of PNMR, PNM, and TNMP.

**There are inherent risks in the ownership and operation of nuclear facilities.**

PNM has a 10.2% undivided interest in PVNGS, including interests in Units 1 and 2 held under leases. PVNGS represents 14.6% of PNM's total generating capacity as of December 31, 2019. PVNGS is subject to environmental, health, and financial risks including but not limited to the ability to obtain adequate supplies of nuclear fuel and water, the ability to dispose of spent

nuclear fuel, decommissioning of the plant (see above), securing the facilities against possible terrorist attacks, and unscheduled outages due to equipment failures.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or which impact the industry generally may lead the NRC to impose additional requirements and regulations on all nuclear generation facilities, including PVNGS. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.

In the event of noncompliance with its requirements, the NRC has the authority to impose a progressively increasing inspection regime that could ultimately result in the shutdown of a unit, civil penalties, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and/or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM. Although PNM has no reason to anticipate a serious nuclear incident at PVNGS, if an incident did occur, it could materially and adversely affect PNM's results of operations and financial condition.

PNM has external insurance coverage to minimize its financial exposure to some risks. However, it is possible that liabilities associated with nuclear operations could exceed the amount of insurance coverage. See Note 16.

**Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation facilities and/or battery storage facilities.**

PNM is obligated to supply power to retail customers and certain wholesale customers. At peak times, power demand could exceed PNM's available generation capacity, particularly if PNM's power plants are not performing as anticipated. SJGS Units 2 and 3 were shut down in December 2017 and PNM is currently seeking NMPRC approval to retire PNM's share of SJGS in 2022. In addition, PNM's 2017 IRP indicates that it would also save customers money for PNM to exit ownership in Four Corners in 2031. SJGS and Four Corners comprise a significant portion of PNM's base load generation capacity and their retirement would increase reliance on other existing or new generating and/or battery storage resources. Market forces, competitive forces, or adverse regulatory actions may require PNM to purchase capacity on the open market or build additional resources to meet customers' energy needs. Regulators or market conditions may not permit PNM to pass all of these purchases or construction costs on to customers. If that occurs, PNM may not be able to fully recover these costs or there may be a lag between when costs are incurred and when regulators permit recovery in customers' rates. These situations could have negative impacts on results of operations and cash flows.

**The impact of wildfires could negatively affect PNM's and TNMP's results of operations.**

PNM and TNMP have large networks of electric transmission and distribution facilities. Weather conditions in the U.S. Southwest region and Texas vary and could contribute to wildfires in or near PNM's and TNMP's service territories. PNM and TNMP take proactive steps to mitigate wildfire risk. However, wildfire risk is always present and PNM and TNMP could be held liable for damages incurred as a result of wildfires caused, or allegedly caused, by their transmission and distribution systems. In addition, wildfires could cause damage to PNM's and TNMP's assets that could result in loss of service to customers or make it difficult to supply power in sufficient quantities to meet customer needs. These events could have negative impacts on the Company's financial position, results of operations, and cash flows.

***General Economic and Weather Factors***

**General economic conditions of the nation and/or specific areas can affect the Company's customers and suppliers. Economic recession or downturn may result in decreased consumption by customers and increased bad debt expense, and could also negatively impact suppliers, all of which could negatively affect the Company.**

Economic activity in the service territories of PNMR subsidiaries is a key factor in their performance. Decreased economic activity can lead to declines in energy consumption, which could adversely affect future revenues, earnings, and growth. Higher unemployment rates, both in the Company's service territories and nationwide, could result in commercial customers ceasing operations and lower levels of income for residential customers. These customers might then be unable to pay their bills on time, which could increase bad debt expense and negatively impact results of operations and cash flows. Economic conditions also impact the supply and/or cost of commodities and materials needed to construct or acquire utility assets or make necessary repairs.

**The operating results of PNMR and its operating subsidiaries are seasonal and are affected by weather conditions, including regional drought.**

Electric generation, transmission, and distribution are generally seasonal businesses that vary with the demand for power. With power consumption typically peaking during the hot summer months, revenues traditionally peak during that period. As a result, quarterly operating results of PNMR and its operating subsidiaries vary throughout the year. In addition, PNMR and its operating subsidiaries have historically had lower revenues resulting in lower earnings when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net earnings, and cash flows of the Company.

Assured supplies of water are important for PNM's generating plants. Drought conditions in New Mexico, especially in the "four corners" region, where SJGS and Four Corners are located, may affect the water supply for PNM's generating plants. If inadequate precipitation occurs in the watershed that supplies that region, PNM may have to decrease generation at these plants. This would require PNM to purchase power to serve customers and/or reduce the ability to sell excess power on the wholesale market and reduce revenues. Drought conditions or actions taken by the court system, regulators, or legislators could limit PNM's supply of water, which would adversely impact PNM's business. Although SJGS and Four Corners participate in voluntary shortage sharing agreements with tribes and other water users in the "four corners" region, PNM cannot be certain these contracts will be enforceable in the event of a major drought or that it will be able to renew these contracts in the future.

TNMP's service areas are exposed to extreme weather, including high winds, drought, flooding, ice storms, and periodic hurricanes. Extreme weather conditions, particularly high winds and severe thunderstorms, also occur periodically in PNM's service areas. These severe weather events can physically damage facilities owned by TNMP and PNM. Any such occurrence both disrupts the ability to deliver energy and increases costs. Extreme weather can also reduce customers' usage and demand for energy or could result in the Company incurring obligations to third parties related to such events. These factors could negatively impact results of operations and cash flows.

***Financial Factors***

**PNMR may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay dividends or distributions to PNMR.**

PNMR is a holding company and has no operations of its own. PNMR's ability to meet its financial obligations and to pay dividends on its common stock primarily depends on the net earnings and cash flows of PNM and TNMP and their capacity to pay upstream dividends or distributions. Prior to providing funds to PNMR, PNM and TNMP have financial and regulatory obligations that must be satisfied, including among others, debt service and, in the case of PNM, preferred stock dividends.

The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC has also restricted PNM from paying dividends in any year, as determined on a rolling four-quarter basis, in excess of net earnings without prior NMPRC approval. PNM is permitted to pay dividends to PNMR from prior equity contributions made by PNMR. Additionally, PNMR's financing agreements generally include a covenant to maintain a debt-to-capitalization ratio that does not exceed 70%, and PNM and TNMP's financing arrangements generally include a covenant to maintain debt-to-capitalization ratios that do not exceed 65%. PNM also has various financial covenants that limit the transfer of assets, through dividends or other means and the Federal Power Act imposes certain restrictions on dividends paid by public utilities, including that dividends cannot be paid from paid-in capital.

Further, the ability of PNMR to declare dividends depends upon the extent to which cash flows will support dividends, the Company's financial circumstances and performance, economic conditions in the U.S. and in the Company's service areas, future growth plans and the related capital requirements, and other business considerations. Declaration of dividends may also be affected by decisions of the NMPRC and PUCT in various regulatory cases currently pending or that may be docketed in the future, including the outcome of appeals of those decisions, conditions imposed by the NMPRC, PUCT, or Federal Power Act, and the effect of federal regulatory decisions and legislative acts.

**Disruption in the credit and capital markets may impact the Company's strategy and ability to raise capital.**

As discussed in MD&A – Liquidity and Capital Resources, PNMR and its subsidiaries rely on access to both short-term and longer-term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2020-2024, including capital requirements related to its investment in NMRD, to be \$3.8 billion. If PNMR or its operating subsidiaries are not able to access capital at competitive rates, or at all, PNMR's ability to finance capital requirements and implement its strategy will be limited. Disruptions in the credit markets, which could negatively impact the Company's access to capital, could be caused by an economic recession, declines in the health of the banking sector generally or the failure of specific

banks who are parties to the Company's credit facilities, deterioration in the overall health of the utility industry, the bankruptcy of an unrelated energy company, war, terrorist attacks, cybersecurity attacks, or threatened attacks.

If the Company's cash flow and credit and capital resources are insufficient to fund capital expenditure plans, the Company may be forced to delay important capital investments, sell assets, seek additional equity or debt capital, or restructure debt. In addition, insufficient cash flows and capital resources may result in reductions of credit ratings. This could negatively impact the Company's ability to incur additional indebtedness on acceptable terms and would result in an increase in the interest rates applicable under the Company's credit facilities. The Company's cash flow and capital resources may be insufficient to pay interest and principal on debt in the future. If that should occur, the Company's capital raising or debt restructuring measures may be unsuccessful or inadequate to meet scheduled debt service obligations. This could cause the Company to default on its obligations and further impair liquidity.

**Reduction in credit ratings or changing rating agency requirements could materially and adversely affect the Company's growth, strategy, business, financial position, results of operations, and liquidity.**

PNMR, PNM, and TNMP cannot be sure that any of their current credit ratings will remain in effect for any given period of time or that a rating will not be put under review for a downgrade, lowered, or withdrawn entirely by a rating agency. On January 16, 2018, S&P changed the outlook for PNMR, PNM and TNMP from stable to negative while affirming the investment grade ratings of each entity. On June 29, 2018, Moody's changed the ratings outlook for PNMR and PNM from positive to stable, maintained the stable outlook for TNMP, and affirmed the long-term credit ratings of each entity. In August 2019, Moody's affirmed the credit rating and stable outlook for PNMR, PNM and TNMP. On December 18, 2019, S&P upgraded the issuer rating of TNMP to A- from BBB+, maintained the senior secured debt rating of TNMP at A, and maintained the outlook for TNMP as negative. Downgrades or changing requirements could result in increased borrowing costs due to higher interest rates on current borrowings or future financings, a smaller potential pool of investors, and decreased funding sources. Such conditions also could require the provision of additional support in the form of letters of credit and cash or other collateral to various counterparties.

**Declines in values of marketable securities held in trust funds for pension and other postretirement benefits and in the NDT and mine reclamation trusts could result in sustained increases in costs and funding requirements for those obligations, which may affect operational results.**

The pension plans' targeted asset allocation is 50% return generating and 50% liability matching fixed income. The Company uses a strategy, known as Liability Driven Investing, which seeks to select investments that match the liabilities of the pension plans. The OPEB plans generally use the same pension fixed income and equity investment managers and utilize the same overall investment strategy as the pension plans, except there is no allocation to alternative investments and the OPEB plans have a target asset allocation of 70% equities and 30% fixed income.

Due to the funded status of the NDT and recent overall market performance, PNM has re-balanced the NDT investment portfolio to a target of 80% fixed income securities. The current asset allocation exposes the NDT investment portfolio to market and macroeconomic factors. Declines in market values could result in increased funding of the trusts, the recognition of losses as impairments for the NDT and mine reclamation trusts, and additional expense for the benefit plans. In addition, a change in GAAP required that all changes in the fair value of equity securities recorded on the Company's balance sheet be reflected in earnings beginning in 2018, which results in increased volatility in earnings.

**Impairments of goodwill and long-lived assets of PNMR, PNM, and TNMP could adversely affect the Company's business, financial position, liquidity, and results of operations.**

The Company annually evaluates recorded goodwill for impairment. See Note 1 and the Critical Accounting Policies and Estimates section of MD&A. Long-lived assets are also assessed whenever indicators of impairment exist. Factors that affect the long-term value of these assets, including treatment by regulators in ratemaking proceedings, as well as other economic and market conditions, could result in impairments. Significant impairments could adversely affect the Company's business, financial position, liquidity, and results of operations.

**PNM's PVNGS leases describe certain events, including "Events of Loss" and "Deemed Loss Events", the occurrence of which could require PNM to take ownership of the underlying assets and pay the lessors for the assets.**

The "Events of Loss" generally relate to casualties, accidents, and other events at PVNGS, including the occurrence of specified nuclear events, which would severely adversely affect the ability of the operating agent, APS, to operate, and the ability of PNM to earn a return on its interests in PVNGS. The "Deemed Loss Events" consist primarily of legal and regulatory changes (such as issuance by the NRC of specified violation orders, changes in law making the sale and leaseback transactions illegal, or changes in law making the lessors liable for nuclear decommissioning obligations). PNM believes that the probability of such

“Events of Loss” or “Deemed Loss Events” occurring is remote for the following reasons: (1) to a large extent, prevention of “Events of Loss” and some “Deemed Loss Events” is within the control of the PVNGS participants through the general PVNGS operational and safety oversight process; and (2) other “Deemed Loss Events” would involve a significant change in current law and policy. PNM is unaware of any proposals pending or being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events. Furthermore, the NRC places restrictions on the ownership of nuclear generating facilities. These restrictions could limit the transfer of ownership should PNM decide to return the assets underlying all or a portion of its current leased interests in PVNGS. In the event PNM decides to return these interests to the lessors, and a qualified buyer cannot be identified, PNM may be required to retain all of a portion of its existing leased capacity in PVNGS or be exposed to other claims for damages by the lessors. See Note 8. If these events were to occur, there is no assurance PNM would be provided cost recovery from customers.

**The impacts and implementation of U.S. tax reform legislation may negatively impact PNMR’s, PNM’s, and TNMP’s businesses, financial position, results of operations, and cash flows.**

On December 22, 2017, comprehensive changes in U.S. federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”). Among other things, the Tax Act reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018, eliminates federal bonus depreciation for utilities, and limits interest deductibility for non-utility business activities and the deductibility of certain officer compensation. During 2018, the IRS issued additional guidance related to certain officer compensation and proposed 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, the IRS issued proposed regulations interpreting Tax Act amendments to depreciation provisions of the IRC that allow the Company to claim a bonus depreciation deduction on certain construction projects placed in service subsequent to the third quarter of 2017.

The Company believes that the impacts of the Tax Act will not significantly impact the future earnings of regulated activities due to the ratemaking process. However, cash flows will be reduced in the near term due to less cash being received from customer billings as the benefits of the reduced corporate income tax are passed on to ratepayers, but without a corresponding reduction in income taxes paid due to the Company having a net operating loss carryforward for income taxes purposes. In addition, the income tax benefit of net losses for the unregulated activities of PNMR will be negatively impacted by the reduced rate.

It is possible that further changes to U.S. Treasury regulations, IRS interpretations of the provisions of the Tax Act, actions by the NMPRC, PUCT, and FERC could cause the Company’s expectations of the impacts of the Tax Act to change. Any such change could adversely affect the Company’s financial position, results of operations, and cash flows.

**Governance Factors**

**Provisions of PNMR’s organizational documents, as well as several other statutory and regulatory factors, will limit another party’s ability to acquire PNMR and could deprive PNMR’s shareholders of the opportunity to receive a takeover premium for shares of PNMR’s common stock.**

PNMR’s restated articles of incorporation and by-laws include a number of provisions that may have the effect of discouraging persons from acquiring large blocks of PNMR’s common stock or delaying or preventing a change in control of PNMR. The material provisions that may have such an effect include:

- Authorization for the Board to issue PNMR’s preferred stock in series and to fix rights and preferences of the series (including, among other things, voting rights and preferences with respect to dividends and other matters)
- Advance notice procedures with respect to any proposal other than those adopted or recommended by the Board
- Provisions specifying that only a majority of the Board, the chairman of the Board, the chief executive officer, or holders of at least one-tenth of all of PNMR’s shares entitled to vote may call a special meeting of shareholders

Under the New Mexico Public Utility Act, NMPRC approval is required for certain transactions that may result in PNMR’s change in control or exercise of control, including ownership of 10% or more of PNMR’s voting stock. PUCT approval is required for changes to the ownership of TNMP or its parent and certain other transactions relating to TNMP. Certain acquisitions of PNMR’s outstanding voting securities also require FERC approval.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

**PNMR**

The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.

**PNM**

See Sources of Power in Part I, Item. 1 Business above for information on PNM's owned and leased capacity in electric generating stations. As of December 31, 2019, PNM owned, or jointly owned, 3,206 miles of electric transmission lines, 6,071 miles of distribution overhead lines, 5,934 miles of underground distribution lines (excluding street lighting), and 255 substations. PNM's electric transmission and distribution lines are generally located within easements and rights-of-way on public, private, and Native American lands. PNM owns and leases interests in PVNGS Units 1 and 2 and related property, communication, office and other equipment, office space, vehicles, and real estate. PNM also owns service and office facilities throughout its service territory. See Note 8 for additional information concerning leases.

**TNMP**

TNMP's facilities consist primarily of transmission and distribution facilities located in its service areas. TNMP also owns and leases vehicles, service facilities, and office locations throughout its service territory. As of December 31, 2019, TNMP owned 981 miles of overhead electric transmission lines, 7,236 miles of overhead distribution lines, 1,324 miles of underground distribution lines, and 125 substations. Substantially all of TNMP's property is pledged to secure its first mortgage bonds. See Note 7.

**ITEM 3. LEGAL PROCEEDINGS**

See Note 16 and Note 17 for information related to the following matters for PNMR, PNM, and TNMP, incorporated in this item by reference.

**Note 16**

- The Clean Air Act – Regional Haze – NEE Complaint
- The Clean Air Act – Regional Haze – Four Corners – Four Corners Federal Agency Lawsuit
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Santa Fe Generating Station
- Coal Combustion Residuals Waste Disposal
- Continuous Highwall Mining Royalty Rate
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Navajo Nation Allottee Matters

**Note 17**

- PNM – Renewable Portfolio Standard
- PNM – Renewable Energy Rider
- PNM – Energy Efficiency and Load Management
- PNM – Integrated Resource Plans
- PNM – SJGS Abandonment Application
- TNMP – Transmission Cost of Service Rates

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**SUPPLEMENTAL ITEM – EXECUTIVE OFFICERS OF PNM RESOURCES, INC.**

All officers are elected annually by the Board of PNMR. Executive officers, their ages as of February 21, 2020 and offices held with PNMR for the past five years are as follows:

<u>Name</u>	<u>Age</u>	<u>Office</u>	<u>Initial Effective Date</u>
P. K. Collawn	61	Chairman, President, and Chief Executive Officer	January 2012
J. D. Tarry	49	Senior Vice President and Chief Financial Officer	January 2020
		Vice President, Controller and Treasurer	September 2018
		Vice President, Finance and Controller	February 2017
		Vice President, Corporate Controller, and Chief Information Officer	April 2015
		Vice President, Customer Service and Chief Information Officer	May 2012
C. N. Eldred	66	Executive Vice President, Corporate Development and Finance	January 2020
		Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	68	Senior Vice President, General Counsel, and Secretary	January 2010
R. N. Darnell	62	Senior Vice President, Public Policy	January 2012
C. M. Olson	62	Senior Vice President, Utility Operations	February 2018
		Vice President, Utility Operations	December 2016
		Vice President, Generation – PNM	November 2012

**PART II****ITEM 5. MARKET FOR PNMR’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

PNMR’s common stock is traded on the New York Stock Exchange under the symbol “PNM”.

Dividends on PNMR’s common stock are declared by its 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 considered to be 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 \$0.265 per share in July 2018 and \$0.29 per share in July 2019, which are reflected as being in the second quarter. The Board declared dividends on common stock considered to be for the third quarter of \$0.265 per share in September 2018 and \$0.29 per share in September 2019, which are reflected as being in the third quarter above. On February 21, 2020, the Board declared a quarterly dividend of \$0.3075 per share. PNMR targets a long-term dividend payout ratio of 50% to 60% of ongoing earnings, which is a non-GAAP financial measure that excludes from earnings determined in accordance with GAAP 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.

On February 21, 2020, there were 8,219 holders of record of PNMR’s common stock. All of the outstanding common stock of PNM and TNMP is held by PNMR.

As discussed below and in Note 7, in January 2020, PNMR completed an equity offering of approximately 6.2 million shares of common stock. In lieu of issuing equity at the time of the offering, PNMR entered into forward sale agreements with certain forward counterparties. Settlement of the forward sale agreements is expected to occur on or prior to January 7, 2021.

All of PNM’s and TNMP’s common stock is owned by PNMR and is not listed for trading on any stock exchange. See Note 6 for a discussion on limitations on the payments of dividends and the payment of future dividends, as well as dividends paid by PNM and TNMP.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**Preferred Stock**

As of December 31, 2019, PNM has 115,293 shares of cumulative preferred stock outstanding. PNM is not aware of any active trading market for its cumulative preferred stock. Quarterly cash dividends were paid on PNM’s outstanding cumulative preferred stock at the stated rates during 2019 and 2018. PNMR and TNMP do not have any preferred stock outstanding.

**Sales of Unregistered Securities**

None.

**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A.

**PNM RESOURCES, INC. AND SUBSIDIARIES**

	2019	2018	2017	2016	2015
	(In thousands except per share amounts and ratios)				
<b>Total Operating Revenues</b>	\$ 1,457,603	\$ 1,436,613	\$ 1,445,003	\$ 1,362,951	\$ 1,439,082
<b>Net Earnings</b>	\$ 92,131	\$ 101,282	\$ 95,419	\$ 131,896	\$ 31,078
<b>Net Earnings Attributable to PNMR</b>	\$ 77,362	\$ 85,642	\$ 79,874	\$ 116,849	\$ 15,640
<b>Net Earnings Attributable to PNMR per Common Share</b>					
Basic	\$ 0.97	\$ 1.07	\$ 1.00	\$ 1.47	\$ 0.20
Diluted	\$ 0.97	\$ 1.07	\$ 1.00	\$ 1.46	\$ 0.20
<b>Cash Flow Data</b>					
Net cash flows from operating activities	\$ 503,163	\$ 428,226	\$ 523,462	\$ 408,283	\$ 395,045
Net cash flows from investing activities	\$ (673,898)	\$ (475,724)	\$ (466,163)	\$ (699,375)	\$ (544,528)
Net cash flows from financing activities	\$ 172,446	\$ 45,646	\$ (58,847)	\$ 242,392	\$ 175,431
<b>Total Assets</b>	\$ 7,298,774	\$ 6,865,551	\$ 6,646,103	\$ 6,471,080	\$ 6,009,328
<b>Long-Term Debt, including current installments</b>	\$ 3,007,717	\$ 2,670,111	\$ 2,437,645	\$ 2,392,712	\$ 2,091,948
<b>Financing Leases<sup>(1)</sup></b>	\$ 8,739	\$ —	\$ —	\$ —	\$ —
<b>Common Stock Data</b>					
Market price per common share at year end	\$ 50.71	\$ 41.09	\$ 40.45	\$ 34.30	\$ 30.57
Book value per common share at year end	\$ 21.07	\$ 21.20	\$ 21.28	\$ 21.04	\$ 20.78
Tangible book value per share at year end	\$ 17.58	\$ 17.70	\$ 17.79	\$ 17.55	\$ 17.28
Average number of common shares outstanding – diluted	79,990	80,012	80,141	80,132	80,139
Dividends declared per common share	\$ 1.1775	\$ 1.0850	\$ 0.9925	\$ 0.9025	\$ 0.8200
<b>Capitalization</b>					
PNMR common stockholders' equity	35.8%	38.6%	40.9%	41.1%	44.0%
Preferred stock of subsidiary, without mandatory redemption requirements	0.2	0.3	0.3	0.3	0.3
Long-term debt	64.0	61.1	58.8	58.6	55.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

<sup>(1)</sup> Upon adoption of ASU 2016-02 – *Leases (Topic 842)* on January 1, 2019, the Company classifies its fleet vehicle and equipment leases and its office equipment leases that commenced on or after January 1, 2019 as financing leases. See Note 8.

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**COMPARATIVE OPERATING STATISTICS**

	2019	2018	2017	2016	2015
	(In thousands)				
<b>PNM Revenues</b>					
Residential	\$ 427,883	\$ 433,009	\$ 419,105	\$ 395,490	\$ 427,958
Commercial	396,987	408,333	408,354	394,150	437,279
Industrial	69,601	61,119	58,851	56,650	75,308
Public authority	20,322	21,688	23,604	23,174	26,202
Economy service	25,757	26,764	30,645	31,121	35,132
Transmission	57,214	54,280	45,932	34,267	33,216
Firm-requirements wholesale	—	—	4,468	22,497	31,263
Other sales for resale <sup>(1)</sup>	81,934	76,168	101,897	70,375	63,195
Mark-to-market activity	(997)	(1,051)	1,317	(1,645)	(5,270)
Other miscellaneous <sup>(2)</sup>	13,134	14,098	10,057	9,834	6,912
Alternative revenue programs <sup>(3)</sup>	1,987	(2,443)	—	—	—
<b>Total PNM Revenues</b>	<b>\$ 1,093,822</b>	<b>\$ 1,091,965</b>	<b>\$ 1,104,230</b>	<b>\$ 1,035,913</b>	<b>\$ 1,131,195</b>
<b>TNMP Revenues</b>					
Residential	\$ 150,742	\$ 130,288	\$ 126,587	\$ 124,462	\$ 120,771
Commercial	116,953	111,261	106,503	103,174	102,956
Industrial	22,405	17,317	18,140	17,427	16,316
Other miscellaneous	76,210	81,583	89,543	81,975	67,844
Alternative revenue programs <sup>(3)</sup>	(2,529)	4,199	—	—	—
<b>Total TNMP Revenues</b>	<b>\$ 363,781</b>	<b>\$ 344,648</b>	<b>\$ 340,773</b>	<b>\$ 327,038</b>	<b>\$ 307,887</b>

<sup>(1)</sup> Includes sales to Tri-State under hazard sharing agreement (Note 17).

<sup>(2)</sup> For the years ended December 31, 2019 and 2018, \$6.8 million and \$7.6 million of sales related to the SJGS 65 MW are classified as other miscellaneous revenue from contracts with customers (Note 4).

<sup>(3)</sup> Beginning in 2018, alternative revenue programs include recovery or refund provisions under PNM's renewable energy rider; true-ups to PNM's formula transmission rates, and TNMP's AMS surcharge, and transmission cost recovery factor; and the energy efficiency incentive bonuses at PNM and TNMP. Beginning in 2018, alternative revenue programs also include the impacts of the PUCT's January 25, 2018 order regarding the change in the federal corporate income tax rate in 2018 at TNMP. See Notes 4 and 17.

	2019	2018	2017	2016	2015
<b>PNM MWh Sales</b>					
Residential	3,227,338	3,250,560	3,136,066	3,189,527	3,185,363
Commercial	3,732,099	3,814,659	3,774,417	3,831,295	3,800,472
Industrial	1,152,536	879,308	850,914	875,109	957,308
Public authority	231,538	241,238	250,500	249,860	246,496
Economy service <sup>(1)</sup>	670,128	667,288	722,501	805,733	796,430
Firm-requirements wholesale <sup>(2)</sup>	—	—	87,600	429,345	444,495
Other sales for resale <sup>(3)</sup>	2,842,759	2,525,220	3,632,137	2,899,322	2,110,947
<b>Total PNM MWh Sales</b>	<b>11,856,398</b>	<b>11,378,273</b>	<b>12,454,135</b>	<b>12,280,191</b>	<b>11,541,511</b>
<b>TNMP MWh Sales</b>					
Residential	3,044,760	3,094,965	2,936,291	2,933,938	2,912,019
Commercial	3,401,288	3,186,788	2,793,263	2,742,366	2,654,102
Industrial	4,281,962	3,681,480	3,202,528	2,976,800	2,804,919
Other	99,863	100,300	94,767	98,596	100,999
<b>Total TNMP MWh Sales</b>	<b>10,827,873</b>	<b>10,063,533</b>	<b>9,026,849</b>	<b>8,751,700</b>	<b>8,472,039</b>

<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> Decrease beginning in 2017 reflects the loss of NEC as a wholesale generation customer (Note 17).

<sup>(3)</sup> Includes sales to Tri-State under hazard sharing agreement (Note 17).



**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**COMPARATIVE OPERATING STATISTICS**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>PNM Customers</b>					
Residential	473,803	470,192	465,950	462,921	459,353
Commercial	57,369	57,000	56,655	56,357	56,107
Industrial	201	236	239	247	250
Economy service	1	1	1	1	1
Other sales for resale	26	39	36	36	39
Other	930	932	931	887	908
Total PNM Customers	<u>532,330</u>	<u>528,400</u>	<u>523,812</u>	<u>520,449</u>	<u>516,658</u>
<b>TNMP Consumers</b>					
Residential	213,435	210,696	207,788	204,744	202,359
Commercial	41,054	40,508	39,814	39,817	39,014
Industrial	96	88	82	66	70
Other	1,911	1,924	1,948	1,993	2,018
Total TNMP Consumers	<u>256,496</u>	<u>253,216</u>	<u>249,632</u>	<u>246,620</u>	<u>243,461</u>
<b>PNM Generation Statistics</b>					
Net Capability – MW, including PPAs <sup>(1)</sup>	2,761	2,661	2,580	2,791	2,787
Coincidental Peak Demand – MW	1,937	1,885	1,843	1,908	1,889
Average Fuel Cost per MMBTU	\$ 1.716	\$ 1.808	\$ 1.704	\$ 1.821	\$ 2.168
BTU per KWh of Net Generation	10,055	10,193	10,396	9,975	10,456

<sup>(1)</sup> Amounts are reflective of the shutdown of SJGS Units 2 and 3 in December 2017 and restructured ownership of SJGS Unit 4 as of December 31, 2017.

## ITEM 7. 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. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. The MD&A for PNM and TNMP is presented as permitted by Form 10-K General Instruction I (2) as amended by the FAST Act. For additional information related to the earliest of the two years presented please refer to the Company's 2018 Annual Report on Form 10-K. A reference to a "Note" in this Item 7 refers to the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8, 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 789,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

#### ***Strategic Goals***

PNMR is focused on achieving three key strategic goals:

- 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 goals, 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 strategic goals 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, interim cost of service filings, and various rate riders.

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 strategic goals. 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. Additional information about rate filings is provided in Note 17.

#### ***State Regulation***

***New Mexico 2015 Rate Case*** – On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in base non-fuel rates of \$61.2 million for New Mexico retail customers, effective for bills sent after September 30, 2016. This order was on PNM's application for a general increase in retail electric rates (the "NM 2015 Rate Case") filed in August 2015.

On September 28, 2016, the NMPRC issued an order in the case that included a determination that PNM was imprudent in purchasing 64.1 MW of previously leased capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. Major components of the difference between the increase in non-fuel revenues approved in the order and PNM's request, included:

- A ROE of 9.575%, compared to the 10.5% requested by PNM
- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, totaling 64.1 MW of PVNGS Unit 2 at an initial rate base value of \$83.7 million, compared to PNM's request for recovery of the fair market value purchase price of \$163.3 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which costs totaled \$43.8 million when the order was issued
- Disallowance of recovery of the costs associated with converting SJGS Units 1 and 4 to BDT, which is required by the NSR permit for SJGS; PNM's share of the costs of installing the BDT equipment was \$52.3 million, \$40.0 million of which PNM requested be included in rate base in the NM 2015 Rate Case
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016 and the 114.6 MW of the leased capacity in PVNGS Units 1 and 2 that were extended for eight years beginning January 15, 2015 and 2016

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. Specifically, PNM appealed the NMPRC's determination that PNM was imprudent in certain matters in the case, including the disallowance of the full purchase price of the 64.1 MW of capacity in PVNGS Unit 2, the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM, the costs of converting SJGS Units 1 and 4 to BDT, and future contributions for PVNGS decommissioning attributable to 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases. NEE, NM AREA, and ABCWUA filed notices of cross-appeal to PNM's appeal. The issues appealed by the various cross-appellants included, among other things, the NMPRC allowing PNM to recover any of the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and any of the purchase price for the 64.1 MW in PVNGS Unit 2, as well as the costs incurred under the Four Corners CSA and the inclusion of the "prepaid pension asset" in rate base.

During the pendency of the appeal, PNM evaluated the accounting consequences of the order in the NM 2015 Rate Case and the related appeals to the NM Supreme Court as required under GAAP. These evaluations indicated that it was reasonably possible that PNM would be successful on the issues it was appealing but would not be provided capital cost recovery until the NMPRC acted on a decision of the NM Supreme Court. PNM also evaluated the accounting consequences of the issues being appealed by the cross-appellants and concluded that the issues raised in the cross-appeals did not have substantial merit.

In accordance with GAAP, PNM periodically updated its estimate of the amount of time necessary for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. As a result of these evaluations, through December 31, 2018, PNM recorded accumulated pre-tax impairments of its capital investments subject to the appeal in the amount of \$18.4 million.

On May 16, 2019, the NM Supreme Court issued its decision on the matters that had been appealed in the NM 2015 Rate Case. The NM Supreme Court rejected the matters appealed by the cross-appellants and all but one of the matters appealed by PNM. The NM Supreme Court ruled that the NMPRC's decision to permanently disallow recovery of future decommissioning costs related to the 64.1 MW of PVNGS Unit 2 and the 114.6 MW of PVNGS Units 1 and 2 deprived PNM of its rights to due process of law and remanded the case to the NMPRC for further proceedings consistent with the court's findings. On July 17, 2019, the NMPRC heard oral argument from parties in the case. At oral argument, parties presented various positions ranging from re-litigating the value of PVNGS resources determined by the NMPRC and affirmed by the NM Supreme Court to re-affirming the NMPRC's final order with a single modification to address recovery of PVNGS decommissioning costs in a future case. On January 8, 2020, the NMPRC issued its order in response to the NM Supreme Court's remand. The NMPRC reaffirmed its September 2016 order except for the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2. The NMPRC indicated that PNM's ability to recover these costs will be addressed in a future proceeding and closed the NM 2015 Rate Case docket.

As a result of the NM Supreme Court's ruling, PNM recorded a pre-tax impairment of \$150.6 million which is reflected as regulatory disallowances and restructuring costs in the Consolidated Statements of Earnings for the year ended December 31, 2019. The impairment reflects capital costs not previously impaired during the pendency of the appeal and was offset by tax impacts of \$45.7 million which are reflected as income taxes on the Consolidated Statements of Earnings.

*New Mexico 2016 Rate Case* – In January 2018, the NMPRC approved a settlement agreement that authorized PNM to implement an increase in base non-fuel rates of \$10.3 million, which includes a reduction to reflect the impact of the decrease in the federal corporate income tax rate and updates to PNM's cost of debt (aggregating \$47.6 million annually). This order was on PNM's application for a general increase in retail electric rates filed in December 2016 (the "NM 2016 Rate Case"). The key terms of the order include:

- A ROE of 9.575%
- A requirement to return to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM's retail operations (Note 18)
- A disallowance of PNM's ability to collect an equity return on certain investments aggregating \$148.1 million at Four Corners, but allowing recovery of a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM's rate riders, with an effective date prior to January 1, 2020
- A requirement to consider the prudence of PNM's decision to continue its participation in Four Corners in PNM's next general rate case filing

PNM implemented 50% of the approved increase for service rendered beginning February 1, 2018 and implemented the rest of the increase for service rendered beginning January 1, 2019. This matter is now concluded.

*TNMP 2018 Rate Case* – On December 20, 2018, the PUCT approved a settlement stipulation allowing TNMP to increase annual base rates by \$10.0 million based on a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. Under the approved settlement stipulation TNMP was granted authority to integrate revenues previously recorded under the AMS rider, as well as other unrecovered AMS costs, into base rates; establish a new rider to recover Hurricane Harvey restoration costs, net of amounts owed to customers as a result of the reduction in the federal corporate income tax rate during 2018; and to update depreciation rates. In addition, the approved settlement stipulation allows TNMP to refund the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers and reflects the reduction in the federal corporate income tax rate to 21%. New rates under the TNMP 2018 Rate Case became effective January 1, 2019.

*Advanced Metering* – TNMP completed its mass deployment of advanced meters across its service territory in 2016 and has installed more than 242,000 advanced meters. As discussed above, beginning in 2019 the costs associated with TNMP's AMS program are being recovered through base rates.

In February 2016, PNM filed an application with the NMPRC requesting approval of a project to replace its existing customer metering equipment with Advanced Metering Infrastructure ("AMI"), which was denied. As ordered by the NMPRC, PNM's 2020 filing for energy efficiency programs to be offered in 2021 should include a proposal for an AMI pilot project.

*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 NMPRC has approved PNM recovering fuel costs through the FPPAC, as well as rate riders for renewable energy and energy efficiency. These mechanisms allow for more timely recovery of investments.

*Cost Recovery Related to Joining the EIM* – In 2018, PNM completed a cost-benefit analysis that indicated PNM's participation in the California Independent System Operator ("CAISO") Western Energy Imbalance Market ("EIM") would provide substantial benefits to retail customers. In August 2018, PNM filed an application with the NMPRC requesting, among other things, to recover the cost of initial capital investments and authorization to establish a regulatory asset to recover other expenses that would be incurred in order to join the EIM. PNM's application proposed recovery of the costs incurred to join the EIM beginning on the effective date of new rates in PNM's next general rate case and that the benefits of participating in the EIM be credited to retail customers through PNM's existing FPPAC. In December 2018, the NMPRC issued an order approving the establishment of a regulatory asset to recover PNM's cost of joining the EIM. The order was subsequently vacated based on challenges by certain parties. In March 2019, the NMPRC issued a revised order approving the Hearing Examiner's recommendation to defer certain rate making issues, including but not limited to implementation and ongoing EIM costs and savings, the prudence and reasonableness of costs included in a regulatory asset, and the period over which costs would be charged to customers until PNM's next general rate case filing. In April 2019, the NMPRC issued an order clarifying that the CAISO quarterly benefits reports may be used to support the benefits of participating in the EIM. PNM anticipates it will begin participating in the EIM in April 2021.

#### *FERC Regulation*

Rates PNM charges wholesale transmission customers and wholesale generation customers are subject to traditional rate regulation by FERC. Rates charged to wholesale electric transmission customers 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.

On May 10, 2019, PNM filed an application with FERC requesting approval to purchase and provide transmission service on a new 165-mile long 345-kV transmission line and related facilities (the “Western Spirit Line”). Under related agreements, which are subject to certain conditions being met prior to closing, the Western Spirit Line will be purchased by PNM to serve approximately 800 MW of wind generation to be located in eastern New Mexico beginning in 2021. FERC approved PNM’s request to provide transmission to the facilities using an incremental rate based on construction and other ongoing costs for the line, including adjustments for construction costs funded by the customer, effective July 9, 2019 and approved PNM’s request to purchase the Western Spirit Line on August 8, 2019. The NMPRC approved PNM’s planned purchase of the Western Spirit Line on October 2, 2019. See Note 17.

PNM has no full-requirements wholesale generation customers.

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

PNMR’s strategic goal 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. PNMR’s current target is 5% to 6% earnings and dividend growth for the period 2020 through 2023. 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 and to manage the payout ratio to meet its long-term target. The Board will continue to evaluate the dividend on an annual basis, considering sustainability and growth, capital planning, and industry standards. The Board approved the following increases in the indicated annual common stock dividend:

Approval Date	Percent Increase
December 2017	9%
December 2018	9%
December 2019	6%

*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. 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. Currently, all of the credit ratings issued by both Moody’s and S&P on the Company’s debt are investment grade.

***Business and Strategic Focus***

PNMR strives to create enduring value for customers, communities, and shareholders. PNMR’s strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power. 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.

*Reliable and Affordable 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 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 reliable electric service.

*Utility Plant and Strategic Investments*

*Utility Plant Investments* – During the 2017 to 2019 period, PNM and TNMP together invested \$1.5 billion in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. During 2018 and 2019, PNM

constructed an additional 50 MW of PNM-owned solar-PV facilities, which were approved by the NMPRC in PNM's 2018 renewable energy procurement plan. In late 2018, PNM installed a new type of protective relay on its high-voltage transmission lines, which help to ensure the reliability of PNM's electrical system. On May 1, 2019, PNM executed an agreement to purchase the Western Spirit Line, which has been approved by FERC and the NMPRC. Under the agreement, subject to certain conditions being met prior to closing, PNM will purchase the Western Spirit Line upon its expected commercial operation date in 2021 at a net cost of approximately \$285 million, including customer reimbursements. PNM's SJGS Abandonment Application requests NMPRC approval of a replacement resource scenario that would result in PNM investing approximately \$298 million to construct and own a new 280 MW gas-fired generation facility to be located at the existing SJGS site, 70 MW of battery storage facilities, and other transmission upgrades to replace PNM's capacity in SJGS. 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 3<sup>rd</sup> in the nation for energy potential from solar power according to the Nebraska Department of Energy & Energy Sun Index and ranks 3<sup>rd</sup> 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. The formation of this joint venture provides a more efficient use of PNMR's capital to support new renewable investment opportunities while maintaining the necessary capital to support investments required by regulated jurisdictions. As of December 31, 2019, NMRD's renewable energy capacity in operation was 85.1 MW, which includes 80 MW of solar-PV facilities to supply energy to the Facebook 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. The NMPRC has approved PNM's request to enter into an additional 25-year PPA to purchase renewable energy and RECs from an aggregate of approximately 50 MW of capacity from solar-PV facilities to be constructed by NMRD to supply power to the Facebook data center. These facilities are expected to begin commercial operation by June 2020. See Note 17. NMRD actively explores opportunities for additional renewable projects, including large-scale projects to serve future data centers and other customer needs.

#### *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.

PNM filed its 2017 IRP on July 3, 2017. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP included, among other things, that retiring PNM's share of SJGS in 2022 and exiting ownership in Four Corners in 2031 would provide long-term cost savings for PNM's customers and that the best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity as well as energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available. The 2017 IRP also indicated that PNM should retain the currently leased capacity in PVNGS.

In December 2018, the NMPRC issued an order accepting PNM's 2017 IRP as compliant with applicable statute and NMPRC rules. Several parties appealed the NMPRC's final order to the NM Supreme Court. These appeals were ultimately withdrawn by parties or denied by the NM Supreme Court. See additional discussion regarding PNM's leased capacity in PVNGS in Note 8 and PNM's 2017 IRP and the SJGS Abandonment Application in Note 17.

In the third quarter of 2019, PNM initiated its 2020 IRP process which will cover the 20-year planning period from 2019 through 2039. Consistent with historical practice, PNM has provided notice to various interested parties and has hosted a series of public advisory presentations. NMPRC rules require PNM to file its 2020 IRP in July 2020. PNM will continue to seek input from interested parties as a part of this process. PNM cannot predict the outcome of this matter.

#### *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

PNM’s Sustainability Portal provides key environmental and sustainability information related to PNM’s and TNMP’s operations and is available at <http://www.pnmresources.com/about-us/sustainability-portal.aspx>. The portal also contains a Climate Change Report, which outlines plans for PNM to be coal-free by 2031 (subject to regulatory approval) and to have an emissions-free generating portfolio by 2040.

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

On June 14, 2019, Senate Bill 489, known as the ETA, became effective. 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 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. Proceeds from the energy transition bonds must be used to provide utility service to customers and for other costs as defined by the ETA. These costs may include coal mine and plant decommissioning that have not yet been charged to customers. Proceeds from energy transition bonds may also be used to fund severances to 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. 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 and PNM’s SJGS Abandonment Application below and in Notes 16 and 17.

PNM expects the ETA will have significant impact on PNM’s future generation portfolio, including PNM’s planned retirement of SJGS in 2022. PNM cannot predict the full impact of the ETA or the outcome of its pending and potential future generating resource abandonment and replacement filings with the NMPRC.

#### *SJGS*

*SJGS Abandonment Application* – As discussed in Note 16, PNM submitted the December 2018 Compliance Filing to the NMPRC on December 31, 2018 indicating that, consistent with the conclusions reached in PNM’s 2017 IRP, PNM’s customers would benefit from the retirement of PNM’s share of SJGS (subject to future NMPRC approval) after the current SJGS CSA expires in mid-2022. In January 2019, the NMPRC issued an order initiating a proceeding and requiring PNM to submit an application for the abandonment of PNM’s share of SJGS in 2022 and for replacement resources by March 1, 2019. The NMPRC’s January 2019 order was subsequently stayed by the NM Supreme Court pending review of PNM’s petition in the matter. On June 26, 2019, the NM Supreme Court lifted the stay and denied PNM’s petition without discussion. See additional discussion of PNM’s December 2018 Compliance Filing in Note 16.

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 seeks 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 energy transition bonds as provided by the ETA. The application includes 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 provide cost savings to customers while preserving system reliability. The application includes three other replacement resource scenarios that would place a greater amount of resources in the San Juan area, or result in no new fossil-fueled generating facilities, or no battery storage facilities being added to PNM’s portfolio. When compared to PNM’s recommended replacement resource scenario, the three alternative resource scenarios are expected to result in increased costs to customers and the two alternative resource scenarios that result in no new fossil-fueled generating facilities are expected to provide lower system reliability.

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 but did not definitively indicate if the abandonment and financing proceedings would be evaluated under the requirements of the ETA. The NMPRC’s July 10, 2019 order also extended the deadline to issue the abandonment and financing order to nine months and to issue the replacement resources order to 15 months. The NMPRC denied motions for clarification regarding the applicability of the ETA to PNM’s SJGS

Abandonment Application and indicated that the Hearing Examiners assigned to the proceeding would address the issue of law applicable to the approvals sought by PNM in the procedural orders. The Hearing Examiners subsequently issued procedural orders that set public hearings on SJGS abandonment and related financing to begin in December 2019 and for hearings on replacement resources to begin in January 2020. The Hearing Examiners also required PNM to file legal brief by August 23, 2019 regarding the extent to which the state constitution might prevent the ETA from applying to the issues in each proceeding, that parties file responses to PNM's legal briefs by October 18, 2019, and provided parties the opportunity to file testimony on the merits of their claims regarding the SJGS abandonment and replacement resources if the ETA is ultimately determined to not apply to PNM's application. Hearings on the abandonment and securitized financing proceedings were held in December 2019 and hearings on replacement resources were held in January 2020.

On August 30, 2019, PNM and other parties filed a petition for a *writ of mandamus* requesting the NM Supreme Court clarify that the reason underlying its June 2019 decision to deny the stay was due to the passage of the ETA and to clarify that the ETA applies to any application filed after the stay had been lifted. On September 18, 2019, NEE and other advocacy groups filed an amended emergency petition for a *writ of mandamus* requesting the NM Supreme Court stay the SJGS abandonment and financing proceedings, declare the ETA inapplicable to such proceedings and declare certain provisions of the ETA unconstitutional because they limit the regulatory oversight responsibilities of the NMPRC. In early October 2019, the NM Supreme Court denied both PNM's and NEE's petitions for *writ of mandamus* without discussion. On December 9, 2019, the Governor of the State of New Mexico, the President of the Navajo Nation, and several New Mexico state senators and representatives filed an emergency petition for a *writ of mandamus* requesting the NM Supreme Court require the NMPRC to comply with its constitutional duties and apply the ETA to every aspect of PNM's SJGS Abandonment Application. In January 2020, the NM Supreme Court denied NEE's and other parties petitions, granted PNM's motion to intervene, and scheduled oral argument to be presented by the NMPRC and PNM. On January 29, 2020, and after oral argument, the NM Supreme Court issued a ruling requiring the NMPRC apply the ETA to all aspects of PNM's SJGS Abandonment Application, indicating any previous NMPRC orders inconsistent with their ruling should be vacated, and denying parties' request for stay.

On February 21, 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 a rate rider to collect non-bypassable customer charges for repayment of the bonds (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 severances, job training, and economic development costs. Exceptions to the recommended decisions are due March 4, 2020, and responses to exceptions are due March 6, 2020. The Hearing Examiners also found that the statutory deadline for action by the Commission is April 1, 2020. See Note 17.

The financial impact of an early retirement of SJGS and the NMPRC approval process are influenced by many factors outside of PNM's control, including the economic impact of a potential SJGS abandonment on the area surrounding the plant and the related mine, as well as the overall political and economic conditions of New Mexico. PNM cannot predict the outcome of this matter.

*Other Environmental Matters* – In addition to the regional haze rule and the ETA, SJGS and Four Corners may be required to comply with other rules that affect coal-fired generating units. On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order sets out two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. On June 19, 2019, EPA released the final Affordable Clean Energy rule. EPA is taking three separate actions in the final rule: (1) repealing the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under Clean Air Act Section 111(d) which, among other things, extends the deadline for state plans and the timing of EPA's approval process. EPA set the Best System of Emissions Reduction ("BSEER") 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. Rather than setting a specific numerical standard of performance, EPA's rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSEER. The final rule requires states to submit a plan to EPA by July 8, 2022, and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The rule is not expected to impact SJGS since EPA's final approval of a state SIP would occur after the planned shutdown of SJGS in 2022 (subject to NMPRC approval). The Company is reviewing the rule with respect to impacts to Four Corners. See Note 16.

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule issued in October 2015 for certain fossil-fueled power plants. The proposal would revise the emissions standards for new, reconstructed, or modified coal-fired EGUs to make them less stringent. PNM does not expect SJGS or Four Corners will be subject to the Carbon Pollution Standards rule that EPA has proposed to revise.

PNM's review of the GHG emission reductions standards under the Affordable Clean Energy rule and the revised proposed Carbon Pollution Standards rule is ongoing. The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. As discussed above, SJGS may also be required to comply with additional CO<sub>2</sub> emissions restrictions issued by the New Mexico Environmental Improvement Board pursuant to the recently enacted ETA. PNM cannot predict the impact these standards may have on its operations or a range of the potential costs of compliance, if any.

#### *Renewable Energy*

PNM's renewable procurement strategy includes utility-owned solar capacity, as well as wind and geothermal energy purchased under PPAs. As of December 31, 2019, PNM has 157 MW of utility-owned solar capacity in operation. In addition, PNM purchases power from a customer-owned distributed solar generation program that had an installed capacity of 127.6 MW at December 31, 2019. 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 204 MW wind facility, and the output of Red Mesa Wind, an existing 102 MW wind energy center. If approved by the NMPRC, PNM's recommended resource scenario to replace the planned retirement of SJGS would result in PNM executing PPAs to purchase renewable energy and RECs from a total of 350 MW of solar-PV facilities and to procure energy from and construct a total of 130 MW of battery storage facilities. If approved, PNM would procure power under a PPA from one of the United States' largest solar facilities and would have one of the nation's highest percentage of battery storage capacity integration.

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. PNM makes renewable procurements consistent with the plans approved by the NMPRC. 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 beginning in 2021.

As discussed in Strategic Investments above, PNM is currently purchasing the output of 80 MW of solar capacity from NMRD that is used to serve the Facebook data center. 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 Facebook data center. These PPAs include the purchase of the power and RECs from a 50 MW wind project, which was placed in commercial operation in November 2018, a 166 MW wind project to be operational in November 2020, and a 50 MW solar-PV project to be operational in December 2021. In August 2018, the NMPRC approved PNM's request to enter into two additional 25-year PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities to be constructed by NMRD to supply power to Facebook, Inc. The first 50 MW of these facilities began commercial operations in December 2019 and the remaining capacity is expected to begin commercial operation by June 2020. See Note 17.

On May 31, 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 proposes to recover costs of the program directly from subscribing customers through a rate rider. If approved by the NMPRC, 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. Hearings on the application concluded on January 9, 2020. On February 14, 2020, PNM and several other parties filed a joint proposed recommended decision addressing the Hearing Examiner's questions in the filing and recommending the NMPRC approve PNM's application. PNM cannot predict the outcome of this matter.

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 2019, incremental energy saved as a result of new participation in PNM's portfolio of energy efficiency programs is estimated to be approximately 65 GWh. This is equivalent to the annual consumption of approximately 9,500 homes in PNM's service territory. PNM's load management and annual energy

efficiency programs also help lower peak demand requirements. In 2019, TNMP's incremental energy saved as a result of new participation in TNMP's energy efficiency programs is estimated to be approximately 16 GWh. This is equivalent to the annual consumption of approximately 1,285 homes in TNMP's service territory. In April 2018, TNMP received the "Partner of the Year Energy Efficiency Delivery Award" for its High-Performance Homes Program.

#### *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%. 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 2019, 16 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*

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. 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.

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.

PNMR also has a dedicated Sustainability Portal on its corporate website [www.pnmresources.com](http://www.pnmresources.com), to provide additional information regarding the Company's environmental and other sustainability efforts. The site provides the key corporate governance and sustainability information related to the operations of PNM and TNMP. In January 2018, PNM added a Climate Change Report to this portal. The portal also includes information presented under the additional headings: Environment, Generation Portfolio, Social, Economic, and Governance.

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 August 2017, Hurricane Harvey made landfall in the gulf coast region and TNMP employees worked to restore power safely and efficiently for affected customers. In addition, PNMR made donations to support relief and restoration efforts in the gulf coast region. TNMP employees who were impacted by Hurricane Harvey were provided emergency crisis funds supported by the PNM Resources Foundation and other employee donations.

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.

PNMR has a long tradition of supporting the communities it serves in New Mexico and Texas. The Company demonstrates its core value of caring through the PNM Resources Foundation, corporate giving, employee volunteerism, and PNM's low-income assistance programs. In addition to the extensive engagement both PNM and TNMP have with nonprofit organizations in their communities, the PNM Resources Foundation provides more than \$1 million in grant funding each year across New Mexico and Texas. These grants help nonprofits innovate or sustain programs to grow and develop business, develop and implement

environmental programs, and provide educational opportunities. PNMR also provides employee matching and volunteer grants for various purposes.

Over the past three years, the Company has contributed approximately \$6.2 million to civic, educational, environmental, low income, and economic development organizations. PNMR is proud to support programs and organizations that enrich the quality of life for the people in its service territories and communities. One of PNM's most important outreach programs is tailored for low-income customers. In 2019, PNM hosted 46 community events throughout its service territory to connect low-income customers with nonprofit community service providers offering support and help with such needs as water and gas utility bills, food, clothing, medical programs, and services for seniors. Additionally, through its Good Neighbor Fund, PNM provided \$0.4 million of assistance with electric bills to 3,734 families in 2019 and offered financial literacy training to further support customers.

Volunteerism is an important facet of the PNMR culture. The mission of the PNMR Corporate Volunteer Group is to help make the communities PNMR serves safer, stronger, smarter, and more vibrant. In 2019, PNM and TNMP employees and retirees contributed over 13,300 volunteer hours serving their local communities by supporting at least 250 organizations. Company volunteers participate in an annual Day of Service at nonprofits across New Mexico and Texas. Employees and retirees also participate on a variety of nonprofit boards and independent volunteer activities throughout the year. PNMR employees are, in large part, responsible for the success of the Company's customer, stakeholder, and community outreach. PNMR employees want to make the Company the best place to work by connecting and growing with others to realize their objectives. By doing this the Company hopes to increase customer satisfaction.

The Company illustrates that the overall safety of employees, customers, and the general public is a top priority by embracing collaboration and offering a dedicated Safety Day, annual safety-oriented goals, safety trainings, and an emergency alert system to communicate unsafe conditions with employees, should the need arise.

### ***Economic Factors***

*PNM* – In 2019, PNM experienced an increase in weather-normalized retail load of 0.3%. Customer growth in PNM's service territory is being partially offset by customers' energy efficiency programs. Economic conditions in Albuquerque continue to have a positive trend in 2019 with more announcements of businesses moving to the state or expanding. In 2018, Netflix, Inc. announced that it is coming to New Mexico. In 2019, NBCUniversal announced a 10-year venture in Albuquerque, New Mexico, Sandia National Laboratories announced that it planned to hire 1,900 employees, and another of PNM's customers announced plans to add over 300 jobs in central New Mexico. In addition, in December 2019 an engineering company announced that it will be opening a new engineering center bringing approximately \$100 million of new investments to Albuquerque, New Mexico, in 2020.

*TNMP* – In 2019, TNMP experienced a decrease in volumetric weather normalized retail load of 2.0%. Most of TNMP's industrial and large commercial customers are billed based on their peak demand. Demand-based load, excluding retail transmission customers, increased 4.9% in 2019. TNMP continues to experience increases in new service requests and some previously delayed service requests were completed in late 2019. TNMP is continuing to evaluate additional interconnection requests and plans to invest in additional reliability projects to support increases in forecasted demand in the Delaware Basin.

### **Results of Operations**

Net earnings attributable to PNMR were \$77.4 million, or \$0.97 per diluted share in the year ended December 31, 2019 compared to \$85.6 million, or \$1.07 per diluted share in 2018. Among other things, earnings in 2019 benefited from additional revenues due to retail rate increases approved in PNM's NM 2016 Rate Case and TNMP's 2018 Rate Case, higher income from investment securities held in the NDT and coal mine reclamation trusts, lower plant maintenance costs at PNM, higher demand-based revenues at TNMP, lower interest expense at PNM and TNMP, and lower income taxes (or higher income tax benefits) at PNM and TNMP. These increases were more than offset by mild weather conditions at PNM, regulatory disallowances resulting from the NM Supreme Court's May 2019 decision in PNM's NM 2015 Rate Case, net of regulatory disallowances in 2018 related to PNM's December 2018 Compliance Filing, increased depreciation and property taxes due to increased plant in service at PNM and TNMP, increased depreciation rates resulting from TNMP's 2018 Rate Case, and lower interest income on the Westmoreland Loan at PNMR. 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 2023. Both facilities provide for short-term borrowings and letters of credit and can be extended through October

2024, subject to approval by a majority of the lenders. In addition, PNM has a \$40.0 million revolving credit facility with banks having a significant presence in New Mexico, which expires in December 2022, and TNMP has a \$75.0 million revolving credit facility, which expires in September 2022. PNMR Development has a revolving credit facility with a capacity of \$40.0 million, with the option to further increase the capacity up to \$50.0 million upon 15-days advance notice, that expires in February 2021. The PNMR Development Revolving Credit Facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. Total availability for PNMR on a consolidated basis was \$595.4 million at February 21, 2020. 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, capital contributions for PNMR Development's 50% ownership interest in NMRD, and dividends, will total \$4.4 billion for 2020-2024. The construction expenditures include estimated amounts for an anticipated expansion of PNM's transmission system, including the planned purchase of the Western Spirit Line, and proposed replacement generation resources included in PNM's SJGS Abandonment Application.

On January 18, 2019, PNM entered into the PNM 2019 \$250.0 million Term Loan, which bears interest at a variable rate and must be repaid on or before July 17, 2020. Proceeds from this issuance were used to repay the PNM 2017 Term Loan, short-term borrowings under the PNM Revolving Credit Facility, and for general corporate purposes. On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement for the sale of \$305.0 million aggregate principal amount of TNMP 2019 Bonds. TNMP issued \$225.0 million of TNMP 2019 Bonds on March 29, 2019 (at fixed annual interest rates ranging from 3.79% to 4.06% for terms ranging from 15 to 25 years) and used a portion of the proceeds to repay TNMP's \$172.3 million 9.50% first mortgage bonds at their maturity on April 1, 2019. TNMP issued the remaining \$80.0 million of TNMP 2019 Bonds on July 1, 2019 (at a fixed annual interest rate of 3.60% for a term of ten years) and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for general corporate purposes. On December 13, 2019, the PNMR 2018 One-Year Term Loan was extended to June 11, 2021. On December 18, 2019, PNM entered into the PNM 2019 \$40.0 Million Term Loan, which bears interest at a variable rate and must be repaid on or before June 18, 2021. Proceeds from this issuance were used to repay short-term borrowings under the PNM Revolving Credit Facility, and for general corporate purposes. On December 30, 2019, TNMP repaid the \$35 million TNMP 2018 Term Loan. In January 2020, PNMR entered into agreements to sell approximately 6.2 million shares of PNMR common stock under forward purchase arrangements (the "PNMR 2020 Forward Equity Sale Agreements"). Under the PNMR 2020 Forward Equity Sale Agreements, PNMR has the option to physically deliver, cash settle, or net share settle all or a portion of PNMR common stock on or before a date that is 12 months from their effective dates. PNMR did not initially receive any proceeds upon execution of these agreements. The initial forward sales price of \$47.21 per share is subject to adjustments based on net interest rate factor and by expected future dividends on PNMR's common stock. PNMR expects to physically settle all shares under the agreements on or before January 7, 2021. See Note 7. See discussion of PNM's SJGS Abandonment Application in Note 17, which includes a request to issue approximately \$361 million of energy transition bonds upon the proposed retirement of SJGS in 2022.

After considering the effects of these financings, the Company has consolidated maturities of long-term and short-term debt aggregating \$675.4 million in the period from January 1, 2020 through December 31, 2020, and an additional \$300.0 million that will mature by March 31, 2021. 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 2020-2024 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. The Company is in compliance with its debt covenants.

## RESULTS OF OPERATIONS

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

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

	Year Ended December 31,		Change
	2019	2018	2019/2018
	(In millions, except per share amounts)		
Net earnings attributable to PNMR	\$ 77.4	\$ 85.6	\$ (8.3)
Average diluted common and common equivalent shares	80.0	80.0	—
Net earnings attributable to PNMR per diluted share	\$ 0.97	\$ 1.07	\$ (0.10)

The components of the changes in net earnings attributable to PNMR by segment are:

	Change	
	2019/2018	
	(In millions)	
PNM	\$	(14.0)
TNMP		4.2
Corporate and Other		1.5
Net change	\$	(8.3)

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

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 under GAAP and is considered a non-GAAP measure.

The following table summarizes the operating results for PNM:

	Year Ended December 31,		Change
	2019	2018	2019/2018
	(In millions)		
Electric operating revenues	\$ 1,093.8	\$ 1,092.0	\$ 1.8
Cost of energy	317.7	314.0	3.7
Utility margin	776.1	777.9	(1.8)
Operating expenses	554.7	481.0	73.7
Depreciation and amortization	160.4	151.9	8.5
Operating income	61.1	145.0	(83.9)
Other income (deductions)	41.3	(4.2)	45.5
Interest charges	(72.9)	(76.5)	3.6
Segment earnings (loss) before income taxes	29.5	64.4	(34.9)
Income (taxes) benefit	26.0	6.0	20.0
Valencia non-controlling interest	(14.2)	(15.1)	0.9
Preferred stock dividend requirements	(0.5)	(0.5)	—
Segment earnings (loss)	\$ 40.7	\$ 54.7	\$ (14.0)

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

	Year Ended December 31,		Percent Change
	2019	2018	2019/2018
(Gigawatt hours, except customers)			
Residential	3,227.3	3,250.6	(0.7)%
Commercial	3,732.1	3,814.7	(2.2)
Industrial	1,152.5	879.3	31.1
Public authority	231.5	241.2	(4.0)
Economy service <sup>(1)</sup>	670.1	667.3	0.4
Other sales for resale	2,842.8	2,525.2	12.6
	<u>11,856.3</u>	<u>11,378.3</u>	<u>4.2 %</u>
Average retail customer (thousands)	<u>530.3</u>	<u>526.3</u>	<u>0.7 %</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.

#### Operating results – 2019 compared to 2018

The following table summarizes the significant changes to utility margin:

	Year Ended December 31, 2019 Change
	(In millions)
<i>Utility margin:</i>	
<i>Rate relief</i> – Additional revenue due to rate increase approved by the NMPRC effective February 1, 2018 and January 1, 2019 (Note 17)	\$ 6.1
<i>Customer usage/load</i> – Weather normalized retail KWh sales increased 0.3%, primarily due to increased sales to industrial customers, partially offset by decreased sales to commercial customers	(0.7)
<i>Weather</i> – Milder weather in 2019; cooling degree days were 13.2% lower	(5.7)
<i>Transmission</i> – Increase primarily due to the addition of new customers partially offset by lower revenues under formula transmission rates	1.5
<i>Coal mine decommissioning</i> – Decrease primarily due to remeasurement of PNM's obligation for Four Corners coal mine reclamation and higher accretion expense on SJGS coal mine reclamation (Note 16)	(2.7)
<i>Other</i>	(0.3)
<b>Net Change</b>	<u>\$ (1.8)</u>

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

	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Operating expenses:</i>	
Lower plant maintenance costs, primarily at Four Corners and PVNGS	\$ (8.5)
Higher capitalized administrative and general expenses due to higher construction spending in 2019	(1.6)
Regulatory disallowance resulting from the NM Supreme Court's May 2019 decision on PNM's appeal of the NM 2015 Rate Case (Note 17)	146.6
2018 increase in estimated coal mine reclamation costs associated with ownership restructuring of SJGS (Note 16)	(27.3)
2018 regulatory disallowance associated with 132 MW and restructuring costs associated with 65 MW of SJGS Unit 4 (Note 16)	(35.0)
Higher property taxes due to increases in utility plant in service and higher assessed property taxes	1.1
Lower vegetation management expenses	(1.0)
Other	(0.6)
Net Change	<u>\$ 73.7</u>

*Depreciation and amortization:*

Increased utility plant in service, including solar facilities under the renewable rider	\$ 6.4
Higher depreciation resulting from amortization of stranded costs associated with the retirement of SJGS Units 2 and 3	0.5
Higher accretion on AROs, primarily related to PVNGS	0.9
Other	0.7
Net Change	<u>\$ 8.5</u>

*Other income (deductions):*

Higher gains on investment securities in the NDT and coal mine reclamation trusts	\$ 46.8
Lower equity AFUDC	(1.5)
Higher interest income and lower trust expenses related to investment securities in the NDT and coal mine reclamation trusts	1.5
Other	(1.3)
Net Change	<u>\$ 45.5</u>

*Interest charges:*

Lower interest on \$350.0 million of SUNs refinanced in May 2018	\$ 5.9
Lower interest on \$100.0 million of SUNs refinanced in August 2018	1.8
Higher interest on term loans	(1.9)
Lower debt AFUDC	(1.1)
Interest on deposit by PNMR Development for potential transmission interconnection which is offset in Corporate and Other (Note 7)	(1.0)
Other	(0.1)
Net Change	<u>\$ 3.6</u>

	<b>Year Ended December 31, 2019</b>	
	<b>Change</b>	
<i>Income taxes:</i>	(In millions)	
Lower segment earnings before income taxes	\$	8.6
Amortization of excess deferred income taxes, as ordered by the NMPRC in the NM 2016 Rate Case		1.7
Reversal of deferred items related to the retirement of SJGS Units 2 and 3		1.6
Reversal of excess deferred income taxes resulting from regulatory disallowances in the NM 2015 Rate Case (Note 17)		7.5
Decrease in excess tax benefits related to stock compensation		(0.5)
Impairments, valuation allowances, and non-deductible compensation		1.1
Net Change	\$	20.0

## TNMP

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 customers through a transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

The following table summarizes the operating results for TNMP:

	<b>Year Ended December 31,</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019/2018</b>
	(In millions)		
Electric operating revenues	\$ 363.8	\$ 344.6	\$ 19.2
Cost of energy	95.1	85.7	9.4
Utility margin	268.7	259.0	9.7
Operating expenses	98.6	96.3	2.3
Depreciation and amortization	84.3	66.2	18.1
Operating income	85.8	96.5	(10.7)
Other income (deductions)	4.1	4.1	—
Interest charges	(29.1)	(32.1)	3.0
Segment earnings before income taxes	60.8	68.5	(7.7)
Income (taxes)	(5.0)	(16.9)	11.9
Segment earnings	\$ 55.8	\$ 51.6	\$ 4.2

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

	<b>Year Ended December 31,</b>		<b>Percentage Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019/2018</b>
Volumetric load <sup>(1)</sup> (GWh)			
Residential	3,044.8	3,095.0	(1.6)%
Commercial and other	31.5	32.2	(2.2)%
Total volumetric load	3,076.3	3,127.2	(1.6)%
Demand-based load <sup>(2)</sup> (MW)	19,386.7	18,181.2	6.6 %
Average retail consumers (thousands) <sup>(3)</sup>	255.2	251.6	1.4 %

(1) Volumetric load consumers are billed on KWh usage.

(2) Demand-based load includes consumers billed on a monthly KW peak and retail transmission customers that are primarily billed under rate riders.

(3) TNMP provides transmission and distribution services to REPs that provide electric service to 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 – 2019 compared to 2018

The following table summarizes the significant changes to utility margin:

	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Utility margin:</i>	
<i>Retail Rate relief</i> – TNMP 2018 Rate Case retail rate increase effective January 1, 2019, including integration of amounts previously recovered in the AMS rate rider and the effect of rate design changes between customer classes (Note 17)	\$ 7.3
<i>Retail customer usage/load</i> – Weather normalized retail KWh sales decreased 2.0%, primarily related to the residential class; the average number of retail consumers increased 1.4%	(1.6)
<i>Demand based customer usage/load</i> – Higher demand-based revenues for large commercial and industrial retail consumers; billed demand, excluding retail transmission customers, increased 4.9%	3.6
<i>Rate riders</i> – Impacts of rate riders, including the CTC surcharge, energy efficiency rider, and transmission cost recovery factor	0.4
<b>Net Change</b>	<b>\$ 9.7</b>

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

	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Operating expenses:</i>	
Higher employee related expenses	\$ 1.8
Higher capitalized administrative and general expenses due to higher construction expenditures	(2.1)
Higher property tax due to increased utility plant in service	1.4
2019 regulatory disallowance resulting from the January 2020 approval of a settlement to recover costs in the TNMP 2018 Rate Case	0.5
2018 regulatory recovery resulting from the December 2018 approval of TNMP's 2018 Rate Case	0.7
Higher allocated corporate depreciation primarily related to computer software	0.5
Other	(0.5)
<b>Net Change</b>	<b>\$ 2.3</b>

*Depreciation and amortization:*

Increased utility plant in service	\$ 5.9
Higher depreciation rates approved in the TNMP 2018 Rate Case	9.5
Higher amortization of AMS and Hurricane Harvey regulatory assets approved in the TNMP 2018 Rate Case	2.2
Other	0.5
<b>Net Change</b>	<b>\$ 18.1</b>

*Other income (deductions):*

Higher equity AFUDC	\$ 0.6
Lower CIAC and other	(0.6)
<b>Net Change</b>	<b>\$ —</b>



	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Interest charges:</i>	
Repayment of \$172.3 million 9.5% first mortgage bonds in April 2019	\$ 12.8
Issuance of \$225.0 million first mortgage bonds in March 2019	(6.8)
Issuance of \$80.0 million first mortgage bonds in July 2019	(1.5)
Issuance of \$60.0 million of first mortgage bonds in June 2018	(1.2)
Issuance of \$20.0 million term loan in July 2018 and \$15.0 million term loan in December 2018	(0.7)
Other	0.4
Net Change	<u>\$ 3.0</u>
<i>Income (taxes) benefits:</i>	
Lower segment earnings before income taxes	\$ 1.6
Amortization of excess deferred income taxes, as ordered by the PUCT in the TNMP 2018 Rate Case	8.9
Impairments, valuations allowances, and non-deductible expenses	1.4
Net Change	<u>\$ 11.9</u>

#### Corporate and Other

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

	<b>Year Ended December 31,</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019/2018</b>
	(In millions)		
Total revenues	\$ —	\$ —	\$ —
Cost of energy	—	—	—
Utility margin	—	—	—
Operating expenses	(20.5)	(17.7)	(2.8)
Depreciation and amortization	23.2	23.1	0.1
Operating income (loss)	(2.7)	(5.5)	2.8
Other income (deductions)	(1.8)	0.4	(2.2)
Interest charges	(19.0)	(18.7)	(0.3)
Segment earnings (loss) before income taxes	(23.5)	(23.8)	0.3
Income (taxes) benefit	4.4	3.1	1.3
Segment earnings (loss)	<u>\$ (19.1)</u>	<u>\$ (20.6)</u>	<u>\$ 1.5</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 change in operating expenses includes a decrease of approximately \$0.9 million in legal and consulting costs 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 – 2019 compared to 2018

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

	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Other income (deductions):</i>	
Decrease in interest income on the Westmoreland Loan (Note 16)	\$ (2.7)
Decrease in donations and other contributions	0.9
Lower equity method investment income from NMRD	(0.1)

Other		(0.3)
Net Change	\$	<u>(2.2)</u>

	<b>Year Ended December 31, 2019</b>
	<b>Change</b>
	(In millions)
<i>Interest charges:</i>	
Issuance of \$90.0 million PNMR Development Term Loan in November 2018	\$ (2.7)
Issuance of \$300.0 million PNMR 2018 SUNs in March 2018	(2.0)
Repayment of \$150.0 million PNMR 2015 Term Loan in March 2018	0.6
Repayment of \$100.0 million PNMR 2016 Two-Year Term Loan	2.7
Issuance of \$50.0 million PNMR 2018 Two-Year Term Loan	(1.5)
Repayment of the BTMU Term Loan in May 2018	1.8
Elimination of intercompany interest (Note 7)	1.0
Other	(0.2)
Net Change	<u>\$ (0.3)</u>
<i>Income (taxes) benefits:</i>	
Lower segment loss before income taxes	\$ (0.1)
Other impairments, valuation allowances, and non-deductible expenses	1.3
Other	0.1
Net Change	<u>\$ 1.3</u>

## LIQUIDITY AND CAPITAL RESOURCES

### Statements of Cash Flows

The information concerning PNMR's cash flows is summarized as follows:

	<b>Year Ended December 31,</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019/2018</b>
	(In millions)		
Net cash flows from:			
Operating activities	\$ 503.2	\$ 428.2	\$ 75.0
Investing activities	(673.9)	(475.7)	(198.2)
Financing activities	172.4	45.6	126.8
Net change in cash and cash equivalents	<u>\$ 1.7</u>	<u>\$ (1.9)</u>	<u>\$ 3.6</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 from investing activities relate primarily to changes in utility plant additions. Cash flows from investing activities also include activity related to the Westmoreland Loan and NMRD. Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

	<b>Year Ended December 31,</b>		<b>Change</b>
	<b>2019</b>	<b>2018</b>	<b>2019/2018</b>
<b>Cash (Outflows) for Utility Plant Additions</b>			
(In millions)			
<b>PNM:</b>			
Generation	\$ (72.1)	\$ (46.9)	\$ (25.2)
Renewables	(62.7)	(8.4)	(54.3)
Transmission and distribution	(180.1)	(163.1)	(17.0)
Four Corners SCRs	—	(7.6)	7.6
Nuclear fuel	(26.9)	(29.6)	2.7
	<u>(341.8)</u>	<u>(255.6)</u>	<u>(86.2)</u>
<b>TNMP:</b>			
Transmission	(73.9)	(87.5)	13.6
Distribution	(180.1)	(135.9)	(44.2)
	<u>(254.0)</u>	<u>(223.4)</u>	<u>(30.6)</u>
<b>Corporate and Other:</b>			
Computer hardware and software	(20.5)	(22.1)	1.6
	<u>(616.3)</u>	<u>(501.1)</u>	<u>(115.2)</u>
<b>Other Cash Flows from Investing Activities</b>			
Proceeds from sales of investment securities	494.5	984.5	(490.0)
Purchases of investment securities	(513.8)	(1,007.0)	493.2
Principal payments on the Westmoreland Loan	—	56.6	(56.6)
Investments in NMRD	(38.3)	(9.0)	(29.3)
Other, net	—	0.3	(0.3)
	<u>(57.6)</u>	<u>25.4</u>	<u>(83.0)</u>
Net cash flows from investing activities	<u>\$ (673.9)</u>	<u>\$ (475.7)</u>	<u>\$ (198.2)</u>

### Cash Flow from Financing Activities

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

- NM Capital made principal payments on the BTMU Term Loan Agreement for the full balance of \$50.1 million in 2018
- In 2018, PNMR issued \$300.0 million aggregate principal amount of 3.25% SUNs and used the proceeds to repay the \$150.0 million PNMR 2015 Term Loan and to reduce short-term borrowings
- In 2018, PNM issued \$450.0 million of SUNs and repaid \$350.0 million of 7.95% SUNs and \$100.0 million of 7.50% SUNs
- TNMP issued \$60.0 million of 3.85% first mortgage bonds in 2018
- In 2018, TNMP borrowed \$35.0 million under the TNMP 2018 Term Loan, used the proceeds to reduce short-term borrowings and for general corporate purposes, and repaid the TNMP 2018 Term Loan on December 30, 2019
- In 2018, PNMR Development borrowed \$90.0 million under the PNMR Development Term Loan
- In 2018, PNMR borrowed \$150.0 million under the PNMR 2018 One-Year Term Loan and used the proceeds to repay the PNMR 2016 One-Year Term Loan, a portion of the PNMR 2016 Two-Year Term Loan, and for general corporate purposes
- In 2018, PNMR borrowed \$50.0 million under the PNMR 2018 Two-Year Term Loan and used the proceeds to repay the remaining amount of the PNMR 2016 Two-Year Term Loan and for general corporate purposes
- In 2019, PNM borrowed \$290.0 million under the PNM 2019 \$250.0 Million Term Loan and the PNM 2019 \$40.0 Million Term Loan and used the proceeds to repay the remaining amount of the PNM 2017 Term Loan, reduce short-term borrowings and for general corporate purposes
- In 2019, TNMP issued four series of first mortgage bonds aggregating \$305.0 million and used a portion of the proceeds to repay TNMP's \$172.3 million 9.50% first mortgage bonds and to repay borrowings under the TNMP Revolving Credit Facility
- In 2019, PNMR extended the PNMR 2018 One-Year Term Loan (as extended, the "PNMR 2019 Term Loan")
- Short-term borrowings decreased \$50.8 million in 2019 compared to a decrease of \$119.5 million in 2018, resulting in a net increase in cash flows from financing activities of \$68.7 million in 2019

- In 2019, PNMR had net amounts received under transmission interconnection arrangements of \$5.7 million compared to \$1.2 million in 2018

## Financing Activities

See Note 7 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 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

Prior to July 2018, each of the Company's revolving credit facilities and term loans contained a single financial covenant, which required the maintenance of a debt-to-capitalization ratio of less than or equal to 65%. In July 2018, the PNMR Revolving Credit Facility, PNMR's term loans, and the PNMR Development Revolving Credit Facility were each amended such that PNMR is now required to maintain a debt-to-capitalization ratio of less than or equal to 70%. The debt-to-capitalization ratio requirement remains at less than or equal to 65% for the PNM and TNMP agreements. The Company's revolving credit facilities and term loans 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.

As discussed in Note 16, NM Capital, a wholly-owned subsidiary of PNMR, entered into the \$125.0 million BTMU Term Loan agreement with BTMU, as lender and administrative agent. PNMR, as parent company of NM Capital, guaranteed NM Capital's obligations to BTMU. NM Capital utilized the proceeds of the BTMU Term Loan to provide funding for the \$125.0 million Westmoreland Loan to a ring-fenced, bankruptcy-remote, special-purpose entity subsidiary of Westmoreland to finance Westmoreland's purchase of SJCC. On May 22, 2018, the full principal balance outstanding under the Westmoreland Loan of \$50.1 million was repaid. NM Capital used a portion of the proceeds to repay all remaining principal of \$43.0 million owed under the BTMU Term Loan. These payments effectively terminated the loan agreements. In addition, PNMR's guarantee of NM Capital's obligations was also effectively terminated. See Note 10.

PNMR has outstanding letters of credit arrangements with JPMorgan Chase Bank, N.A. (the "JPM LOC Facility") under which letters of credit aggregating \$30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC is required to post in connection with permits relating to the operation of the San Juan mine. See Note 16.

At January 1, 2018, PNMR had outstanding two term loan agreements: (1) the \$100.0 million PNMR 2016 One-Year Term Loan that was to mature on December 21, 2017; and (2) the \$100.0 million PNMR 2016 Two-Year Term Loan that was to mature on December 21, 2018. On December 15, 2017, the PNMR 2016 One-Year Term Loan was extended to mature on December 14, 2018. Both the PNMR 2016 One-Year Term Loan (as extended) and the PNMR 2016 Two-Year Term Loan were repaid in December 2018.

On March 9, 2018, PNMR issued \$300.0 million aggregate principal amount of 3.25% SUNs (the "PNMR 2018 SUNs"), which mature on March 9, 2021. The proceeds from the offering were used to repay the \$150.0 million PNMR 2015 Term Loan that was due on March 9, 2018 and to reduce borrowings under the PNMR Revolving Credit Facility.

On November 26, 2018, PNMR Development entered into a \$90.0 million term loan agreement (the "PNMR Development Term Loan"), among PNMR Development and KeyBank, N.A., as administrative agent and sole lender. Proceeds from the PNMR Development Term Loan were used to repay intercompany borrowings from PNMR and for general corporate purposes. The PNMR Development Term Loan bears interest at a variable rate, which was 2.60% on December 31, 2019, and matures on November 26, 2020. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development's obligations under the loan. The PNMR Development Term Loan requires PNMR to maintain a debt-to-capitalization ratio of less than or equal to 70%, and contains customary events of default, a cross-default, and a change-of-control provision.

On December 14, 2018, PNMR entered into a \$150.0 million term loan agreement (the "PNMR 2018 One-Year Term Loan") among PNMR, the lenders identified therein, and MUFG Bank, Ltd., as administrative agent. The proceeds from the PNMR 2018 One-Year Term Loan were used to repay the PNMR 2016 One-Year Term Loan (as extended), a portion of the PNMR 2016 Two-Year Term Loan, and for general corporate purposes. On December 13, 2019, the PNMR 2018 One-Year Term Loan

was extended to June 11, 2021 (the “PNMR 2019 Term Loan”). The PNMR 2019 Term Loan bears interest at a variable rate, which was 2.70% at December 31, 2019.

On December 21, 2018, PNMR entered into a \$50.0 million term loan agreement (the “PNMR 2018 Two-Year Term Loan”), between PNMR and Bank of America, N.A. as sole lender. Proceeds from the PNMR 2018 Two-Year Term Loan were used to repay the remaining amount owed under the PNMR 2016 Two-Year Term Loan and for general corporate purposes. The PNMR 2018 Two-Year Term Loan bears interest at a variable rate, which was 2.60% at December 31, 2019, and matures on December 21, 2020.

As discussed above and in Note 7, in January 2020, PNMR entered into forward sale agreements to sell approximately 6.2 million shares of PNMR common stock. The initial forward sale price of \$47.21 per share is subject to adjustments based on a net interest rate factor and by expected future dividends paid on PNMR common stock as specified in the forward sale agreements. PNMR did not initially receive any proceeds upon the execution of these agreements and, except in certain specified circumstances, has the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates. PNMR expects to physically settle all shares under the agreements on or before January 7, 2021.

At January 1, 2018, PNM had outstanding the \$200.0 million PNM 2017 Term Loan which was repaid on January 18, 2019.

On July 28, 2017, PNM entered into the PNM 2017 Senior Unsecured Note Agreement with institutional investors for the sale of \$450.0 million aggregate principal amount of eight series of SUNs (the “PNM 2018 SUNs”) offered in private placement transactions. On May 14, 2018, PNM issued \$350.0 million of the PNM 2018 SUNs under that agreement (at fixed annual interest rates ranging from 3.15% to 4.50% for terms between 5 and 30 years) and used the proceeds to repay an equal amount of PNM’s 7.95% SUNs that matured on May 15, 2018. On July 31, 2018, PNM issued the remaining \$100.0 million of the PNM 2018 SUNs (at fixed annual interest rates of 3.78% and 4.60% for terms of 10 and 30 years) and used the proceeds to repay an equal amount of PNM’s 7.50% SUNs on that matured on August 1, 2018.

On January 18, 2019, PNM entered into a \$250.0 million term loan agreement (the “PNM 2019 \$250.0 Million Term Loan”) among PNM, the lenders identified therein, and U.S. Bank N.A., as administrative agent. PNM used the proceeds of the PNM 2019 \$250.0 Million Term Loan to repay the PNM 2017 Term Loan, to reduce short-term borrowings under the PNM Revolving Credit Facility, and for general corporate purposes. The PNM 2019 \$250.0 Million Term Loan bears interest at a variable rate, which was 2.45% on December 31, 2019, and must be repaid on or before July 17, 2020.

On December 18, 2019, PNM entered into a \$40.0 million term loan agreement (the “PNM 2019 \$40.0 Million Term Loan”), between PNMR and Bank of America, N.A. as sole lender and administrative agent. PNM used the proceeds of the PNM 2019 \$40.0 Million Term Loan to reduce short-term borrowings under the PNM Revolving Credit Facility and for general corporate purposes. The PNM 2019 \$40.0 Million Term Loan bears interest at a variable rate, which was 2.39% at December 31, 2019, and must be repaid on or before June 18, 2021.

See discussion of PNM’s SJGS Abandonment Application in Note 17, which includes a request to issue approximately \$361 million of energy transition bonds, as provided by the ETA, upon the proposed retirement of SJGS in 2022.

On June 28, 2018, TNMP entered into an agreement under which TNMP issued \$60.0 million aggregate principal amount of 3.85% first mortgage bonds, due 2028.

On July 25, 2018, TNMP entered into a \$20.0 million term loan agreement. On December 17, 2018, the TNMP term loan agreement was amended and restated to add an additional \$15.0 million, which results in a total committed amount of \$35.0 million under the agreement (the “TNMP 2018 Term Loan”). TNMP used the proceeds from these issuances to repay short-term borrowings and for TNMP’s general corporate purposes. The TNMP 2018 Term Loan was repaid on December 30, 2019.

On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement with institutional investors for the sale of \$305.0 million aggregate principal amount of four series of TNMP First Mortgage Bonds (the “TNMP 2019 Bonds”) offered in private placement transactions. TNMP issued \$225.0 million of TNMP 2019 Bonds on March 29, 2019 and used the proceeds to repay TNMP’s \$172.3 million 9.50% first mortgage bonds at their maturity on April 1, 2019, as well as to repay borrowings under the TNMP Revolving Credit Facility and for general corporate purposes. TNMP issued the remaining \$80.0 million of TNMP 2019 Bonds on July 1, 2019 and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for general corporate purposes. The terms of the TNMP 2019 Bond Purchase Agreement include customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default,

a cross-default provision, and a change-of-control provision. TNMP will have the right to redeem any or all of the TNMP 2019 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium.

PNMR had a hedging agreement that effectively established a fixed interest rate of 1.927%, subject to change if there is a change in PNMR's credit rating, for borrowings under the \$150.0 million PNMR 2015 Term Loan through its maturity on March 9, 2018. In 2017, PNMR entered into three separate four-year hedging agreements that effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, subject to change if there is a change in PNMR's credit rating, for three separate tranches, each of \$50.0 million, of its variable rate debt.

### Capital Requirements

PNMR's total capital requirements consist of construction expenditures, cash dividend requirements for PNMR common stock and PNM preferred stock, and capital contributions for PNMR Development's 50% ownership interest in NMRD. Key activities in PNMR's current construction program include:

- Upgrading and replacing generation resources and for renewable energy resources
- Expanding the electric transmission and distribution systems
- Purchasing nuclear fuel

Projected capital requirements for 2020-2024 are:

	2020	2021-2024	Total
	(In millions)		
Construction expenditures	\$ 811.7	\$ 3,004.4	\$ 3,816.1
Capital contributions to NMRD	27.0	—	27.0
Dividends on PNMR common stock	98.0	422.3	520.3
Dividends on PNM preferred stock	0.5	2.1	2.6
<b>Total capital requirements</b>	<b>\$ 937.2</b>	<b>\$ 3,428.8</b>	<b>\$ 4,366.0</b>

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. Included in construction expenditures for 2020 - 2021 above are \$91.8 million for anticipated expansions of PNM's transmission system and net investments of approximately \$285 million for PNM's agreement to purchase the Western Spirit Line, subject to certain conditions being met prior to closing. Construction expenditures also include approximately \$298 million in 2020 - 2022 for PNM's recommended SJGS replacement resource scenario included in the SJGS Abandonment Application, which is pending NMPRC approval. See Note 16 and 17. Not included in the table above are potential incremental expenditures for new customer growth in New Mexico and Texas, and other transmission and renewable energy expansion in New Mexico. PNM may be required to file CCN or other applications with the NMPRC to obtain those approvals. The ability of PNMR to pay dividends on its common stock is dependent upon the ability of PNM and TNMP to be able to pay dividends to PNMR. See Note 6 for a discussion of regulatory and contractual restrictions on the payment of dividends by PNM and TNMP.

During the year ended December 31, 2019, 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 \$100.3 million of long-term debt that must be repriced by June 2020 and the PNM 2019 \$250.0 Million Term Loan matures in July 2020. In addition, the \$90.0 million PNMR Development Term Loan matures in November 2020, the \$50.0 million PNMR 2018 Two-Year Term Loan matures in December 2020, and the \$300.0 million PNMR 2018 SUNs mature on March 9, 2021. See Note 7 for additional information about the Company's long-term debt and equity arrangements. The Company anticipates that funds to repay long-term debt maturities and term loans will come from the issuance of approximately 6.2 million shares of PNMR common stock in late 2020 under the PNMR 2020 Forward Equity Sale Agreements. 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 PNMR Revolving Credit Facility, the PNM Revolving Credit Facility, and the TNMP Revolving Credit Facility. In July 2018, the PNMR Revolving Credit Facility was amended to provide for two one-year extension options, subject to approval by a majority of the lenders. In October 2018, the PNM Revolving Credit Facility was

amended to add two one-year extension options, subject to approval by a majority of the lenders. As a result, PNMR and PNM have the opportunity to extend these facilities through October 2024. On December 19, 2018, PNMR and PNM each exercised the first of these one-year extension options resulting in the PNMR and PNM Revolving Credit Facilities maturing in October 2023. The PNMR and PNM facilities have capacities of \$300.0 million and \$400.0 million. The \$75.0 million TNMP Revolving Credit Facility matures in September 2022. The \$40.0 million PNM 2017 New Mexico Credit Facility with banks having a significant presence in New Mexico, expires on December 12, 2022. 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 these facilities are based on LIBOR but contain provisions which allow for the replacement of LIBOR with other widely accepted interest rates. The Company expects that it will be able to extend or replace these credit facilities under similar terms and conditions prior to their expirations.

On February 26, 2018, PNMR Development entered into a \$24.5 million revolving credit facility that was scheduled to expire on February 25, 2019. On February 22, 2019, PNMR Development amended the revolving credit facility to increase the capacity to \$25.0 million. On July 22, 2019, the PNMR Development Revolving Credit Facility was amended to increase the capacity to \$40.0 million with the option to further increase the capacity to \$50.0 million upon 15-days advance notice. On February 21, 2020, PNMR Development extended the revolving credit facility to expire on February 23, 2021. The facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development uses the facility to finance its participation in NMRD and for other activities. See Note 1.

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

Range of Borrowings	Three Months Ended		Year Ended December 31			
	December 31, 2019		2019		2018	
	Low	High	Low	High	Low	High
	(In millions)					
PNM:						
PNM Revolving Credit Facility	\$ —	\$ 53.4	\$ —	\$ 53.4	\$ —	\$ 64.2
PNM 2017 New Mexico Credit Facility	—	40.0	—	40.0	—	20.0
TNMP Revolving Credit Facility	13.7	22.0	—	55.0	—	73.9
PNMR Revolving Credit Facility	59.0	112.1	20.0	112.1	20.0	210.0
PNMR Development Revolving Credit Facility	—	38.9	—	38.9	—	24.5

At December 31, 2019, the average interest rates were 3.02% for the PNMR Revolving Credit Facility, 2.87% for the PNM Revolving Credit Facility, 2.84% for the PNM 2017 New Mexico Credit Facility, and 2.47% for the TNMP Revolving Credit Facility. There were no borrowings outstanding under the PNMR Development Revolving Credit Facility at December 31, 2019.

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 7, in January 2020 PNMR entered into the PNMR 2020 Equity Forward Sale Agreements for 6.2 million shares of PNMR common stock. 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 2020 - 2024 period, including interim financing to fund construction of replacement resources prior to the issuance of the energy transition bonds included in PNM's SJGS Abandonment Application. This could include new debt and/or equity issuances, including instruments such as mandatory convertible securities beginning in 2021. 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. However, if difficult market conditions return, 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.

Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. On January 16, 2018, S&P changed the outlook for PNMR, PNM, and TNMP from stable to negative while affirming the ratings set forth below for PNMR and PNM. On June 29, 2018, Moody's changed the ratings outlook for PNMR and PNM from positive to stable, maintained the stable outlook for TNMP, and affirmed the long-term credit ratings of each entity. In August 2019, Moody's affirmed the credit rating and stable outlook for PNMR, PNM and TNMP. On December 18, 2019, S&P upgraded the issuer rating of TNMP to A- from BBB+, maintained the senior secured debt rating of TNMP at A, and maintained the outlook for TNMP as negative.

As of February 21, 2020, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
<b>S&amp;P</b>			
Issuer rating	BBB+	BBB+	A-
Senior secured debt	*	*	A
Senior unsecured debt	BBB	BBB+	*
Preferred stock	*	BBB-	*
<b>Moody's</b>			
Issuer rating	Baa3	Baa2	A3
Senior secured debt	*	*	A1
Senior unsecured debt	Baa3	Baa2	*
* Not applicable			

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 February 21, 2020, is as follows:

	PNM	TNMP	PNMR Separate	PNMR Development	PNMR Consolidated
	(In millions)				
<b>Financing capacity:</b>					
Revolving Credit Facility	\$ 400.0	\$ 75.0	\$ 300.0	\$ 40.0	\$ 815.0
PNM 2017 New Mexico Credit Facility	40.0	—	—	—	40.0
<b>Total financing capacity</b>	<b>\$ 440.0</b>	<b>\$ 75.0</b>	<b>\$ 300.0</b>	<b>\$ 40.0</b>	<b>\$ 855.0</b>
<b>Amounts outstanding as of February 21, 2020:</b>					
Revolving Credit Facility	\$ 35.4	\$ 43.1	\$ 143.8	\$ —	\$ 222.3
PNM 2017 New Mexico Credit Facility	30.0	—	—	—	30.0
Letters of credit	2.5	0.1	4.7	—	7.3
<b>Total short-term debt and letters of credit</b>	<b>67.9</b>	<b>43.2</b>	<b>148.5</b>	<b>—</b>	<b>259.6</b>
<b>Remaining availability as of February 21, 2020</b>	<b>\$ 372.1</b>	<b>\$ 31.8</b>	<b>\$ 151.5</b>	<b>\$ 40.0</b>	<b>\$ 595.4</b>
Invested cash as of February 21, 2020	\$ —	\$ —	\$ 0.9	\$ —	\$ 0.9

In addition to the above, PNMR has \$30.3 million of letters of credit outstanding under the JPM LOC Facility. The above table excludes intercompany debt. As of February 21, 2020, PNM and TNMP had no intercompany borrowings from PNMR. 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.

PNMR has an automatic shelf registration that provides for the issuance of various types of debt and equity securities that expires in March 2021. PNM has a shelf registration statement for up to \$475.0 million of Senior Unsecured Notes that expires in May 2020.

#### Off-Balance Sheet Arrangements

PNMR has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

## Commitments and Contractual Obligations

The following table sets forth PNMR's long-term contractual obligations as of December 31, 2019. See Note 8 for further details about the Company's significant leases.

Contractual Obligations	Payments Due				
	2020	2021-2022	2023-2024	2025 and Thereafter	Total
	(In thousands)				
Long-term debt <sup>(a)</sup>	\$ 490,345	\$ 853,000	\$ 135,000	\$ 1,525,698	\$ 3,004,043
Interest on long-term debt <sup>(b)</sup>	108,487	159,823	141,026	716,620	1,125,956
Leases <sup>(c)</sup>	27,542	51,920	25,206	35,361	140,029
Transmission service arrangements	17,178	33,998	17,500	7,170	75,846
Coal contracts <sup>(d)</sup>	110,298	141,330	74,010	260,182	585,820
Coal mine reclamation <sup>(e) (f)</sup>	14,752	38,132	32,521	48,442	133,847
Nuclear decommissioning funding requirements <sup>(f) (i)</sup>	1,300	2,600	2,600	—	6,500
SJGS plant decommissioning	—	14,670	—	—	14,670
Outsourcing	5,833	11,925	8,492	262	26,512
Pension and retiree medical <sup>(g)</sup>	1,552	2,983	2,773	—	7,308
Equity contributions to NMRD <sup>(h)</sup>	27,000	—	—	—	27,000
Construction expenditures <sup>(i)</sup>	811,726	1,687,013	1,317,398	—	3,816,137
<b>Total <sup>(k)</sup></b>	<b>\$ 1,616,013</b>	<b>\$ 2,997,394</b>	<b>\$ 1,756,526</b>	<b>\$ 2,593,735</b>	<b>\$ 8,963,668</b>

(a) Represents total long-term debt, excluding unamortized discounts, premiums, and issuance costs (Note 7)

(b) Represents interest payments during the period

(c) Amounts exclude expected future payments of \$21.8 million that could be avoided if certain leases were returned and the lessor is able to recover the estimated market value of the equipment from third parties and includes payments under the PVNGS leases through their expiration dates Note 8 and Note 10

(d) Represents certain minimum payments that may be required under the coal contracts in effect on December 31, 2019 if no deliveries are taken for SJGS and Four Corners

(e) Includes funding of trusts for post-term reclamation related to the mines serving SJGS and Four Corners (Note 16)

(f) These obligations represent funding based on the current rate of return on investments

(g) The Company only forecasts funding for its pension and retiree medical plans for the next five years

(h) Represents commitments to fund NMRD for its contractual construction obligations

(i) Represents forecasted construction expenditures, including nuclear fuel, under which substantial commitments have been made; the Company only forecasts capital expenditures for the next five years; see Capital Requirements above and Note 14

(j) PNM currently collects \$1.3 million per year from retail jurisdictional customers for nuclear decommissioning funding related to PVNGS Unit 3. These amounts will be contributed to the trust for nuclear decommissioning so long as they are collected in customer rates. See Note 17 for a discussion of the NMPRC's treatment of certain future decommissioning costs related to PVNGS Units 1 and 2

(k) PNMR is unable to reasonably estimate the timing of liability for uncertain income tax positions (Note 18) in individual years due to uncertainties in the timing of the effective settlement of tax positions and, therefore, PNMR's liability of \$10.7 million is not reflected in this table; amounts PNM is obligated to pay Valencia are not included above since Valencia is consolidated by PNM in accordance with GAAP, as discussed in Note 10; no amounts are included above for the New Mexico Wind, Lightning Dock Geothermal, Red Mesa Wind, Casa Mesa Wind, La Joya Wind, and NMRD Solar and Wind PPAs, and the Tri-State hazard sharing agreement since there are no minimum payments required under those agreements

## Contingent Provisions of Certain Obligations

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 most significant consequences resulting from these contingent requirements are detailed in the discussion below.

The PNMR Revolving Credit Facility, PNM Revolving Credit Facility, PNM 2017 New Mexico Credit Facility, and the TNMP Revolving Credit Facility contain “ratings triggers,” for pricing purposes only. If PNMR, PNM, or TNMP is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost. Prior to July 2018, these facilities, as well as the Company’s other term loans, each contained a covenant requiring the maintenance of debt-to-capitalization ratio of less than or equal to 65%. In July 2018, PNMR’s facilities were amended such that PNMR is now required to maintain a debt-to-capitalization ratio of less than or equal to 70%. The debt-to-capitalization ratio requirement remains at less than or equal to 65% for the PNM and TNMP facilities. If these ratios were exceeded, the entity could be required to repay all borrowings under its facility, be prevented from borrowing on the unused capacity under the facility and be required to provide collateral for all outstanding letters of credit issued under the facility.

If a contingent requirement were to be triggered under the PNM facilities resulting in an acceleration of the repayment of outstanding loans, a cross-default provision in the PVNGS leases could occur if the accelerated amount is not paid. If a cross-default provision is triggered, the PVNGS lessors have the ability to accelerate their rights under the leases, including acceleration of all future lease payments. The Company’s revolving credit facilities and term loan agreements also include cross-default provisions (Note 8).

PNM’s standard purchase agreement for the procurement of natural gas for its fuel needs contains a contingent requirement that could require PNM to provide collateral for its gas purchase obligations if the seller were to reasonably believe that PNM was unable to fulfill its payment obligations under the agreement.

The master agreement for the sale of electricity in the WSPP contains a contingent requirement that could require PNM to provide collateral if the credit ratings on its debt falls below investment grade. The WSPP agreement also contains a contingent requirement, commonly called a “material adverse change” provision, which could require PNM to provide collateral if a material adverse change in its financial condition or operations were to occur. Additionally, PNM utilizes standard derivative contracts to financially hedge and trade energy. These agreements contain contingent requirements that require PNM to provide security if the credit rating on its debt falls below investment grade. 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 operating lease obligations as debt.

	December 31,	
	2019	2018
<b>PNMR</b>		
PNMR common equity	35.8%	38.6%
Preferred stock of subsidiary	0.2	0.3
Long-term debt	64.0	61.1
Total capitalization	100.0%	100.0%
<b>PNM</b>		
PNM common equity	45.2%	45.6%
Preferred stock	0.4	0.4
Long-term debt	54.4	54.0
Total capitalization	100.0%	100.0%
<b>TNMP</b>		
Common equity	52.9%	53.9%
Long-term debt	47.1	46.1
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 generation 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 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 by participating in the Electric Power Research Institute ("EPRI") Understanding Climate Scenarios & Goal Setting Activities program. The program is focused on characterizing and analyzing the relationship of individual electric utility company's carbon emissions and global temperature goals. Activities include analyzing the current 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 program has also been useful in gaining a better understanding of the Task Force on Climate-Related Financial Disclosures' ("TCFD") recommendations for sustainability reporting. On November 19, 2019, TCFD announced the formation of the TCFD Advisory Group on Climate-Related Guidance. EPRI was invited to participate as one of seven members of the group that will provide guidance on implementing scenario analysis at the utility company level and to assist in understanding how climate-related issues affect business strategies.

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 2019, GHG associated with PNM's interests in its fossil-fueled generating plants included approximately 5.7 million metric tons of CO<sub>2</sub>, which comprises the vast majority of PNM's GHG.

As of December 31, 2019, approximately 63% 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. Many factors affect the amount of GHG emitted, including total electricity sales, plant performance, economic dispatch, and the availability of renewable resources. For example, between 2007 and 2018, production from PNM's largest single renewable energy resource, New Mexico Wind, has varied from a high of 580 GWh in 2011 to a low of 405 GWh in 2015. Variations are primarily due to how much and how often the wind blows. In addition, 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, 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. PNM's 2017 IRP indicates that retiring PNM's share of SJGS in 2022 and exiting ownership in Four Corners in 2031 would provide long-term cost savings to its customers. See additional discussion of PNM's 2017 IRP and the SJGS Abandonment Application in Note 17. If approved by the NMPRC, retiring PNM's share of SJGS and exiting participation in Four Corners would further reduce PNM's GHG.

As of December 31, 2019, PNM owns or procures power under PPAs from 608 MW of capacity from renewable generation resources, which include solar-PV, wind, and geothermal facilities including 50 MW of new solar-PV capacity to serve retail customers and 50 MW of new solar-PV capacity to serve a data center located in PNM's service territory. In addition, the NMPRC has granted PNM authority to procure an aggregate of 316 MW of additional renewable energy and RECs from solar-PV and wind facilities to serve a data center located in PNM's service territory. PNM's 2020 renewable energy procurement plan, which was approved by the NMPRC in January 2020, includes a PPA for an additional 140 MW of wind energy to serve retail customers beginning in 2021 and PNM's SJGS Abandonment Application, which was filed with the NMPRC on July 1, 2019, includes a request to replace SJGS capacity with 350 MW of solar-PV, 130 MW of battery storage facilities, and 280 MW of new gas-fired peaking capacity. If approved, these resources would result in PNM owning, leasing, or procuring through PPAs capacity from renewable resources and battery storage facilities totaling 1,544 MW and capacity from emissions-free resources totaling 1,946 MW. See additional discussion of these resources in Notes 16 and 17.

PNM also has a customer distributed solar generation program that represented 127.6 MW at December 31, 2019. PNM's distributed solar programs will reduce PNM's annual production from fossil-fueled electricity generation by about 255.2 GWh. 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 4,496 GWh of electricity through 2019. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 8,756 GWh of electricity, which will avoid at least 4.7 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.

#### *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 have 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 three separate but related actions, which were published in October 2015: (1) the Carbon Pollution Standards for new, modified, and reconstructed power plants (under Section 111(b)); (2) the Clean Power Plan for existing power plants (under Section 111(d)); and (3) a proposed federal plan associated with the Clean Power Plan.

EPA's Carbon Pollution Standards for new sources (those constructed after January 8, 2014) established separate standards for gas and coal-fired units. The standards reflect the degree of emission limitation achievable through the application of what EPA determined to be the BSER demonstrated for each type of unit. For newly constructed and reconstructed base load natural gas-fired stationary combustion turbines, EPA finalized a standard based on efficient natural gas combined cycle technology. The final standards for coal-fired power plants vary depending on whether the unit is new, modified, or reconstructed, but the new unit standards were based on EPA's determination that the BSER for new units was partial carbon capture and sequestration. The Clean Power Plan established numeric "emission standards" for existing electric generating units - one for "fossil-steam" units (coal and oil-fired units) and one for natural gas-fired units (combined cycle only). The emission standards were 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. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. The DC Circuit refused to stay the rule, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016, thus halting implementation of the Clean Power Plan. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a 10-judge *en banc* panel. However, before the DC Circuit could issue an opinion, President Trump took office and his administration asked the court to hold the case in abeyance while the rule was re-evaluated, which the court granted. 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 Affordable Clean Energy rule, which repeals the Clean Power Plan.

On March 28, 2017, President Trump issued an Executive Order titled "Promoting Energy Independence and Economic Growth." Among its goals are to "promote clean and safe development of our Nation's vast energy resources, while at the same time avoiding regulatory burdens that unnecessarily encumber energy production, constrain economic growth, and prevent job creation." The order rescinds several key pieces of the Obama Administration's climate agenda, including the Climate Action Plan and the Final Guidance on Consideration of Climate Change in NEPA Reviews. It directs agencies to review and suspend, revise or rescind any regulations or agency actions that potentially burden the development or use of domestically produced energy resources. Most notably, the order directed EPA to immediately review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Carbon Pollution Standards for new, reconstructed or modified electric utilities, (2) the Clean Power Plan, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response, EPA signed a NOPR to repeal the Clean Power Plan on October 10, 2017. The notice proposed a legal interpretation concluding that the Clean Power Plan exceeded EPA's statutory authority. On June 19, 2019, EPA released the final version of the Affordable Clean Energy rule. EPA takes three actions in the final rule: (1) repealing the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under CAA Section 111(d) which, among other things, extends the deadline for state plans and extends the timing of EPA's approval process. 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. Rather than setting a specific numerical standard of performance, EPA's rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSER. The final rule requires states to submit a plan to EPA by July 8, 2022, and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The Affordable Clean Energy rule is not expected to impact SJGS since EPA's final approval of a state SIP would occur after the planned shutdown of SJGS in 2022 (subject to NMPRC approval).

While corresponding NSR reform regulations were proposed as part of the proposed Affordable Clean Energy rule, the final rule did not include such reform measures. EPA has indicated that it plans to finalize the proposed NSR reform in 2020. Unrelated to the Affordable Clean Energy rule, EPA issued a proposed rule on August 1, 2019 to clarify one aspect of the pre-construction review process for evaluating whether the NSR permitting program would apply to a proposed project at an existing source of emissions. The proposed rule clarifies that both emissions increases and decreases resulting from projects are to be considered in determining whether the proposed project will result in an increase in air emissions.

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon capture and sequestration. As a result, the proposed rule contains less stringent CO<sub>2</sub> emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines. The 2018 proposed Carbon Pollution Standards rule could also impact PNM's generation fleet to the extent any EGUs qualify as new, reconstructed, or modified, although that rule remains under review by EPA. Comments on the proposal were due on March 18, 2019 and a final rule is expected in 2020.

The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. The results of additional judicial review and the outcome of those proceedings cannot be predicted.

#### *Federal Legislation*

Prospects for enactment in Congress of legislation imposing a new or enhanced regulatory program to address climate change are highly unlikely in 2020. Although the democratic leadership in the U.S. House of Representatives may soon begin to reconsider proposals for legislation aimed at addressing climate change, such legislation is unlikely to pass the republican controlled U.S. Senate or be signed by the President.

#### *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 2017 IRP, PNM analyzed resource portfolio plans for scenarios that assumed SJGS will operate beyond the end of the current coal supply agreement that runs through June 30, 2022 and for scenarios that assumed SJGS will cease operations by the end of 2022 as discussed in Note 17. The key findings of the 2017 IRP include that exiting SJGS in 2022 would provide long-term economic benefits to PNM's customers and that PNM exiting its ownership interest in Four Corners in 2031 would also save customers money. The materials presented in the IRP process are available at [www.pnm.com/irp](http://www.pnm.com/irp). See additional discussion of PNM's 2017 IRP in Note 17.

Senate Bill 489, known as the Energy Transition Act ("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 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. 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," related to the retirement of coal-fired generating facilities to qualified investors. Proceeds from the energy transition bonds must be used only for purposes related to providing utility service to customers and to pay "financing costs" (as defined by the ETA). These costs may include coal mine decommissioning, 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 an 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 16. PNM expects the ETA will have a significant impact on PNM's future generation portfolio, including PNM's planned retirement of SJGS in 2022. The NMPRC had not definitively indicated its intent to apply the requirements of the ETA to PNM's SJGS Abandonment Application and several parties to that case questioned whether the ETA violated the New Mexico State constitution. In December 2019, the Governor of the State of New Mexico, the President of the Navajo Nation and other parties filed a *writ of mandamus* requesting the NM Supreme Court require the NMPRC to apply the ETA to PNM's application. On January 29, 2020, the NM Supreme Court ruled that the NMPRC is required to apply the ETA to all of PNM's SJGS Abandonment Application and denied petitions for a stay. 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. See additional discussion of PNM's SJGS Abandonment Application in Note 17. PNM cannot predict the full impact of the ETA or the outcome of its existing and potential future generating resource abandonment filings with the NMPRC.

#### *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 Intended Nationally Determined Contributions ("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, and 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, President Trump announced that the U.S. would withdraw from the Paris Agreement. In his public statement, he indicated that the U.S. would "begin negotiations to reenter either the Paris Accord or a new transaction on terms that are fair to the U.S., its businesses, its workers, its people, its taxpayers." On November 4, 2019, President Trump announced that the U.S. has officially notified the United Nations that the U.S. will withdraw from the Paris Agreement. The rules of the Paris Agreement impose a one-year waiting period after official notice of withdrawal. As a

result of the President's notice to the United Nations, the U.S. will officially be able to withdraw from the Paris Agreement on November 4, 2020. A future administration would have an opportunity to rejoin the Agreement. It is uncertain if the U.S. will ultimately choose to pursue a transition to a low-carbon economy using a pathway that aligns with the Paris Agreement to keep global temperature rise to below two degrees Celsius (the "2 Degree Scenario") above pre-industrial levels or in connection with other regulation or legislation. PNM has calculated GHG reductions that would result from implementation of the 2017 IRP scenarios that assume PNM would retire its share of the SJGS in 2022 and would exit from Four Corners in 2031 and PNM has set a goal to have a 100% emissions-free generating portfolio by 2040. While PNM has not conducted a 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 recently enacted 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 26% - 28% by 2025 U.S. INDC and the former administration's effort to achieve an 80% reduction in carbon emissions by 2050. As discussed in Note 17, on July 1, 2019, PNM submitted its SJGS Abandonment Application to the NMPRC. PNM will file for abandonment of Four Corners at an appropriate time in the future.

PNM will continue to monitor the United States' and other parties' involvement in 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 16 and 17. While PNM currently expects the planned retirement of SJGS in 2022 (subject to NMPRC approval) 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.

On November 24, 2009, FERC issued Order 729 approving two Modeling, Data, and Analysis Reliability Standards ("Reliability Standards") submitted by NERC – MOD-001-1 (Available Transmission System Capability) and MOD-029-1 (Rated System Path Methodology). Both MOD-001-1 and MOD-029-1 require a consistent approach, provided for in the Reliability Standards, to measuring the total transmission capability ("TTC") of a transmission path. The TTC level established using the two Reliability Standards could have resulted in a reduction in the available transmission capacity used by PNM to deliver generation resources necessary for its jurisdictional load and for fulfilling its obligations to third-party users of the PNM transmission system.

During the first quarter of 2011, at the request of PNM and other southwestern utilities, NERC advised all transmission owners and transmission service providers that the implementation of portions of the MOD-029 methodology for "Flow Limited" paths had been delayed until such time as a modification to the standard could be developed to mitigate the technical concerns identified by the transmission owners and transmission service providers. PNM and other western utilities filed a Standards Action Request with NERC in the second quarter of 2012.

NERC initiated an informal development process to address directives in Order 729 to modify certain aspects of the MOD standards, including MOD-001 and MOD-029. The modifications to this standard would retire MOD-029 and require each transmission operator to determine and develop methodology for TTC values for MOD-001.

A final ballot for MOD-001-2 concluded on December 20, 2013 and received sufficient affirmative votes for approval. On February 10, 2014, NERC filed with FERC a petition for approval of MOD-001-2 and retirement of the "MOD A" reliability standards that consist of MOD-001-1a, MOD-004-1, MOD-008-1, MOD-028-2, MOD-029-1a, and MOD-030-2. On June 19, 2014, FERC issued a NOPR to approve a new reliability standard.

On June 7, 2019, NERC submitted to FERC a notice to withdraw proposed MOD-001-2 and to retire the currently effective versions of the MOD A Standards subject to FERC approval. The retirement of the MOD A standards removes all risk associated with the TTC reductions.

### **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. The Trump Administration has indicated that the provisions of the Dodd-Frank Reform Act will be reviewed and certain regulations may be rolled back, but no formal action has been taken yet. 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 16 and 17 for a discussion of commitments and contingencies and rate and regulatory matters. See Note 1 for a discussion of accounting pronouncements that have been issued but are not yet effective and have not been adopted by the Company.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of financial statements in accordance with GAAP requires management to apply accounting policies and to make estimates and judgments that best provide the framework to report the results of operations and financial position for PNMR, PNM, and TNMP. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions. Management has identified the following accounting policies that it deems critical to the portrayal of the financial condition and results of operations and that involve significant subjectivity. The following discussion provides information on the processes utilized by management in making judgments and assumptions as they apply to its critical accounting policies.

### **Regulatory Accounting**

The Company is subject to the provisions of GAAP for rate-regulated enterprises and records assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under GAAP for non-regulated entities. Additional information concerning regulatory assets and liabilities is contained in Note 13.

The Company continually evaluates the probability that regulatory assets and liabilities will impact future rates and makes various assumptions in those analyses. The expectations of future rate impacts are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If future recovery or refund ceases to be probable, the Company would be required to write-off the portion that is not recoverable or refundable in current period earnings.

The Company has made adjustments to regulatory assets and liabilities that affected its results of operations in the past due to changes in various factors and conditions impacting future cost recovery. Based on its current evaluation, the Company believes that future recovery of its regulatory assets is probable.

### **Impairments**

Tangible long-lived assets are evaluated for impairment when events and circumstances indicate that the assets might be impaired in accordance with GAAP. These potential impairment indicators include management’s assessment of fluctuating market conditions as a result of planned and scheduled customer purchase commitments; future market penetration; changing environmental requirements; fluctuating market prices resulting from factors including changing fuel costs and other economic conditions; long-term weather patterns; and other market trends. The amount of impairment recognized, if any, is the difference between the fair value of the asset and the carrying value of the asset and would reduce both the asset and current period earnings. Variations in the assessment of potential impairment or in the assumptions used to calculate an impairment could result in different outcomes, which could lead to significant effects on the Consolidated Financial Statements. See Notes 16 and 17.

Goodwill is evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill might be impaired. GAAP allows impairment testing to be performed based on either a qualitative analysis or quantitative analysis. Note 19 contains information on the impairment testing performed by the Company on goodwill. For 2019, the Company

utilized a qualitative analysis for both the PNM and TNMP reporting units. No impairments were indicated in the Company's annual goodwill testing, which was performed as of April 1, 2019. Since the annual evaluation, there have been no indications that the fair values of the reporting units with recorded goodwill have decreased below the carrying values. The annual testing was based on certain critical estimates and assumptions. Changes in the estimates or the use of different assumptions could affect the determination of fair value and the conclusion of impairment for each reporting unit.

Application of the qualitative goodwill impairment test requires evaluating various events and circumstances to determine whether it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. As a part of the Company's goodwill qualitative testing process for a reporting unit, various factors that are specific to the reporting unit as well as industry and macroeconomic factors are evaluated in order to determine whether these factors are reasonably likely to have a material impact on the fair value of the reporting unit. Examples of the factors that were considered in the qualitative testing of the goodwill include the results of the most recent quantitative impairment test, current and long-term forecasted financial results, regulatory environment, credit rating, changes in the interest rate environment, and operating strategy for the reporting unit.

Based on the qualitative analysis for both the PNM and TNMP reporting units performed in 2019, the Company concluded that there were no changes that were reasonably likely to cause the fair value of the reporting units to be less than their carrying value and determined that there was no impairment of goodwill. Although the Company believes all relevant factors were considered in the qualitative impairment analysis to reach the conclusion that goodwill is not impaired, significant changes in any one of the assumptions could produce a significantly different result potentially leading to the recording of an impairment that could have significant impacts on the results of operations and financial position of the Company.

### **Decommissioning and Reclamation Costs**

In accordance with GAAP, PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists. Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Decommissioning costs are based on site-specific estimates, which are updated periodically and involve numerous judgments and assumptions, including estimates of future decommissioning costs at current price levels, inflation rates, and discount rates. Changes in these estimates could significantly impact PNM's and PNM's financial position, results of operations, and cash flows. Nuclear decommissioning costs are based on estimates of the costs for removing all radioactive and other structures at PVNGS. AROs, including nuclear decommissioning costs, are discussed in Note 15. Nuclear decommissioning costs represent approximately 77% of PNM's ARO liability. A 10% increase in the estimates of future decommissioning costs at current price levels would have increased the ARO liability by \$21.8 million at December 31, 2019. PVNGS Units 1 and 2 are included in PNM's retail rates while PVNGS Unit 3 was excluded through 2017 but is included beginning in 2018. PNM recognizes an expense and a corresponding liability for ultimate decommissioning of PVNGS. See Note 17 for information concerning the treatment of nuclear decommissioning in the NMPRC's order in PNM's NM 2015 Rate Case and PNM's appeal of that order.

In connection with both the SJGS coal agreement and the Four Corners fuel agreement, the owners are required to reimburse the mining companies for the cost of contemporaneous reclamation, as well as the costs for final reclamation of the coal mines. The reclamation costs are based on periodic site-specific studies that estimate the costs to be incurred in the future and are dependent upon numerous assumptions, including estimates of future reclamation costs at current price levels, inflation rates, and discount rates. A 10% increase in the estimates of future reclamation costs at current price levels would have increased the mine reclamation liability by \$10.9 million at December 31, 2019. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs.

The NMPRC has capped the amount that can be collected from ratepayers for final reclamation of the surface mines. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. See Note 16 for discussion of reclamation costs.

### **Pension and Other Postretirement Benefits**

The Company maintains qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The net periodic benefit cost or income and the calculation of the projected benefit obligations are recognized in the Company's financial statements and depend on expected investment performance, the level of contributions made to the plans, and employee demographics. These calculations require the use of a number of actuarial assumptions and estimates. The most critical of the actuarial assumptions are the expected long-term rate of return, the discount rate, and projected health care cost trend rates. The Company reviews and evaluates its actuarial assumptions annually and adjusts them as necessary. Changes in the pension and OPEB assets and liabilities associated with these factors are not immediately recognized as net periodic benefit cost or income in results of operations, but are recognized in future years, generally, over the remaining life of the plan. However, these factors could have a significant impact on the financial position of the Company. Note 11 contains additional information about pension and OPEB obligations, including assumptions utilized in the calculations and impacts of changes in certain of those assumptions.

### **Accounting for Contingencies**

The financial results of the Company may be affected by judgments and estimates related to loss contingencies. Contingencies related to litigation and claims, as well as environmental and regulatory matters, also require the use of significant judgment and estimation. The Company attempts to take into account all known factors regarding the future outcome of contingent events and records an accrual for any contingent loss events that are both probable of occurring and can be reasonably estimated.

based upon current available information. However, the actual outcomes can vary from any amounts accrued which could have a material effect on the results of operations and financial position of the Company. See Note 16 and Note 17.

### **Income Taxes**

The Company's income tax expense and related balance sheet amounts involve significant judgment and use of estimates. Amounts of deferred income tax assets and liabilities, current and noncurrent accruals, and determination of uncertain tax positions involve judgment and estimates related to timing and probability of the recognition of income and deductions by taxing authorities. In addition, some temporary differences are accorded flow-through treatment by the Company's regulators and impact the Company's effective tax rate. In assessing the likelihood of the realization of deferred tax assets, management considers the estimated amount and character of future taxable income. Significant changes in these judgments and estimates could have a material impact on the results of operations and financial position of the Company. Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, the Company's forecasted financial condition and results of operations in future periods, and the final review from taxing authorities. See Note 18 for additional information, including a discussion of the impacts of tax reform under the Tax Cuts and Jobs Act enacted on December 22, 2017, and the related measurement period adjustments recorded in 2018.

#### ***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.

### **ITEM 7A. 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 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 tolerance levels 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 9, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Consolidated Balance Sheets. During the years ended December 31, 2019 and 2018, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts, other than those that do not meet the definition of a derivative under GAAP, are recorded at fair value on the Consolidated Balance Sheets. The impact of commodity derivative mark-to-market energy transactions were not material to the Company's financial position, results of operations, or cash flows as of and for the years ended December 31, 2019 and 2018.

All of the fair values as of December 31, 2019 were determined based on prices provided by external sources other than actively quoted market prices. All of the mark-to-market amounts will settle in 2020.

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.

Prior to 2018, PNM measured the market risk of its wholesale activities not covered by the FPPAC using a Monte Carlo VaR (“Value at Risk”) simulation model to report the possible loss in value from price movements. In January 2018, PNM’s interest in PVNGS Unit 3 became a jurisdictional resource to serve New Mexico customers and PNM began selling 36 MW of its 65 MW merchant interest in SJGS Unit 4 to a third party at a fixed price. These events significantly reduced PNM’s exposure to commodity risk and, beginning in February 2018, the Company no longer uses VaR as a risk metric.

**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  
December 31, 2019**

Rating <sup>(1)</sup>	Credit Risk Exposure <sup>(2)</sup>	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
	(Dollars in thousands)		
External ratings:			
Investment grade	\$ 1,069	1	\$ 695
Non-investment grade	—	—	—
Split ratings	—	—	—
Internal ratings:			
Investment grade	893	1	615
Non-investment grade	—	—	—
<b>Total</b>	<b>\$ 1,962</b>		<b>\$ 1,310</b>

(1) 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.

(2) The Credit Risk Exposure is the gross credit exposure, including long-term contracts (other than the Tri-State hazard sharing agreement), 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 December 31, 2019, PNMR held \$0.9 million of cash collateral to offset its credit exposure.

Net credit risk for the Company’s largest counterparty as of December 31, 2019 was \$0.7 million.

Other investments have no significant counterparty credit risk.

**Interest Rate Risk**

The majority of the Company’s long-term debt is fixed-rate debt and does not expose earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of long-term debt instruments for PNMR, PNM, and TNMP would increase by 2.2%, 1.6%, and 5.3%, if interest rates were to decline by 50 basis points from their levels at December 31, 2019. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if all or a portion of debt instruments were acquired in the open market prior to their maturity. The Company is exposed to interest rate risk to the extent of future increases in variable interest rates. However, as discussed in Note 7, PNMR has entered into hedging arrangements to effectively establish fixed interest rates on \$150.0 million of variable rate debt. Variable interest rates under these facilities are based on LIBOR but contain provisions which allow for the replacement of LIBOR with other widely accepted interest rates. The Company expects that it will be able to extend or replace these credit facilities under similar terms and conditions prior to their expirations.

At February 21, 2020, variable rate debt balances and weighted average interest rates were as follows:

Variable Rate Debt	Weighted Average Interest Rate	Balance Outstanding	Capacity
		(In thousands)	
Short-term Debt:			
PNMR Revolving Credit Facility	2.91%	148,458	\$ 300,000
PNM Revolving Credit Facility	2.77	37,928	400,000
PNM 2017 New Mexico Credit Facility	2.79	30,000	40,000
TNMP Revolving Credit Facility	2.40	43,170	75,000
PNMR-D Revolving Credit Facility	—	—	40,000
		259,556	\$ 855,000
Long-term Debt:			
PNMR 2018 Two-Year Term Loan	2.45%	\$ 50,000	
PNMR 2019 Term Loan	2.61	150,000	
PNM 2019 \$250.0 Million Term Loan	2.30	250,000	
PNM 2019 \$40.0 Million Term Loan	2.31	40,000	
PNMR Development Term Loan	2.45	90,000	
		\$ 580,000	

The investments held by PNM in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits had an estimated fair value of \$1.0 billion at December 31, 2019, of which 45.6% 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 December 31, 2019, the decrease in the fair value of the fixed-rate securities would be 3.9%, or \$17.9 million. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of \$70.0 million at December 31, 2019, of which 33.6% were fixed-rate debt securities that subject TNMP to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 50 basis points from their levels at December 31, 2019, the decrease in the fair value of the fixed-rate securities would be 6.1%, or \$1.4 million.

PNM and TNMP do not directly recover or return through rates any losses or gains on the securities, including equity and alternative investments discussed below, in the trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits. 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 recover certain PVNGS decommissioning costs from customers. The NM Supreme Court ruled that the NMPRC's decision to disallow recovery of such costs denied PNM due process and remanded the matter back to the NMPRC for further proceedings. See Note 17. PNM and TNMP are at risk for shortfalls in funding of obligations due to investment losses, including those from the equity market and alternatives investment 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 and trusts established for PNM's and TNMP's pension and post-employment benefits plans include certain equity securities at December 31, 2019. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 42.4% and 48.4% of the securities held by the various PNM and TNMP trusts as of December 31, 2019. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$42.7 million for PNM and \$3.4 million for TNMP.

### Alternatives Investment Risk

As of December 31, 2019, PNM and TNMP had 16.3% of its combined pension assets invested in the alternative asset class. The Company's target for this class is 20%. Alternative investments include investments in hedge funds, real estate funds, and private equity funds. The hedge funds and private equity funds are limited partner structures that are structured as multi-manager multi-strategy fund of funds to achieve a diversified position in these asset classes. The general partner oversees the selection and monitoring of the underlying managers. The hedge funds pursue various absolute return strategies such as relative value, long-short equity, and event driven. Private equity fund strategies include mezzanine financing, buy-outs, and venture capital. The real estate investments are commingled real estate portfolios that invest in a diversified portfolio of assets including commercial property and multi-family housing. The Company's Corporate Investment Committee, assisted by its investment consultants, monitors the performance of the funds and general partner's investments process. There is risk associated with these funds due to the nature of the strategies and techniques and the use of investments that do not have readily determinable fair values. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$9.7 million.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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

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**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of PNM Resources, Inc. and subsidiaries ("PNMR") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of PNMR's internal control over financial reporting based on the *Internal Control – Integrated Framework (2013)* set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNMR's internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of and for the year ended December 31, 2019 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report which is included herein.

/s/ Patricia K. Collawn

Patricia K. Collawn,  
Chairman, President, and Chief Executive Officer

/s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and Chief Financial Officer

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Public Service Company of New Mexico and subsidiaries ("PNM") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of PNM's internal control over financial reporting based on the *Internal Control – Integrated Framework (2013)* set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNM's internal control over financial reporting was effective as of December 31, 2019.

/s/ Patricia K. Collawn

Patricia K. Collawn,  
President and Chief Executive Officer

/s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and Chief Financial Officer

**MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Texas-New Mexico Power Company and subsidiaries ("TNMP") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of TNMP's internal control over financial reporting based on the *Internal Control – Integrated Framework (2013)* set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that TNMP's internal control over financial reporting was effective as of December 31, 2019.

/s/ Patricia K. Collawn

Patricia K. Collawn,  
Chief Executive Officer

/s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and Chief Financial Officer

## Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors  
PNM Resources, Inc.:

### *Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheets of PNM Resources, Inc. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule I - Condensed Financial Information of Parent Company and Schedule II - Valuation and Qualifying Accounts (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

### *Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Evaluation of pension and other postretirement benefit obligations*

As discussed in Note 11 to the consolidated financial statements, the Company maintains qualified defined benefit pension plans and postretirement benefit plans providing medical and dental benefits. The Company's total estimated pension plans' projected benefit obligation and postretirement benefit plans' accumulated postretirement benefit obligation were \$773.4 million as of December 31, 2019.

We identified the evaluation of the pension and other postretirement benefit obligations as a critical audit matter because specialized skills were necessary to evaluate the Company's actuarial models and the discount rates used in the models. In addition, there was subjectivity in performing procedures due to the sensitivity of the actuarial models to changes in the discount rates used to determine the present value of the projected benefit obligation and accumulated postretirement benefit obligation.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's pension and other postretirement benefits process, including controls related to the development of the discount rates used and the calculation of the projected benefit obligation and accumulated benefit obligation using actuarial models. We involved an actuarial professional with specialized skills and knowledge, who assisted in:

- understanding the actuarial models used by the Company to calculate its projected benefit obligation and accumulated postretirement benefit obligation, for consistency with generally accepted actuarial standards,
- evaluating the Company's discount rates, by understanding the methodology used to develop them, and
- comparing the Company's discount rates to independently developed discount rates using publicly available market data, such as published bond yield curves and pension liability indices.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Albuquerque, New Mexico  
March 2, 2020

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors  
Public Service Company of New Mexico:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Public Service Company of New Mexico and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and Schedule II – Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Albuquerque, New Mexico  
March 2, 2020

**Report of Independent Registered Public Accounting Firm**

To the Stockholder and Board of Directors  
Texas-New Mexico Power Company:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Texas-New Mexico Power Company and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, changes in common stockholder's equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and Schedule II – Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.

Albuquerque, New Mexico  
March 2, 2020

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands, except per share amounts)		
<b>Electric Operating Revenues</b>			
Contracts with customers	\$ 1,377,208	\$ 1,359,740	\$ 1,321,023
Alternative revenue programs	(542)	1,756	15,779
Other electric operating revenue	80,937	75,117	108,201
Total electric operating revenues	<u>1,457,603</u>	<u>1,436,613</u>	<u>1,445,003</u>
<b>Operating Expenses:</b>			
Cost of energy	412,812	399,726	407,479
Administrative and general	189,227	188,470	177,791
Energy production costs	142,545	149,477	137,450
Regulatory disallowances and restructuring costs	151,095	65,598	27,036
Depreciation and amortization	267,808	241,188	231,942
Transmission and distribution costs	69,862	76,434	71,576
Taxes other than income taxes	80,054	79,673	76,690
Total operating expenses	<u>1,313,403</u>	<u>1,200,566</u>	<u>1,129,964</u>
Operating income	<u>144,200</u>	<u>236,047</u>	<u>315,039</u>
<b>Other Income and Deductions:</b>			
Interest income	14,022	15,540	15,916
Gains (losses) on investment securities	29,589	(17,176)	27,161
Other income	15,382	17,586	19,515
Other (deductions)	(15,328)	(15,696)	(24,247)
Net other income and deductions	<u>43,665</u>	<u>254</u>	<u>38,345</u>
<b>Interest Charges</b>	<u>121,016</u>	<u>127,244</u>	<u>127,625</u>
<b>Earnings before Income Taxes</b>	<u>66,849</u>	<u>109,057</u>	<u>225,759</u>
<b>Income Taxes (Benefits)</b>	<u>(25,282)</u>	<u>7,775</u>	<u>130,340</u>
<b>Net Earnings</b>	<u>92,131</u>	<u>101,282</u>	<u>95,419</u>
<b>(Earnings) Attributable to Valencia Non-controlling Interest</b>	<u>(14,241)</u>	<u>(15,112)</u>	<u>(15,017)</u>
<b>Preferred Stock Dividend Requirements of Subsidiary</b>	<u>(528)</u>	<u>(528)</u>	<u>(528)</u>
<b>Net Earnings Attributable to PNMR</b>	<u>\$ 77,362</u>	<u>\$ 85,642</u>	<u>\$ 79,874</u>
<b>Net Earnings Attributable to PNMR per Common Share:</b>			
Basic	\$ 0.97	\$ 1.07	\$ 1.00
Diluted	\$ 0.97	\$ 1.07	\$ 1.00

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Net Earnings</b>	\$ 92,131	\$ 101,282	\$ 95,419
<b>Other Comprehensive Income (Loss):</b>			
<b>Unrealized Gains on Available-for-Sale Securities:</b>			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(6,534), \$(963), and \$(10,927)	19,190	2,827	17,233
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$3,572, \$970, and \$6,816	(10,491)	(2,849)	(10,751)
<b>Pension Liability Adjustment:</b>			
Experience gains (losses), net of income tax (expense) benefit of \$973, \$2,673, and \$(919)	(2,856)	(7,745)	2,699
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(1,880), \$(1,922), and \$(2,504)	5,524	5,646	3,948
<b>Fair Value Adjustment for Cash Flow Hedges:</b>			
Change in fair market value, net of income tax (expense) benefit of \$888, \$(145), and \$(388)	(2,607)	425	612
Reclassification adjustment for losses included in net earnings, net of income tax (benefit) of \$(186), \$(56), and \$(225)	547	160	356
<b>Total Other Comprehensive Income (Loss)</b>	9,307	(1,536)	14,097
<b>Comprehensive Income</b>	101,438	99,746	109,516
<b>Comprehensive (Income) Attributable to Valencia Non-controlling Interest</b>	(14,241)	(15,112)	(15,017)
<b>Preferred Stock Dividend Requirements of Subsidiary</b>	(528)	(528)	(528)
<b>Comprehensive Income Attributable to PNMR</b>	\$ 86,669	\$ 84,106	\$ 93,971

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net earnings	\$ 92,131	\$ 101,282	\$ 95,419
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	301,068	275,641	268,194
Deferred income tax expense (benefit)	(25,385)	8,019	130,528
(Gains) losses on investment securities	(29,589)	17,176	(27,161)
Stock based compensation expense	6,414	7,120	6,194
Regulatory disallowances and restructuring costs	151,095	65,598	27,036
Allowance for equity funds used during construction	(9,478)	(10,404)	(9,516)
Other, net	2,395	3,529	5,204
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	3,796	(8,702)	(1,846)
Materials, supplies, and fuel stock	(6,095)	(5,331)	1,473
Other current assets	1,872	2,491	31,298
Other assets	42,803	(840)	(5,486)
Accounts payable	(272)	(20,714)	14,468
Accrued interest and taxes	14,691	1,713	(327)
Other current liabilities	(7,212)	2,614	(6,513)
Other liabilities	(35,071)	(10,966)	(5,503)
Net cash flows from operating activities	<u>503,163</u>	<u>428,226</u>	<u>523,462</u>
<b>Cash Flows From Investing Activities:</b>			
Additions to utility and non-utility plant	(616,273)	(501,213)	(500,461)
Proceeds from sales of investment securities	494,528	984,533	637,492
Purchases of investment securities	(513,866)	(1,007,022)	(650,284)
Investments in NMRD	(38,250)	(9,000)	(4,077)
Disbursements from NMRD	—	—	12,415
Principal repayments on Westmoreland Loan	—	56,640	38,360
Other, net	(37)	338	392
Net cash flows from investing activities	<u>(673,898)</u>	<u>(475,724)</u>	<u>(466,163)</u>

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
<b>Cash Flows From Financing Activities:</b>			
Short-term loan borrowings (repayments)	(150,000)	50,000	—
Revolving credit facilities borrowings (repayments), net	99,200	(119,500)	18,300
Long-term borrowings	745,000	984,652	317,000
Repayment of long-term debt	(407,302)	(750,162)	(274,070)
Proceeds from stock option exercise	943	963	1,739
Awards of common stock	(9,918)	(12,635)	(13,929)
Dividends paid	(92,926)	(84,961)	(77,792)
Valencia's transactions with its owner	(15,401)	(17,095)	(17,742)
Amounts received under transmission interconnection arrangements	10,015	4,060	11,879
Refunds paid under transmission interconnection arrangements	(4,325)	(2,830)	(21,290)
Other, net	(2,840)	(6,846)	(2,942)
Net cash flows from financing activities	172,446	45,646	(58,847)
<b>Change in Cash and Cash Equivalents</b>	1,711	(1,852)	(1,548)
<b>Cash and Cash Equivalents at Beginning of Year</b>	2,122	3,974	5,522
<b>Cash and Cash Equivalents at End of Year</b>	\$ 3,833	\$ 2,122	\$ 3,974
<b>Restricted Cash Included in Other Current Assets on Consolidated Balance Sheets:</b>			
At beginning of period	\$ —	\$ —	\$ 1,000
At end of period	\$ —	\$ —	\$ —
<b>Supplemental Cash Flow Disclosures:</b>			
Interest paid, net of amounts capitalized	\$ 115,476	\$ 119,308	\$ 120,955
Income taxes paid (refunded), net	\$ (2,929)	\$ 842	\$ 625
<b>Supplemental schedule of noncash investing and financing activities:</b>			
(Increase) decrease in accrued plant additions	\$ 8,781	\$ (11,502)	\$ (25,261)
Contribution of utility plant to NMRD	\$ —	\$ 578	\$ 24,829

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 3,833	\$ 2,122
Accounts receivable, net of allowance for uncollectible accounts of \$1,163 and \$1,406	85,889	92,800
Unbilled revenues	57,416	57,092
Other receivables	12,165	11,369
Materials, supplies, and fuel stock	77,929	71,834
Regulatory assets	7,373	4,534
Income taxes receivable	4,933	7,965
Other current assets	44,472	54,808
Total current assets	294,010	302,524
<b>Other Property and Investments:</b>		
Investment securities	388,832	328,242
Equity investment in NMRD	65,159	26,564
Other investments	356	297
Non-utility property	12,459	3,404
Total other property and investments	466,806	358,507
<b>Utility Plant:</b>		
Plant in service, held for future use, and to be abandoned	7,918,601	7,548,581
Less accumulated depreciation and amortization	2,713,503	2,604,177
	5,205,098	4,944,404
Construction work in progress	161,106	194,427
Nuclear fuel, net of accumulated amortization of \$42,354 and \$42,511	99,805	95,798
Net utility plant	5,466,009	5,234,629
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	556,930	598,930
Goodwill	278,297	278,297
Operating lease right-of-use assets, net of accumulated amortization	131,212	—
Other deferred charges	105,510	92,664
Total deferred charges and other assets	1,071,949	969,891
	\$ 7,298,774	\$ 6,865,551

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 185,100	\$ 235,900
Current installments of long-term debt	490,268	—
Accounts payable	103,118	112,170
Customer deposits	10,585	10,695
Accrued interest and taxes	76,815	65,156
Regulatory liabilities	505	9,446
Operating lease liabilities	29,068	—
Dividends declared	24,625	23,231
Other current liabilities	47,397	55,855
Total current liabilities	967,481	512,453
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	<b>2,517,449</b>	<b>2,670,111</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	626,058	600,719
Regulatory liabilities	866,243	891,428
Asset retirement obligations	181,962	158,674
Accrued pension liability and postretirement benefit cost	95,037	100,375
Operating lease liabilities	105,512	—
Other deferred credits	185,753	167,668
Total deferred credits and other liabilities	2,060,565	1,918,864
Total liabilities	5,545,495	5,101,428
<b>Commitments and Contingencies (See Note 16)</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 79,653,624 shares)	1,150,552	1,153,113
Accumulated other comprehensive income (loss), net of income taxes	(99,377)	(108,684)
Retained earnings	627,523	643,953
Total PNMR common stockholders' equity	1,678,698	1,688,382
Non-controlling interest in Valencia	63,052	64,212
Total equity	1,741,750	1,752,594
	\$ 7,298,774	\$ 6,865,551

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**Attributable to PNMR**

	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
(In thousands)						
<b>Balance at December 31, 2016, as originally reported</b>	\$ 1,163,661	\$ (92,451)	\$ 604,742	\$ 1,675,952	\$ 68,920	\$ 1,744,872
Cumulative effect adjustment (Note 12)	—	—	10,382	10,382	—	10,382
<b>Balance at January 1, 2017, as adjusted</b>	1,163,661	(92,451)	615,124	1,686,334	68,920	1,755,254
Reclassification of stranded income taxes resulting from tax reform (Note 18)	—	(17,586)	17,586	—	—	—
Net earnings before subsidiary preferred stock dividends	—	—	80,402	80,402	15,017	95,419
Total other comprehensive income (loss)	—	14,097	—	14,097	—	14,097
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(79,056)	(79,056)	—	(79,056)
Proceeds from stock option exercise	1,739	—	—	1,739	—	1,739
Awards of common stock	(13,929)	—	—	(13,929)	—	(13,929)
Stock based compensation expense	6,194	—	—	6,194	—	6,194
Valencia's transactions with its owner	—	—	—	—	(17,742)	(17,742)
<b>Balance at December 31, 2017, as originally reported</b>	1,157,665	(95,940)	633,528	1,695,253	66,195	1,761,448
Cumulative effect adjustment (Note 9)	—	(11,208)	11,208	—	—	—
<b>Balance at January 1, 2018, as adjusted</b>	1,157,665	(107,148)	644,736	1,695,253	66,195	1,761,448
Net earnings before subsidiary preferred stock dividends	—	—	86,170	86,170	15,112	101,282
Total other comprehensive income (loss)	—	(1,536)	—	(1,536)	—	(1,536)
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(86,425)	(86,425)	—	(86,425)
Proceeds from stock option exercise	963	—	—	963	—	963
Awards of common stock	(12,635)	—	—	(12,635)	—	(12,635)
Stock based compensation expense	7,120	—	—	7,120	—	7,120
Valencia's transactions with its owner	—	—	—	—	(17,095)	(17,095)
<b>Balance at December 31, 2018</b>	1,153,113	(108,684)	643,953	1,688,382	64,212	1,752,594
Net earnings before subsidiary preferred stock dividends	—	—	77,890	77,890	14,241	92,131
Total other comprehensive income (loss)	—	9,307	—	9,307	—	9,307
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(93,792)	(93,792)	—	(93,792)
Proceeds from stock option exercise	943	—	—	943	—	943
Awards of common stock	(9,918)	—	—	(9,918)	—	(9,918)
Stock based compensation expense	6,414	—	—	6,414	—	6,414
Valencia's transactions with its owner	—	—	—	—	(15,401)	(15,401)
<b>Balance at December 31, 2019</b>	<u>\$ 1,150,552</u>	<u>\$ (99,377)</u>	<u>\$ 627,523</u>	<u>\$ 1,678,698</u>	<u>\$ 63,052</u>	<u>\$ 1,741,750</u>

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

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Electric Operating Revenues</b>			
Contracts with customers	\$ 1,010,898	\$ 1,019,291	\$ 992,462
Alternative revenue programs	1,987	(2,443)	3,567
Other electric operating revenue	80,937	75,117	108,201
Total electric operating revenues	1,093,822	1,091,965	1,104,230
<b>Operating Expenses:</b>			
Cost of energy	317,725	314,036	321,677
Administrative and general	172,903	173,178	163,892
Energy production costs	142,545	149,477	137,450
Regulatory disallowances and restructuring costs	150,599	66,339	27,036
Depreciation and amortization	160,368	151,866	147,017
Transmission and distribution costs	42,970	46,855	42,370
Taxes other than income taxes	45,644	45,181	43,709
Total operating expenses	1,032,754	946,932	883,151
Operating income	61,068	145,033	221,079
<b>Other Income and Deductions:</b>			
Interest income	14,303	13,089	8,454
Gains (losses) on investment securities	29,589	(17,176)	27,161
Other income	9,213	10,992	13,527
Other (deductions)	(11,813)	(11,128)	(18,556)
Net other income and (deductions)	41,292	(4,223)	30,586
<b>Interest Charges</b>	72,900	76,458	82,697
<b>Earnings before Income Taxes</b>	29,460	64,352	168,968
<b>Income Taxes (Benefit)</b>	(25,962)	(5,971)	81,555
<b>Net Earnings</b>	55,422	70,323	87,413
<b>(Earnings) Attributable to Valencia Non-controlling Interest</b>	(14,241)	(15,112)	(15,017)
<b>Net Earnings Attributable to PNM</b>	41,181	55,211	72,396
<b>Preferred Stock Dividends Requirements</b>	(528)	(528)	(528)
<b>Net Earnings Available for PNM Common Stock</b>	\$ 40,653	\$ 54,683	\$ 71,868

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

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

	<b>Year Ended December 31, 2019</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
<b>Net Earnings</b>	\$ 55,422	\$ 70,323	\$ 87,413
<b>Other Comprehensive Income (Loss):</b>			
<b>Unrealized Gains on Available-for-Sale Securities:</b>			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(6,534), \$(963), and \$(10,927)	19,190	2,827	17,233
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$3,572, \$970, and \$6,816	(10,491)	(2,849)	(10,751)
<b>Pension Liability Adjustment:</b>			
Experience gains (losses), net of income tax (expense) benefit of \$973, \$2,637, and \$(919)	(2,856)	(7,745)	2,699
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(1,880), \$(1,922), and \$(2,504)	5,524	5,646	3,948
<b>Total Other Comprehensive Income (Loss)</b>	<u>11,367</u>	<u>(2,121)</u>	<u>13,129</u>
<b>Comprehensive Income</b>	<u>66,789</u>	<u>68,202</u>	<u>100,542</u>
<b>Comprehensive (Income) Attributable to Valencia Non-controlling Interest</b>	<u>(14,241)</u>	<u>(15,112)</u>	<u>(15,017)</u>
<b>Comprehensive Income Attributable to PNM</b>	<u>\$ 52,548</u>	<u>\$ 53,090</u>	<u>\$ 85,525</u>

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

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

	<b>Year Ended December 31, 2019</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net earnings	\$ 55,422	\$ 70,323	\$ 87,413
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	191,213	182,355	180,500
Deferred income tax expense (benefit)	(20,145)	3,334	82,549
(Gains) losses on investment securities	(29,589)	17,176	(27,161)
Regulatory disallowances and restructuring costs	150,599	66,339	27,036
Allowance for equity funds used during construction	(6,656)	(8,173)	(8,664)
Other, net	2,697	3,395	5,490
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	5,877	(7,959)	(419)
Materials, supplies, and fuel stock	(5,128)	(6,238)	3,542
Other current assets	(1,453)	(468)	31,775
Other assets	31,409	6,894	15,121
Accounts payable	(3,617)	(14,290)	9,736
Accrued interest and taxes	5,579	(7,617)	21,523
Other current liabilities	18,002	(17,975)	(11,099)
Other liabilities	(39,087)	(3,761)	(9,389)
Net cash flows from operating activities	<u>355,123</u>	<u>283,335</u>	<u>407,953</u>
<b>Cash Flows From Investing Activities:</b>			
Utility plant additions	(341,847)	(255,627)	(309,142)
Proceeds from sales of investment securities	494,528	984,533	637,492
Purchases of investment securities	(513,866)	(1,007,022)	(650,284)
Other, net	(87)	544	33
Net cash flows from investing activities	<u>(361,272)</u>	<u>(277,572)</u>	<u>(321,901)</u>

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

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

	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Cash Flows From Financing Activities:</b>			
Short-term borrowings (repayments), net	15,600	2,600	(21,200)
Short-term borrowings (repayments) - affiliate, net	(19,800)	19,800	—
Long-term borrowings	290,000	450,000	257,000
Repayment of long-term debt	(200,000)	(450,025)	(232,000)
Valencia's transactions with its owner	(15,401)	(17,095)	(17,742)
Dividends paid	(528)	(77,904)	(61,223)
Amounts received under transmission interconnection arrangements	10,015	72,260	11,879
Refunds paid under transmission interconnection arrangements	(72,525)	(2,830)	(21,290)
Other, net	(296)	(3,592)	(1,692)
Net cash flows from financing activities	<u>7,065</u>	<u>(6,786)</u>	<u>(86,268)</u>
<b>Change in Cash and Cash Equivalents</b>	916	(1,023)	(216)
<b>Cash and Cash Equivalents at Beginning of Year</b>	85	1,108	1,324
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 1,001</u>	<u>\$ 85</u>	<u>\$ 1,108</u>
<b>Restricted Cash Included in Other Current Assets on Consolidated Balance Sheets:</b>			
At beginning of period	\$ —	\$ —	\$ 1,000
At end of period	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Supplemental Cash Flow Disclosures:</b>			
Interest paid, net of amounts capitalized	\$ 65,445	\$ 73,029	\$ 77,960
Income taxes paid (refunded), net	<u>\$ (3,544)</u>	<u>\$ 134</u>	<u>\$ (23,391)</u>
<b>Supplemental schedule of noncash investing activities:</b>			
(Increase) decrease in accrued plant additions	<u>\$ 4,751</u>	<u>\$ (12,310)</u>	<u>\$ (11,792)</u>

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

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,001	\$ 85
Accounts receivable, net of allowance for uncollectible accounts of \$1,163 and \$1,406	60,447	68,603
Unbilled revenues	46,602	47,113
Other receivables	11,039	10,650
Affiliate receivables	8,825	15,871
Materials, supplies, and fuel stock	72,225	67,097
Regulatory assets	7,373	4,534
Income taxes receivable	15,122	12,850
Other current assets	36,561	43,516
Total current assets	259,195	270,319
<b>Other Property and Investments:</b>		
Investment securities	388,832	328,242
Other investments	178	91
Non-utility property	4,470	96
Total other property and investments	393,480	328,429
<b>Utility Plant:</b>		
Plant in service, held for future use, and to be abandoned	5,753,267	5,623,520
Less accumulated depreciation and amortization	2,076,291	2,006,266
	3,676,976	3,617,254
Construction work in progress	108,787	134,221
Nuclear fuel, net of accumulated amortization of \$42,354 and \$42,511	99,805	95,798
Net utility plant	3,885,568	3,847,273
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	435,467	460,903
Goodwill	51,632	51,632
Operating lease right-of-use assets, net of accumulated amortization	120,585	—
Other deferred charges	97,064	77,327
Total deferred charges and other assets	704,748	589,862
	\$ 5,242,991	\$ 5,035,883

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

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

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 58,000	\$ 42,400
Short-term debt - affiliate	—	19,800
Current installments of long-term debt	350,268	—
Accounts payable	66,746	75,114
Affiliate payables	12,524	164
Customer deposits	10,585	10,695
Accrued interest and taxes	43,617	35,767
Regulatory liabilities	371	5,975
Operating lease liabilities	25,927	—
Dividends declared	132	132
Other current liabilities	25,066	32,976
Total current liabilities	593,236	223,023
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	<b>1,397,752</b>	<b>1,656,490</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	521,990	502,767
Regulatory liabilities	683,398	713,971
Asset retirement obligations	181,081	157,814
Accrued pension liability and postretirement benefit cost	87,838	92,981
Operating lease liabilities	97,992	—
Other deferred credits	155,744	215,737
Total deferred credits and liabilities	1,728,043	1,683,270
Total liabilities	3,719,031	3,562,783
<b>Commitments and Contingencies (See Note 16)</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)	1,264,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(99,055)	(110,422)
Retained earnings	283,516	242,863
Total PNM common stockholder's equity	1,449,379	1,397,359
Non-controlling interest in Valencia	63,052	64,212
Total equity	1,512,431	1,461,571
	<b>\$ 5,242,991</b>	<b>\$ 5,035,883</b>

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

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

	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 December 31, 2016</b>	\$ 1,264,918	\$ (92,428)	\$ 225,382	\$ 1,397,872	\$ 68,920	\$ 1,466,792
Reclassification of stranded income taxes resulting from tax reform (Note 18)	—	(17,794)	17,794	—	—	—
Net earnings	—	—	72,396	72,396	15,017	87,413
Total other comprehensive income	—	13,129	—	13,129	—	13,129
Dividends declared on preferred stock	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(60,695)	(60,695)	—	(60,695)
Valencia's transactions with its owner	—	—	—	—	(17,742)	(17,742)
<b>Balance at December 31, 2017, as originally reported</b>	1,264,918	(97,093)	254,349	1,422,174	66,195	1,488,369
Cumulative effect adjustment (Note 9)	—	(11,208)	11,208	—	—	—
<b>Balance at January 1, 2018, as adjusted</b>	1,264,918	(108,301)	265,557	1,422,174	66,195	1,488,369
Net earnings	—	—	55,211	55,211	15,112	70,323
Total other comprehensive income (loss)	—	(2,121)	—	(2,121)	—	(2,121)
Dividends declared on preferred stock	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(77,377)	(77,377)	—	(77,377)
Valencia's transactions with its owner	—	—	—	—	(17,095)	(17,095)
<b>Balance at December 31, 2018</b>	1,264,918	(110,422)	242,863	1,397,359	64,212	1,461,571
Net earnings	—	—	41,181	41,181	14,241	55,422
Total other comprehensive income	—	11,367	—	11,367	—	11,367
Dividends declared on preferred stock	—	—	(528)	(528)	—	(528)
Valencia's transactions with its owner	—	—	—	—	(15,401)	(15,401)
<b>Balance at December 31, 2019</b>	<u>\$ 1,264,918</u>	<u>\$ (99,055)</u>	<u>\$ 283,516</u>	<u>\$ 1,449,379</u>	<u>\$ 63,052</u>	<u>\$ 1,512,431</u>

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

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Electric Operating Revenues</b>			
Contracts with customers	\$ 366,310	\$ 340,449	\$ 328,561
Alternative revenue programs	(2,529)	4,199	12,212
Total electric operating revenues	<u>363,781</u>	<u>344,648</u>	<u>340,773</u>
<b>Operating Expenses:</b>			
Cost of energy	95,087	85,690	85,802
Administrative and general	40,530	38,642	39,828
Regulatory disallowances	496	(741)	—
Depreciation and amortization	84,259	66,189	63,146
Transmission and distribution costs	26,892	29,579	29,206
Taxes other than income taxes	30,703	28,792	29,187
Total operating expenses	<u>277,967</u>	<u>248,151</u>	<u>247,169</u>
Operating income	<u>85,814</u>	<u>96,497</u>	<u>93,604</u>
<b>Other Income and Deductions:</b>			
Other income	5,559	5,487	4,994
Other (deductions)	(1,428)	(1,422)	(1,443)
Net other income and deductions	<u>4,131</u>	<u>4,065</u>	<u>3,551</u>
<b>Interest Charges</b>	<u>29,100</u>	<u>32,091</u>	<u>30,084</u>
<b>Earnings before Income Taxes</b>	<u>60,845</u>	<u>68,471</u>	<u>67,071</u>
<b>Income Taxes</b>	<u>5,046</u>	<u>16,880</u>	<u>31,512</u>
<b>Net Earnings</b>	<u>\$ 55,799</u>	<u>\$ 51,591</u>	<u>\$ 35,559</u>

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

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net earnings	\$ 55,799	\$ 51,591	\$ 35,559
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	85,453	68,078	64,939
Regulatory disallowances	496	(741)	—
Deferred income tax expense	(7,650)	1,780	27,275
Allowance for equity funds used during construction and other, net	(2,808)	(2,048)	(1,120)
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(2,081)	(744)	(1,427)
Materials and supplies	(967)	907	(2,069)
Other current assets	(798)	1,929	(1,253)
Other assets	8,366	(7,174)	(20,967)
Accounts payable	1,829	(4,199)	2,419
Accrued interest and taxes	186	12,263	(15,962)
Other current liabilities	771	6,719	(2,236)
Other liabilities	(1,004)	(6,610)	1,334
Net cash flows from operating activities	<u>137,592</u>	<u>121,751</u>	<u>86,492</u>
<b>Cash Flows From Investing Activities:</b>			
Utility plant additions	(254,006)	(223,448)	(145,495)
Net cash flows from investing activities	<u>(254,006)</u>	<u>(223,448)</u>	<u>(145,495)</u>

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

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**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Cash Flow From Financing Activities:</b>			
Short-term borrowings (repayments), net	(2,500)	17,500	—
Short-term borrowings (repayments) – affiliate, net	(100)	100	(4,600)
Long-term borrowings	305,000	95,000	60,000
Repayment of long-term debt	(207,302)	—	—
Equity contribution from parent	80,000	30,000	50,000
Dividends paid	(55,265)	(41,903)	(44,389)
Other, net	(2,419)	(700)	(979)
Net cash flows from financing activities	117,414	99,997	60,032
<b>Change in Cash and Cash Equivalents</b>	1,000	(1,700)	1,029
<b>Cash and Cash Equivalents at Beginning of Year</b>	—	1,700	671
<b>Cash and Cash Equivalents at End of Year</b>	\$ 1,000	\$ —	\$ 1,700
<b>Supplemental Cash Flow Disclosures:</b>			
Interest paid, net of amounts capitalized	\$ 28,055	\$ 28,629	\$ 29,251
Income taxes paid, (refunded) net	\$ 13,611	\$ 4,266	\$ 21,436
<b>Supplemental schedule of noncash investing and financing activities:</b>			
(Increase) decrease in accrued plant additions	\$ 5,035	\$ 1,810	\$ (15,737)

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

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
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**CONSOLIDATED BALANCE SHEETS**

ASSETS	December 31,	
	2019	2018
	(In thousands)	
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,000	\$ —
Accounts receivable	25,442	24,196
Unbilled revenues	10,814	9,979
Other receivables	2,713	1,721
Affiliate receivables	—	164
Materials and supplies	5,704	4,737
Other current assets	1,280	1,114
Total current assets	46,953	41,911
<b>Other Property and Investments:</b>		
Other investments	178	206
Non-utility property	6,684	2,240
Total other property and investments	6,862	2,446
<b>Utility Plant:</b>		
Plant in service and plant held for future use	1,919,256	1,686,119
Less accumulated depreciation and amortization	516,795	487,734
	1,402,461	1,198,385
Construction work in progress	42,554	51,459
Net utility plant	1,445,015	1,249,844
<b>Deferred Charges and Other Assets:</b>		
Regulatory assets	121,463	138,027
Goodwill	226,665	226,665
Operating lease right-of-use assets, net of accumulated amortization	9,954	—
Other deferred charges	3,527	6,284
Total deferred charges and other assets	361,609	370,976
	\$ 1,860,439	\$ 1,665,177

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

**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
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**CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 15,000	\$ 17,500
Short-term debt – affiliate	—	100
Accounts payable	20,598	23,804
Affiliate payables	5,419	1,210
Accrued interest and taxes	42,068	41,882
Regulatory liabilities	134	3,471
Operating lease liabilities	2,753	—
Other current liabilities	3,565	2,861
Total current liabilities	89,537	90,828
<b>Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs</b>	670,691	575,398
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	140,151	136,238
Regulatory liabilities	182,845	177,458
Asset retirement obligations	881	860
Accrued pension liability and postretirement benefit cost	7,199	7,394
Operating lease liabilities	7,039	—
Other deferred credits	7,469	2,908
Total deferred credits and other liabilities	345,584	324,858
Total liabilities	1,105,812	991,084
<b>Commitments and Contingencies (See Note 16)</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	614,166	534,166
Retained earnings	140,397	139,863
Total common stockholder's equity	754,627	674,093
	\$ 1,860,439	\$ 1,665,177

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

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

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
<b>Balance at December 31, 2016</b>	\$ 64	\$ 454,166	\$ 139,005	\$ 593,235
Net earnings	—	—	35,559	35,559
Equity contribution from parent	—	50,000	—	50,000
Dividends declared on common stock	—	—	(44,389)	(44,389)
<b>Balance at December 31, 2017</b>	64	504,166	130,175	634,405
Net earnings	—	—	51,591	51,591
Equity contributions from parent	—	30,000	—	30,000
Dividends declared on common stock	—	—	(41,903)	(41,903)
<b>Balance at December 31, 2018</b>	64	534,166	139,863	674,093
Net earnings	—	—	55,799	55,799
Equity contributions from parent	—	80,000	—	80,000
Dividends declared on common stock	—	—	(55,265)	(55,265)
<b>Balance at December 31, 2019</b>	\$ 64	\$ 614,166	\$ 140,397	\$ 754,627

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

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**(1) Summary of the Business and Significant Accounting Policies**

**Nature of Business**

PNMR is an investor-owned holding company with two regulated utilities providing electricity and electric services in New Mexico and Texas. PNMR's primary subsidiaries are PNM and TNMP. PNM is a public utility with regulated operations primarily engaged in the generation, transmission, and distribution of electricity. TNMP is a wholly-owned subsidiary of TNP, which is a holding company that is wholly-owned by PNMR. TNMP provides regulated transmission and distribution services in Texas. PNMR's common stock trades on the New York Stock Exchange under the symbol PNM.

**Financial Statement Preparation and Presentation**

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.

The Notes to 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 2018 and 2017 Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2019 financial statement presentation.

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 as required by GAAP.

**Principles of Consolidation**

The 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 (Note 10). 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 shared services' 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. All intercompany transactions and balances have been eliminated. See Note 20.

**Accounting for the Effects of Certain Types of Regulation**

The Company maintains its accounting records in accordance with the uniform system of accounts prescribed by FERC and adopted by the NMPRC and PUCT.

Certain of the Company's operations are regulated by the NMPRC, PUCT, and FERC and the provisions of GAAP for rate-regulated enterprises are applied to the regulated operations. Regulators may assign costs to accounting periods that differ from accounting methods applied by non-regulated utilities. When it is probable that regulators will permit recovery of costs through future rates, costs are deferred as regulatory assets that otherwise would be expensed. Likewise, regulatory liabilities are recognized when it is probable that regulators will require refunds through future rates or when revenue is collected for expenditures that have not yet been incurred. GAAP also provides for the recognition of revenue and regulatory assets and liabilities associated with "alternative revenue programs" authorized by regulators. Such programs allow the utility to adjust future rates in response to past activities or completed events, if certain criteria are met, even for programs that do not otherwise qualify for recognition of regulatory assets and liabilities. Regulatory assets and liabilities are amortized into earnings over the authorized recovery period.

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Accordingly, the Company has deferred certain costs and recorded certain liabilities pursuant to the rate actions of the NMPRC, PUCT, and FERC. Information on regulatory assets and regulatory liabilities is contained in Note 13.

In some circumstances, regulators allow a requested increase in rates to be implemented, subject to refund, before the regulatory process has been completed and a decision rendered by the regulator. When this occurs, the Company assesses the possible outcomes of the rate proceeding. The Company records a provision for refund to the extent the amounts being collected, subject to refund, exceed the amount the Company determines is probable of ultimately being allowed by the regulator.

#### **Cash and Restricted Cash**

Investments in highly liquid investments with original maturities of three months or less at the date of purchase are considered cash and cash equivalents.

As of January 1, 2017, PNM held a deposit of \$1.0 million from a third party that was restricted for PNM's construction of transmission interconnection facilities and was held as restricted cash until the second quarter of 2017, at which time a refund was made to the third party. Under the terms of the BTMU Term Loan agreement (Note 7), all cash of NM Capital was restricted to be used for payments required under that agreement or for taxes and fees. On May 22, 2018, Westmoreland repaid the Westmoreland Loan in full. NM Capital used a portion of the proceeds to repay all of its obligations under the BTMU Term Loan. These payments effectively terminated the loan agreements (Note 10).

#### **Utility Plant**

Utility plant is stated at original cost and includes capitalized payroll-related costs such as taxes, pension, other fringe benefits, administrative costs, and AFUDC, where authorized by rate regulation, or capitalized interest.

Repairs, including major maintenance activities, and minor replacements of property are expensed when incurred, except as required by regulators for ratemaking purposes. Major replacements are charged to utility plant. Gains, losses, and costs to remove resulting from retirements or other dispositions of regulated property in the normal course of business are credited or charged to accumulated depreciation.

PNM and TNMP may receive reimbursements, referred to as CIAC, from customers to pay for all or part of certain construction projects to the extent the project does not benefit regulated customers in general. PNM and TNMP account for these reimbursements as offsets to utility plant additions based on the requirements of the NMPRC, FERC, and PUCT. Due to the PUCT's regulatory treatment of CIAC reimbursements, TNMP also receives a financing component that is recognized as other income on the Consolidated Statements of Earnings. Under the NMPRC regulatory treatment, PNM typically does not receive a financing component.

#### **Depreciation and Amortization**

PNM's provision for depreciation and amortization of utility plant, other than nuclear fuel, is based upon straight-line rates approved by the NMPRC and FERC. Amortization of nuclear fuel is based on units-of-production. TNMP's provision for depreciation and amortization of utility plant is based upon straight-line rates approved by the PUCT. Depreciation of non-utility property is computed based on the straight-line method. The provision for depreciation of certain equipment is allocated between operating expenses and construction projects based on the use of the equipment. Average straight-line rates used were as follows:

	Year ended December 31,		
	2019	2018	2017
PNM			
Electric plant	2.47%	2.40%	2.52%
Common, intangible, and general plant	7.91%	8.18%	8.36%
TNMP	4.04%	3.49%	3.57%

#### **Allowance for Funds Used During Construction**

As provided by the FERC uniform systems of accounts, AFUDC is charged to regulated utility plant for construction projects. This allowance is designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. It represents the cost of borrowed funds (allowance for borrowed funds used during construction or "debt AFUDC") and a return on other funds (allowance for equity funds used during construction or "equity AFUDC"). The debt

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AFUDC is recorded in interest charges and the equity AFUDC is recorded in other income on the Consolidated Statements of Earnings.

For the years ended December 31, 2019, 2018, and 2017, PNM recorded \$5.0 million, \$6.1 million, and \$6.3 million of debt AFUDC at annual rates of 2.99%, 3.19%, and 3.14% and \$6.7 million, \$8.2 million, and \$8.7 million of equity AFUDC at annual rates of 3.95%, 4.25%, and 4.30%. For the years ended December 31, 2019, 2018, and 2017, TNMP recorded \$2.4 million, \$2.3 million, and \$1.2 million of debt AFUDC at rates of 3.23%, 3.32%, and 3.17% and \$2.8 million, \$2.2 million, and \$0.9 million of equity AFUDC at rates of 3.78%, 3.29%, and 2.29%.

**Materials, Supplies, and Fuel Stock**

Materials and supplies relate to transmission, distribution, and generating assets. Materials and supplies are charged to inventory when purchased and are expensed or capitalized as appropriate when issued. Materials and supplies are valued using an average costing method. Coal is valued using a rolling weighted average costing method that is updated based on the current period cost per ton. Periodic aerial surveys are performed on the coal piles and adjustments are made. Average cost is equal to net realizable value under the ratemaking process.

Inventories consisted of the following at December 31:

	PNMR		PNM		TNMP	
	2019	2018	2019	2018	2019	2018
	(In thousands)					
Coal	\$ 24,914	\$ 22,777	\$ 24,914	\$ 22,777	\$ —	\$ —
Materials and supplies	53,015	49,057	47,311	44,320	5,704	4,737
	\$ 77,929	\$ 71,834	\$ 72,225	\$ 67,097	\$ 5,704	\$ 4,737

**Investments**

PNM holds investment securities in the NDT for the purpose of funding its share of the decommissioning costs of PVNGS and trusts for PNM's share of final reclamation costs related to the coal mines serving SJGS and Four Corners (Note 16). Since third party investment managers have sole discretion over the purchase and sale of the securities, PNM records a realized loss as an impairment for any available-for-sale debt security that has a market value that is less than cost at the end of each quarter. Prior to 2018, PNM classified all debt and equity investments in the NDT and coal mine reclamation trusts as available-for-sale securities. Effective January 1, 2018, the Company adopted *Accounting Standards Update 2016-01 – Financial Instruments (Subtopic 825-10)*, which eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and requires those equity securities to be measured at fair value with changes in fair value recognized in earnings rather than in OCI. On January 1, 2018, PNM recorded a cumulative effect adjustment to reclassify unrealized holding gains on equity securities held in the NDT and coal mine reclamation trusts from AOCI to retained earnings on the Consolidated Balance Sheets. Accordingly, the information for investment securities in the NDT and coal mine reclamation trusts for 2019 and 2018 is presented under ASU 2016-01 and the information for 2017 is presented under prior GAAP. For the years ended December 31, 2019 and 2018, PNM recorded impairment losses on the available-for-sale debt securities of \$5.7 million and \$13.7 million. For the year ended December 31, 2017, PNM recorded impairment losses on the available-for-sale securities, which included both debt and equity securities, of \$7.1 million. No gains or losses are deferred as regulatory assets or liabilities. See Notes 3 and 9. All investments are held in PNM's name and are in the custody of major financial institutions. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and deductions.

**Investment in NM Renewable Development, LLC**

On September 22, 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. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. In December 2017, PNMR Development made a contribution to NMRD of its interest in three 10 MW solar facilities it was constructing and assigned its interests in several agreements related to those facilities to NMRD. The facilities had a book value of \$24.8 million, which approximated fair value at that time. AEP OnSite Partners made a cash contribution to NMRD equal to 50% of the value of the 30 MW solar capacity, amounting to \$12.4 million, which cash was then distributed from NMRD to PNMR Development. During 2019, 2018, and 2017 PNMR Development and AEP OnSite Partners each made cash contributions of \$38.3 million, \$9.0 million, and \$4.1 million to NMRD for its construction activities. At December 31, 2019, NMRD's renewable energy capacity in operation is 85.1 MW, which includes 80 MW of solar-PV facilities to supply energy to the Facebook data center located within PNM's service territory, 1.9

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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. PNMR accounts for its investment in NMRD using the equity method of accounting because PNMR's ownership interest results in significant influence, but not control, over NMRD and its operations. PNMR records as income its percentage share of earnings or loss of NMRD and carries its investment at cost, adjusted for its share of undistributed earnings or losses.

PNMR presents its share of net earnings from NMRD in other income on the Consolidated Statements of Earnings. For the year ended December 31, 2017, NMRD revenues, expenses, and net income were each less than \$0.1 million. Summarized financial information for NMRD is as follows:

<b>Results of Operations</b>		
<b>December 31,</b>		
	<b>2019</b>	<b>2018</b>
(In thousands)		
Operating revenues	\$ 3,662	\$ 3,147
Operating expenses	2,971	2,136
Net earnings	\$ 691	\$ 1,011
<b>Financial Position</b>		
<b>December 31,</b>		
	<b>2019</b>	<b>2018</b>
(In thousands)		
Current assets	\$ 7,187	\$ 2,581
Net property, plant, and equipment	132,772	50,784
Total assets	139,959	53,365
Current liabilities	9,640	237
Owners' equity	\$ 130,319	\$ 53,128

### Goodwill

Under GAAP, the Company does not amortize goodwill. Goodwill is evaluated for impairment annually, or more frequently if events and circumstances indicate that the goodwill might be impaired. See Note 19.

### Asset Impairment

Tangible long-lived assets and right-of-use assets associated with leases are evaluated in relation to the estimated future undiscounted cash flows to assess recoverability when events and circumstances indicate that the assets might be impaired. See Note 16.

### Revenue Recognition

See Note 4 for a discussion of electric operating revenues.

### Accounts Receivable and Allowance for Uncollectible Accounts

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 calculates the allowance for uncollectible accounts based on historical experience and estimated default rates. The accounts receivable balances are reviewed monthly and adjustments to the allowance for uncollectible accounts and bad debt expense are made as necessary. Amounts that are deemed uncollectible are written off.

### Amortization of Debt Acquisition Costs

Discount, premium, and expense related to the issuance of long-term debt are amortized over the lives of the respective issues. Gains and losses incurred upon the early retirement of long-term debt are recognized in other income or other deductions, except for amounts recoverable through NMPRC, FERC, or PUCT regulation, which are recorded as regulatory assets or liabilities and amortized over the lives of the respective issues. Unamortized premium, discount, and expense related to long-term debt are reflected as part of the related liability on the Consolidated Balance Sheets.

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**Derivatives**

The Company records derivative instruments, including energy contracts, on the balance sheet as either an asset or liability measured at their fair value. GAAP requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. PNM also records certain commodity derivative transactions recoverable through NMPRC regulation as regulatory assets or liabilities. See Note 7 and Note 9.

The Company treats all forward commodity purchases and sales contracts subject to unplanned netting or "book-out" by the transmission provider as derivative instruments subject to mark-to-market accounting. GAAP provides guidance on whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis and concludes such classification is a matter of judgment that depends on the relevant facts and circumstances. See Note 4.

**Decommissioning and Reclamation Costs**

In accordance with GAAP, PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists. Nuclear decommissioning costs and related accruals are based on periodic site-specific estimates of the costs for removing all radioactive and other structures at PVNGS and are dependent upon numerous assumptions, including estimates of future decommissioning costs at current price levels, inflation rates, and discount rates. PNM's accruals for PVNGS Units 1, 2, and 3, including portions held under leases, have been made based on such estimates, the guidelines of the NRC, and the PVNGS license periods. PVNGS Units 1 and 2 are included in PNM's retail rates and PVNGS Unit 3 was excluded through December 31, 2017 but is included in retail rates beginning in 2018. See Note 16. See Note 17 for information concerning the treatment of nuclear decommissioning costs for certain purchased and leased portions of PVNGS in the NMPRC's order in PNM's NM 2015 Rate Case and the NM Supreme Court's decision on PNM's appeal of that order.

In connection with both the SJGS and Four Corners coal supply agreements, the owners are required to reimburse the mining companies for the cost of contemporaneous reclamation, as well as the costs for final reclamation of the coal mines. The reclamation costs are based on periodic site-specific studies that estimate the costs to be incurred in the future and are dependent upon numerous assumptions, including estimates of future reclamation costs at current price levels, inflation rates, and discount rates. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. See Note 16 for a discussion of reclamation costs.

**Environmental Costs**

The normal operations of the Company involve activities and substances that expose the Company to potential liabilities under laws and regulations protecting the environment. Liabilities under these laws and regulations can be material and may be imposed without regard to fault, or may be imposed for past acts, even though the past acts may have been lawful at the time they occurred.

The Company records its environmental liabilities when site assessments or remedial actions are probable and a range of reasonably likely cleanup costs can be estimated. The Company reviews its sites and measures the liability by assessing a range of reasonably likely costs for each identified site using currently available information and the probable level of involvement and financial condition of other potentially responsible parties. These estimates are based on assumptions regarding the costs for site investigations, remediation, operations and maintenance, monitoring, and site closure. The ultimate cost to clean up the Company's identified sites may vary from its recorded liability due to numerous uncertainties inherent in the estimation process. Amounts recorded for environmental expense in the years ended December 31, 2019, 2018, and 2017, as well as the amounts of environmental liabilities at December 31, 2019 and 2018 were insignificant.

**Pension and Other Postretirement Benefits**

See Note 11 for a discussion of pension and postretirement benefits expense, including a discussion of the actuarial assumptions.

**Stock-Based Compensation**

See Note 12 for a discussion of stock-based compensation expense.

**Income Taxes**

Income taxes are recognized using the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis. In accordance with GAAP, all deferred taxes are

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reflected as non-current on the Consolidated Balance Sheets. Current NMPRC, FERC, and PUCT approved rates include the tax effects of the majority of these differences. GAAP requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded based on the expected cash flow to be reflected in future rates. Because the NMPRC, FERC, and the PUCT have consistently permitted the recovery of tax effects previously flowed-through earnings, the Company has established regulatory assets and liabilities offsetting such deferred tax assets and liabilities. The Company recognizes only the impact of tax positions that, based on their merits, are more likely than not to be sustained upon an IRS audit. The Company defers investment tax credits and amortizes them over the estimated useful lives of the assets. See Note 18 for additional information, including a discussion of the impacts of the Tax Act.

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 taxes, which includes the earnings attributable to the Valencia non-controlling interest. GAAP also provides that certain unusual or infrequently occurring items, as well as adjustments due to enactment of new tax laws, be excluded from the estimated annual effective tax rate calculation.

**Lease Commitments**

See Note 13 for a discussion of lease commitments.

**New Accounting Pronouncements**

Information concerning recently issued accounting pronouncements that have not been adopted by the Company is presented below. The Company does not expect difficulty in adopting these standards by their required effective dates.

*Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13, which changes the way entities recognize impairment of many financial assets, including accounts receivable and investments in certain debt securities, by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. In November 2018, the FASB clarified that receivables arising from operating leases are not within the scope of Topic 326 for assets measured at amortized costs. Instead, impairments of receivables arising from operating leases should be accounted for in accordance with Topic 842. In May 2019, the FASB issued transition relief by providing an option to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost. The Company is in the process of analyzing the impacts of the new standard but does not anticipate a significant impact on its reserves for trade receivables or on PNMR's guarantees of certain PNMR Development debt arrangements. A cumulative effect adjustment is also not anticipated upon implementation. ASU 2016-13 also requires entities to separately measure and realize an impairment for credit losses on available-for-sale debt securities for which carrying value exceeds fair value, unless such securities have been determined to be other than temporarily impaired and the entire decrease in value has been realized as an impairment. PNM records a realized loss as an impairment for any available-for-sale debt security that has a fair value that is less than carrying value at the end of each quarter. As a result, the Company does not anticipate the new standard will impact its accounting for available-for-sale debt securities. The Company will adopt ASU 2016-13 as of January 1, 2020, its required effective date.

*Accounting Standards Update 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*

In January 2017, the FASB issued ASU 2017-04 to simplify the annual goodwill impairment assessment process. Currently, the first step of a quantitative impairment test requires an entity to compare the fair value of each reporting unit containing goodwill 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 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 requires 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. ASU 2017-04 eliminates the second step of the impairment analysis. Accordingly, if the first step of a quantitative goodwill impairment analysis performed after adoption of ASU 2017-04 indicates that the fair

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value of a reporting unit is less than its carrying value, the goodwill of that reporting unit would be impaired to the extent of that difference. The Company will adopt ASU 2017-04 for impairment testing after January 1, 2020, its required effective date.

*Accounting Standards Update 2018-13 – Fair Value Measurements (Topic 820) Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurements*

In August 2018, the FASB issued ASU 2018-13 to improve fair value disclosures. ASU 2018-13 eliminates certain disclosure requirements related to transfers between Levels 1 and 2 of the fair value hierarchy and the requirement to disclose the valuation process for Level 3 fair value measurements. ASU 2018-13 also amends certain disclosure requirements for investments measured at net asset value and requires new disclosures for Level 3 investments, including a new requirement to disclose changes in unrealized gains or losses recorded in OCI related to Level 3 fair value measurements. ASU 2018-13 is effective for the Company beginning on January 1, 2020 and permits entities to adopt all or certain elements of the new guidance prior to its effective date. ASU 2018-13 requires retrospective application, except for the new disclosures related to Level 3 investments which are to be applied prospectively. As discussed in Note 9, PNM and TNMP have investment securities in trusts for decommissioning, reclamation, pension benefits, and other postretirement benefits, which are measured at fair value. Certain investments in these trusts are measured at net asset value per share. These trusts currently hold no Level 3 investments. The Company is evaluating the requirements of ASU 2018-13, but does not anticipate it will have a significant impact on the Company's fair value disclosures.

*Accounting Standards Update 2018-14 – Compensation - Retirement Benefits - Defined Benefit Plans (Topic 715) Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans*

In August 2018, the FASB issued ASU 2018-14 to improve benefit plan sponsors' disclosures for defined benefit pension and other post-employment benefit plans. ASU 2018-14 removes the requirement to disclose the amounts in other comprehensive income expected to be recognized as benefit cost over the next fiscal year and the requirement to disclose the impact of a one-percentage-point change in the assumed health care cost trend rate; clarifies the disclosure requirements for plans with assets that are less than their projected benefit, or accumulated benefit obligation; and requires significant gains and losses affecting benefit obligations during the period be disclosed. ASU 2018-14 is effective for the Company on December 31, 2020, although early adoption is permitted, and requires retrospective application. As discussed in Note 11, PNM and TNMP maintain qualified defined benefit, other postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The Company is in the process of evaluating the requirements of ASU 2018-14 but does not anticipate these changes will have a significant impact on the Company's defined benefit and other postretirement benefit plan disclosures.

*Accounting Standards Update 2018-15 – Intangibles - Goodwill and Other - Internal Use Software (Topic 350): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*

In August 2018, the FASB issued ASU 2018-15 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for implementation costs incurred to develop or obtain internal-use software. Under ASU 2018-15, entities are required to capitalize implementation costs for hosting arrangements if those costs meet the capitalization requirements for internal-use software arrangements. ASU 2018-15 requires entities to present cash flows, capitalized costs, and amortization expense in the same financial statement line items as other costs incurred for such hosting arrangements. ASU 2018-15 is effective for the Company on January 1, 2020 and allows entities to apply the new requirements retrospectively or prospectively. The Company is in the process of analyzing the impacts of this new standard.

*Accounting Standards Update 2019-12 – Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*

In December 2019, the FASB issued ASU 2019-12 as part of its initiative to reduce complexity in accounting standards. The amendments in ASU 2019-12 simplify accounting for income taxes by removing several accounting exceptions to accounting for income taxes. ASU 2019-12 also eliminates or simplifies other income tax accounting requirements, including a requirement that entities recognize franchise tax (or similar tax) that is partially based on income as an income-based tax. ASU 2019-12 is effective for the Company beginning on January 1, 2021 and allows for early adoption. ASU 2019-12 is to be applied prospectively or retrospectively in the period of adoption depending on the type of amendment. The Company is in the process of analyzing the impacts of this new standard.

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**(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, NM Capital, and the equity method investment in NMRD are also included in Corporate and Other. Eliminations of intercompany income and expense transactions are reflected in the Corporate and Other segment.

**PNMR SEGMENT INFORMATION**

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.

2019	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
<b>Electric operating revenues</b>	\$ 1,093,822	\$ 363,781	\$ —	\$ 1,457,603
Cost of energy	317,725	95,087	—	412,812
<b>Utility margin</b>	776,097	268,694	—	1,044,791
Other operating expenses	554,661	98,621	(20,499)	632,783
Depreciation and amortization	160,368	84,259	23,181	267,808
<b>Operating income (loss)</b>	61,068	85,814	(2,682)	144,200
Interest income	14,303	—	(281)	14,022
Other income (deductions)	26,989	4,131	(1,477)	29,643
Interest charges	(72,900)	(29,100)	(19,016)	(121,016)
<b>Segment earnings (loss) before income taxes</b>	29,460	60,845	(23,456)	66,849
Income taxes (benefit)	(25,962)	5,046	(4,366)	(25,282)
<b>Segment earnings (loss)</b>	55,422	55,799	(19,090)	92,131
Valencia non-controlling interest	(14,241)	—	—	(14,241)
Subsidiary preferred stock dividends	(528)	—	—	(528)
<b>Segment earnings (loss) attributable to PNMR</b>	<u>\$ 40,653</u>	<u>\$ 55,799</u>	<u>\$ (19,090)</u>	<u>\$ 77,362</u>
<b>At December 31, 2019:</b>				
<b>Total Assets</b>	\$ 5,242,991	\$ 1,860,439	\$ 195,344	\$ 7,298,774
<b>Goodwill</b>	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

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2018	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
<b>Electric operating revenues</b>	\$ 1,091,965	\$ 344,648	\$ —	\$ 1,436,613
Cost of energy	314,036	85,690	—	399,726
<b>Utility margin</b>	<u>777,929</u>	<u>258,958</u>	<u>—</u>	<u>1,036,887</u>
Other operating expenses	481,030	96,272	(17,650)	559,652
Depreciation and amortization	151,866	66,189	23,133	241,188
<b>Operating income</b>	<u>145,033</u>	<u>96,497</u>	<u>(5,483)</u>	<u>236,047</u>
Interest income	13,089	—	2,451	15,540
Other income (deductions)	(17,312)	4,065	(2,039)	(15,286)
Interest charges	(76,458)	(32,091)	(18,695)	(127,244)
<b>Segment earnings (loss) before income taxes</b>	<u>64,352</u>	<u>68,471</u>	<u>(23,766)</u>	<u>109,057</u>
Income taxes	(5,971)	16,880	(3,134)	7,775
<b>Segment earnings (loss)</b>	<u>70,323</u>	<u>51,591</u>	<u>(20,632)</u>	<u>101,282</u>
Valencia non-controlling interest	(15,112)	—	—	(15,112)
Subsidiary preferred stock dividends	(528)	—	—	(528)
<b>Segment earnings (loss) attributable to PNMR</b>	<u>\$ 54,683</u>	<u>\$ 51,591</u>	<u>\$ (20,632)</u>	<u>\$ 85,642</u>

**At December 31, 2018:**

<b>Total Assets</b>	\$ 5,035,883	\$ 1,665,177	\$ 164,491	\$ 6,865,551
<b>Goodwill</b>	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

2017	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
<b>Electric operating revenues</b>	\$ 1,104,230	\$ 340,773	\$ —	\$ 1,445,003
Cost of energy	321,677	85,802	—	407,479
<b>Utility margin</b>	<u>782,553</u>	<u>254,971</u>	<u>—</u>	<u>1,037,524</u>
Other operating expenses	414,457	98,221	(22,135)	490,543
Depreciation and amortization	147,017	63,146	21,779	231,942
<b>Operating income (loss)</b>	<u>221,079</u>	<u>93,604</u>	<u>356</u>	<u>315,039</u>
Interest income	8,454	—	7,462	15,916
Other income (deductions)	22,132	3,551	(3,254)	22,429
Interest charges	(82,697)	(30,084)	(14,844)	(127,625)
<b>Segment earnings (loss) before income taxes</b>	<u>168,968</u>	<u>67,071</u>	<u>(10,280)</u>	<u>225,759</u>
Income taxes (benefit)	81,555	31,512	17,273	130,340
<b>Segment earnings (loss)</b>	<u>87,413</u>	<u>35,559</u>	<u>(27,553)</u>	<u>95,419</u>
Valencia non-controlling interest	(15,017)	—	—	(15,017)
Subsidiary preferred stock dividends	(528)	—	—	(528)
<b>Segment earnings (loss) attributable to PNMR</b>	<u>\$ 71,868</u>	<u>\$ 35,559</u>	<u>\$ (27,553)</u>	<u>\$ 79,874</u>

**At December 31, 2017:**

<b>Total Assets</b>	\$ 4,921,563	\$ 1,500,770	\$ 223,770	\$ 6,646,103
<b>Goodwill</b>	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

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 customers through TNMP's transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.



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**Major Customers**

No individual customer accounted for more than 10% of the electric operating revenues of PNMR or PNM. Three REPs accounted for more than 10% of the electric operating revenues of TNMP, as follows:

	Year Ended December 31,					
	2019		2018		2017	
REP						
A	22	%	21	%	16	%
REP						
B	17	%	15	%	11	%
REP						
C	12	%	12	%	10	%

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

AOCI reports a measure for accumulated changes in equity that result from transactions and other economic events other than transactions with shareholders. Information regarding AOCI is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			PNMR	
	Unrealized Gains on Available-for- Sale Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
<b>Balance at December 31, 2016</b>	\$ 4,320	\$ (96,748)	\$ (92,428)	\$ (23)	\$ (92,451)
Amounts reclassified from AOCI (pre-tax)	(17,567)	6,452	(11,115)	581	(10,534)
Income tax impact of amounts reclassified	6,816	(2,504)	4,312	(225)	4,087
Other OCI changes (pre-tax)	28,160	3,618	31,778	1,000	32,778
Income tax impact of other OCI changes	(10,927)	(919)	(11,846)	(388)	(12,234)
Net after-tax change	6,482	6,647	13,129	968	14,097
Reclassification of stranded income taxes to retained earnings (Note 18)	2,367	(20,161)	(17,794)	208	(17,586)
<b>Balance at December 31, 2017, as originally reported</b>	13,169	(110,262)	(97,093)	1,153	(95,940)
Cumulative effect adjustment (Note 9)	(11,208)	—	(11,208)	—	(11,208)
<b>Balance at January 1, 2018, as adjusted</b>	1,961	(110,262)	(108,301)	1,153	(107,148)
Amounts reclassified from AOCI (pre-tax)	(3,819)	7,568	3,749	216	3,965
Income tax impact of amounts reclassified	970	(1,922)	(952)	(56)	(1,008)
Other OCI changes (pre-tax)	3,790	(10,382)	(6,592)	570	(6,022)
Income tax impact of other OCI changes	(963)	2,637	1,674	(145)	1,529
Net after-tax change	(22)	(2,099)	(2,121)	585	(1,536)
<b>Balance at December 31, 2018</b>	1,939	(112,361)	(110,422)	1,738	(108,684)
Amounts reclassified from AOCI (pre-tax)	(14,063)	7,404	(6,659)	733	(5,926)
Income tax impact of amounts reclassified	3,572	(1,880)	1,692	(186)	1,506
Other OCI changes (pre-tax)	25,724	(3,829)	21,895	(3,495)	18,400
Income tax impact of other OCI changes	(6,534)	973	(5,561)	888	(4,673)
Net after-tax change	8,699	2,668	11,367	(2,060)	9,307
<b>Balance at December 31, 2019</b>	\$ 10,638	\$ (109,693)	\$ (99,055)	\$ (322)	\$ (99,377)

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The Consolidated Statements of Earnings include pre-tax amounts reclassified from AOCI related to Unrealized Gains on Available-for-Sale 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 Consolidated Statements of Earnings.

**(4) 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.

**Revenue Recognition**

Electric operating revenues are recorded in the period of energy delivery, which includes estimated amounts for service rendered but unbilled at the end of each accounting period. The determination of the energy sales billed to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading and the corresponding unbilled revenue are estimated. Unbilled electric revenue is estimated based on daily generation volumes, estimated customer usage by class, line losses, historical trends and experience, and applicable customer rates. Amounts billed are generally due within the next month. The Company does not incur incremental costs to obtain contracts for its energy services.

PNM's wholesale electricity sales are recorded as electric operating revenues and wholesale electricity purchases are recorded as costs of energy sold. In accordance with GAAP, derivative contracts that are subject to unplanned netting are recorded net in earnings. A "book-out" is the planned or unplanned netting of off-setting purchase and sale transactions. A book-out is a transmission mechanism to reduce congestion on the transmission system or administrative burden. For accounting purposes, a book-out is the recording of net revenues upon the settlement of a derivative contract.

Unrealized gains and losses on derivative contracts that are not designated for hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power and fuel supply agreements, used to hedge generation assets and purchased power costs. Changes in the fair value of economic hedges are reflected in results of operations, with changes related to economic hedges on sales included in operating revenues and changes related to economic hedges on purchases included in cost of energy sold. See Note 9.

The Company adopted ASU 2014-09 – *Revenue from Contracts with Customers (Topic 606)* as of January 1, 2018, its required effective date, using the modified retrospective method of adoption. The adoption of ASU 2014-09 did not result in changes to the nature, amount, and timing of the Company's existing revenue recognition processes or information technology infrastructure. Therefore, the adoption of ASU 2014-09 had no effect on the amount of revenue recorded in 2018 compared to the amount that would have been recorded under prior GAAP, no effect on total electric operating revenues or any other caption within the Company's financial statements, and no cumulative effect adjustment was recorded. Revenues for 2019 and 2018 are presented in accordance with the standard on the Consolidated Statements of Earnings and 2017 revenues are presented on a comparative basis. Additional disclosures to further disaggregate 2019 and 2018 revenues are presented below.

The Company adopted ASU 2018-18 – *Collaborative Arrangements (Topic 808)* in 2019, ahead of its required effective date, using the retrospective method of adoption. The Company has collaborative arrangements related to its interest in SJGS, Four Corners, PVNGS, and Luna. The Company has determined that during the years ended December 31, 2019, 2018, and 2017 none of the joint owners in its collaborative arrangements were customers under Topic 606. Therefore, the adoption of this standard did not impact the financial statements. The Company will continue to evaluate transactions between collaborative arrangement participants in future periods under the requirements of the new standard.

PNM and TNMP recognize revenue as they satisfy performance obligations, which typically occurs as the customer or end-user consumes the electric service provided. Electric services are typically for a bundle of services that are distinct and transferred to the end-user in one performance obligation measured by KWh or KW. Electric operating revenues are recorded in the period of energy delivery, including estimated unbilled amounts. As permitted under GAAP, the Company has elected to exclude all sales and similar taxes from revenue.

Revenue from contracts with customers is recorded based upon the total authorized tariff price at the time electric service is rendered, including amounts billed under arrangements qualifying as an Alternative Revenue Program ("ARP"). ARP arrangements are agreements between PNM or TNMP and its regulator that allow PNM or TNMP to adjust future rates in response to past activities or completed events, if certain criteria are met. GAAP requires that ARP revenues be reported separately from

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contracts with customers. ARP revenues in a given period include the recognition of “originating” ARP revenues (i.e. when the regulator-specific conditions are met) in the period, offset by the reversal of ARP revenues when billed to customers.

**Sources of Revenue**

Additional information about the nature of revenues is provided below. Additional information about matters affecting PNM’s and TNMP’s regulated revenues is provided in Note 17.

*Revenue from Contracts with Customers*

*PNM*

*NMPRC Regulated Retail Electric Service* – PNM provides electric generation, transmission, and distribution service to its rate-regulated customers in New Mexico. PNM’s retail electric service territory covers a large area of north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. Customer rates for retail electric service are set by the NMPRC and revenue is recognized as energy is delivered to the customer. PNM invoices customers on a monthly basis for electric service and generally collects billed amounts within one month.

*Transmission Service to Third Parties* – PNM owns transmission lines that are interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. Transmission customers receive service for the transmission of energy owned by the customer utilizing PNM’s transmission facilities. Customers generally receive transmission services, which are regulated by FERC, from PNM through PNM’s Open Access Transmission Tariff (“OATT”) or a specific contract. Customers are billed based on capacity and energy components on a monthly basis.

*Miscellaneous* – Beginning on January 1, 2018, PNM acquired a 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC (Note 16). PNM sells power from 36 MW of this capacity to a third party at a fixed price that is recorded as revenue from contracts with customers. PNM is obligated to deliver power under this arrangement only when SJGS Unit 4 is operating. Other market sales from this 65 MW interest are recorded in other electric operating revenues.

*TNMP*

*PUCT Regulated Retail Electric Service* – TNMP provides transmission and distribution services in Texas under the provisions of TECA and the Texas Public Utility Regulatory Act. TNMP is subject to traditional cost-of-service regulation with respect to rates and service under the jurisdiction of the PUCT and certain municipalities. TNMP’s transmission and distribution activities are solely within ERCOT and not subject to traditional rate regulation by FERC. 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 territory. Revenue is recognized as energy is delivered to the consumer. TNMP invoices REPs on a monthly basis and is generally paid within a month.

*Transmission Cost of Service (“TCOS”)* – TNMP is a transmission service provider that is allowed to recover its TCOS through a network transmission rate that is approved by the PUCT. TCOS customers are other utilities that receive service for the transmission of energy owned by the customer utilizing TNMP’s transmission facilities.

*Alternative Revenue Programs*

The Company defers certain costs and records certain liabilities pursuant to the rate actions of the NMPRC, PUCT, and FERC. ARP revenues, which are discussed above, include recovery or refund provisions under PNM’s renewable energy rider and true-ups to PNM’s formula transmission rates; TNMP’s AMS surcharge, transmission cost recovery factor, and the impacts of the PUCT’s January 25, 2018 order regarding the change in the federal corporate income tax rate; and the energy efficiency incentive bonus at both PNM and TNMP. GAAP provides for the recognition of regulatory assets and liabilities for the difference between ARP revenues and amounts billed under those programs. Regulatory assets and liabilities are amortized into earnings as amounts are billed. As discussed in Note 17, TNMP’s 2018 Rate Case integrates AMS costs into base rates beginning January 1, 2019. These costs are being amortized into earnings as alternative revenues over a period of five years.

*Other Electric Operating Revenues*

Other electric operating revenues consist primarily of PNM’s sales for resale meeting the definition of a derivative under GAAP. Derivatives are not considered revenue from contracts with customers. PNM engages in activities meeting the definition of derivatives to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-

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ahead, week-ahead, month-ahead, and other sales of excess generation not required to fulfill retail load and contractual commitments. Through December 31, 2017, PNM's 134 MW share of Unit 3 at PVNGS was excluded from retail rates and was being sold in the wholesale market. Effective January 1, 2018, PNM's share of PVNGS Unit 3 is included in retail rates and recorded as revenue from contracts with customer.

**Disaggregation of Revenues**

A disaggregation of revenues from contracts with customers by the type of customer is presented in the table below. The table also reflects ARP revenues and other revenues.

Year Ended December 31, 2019	PNM	TNMP	PNMR Consolidated
	(In thousands)		
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 427,883	\$ 150,742	\$ 578,625
Commercial	396,987	116,953	513,940
Industrial	69,601	22,405	92,006
Public authority	20,322	5,694	26,016
Economy energy service	25,757	—	25,757
Transmission	57,214	66,948	124,162
Miscellaneous	13,134	3,568	16,702
Total revenues from contracts with customers	1,010,898	366,310	1,377,208
Alternative revenue programs	1,987	(2,529)	(542)
Other electric operating revenues	80,937	—	80,937
<b>Total Electric Operating Revenues</b>	<b>\$ 1,093,822</b>	<b>\$ 363,781</b>	<b>\$ 1,457,603</b>

Year Ended December 31, 2018			
<b>Electric Operating Revenues:</b>			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 433,009	\$ 130,288	\$ 563,297
Commercial	408,333	111,261	519,594
Industrial	61,119	17,317	78,436
Public authority	21,688	5,609	27,297
Economy energy service	26,764	—	26,764
Transmission	54,280	66,991	121,271
Miscellaneous	14,098	8,983	23,081
Total revenues from contracts with customers	1,019,291	340,449	1,359,740
Alternative revenue programs	(2,443)	4,199	1,756
Other electric operating revenues	75,117	—	75,117
<b>Total Electric Operating Revenues</b>	<b>\$ 1,091,965</b>	<b>\$ 344,648</b>	<b>\$ 1,436,613</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 ARP programs. For PNM, accounts receivable reflected on the Consolidated Balance Sheets, net of allowance for uncollectible accounts, includes \$59.3 million and \$61.7 million at December 31, 2019 and 2018 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). The Company has no contract assets as of December 31, 2019. Contract liabilities arise when consideration is received in advance



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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. PNMR's, PNM's, and TNMP's contract liabilities and related revenues are insignificant for all 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.

**(5) Earnings and Dividends Per Share**

In accordance with GAAP, dual presentation of basic and diluted earnings per share has been presented in the Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share and dividends per share is as follows:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands, except per share amounts)		
<b>Net Earnings Attributable to PNMR</b>	\$ 77,362	\$ 85,642	\$ 79,874
<b>Average Number of Common Shares:</b>			
Outstanding during year	79,654	79,654	79,654
Vested awards of restricted stock	277	236	237
<b>Average Shares – Basic</b>	<b>79,931</b>	<b>79,890</b>	<b>79,891</b>
<b>Dilutive Effect of Common Stock Equivalents:</b>			
Stock options and restricted stock	59	122	250
<b>Average Shares – Diluted</b>	<b>79,990</b>	<b>80,012</b>	<b>80,141</b>
<b>Net Earnings Attributable to PNMR Per Share of Common Stock:</b>			
Basic	\$ 0.97	\$ 1.07	\$ 1.00
Diluted	\$ 0.97	\$ 1.07	\$ 1.00
<b>Dividends Declared per Common Share</b>	<b>\$ 1.1775</b>	<b>\$ 1.0850</b>	<b>\$ 0.9925</b>

**(6) Stockholders' Equity**

**Common Stock and Equity Contributions**

PNMR, PNM, and TNMP did not issue any common stock during the three-year period ended December 31, 2019. PNMR did not fund any cash equity contributions to PNM during the three-year period ended December 31, 2019, and funded \$80.0 million in 2019, \$30.0 million in 2018 and \$50.0 million in 2017 to TNMP. PNMR offers shares of PNMR common stock through the PNMR Direct Plan. PNMR utilizes shares of its common stock purchased on the open market, by an independent agent, rather than issuing additional shares to satisfy subscriptions under the PNMR Direct Plan. The shares of PNMR common stock utilized in the PNMR Direct Plan are offered under a SEC shelf registration statement that expires in March 2021. See Note 7 regarding the planned issuance of common stock under the PNMR 2020 Forward Equity Sale Agreements.

**Dividends on Common Stock**

The declaration of common dividends by PNMR is dependent upon a number of factors, including the ability of PNMR's subsidiaries to pay dividends. PNMR's primary sources of dividends are its operating subsidiaries.

PNM declared and paid cash dividends to PNMR of zero, \$77.4 million, and \$60.7 million in 2019, 2018, and 2017. TNMP declared and paid cash dividends to PNMR of \$55.3 million, \$41.9 million, and \$44.4 million in 2019, 2018, and 2017.

The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including the restriction that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC provisions allow PNM to pay dividends, without prior NMPRC approval, from current earnings, which is determined on a rolling four quarter basis, or from equity contributions previously made by PNMR. The Federal Power Act also imposes certain restrictions on dividends by public utilities, including that dividends cannot be paid from paid-in capital. Prior to July 2018, the Company's revolving credit facilities

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and term loans contained a covenant requiring the maintenance of debt-to-capitalization ratios of less than or equal to 65%. In July 2018, PNMR's revolving credit facility and term loans were amended such that PNM is now required to maintain a debt-to-capitalization ratio of less than or equal to 70%. The debt-to-capitalization ratio requirements remain at less than or equal to 65% for PNM and TNMP. These debt-to-capitalization ratio requirements could limit the amounts of dividends that could be paid. PNM also has other financial covenants that limit the transfer of assets, through dividends or other means, including a requirement to obtain the approval of certain financial counterparties to transfer more than five percent of PNM's assets. As of December 31, 2019, none of the numerical tests would restrict the payment of dividends from the retained earnings of TNMP, restrictions related to retained earnings under the Federal Power Act may limit the payment of dividends by PNM to \$283.5 million, and the 70% debt-to-capitalization covenant would allow the payment of dividends by PNMR of up to \$257.6 million.

In addition, the ability of PNMR to declare dividends is dependent upon the extent to which cash flows will support dividends, the availability of retained earnings, financial circumstances and performance, current and future regulatory decisions, Congressional and legislative acts, and economic conditions. Conditions imposed by the NMPRC or PUCT, future growth plans and related capital requirements, and business considerations may also affect PNMR's ability to pay dividends.

**Preferred Stock**

PNM's cumulative preferred shares outstanding bear dividends at 4.58% per annum. PNM preferred stock does not have a mandatory redemption requirement, but may be redeemed, at PNM's option, at 102% of the stated value plus accrued dividends. The holders of the PNM preferred stock are entitled to payment before the holders of common stock in the event of any liquidation or dissolution or distribution of assets of PNM. In addition, PNM's preferred stock is not entitled to a sinking fund and cannot be converted into any other class of stock of PNM.

PNMR and TNMP have no preferred stock outstanding. The authorized shares of PNMR and TNMP preferred stock are 10 million shares and 1 million shares.

**(7) 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. Prior to July 2018, each of the Company's revolving credit facilities and term loans contained a single financial covenant, which required the maintenance of a debt-to-capitalization ratio of less than or equal to 65%. In July 2018, the PNMR and the PNMR Development agreements were each amended such that each is now required to maintain a debt-to-capitalization ratio of less than or equal to 70%. The debt-to-capitalization ratio requirement remains at less than or equal to 65% for the PNM and TNMP agreements. The Company's revolving credit facilities and term loans 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 short-term financing plan with the NMPRC.

**Financing Activities**

*PNMR*

At January 1, 2017, PNMR had outstanding the \$150.0 million PNMR 2015 Term Loan, which matured and was repaid on March 9, 2018.

As discussed in Note 16, at January 1, 2018, NM Capital, a wholly-owned subsidiary of PNMR, had outstanding \$50.1 million of the \$125.0 million term loan agreement (the "BTMU Term Loan") with BTMU. PNMR, as parent company of NM Capital, guaranteed NM Capital's obligations to BTMU. NM Capital utilized the proceeds of the BTMU Term Loan to provide funding of \$125.0 million (the "Westmoreland Loan") to a ring-fenced, bankruptcy-remote, special-purpose entity subsidiary of Westmoreland to finance Westmoreland's purchase of SJCC. The BTMU Term Loan agreement required that NM Capital utilize all amounts, less taxes and fees, it received under the Westmoreland Loan to repay the BTMU Term Loan. On May 22, 2018, the full principal balance outstanding under the Westmoreland Loan of \$50.1 million was repaid. NM Capital used a portion of the proceeds to repay all remaining principal of \$43.0 million owed under the BTMU Term Loan. These payments effectively terminated the loan agreements. In addition, PNMR's guarantee of NM Capital's obligations was also effectively terminated. See Note 10.

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At January 1, 2017, PNMR had outstanding letters of credit arrangements with JPMorgan Chase Bank, N.A. (the “JPM LOC Facility”) under which letters of credit aggregating \$30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC was required to post in connection with permits relating to the operation of the San Juan mine. On March 15, 2019, WSJ LLC acquired the assets of SJCC following the bankruptcy of Westmoreland. WSJ LLC assumed the obligations to PNMR under the letters of credit support. See Note 16.

On January 1, 2017, PNMR had outstanding two term loan agreements: (1) a \$100.0 million term loan agreement (the “PNMR 2016 One-Year Term Loan”) and (2) a \$100.0 million term loan agreement (the “PNMR 2016 Two-Year Term Loan”) that matured on December 21, 2018. On December 15, 2017, the PNMR 2016 One-Year Term Loan was extended to December 14, 2018. In December 2018, both the PNMR 2016 One-Year Term Loan (as extended) and the PNMR 2016 Two-Year Term Loan were repaid.

On March 9, 2018, PNMR issued \$300.0 million aggregate principal amount of 3.25% SUNs (the “PNMR 2018 SUNs”), which mature on March 9, 2021. The proceeds from the offering were used to repay the \$150.0 million PNMR 2015 Term Loan that was due on March 9, 2018 and to reduce borrowings under the PNMR Revolving Credit Facility.

On November 26, 2018, PNMR Development entered into a \$90.0 million term loan agreement (the “PNMR Development Term Loan”), among PNMR Development and KeyBank, N.A., as administrative agent and sole lender. Proceeds from the PNMR Development Term Loan were used to repay short-term borrowings under the PNMR Development’s revolving credit facility and to repay borrowings under its intercompany loan from PNMR. The PNMR Development Term Loan bears interest at a variable rate, which was 2.60% on December 31, 2019, and matures on November 26, 2020. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development’s obligations under the loan. The PNMR Development Term Loan requires PNMR to maintain a debt-to-capitalization ratio of less than or equal to 70%, and contains customary events of default, a cross-default provision, and a change-of-control provision.

On December 14, 2018, PNMR entered into a \$150.0 million term loan agreement (the “PNMR 2018 One-Year Term Loan”) among PNMR, the lenders identified therein, and MUFG Bank, Ltd., as administrative agent. The proceeds from the PNMR 2018 One-Year Term Loan were used to repay the PNMR 2016 One-Year Term Loan (as extended), a portion of the PNMR 2016 Two-Year Term Loan, and for general corporate purposes. On December 13, 2019, the PNMR 2018 One-Year Term Loan was extended to June 11, 2021 (as extended, the “PNMR 2019 Term Loan”). The PNMR 2019 Term Loan bears interest at a variable rate, which was 2.70% at December 31, 2019.

On December 21, 2018, PNMR entered into a \$50.0 million term loan agreement (the “PNMR 2018 Two-Year Term Loan”), between PNMR and Bank of America, N.A. as sole lender. Proceeds from the PNMR 2018 Two-Year Term Loan were used to repay the remaining amount owed under the PNMR 2016 Two-Year Term Loan and for general corporate purposes. The PNMR 2018 Two-Year Term Loan bears interest at a variable rate, which was 2.60% at December 31, 2019, and matures on December 21, 2020.

On January 7, 2020, PNMR entered into forward sale agreements with each of Citibank N.A., and Bank of America N.A., as forward purchases and an underwriting agreement with Citigroup Global Markets Inc., and BofA Securities, Inc. as representatives of the underwriters named therein, relating to an aggregate of approximately 6.2 million shares of PNMR common stock (including 0.8 million shares of PNMR common stock pursuant to the underwriters’ option to purchase additional shares) with each of Citibank N.A., and Bank of America N.A., as forward purchasers (the “PNMR 2020 Forward Equity Sales Agreements”). On January 8, 2020, the underwriters exercised in full their option to purchase an additional 0.8 million shares of PNMR common stock and PNMR entered into separate forward sales agreements with respect to the additional shares. The initial forward sale price of \$47.21 per share is subject to adjustments based on a net interest rate factor and by expected future dividends paid on PNMR common stock as specified in the forward sale agreements. PNMR did not initially receive any proceeds upon the execution of these agreements and, except in certain specified circumstances, has the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates. PNMR expects to physically settle all shares under the agreements on or before January 7, 2021 at the then applicable forward sales price. Pursuant to a cash settlement of the PNMR 2020 Forward Equity Sales Agreements, PNMR would expect to receive significantly lower net proceeds or may owe cash, which could be a significant amount, to the forward purchasers. Under a net share settlement, PNMR would not receive any cash proceeds and may be required to deliver shares of PNMR common stock to the forward purchasers. The forward sale agreements meet the derivative scope exception requirements for contracts involving an entity’s own equity. Until settlement of the forward sale agreements, PNMR’s EPS dilution resulting from the agreements, if any, will be determined using the treasury stock method, which will result in dilution during periods when the average market price of PNMR stock during the reporting period is higher than the applicable forward sales price as of the end of that period.

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PNMR has an automatic shelf registration that provides for the issuance of various types of debt and equity securities that expires in March 2021.

*PNM*

At January 1, 2017, PNM had outstanding a \$175.0 million term loan agreement (the “PNM 2016 Term Loan”) that matured on November 17, 2017. The PNM 2016 Term Loan was repaid on July 20, 2017.

At January 1, 2017, PNM had \$37.0 million of outstanding PCRBs, which have a final maturity of June 1, 2040, and \$20.0 million of outstanding PCRBs which have a final maturity of June 1, 2042. These PCRBs were subject to mandatory tender for remarketing on June 1, 2017 and were successfully remarketed on that date. The \$37.0 million of PCRBs now bear interest at 2.125% and the \$20.0 million of PCRBs now bear interest at 2.45%. Both series are now subject to mandatory tender for remarketing on June 1, 2022.

On July 20, 2017, PNM entered into a \$200.0 million term loan agreement (the “PNM 2017 Term Loan”) between PNM and JPMorgan Chase Bank, N.A., as lender and administrative agent, and U.S. Bank National Association, as lender. PNM used the proceeds of the PNM 2017 Term Loan to prepay without penalty the \$175.0 million PNM 2016 Term Loan and to reduce short-term borrowings. The PNM 2017 Term Loan was repaid on January 18, 2019.

On July 28, 2017, PNM entered into an agreement (the “PNM 2017 Senior Unsecured Note Agreement”) with institutional investors for the sale of \$450.0 million aggregate principal amount of eight series of Senior Unsecured Notes (the “PNM 2018 SUNs”) offered in private placement transactions. On May 14, 2018, PNM issued \$350.0 million of the PNM 2018 SUNs under that agreement (at fixed annual interest rates ranging from 3.15% to 4.50% for terms between 5 and 30 years) and used the proceeds to repay an equal amount of PNM’s 7.95% SUNs that matured on May 15, 2018. On July 31, 2018, PNM issued the remaining \$100.0 million of the PNM 2018 SUNs (at fixed annual interest rates of 3.78% and 4.60% for terms of 10 and 30 years) and used the proceeds to repay an equal amount of PNM’s 7.50% SUNs on August 1, 2018. The PNM 2017 Senior Unsecured Note Agreement includes customary covenants, including a covenant that requires the maintenance of a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, including a cross-default provision, and covenants regarding parity of financial covenants, liens and guarantees with respect to PNM’s material credit facilities. In the event of a change of control, PNM will be required to offer to prepay the PNM 2018 SUNs at par. PNM will have the right to redeem any or all of the PNM 2018 SUNs prior to their respective maturities, subject to payment of a customary make-whole premium.

On April 9, 2018, PNMR Development deposited \$68.2 million with PNM related to potential transmission network interconnections. PNM used the deposit to repay intercompany borrowings. PNM was required to pay interest to PNMR Development to the extent work under the interconnections has not been performed. The entire deposit of \$68.2 million and accrued interest of \$5.7 million was refunded in November 2019. The interconnection deposit and related refund is presented in financing activities and the interest payment is presented in operating activities on PNM’s Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018. During the years ended December 31, 2019 and December 31, 2018, PNM recognized \$3.3 million and \$2.4 million of interest expense under the agreement. At December 31, 2018, PNM’s obligation under the interconnection agreement with PNMR Development of \$68.2 million, excluding unpaid interest, is reflected in other deferred credits on PNM’s Consolidated Balance Sheets. As required by GAAP, all intercompany transactions related to this deposit have been eliminated on PNMR’s Consolidated Financial Statements.

On January 18, 2019, PNM entered into a \$250.0 million term loan agreement (the “PNM 2019 \$250.0 million Term Loan”) among PNM, the lenders identified therein, and U.S. Bank N.A., as administrative agent. PNM used the proceeds of the PNM 2019 \$250.0 million Term Loan to repay the PNM 2017 Term Loan, to reduce short-term borrowings under the PNM Revolving Credit Facility, and for general corporate purposes. The PNM 2019 \$250.0 million Term Loan bears interest at a variable rate, which was 2.45% at December 31, 2019, and must be repaid on or before July 17, 2020.

On December 18, 2019, PNM entered into a \$40.0 million term loan agreement (the “PNM 2019 \$40.0 million Term Loan”), between PNM and Bank of America, N.A. as sole lender and administrative agent. PNM used the proceeds of the PNM 2019 \$40.0 million Term Loan to reduce short-term borrowings under the PNM Revolving Credit Facility and for general corporate purposes. The PNM 2019 \$40.0 million Term Loan bears interest at a variable rate, which was 2.39% at December 31, 2019, and must be repaid on or before June 18, 2021.

See discussion of PNM’s SJGS Abandonment Application in Note 17, which includes a request to issue approximately \$361 million of energy transition bonds, as provided by the ETA, upon the proposed retirement of SJGS in 2022.

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PNM has a shelf registration statement, which will expire in May 2020, with capacity for the issuance of up to \$475.0 million of senior unsecured notes.

*TNMP*

On June 14, 2017, TNMP entered into an agreement which provided TNMP would issue \$60.0 million aggregate principal amount of 3.22% first mortgage bonds, due 2027, subject to satisfaction of certain conditions. TNMP issued the bonds on August 24, 2017 and used the proceeds to reduce short-term and intercompany debt and for general corporate purposes.

On June 28, 2018, TNMP entered into an agreement under which TNMP issued \$60.0 million aggregate principal amount of 3.85% first mortgage bonds, due 2028.

On July 25, 2018, TNMP entered into a \$20.0 million term loan agreement. On December 17, 2018, the TNMP 2018 Term Loan agreement was amended to provide additional funding of \$15.0 million, which results in a total committed amount of \$35.0 million under the agreement (the "TNMP 2018 Term Loan"). TNMP used the proceeds from these issuances to repay short-term borrowings and for TNMP's general corporate purposes. The TNMP 2018 Term Loan was repaid on December 30, 2019.

On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement with institutional investors for the sale of \$305.0 million aggregate principal amount of four series of TNMP first mortgage bonds (the "TNMP 2019 Bonds") offered in private placement transactions. TNMP issued \$225.0 million of TNMP 2019 Bonds on March 29, 2019 and used the proceeds to repay TNMP's \$172.3 million 9.50% first mortgage bonds at their maturity on April 1, 2019, as well as to repay borrowing under the TNMP Revolving credit Facility and for general corporate purposes. TNMP issued the remaining \$80.0 million of TNMP 2019 Bonds on July 1, 2019 and used the proceeds to repay borrowing under the TNMP Revolving Credit Facility and for general corporate purposes. The terms of the TNMP 2019 Bond Purchase Agreement include customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, a cross-default provision, and a change-of-control provision. TNMP has the right to redeem any or all of the TNMP 2019 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium.

*Interest Rate Hedging Activities*

At January 1, 2017, PNMR had a hedging agreement that effectively established a fixed interest rate of 1.927% for borrowings under the PNMR 2015 Term Loan through its maturity on March 9, 2018. In 2017, PNMR entered into three separate four-year hedging agreements that effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, subject to change if there is a change in PNMR's credit rating, for three separate tranches, each of \$50.0 million, of its variable rate debt.

These hedge agreements are accounted for as cash flow hedges and had fair values of \$0.4 million and \$1.0 million that are included in other current liabilities and other current assets on the Consolidated Balance Sheets at December 31, 2019 and 2018. As discussed in Note 3, changes in the fair value of the cash flow hedges are deferred in AOCI and amounts reclassified to the Condensed Consolidated Statement of Earnings are recorded in interest charges. The fair values were determined using Level 2 inputs under GAAP, including using forward LIBOR curves under the mid-market convention to discount cash flows over the remaining term of the agreement. On January 1, 2019, the Company adopted *Accounting Standards Update 2017-12- Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. Adoption of the updated standard did not have a significant impact on these cash flow hedges.

**Borrowing Arrangements Between PNMR and its Subsidiaries**

PNMR has one-year intercompany loan agreements with its subsidiaries. Individual subsidiary loan agreements vary in amount up to \$100.0 million and have either reciprocal or non-reciprocal terms. Interest charged to the subsidiaries is equivalent to interest paid by PNMR on its short-term borrowings or the money-market interest rate if PNMR does not have any short-term borrowings outstanding. TNMP had no borrowings from PNMR at December 31, 2019 and no borrowings at February 21, 2020. TNMP had outstanding borrowings of \$0.1 million from PNMR at December 31, 2018. PNM had no borrowings from PNMR at December 31, 2019 and no borrowings at February 21, 2020. PNM had outstanding borrowings of \$19.8 million from PNMR at December 31, 2018.

**Short-term Debt**

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. Both facilities currently expire on October 31, 2023 and contain options to

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be extended through October 2024, subject to approval by a majority of the lenders. The TNMP Revolving Credit Facility is a \$75.0 million revolving credit facility secured by \$75.0 million aggregate principal amount of TNMP first mortgage bonds. In September 2017, the TNMP Revolving Credit Facility was extended to mature on September 23, 2022.

At January 1, 2017, PNM had a \$50.0 million unsecured revolving credit facility (the “PNM 2014 New Mexico Credit Facility”) that was scheduled to expire on January 8, 2018. On December 12, 2017, PNM entered into a new \$40.0 million unsecured revolving credit facility (the “PNM 2017 New Mexico Credit Facility”) by and among PNM, the lenders identified therein, U.S. Bank National Association, as Administrative Agent, and BOKF, NA dba Bank of Albuquerque, as Syndication Agent to replace the PNM 2014 New Mexico Credit Facility. The eight participating lenders are all banks that have a significant presence or are headquartered in New Mexico. The PNM 2017 New Mexico Credit Facility expires on December 12, 2022 and contains covenants and conditions similar to those in the PNM Revolving Credit Facility.

On February 26, 2018, PNMR Development entered into a revolving credit facility with Wells Fargo Bank, National Association, as lender, which allowed PNMR Development to borrow up to \$24.5 million on a revolving credit basis and also provides for the issuance of letters of credit. On February 22, 2019, PNMR Development amended its \$24.5 million revolving credit facility to increase the capacity to \$25.0 million. On July 22, 2019, the PNMR Development Revolving Credit Facility was amended to increase the capacity to \$40.0 million with the option to further increase the capacity to \$50 million upon 15-days advance notice. On February 21, 2020, PNMR Development extended the revolving credit facility to expire on February 23, 2021. The PNMR Development Revolving Credit Facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development uses the facility to finance its participation in NMRD and for other activities.

Short-term debt outstanding consists of:

<b>Short-term Debt</b>	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
<b>PNM:</b>		
PNM Revolving Credit Facility	\$ 48,000	\$ 32,400
PNM 2017 New Mexico Credit Facility	10,000	10,000
	58,000	42,400
TNMP Revolving Credit Facility	15,000	17,500
<b>PNMR:</b>		
PNMR Revolving Credit Facility	112,100	20,000
PNMR 2018 One-Year Term Loan	—	150,000
PNMR Development Revolving Credit Facility	—	6,000
	\$ 185,100	\$ 235,900

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of \$4.7 million, \$2.5 million, and \$0.1 million at December 31, 2019 that reduce the available capacity under their respective revolving credit facilities. In addition, PNMR had \$30.3 million of letters of credit outstanding under the JPM LOC Facility. At December 31, 2019, interest rates on outstanding borrowings were 3.02% for the PNMR Revolving Credit Facility, 2.87% for the PNM Revolving Credit Facility, 2.84% for the PNM 2017 New Mexico Credit Facility, and 2.47% for the TNMP Revolving Credit Facility. There were no borrowings outstanding under the PNMR Development Revolving Credit Facility at December 31, 2019.

At February 21, 2020, PNMR, PNM, and TNMP had \$151.5 million, \$362.1 million, and \$31.8 million of availability under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit. PNM also had \$10.0 million of availability under the PNM 2017 New Mexico Credit Facility and PNMR Development had \$40.0 million of availability under the PNMR Development Revolving Credit Facility. Total availability at February 21, 2020, on a consolidated basis, was \$595.4 million for PNMR. At February 21, 2020, PNMR, PNM, and TNMP had invested cash of \$0.9 million, zero, and zero.

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**Long-Term Debt**

As discussed above, on January 18, 2019, PNM entered into the \$250.0 million PNM 2019 Term Loan and used a portion of the proceeds under that agreement to repay the \$200.0 million PNM 2017 Term Loan on that date. On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement under which an aggregate of \$305.0 million of TNMP 2019 Bonds were issued on March 29, 2019 and July 1, 2019. TNMP used a portion of the proceeds from the TNMP 2019 Bonds to repay the \$172.3 million 9.50% TNMP first mortgage bonds due on April 1, 2019. In accordance with GAAP, borrowings under the \$200.0 million PNM 2017 Term Loan and the \$172.3 million 9.50% TNMP first mortgage bonds are reflected as being long-term in the Consolidated Balance Sheets at December 31, 2018 since PNM and TNMP demonstrated their intent and ability to re-finance these agreements on a long-term basis.

Information concerning long-term debt outstanding and unamortized (premiums), discounts, and debt issuance costs is as follows:

	December 31, 2019		December 31, 2018	
	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net
	(In thousands)			
<b>PNM Debt</b>				
Senior Unsecured Notes, Pollution Control Revenue Bonds:				
1.875% due April 2033, mandatory tender - October 1, 2021	\$ 146,000	\$ 662	\$ 146,000	\$ 1,022
6.25% due January 2038	36,000	205	36,000	216
2.125% due June 2040, mandatory tender - June 1, 2022	37,000	224	37,000	314
5.20% due June 2040, mandatory tender - June 1, 2020	40,045	17	40,045	62
5.90% due June 2040	255,000	1,857	255,000	1,950
6.25% due June 2040	11,500	84	11,500	88
2.45% due September 2042, mandatory tender - June 1, 2022	20,000	85	20,000	119
2.40% due June 2043, mandatory tender - June 1, 2020	39,300	50	39,300	146
5.20% due June 2043, mandatory tender - June 1, 2020	21,000	10	21,000	31
Senior Unsecured Notes:				
5.35% due October 2021	160,000	292	160,000	455
3.15% due May 2023	55,000	261	55,000	338
3.45% due May 2025	104,000	562	104,000	666
3.85% due August 2025	250,000	1,675	250,000	1,974
3.68% due May 2028	88,000	518	88,000	581
3.78% due August 2028	15,000	91	15,000	101
3.93% due May 2033	38,000	238	38,000	256
4.22% due May 2038	45,000	291	45,000	307
4.50% due May 2048	20,000	133	20,000	138
4.60% due August 2048	85,000	570	85,000	590
PNM 2017 Term Loan due January 2019	—	—	200,000	1
PNM 2019 \$250.0 Million Term Loan due July 2020	250,000	—	—	—
PNM 2019 \$40.0 Million Term Loan due June 2021	40,000	—	—	—
	1,755,845	7,825	1,665,845	9,355
Less current maturities	350,345	77	—	—
	1,405,500	7,748	1,665,845	9,355

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	December 31, 2019		December 31, 2018	
	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net
	(In thousands)			
<b>TNMP Debt</b>				
First Mortgage Bonds:				
9.50% due April 2019	—	—	172,302	206
6.95% due April 2043	93,198	(16,632)	93,198	(17,347)
4.03% due July 2024	80,000	475	80,000	580
3.53% due February 2026	60,000	502	60,000	585
3.22% due August 2027	60,000	437	60,000	494
3.85% due June 2028	60,000	531	60,000	584
3.79% due March 2034	75,000	535	—	—
3.92% due March 2039	75,000	542	—	—
4.06% due March 2044	75,000	546	—	—
3.60% due July 2029	80,000	571	—	—
TNMP 2018 Term Loan due July 2020	—	—	35,000	—
	658,198	(12,493)	560,500	(14,898)
Less current maturities	—	—	—	—
	658,198	(12,493)	560,500	(14,898)
<b>PNMR Debt</b>				
PNMR 3.25% 2018 SUNs due March 2021	300,000	917	300,000	1,690
PNMR Development Term Loan due November 2020	90,000	42	90,000	88
PNMR 2018 Two-Year Term Loan due December 2020	50,000	—	50,000	—
PNMR 2019 Term Loan due June 2021	150,000	35	—	—
	590,000	994	440,000	1,778
Less current maturities	140,000	—	—	—
	450,000	994	440,000	1,778
<b>Total Consolidated PNMR Debt</b>	3,004,043	(3,674)	2,666,345	(3,765)
Less current maturities	490,345	77	—	—
	\$ 2,513,698	\$ (3,751)	\$ 2,666,345	\$ (3,765)

Reflecting mandatory tender dates, long-term debt maturities as of December 31, 2019 are follows:

	PNMR		PNM		TNMP		PNMR Consolidated	
	(In thousands)							
2020	\$ 140,000	\$ 350,345	\$ —	\$ 490,345	\$ —	\$ 490,345	\$ —	\$ 490,345
2021	450,000	346,000	—	796,000	—	796,000	—	796,000
2022	—	57,000	—	57,000	—	57,000	—	57,000
2023	—	55,000	—	55,000	—	55,000	—	55,000
2024	—	—	80,000	80,000	80,000	80,000	—	80,000
Thereafter	—	947,500	578,198	1,525,698	578,198	1,525,698	—	1,525,698
Total	\$ 590,000	\$ 1,755,845	\$ 658,198	\$ 3,004,043	\$ 658,198	\$ 3,004,043	\$ —	\$ 3,004,043

**(8) Lease Commitments**

The Company enters into various lease agreements to meet its business needs and to satisfy the needs of its customers. Historically, the Company's leases

were classified as operating leases and included leases for generating capacity from PVNGS Units 1 and 2, certain rights-of-way agreements for transmission lines and facilities, vehicles and equipment necessary to construct and maintain the Company's assets, and building and office equipment. In February 2016, the FASB issued ASU 2016-02 – *Leases (Topic 842)* to provide guidance on the recognition, measurement, presentation, and disclosure of leases. Among other things, ASU 2016-02 requires that all leases be recorded on the balance sheets by recognizing a present value liability for future cash

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flows of the lease agreement and a corresponding right-of-use asset. The Company adopted Topic 842 on January 1, 2019, its required effective date. The Company elected to use many of the practical expedients available upon adoption of the standard. As a result, the Company will continue to classify its leases existing as of December 31, 2018 as operating leases until they expire or are modified. In addition, the Company elected the practical expedient to not reevaluate the accounting for land easements and rights-of-way agreements existing at December 31, 2018. The Company also elected the use of the practical expedient to apply the requirements of the new standard on its effective date and has not restated prior periods to conform to the new guidance. Adoption of the lease standard has a material impact on the Company's Consolidated Balance Sheets but does not have a material impact on the Consolidated Statements of Earnings or the Consolidated Statements of Cash Flows.

Effective January 1, 2019, the Company accounts for contracts that convey the use and control of identified assets for a period of time as leases. The Company classifies leases as operating or financing by evaluating the terms of the lease agreement. Agreements under which the Company is likely to utilize substantially all of the economic value or life of the asset or that the Company is likely to own at the end of the lease term, either through purchase or transfer of ownership, are classified as financing leases. Leases not meeting these criteria are accounted for as operating leases. Agreements under which the Company is a lessor are insignificant. Leases with terms that are expected to exceed one year are recognized on the Company's Consolidated Balance Sheets by recording a lease liability and corresponding right-of-use asset. PNM, PNM, and TNMP determine present value for their leases using their incremental borrowing rates at the commencement date of the lease or, when readily available, the rate implicit in the agreement. In most cases the implicit interest rate is not available in the Company's lease agreements. Operating lease expense is recognized within operating expenses according to the use of the asset on a straight-line basis. Financing lease costs 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 Consolidated Statements of Earnings.

*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 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 has 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. Under the terms of the extended leases, PNM had until January 15, 2020 for the Unit 1 leases and has until January 15, 2021 for the Unit 2 lease to provide notices to the lessors of PNM's intent to exercise the purchase options or to return the leased assets to the lessors. On January 3, 2020, PNM executed 60-day waivers of the deadline to provide notice of its intent to purchase or return the assets underlying the PVNGS Unit 1 leases. Under the waivers, PNM is required to provide notice by March 16, 2020. The waivers did not impact the PVNGS Unit 1 leases' current January 15, 2023 expiration dates. PNM's elections are independent for each lease and are irrevocable. In the proceeding addressing PNM's 2017 IRP (Note 17), PNM agreed to promptly notify the NMPRC of a decision to extend the Unit 1 or 2 leases, or to exercise its option to purchase the leased assets at fair market value upon the expiration of leases. If PNM elects to exercise its purchase option under any of the leases, the leases provide an appraisal process to determine fair market value. If PNM elects to return the assets underlying the extended leases, PNM will retain 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. Whether PNM retains or returns the assets underlying the extended leases, PNM will seek to recover its undepreciated investments, and any amounts paid to purchase the assets, as well as any other obligations related to PVNGS from NM retail customers. Any transfer of the assets underlying the leases will be required to comply with NRC licensing requirements.

See Note 17 for information concerning the NMPRC's treatment of PNM's purchase of assets underlying 64.1 MW and extension of 114.6 MW of leased capacity in PVNGS Unit 2, the NM Supreme Court's decision regarding PNM's appeal of certain matters in the NM 2015 Rate Case, as well as information concerning a joint petition to investigate PNM's option to purchase additional assets underlying the extended leased capacity in PVNGS.

Covenants in PNM's PVNGS Units 1 and 2 lease agreements limit PNM's ability, without consent of the owner participants in the lease transactions, (i) to enter into any merger or consolidation, or (ii) except in connection with normal dividend policy, to convey, transfer, lease or dividend more than 5% of its assets in any single transaction or series of related transactions. PNM is exposed to losses under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider to be 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 December 31, 2019, amounts due to the lessors under the

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circumstances described above would be up to \$157.6 million, payable on January 15, 2020 in addition to the scheduled lease payments due on January 15, 2020. In such event, PNM would record the acquired assets at the lower of their fair value or the amount paid. Furthermore, the NRC places restrictions on the ownership of nuclear generating facilities. These restrictions could limit the transfer of ownership should PNM decide to return the assets underlying all or a portion of its current leased interests in PVNGS. In the event PNM decides to return these interests to the lessors, and a qualified buyer cannot be identified, PNM may be required to retain all of a portion of its existing leased capacity in PVNGS or be exposed to other claims for damages by the lessors.

*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 2018 payment for the amount due under the Navajo Nation right-of-way lease was \$6.9 million, which included amounts due under the Consumer Price Index adjustment, and was used to determine PNM's operating lease liability as of January 1, 2019. 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 Consolidated Balance Sheets and recognizes amortization expense associated with these agreements in the Consolidated Statement of Earnings over their term. As of December 31, 2019 and 2018, the unamortized balance of these rights-of-ways was \$60.2 million and \$63.0 million. During the years ended December 31, 2019, 2018, and 2017, PNM recognized amortization expense associated with these agreements of \$3.7 million, \$3.8 million, and \$3.5 million.

*Fleet Vehicles and Equipment*

As of December 31, 2018, all of the Company's leases of fleet vehicles and equipment were classified as operating leases. Historically, the Company has utilized substantially all of the economic value of its fleet and equipment leases by the end of the lease term. The Company generally has the contractual ability to return its fleet vehicle and equipment leases to the lessor after one year provided the lessor can recover remaining amounts owed under the agreement from third-parties or through make-whole provisions in the contract but does not typically exercise this right. As a result, fleet vehicle and equipment leases commencing on or after January 1, 2019 are classified as financing 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. The Company has elected to combine these fees with the lease components of the agreement. Certain of the Company's fleet vehicle and equipment leases contain residual value guarantees. At December 31, 2019, residual value guarantees on fleet vehicle and equipment leases are \$0.7 million, \$1.2 million, and \$1.9 million for PNM, TNMP, and PNMNR.

*Other*

The Company holds a number of office space and office equipment leases. The Company's current office space leases, all of which existed as of December 31, 2018, are classified as operating leases. These agreements include non-lease components for costs such as common area maintenance fees, which the Company has elected to combine with the lease component of the agreements. Certain of the Company's office space leases are held between the Company's consolidated subsidiaries and have been eliminated on consolidation. See Note 20. The Company's office equipment leases are primarily for copiers and other graphics equipment. The Company classifies its office equipment leases existing as of December 31, 2018 as operating leases. Office equipment leases commencing on or after January 1, 2019 are classified as financing leases.

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Information related to the Company's operating leases recorded on the Consolidated Balance Sheets, including amounts recognized upon adoption of ASU 2016-02, is presented below:

	December 31, 2019			January 1, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating leases:						
Operating lease assets, net of amortization	\$ 120,585	\$ 9,954	\$ 131,212	\$ 143,816	\$ 12,942	\$ 157,440
Current portion of operating lease liabilities	25,927	2,753	29,068	21,589	3,132	25,189
Long-term portion of operating lease liabilities	97,992	7,039	105,512	124,891	9,787	135,174

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 Consolidated Balance Sheets is presented below:

	December 31, 2019		
	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Financing leases:			
Non-utility property	\$ 4,857	\$ 4,910	\$ 10,028
Accumulated depreciation	(482)	(466)	(973)
Non-utility property, net	\$ 4,375	\$ 4,444	\$ 9,055
Other current liabilities	\$ 722	\$ 850	\$ 1,637
Other deferred credits	3,333	3,597	7,102

Information concerning the weighted average remaining lease terms and the weighted average discount rates used to determine the Company's lease liabilities is presented below:

	December 31, 2019		
	PNM	TNMP	PNMR Consolidated
Weighted average remaining lease term (years):			
Operating leases	6.70	4.10	6.49
Financing leases	5.64	5.54	5.54
Weighted average discount rate:			
Operating leases	3.89%	3.95%	3.90%
Financing leases	3.68%	3.65%	3.64%

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Information for the components of lease expense is as follows:

	<b>Year Ended December 31, 2019</b>		
	<b>PNM</b>	<b>TNMP</b>	<b>PNMR Consolidated</b>
	(In thousands)		
Operating lease cost	\$ 28,254	\$ 3,341	\$ 31,963
Less: amounts capitalized	(1,319)	(2,594)	(3,913)
Total operating lease expense	26,935	747	28,050
Financing lease cost:			
Amortization of right-of-use assets	481	466	973
Interest on lease liabilities	92	100	194
Less: amounts capitalized	(280)	(423)	(704)
Total financing lease expense	293	143	463
Variable lease expense	96	—	96
Short-term lease expense	346	26	414
Total lease expense for the period	\$ 27,670	\$ 916	\$ 29,023

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

	<b>Year Ended December 31, 2019</b>		
	<b>PNM</b>	<b>TNMP</b>	<b>PNMR Consolidated</b>
	(In thousands)		
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 26,392	\$ 935	\$ 27,849
Operating cash flows from financing leases	44	25	71
Finance cash flows from financing leases	183	109	313
Non-cash information related to right-of-use assets obtained in exchange for lease obligations:			
Operating leases	\$ 143,816	\$ 12,942	\$ 157,816
Financing leases	4,473	4,910	9,645

Excluded from the operating and financing cash paid for leases above are \$1.3 million and \$0.3 million at PNM, \$2.6 million and \$0.4 million at TNMP, and \$3.9 million and \$0.7 million at PNMR. These capitalized costs are reflected as investing activities on the Company's Consolidated Statements of Cash Flows for the twelve months ended December 31, 2019.

Future expected lease payments as of December 31, 2019 and December 31, 2018 are shown below:

	<b>As of December 31, 2019</b>					
	<b>PNM</b>		<b>TNMP</b>		<b>PNMR Consolidated</b>	
	<b>Financing</b>	<b>Operating</b>	<b>Financing</b>	<b>Operating</b>	<b>Financing</b>	<b>Operating</b>
	(In thousands)					
2020	\$ 857	\$ 27,028	\$ 998	\$ 3,078	\$ 1,925	\$ 30,660
2021	830	26,576	966	2,448	1,866	29,316
2022	803	26,266	934	1,996	1,807	28,473
2023	767	17,735	819	1,508	1,624	19,423
2024	505	7,908	648	877	1,153	8,833
Later years	723	34,466	526	765	1,249	35,489
Total minimum lease payments	4,485	139,979	4,891	10,672	9,624	152,194
Less: Imputed interest	430	16,060	444	880	885	17,614
Lease liabilities as of December 31, 2019	\$ 4,055	\$ 123,919	\$ 4,447	\$ 9,792	\$ 8,739	\$ 134,580



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<b>Operating leases</b>			
<b>As of December 31, 2018</b>			
	<b>PNM</b>	<b>TNMP</b>	<b>PNMR Consolidated</b>
(In thousands)			
2019	\$ 27,691	\$ 3,664	\$ 31,772
2020	27,000	3,102	30,404
2021	26,462	2,324	29,012
2022	26,217	1,795	28,175
2023	17,447	1,279	18,868
Later years	42,329	1,150	43,489
Total minimum lease payments	\$ 167,146	\$ 13,314	\$ 181,720

The above tables include \$8.7 million, \$13.1 million, and \$21.8 million for PNM, TNMP, and PNMR at December 31, 2019 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. The Company's contractual commitments for leases that have not yet commenced are insignificant.

**(9) Fair Value of Derivative and Other Financial Instruments**

Fair value is defined under GAAP 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 a FPPAC.

PNM was exposed to market risk for its share of PVNGS Unit 3 through December 31, 2017, at which time PVNGS Unit 3 became a jurisdictional resource to serve New Mexico retail customers. Beginning January 1, 2018, PNM is exposed to market risk for its 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC (Note 16). PNM has 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 May 31, 2022, subject to certain conditions. Under these agreements, PNM is obligated to deliver 36 MW of power only when SJGS Unit 4 is operating. These agreements are not considered derivatives because there is no notional amount due to the unit-contingent nature of the transactions.

PNM and Tri-State have a hazard sharing agreement that expires in May 2022. Under this agreement, each party sells the other party 100 MW of capacity and energy from a designated generation resource on a unit contingent basis, subject to certain performance guarantees. Both the purchases and sales are made at the same market index price. This agreement serves to reduce the magnitude of each party's single largest generating hazard and assists in enhancing the reliability and efficiency of their respective operations. PNM passes the sales and purchases through to customers under PNM's FPPAC. See Note 17.

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 years ended December 31, 2019, 2018, and 2017, 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 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, are presented in the following line items on the Consolidated Balance Sheets:

	<b>Economic Hedges</b>	
	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Other current assets	\$ 1,089	\$ 1,083
Other deferred charges	1,507	2,511
	2,596	3,594
Other current liabilities	(1,089)	(1,177)
Other deferred credits	(1,507)	(2,511)
	(2,596)	(3,688)
Net	\$ —	\$ (94)

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 above table are equal amounts of assets and liabilities aggregating \$2.6 million at December 31, 2019 and \$3.6 million at December 31, 2018 resulting from PNM's hazard sharing arrangements with Tri-State (Note 17). The hazard sharing arrangements are net-settled upon delivery. Other amounts that could be offset under master netting agreements were immaterial.

At December 31, 2019 and 2018, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at December 31, 2019 and 2018, amounts posted as cash collateral under margin arrangements were \$0.5 million and \$1.0 million. At December 31, 2019 and 2018, obligations to return cash collateral were \$0.9 million and \$1.0 million. Cash collateral amounts are included in other current assets and other current liabilities on the Consolidated Balance Sheets.

PNM has a NMPRC-approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. There were no amounts hedged under this plan as of December 31, 2019 or 2018.

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The following table presents the effect of mark-to-market commodity derivative instruments on PNM's earnings, excluding income tax effects. Commodity derivatives had no impact on OCI for the periods presented.

	<b>Economic Hedges</b>		
	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Electric operating revenues	\$ 97	\$ (50)	\$ 5,151
Cost of energy	(97)	(52)	(5,386)
<b>Total gain (loss)</b>	<b>\$ —</b>	<b>\$ (102)</b>	<b>\$ (235)</b>

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:

	<b>Economic Hedges</b>	
	<b>MMBTU</b>	<b>MWh</b>
December 31, 2019	—	—
December 31, 2018	100,000	—

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. At December 31, 2019 and 2018, PNM had no such contracts in a net liability position.

**Non-Derivative Financial Instruments**

The carrying amounts reflected on the 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 16. At December 31, 2019 and 2018, the fair value of investment securities included \$336.0 million and \$287.1 million for the NDT and \$52.8 million and \$41.1 million for the coal mine reclamation trusts.

Prior to 2018, PNM classified all debt and equity investments held in the NDT and coal mine reclamation trusts as available-for-sale securities. Unrealized losses on these securities were recorded immediately through earnings and unrealized gains were recorded in AOCI until the securities were sold. On January 1, 2018, PNM recorded an after-tax cumulative effect adjustment of \$11.2 million to reclassify unrealized holding gains on equity securities held in the NDT and coal mine reclamation trusts from AOCI to retained earnings on the Consolidated Balance Sheets. After January 1, 2018, all gains and losses resulting from sales and changes in the fair value of equity securities are recognized in earnings. Under ASU 2016-01, the Company's accounting for available-for-sale debt securities remains essentially unchanged. See Note 1 for investment accounting policies and discussion of New Accounting Pronouncements regarding ASU 2016-13.

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

	<b>Year ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Equity securities:		
Net gains from equity securities sold	\$ 5,698	\$ 4,864
Net gains (losses) from equity securities still held	18,319	(10,523)
<b>Total net gains (losses) on equity securities</b>	<b>24,017</b>	<b>(5,659)</b>
Available-for-sale debt securities:		
Net gains (losses) on debt securities	5,572	(11,517)
Net gains (losses) on investment securities	\$ 29,589	\$ (17,176)

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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 \$3.0 million, \$(9.4) million, and \$3.3 million for the years ended December 31, 2019, 2018 and 2017.

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Proceeds from sales	\$ 494,528	\$ 984,533	\$ 637,492
Gross realized gains	\$ 25,760	\$ 19,358	\$ 36,896
Gross realized (losses)	\$ (17,453)	\$ (16,624)	\$ (12,993)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. At December 31, 2017, PNMR's held-to-maturity securities consisted of the Westmoreland Loan. In May 2018, the full amount owed under the Westmoreland Loan was repaid (Note 16).

The Company has no available-for-sale debt securities for which carrying value exceeds fair value. There are no impairments considered to be "other than temporary" that are included in AOCI and not recognized in earnings.

At December 31, 2019, the available-for-sale debt securities held by PNM, had the following final maturities:

	<b>Fair Value</b>
	(In thousands)
Within 1 year	\$ 20,148
After 1 year through 5 years	80,052
After 5 years through 10 years	84,603
After 10 years through 15 years	13,090
After 15 years through 20 years	11,950
After 20 years	39,975
	<u>\$ 249,818</u>

**Fair Value Disclosures**

The Company determines the fair values of its derivative and other financial instruments based on the hierarchy established in GAAP, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes 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. The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the year ended December 31, 2018. See New Accounting Pronouncements in Note 1.

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 value based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value. Level 3 investments at December 31, 2018 were comprised of corporate term loans. 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 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 significant unobservable inputs include the trading multiples of public companies that are considered comparable to the company being valued, company specific issues, estimates of liquidation value, current operating performance and future expectations of performance, changes in market outlook and the financing environment, capitalization rates, discount rates, and cash flows. The Company has no Level 3 investments as of December 31, 2019. Management of the Company independently verifies the information provided by pricing services.

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

	GAAP Fair Value Hierarchy				
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Unrealized Gains
	(In thousands)				
<b>December 31, 2019</b>					
Cash and cash equivalents	\$ 15,606	\$ 15,606	\$ —	\$ —	
Equity securities:					
Corporate stocks, common	64,527	64,527	—	—	
Corporate stocks, preferred	9,033	2,212	6,821	—	
Mutual funds and other	49,848	49,786	62	—	
Available-for-sale debt securities:					
U.S. government	48,439	31,389	17,050	—	\$ 535
International government	15,292	—	15,292	—	1,193
Municipals	46,642	—	46,642	—	1,768
Corporate and other	139,445	187	139,258	—	10,801
	<u>\$ 388,832</u>	<u>\$ 163,707</u>	<u>\$ 225,125</u>	<u>\$ —</u>	<u>\$ 14,297</u>
Commodity derivative assets	\$ 2,596	\$ —	\$ 2,596	\$ —	
Commodity derivative liabilities	(2,596)	—	(2,596)	—	
Net	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	
<b>December 31, 2018</b>					
Cash and cash equivalents	\$ 11,472	\$ 11,472	\$ —	\$ —	
Equity securities:					
Corporate stocks, common	32,997	32,997	—	—	
Corporate stocks, preferred	7,258	1,654	5,604	—	
Mutual funds and other	70,777	70,777	—	—	
Available-for-sale debt securities:					
U.S. government	29,503	18,662	10,841	—	\$ 1,098
International government	8,435	—	8,435	—	90
Municipals	53,642	—	53,642	—	489
Corporate and other	114,158	588	111,414	2,156	923
	<u>\$ 328,242</u>	<u>\$ 136,150</u>	<u>\$ 189,936</u>	<u>\$ 2,156</u>	<u>\$ 2,600</u>
Commodity derivative assets	\$ 3,594	\$ —	\$ 3,594	\$ —	
Commodity derivative liabilities	(3,688)	—	(3,688)	—	
Net	<u>\$ (94)</u>	<u>\$ —</u>	<u>\$ (94)</u>	<u>\$ —</u>	

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A reconciliation of the changes in Level 3 fair value measurements is as follows:

	<b>Corporate debt</b>
	(In thousands)
<b>Balance at December 31, 2017</b>	\$ —
Actual return on assets sold during the period	(38)
Actual return on assets still held at period end	(107)
Purchases	5,539
Sales	(3,238)
<b>Balance at December 31, 2018</b>	2,156
Actual return on assets sold during the period	(84)
Actual return on assets still held at period end	56
Purchases	3,110
Sales	(5,238)
<b>Balance at December 31, 2019</b>	\$ —

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

			<b>GAAP Fair Value Hierarchy</b>			
			<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>
<b>December 31, 2019</b>			(In thousands)			
PNMR	\$ 3,007,717	\$ 3,142,704	\$ —	\$ 3,142,074	\$ —	
PNM	\$ 1,748,020	\$ 1,795,149	\$ —	\$ 1,795,149	\$ —	
TNMP	\$ 670,691	\$ 753,317	\$ —	\$ 753,317	\$ —	
<b>December 31, 2018</b>						
PNMR	\$ 2,670,111	\$ 2,703,810	\$ —	\$ 2,703,810	\$ —	
PNM	\$ 1,656,490	\$ 1,668,736	\$ —	\$ 1,668,736	\$ —	
TNMP	\$ 575,398	\$ 597,236	\$ —	\$ 597,236	\$ —	

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

**Investments Held by Employee Benefit Plans**

As discussed in Note 11, PNM and TNMP have trusts that hold investment assets for their pension and other postretirement benefit plans. The fair value of the assets held by the trusts impacts the determination of the funded status of each plan but the assets are not reflected on the Company's Consolidated Balance Sheets. Both the PNM Pension Plan and the TNMP Pension Plan hold units of participation in the PNM Resources, Inc. Master Trust (the "PNMR Master Trust"), which was established for the investment of assets of the pension plans. The Company's investment allocation targets in 2019 consist of 30% equities, 20% alternative investments (both of which are considered return generating), and 50% fixed income.

GAAP provides a practical expedient that allows the net asset value per share to be used as fair value for investments in certain entities that do not have readily determinable fair values and are considered to be investment companies. Fair values for alternative investments held by the PNMR Master Trust are valued using this practical expedient. Under GAAP, investments for which fair value is measured using that practical expedient are not required to be categorized within the fair value hierarchy. Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For level 2 fair values, the pricing provider predominately uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value as of year-end. Level 3 investments at December 31, 2018 were comprised of corporate term loans. Fair value prices for Level 2 corporate term loans predominately use the market approach which uses bid side market values based upon hierarchy information for specific securities or securities with similar characteristics. Alternative investments include private equity funds, hedge funds,

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and real estate funds. The private equity funds are not voluntarily redeemable. These investments are realized through periodic distributions occurring over a 10 to 15 years term after the initial investment. The real estate funds and hedge funds may be voluntarily redeemed but are subject to redemption provisions that may result in the funds not being redeemable in the near term. Audited financial statements are received for each fund and are reviewed by the Company annually.

The valuation of Level 3 investments and alternative investments 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 significant unobservable inputs include the trading multiples of public companies that are considered comparable to the company being valued, company specific issues, estimates of liquidation value, current operating performance and future expectations of performance, changes in market outlook and the financing environment, capitalization rates, discount rates, and cash flows. Neither the employee benefit plans nor the PNMR Master Trust have any Level 3 investments as of December 31, 2019.

The fair values of investments held by the employee benefit plans are as follows:

	<b>Total</b>	<b>GAAP Fair Value Hierarchy</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2019</b>				
<b>PNM Pension Plan</b>				
Participation in PNMR Master Trust Investments:				
Investments categorized within fair value hierarchy	\$ 445,984	\$ 152,158	\$ 293,826	\$ —
Uncategorized investments	86,675			
<b>Total Master Trust Investments</b>	<b>\$ 532,659</b>			
<b>TNMP Pension Plan</b>				
Participation in PNMR Master Trust Investments:				
Investments categorized within fair value hierarchy	\$ 49,353	\$ 17,335	\$ 32,018	\$ —
Uncategorized investments	9,974			
<b>Total Master Trust Investments</b>	<b>\$ 59,327</b>			
<b>PNM OPEB Plan</b>				
Cash and cash equivalents	\$ 1,022	\$ 1,022	\$ —	\$ —
Equity securities:				
Mutual funds	85,727	39,361	46,366	—
	<b>\$ 86,749</b>	<b>\$ 40,383</b>	<b>\$ 46,366</b>	<b>\$ —</b>
<b>TNMP OPEB Plan</b>				
Cash and cash equivalents	\$ 275	\$ 275	\$ —	\$ —
Equity securities:				
Mutual funds	10,635	4,075	6,560	—
	<b>\$ 10,910</b>	<b>\$ 4,350</b>	<b>\$ 6,560</b>	<b>\$ —</b>

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	<b>Total</b>	<b>GAAP Fair Value Hierarchy</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2018</b>		(In thousands)		
<b>PNM Pension Plan</b>				
Participation in PNMR Master Trust Investments:				
Investments categorized within fair value hierarchy	\$ 412,790	\$ 139,673	\$ 272,829	\$ 288
Uncategorized investments	76,874			
<b>Total Master Trust Investments</b>	<b>\$ 489,664</b>			
<b>TNMP Pension Plan</b>				
Participation in PNMR Master Trust Investments:				
Investments categorized within fair value hierarchy	\$ 45,283	\$ 15,149	\$ 30,101	\$ 33
Uncategorized investments	9,378			
<b>Total Master Trust Investments</b>	<b>\$ 54,661</b>			
<b>PNM OPEB Plan</b>				
Cash and cash equivalents	\$ 190	\$ 190	\$ —	\$ —
Equity securities:				
Mutual funds	69,513	32,325	37,188	—
	<b>\$ 69,703</b>	<b>\$ 32,515</b>	<b>\$ 37,188</b>	<b>\$ —</b>
<b>TNMP OPEB Plan</b>				
Cash and cash equivalents	\$ 66	\$ 66	\$ —	\$ —
Equity securities:				
Mutual funds	8,725	3,723	5,002	—
	<b>\$ 8,791</b>	<b>\$ 3,789</b>	<b>\$ 5,002</b>	<b>\$ —</b>

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The fair values of investments in the PNMR Master Trust are as follows:

	<b>Total</b>	<b>GAAP Fair Value Hierarchy</b>		
		<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>December 31, 2019</b>		(In thousands)		
<b>PNMR Master Trust</b>				
Cash and cash equivalents	\$ 19,982	\$ 19,982	\$ —	\$ —
Equity securities:				
Corporate stocks, common	68,497	68,497	—	—
Corporate stocks, preferred	825	—	825	—
Mutual funds and other	172,326	—	172,326	—
Fixed income securities:				
U.S. government	90,970	81,014	9,956	—
International government	5,411	—	5,411	—
Municipals	6,980	—	6,980	—
Corporate and other	130,346	—	130,346	—
Total investments categorized within fair value hierarchy	495,337	\$ 169,493	\$ 325,844	\$ —
Uncategorized investments:				
Private equity funds	15,827			
Hedge funds	47,618			
Real estate funds	33,204			
	\$ 591,986			
<b>December 31, 2018</b>				
<b>PNMR Master Trust</b>				
Cash and cash equivalents	\$ 20,120	\$ 20,120	\$ —	\$ —
Equity securities:				
Corporate stocks, common	54,270	54,270	—	—
Corporate stocks, preferred	874	—	874	—
Mutual funds and other	143,517	—	143,517	—
Fixed income securities:				
U.S. government	84,459	80,482	3,977	—
International government	5,721	—	5,721	—
Municipals	9,558	—	9,558	—
Corporate and other	139,554	(50)	139,283	321
Total investments categorized within fair value hierarchy	458,073	\$ 154,822	\$ 302,930	\$ 321
Uncategorized investments:				
Private equity funds	18,021			
Hedge funds	45,589			
Real estate funds	22,642			
	\$ 544,325			

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A reconciliation of the changes in Level 3 fair value measurements is as follows:

PNMR Master Trust	Fixed Income - Corporate		
	PNM Pension	TNMP Pension	Total Master Trust
	(In thousands)		
<b>Balance at December 31, 2017</b>	\$ 191	\$ 21	\$ 212
Actual return on assets sold during the period	(7)	(1)	(8)
Actual return on assets still held at period end	(1)	—	(1)
Purchases	192	23	215
Sales	(87)	(10)	(97)
<b>Balance at December 31, 2018</b>	288	33	321
Actual return on assets sold during the period	(48)	(5)	(53)
Actual return on assets still held at period end	—	—	—
Purchases	133	15	148
Sales	(373)	(43)	(416)
<b>Balance at December 31, 2019</b>	\$ —	\$ —	\$ —

#### (10) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing 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”). GAAP also requires continual reassessment of the primary beneficiary of a VIE.

#### Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 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 years ended December 31, 2019, 2018, and 2017, PNM paid \$19.9 million, \$19.6 million, and \$19.6 million for fixed charges and \$1.2 million, \$1.4 million, and \$1.3 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 under GAAP 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 Consolidated Financial Statements of PNM although PNM has no legal ownership interest or voting control of the VIE. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the 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:

	Results of Operations		
	Year Ended December 31		
	2019	2018	2017
	(In thousands)		
Operating revenues	\$ 21,073	\$ 21,025	\$ 20,887
Operating expenses	(6,832)	(5,913)	(5,870)
Earnings attributable to non-controlling interest	\$ 14,241	\$ 15,112	\$ 15,017

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**Financial Position**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Current assets	\$ 5,094	\$ 2,684
Net property, plant and equipment	58,581	62,066
<b>Total assets</b>	<b>63,675</b>	<b>64,750</b>
Current liabilities	623	538
<b>Owners' equity – non-controlling interest</b>	<b>\$ 63,052</b>	<b>\$ 64,212</b>

**Westmoreland San Juan Mining, LLC**

As discussed in the subheading Coal Supply in Note 16, PNM purchases coal for SJGS under a coal supply agreement (“SJGS CSA”). That section includes information on the acquisition of SJCC by WSJ, a subsidiary of Westmoreland Coal Company (“Westmoreland”), on January 31, 2016, as well as the \$125.0 million loan (the “Westmoreland Loan”) from NM Capital, a subsidiary of PNMR, to WSJ, which loan provided substantially all of the funds required for the purchase of SJCC. On May 22, 2018, the full principal outstanding under the Westmoreland Loan was repaid. NM Capital used a portion of the proceeds to repay all remaining amounts owed under the BTMU Term Loan. These payments effectively terminated the loan agreements and PNMR’s guarantee of NM Capital’s obligations under the BTMU Term Loan. Prior to its repayment, the Westmoreland Loan resulted in PNMR being considered to have a variable interest in WSJ, including its subsidiary, SJCC, since PNMR and NM Capital were subject to possible loss in the event of default of WSJ.

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 WSJ including obligations to PNM under the SJGS CSA and to PNMR under a letter of credit support agreement. See Note 16.

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 all reclamation costs are reimbursable under the SJGS CSA. Also, much of the mine reclamation activities will not be performed until after the expiration of the SJGS CSA. In addition, each of the SJGS participants has established and actively fund trusts to meet future reclamation obligations.

WSJ LLC is considered to be a VIE. PNMR’s analysis of its arrangements with WSJ LLC concluded that WSJ LLC has the ability to direct its mining operations, which is the factor that most significantly impacts the economic performance of WSJ LLC. Other than PNM being able to ensure that coal is supplied in adequate quantities and of sufficient quality to provide the fuel necessary to operate SJGS in a normal manner, the mining operations are solely under the control of WSJ LLC, including developing mining plans, hiring of personnel, and incurring operating and maintenance expenses. Neither PNMR nor PNM has any ability to direct or influence the mining operation. PNM’s involvement through the SJGS CSA, which was assumed by WSJ LLC pursuant to the March 15, 2019 purchase of the assets owned by SJCC by WSJ LLC, is a protective right rather than a participating right and WSJ LLC has the power to direct the activities that most significantly impact the economic performance of WSJ LLC. The SJGS CSA requires WSJ LLC to deliver coal required to fuel SJGS in exchange for payment of a set price per ton, which is escalated over time for inflation. If WSJ LLC is able to mine more efficiently than anticipated, its economic performance will be improved. Conversely, if WSJ LLC cannot mine as efficiently as anticipated, its economic performance will 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 constitute PNMR’s maximum exposure to loss from the VIE at December 31, 2019.

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**(11) Pension and Other Postretirement Benefits**

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. PNM and TNMP receive a regulated return on the amounts funded for pension and OPEB plans in excess of the periodic cost or income to the extent included in retail rates (a “prepaid pension asset”).

Participants in the PNM Plans include eligible employees and retirees of PNMR and PNM. Participants in the TNMP Plans include eligible employees and retirees of TNMP. The PNM pension plan was frozen at the end of 1997 with regard to new participants, salary levels, and benefits. Through December 31, 2007, additional credited service could be accrued under the PNM pension plan up to a limit determined by age and service. The TNMP pension plan was frozen at December 31, 2005 with regard to new participants, salary levels, and benefits.

GAAP requires a plan sponsor to (a) recognize in its statement of financial position an asset for a plan’s overfunded status or a liability for a plan’s underfunded status; (b) measure a plan’s assets and its obligations that determine its funded status as of the end of the employer’s fiscal year; and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

GAAP requires unrecognized prior service costs and unrecognized gains or losses to be recorded in AOCI and subsequently amortized. To the extent the amortization of these items will ultimately be recovered or returned through future rates, PNM and TNMP record the costs as a regulatory asset or regulatory liability. The amortization of these incurred costs is included as pension and postretirement benefit periodic cost or income in subsequent years.

The Company maintains trust funds for the pension and OPEB plans from which benefits are paid to eligible employees and retirees. The Company’s funding policy is to make contributions to the trusts, as determined by an independent actuary, that comply with minimum guidelines of the Employee Retirement Income Security Act and the IRC. Information concerning the investments is contained in Note 9. The Company has in place a policy that defines the investment objectives, establishes performance goals of asset managers, and provides procedures for the manner in which investments are to be reviewed. The plans implement investment strategies to achieve the following objectives:

- Implement investment strategies commensurate with the risk that the Corporate Investment Committee deems appropriate to meet the obligations of the pension plans and OPEB plans, minimize the volatility of expense, and account for contingencies
- Transition asset mix over the long-term to a higher proportion of high-quality fixed income investments as the plans’ funded statuses improve

Management is responsible for the determination of the asset target mix and the expected rate of return. The target asset allocations are determined based on consultations with external investment advisors. The expected long-term rate of return on pension and postretirement plan assets is calculated on the market-related value of assets. GAAP requires that actual gains and losses on pension and OPEB plan assets be recognized in the market-related value of assets equally over a period of not more than five years, which reduces year-to-year volatility. For the PNM Plans and TNMP Plans, the market-related value of assets is equal to the prior year’s market-related value of assets adjusted for contributions, benefit payments and investment gains and losses that are within a corridor of plus or minus 4.0% around the expected return on market value. Gains and losses that are outside the corridor are amortized over five years.

In March 2017, the FASB issued *Accounting Standards Update 2017-07 - Compensation - Retirement Benefits (Topic 715)* to improve the presentation of net periodic pension and other postretirement benefit costs. Prior to ASU 2017-07, the Company presented all of its net periodic benefit costs, net of amounts capitalized to construction and other accounts, as administrative and general expenses on its statements of earnings. ASU 2017-07 requires the service cost component of net benefit costs be presented in the same line item or items as employees’ compensation. The other components of net periodic benefit cost (the “non-service cost components”) are required to be presented separately from the service cost component and outside of operating income. ASU 2017-07 also limits capitalization of net periodic benefit costs to only the service cost component. ASU 2017-07 requires retrospective presentation of the service and non-service cost components of net periodic benefit costs in the income statement and prospective application regarding the capitalization of only the service cost component of net periodic benefit costs. The Company adopted ASU 2017-07 as of January 1, 2018, its required effective date. In accordance with the standard, the PNM and PNMR Consolidated Statements of Earnings reflect a reclassification from administrative and general expenses to other (deductions) for the non-service cost components of net periodic benefit costs in the amount of \$8.6 million, net of amounts capitalized prior to the adoption of the standard, in the year ended December 31, 2017. The non-service components of TNMP’s

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net periodic benefit costs in 2017 were insignificant. The Company believes PNM and TNMP can continue to capitalize the non-service cost components of net periodic benefit costs as regulatory assets and liabilities to the extent attributable to regulated operations. See Note 13. See New Accounting Pronouncements in Note 1 regarding updates to disclosure requirements that will be effective in future periods.

*Pension Plans*

For defined benefit pension plans, including the executive retirement plans, the PBO represents the actuarial present value of all benefits attributed by the pension benefit formula to employee service rendered prior to that date using assumptions regarding future compensation levels. The ABO represents the PBO without considering future compensation levels. Since the pension plans are frozen, the PBO and ABO are equal. The following table presents information about the PBO, fair value of plan assets, and funded status of the plans:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	(In thousands)			
PBO at beginning of year	\$ 564,258	\$ 623,983	\$ 60,587	\$ 68,423
Service cost	—	—	—	—
Interest cost	25,175	24,270	2,686	2,625
Actuarial (gain) loss	61,151	(41,025)	7,889	(5,216)
Benefits paid	(44,839)	(42,970)	(5,588)	(5,245)
PBO at end of year	605,745	564,258	65,574	60,587
Fair value of plan assets at beginning of year	489,978	562,016	55,074	63,499
Actual return on plan assets	86,328	(29,068)	9,881	(3,180)
Employer contributions	—	—	—	—
Benefits paid	(44,839)	(42,970)	(5,588)	(5,245)
Fair value of plan assets at end of year	531,467	489,978	59,367	55,074
Funded status – asset (liability) for pension benefits	\$ (74,278)	\$ (74,280)	\$ (6,207)	\$ (5,513)

Actuarial (gain) loss results from changes in:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	(in thousands)			
Discount rates	\$ 66,108	\$ (34,769)	\$ 8,006	\$ (4,278)
Demographic experience	(732)	431	394	(301)
Mortality rate	(4,225)	(6,966)	(296)	(705)
Other assumptions and experience	—	279	(215)	68
	\$ 61,151	\$ (41,025)	\$ 7,889	\$ (5,216)

The following table presents pre-tax information about net actuarial (gain) loss in AOCI as of December 31, 2019.

	PNM		TNMP	
	(In thousands)			
Amounts in AOCI not yet recognized in net periodic benefit cost (income) at beginning of year	\$ 150,274	\$ —	\$ —	\$ —
Experience (gain) loss	8,926	1,877	—	—
Regulatory asset (liability) adjustment	(5,539)	(1,877)	—	—
Amortization recognized in net periodic benefit cost (income)	(7,270)	—	—	—
Amounts in AOCI not yet recognized in net periodic benefit cost (income) at end of year	\$ 146,391	\$ —	\$ —	\$ —
Amortization expected to be recognized in 2020	\$ 8,131	\$ —	\$ —	\$ —



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The following table presents the components of net periodic benefit cost (income):

	Year Ended December 31,		
	2019	2018	2017
(In thousands)			
<b>PNM</b>			
Service cost	\$ —	\$ —	\$ —
Interest cost	25,175	24,270	26,908
Expected return on plan assets	(34,103)	(34,686)	(33,803)
Amortization of net (gain) loss	15,518	16,348	16,006
Amortization of prior service cost	(965)	(965)	(965)
Net periodic benefit cost	<u>\$ 5,625</u>	<u>\$ 4,967</u>	<u>\$ 8,146</u>
<b>TNMP</b>			
Service cost	\$ —	\$ —	\$ —
Interest cost	2,686	2,625	2,887
Expected return on plan assets	(3,868)	(3,963)	(3,779)
Amortization of net (gain) loss	941	1,088	923
Amortization of prior service cost	—	—	—
Net periodic benefit cost (income)	<u>\$ (241)</u>	<u>\$ (250)</u>	<u>\$ 31</u>

The following significant weighted-average assumptions were used to determine the PBO and net periodic benefit cost (income). Should actual experience differ from actuarial assumptions, the PBO and net periodic benefit cost (income) would be affected.

	Year Ended December 31,		
	2019	2018	2017
<b>PNM</b>			
Discount rate for determining December 31 PBO	3.42%	4.65%	4.05%
Discount rate for determining net periodic benefit cost (income)	4.65%	4.05%	4.51%
Expected return on plan assets	6.86%	6.54%	6.40%
Rate of compensation increase	N/A	N/A	N/A
<b>TNMP</b>			
Discount rate for determining December 31 PBO	3.46%	4.63%	4.01%
Discount rate for determining net periodic benefit cost (income)	4.63%	4.01%	4.49%
Expected return on plan assets	6.90%	6.57%	6.40%
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the PBO was determined based on a review of long-term high-grade bonds and management's expectations. The expected long-term rate of return on plan assets reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the PBO. Factors that are considered include, but are not limited to, historic returns on plan assets, current market information on long-term returns (e.g., long-term bond rates) and current and target asset allocations between asset categories. If all other factors were to remain unchanged, a 1% decrease in the expected long-term rate of return would cause PNM's and TNMP's 2020 net periodic benefit cost to increase \$5.0 million and \$0.6 million (analogous changes would result from a 1% increase). The actual rate of return for the PNM and TNMP pension plans was 18.5% and 18.9% for the year ended December 31, 2019.

The Company's long-term pension investment strategy is to invest in assets whose interest rate sensitivity is correlated with the pension liability. The Company uses an investment strategy, known as Liability Driven Investing, that increases the liability matching investments as the funded status of the pension plans improve. The Company's investment allocation targets consist of 30% equities, 20% alternative investments (both of which are considered return generating), and 50% fixed income. Equity investments are primarily in domestic securities that include large-, mid-, and small-capitalization companies. The pension plans have a 7% targeted allocation to equities of companies domiciled primarily in developed countries outside of the U.S. The equity investments category includes actively managed international and domestic equity securities that are benchmarked against a variety of style indices. Fixed income investments are primarily corporate bonds of companies from diversified industries and government securities. Alternative investments include investments in hedge funds, real estate funds, and private equity funds. The hedge funds and private equity funds are structured as multi-manager multi-strategy fund of funds to achieve a diversified position in these asset classes. The hedge funds pursue various absolute return strategies such as relative value, long-short equity,

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and event driven. Private equity fund strategies include mezzanine financing, buy-outs, and venture capital. The real estate investments are commingled real estate portfolios that invest in a diversified portfolio of assets including commercial property and multi-family housing. See Note 9 for fair value information concerning assets held by the pension plans.

The following pension benefit payments are expected to be paid:

	PNM	TNMP
	(In thousands)	
2020	\$ 46,600	\$ 5,321
2021	45,636	5,244
2022	44,702	5,111
2023	43,595	4,895
2024	42,637	4,652
2025 - 2029	193,885	20,846

Based on current law, funding requirements, and estimates of portfolio performance, the Company does not expect to make any cash contributions to the pension plans in 2020 or 2021. PNM and TNMP expect to contribute \$4.6 million and zero to the PNM and TNMP pension plans in 2022, \$19.1 million and \$1.1 million in 2023, and \$19.0 million and \$2.8 million in 2024. The funding assumptions were developed using discount rates of 3.4% to 3.5%. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rates. PNM and TNMP may make additional contributions at their discretion.

***Other Postretirement Benefit Plans***

For postretirement benefit plans, the APBO is the actuarial present value of all future benefits attributed under the terms of the postretirement benefit plan to employee service rendered to date.

The following table presents information about the APBO, the fair value of plan assets, and the funded status of the plans:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	(In thousands)			
APBO at beginning of year	\$ 75,305	\$ 89,897	\$ 10,064	\$ 12,279
Service cost	53	83	50	134
Interest cost	3,316	3,439	451	477
Participant contributions	2,131	2,390	316	174
Actuarial (gain) loss	2,587	(12,206)	1,004	(2,213)
Benefits paid	(8,271)	(8,298)	(650)	(787)
APBO at end of year	75,121	75,305	11,235	10,064
Fair value of plan assets at beginning of year	69,703	80,356	8,744	10,002
Actual return on plan assets	19,257	(7,669)	2,434	(988)
Employer contributions	3,580	2,924	—	343
Participant contributions	2,131	2,390	316	174
Benefits paid	(8,271)	(8,298)	(650)	(787)
Fair value of plan assets at end of year	86,400	69,703	10,844	8,744
Funded status – asset (liability)	\$ 11,279	\$ (5,602)	\$ (391)	\$ (1,320)

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As of December 31, 2019, the fair value of plan assets exceeds the APBO for PNM's OPEB Plan and the resulting net asset is presented in other deferred charges on the Consolidated Balance Sheets.

Actuarial (gain) loss results from changes in:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	(in thousands)			
Discount rates	\$ 7,236	\$ (4,076)	\$ 1,375	\$ (710)
Claims, contributions, and demographic experience	(4,022)	(3,174)	(311)	72
Assumed participation rate	—	(4,040)	—	(1,461)
Mortality rate	(627)	(916)	(60)	(114)
	<u>\$ 2,587</u>	<u>\$ (12,206)</u>	<u>\$ 1,004</u>	<u>\$ (2,213)</u>

In the year ended December 31, 2019, actuarial gains of \$11.4 million were recorded as adjustments to regulatory assets for the PNM OPEB plan. For the TNMP OPEB plan, actuarial gains of \$0.9 million were recorded as adjustments to regulatory liabilities.

The following table presents the components of net periodic benefit cost (income):

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>PNM</b>			
Service cost	\$ 53	\$ 83	\$ 96
Interest cost	3,316	3,439	4,025
Expected return on plan assets	(5,278)	(5,414)	(5,230)
Amortization of net (gain) loss	675	2,354	3,682
Amortization of prior service credit	(397)	(1,664)	(1,663)
Net periodic benefit cost (income)	<u>\$ (1,631)</u>	<u>\$ (1,202)</u>	<u>\$ 910</u>
<b>TNMP</b>			
Service cost	\$ 50	\$ 134	\$ 143
Interest cost	451	477	556
Expected return on plan assets	(517)	(542)	(456)
Amortization of net (gain) loss	(444)	(227)	(79)
Amortization of prior service cost	—	—	—
Net periodic benefit cost (income)	<u>\$ (460)</u>	<u>\$ (158)</u>	<u>\$ 164</u>

The following significant weighted-average assumptions were used to determine the APBO and net periodic benefit cost. Should actual experience differ from actuarial assumptions, the APBO and net periodic benefit cost would be affected.

	Year Ended December 31,		
	2019	2018	2017
<b>PNM</b>			
Discount rate for determining December 31 APBO	3.42%	4.63%	4.00%
Discount rate for determining net periodic benefit cost	4.63%	4.00%	4.47%
Expected return on plan assets	7.20%	7.42%	7.50%
Rate of compensation increase	N/A	N/A	N/A
<b>TNMP</b>			
Discount rate for determining December 31 APBO	3.42%	4.63%	4.00%
Discount rate for determining net periodic benefit cost	4.63%	4.00%	4.47%
Expected return on plan assets	5.80%	5.86%	5.40%
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the APBO was determined based on a review of long-term high-grade bonds and management's expectations. The expected long-term rate of return on plan assets reflects the average rate of earnings expected

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on the funds invested, or to be invested, to provide for the benefits included in the APBO. Factors that are considered include, but are not limited to, historic returns on plan assets, current market information on long-term returns (e.g., long-term bond rates), and current and target asset allocations between asset categories. If all other factors were to remain unchanged, a 1% decrease in the expected long-term rate of return would cause PNM's and TNMP's 2020 net periodic benefit cost to increase \$0.8 million and \$0.1 million (analogous changes would result from a 1% increase). The actual rate of return for the PNM and TNMP OPEB plans was 28.1% and 28.4% for the year ended December 31, 2019.

The following table shows the assumed health care cost trend rates for the PNM OPEB plan:

	PNM	
	December 31,	
	2019	2018
Health care cost trend rate assumed for next year	6.5%	6.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2026	2026

The following table shows the impact of a one-percentage-point change in assumed health care cost trend rates:

	PNM	
	1-Percentage- Point Increase	1-Percentage- Point Decrease
	(In thousands)	
Effect on total of service and interest cost	\$ 55	\$ (77)
Effect on APBO	\$ 1,310	\$ (1,744)

TNMP's exposure to cost increases in the OPEB plan is minimized by a provision that limits TNMP's share of costs under the plan. Costs of the plan in excess of the limit, which was reached at the end of 2001, are wholly borne by the participants. As a result, a one-percentage-point change in assumed health care cost trend rates would have no effect on either the net periodic expense or the year-end APBO. Effective January 1, 2018, the PNM OPEB plan was amended to limit the annual increase in the Company's costs to 5%. Increases in excess of the limit are born by the PNM OPEB plan participants.

The Company's OPEB plans invest in a portfolio that is diversified by asset class and style strategies. The OPEB plans generally use the same pension fixed income and equity investment managers and utilize the same overall investment strategy as described above for the pension plans, except there is no allocation to alternative investments. The OPEB plans have a target asset allocation of 70% equities and 30% fixed income. See Note 9 for fair value information concerning assets held by the other postretirement benefit plans.

The following OPEB payments, which reflect expected future service and are net of participant contributions, are expected to be paid:

	PNM		TNMP	
	(In thousands)			
2020	\$	6,770	\$	647
2021		6,584		670
2022		6,216		695
2023		6,017		709
2024		5,755		719
2025 - 2029		24,122		3,497

PNM and TNMP made no cash contributions to the OPEB trusts in 2019 or 2018 and PNM and TNMP do not expect to make cash contributions to the OPEB trusts in 2020-2024. However, a portion of the disbursements attributable to the OPEB trust are paid by PNM and are therefore considered to be contributions to the PNM OPEB plan. Payments by PNM on behalf of the PNM OPEB plan are expected to be \$3.7 million in 2020 and \$13.5 million in 2021-2024.

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*Executive Retirement Programs*

For the executive retirement programs, the following table presents information about the PBO and funded status of the plans:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2019	2018	2019	2018
	(In thousands)			
PBO at beginning of year	\$ 14,726	\$ 16,117	\$ 702	\$ 771
Service cost	—	—	—	—
Interest cost	651	622	30	29
Actuarial (gain) loss	1,053	(508)	54	(4)
Benefits paid	(1,436)	(1,505)	(94)	(94)
PBO at end of year – funded status	14,994	14,726	692	702
Less current liability	1,434	1,627	91	141
Non-current liability	\$ 13,560	\$ 13,099	\$ 601	\$ 561

The following table presents pre-tax information about net actuarial loss in AOCI as of December 31, 2019.

	December 31, 2019	
	PNM	TNMP
	(In thousands)	
Amount in AOCI not yet recognized in net periodic benefit cost at beginning of year	\$ 2,086	\$ —
Experience (gain) loss	1,053	54
Regulatory asset (liability) adjustment	(611)	(54)
Amortization recognized in net periodic benefit cost (income)	(133)	—
Amount in AOCI not yet recognized in net periodic benefit cost at end of year	\$ 2,395	\$ —
Amortization expected to be recognized in 2020	\$ 169	\$ —

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>PNM</b>			
Service cost	\$ —	\$ —	\$ —
Interest cost	651	622	697
Amortization of net (gain) loss	318	359	313
Amortization of prior service cost	—	—	—
Net periodic benefit cost	\$ 969	\$ 981	\$ 1,010
<b>TNMP</b>			
Service cost	\$ —	\$ —	\$ —
Interest cost	30	29	33
Amortization of net (gain) loss	15	15	9
Amortization of prior service cost	—	—	—
Net periodic benefit cost	\$ 45	\$ 44	\$ 42

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The following significant weighted-average assumptions were used to determine the PBO and net periodic benefit cost. Should actual experience differ from actuarial assumptions, the PBO and net periodic benefit cost would be affected.

PNM	Year Ended December 31,		
	2019	2018	2017
Discount rate for determining December 31 PBO	3.44%	4.66%	4.05%
Discount rate for determining net periodic benefit cost	4.66%	4.05%	4.51%
Long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A
<b>TNMP</b>			
Discount rate for determining December 31 PBO	3.46%	4.63%	4.01%
Discount rate for determining net periodic benefit cost	4.63%	4.01%	4.49%
Long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A

The assumed discount rate for determining the PBO was determined based on a review of long-term high-grade bonds and management's expectations. The impacts of changes in assumptions or experience were not significant.

Disbursements under the executive retirement program, funded by PNM and TNMP, which are considered to be contributions to the plan were \$1.4 million and \$0.1 million in the year ended December 31, 2019 and \$1.5 million and \$0.1 million for the year ended December 31, 2018. The following executive retirement plan payments, which reflect expected future service, are expected:

	PNM	TNMP
	(In thousands)	
2020	\$ 1,459	\$ 93
2021	1,424	90
2022	1,383	86
2023	1,335	82
2024	1,280	76
2025 - 2029	5,419	273

**Other Retirement Plans**

PNMR sponsors a 401(k) defined contribution plan for eligible employees, including those of its subsidiaries. PNMR's contributions to the 401(k) plan consist of a discretionary matching contribution equal to 75% of the first 6% of eligible compensation contributed by the employee on a before-tax basis. PNMR also makes a non-matching contribution ranging from 3% to 10% of eligible compensation based on the eligible employee's age. PNMR also provides executive deferred compensation benefits through an unfunded, non-qualified plan. The purpose of this plan is to permit certain key employees of PNMR who participate in the 401(k) defined contribution plan to defer compensation and receive credits without reference to the certain limitations on contributions.

A summary of expenses for these other retirement plans is as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>PNMR</b>			
401(k) plan	\$ 16,097	\$ 16,677	\$ 16,452
Non-qualified plan	\$ 4,551	\$ 865	\$ 3,702
<b>PNM</b>			
401(k) plan	\$ 11,587	\$ 12,052	\$ 12,120
Non-qualified plan	\$ 3,384	\$ 621	\$ 2,834
<b>TNMP</b>			
401(k) plan	\$ 4,511	\$ 4,625	\$ 4,332
Non-qualified plan	\$ 1,167	\$ 244	\$ 868



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**(12) Stock-Based Compensation**

PNMR has various stock-based compensation programs, including stock options, restricted stock, and performance shares granted 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. The Company has not awarded stock options since 2010 and all employee stock options expired or were exercised in February 2020. Certain restricted stock awards are subject to achieving performance or market targets. Other awards of restricted stock are only subject to time vesting requirements.

**Performance Equity Plan**

The PEP provides for the granting of non-qualified stock options, restricted stock rights, performance shares, performance units, and stock appreciation rights to officers, key employees, and non-employee members of the Board. 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 total number of shares of PNMR common stock subject to all awards under the PEP, as approved by PNMR’s shareholders in May 2014, may not exceed 13.5 million shares, subject to adjustment and certain share counting rules set forth in the PEP. This current share pool is charged five shares for each share subject to restricted stock or other full value award.

**Source of Shares**

The source of shares for exercised stock options and vested restricted stock is shares acquired on the open market by an independent agent, rather than newly issued shares.

**Accounting for Stock Awards**

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 to compensation expense 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.

Total compensation expense for stock-based payment arrangements recognized by PNMR for the years ended December 31, 2019, 2018, and 2017 was \$6.4 million, \$7.1 million, and \$6.2 million. Stock compensation expense of \$4.2 million, \$4.9 million, and \$4.4 million was charged to PNM and \$2.2 million, \$2.2 million, and \$1.8 million was charged to TNMP. At December 31, 2019, PNMR had unrecognized compensation expense related to stock awards of \$3.5 million, which is expected to be recognized over an average of 1.52 years.

PNMR receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options, and a tax deduction for the value of restricted stock at the vesting date. GAAP requires that all excess tax benefits and deficiencies be recorded to tax expense and classified as operating cash flows when used to reduce taxes payable.

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The Company adopted *Accounting Standards Update 2016-09 – Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* on January 1, 2017, its required effective date. ASU 2016-09 requires that all excess tax benefits and deficiencies be recorded to tax expense and, to the extent affect taxes payable, be classified as cash flows from operating activities. As required by ASU 2016-09, PNMR recorded the excess tax benefits that were not recognized in prior years, due to its net operating loss position, as a cumulative effect adjustment of \$10.4 million on January 1, 2017, increasing retained earnings and decreasing accumulated deferred income taxes on the Consolidated Balance Sheets.

Excess Tax Benefits	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
PNM	\$ 559	\$ 1,007	\$ 1,708
TNMP	236	377	616
PNMR	795	1,384	2,324

TNMP used excess tax benefits to reduce income taxes payable and the benefit was reflected in cash flows from operating activities. The benefit of excess tax benefits at PNM and PNMR will be reflected in operating cash flows when they reduce income taxes payable.

The grant date fair value for restricted stock and stock awards with Company internal 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 is 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.

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

Restricted Shares and Performance-Based Shares	Year Ended December 31,		
	2019	2018	2017
Expected quarterly dividends per share	\$ 0.2900	\$ 0.2650	\$ 0.2425
Risk-free interest rate	2.47%	2.38%	1.50%
<b>Market-Based Shares</b>			
Dividend yield	2.59%	2.96%	2.67%
Expected volatility	19.55%	19.12%	20.80%
Risk-free interest rate	2.51%	2.36%	1.54%

The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted Average Exercise Price
<b>Outstanding at December 31, 2018</b>	166,651	\$ 32.93	81,000	\$ 11.94
Granted	134,573	37.92	—	—
Exercised	(138,001)	31.44	(79,000)	11.93
Forfeited	(1,681)	39.61	—	—
Expired	—	—	—	—
<b>Outstanding at December 31, 2019</b>	161,542	\$ 38.21	2,000	\$ 12.22

PNMR's current stock-based compensation program provides for performance and market targets through 2022. In February 2019, the Board approved amendments to exclude certain impacts of the Tax Act on performance metrics for the performance periods ending in 2018 and 2019. These amendments did not impact the Company's calculation of grant date fair values under the plans but did increase actual achievement levels for the performance period ending in 2018 from below "threshold" levels to below "target" levels and anticipated achievement levels for the performance period ending in 2019 from below "target" levels to the "maximum" levels. As a result of these amendments for the year ended December 31, 2018, the Company recorded

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additional pre-tax expense of \$1.0 million, of which \$0.7 million was allocated to PNM and \$0.3 million was allocated to TNMP. Included as granted and exercised in the table above are 47,279 previously awarded shares that were earned for the 2016 - 2018 performance measurement period and ratified by the Board in February 2019 (based upon achieving market targets at below “threshold” levels, weighted at 40%, and performance targets at above “target” levels, together weighted at 60%). Excluded from the above table are 122,277 previously awarded shares that were earned for the 2017 - 2019 performance measurement period and ratified by the Board in February 2020 (based upon achieving market and performance targets at near “maximum” levels). Also excluded from the table above are 150,543 and 147,202 shares for the three-year performance periods ending in 2020 and 2021 that will be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

Effective as of January 1, 2015, the Company entered into a retention award agreement with its then Executive Vice President and Chief Financial Officer under which he would receive awards of restricted stock if PNMR met specified performance targets at the end of 2016 and 2017 and he remained an employee of the Company. The retention award was made under the PEP and was approved by the Board on December 9, 2014. The specified performance target was achieved at the end of 2016 and the Board ratified him receiving \$100,000 of PNMR common stock in February 2017 based on a market per share value of \$36.30 on the grant date of March 3, 2017, or 2,754 shares. Similarly, if PNMR achieved the specified performance target for the period from January 1, 2015 through December 31, 2017, he was to receive \$275,000 of PNMR common stock based on the market value per share on the grant date in early 2018. The specified performance target was achieved at the end of 2017 and the Board ratified him receiving \$275,000 of PNMR common stock in February 2018 based on a market value per share of \$35.85 on the grant date of March 2, 2018, or 7,670 shares.

In 2015, the Company entered into an additional retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive a total 53,859 shares of PNMR’s common stock if PNMR meets certain performance targets at the end of 2017 and 2019 and she remains an employee of the Company. The retention award was made under the PEP and was approved by the Board on February 26, 2015. The specified performance target was achieved at the end of 2017 and the Board ratified her receiving 17,953 shares in February 2018. The second portion of the 2015 agreement of 35,906 shares was achieved at the end of 2019 and the Board ratified her receiving the shares in February 2020. The above table does not include any restricted stock shares that remain unvested under this retention award agreement.

At December 31, 2019, the aggregate intrinsic value of stock options outstanding, all of which are exercisable, was less than \$0.1 million. All the options were exercised or expired in February 2020. At December 31, 2019, no outstanding stock options had an exercise price greater than the closing price of PNMR common stock on that date.

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

<b>Restricted Stock</b>	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Weighted-average grant date fair value	\$ 37.92	\$ 29.65	\$ 23.06
Total fair value of restricted shares that vested (in thousands)	\$ 6,246	\$ 8,558	\$ 5,747
<b>Stock Options</b>			
Total intrinsic value of options exercised (in thousands)	\$ 2,617	\$ 3,117	\$ 2,234

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**(13) Regulatory Assets and Liabilities**

The operations of PNM and TNMP are regulated by the NMPRC, PUCT, and FERC and the provisions of GAAP for rate-regulated enterprises are applied to its regulated operations. Regulatory assets represent probable future recovery of previously incurred costs that will be collected from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets and liabilities reflected in the Consolidated Balance Sheets are presented below.

	PNM		TNMP	
	December 31,		December 31,	
	2019	2018	2019	2018
<b>Assets:</b>	(In thousands)			
Current:				
FPPAC	\$ 7,373	\$ 4,104	\$ —	\$ —
Energy efficiency costs	—	430	—	—
	7,373	4,534	—	—
Non-Current:				
CTC, including carrying charges	—	—	7,412	17,744
Coal mine reclamation costs <sup>(3)</sup>	13,995	19,915	—	—
Deferred income taxes	66,296	63,369	8,997	9,309
Loss on reacquired debt	19,426	21,085	30,212	31,510
Pension and OPEB <sup>(1)</sup>	214,771	227,400	27,947	26,972
Shutdown of SJGS Units 2 and 3	113,508	119,785	—	—
Hurricane recovery costs <sup>(2)</sup>	—	—	1,041	1,551
AMS surcharge	—	—	25,015	31,435
AMS retirement and other costs	—	—	15,542	16,489
Renewable energy costs	643	—	—	—
Other	6,828	9,349	5,297	3,017
	435,467	460,903	121,463	138,027
Total regulatory assets	\$ 442,840	\$ 465,437	\$ 121,463	\$ 138,027
<b>Liabilities:</b>				
Current:				
Renewable energy rider	\$ —	\$ (4,475)	\$ —	\$ —
Other	(371)	(1,500)	(134)	(3,471)
	(371)	(5,975)	(134)	(3,471)
Non-Current:				
Cost of removal	(271,025)	(263,597)	(46,091)	(29,637)
Deferred income taxes	(374,122)	(407,978)	(131,871)	(143,745)
PVNGS ARO	(11,341)	(18,397)	—	—
Renewable energy tax benefits	(19,069)	(20,226)	—	—
Accelerated depreciation SNCRs	(7,758)	(3,690)	—	—
Pension and OPEB	—	—	(4,775)	(3,940)
Other	(83)	(83)	(108)	(136)
	(683,398)	(713,971)	(182,845)	(177,458)
Total regulatory liabilities	\$ (683,769)	\$ (719,946)	\$ (182,979)	\$ (180,929)

<sup>(1)</sup> Includes \$0.7 million for certain PNM pension costs as described in Note 11

<sup>(2)</sup> Amount shown is net of amounts owed under the PUCT's January 25, 2018 order as described in Note 17

<sup>(3)</sup> Includes \$9.4 million in coal mine reclamation costs related to PNM's planned retirement of SJGS in 2022 as described in Note 16

The Company's regulatory assets and regulatory liabilities are reflected in rates charged to customers or have been addressed in a regulatory proceeding. The Company does not receive or pay a rate of return on the following regulatory assets and regulatory liabilities (and their remaining amortization periods): coal mine reclamation costs (through 2020); deferred income taxes (over the remaining life of the taxable item, up to the remaining life of utility plant); pension and OPEB costs (through 2033); and PVNGS ARO (to be determined in a future regulatory proceeding).



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The Company is permitted, under rate regulation, to accrue and record a regulatory liability for the estimated cost of removal and salvage associated with certain of its assets through depreciation expense. Under GAAP, actuarial losses and prior service costs for pension plans are required to be recorded in AOCI; however, to the extent authorized for recovery through the regulatory process these amounts are recorded as regulatory assets or liabilities. Based on prior regulatory approvals, the amortization of these amounts will be included in the Company's rates.

Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, the Company believes that future recovery of its regulatory assets is probable.

**(14) Construction Program and Jointly-Owned Electric Generating Plants**

PNM is a participant in several jointly-owned power plant projects. The primary operating or participation agreements for the joint projects expire in July 2022 for SJGS, July 2041 for Four Corners, December 2046 for Luna, and November 2047 for PVNGS.

PNM's expenditures for additions to utility plant were \$341.8 million in 2019, including expenditures on jointly-owned projects. TNMP does not participate in the ownership or operation of any generating plants, but incurred expenditures for additions to utility plant of \$254.0 million during 2019. On a consolidated basis, PNMR's expenditures for additions to utility plant were \$616.3 million in 2019.

**Joint Projects**

Under the agreements for the jointly-owned projects, PNM has an undivided interest in each asset and liability of the project and records its pro-rata share of each item in the corresponding asset and liability account on PNM's Consolidated Balance Sheets. Likewise, PNM records its pro-rata share of each item of operating and maintenance expenses for its jointly-owned plants within the corresponding operating expense account in its Consolidated Statements of Earnings. PNM is responsible for financing its share of the capital and operating costs of the joint projects.

At December 31, 2019, PNM's interests and investments in jointly-owned generating facilities are:

<u>Station (Fuel Type)</u>	<u>Plant in Service</u>	<u>Accumulated Depreciation<sup>(1)</sup></u>	<u>Construction Work in Progress</u>	<u>Composite Interest</u>
(In thousands)				
SJGS (Coal)	\$ 779,236	\$ (435,312)	\$ 486	66.35%
PVNGS (Nuclear) <sup>(2)</sup>	\$ 819,613	\$ (369,431)	\$ 31,275	10.20%
Four Corners Units 4 and 5 (Coal)	\$ 283,939	\$ (100,137)	\$ 10,794	13.00%
Luna (Gas)	\$ 78,258	\$ (30,255)	\$ —	33.33%

<sup>(1)</sup> Includes cost of removal.

<sup>(2)</sup> Includes interest in PVNGS Unit 3, interest in common facilities for all PVNGS units, and owned interests in PVNGS Units 1 and 2, including improvements.

*San Juan Generating Station*

PNM operates and jointly owns SJGS. Effective January 1, 2018, SJGS Unit 1 is owned 50% by PNM and 50% by Tucson and SJGS Unit 4 is owned 77.297% by PNM, including a 12.8% interest held as merchant plant, 8.475% by Farmington, 7.2% by Los Alamos, and 7.028% by UAMPS. See Notes 16 and 17 for additional information about SJGS, including the shutdown of SJGS Units 2 and 3 in December 2017 and the restructuring of SJGS ownership as well as information on PNM's SJGS Abandonment Application.

*Palo Verde Nuclear Generating Station*

PNM is a participant in the three units of PVNGS with APS (the operating agent), SRP, EPE, SCE, SCPPA, and The Department of Water and Power of the City of Los Angeles. PNM has a 10.2% undivided interest in PVNGS, with portions of its interests in Units 1 and 2 held under leases. See Note 8 for additional information concerning the PVNGS leases, including

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PNM's purchase of the assets underlying certain of the leases in January 2016, PNM's option to purchase or return certain lease interests that have been extended through 2023 and 2024, and Note 17 for the outcome of PNM's appeal to the NM Supreme Court regarding the NMPRC's treatment of those purchases and lease extensions in the NM 2015 Rate Case.

Operation of each of the three PVNGS units requires an operating license from the NRC. The NRC issued full power operating licenses for Unit 1 in June 1985, Unit 2 in April 1986, and Unit 3 in November 1987. The full power operating licenses were originally for a period of 40 years and authorize APS, as operating agent for PVNGS, to operate the three PVNGS units. In April 2011, the NRC approved extensions in the operating licenses for the plants for 20 years through June 2045 for Unit 1, April 2046 for Unit 2, and November 2047 for Unit 3.

*Four Corners Power Plant*

PNM is a participant in two units of Four Corners with APS (the operating agent), an affiliate of APS, SRP, and Tucson. PNM has a 13.0% undivided interest in Units 4 and 5 of Four Corners. The Four Corners plant site is located on land within the Navajo Nation and is subject to an easement from the federal government. APS, on behalf of the Four Corners participants, negotiated amendments to an existing agreement with the Navajo Nation, which extends the owners' right to operate the plant on the site to July 2041. See Note 16 for additional information about Four Corners.

The NMPRC indicated in the NM 2016 Rate Case that it will review the prudence of PNM's decision to continue its participation in Four Corners in PNM's next general rate case filing. See Note 17.

*Luna Energy Facility*

Luna is a combined-cycle power plant near Deming, New Mexico. Luna is owned equally by PNM, Tucson, and Samchully Power & Utilities 1, LLC. The operation and maintenance of the facility has been contracted to North American Energy Services.

**Construction Program**

The Company anticipates making substantial capital expenditures for the construction and acquisition of utility plant and other property and equipment. An unaudited summary of the budgeted construction expenditures, including expenditures for jointly-owned projects, and nuclear fuel, is as follows:

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
	(In millions)					
PNM	\$ 447.5	\$ 701.4	\$ 331.6	\$ 398.0	\$ 280.4	\$ 2,158.9
TNMP	337.2	270.0	342.0	348.0	245.0	1,542.2
Corporate and Other	27.0	21.0	21.0	25.0	21.0	115.0
Total PNMR	<u>\$ 811.7</u>	<u>\$ 992.4</u>	<u>\$ 694.6</u>	<u>\$ 771.0</u>	<u>\$ 546.4</u>	<u>\$ 3,816.1</u>

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. The above construction expenditures include \$297.6 million of replacement power in anticipation of the SJGS abandonment and approximately \$376.8 million for an anticipated expansion of PNM's transmission system. See Note 17.

**(15) Asset Retirement Obligations**

AROs are recorded based on studies to estimate the amount and timing of future ARO expenditures and reflect underlying assumptions, such as discount rates, estimates of the future costs for decommissioning, and the timing of the removal activities to be performed. Approximately 76% of PNM's total ARO liabilities are related to nuclear decommissioning of PVNGS. PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS, including portions under lease both during and after termination of the leases. Studies of the decommissioning costs of PVNGS, SJGS, Four Corners, and other facilities are performed periodically and revisions to the ARO liabilities are recorded. Changes in the assumptions underlying the calculations may also require revisions to the estimated AROs when identified.

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A reconciliation of the ARO liabilities is as follows:

	PNMR	PNM	TNMP
	(In thousands)		
<b>Liability at December 31, 2016</b>	\$ 127,519	\$ 126,601	\$ 754
Liabilities incurred <sup>(1)</sup>	1,854	1,853	—
Liabilities settled	(968)	(944)	(24)
Accretion expense	10,680	10,603	63
Revisions to estimated cash flows	7,594	7,594	—
<b>Liability at December 31, 2017</b>	<u>146,679</u>	<u>145,707</u>	<u>793</u>
Liabilities incurred	—	—	—
Liabilities settled	(192)	—	—
Accretion expense	11,482	11,402	67
Revisions to estimated cash flows	705	705	—
<b>Liability at December 31, 2018</b>	<u>158,674</u>	<u>157,814</u>	<u>860</u>
Liabilities incurred	—	—	—
Liabilities settled	(987)	(935)	(52)
Accretion expense	12,635	12,562	73
Revisions to estimated cash flows <sup>(2)</sup>	11,640	11,640	—
<b>Liability at December 31, 2019</b>	<u>\$ 181,962</u>	<u>\$ 181,081</u>	<u>\$ 881</u>

<sup>(1)</sup> Represents the obligation related to the additional ownership interest in SJGS Unit 4 that PNM acquired on December 31, 2017 due to the restructuring of the ownership of SJGS.

<sup>(2)</sup> Reflects the impacts of an updated SJGS decommissioning study that assumes PNM will retire its share of SJGS in 2022. PNM is seeking recovery of these costs in its SJGS Abandonment Application currently pending before the NMPRC. See Note 17.

**(16) 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 17. 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 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. In accordance with GAAP, 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, and commitments will have a material effect on its financial condition, results of operations, or cash flows.

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*Commitments and Contingencies Related to the Environment*

**PVNGS Decommissioning Funding**

The costs of decommissioning a nuclear power plant are substantial. PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS, including portions under lease both during and after termination of the leases. PNM has a program for funding its share of decommissioning costs for PVNGS, including portions held under leases. The nuclear decommissioning funding program is invested in equities and fixed income instruments in qualified and non-qualified trusts. PNM funded \$1.3 million, \$1.3 million, and \$2.0 million for the years ended December 31, 2019, 2018, and 2017 into the qualified and non-qualified trust funds. The market value of the trusts at December 31, 2019 and 2018 was \$336.0 million and \$287.1 million. See Note 17 for additional discussion of the NM Supreme Court's decisions in PNM's appeal of the NMPRC's decisions in the NM 2015 Rate Case.

**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 establishes a process for the payment of claims for costs incurred through December 31, 2019. 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 \$57.7 million (in 2016 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 December 31, 2019 and 2018, PNM had a liability for interim storage costs of \$12.7 million and \$12.4 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**

On March 22, 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. 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 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 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

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1,100 lbs. per MWh beginning January 1, 2023 for new or existing coal-fired EGUs with original installed capacities exceeding 300 MW.

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 the 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 “financing 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. See Note 17 for a discussion of the NM Supreme Court’s decision to affirm the NMPRC’s disallowance of certain costs, including the cost of BDT at SJGS, in PNM’s NM 2015 Rate Case. 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 must be 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.

PNM expects the ETA will have a significant impact on PNM’s future generation portfolio, including PNM’s planned retirement of SJGS in 2022. See additional discussion in Note 17 of PNM’s SJGS Abandonment Application. 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.

**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 have the primary role to regulate visibility requirements by promulgating SIPs. 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, then 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.

On January 10, 2017, EPA published in the Federal Register revisions to the regional haze rule. EPA also provided a companion draft guidance document for public comment. 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

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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 released in 2017 as a companion to the regional haze rule revisions. The final guidance differs from the draft in several ways. For example, the final guidance recognizes that sources already subject to BART may not need to be re-evaluated under the full four-factor analysis whereas the draft guidance encouraged states to evaluate all sources regardless of whether they were previously subject to BART. In addition, the final guidance recognizes that states may consider both visibility benefits and the cost of different control options when applying the four-factor analysis whereas the draft guidance recommended states require any control measures identified to be reasonable after considering the four-factor analysis alone. SIPs for the second compliance period are due in July 2021. NMED is currently preparing its SIP for the second compliance period and has notified PNM that it will not require a regional haze four-factor analysis for SJGS provided PNM is still planning to retire its share of SJGS in 2022. PNM is continuing to evaluate the potential impacts of these matters.

*SJGS*

*BART Compliance* – SJGS is a source that is subject to the statutory obligations of the CAA to reduce visibility impacts. PNM, as the operating agent for SJGS, engaged in discussions with NMED and EPA which resulted in a non-binding agreement that included the retirement of SJGS Units 2 and 3 by the end of 2017 and the installation of SNCRs on Units 1 and 4 (the Revised State Implementation Plan or "RSIP"), which was approved by the EPA. In addition to the SNCR equipment required by the RSIP, the NSR permit, which was required to be obtained in order to install the SNCRs, specified that SJGS Units 1 and 4 be converted to balanced draft technology ("BDT"). Installation of SNCRs on Unit 1 and BDT equipment on both Units 1 and 4 was completed in 2015 and installation of SNCRs on Unit 4 was completed in January 2016, which dates were within the time frame contained in the RSIP. PNM's share of the total costs for SNCRs and BDT equipment was \$77.7 million. See Note 17 for information concerning the NMPRC's treatment of BDT in PNM's NM 2015 Rate Case, parties' appeals of that order, and the NM Supreme Court's May 2019 decision in the appeals.

After extensive settlement negotiations and public hearings, in December 2015, the NMPRC issued an order adopting a settlement agreement between several parties. As provided in that order:

- PNM would retire SJGS Units 2 and 3 (PNM's ownership interest was 418 MW) by December 31, 2017 and recover, over 20 years, 50% of their undepreciated net book value at that date and earn a regulated return on those costs at PNM's WACC
- PNM was granted a CCN to acquire an additional 132 MW in SJGS Unit 4 with an initial book value of zero, plus the costs of SNCR and other capital additions as a jurisdictional resource to serve PNM's New Mexico retail customers, and to acquire 65 MW of SJGS Unit 4 as merchant plant effective January 1, 2018; PNM is prohibited from seeking recovery of any undepreciated investment in the 132 MW interest in the event SJGS Unit 4 is abandoned and PNM and PNMR commit that no further coal-fired merchant plant will be acquired at any time by PNM, PNMR, or any PNM affiliate. See additional discussion below regarding these interests under PNM's December 2018 Compliance Filing
- PNM was granted a CCN for 134 MW of PVNGS Unit 3 with an initial rate base value equal to the book value as of December 31, 2017, including transmission assets associated with PVNGS Unit 3 as a jurisdictional resource to serve PNM's New Mexico retail customers beginning January 1, 2018
- Beginning January 1, 2020, for every MWh produced by 197 MW of coal-fired generation from PNM's ownership share of SJGS, PNM will acquire and retire one MWh of RECs or allowances that include a zero-CO<sub>2</sub> emission attribute compliant with EPA's Clean Power Plan; this REC retirement is in addition to what is required to meet the RPS; the cost of these RECs are to be capped at \$7.0 million per year and will be recovered in rates; PNM should purchase EPA-compliant RECs from New Mexico renewable generation unless those RECs are more costly
- PNM would accelerate recovery of SNCR costs on SJGS Units 1 and 4 so that the costs are fully recovered by July 1, 2022

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- PNM was required to make a filing with the NMPRC no later than December 31, 2018 to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022. See additional discussion of this matter below under PNM's December 2018 Compliance Filing

SJGS Units 2 and 3 were shut down in December 2017. At shutdown, the carrying value for PNM's ownership share of SJGS Units 2 and 3 was comprised of plant in service of \$439.4 million and accumulated depreciation and amortization (including cost of removal) of \$188.3 million for a net book value of \$251.1 million. As of December 31, 2017, these amounts were written off and offset by losses recorded upon the NMPRC's December 2015 approval and subsequent adjustments totaling \$128.6 million. PNM also recorded a regulatory asset of \$125.5 million for the 50% of the undepreciated book value that is being recovered from ratepayers pursuant to the NMPRC's December 2015 order described above. This resulted in the reversal of previously recorded losses of \$3.0 million being recorded at December 31, 2017. In addition, PNM recognized a reversal of \$1.0 million of previously recorded losses for other unrecoverable costs. These reversals, which total \$4.0 million, are included in regulatory disallowances and restructuring costs on the Consolidated Statements of Earnings. All appeals of this matter have been resolved and the matter is now concluded.

*December 2018 Compliance Filing* – As discussed above, in December 2015 PNM received NMPRC approval for a plan to comply with EPA's regional haze rule at SJGS. Among other things, the NMPRC's December 2015 order required that, no later than December 31, 2018, PNM make a filing with the NMPRC to determine the extent to which SJGS should continue serving PNM's customers' needs after June 30, 2022 (the "December 2018 Compliance Filing"). The December 2018 Compliance Filing was required to be made before PNM entered into a binding commitment for post-2022 coal supply but after PNM received firm pricing and other terms for the supply of coal at SJGS, unless PNM did not intend to pursue an agreement for post-2022 coal supply at SJGS. The NMPRC's December 2015 order also indicated that, if SJGS Unit 4 is abandoned with undepreciated investment on PNM's books, PNM is prohibited from recovering the undepreciated investment of its 132 MW interest and required that PNM's 65 MW interest in SJGS Unit 4 be treated as excluded merchant plant. PNM is currently depreciating virtually all of its investments in SJGS through 2053, which reflects the period of time over which the NMPRC has authorized PNM to recover its investment in SJGS from New Mexico retail customers.

PNM submitted the December 2018 Compliance Filing to the NMPRC on December 31, 2018 indicating that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS after the current SJGS CSA expires in mid-2022. The December 2018 Compliance Filing also indicated that, pursuant to the terms of the agreements governing SJGS, all of the SJGS owners except for Farmington provided written notice that they do not intend to extend the SJGS operating agreements beyond their June 30, 2022 expiration dates, and that PNM has provided written notice to the San Juan mine operator that PNM does not intend to extend the SJGS CSA beyond June 30, 2022. On January 30, 2019, the NMPRC issued an order initiating a proceeding and requiring PNM to submit an application for the abandonment of PNM's share of SJGS by March 1, 2019. PNM filed a motion requesting the NMPRC vacate the January 30, 2019 order, which was deemed denied. On February 27, 2019, PNM filed a petition with the NM Supreme Court stating that the requirements of the January 30, 2019 order exceed the NMPRC's authority by, among other things, mandating PNM to make a filing that is legally voluntary, and that the order is contrary to NMPRC precedent which requires abandonment applications to also include identified replacement resources and other information that would not be available to PNM by March 1, 2019. On March 1, 2019, the NM Supreme Court granted a temporary stay of the NMPRC's order. Various parties intervened in the petition. On June 26, 2019, and after the effective date of the ETA, the NM Supreme Court lifted the stay and denied PNM's petition without discussion. On July 1, 2019, PNM filed its SJGS Abandonment Application. See Note 17.

GAAP requires that long-lived assets be tested for impairment when events or changes in circumstances indicate that their carrying value may not be recoverable. As of December 31, 2018, PNM evaluated the events surrounding its future participation in SJGS and determined that it is more likely than not that PNM's share of SJGS will be retired in 2022. As a result, PNM performed an impairment analysis that assumed SJGS would not continue to operate through 2053, as previously approved by the NMPRC. PNM's impairment analysis indicated that, pursuant to the NMPRC's December 2015 order, PNM's undepreciated 132 MW interest in SJGS Unit 4 at June 30, 2022 will not be recovered from customers; that the estimated future cash flows expected to result from the operation of SJGS Unit 4 through June 30, 2022 are not sufficient to provide for recovery of PNM's 65 MW merchant interest in the facility; and that it is unlikely PNM will be able to sell or transfer its interests in SJGS to third parties at amounts sufficient to provide for their recovery. As a result, as of December 31, 2018, PNM recorded a pre-tax impairment of its investment in SJGS of approximately \$35.0 million, which is reflected as regulatory disallowances and restructuring costs on the Consolidated Statements of Earnings. This amount includes the entire \$11.9 million carrying value of PNM's 65 MW interest in SJGS Unit 4

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as of December 31, 2018 and \$23.1 million of estimated undepreciated investments in PNM's 132 MW jurisdictional interest as of June 30, 2022 that will not be recovered from customers. See additional discussion below regarding the increase in PNM's estimated liability for coal mine reclamation.

*NEE Complaint* – On March 31, 2016, NEE filed a complaint with the NMPRC alleging that PNM failed to comply with its discovery obligation in the case authorizing the shutdown of SJGS Units 2 and 3 and requesting the NMPRC investigate whether financing provided by NM Capital to the former owner of SJCC (the “Westmoreland Loan”) could adversely affect PNM's ability to provide electric service to its retail customers. On January 31, 2018, NEE filed a motion asking the NMPRC to investigate whether PNM's relationship with the former owner of SJCC could be harmful to PNM's customers. On May 23, 2018, PNM filed its response to the NMPRC staff's comments noting that the Westmoreland Loan was paid in full on May 22, 2018. On October 11, 2018, PNM notified the NMPRC that the former owner of SJCC, Westmoreland, had filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. As discussed in Note 10, on March 15, 2019, Westmoreland announced that it had emerged from Chapter 11 bankruptcy as a privately held company owned and operated by a group of its former creditors. Under the reorganization, all the assets of SJCC were sold to WSJ LLC. As successor entity to SJCC, WSJ LLC assumed all rights and obligations of Westmoreland including obligations to PNM under the SJGS CSA. The NMPRC has taken no further action on NEE's complaints. PNM is not able to predict the potential outcome of this matter but does not anticipate the NMPRC will take any further action.

*SJGS Ownership Restructuring Matters* – Prior to December 31, 2017, SJGS was jointly owned by PNM and eight other entities, including three participants that operate in the State of California. Furthermore, each participant did not have the same ownership interest in each unit. The SJPPA that governs the operation of SJGS expires on July 1, 2022. In connection with requirements to install SNCR and BDT equipment at SJGS, certain participants indicated their intent to exit ownership in the plant. As a result, the SJGS participants negotiated a restructuring of the ownership in SJGS and addressed the obligations of the exiting participants for plant decommissioning, mine reclamation, environmental matters, and certain future operating costs, among other items. Prior to the restructuring, the exiting participants owned 50.0% of SJGS Unit 3 and 38.8% of SJGS Unit 4, but none of SJGS Units 1 and 2, and PNM owned 50.0% of SJGS Units 1, 2, and 3 and 38.5% of SJGS Unit 4.

Following mediated negotiations, the SJGS participants executed the San Juan Project Restructuring Agreement (“SJGS RA”). The SJGS RA provides the essential terms of restructured ownership and addresses other related matters, including that the exiting participants remain obligated for their proportionate shares of environmental, mine reclamation, and certain other legacy liabilities that are attributable to activities that occurred prior to their exit. Under the SJGS RA, PNM would acquire 132 MW and PNMR Development would acquire 65 MW of the capacity in SJGS Unit 4 from the exiting owners on the exit date for no initial cost other than funding certain capital improvements. Consistent with the NMPRC order, PNM acquired the rights and obligations related to the 65 MW from PNMR Development effective on December 31, 2017 in order to facilitate dispatch of power from that capacity.

SJGS Units 2 and 3 were shut down in December 2017 and the restructuring of SJGS ownership under the SJGS RA occurred on December 31, 2017, including PNM's acquisition of the additional 132 MW and 65 MW ownership interests in SJGS Unit 4 as set forth above. As ordered by the NMPRC, PNM treats the 65 MW interest as merchant utility plant that is excluded from retail rates. PNM has agreements to sell the 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. See Note 9. Beginning in 2018, SJGS is jointly owned by five entities. Including the 65 MW considered to be merchant plant, PNM's ownership share is 77.3% in SJGS Unit 4 and an aggregate of 66.3% in SJGS Units 1 and 4. See Note 17 for additional discussion of PNM's July 1, 2019 SJGS Abandonment Application.

*Four Corners*

On August 6, 2012, EPA issued its Four Corners FIP with a final BART determination for Four Corners. The rule included two compliance alternatives. On December 30, 2013, APS notified EPA that the Four Corners participants selected the alternative that required APS to permanently close Units 1, 2, and 3 by January 1, 2014 and install SCR post-combustion NOx control technology on each of Units 4 and 5 by July 31, 2018. Installation of SCRs on Four Corners Unit 5 was completed in March 2018 and the installation on Unit 4 was completed in June 2018. PNM owns a 13% interest in Units 4 and 5, but had no ownership interest in Units 1, 2, and 3, which were shut down by APS on December 30, 2013. For particulate matter emissions, EPA is requiring Units 4 and 5 to meet an emission limit of 0.015 lbs./MMBTU and the plant to meet a 20% opacity limit, both of which

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are achievable through operation of the existing baghouses. Although unrelated to BART, the final BART rule also imposes a 20% opacity limitation on certain fugitive dust emissions from Four Corners' coal and material handling operations.

PNM share of costs for post-combustion controls at Four Corners Units 4 and 5 through December 31, 2018 was \$88.7 million, including PNM's AFUDC. See Note 17 for information on the NMPRC's treatment of these costs in PNM's NM 2016 Rate Case.

The Four Corners plant site is located on land within the Navajo Nation. APS, on behalf of the Four Corners participants, negotiated amendments to the existing agreement with the Navajo Nation, which extends the owners' right to operate the plant on the site to July 2041. The DOI issued a Record of Decision on July 17, 2015 approving the 25-year extension for Four Corners, authorizes continued mining operations to supply the remaining units at Four Corners, renews transmission line and access road rights-of-way on the Navajo and Hopi Reservations, and accepts the proposed mining plan for the Navajo Mine.

The Four Corners participants' obligations to comply with EPA's final BART determinations, coupled with the financial impact of climate change regulation or legislation, other environmental regulations, and other business or regulatory considerations, could jeopardize the economic viability of Four Corners or the ability of individual participants to continue their participation in Four Corners.

*Four Corners Federal Agency Lawsuit* – On April 20, 2016, several environmental groups filed a lawsuit against OSM and other federal agencies in the U.S. District Court for the District of Arizona in connection with their issuance of the approvals that extended the life of Four Corners and the adjacent mine. The lawsuit alleges that these federal agencies violated both the ESA and NEPA in providing the federal approvals necessary to extend operations at Four Corners and the adjacent mine past July 6, 2016. The court granted an APS motion to intervene in the litigation. On September 15, 2016, NTEC, the current owner of the mine providing coal to Four Corners, filed a motion to intervene for the limited purpose of seeking dismissal of the lawsuit based on NTEC's tribal sovereign immunity. On September 11, 2017, the court granted NTEC's motion and dismissed the case with prejudice, terminating the proceedings. The environmental group plaintiffs filed a Notice of Appeal of the dismissal in the U.S. Court of Appeals for the Ninth Circuit on November 9, 2017, and the court granted their subsequent motion to expedite the appeal. Oral arguments for the appeal were held on March 7, 2019. On July 29, 2019, the Ninth Circuit issued a decision affirming the District Court's dismissal of the case. In September 2019, the environmental groups filed a motion for reconsideration, which was denied in December 2019. PNM cannot predict whether parties will seek further review of this matter by means of petitioning the U.S. Supreme Court or the outcome of potential future litigation.

*Carbon Dioxide Emissions*

On August 3, 2015, EPA established standards to limit CO<sub>2</sub> emissions from power plants. EPA took three separate but related actions in which it: (1) established the Carbon Pollution Standards for new, modified, and reconstructed power plants; (2) established the Clean Power Plan to set standards for carbon emission reductions from existing power plants; and (3) released a proposed federal plan associated with the final Clean Power Plan. The Clean Power Plan was published on October 23, 2015.

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. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. On January 21, 2016, the DC Circuit denied petitions to stay the Clean Power Plan, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. The decision meant that the Clean Power Plan was not in effect and neither states nor sources were obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a ten judge *en banc* panel. However, before the DC Circuit could issue an opinion, the Trump Administration asked that the case be held in abeyance while the rule was being re-evaluated, which was granted.

On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order put forth two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order directed the EPA Administrator to review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Clean Power Plan, (2) the New Source Performance Standards ("NSPS") for GHG from new, reconstructed, or modified electric generating units, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response to the Executive Order, EPA filed a petition with the DC

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Circuit requesting the cases challenging the Clean Power Plan be held in abeyance until after the conclusion of EPA's review and any subsequent rulemaking, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. 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 Affordable Clean Energy rule.

EPA's efforts to replace the Clean Power Plan with the Affordable Clean Energy rule began on October 10, 2017, when EPA issued a NOPR proposing to repeal the Clean Power Plan and filed its status report with the court requesting the case be held in abeyance until the completion of the rulemaking on the proposed repeal. The NOPR proposed a legal interpretation concluding that the Clean Power Plan exceeded EPA's statutory authority. On August 31, 2018, EPA published a proposed rule, known as the Affordable Clean Energy rule, to replace the Clean Power Plan. On June 19, 2019, EPA released the final version of the Affordable Clean Energy rule. EPA takes three actions in the final rule: (1) repealing the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under Clean Air Act Section 111(d), which, among other things, extends the deadline for state plans and the timing for EPA's approval process. The final rule is very similar to the August 2018 proposed rule. EPA set the Best System of Emissions Reduction ("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. Rather than setting a specific numerical standard of performance, EPA's rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSER. The final rule requires states to submit a plan to EPA by July 8, 2022 and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The Affordable Clean Energy rule is not expected to impact SJGS since EPA's final approval of a state SIP would occur after the planned shutdown of SJGS in 2022 (subject to NMPRC approval).

Since the Navajo Nation does not have primacy over its air quality program, EPA would be the regulatory authority responsible for implementing the Affordable Clean Energy rule on the Navajo Nation. PNM is currently reviewing the requirements of the Affordable Clean Energy rule and is unable to predict the potential financial or operational impacts on Four Corners.

While corresponding NSR reform regulations were proposed as part of the proposed Affordable Clean Energy rule, the final rule did not include such reform measures. EPA has indicated that it plans to finalize the proposed NSR reform in 2020. Unrelated to the Affordable Clean Energy rule, EPA issued a proposed rule on August 1, 2019 to clarify one aspect of the pre-construction review process for evaluating whether the NSR permitting program would apply to a proposed project at an existing source of emissions. The proposed rule clarifies that both emissions increases and decreases resulting from a project are to be considered in determining whether the proposed project will result in an increase in air emissions.

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon capture and sequestration. As a result, the proposed rule contains less stringent CO<sub>2</sub> emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines. Comments on the proposal were due on March 18, 2019 and a final rule is expected in 2020.

PNM's review of the GHG emission reductions standards under the Affordable Clean Energy rule and the revised proposed Carbon Pollution Standards rule is ongoing. The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. As discussed above, SJGS may also be required to comply with additional CO<sub>2</sub> emissions restrictions issued by the New Mexico Environmental Improvement Board pursuant to the recently enacted ETA. 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. In 2010, EPA updated the primary NO<sub>x</sub>

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and SO<sub>2</sub> NAAQS to include a 1-hour standard while retaining the annual standards for NO<sub>x</sub> and SO<sub>2</sub> and the 24-hour SO<sub>2</sub> standard. EPA also updated the final particulate matter standard in 2012 and updated the ozone standard in 2015.

*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.

*SO<sub>2</sub> Standard* – On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO<sub>2</sub> NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO<sub>2</sub> sources to identify maximum 1-hour SO<sub>2</sub> concentrations. This characterization would result in these areas being designated as attainment, nonattainment, or unclassifiable for compliance with the 1-hour SO<sub>2</sub> NAAQS. On March 2, 2015, the U.S. District Court for the Northern District of California approved a settlement that imposed deadlines for EPA to identify areas that violate the NAAQS standards for 1-hour SO<sub>2</sub> emissions. The settlement resulted from a lawsuit brought by Earthjustice on behalf of the Sierra Club and the Natural Resources Defense Council under the CAA. The consent decree required, among other things, that EPA must issue designations for areas for which states have adopted a new monitoring network under the proposed data requirements rule by December 2020. EPA regions sent letters to state environmental agencies explaining how EPA plans to implement the consent decree. The letters outline the schedule that EPA expects states to follow in moving forward with new SO<sub>2</sub> non-attainment designations. NMED did not receive a letter.

On August 11, 2015, EPA released the Data Requirements Rule for SO<sub>2</sub>, telling states how to model or monitor to determine attainment or nonattainment with the new 1-hour SO<sub>2</sub> NAAQS. On June 3, 2016, NMED notified PNM that air quality modeling results indicated that SJGS was in compliance with the standard. In January 2017, NMED submitted its formal modeling report regarding attainment status to EPA. The modeling indicated that no area in New Mexico exceeds the 1-hour SO<sub>2</sub> standard. NMED submitted the first annual report for SJGS as required by the Data Requirements Rule in June 2018. That report recommended that no further modeling was warranted due to decreased SO<sub>2</sub> emissions. NMED submitted the second annual modeling report to EPA in July 2019. That report retained the recommendation that no further modeling is needed at this time and is subject to EPA review.

On February 25, 2019, EPA announced its final decision to retain without changes the primary health-based NAAQS for SO<sub>x</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. SO<sub>2</sub> is the most prevalent SO<sub>x</sub> compound and is used as the indicator for the primary SO<sub>x</sub> NAAQS.

On May 14, 2015, PNM received an amendment to its NSR air permit for SJGS, which reflects the revised state implementation plan for regional haze BART and required the installation of SNCRs. The revised permit also required the reduction of SO<sub>2</sub> emissions to 0.10 pound per MMBTU on SJGS Units 1 and 4 and the installation of BDT equipment modifications for the purpose of reducing fugitive emissions, including NO<sub>x</sub>, SO<sub>2</sub>, and particulate matter. These reductions help SJGS meet the NAAQS for these constituents. The BDT equipment modifications were installed at the same time as the SNCRs, in order to most efficiently and cost effectively conduct construction activities at SJGS. See a discussion of the regulatory treatment of BDT in Note 17.

*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 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.

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 Dona Ana

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County, New Mexico is designated as marginal non-attainment. The final rule also establishes the timing of attainment dates for each non-attainment area classification, which are marginal, moderate, serious, severe, or extreme. The rule became effective May 8, 2018. Attainment plans for nonattainment areas are due in August 2021.

NMED has responsibility for bringing the small area in Dona Ana County designated as marginal/non-attainment for ozone into compliance and will look at all sources of NO<sub>x</sub> and volatile organic compounds. On November 22, 2019, EPA issued findings that several states, including New Mexico, had failed to submit SIPs for the 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 outlines the strategies and emissions control measures that are expected to improve air quality in the area by May 8, 2021. These strategies and measures would aim to reduce the amount of NO<sub>x</sub> and volatile organic compounds emitted to the atmosphere and will rely upon current or upcoming federal rules, new or revised state rules, and other programs.

PNM does not believe there will be material impacts to its facilities as a result of NMED's non-attainment designation of the small area within Dona 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. PNM cannot predict the outcome of this matter.

*PM Standard* – On September 11, 2019, EPA published its policy assessment for review of the NAAQS for particle pollution. The draft assessment considers lowering the existing primary standard for PM<sub>2.5</sub> from 12 micrograms per cubic meter to a level above 8 micrograms per cubic meter. Comments on the draft assessment were due November 12, 2019. EPA anticipates issuing a final rulemaking in late 2020. PNM cannot predict the outcome of this matter or whether it will have a material impact on its financial position, results of operations, or cash flows.

**WEG v. OSM NEPA Lawsuit**

In February 2013, WEG filed a Petition for Review in the U.S. District Court of Colorado against OSM challenging federal administrative decisions affecting seven different mines in four states issued at various times from 2007 through 2012. In its petition, WEG challenged several unrelated mining plan modification approvals, which were each separately approved by OSM. WEG alleged various NEPA violations against OSM, including, but not limited to, OSM's alleged failure to provide requisite public notice and participation, alleged failure to analyze certain environmental impacts, and alleged reliance on outdated and insufficient documents. WEG's petition sought various forms of relief, including a finding that the federal defendants violated NEPA by approving the mine plans; voiding, reversing, and remanding the various mining modification approvals; enjoining the federal defendants from re-issuing the mining plan approvals for the mines until compliance with NEPA has been demonstrated; and enjoining operations at the seven mines.

Of the fifteen claims for relief in the WEG Petition, two concerned San Juan mine. WEG's allegations concerning the San Juan mine arose from OSM administrative actions in 2008. SJCC, as San Juan mine operator at the time, intervened in this matter. In 2016, OSM filed a Motion for Voluntary Remand to allow the agency to conduct a new environmental analysis and the court entered an order remanding the matter to OSM for the completion of an EIS by August 31, 2019. The court ruled that mining operations could continue in the interim and administratively closed the litigation. If OSM had not completed the EIS within the time frame provided, the court had authority to order immediate *vacatur* of the mining plan absent a further court order based on good cause shown. The final EIS, which allows for continued mining beyond 2022 at quantities similar to those currently being provided, was approved on August 26, 2019. PNM cannot predict if the revised final EIS will be subject to additional legal challenge.

**Navajo Nation Environmental Issues**

Four Corners is located on the Navajo Nation and is held under easements granted by the federal government, as well as agreements with the Navajo Nation which grant each of the owners the right to operate on the site. The Navajo Acts purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners. In October 1995, the Four Corners participants filed a lawsuit in the District Court of the Navajo Nation challenging the applicability of the Navajo Acts to Four Corners. In May 2005, APS and the Navajo Nation signed an agreement resolving the dispute regarding the Navajo Nation's authority to adopt operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. As a result of this agreement,

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APS sought, and the court granted, dismissal of the pending litigation in the Navajo Nation Supreme Court and the Navajo Nation District Court, to the extent the claims relate to the CAA. The agreement does not address or resolve any dispute relating to other aspects of the Navajo Acts. PNM cannot currently predict the outcome of these matters or the range of their potential impacts.

**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 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.

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 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 effluent limitation guidelines, 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 Environmental Appeals Board. EPA’s Environmental Appeals Board thereafter dismissed the environmental groups’ appeal. EPA issued an updated NPDES permit on September 30, 2019. The permit has been stayed pending an appeal filed by several environmental groups on November 1, 2019 to EPA’s Environmental Appeals Board. PNM cannot predict the outcome of this matter or whether 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 effluent limitation guidelines establishing technology-based wastewater discharge limitations for fossil fuel-fired electric power plants. EPA’s proposal offered numerous options that target metals and other pollutants in wastewater streams originating from fly ash and bottom ash handling activities, scrubber activities, and non-chemical metal cleaning waste operations. All proposed alternatives establish a “zero discharge” effluent limit for all pollutants in fly ash transport water. Requirements governing bottom ash transport water differ depending on which alternative EPA ultimately chooses and could range from effluent limits based on Best Available Technology Economically Achievable to “zero discharge” effluent limits.

EPA signed the final Steam Electric Effluent Guidelines rule on September 30, 2015. The final rule, which became effective on January 4, 2016, phases 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. Each plant must comply between 2018 and 2023 depending on when it needs a new or revised NPDES permit.

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The Effluent Limitations Guidelines 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, which have not yet passed for the Effluent Limitations Guidelines rule. The rule postponed the earliest date on which compliance with the effluent limitation guidelines for these waste streams would be required from November 1, 2018 until November 1, 2020. Although the new deadlines were challenged in court, the Fifth Circuit rejected those challenges on August 28, 2019. On November 22, 2019, EPA published a proposed rule revising the original Effluent Limitation Guidelines while maintaining the compliance dates. Comments were due January 21, 2020.

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, a PNM-owned gas-fired generating 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.

EPA reissued an NPDES permit for Four Corners on June 12, 2018. Since that time, the NPDES permit at Four Corners has been subject to various challenges by environmental groups. See Cooling Water Intake Structures above for additional discussion of Four Corner's 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 will be presented in two separate reports, which were released to stakeholders in early 2020. The reports' conclusions support PNM's contention that off-site sources have impacted, and are continuing to impact, the local groundwater in the vicinity of Santa Fe Station.

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.

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**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.

EPA's final coal ash rule, which became effective on October 19, 2015, included a non-hazardous waste determination for coal ash. The rule was promulgated under Subtitle D of RCRA 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. There is no timeline for establishing either state or federal permitting programs.

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 coal ash rule. The final 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. The rule also authorized a "Participating State Director" or EPA to approve suspension of groundwater monitoring and to issue certifications related to the location restrictions, design criteria, groundwater monitoring, remedy selection and implementation. The revisions also modify groundwater protection standards for certain constituents, which include cobalt, molybdenum, lithium, and lead without a maximum contamination level. EPA intends to issue multiple proposed rulemakings with a final rule expected in 2020 that will include the following: (1) deadlines for unlined surface impoundments to cease receiving waste; (2) a "Phase Two" rule to address amendments to the national minimum criteria; and (3) rulemaking for alternative demonstration for unlined surface impoundments with a request for comment on inclusion of legacy units. On August 14, 2019, the "Phase Two" proposed rule was published in the Federal Register with comments due on October 15, 2019. This rule proposes revisions to reporting and accessibility to public information, the definition of CCR piles, the definition of beneficial use, and the requirements for management of CCR piles. A final rule is expected in mid to late 2020. On November 4, 2019, EPA proposed a change to the CCR rule that, subject to EPA authorization for each facility, would allow facilities that have committed to cease burning coal in the near-term to qualify for alternative closure. This would allow CCR disposal units at such plants to continue operating even though they would otherwise have been subject to forced closure. On December 2, 2019, EPA published the proposed Part A CCR rule requiring a new date of August 31, 2020 for companies to initiate closure of unlined CCR impoundments and changing the classification of compacted soil-lined or clay-lined surface impoundments from "lined" to "unlined". Comments were due January 31, 2020. On December 19, 2019, EPA released 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. Once published in the Federal Register, there will be a 60-day comment period. The final rule is expected in mid to late 2020. PNM cannot predict the 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 rule, PNM conducted a CCR assessment at SJGS and made minor modifications at the plant to ensure that there are no facilities which would be considered impoundments or landfills under the rule. PNM would seek recovery from its ratepayers of all CCR costs for retail jurisdictional assets that are ultimately incurred. PNM does not expect the rule to have a material impact on operations, financial position, or cash flows.

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As indicated above, CCRs at Four Corners are currently disposed of in ash ponds and dry storage areas. The CCR rule requires ongoing, phased groundwater monitoring. Utilities that own or operate CCR disposal units, such as those at Four Corners 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 August 31, 2020. 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 are supplied by WSJ LLC. WSJ LLC holds certain federal, state, and private coal leases. Through January 31, 2016, SJCC, the former San Juan mine owner, was a wholly-owned subsidiary of BHP and supplied processed coal for operation of SJGS under an underground coal sales agreement (“UG-CSA”) that was to expire on December 31, 2017. The parties to the UG-CSA were SJCC, PNM, and Tucson. Under the UG-CSA, SJCC was reimbursed for all costs for mining and delivering the coal, including an allocated portion of administrative costs, and received a return on its investment. In addition to coal delivered to meet the current needs of SJGS, PNM has prepaid the current San Juan mine owner and operator, WSJ LLC, for certain coal mined but not yet delivered to the plant site. At both December 31, 2019 and 2018, prepayments for coal, which are included in other current assets, amounted to \$26.3 million.

In conjunction with the activities undertaken to comply with the CAA for SJGS, as discussed above, PNM and the other owners of SJGS evaluated alternatives for the supply of coal to SJGS after the expiration of the UG-CSA. Following extensive negotiations among the SJGS participants, the former owner of SJCC, and third-party miners, agreements were negotiated under which the ownership of SJCC would transfer to a new third-party miner and PNM would enter into a new coal supply agreement and agreements for CCR disposal and mine reclamation services with SJCC on or about January 1, 2016. Effectiveness of the agreements was dependent upon the closing of the purchase of SJCC by the new third-party miner and the finalization of the SJGS RA and other agreements, which along with regulatory approvals, were necessary for the restructuring of ownership in SJGS to be consummated.

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 10, with the closing of the sale of the assets of SJCC on March 15, 2019, 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 is primarily fixed, with adjustments to reflect changes in general inflation. The pricing structure takes into account that WSJ LLC has been paid for coal mined but not delivered, as discussed above. PNM had the option to extend the SJGS CSA, subject to negotiation of the term of the extension and compensation to the miner. In 2018, PNM, Los Alamos, UAMPS, and Tucson provided notice of their intent to exit SJGS in 2022 and Farmington gave notice that it wishes to continue SJGS operations and to extend the terms of both agreements. On November 30, 2018, PNM provided notice to Westmoreland that PNM does not intend to extend the term of the SJGS CSA or to negotiate a new coal supply agreement for SJGS, which will result in the current agreement expiring on its own terms on June 30, 2022. See additional discussion of PNM’s December 2018 Compliance Filing above and its SJGS Abandonment Application in Note 17.

The SJGS RA sets 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 is supplying coal to the SJGS remaining participants over the term of the SJGS CSA. Coal costs under the SJGS CSA are significantly less than under the previous arrangement with SJCC. Since substantially all of PNM’s coal costs are passed through the FPPAC, the benefit of the reduced costs is passed through to PNM’s customers.

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In support of the closing under the Stock Purchase Agreement and to facilitate PNM customer savings, NM Capital, a wholly-owned subsidiary of PNMR, provided funding of \$125.0 million (the “Westmoreland Loan”) to Westmoreland San Juan, LLC (“WSJ”), a ring-fenced, bankruptcy-remote, special-purpose entity subsidiary of Westmoreland, to finance WSJ’s purchase of the stock of SJCC (including an insignificant affiliate) under the Stock Purchase Agreement. NM Capital provided the \$125.0 million financing to WSJ by first entering into a \$125.0 million term loan agreement (the “BTMU Term Loan”) with BTMU, as lender and administrative agent. The BTMU Term Loan agreement became effective as of February 1, 2016, had a maturity date of February 1, 2021, and bore interest at a rate based on LIBOR plus a customary spread. In connection with the BTMU Term Loan, PNMR, as parent company of NM Capital, guaranteed NM Capital’s obligations to BTMU.

The Westmoreland Loan was a \$125.0 million loan agreement among NM Capital, as lender, WSJ, as borrower, and SJCC and its affiliate, as guarantors. The Westmoreland Loan became effective as of February 1, 2016 and had a maturity date of February 1, 2021. The interest rate on the Westmoreland Loan escalated over time and was 9.25% plus LIBOR for the period from February 1, 2017 through January 31, 2018 and 12.25% plus LIBOR beginning February 1, 2018. On May 22, 2018, the full principal outstanding under the Westmoreland Loan of \$50.1 million was repaid. NM Capital used a portion of the proceeds to repay all remaining principal of \$43.0 million owed under the BTMU Term Loan. These payments effectively terminated the loan agreements. In addition, PNMR’s guarantee of NM Capital’s obligations was also effectively terminated.

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, PNMR entered into letter of credit arrangements with a bank under which letters of credit aggregating \$30.3 million have been issued.

As discussed in Note 10, 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 WSJ LLC, a subsidiary of Westmoreland Mining Holdings, LLC. As successor entity to SJCC, WSJ LLC assumed all rights and obligations of WSJ including obligations to PNM under the SJGS CSA and to PNMR under a letter of credit support agreement.

*Four Corners*

APS purchases all of Four Corners’ coal requirements from NTEC, an entity owned by the Navajo Nation, under a coal supply contract (the “Four Corners CSA”) that expires in 2031. The coal comes from reserves located within the Navajo Nation. NTEC has contracted with Bisti Fuels Company, LLC, a subsidiary of The North American Coal Corporation, for management and operation of the mine. 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.

*Coal Mine Reclamation*

In conjunction with the proposed shutdown of SJGS Units 2 and 3 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 generally increased PNM’s share of the estimated cost of mine reclamation and 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.

The SJGS RA required PNM to complete an update to the reclamation cost estimate after the December 31, 2017 shutdown of SJGS Units 2 and 3. This reclamation cost estimate was completed in October 2018 and assumed continuation of mining operations through 2053, the life of SJGS currently approved by the NMPRC. The study indicated a decrease in reclamation costs primarily driven by lower inflationary factors used to determine the estimated future cost of reclamation activities. PNM recorded its \$2.5 million share of this decrease in September 2018, which is reflected in regulatory disallowances and restructuring costs in the Consolidated Statements of Earnings. As discussed above, PNM submitted the December 2018 Compliance Filing to the NMPRC indicating that, consistent with the conclusions reached in PNM’s 2017 IRP, PNM expects to retire its share of SJGS after the current SJGS CSA expires in mid-2022. PNM determined that events and circumstances regarding SJGS, including the December 2018 Compliance Filing, indicated that it is more likely than not that PNM’s share of SJGS will be retired in 2022. As a result, in December 2018 PNM again remeasured its liability for coal mine reclamation for the mine that serves SJGS to reflect that reclamation activities may occur beginning in 2022, rather than in 2053 as previously anticipated. This estimate resulted in

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an increase in overall reclamation costs due to an increase in the amount of fill dirt required to remediate the mine areas and the timing of activities necessary to reclaim the mine that serves SJGS. This remeasurement increased PNM's liability for coal mine reclamation as of December 31, 2018 by \$39.2 million, which includes both the underground and surface mines that serve SJGS. 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. As a result, PNM recorded \$9.4 million of the increase in the liability at December 31, 2018 related to the underground mine in regulatory assets on the Consolidated Balance Sheets and recorded the remaining \$29.8 million associated with the surface mine as regulatory disallowances and restructuring costs on the 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. In addition, PNM may be exposed to additional loss if the cost of reclamation activities is not approved by the NMPRC. See additional discussion of PNM's SJGS Abandonment Application in Note 17.

A draft 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 due to a reduction in the discount rate used to measure the liability and is reflected in cost of energy in the Consolidated Statements of Earnings.

Based on the most recent estimates and PNM's ownership share of SJGS, PNM's remaining payments for mine reclamation, in future dollars, are estimated to be \$92.6 million for the surface mines at both SJGS and Four Corners and \$40.0 million for the underground mine at SJGS as of December 31, 2019. At December 31, 2019 and 2018, liabilities, in current dollars, of \$70.3 million and \$70.1 million for surface mine reclamation and \$25.3 million and \$23.2 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 part of the restructuring of SJGS ownership (see SJGS Ownership Restructuring Matters above), the SJGS owners negotiated the terms of an amended agreement to fund post-term reclamation obligations under the 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 \$5.5 million in 2019, \$10.0 million in 2018, and \$5.8 million in 2017. Based on PNM's reclamation trust fund balance at December 31, 2019, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be \$9.7 million in 2020, \$10.9 million in 2021, and \$11.7 million in 2022.

Under the Four Corners CSA, which became effective on July 7, 2016, PNM is required to fund its ownership 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 \$2.3 million in each of 2019, 2018, and 2017 and anticipates providing additional funding of \$1.9 million in each of the years from 2020 through 2024.

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 December 2018 Compliance Filing above and its SJGS Abandonment Application in Note 17. PNM is currently unable to determine the outcome of these matters or the range of possible impacts.

**Continuous Highwall Mining Royalty Rate**

In August 2013, the DOI Bureau of Land Management ("BLM") issued a proposed rulemaking that would retroactively apply the surface mining royalty rate of 12.5% to continuous highwall mining ("CHM"). Comments regarding the rulemaking were due on October 11, 2013 and PNM submitted comments in opposition to the proposed rule. There is no legal deadline for adoption of the final rule.

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SJCC, as former owner and operator of San Juan mine, utilized the CHM technique from 2000 to 2003 and, with the approval of the Farmington, New Mexico Field Office of BLM to reclassify the final highwall as underground reserves, applied the 8.0% underground mining royalty rate to coal mined using CHM and sold to SJGS. In March 2001, SJCC learned that the DOI Minerals Management Service (“MMS”) disagreed with the application of the underground royalty rate to CHM. In August 2006, SJCC and MMS entered into an agreement tolling the statute of limitations on any administrative action to recover unpaid royalties until BLM issued a final, non-appealable determination as to the proper rate for CHM-mined coal. The proposed BLM rulemaking has the potential to terminate the tolling provision of the settlement agreement. Underpaid royalties of approximately \$5 million for SJGS would become due if the proposed BLM rule is adopted as proposed. PNM’s share of any amount that is ultimately paid would be approximately 46.3%, none of which would be passed through PNM’s FPPAC. PNM is unable to 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 \$13.9 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 \$13.5 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.

**Water Supply**

Because of New Mexico’s arid climate and periodic drought conditions, there is concern in New Mexico about the use of water, including that used for power generation. Although PNM does not believe that its operations will be materially affected by drought conditions at this time, it cannot forecast long-term weather patterns. Public policy, local, state and federal regulations, and litigation regarding water could also impact PNM operations. To help mitigate these risks, PNM has secured permanent groundwater rights for the existing plants at Reeves Station, Rio Bravo, Afton, Luna, Lordsburg, and La Luz. Water availability is not an issue for these plants at this time. However, prolonged drought, ESA activities, and a federal lawsuit by the State of Texas (suing the State of New Mexico over water deliveries) could pose a threat of reduced water availability for these plants.

For SJGS and Four Corners, PNM and APS have negotiated an agreement with the more senior water rights holders (tribes, municipalities, and agricultural interests) in the San Juan basin to mutually share the impacts of water shortages with tribes and other water users in the San Juan basin. The agreement to share shortages in 2018 through 2021 has been endorsed by the parties and is being reviewed by the New Mexico Office of the State Engineer.

In April 2010, APS signed an agreement on behalf of the PVNGS participants with five cities to provide cooling water essential to power production at PVNGS for 40 years.

**PVNGS Water Supply Litigation**

In 1986, an action commenced regarding the rights of APS and the other PVNGS participants to the use of groundwater and effluent at PVNGS. APS filed claims that dispute the court’s jurisdiction over PVNGS’ groundwater rights and their contractual rights to effluent relating to PVNGS and, alternatively, seek confirmation of those rights. In 1999, the Arizona Supreme Court issued a decision finding that certain groundwater rights may be available to the federal government and Native American tribes.

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In addition, the Arizona Supreme Court issued a decision in 2000 affirming the lower court's criteria for resolving groundwater claims. Litigation on these issues has continued in the trial court. No trial dates have been set in these matters. PNM does not expect that this litigation will have a material impact on its results of operation, financial position, or cash flows.

**San Juan River Adjudication**

In 1975, the State of New Mexico filed an action in NM District Court to adjudicate all water rights in the San Juan River Stream System, including water used at Four Corners and SJGS. PNM was made a defendant in the litigation in 1976. In March 2009, then President Obama signed legislation confirming a 2005 settlement with the Navajo Nation. Under the terms of the settlement agreement, the Navajo Nation's water rights would be settled and finally determined by entry by the court of two proposed adjudication decrees. The court issued an order in August 2013 finding that no evidentiary hearing was warranted in the Navajo Nation proceeding and, on November 1, 2013, issued a Partial Final Judgment and Decree of the Water Rights of the Navajo Nation approving the proposed settlement with the Navajo Nation. A number of parties subsequently appealed to the New Mexico Court of Appeals. PNM entered its appearance in the appellate case and supported the settlement agreement in the NM District Court. On April 3, 2018, the New Mexico Court of Appeals issued an order affirming the decision of the NM District Court. Several parties filed motions requesting a rehearing with the New Mexico Court of Appeals seeking clarification of the order, which were denied. The State of New Mexico and various other appellants filed a *writ of certiorari* with the NM Supreme Court. The NM Supreme Court granted the State of New Mexico's petition and denied the other parties' requests. The issues regarding the Navajo Nation settlement have been briefed and are awaiting a decision by the NM Supreme Court. Adjudication of non-Indian water rights is ongoing.

PNM is participating in this proceeding since PNM's water rights in the San Juan Basin may be affected by the rights recognized in the settlement agreement and adjudicated to the Navajo Nation, which comprise a significant portion of water available from sources on the San Juan River and in the San Juan Basin and which have priority in times of shortages. PNM is unable to predict the ultimate outcome of this matter or estimate the amount or range of potential loss and cannot determine the effect, if any, of any water rights adjudication on the present arrangements for water at SJGS and Four Corners. Final resolution of the case cannot be expected for several years. An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for an agreed upon cost, sufficient water from its allocation to offset the loss.

**Rights-of-Way Matter**

On January 28, 2014, the County Commission of Bernalillo County, New Mexico passed an ordinance requiring utilities to enter into a use agreement and pay a yet-to-be-determined fee as a condition to installing, maintaining, and operating facilities on county rights-of-way. The fee is purported to compensate the county for costs of administering and maintaining the rights-of-way, as well as for capital improvements. After extensive challenges to the validity of the ordinance, the utilities filed a *writ of certiorari* with the NM Supreme Court, which was denied. The utilities and Bernalillo County had reached a standstill agreement whereby the county would not take any enforcement action against the utilities pursuant to the ordinance during the pendency of then pending litigation, but not including any period for appeal of a judgment, or upon 30 days written notice by either the county or the utilities of their intention to terminate the agreement. After court-ordered settlement discussions, PNM and Bernalillo County executed a franchise fee agreement with a term of 15 years. Under the agreement, PNM will pay franchise fees to the county at an amount similar to those paid by PNM in other jurisdictions. PNM will recover the cost of the franchise fees as a direct pass-through to customers located in Bernalillo County. The agreement is subject to approval by the New Mexico Second District Court in Bernalillo County. PNM cannot predict the outcome of this matter.

**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

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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 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. Mediation on the matter is ongoing and parties are continuing to discuss a potential settlement. PNM cannot predict the outcome of these matters.

### **Sales Tax Audits**

In November 2011, PNMR completed the sale of its retail electric provider, which operated in Texas under the name First Choice Power ("First Choice"). Under the sale agreement, PNMR is contractually obligated for First Choice's taxes relating to periods prior to the sale.

The Texas Comptroller of Public Accounts ("Comptroller") initiated audits of First Choice's sales and use tax filings and miscellaneous gross receipts tax filings for periods prior to the sale. The Comptroller issued notifications of audit results indicating additional tax was due. The primary issue in dispute was the disallowance by the auditor of the tax benefits of bad debt charge-offs and billing credits. On behalf of First Choice, PNMR filed requests for redetermination for both audits. In 2018, PNMR settled the sales and use tax audit and all matters related to the miscellaneous gross tax audit for a total of \$2.3 million, of which \$1.4 million and \$0.2 million are reflected in taxes other than income taxes on PNMR's Consolidated Statements of Earnings for the years ended December 31, 2018 and 2017. These matters are now concluded.

### **(17) 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 16.

#### **PNM**

##### *New Mexico General Rate Cases*

###### *New Mexico 2015 General Rate Case ("NM 2015 Rate Case")*

On August 27, 2015, PNM filed an application with the NMPRC for a general increase in retail electric rates. The application proposed a revenue increase of \$123.5 million, including base non-fuel revenues of \$121.7 million, and proposed that new rates become effective beginning in July 2016. Subsequent to public hearings, the NMPRC ordered PNM to file additional testimony regarding PNM's interests in PVNGS, including the 64.1 MW of PVNGS Unit 2 that PNM repurchased in January 2016 pursuant to the terms of the initial sales-leaseback transactions.

In August 2016, the Hearing Examiner in the case issued a recommended decision (the "August 2016 RD"). The August 2016 RD, among other things, recommended that the NMPRC find PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing the BDT equipment on SJGS Units 1 and 4. As a result, the August 2016 RD recommended the NMPRC disallow recovery of the entire \$163.3 million purchase price for the January 15, 2016 purchases of the assets underlying three leases aggregating 64.1 MW of PVNGS Unit 2, the undepreciated capital improvements made during the period the 64.1 MW

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of purchased capacity was leased, rent expense aggregating \$18.1 million annually for leases aggregating 114.6 MW of capacity that were extended through January 2023 and 2024 (Note 8), and recovery of the costs of converting SJGS Units 1 and 4 to BDT.

On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in non-fuel rates of \$61.2 million, effective for bills sent to customers after September 30, 2016. The order generally approved the August 2016 RD, but with certain significant modifications. The modifications to the August 2016 RD included:

- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, aggregating 64.1 MW, of PVNGS Unit 2 at an initial rate base value of \$83.7 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which aggregated \$43.8 million when the order was issued
- Recovery of annual rent expenses associated with the 114.6 MW of capacity under the extended leases
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity purchased in January 2016 and the 114.6 MW of capacity under the extended leases

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. Specifically, PNM appealed the NMPRC's determination that PNM was imprudent in certain matters in the case, including the NMPRC's disallowance of the full purchase price of the 64.1 MW of capacity in PVNGS Unit 2, the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM, the cost of converting SJGS Units 1 and 4 to BDT, and future contributions for PVNGS decommissioning attributable to the 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases. NEE, NM AREA, and ABCWUA filed notices of cross-appeal to PNM's appeal. The issues appealed by the various cross-appellants included, among other things, the NMPRC allowing PNM to recover any of the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and the purchase price for the 64.1 MW in PVNGS Unit 2, the costs incurred under the Four Corners CSA, and the inclusion of the "prepaid pension asset" in rate base.

During the pendency of the appeal, PNM evaluated the consequences of the order in the NM 2015 Rate Case and the related appeals to the NM Supreme Court as required under GAAP. These evaluations indicated that it was reasonably possible that PNM would be successful on the issues it was appealing but would not be provided capital costs recovery until the NMPRC acted on a decision of the NM Supreme Court. PNM also evaluated the accounting consequences of the issues being appealed by the cross-appellants and concluded that the issues raised in the cross-appeals did not have substantial merit. In accordance with GAAP, PNM periodically updated its estimate of the amount of time necessary for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. As a result of those evaluations, through December 31, 2018, PNM recorded accumulated pre-tax impairments of its capital investments subject to the appeal in the amount of \$18.4 million, of which \$4.0 million was recorded during the year ended December 31, 2018, and \$3.1 million was recorded during the year ended December 31, 2017.

On May 16, 2019, the NM Supreme Court issued its decision on the matters that had been appealed in the NM 2015 Rate Case. The NM Supreme Court rejected the matters appealed by the cross-appellants and affirmed the NMPRC's disallowance of a portion of the purchase price of the 64.1 MW of capacity in PVNGS Unit 2; the undepreciated costs of capital improvements made during the time the 64.1 MW capacity was leased by PNM; and the costs to install BDT at SJGS Units 1 and 4. The NM Supreme Court's decision also ruled that the NMPRC's decision to permanently disallow recovery of future decommissioning costs related to the 64.1 MW of PVNGS Unit 2 and the 114.6 MW of PVNGS Units 1 and 2 deprived PNM of its rights to due process of law and remanded the case to the NMPRC for further proceedings consistent with the court's findings. On July 17, 2019, the NMPRC heard oral argument from parties in the case on how to best proceed with the NM Supreme Court's remand. At oral argument, parties presented various positions ranging from re-litigating the value of PVNGS resources determined by the NMPRC and affirmed by the NM Supreme Court to re-affirming the NMPRC's final order with a single modification to address recovery of future PVNGS decommissioning costs in a future case. On January 8, 2020, the NMPRC issued its order in response to the NM Supreme Court's remand. The NMPRC reaffirmed its September 2016 order except for the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2. The NMPRC indicated that PNM's ability to recover these costs will be addressed in a future proceeding and closed the NM 2015 Rate Case docket.

As a result of the NM Supreme Court's ruling, during the year ended December 31, 2019, PNM recorded pre-tax impairments of \$150.6 million, which includes \$73.2 million for a portion of the purchase price for 64.1 MW in PVNGS Unit 2, \$39.7 million of undepreciated capitalized improvements made during the period the 64.1 MW was being leased by PNM, and \$37.7 million for BDT on SJGS Units 1 and 4 and is reflected as regulatory disallowances and restructuring costs in the Consolidated Statements of Earnings. The impairment was offset by tax impacts of \$45.7 million, which are reflected as income taxes on the Consolidated Statements of Earnings.

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*New Mexico 2016 General Rate Case (“NM 2016 Rate Case”)*

On December 7, 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates. PNM did not include any of the costs disallowed in the NM 2015 Rate Case that were at issue in its then pending appeal to the NM Supreme Court. PNM’s original application used a FTY beginning January 1, 2018 and requested an increase in base non-fuel revenues of \$99.2 million based on a ROE of 10.125%. The primary drivers of PNM’s revenue deficiency included implementation of modifications to PNM’s resource portfolio, which were approved by the NMPRC in December 2015 as part of the SJGS regional haze compliance plan, infrastructure investments, including environmental upgrades at Four Corners, declines in forecasted energy sales due to successful energy efficiency programs and other economic factors, and updates to FERC/retail jurisdictional allocations.

After extensive settlement negotiations and public proceedings, the NMPRC issued a Revised Order Partially Adopting Certification of Stipulation dated January 10, 2018 (the “Revised Order”). The key terms of the Revised Order include:

- An increase in base non-fuel revenues totaling \$10.3 million, which includes a reduction to reflect the impact of the decrease in the federal corporate income tax rate and updates to PNM’s cost of debt (aggregating an estimated \$47.6 million annually)
- A ROE of 9.575%
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM’s retail operations (Note 18)
- Disallowing PNM’s ability to collect an equity return on certain investments aggregating \$148.1 million at Four Corners, but allowing recovery with a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM’s rate riders, with an effective date prior to January 1, 2020
- A requirement to consider the prudence of PNM’s decision to continue its participation in Four Corners in PNM’s next general rate case filing

In accordance with the settlement agreement and the NMPRC’s final order, PNM implemented 50% of the approved increase for service rendered beginning February 1, 2018 and implemented the rest of the increase for service rendered beginning January 1, 2019.

*Investigation/Rulemaking Concerning NMPRC Ratemaking Policies*

On March 22, 2017, the NMPRC issued an order opening an investigation and rulemaking to simplify and increase “the transparency of NMPRC rate cases by reducing the number of issues litigated in rate cases,” and provide a “more level playing field among intervenors and NMPRC staff on the one hand, and the utilities on the other.” The order posed several questions establishing and monitoring utilities’ ROEs, the recoverability of regulatory assets, including rate case costs, and whether parties should have access to software used by utilities to support their positions. To date, no agreement has been reached. PNM is not able to predict the potential outcome of this matter but does not anticipate the NMPRC will take any further action.

*Renewable Portfolio Standard*

Prior to the enactment of the ETA, the REA established a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. As discussed in Note 16, the ETA was enacted on June 14, 2019. 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 removes 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. PNM recovers certain renewable procurement costs from customers through a rate rider. See Renewable Energy Rider below.

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

- 157 MW of PNM-owned solar-PV facilities, including 50 MW of PNM-owned solar-PV facilities approved by the NMPRC in PNM’s 2018 renewable energy procurement plan that were placed in commercial operation in 2019

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- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 204 MW, and a PPA through 2035 for the output of Red Mesa Wind, having an aggregate capacity of 102 MW
- A PPA through 2042 for the output of the Lightning Dock Geothermal facility with a current capacity of 15 MW
- Solar distributed generation, aggregating 127.6 MW at December 31, 2019, owned by customers or third parties from whom PNM purchases any net excess output and RECs
- Solar and wind RECs as needed to meet the RPS requirements

PNM filed its 2017 renewable energy procurement plan on June 1, 2016. The plan met RPS and diversity requirements for 2017 and 2018 using existing resources and PNM did not propose any significant new procurements. PNM projected that its plan would slightly exceed the RCT in 2017 and would be within the RCT in 2018. PNM requested a variance from the RCT in 2017. A public hearing was held on September 26, 2016. On October 21, 2016, the Hearing Examiner issued a recommended decision recommending that the plan be approved as filed and also found that a variance from the RCT was not required. The NMPRC approved the recommended decision on November 23, 2016.

On June 1, 2017, PNM filed its 2018 renewable energy procurement plan. PNM requested approval to procure an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; approval to procure an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; approval to procure 50 MW of new PNM-owned solar facilities to be constructed beginning in 2018, and continuation of customer REC purchase programs and other purchases of RECs to ensure annual compliance with the RPS. The plan also sought a variance from the “other” diversity category in 2018 due to a revised production forecast of the Lightning Dock Geothermal facility in 2018. A public hearing on the application was held in September 2017. On October 17, 2017, the Hearing Examiner issued a recommended decision that PNM’s 2018 renewable energy procurement plan be approved by the NMPRC, except for the re-powering of Lightning Dock Geothermal and PNM’s request to procure 50 MW of new PNM-owned solar facilities. PNM filed exceptions contesting the Hearing Examiner’s proposals. On November 15, 2017, the NMPRC issued an order approving PNM’s plan and rejecting the Hearing Examiner’s recommendations. On November 29, 2017, NM AREA filed an appeal with the NM Supreme Court objecting to the fuel allocation methodology and requested a partial stay of the NMPRC order, which was denied. NEE subsequently filed a motion to intervene and cross-appeal objecting to the approval of the 50 MW of new PNM-owned solar facilities. On July 5, 2019, the NM Supreme Court approved a motion filed by NM AREA to dismiss its appeal. On August 8, 2019, the NM Supreme Court issued an opinion affirming the NMPRC’s approval of PNM’s 2018 renewable energy procurement plan and denying NEE’s cross appeal. This matter is now concluded.

On June 1, 2018, PNM filed its 2019 renewable energy procurement plan. The plan met RPS and diversity requirements for 2019 and 2020 using resources already approved by the NMPRC and did not propose any significant new procurements. PNM projected the plan would be within the RCT in 2019 and will slightly exceed the current RCT in 2020. The NMPRC approved PNM’s 2019 renewable energy procurement plan on November 28, 2018.

On June 3, 2019, PNM filed its 2020 renewable energy procurement plan. The plan requests approval of a 20-year PPA to purchase 140 MW of renewable energy and RECs from the La Joya Wind Facility (“La Joya Wind”), which is expected to be operational by December 31, 2020. PNM intends to utilize the BB2 line to deliver power from the PPA. See additional discussion below under Application for a New 345-kV Transmission Line. PNM’s 2020 renewable energy procurement plan requests a variance from the RPS for 2020 and proposes the shortfall be met with excess RECs that will be available under the La Joya Wind PPA in 2021. PNM also submitted proposed adjustments to the current FPPAC methodology for non-renewable fuel allocations to reflect the ETA’s removal of certain customer cost caps associated with the RPS and requested that the fuel clause year be reset to correspond to the January 1 reset date under the renewable energy rider. On July 17, 2019, PNM filed a corrected reconciliation of 2019 and estimated 2020 customer bill impacts that demonstrated the effect of removing certain customer caps and exemptions under the requirements of the ETA. The Hearing Examiner issued a response requiring PNM to address why its application should not be dismissed, or alternatively, proposing an extended procedural schedule. PNM’s response proposed the application not be dismissed, that a corrected public notice be issued, and that the procedural schedule be extended by 60 days. On July 30, 2019, the Hearing Examiner issued a revised procedural order that extended the statutory review period through January 29, 2020. On September 17, 2019, the Hearing Examiner issued an order requiring PNM to provide supplemental briefing supporting the applicability of the ETA to PNM’s 2020 renewable energy procurement plan and, in the event the ETA should not apply, support PNM’s position that the NMPRC has the authority to approve PNM’s requested variance. PNM filed its brief on September 24, 2019, supporting the applicability of the ETA and the NMPRC’s authority to grant the requested variance. On October 4, 2019, the Hearing Examiner issued an order requiring PNM to provide RPS calculations using rules and regulations existing before the ETA. PNM filed its rebuttal testimony on October 15, 2019, which included the calculations required by the Hearing Examiner. Public hearings were held on October 24 and 25, 2019. On December 2, 2019, the Hearing Examiner issued a recommended decision in the case recommending approval of PNM’s 2020 renewable energy procurement plan including the 140 MW wind PPA and indicating that the recently enacted ETA could be applied to the case even though PNM’s filing was made

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prior to the ETA's effective date. On January 29, 2020, the NMPRC accepted the Hearing Examiners recommended decision and approved PNM's 2020 renewable energy procurement plan.

*Renewable Energy Rider*

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. In PNM's NM 2015 Rate Case, the NMPRC authorized continuation of the renewable rider. PNM recorded revenues from the rider of \$52.0 million, \$41.4 million, and \$45.2 million in 2019, 2018, and 2017. Beginning in 2017, the cost of energy from New Mexico Wind is being recovered through the renewable rider, rather than through the FPPAC, in compliance with the NMPRC's order in PNM's NM 2015 Rate Case. The 2019 renewable energy procurement plan became effective on January 1, 2019. In its 2020 renewable energy procurement plan case, which was approved by the NMPRC on January 29, 2020, PNM proposed to collect \$58.9 million.

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 2018 and does not expect to exceed the limitation in 2019.

*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. The EUEA sets an annual program budget equal to 3% of an electric utility's annual revenue. PNM's costs to implement approved programs 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, and to establish savings targets for the period 2021 through 2025.

On April 15, 2016, PNM filed an application for energy efficiency and load management programs to be offered in 2017. The proposed program portfolio consisted of ten programs with a total budget of \$28.0 million. The application also sought approval of an incentive of \$2.4 million based on targeted savings of 75 GWh. The actual incentive would be based on actual savings achieved. On January 11, 2017, the NMPRC approved an unopposed stipulation that established a method to ensure that funding of PNM's energy efficiency program is equal to 3% of retail revenues, with an estimated 2017 energy efficiency funding level of \$26.0 million, and approved a sliding scale profit incentive with a base level of 7.1% of program costs, equal to \$1.8 million, if PNM achieves a minimum proscribed level of energy savings, increasing to a maximum of 9.0% depending on actual energy savings achieved above the minimum. On April 13, 2018, PNM filed its reconciliation of 2017 program costs and incentives, which indicated the incentive earned in 2017 was \$2.3 million. The reconciliation filing and related incentive were accepted on May 23, 2018.

On April 14, 2017, PNM filed an application for energy efficiency and load management programs to be offered in 2018. The proposed program portfolio consists of a continuation of the ten programs approved in the 2016 application with a total budget of \$25.1 million. The application also sought approval of a sliding scale incentive with a base incentive of \$1.9 million if PNM was able to achieve savings of 53 GWh in 2018. As proposed, PNM would have earned an incentive of \$2.1 million based on targeted savings of 70 GWh. The actual incentive would be based on actual savings achieved. PNM proposed to continue the same ten programs and a similar incentive mechanism in 2019, with a proposed budget of \$28.2 million and a base level incentive of \$2.1 million. On July 26, 2017, PNM, NMPRC staff, and other parties filed a stipulation that would resolve all issues in the case if approved by the NMPRC. Under the settlement, all of PNM's proposed programs would be approved with limited modifications and PNM's base level incentive would be \$1.7 million and could earn an incentive of up to \$1.9 million based on savings of 69 GWh in 2018. The settlement also established a base level incentive for PNM of \$1.8 million with the opportunity to earn up to \$2.7 million in 2019 and required PNM to make a filing in 2019 to address incentives to be earned in 2020. A public hearing was held in September 2017. On November 8, 2017, the Hearing Examiner recommended approval of the stipulation with various modifications, including adoption of a discount rate equal to the tax-adjusted WACC of 9.59% rather than the 7.71% proposed in the stipulation and modifying the program budgets to \$23.6 million for 2018 and \$24.9 million for 2019. On January 31, 2018, the NMPRC issued an order that largely accepted the certification with certain exceptions concerning the measurement and verification of the approved load management programs.

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In 2019, PNM submitted the required filing to address incentives to be earned in 2020. PNM's proposed incentive mechanism is similar to that approved for 2018 and 2019 with minor modifications to reflect input from interested parties. The proposed incentive mechanism includes a base incentive of 7.1% of program costs, or approximately \$1.8 million, based on savings of 59 GWh in 2020 with a sliding scale that provides for additional incentive if savings exceed 68 GWh. No hearings were considered necessary and PNM's 2020 energy efficiency rider reflecting the 2020 incentive became effective beginning December 30, 2019.

*Energy Efficiency Rulemaking*

In July 2012, the NMPRC opened an energy efficiency rulemaking docket to potentially address decoupling and incentives. Workshops to develop a proposed rule have been held, but no order proposing a rule has been issued. PNM is unable to predict the outcome of this matter.

On January 25, 2017, the NMPRC opened another energy efficiency rulemaking docket to consider whether applications for approval of energy efficiency and load management programs should be filed every two years rather than annually. On June 21, 2017, the NMPRC issued an order that modifies the filing frequency for utility energy efficiency plans to every three years.

On June 21, 2017, the NMPRC also issued a new notice of proposed rulemaking to consider possible changes affecting a utility's ability to modify NMPRC approved funding levels by up to 10% between energy efficiency program applications. This rulemaking is in response to consensus changes proposed by parties in the January 25, 2017 rulemaking. On September 13, 2017, the NMPRC approved the proposed rule. Under the new rule, PNM's next application for energy efficiency and load management programs will be made in 2020 for programs to be offered beginning in 2021. As discussed below, PNM's next energy efficiency application will include a proposal to implement an AMI pilot project.

*Petition for Energy Efficiency Disincentive*

PNM's application in the NM 2016 Rate Case had requested a "lost contribution to fixed cost" mechanism to address the disincentives associated with PNM's energy efficiency programs. In the revised stipulation to that case, PNM agreed to withdraw its proposal for such a mechanism and to address energy efficiency disincentives in a future docket. On March 2, 2018, PNM filed a petition proposing a "lost contribution to fixed cost mechanism" with substantially the same terms as those proposed in the NM 2016 Rate Case application. As discussed above, the ETA amended the EUEA to, among other things, include a decoupling mechanism for disincentives. On May 6, 2019, PNM submitted a request to the NMPRC to dismiss this matter. PNM will propose a mechanism to address disincentives in a future general rate case filing. The NMPRC approved PNM's request to dismiss the matter on June 12, 2019, concluding this matter.

*FPPAC Continuation Application*

NMPRC rules require public utilities to file an application to continue using their FPPAC every four years. On April 23, 2018, PNM filed the required continuation application and requested that its FPPAC be continued without modification. On June 20, 2018, the NMPRC approved PNM's continuation application.

*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.

*2014 IRP*

PNM filed its 2014 IRP on July 1, 2014. On July 31, 2014, several parties requested the NMPRC to not accept the 2014 IRP as compliant with NMPRC rules because to do so could affect the then pending proceeding on PNM's application to abandon SJGS Units 2 and 3 and for CCNs for certain replacement resources and because they asserted that the 2014 IRP did not conform to the NMPRC's IRP rule. The NMPRC issued an order in August 2014 that docketed a case to determine whether the 2014 IRP complied with applicable NMPRC rules. The order also held the case in abeyance pending the issuance of final, non-appealable orders in PNM's 2015 renewable energy procurement plan case and its application to retire SJGS Units 2 and 3. On May 4, 2016, the NMPRC issued a Notice of Proposed Dismissal, stating that the docket would be closed with prejudice within thirty days unless good cause was shown why the docket should remain open. On May 31, 2016, NEE filed a request to hold the protests filed against PNM's 2014 IRP in abeyance or to dismiss those protests without prejudice. PNM responded on June 13, 2016 and requested that the NMPRC dismiss the case with prejudice. The NMPRC has not yet acted on its Notice of Proposed Dismissal or the request filed on May 31, 2016. PNM is not able to predict the potential outcome of this matter but does not anticipate the NMPRC will take any further action.

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*2017 IRP*

PNM filed its 2017 IRP on July 3, 2017. The 2017 IRP addresses the 20-year planning period, from 2017 through 2036 and includes an action plan describing PNM's plan to implement the 2017 IRP in the four-year period following its filing. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP included, among other things, that retiring PNM's share of SJGS in 2022 and existing ownership in Four Corners in 2031 would provide long-term cost savings for PNM's customers and that the best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity as well as energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available. The 2017 IRP also indicated that PNM should retain the currently leased capacity in PVNGS. See additional discussion of PNM's leased capacity in PVNGS below and in Note 8.

Protests to the 2017 IRP were filed by several parties. The issues addressed in the protests included the future of PNM's interests in SJGS, Four Corners, and PVNGS and the timing of future procurement of renewable resources. On December 19, 2018, after public hearings and consideration of the Hearing Examiner's recommendations, the NMPRC issued a final order accepting PNM's 2017 IRP as compliant with applicable statute and NMPRC rules. On January 18, 2019, the Board of the County of Commissioners for San Juan County, New Mexico, the City of Farmington, New Mexico, and other parties filed a Notice of Appeal with the NM Supreme Court regarding the NMPRC's final order in PNM's 2017 IRP. On January 18, 2019, NEE submitted a motion requesting the NMPRC reconsider its acceptance of PNM's 2017 IRP and alleging informational inadequacy and deficiencies in PNM's filing, which was deemed denied. On February 19, 2019, NEE filed a motion with the NM Supreme Court to intervene in the appeal and to seek remand of the matter to the NMPRC. On March 11, 2019, PNM filed its response with the NM Supreme Court stating that the NMPRC has already considered and, by operation of law, denied NEE's motion for reconsideration. On May 10, 2019, the appellants, excluding NEE, filed a motion with the NM Supreme Court to dismiss their appeal, which was supported by PNM. On May 31, 2019, the NM Supreme Court denied NEE's request to remand the proceeding to the NMPRC and ordered NEE to respond to the motion to dismiss the appeal. On June 4, 2019, NEE responded that it did not oppose the appellants' request to dismiss their appeal. On July 26, 2019, the NM Supreme Court granted the parties' motions to dismiss the appeal. On September 19, 2019, NEE filed a second motion requesting the NMPRC reconsider its acceptance of PNM's 2017 IRP, which was deemed denied. This matter is now concluded.

As discussed below, on July 1, 2019, PNM submitted its SJGS Abandonment Application with the NMPRC requesting approval to retire SJGS in 2022, for replacement resources, and for issuance of securitized financing under the ETA. Many of the assumptions and findings included in PNM's July 1, 2019 filing were consistent with those identified in PNM's 2017 IRP. The SJGS Abandonment Application and the 2017 IRP are not a final determinations of PNM's future generation portfolio. PNM will also be required to obtain NMPRC approval of an exit from Four Corners, which PNM will seek at an appropriate time in the future. Likewise, NMPRC approval of new generation resources through CCNs, PPAs, or other applicable filings will be required.

*2020 IRP*

In the third quarter of 2019, PNM initiated its 2020 IRP process which will cover the 20-year planning period from 2019 through 2039. Consistent with historical practice, PNM has provided notice to various interested parties and has hosted a series of public advisory presentations. NMPRC rules require PNM to file its 2020 IRP in July 2020. PNM will continue to seek input from interested parties as a part of this process. PNM cannot predict the outcome of these matters.

*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 seeks 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," as provided by the ETA. PNM's application proposes several replacement resource scenarios including PNM's recommended replacement scenario, which would provide cost savings to customers compared to continued operation of SJGS, preserves system reliability, and is consistent with PNM's plan to have an emissions-free generation portfolio by 2040. This plan would provide PNM authority to construct and own a 280 MW natural gas-fired peaking plant, to be located on the existing SJGS facility site, and 70 MW of battery storage facilities. In addition, PNM's recommended replacement resource scenario would allow PNM to execute PPAs to procure renewable energy from a total of 350 MW of solar-PV generating facilities and for energy from a total of 60 MW of battery storage facilities. PNM's application included three other replacement resource scenarios that would place a greater amount of resources in the San Juan area, or result in no new fossil-fueled generating facilities, or no battery storage facilities being added to PNM's portfolio. When compared to PNM's recommended replacement resource scenario, the three alternative resource

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scenarios are expected to result in increased costs to customers and the two alternative resource scenarios that result in no new fossil-fueled generating facilities are expected to provide lower system reliability. The SJGS Abandonment Application includes a request to issue approximately \$361 million of energy transition bonds (the “Securitized Bonds”). PNM’s request for the issuance of Securitized Bonds includes approximately \$283 million of forecasted undepreciated investments in SJGS at June 30, 2020, 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 Securitization Bonds would also be used to fund approximately \$19.8 million for economic development in the four corners area.

The NM Supreme Court granted a request by PNM to stay a January 30, 2019 NMPRC order requiring PNM to file an abandonment application for SJGS by March 1, 2019. On June 26, 2019, and after the effective date of the ETA, the NM Supreme Court lifted the stay and denied PNM’s petition without discussion. See Note 16. 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 but did not definitively indicate if the abandonment and financing proceedings will be evaluated under the requirements of the ETA. The NMPRC’s July 10, 2019 order also extended the deadline to issue the abandonment and financing order to nine months and to issue the replacement resources order to 15 months. On July 22, 2019, Western Resource Advocates filed a motion for clarification, reconsideration, and request for oral argument with the NMPRC. The motion requested the NMPRC clarify whether it intends to evaluate the abandonment and financing proceeding under the requirements of the ETA and, in the event the abandonment and financing proceeding will not be evaluated under the ETA, to reconsider its decision and provide parties an opportunity to present oral argument on the matter. The NMPRC chair responded on July 24, 2019, indicating that the Hearing Examiners assigned to the proceeding would address the issue of law applicable to the approvals sought by PNM in the scheduling orders. On July 25, 2019, the Hearing Examiners issued procedural orders that set public hearings on SJGS abandonment and related financing to begin on December 10, 2019, on PNM’s proposed PPA replacement resources to begin on December 2, 2019, and on PNM-owned replacement resources to begin on March 2, 2020. These procedural orders were subsequently amended to allow public hearings for both the PPA and PNM-owned replacement resources to begin in January 2020. The procedural orders also required PNM to file legal brief by August 23, 2019 regarding the extent to which the state constitution might prevent the ETA from applying to the issues in each proceeding, that parties file responses to PNM’s legal briefs by October 18, 2019, and that parties may file testimony on the merits of their claims regarding the SJGS abandonment and replacement resources if the ETA is ultimately determined to not apply to PNM’s application. On July 29, 2019, Western Resource Advocates filed a motion for interlocutory appeal of the July 24, 2019 order indicating that the procedural order would not provide parties adequate time to determine the applicability of the ETA and requesting an expedited decision from the NMPRC stating their intent to review the proceedings under the requirements of the ETA or under prior law. On August 21, 2019, the NMPRC denied the motion for interlocutory appeal. On August 23, 2019, PNM filed legal briefing in support of the applicability of the ETA to all aspects of the consolidated application. On October 18, 2019, various parties filed legal briefings with a range of positions that support or oppose the applicability of the ETA, as well as testimony regarding the SJGS abandonment and financing proceedings. Hearings on the abandonment and securitized financing proceedings were held in December 2019 and hearings on replacement resources were held in January 2020.

On August 26, 2019, NEE and other advocacy groups filed an emergency petition for a *writ of mandamus* requesting the NM Supreme Court stay the SJGS abandonment and financing proceedings, declare the ETA inapplicable to such proceedings and declare certain provisions of the ETA unconstitutional because they limit the regulatory oversight responsibilities of the NMPRC. The petition was dismissed for failure to comply with the appellate rules and an amended petition was filed on September 18, 2019. On August 30, 2019, PNM and other parties filed a petition for a *writ of mandamus* requesting the NM Supreme Court clarify that the reason underlying its June 2019 decision denying the stay was due to the passage of the ETA and to clarify that the ETA applies to any application filed after the stay had been lifted. In early October 2019, the NM Supreme Court denied both PNM’s and NEE’s petitions for *writ of mandamus* without discussion.

On December 9, 2019, the Governor of the State of New Mexico, the President of the Navajo Nation, and several New Mexico state senators and representatives filed an emergency petition for a *writ of mandamus* requesting the NM Supreme Court require the NMPRC to comply with its constitutional duties and apply the ETA to every aspect of PNM’s SJGS Abandonment Application. The petition indicated the NMPRC’s January 2019 order to initiate SJGS abandonment proceedings was intended to create a pending case precluding the effectiveness of the ETA, that irreversible harm to the state of New Mexico and the Navajo Nation has resulted from the NMPRC’s refusal to establish the applicability of the ETA, and that the NMPRC’s refusal to review the SJGS abandonment and financing proceedings under the ETA violates the authority of the legislature and the separation of powers doctrine. On December 16, 2019, the NM Supreme Court issued an order requiring responses by January 3, 2020. PNM and other parties filed in support of the petition and NEE submitted a filing indicating the petition should be denied. On January 3, 2020, the NMPRC filed its response stating that, among other things, the NMPRC’s order initiating SJGS abandonment proceedings was made pursuant to the NMPRC’s December 2015 order authorizing the abandonment of SJGS Units 2 and 3 by

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December 2017, which predates the ETA and required PNM to submit a filing regarding the future of SJGS by December 31, 2018, and that the NMPRC has an obligation to provide parties in the case due process regarding the applicability of the ETA to PNM's application. In January 2020, the NM Supreme Court denied NEE's and other parties petitions, granted PNM's motion to intervene, and scheduled oral arguments to be presented by the NMPRC and PNM. On January 29, 2020, and after oral argument, the NM Supreme Court issued a ruling requiring the NMPRC apply the ETA to all aspects of PNM's SJGS Abandonment Application, indicating any previous NMPRC orders inconsistent with their ruling should be vacated, and denying parties' request for stay.

On February 21, 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 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. These additional costs would be subject to review in a future proceeding. 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, and economic development costs. Exceptions to the recommended decisions are due March 4, 2020 and responses to exceptions are due March 6, 2020. The Hearing Examiners also found that the statutory deadline for action by the Commission is April 1, 2020.

The financial impact of an early retirement of SJGS and the NMPRC approval process are influenced by many factors outside of PNM's control, including the economic impact of a potential SJGS abandonment on the area surrounding the plant and the related mine, as well as the overall political and economic conditions of New Mexico. PNM cannot predict the outcome of this matter.

*Joint Petition to Investigate PNM's Option to Purchase Assets Underlying Certain Leases in PVNGS*

On April 22, 2019, NEE and other parties, which consist primarily of environmental not-for-profit organizations, filed a joint petition for expedited investigation with the NMPRC. The joint petition requested the NMPRC open an investigation regarding PNM's option to purchase the assets underlying the PVNGS Unit 1 and 2 leases that will expire in January 2023 and 2024. Various parties filed to participate in the request. On May 8, 2019, the NMPRC issued an order requiring a response from both PNM and NMPRC staff. PNM filed responses indicating, among other things, that the joint petition should be denied, and that PNM has not yet made a decision to purchase or return the assets underlying the leases that expire in January 2023 and 2024. On September 16, 2019, NEE and the other parties filed a motion reiterating their initial petition and seeking the appointment of a hearing examiner to preside over the requested proceeding. On September 30, 2019, PNM filed its response in opposition stating that PNM had previously refuted NEE's arguments and that there is no need for a hearing examiner to be assigned to this matter. On January 3, 2020, PNM filed notice with the NMPRC of 60-day waivers of the deadline to provide notice to purchase or return the assets underlying the PVNGS Unit 1 leases. The deadline for PNM to provide irrevocable notice of its intent to purchase or return these interests is now March 16, 2020. On January 8, 2020, the NMPRC issued an order denying the petition for investigation. PNM has committed to provide the NMPRC with timely updates on any decisions related to these interests and will file any necessary requests for approval associated with its decision. This matter is now completed.

*Cost Recovery Related to Joining the EIM*

The California Independent System Operator ("CAISO") developed the Western Energy Imbalance Market ("EIM") as a real-time wholesale energy trading market 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 expanded geographic footprint and the expanded potential uses for those resources.

In 2018, PNM completed a cost-benefit analysis of participating in the EIM. PNM's analysis indicated participation in the EIM would provide substantial benefits to retail customers. On August 22, 2018, PNM filed an application with the NMPRC requesting, among other things, to recover an estimated \$20.9 million of initial capital investments and authorization to establish a regulatory asset to recover an estimated \$7.4 million of other expenses that would be incurred in order to join the EIM. PNM's application proposed the regulatory asset be adjusted to provide for full recovery of such costs, including carrying charges, until the effective date of new rates in PNM's next general rate case. PNM's application also proposed the benefits of participating

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in the EIM be credited to retail customers through PNM's existing FPPAC and that PNM would seek recovery of its costs in a future proceeding. On December 19, 2018, the NMPRC issued an order approving the establishment of a regulatory asset to recover PNM's cost of joining the EIM, which was subsequently challenged by several parties. On February 6, 2019, the NMPRC issued an order granting rehearing and vacating the December 19, 2018 order. On March 18, 2019, the Hearing Examiner issued an updated recommended decision recommending approval of the establishment of a regulatory asset but deferring 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, which was approved by the NMPRC. PNM and other parties filed a joint motion requesting the NMPRC clarify that the quarterly benefits reports prepared by CAISO be used to determine the benefits of participating in the EIM, as well as to support the prudence of costs incurred to join the EIM. On April 24, 2019, the NMPRC issued an order granting the joint motion for clarification and indicating the CAISO quarterly benefits reports may be used in a future rate case. PNM anticipates it will begin participating in the EIM in April 2021.

*Advanced Metering Infrastructure Application*

On February 26, 2016, PNM filed an application with the NMPRC requesting approval of a project to replace its existing customer metering equipment with Advanced Metering Infrastructure ("AMI"). The application asked the NMPRC to authorize the recovery of the cost of the project, up to \$87.2 million, which was subsequently adjusted to \$95.1 million, and includes the costs of customer education, severances for affected employees, and other costs, in future ratemaking proceedings, as well as to approve the recovery of the remaining undepreciated investment in existing metering equipment estimated to be approximately \$33 million at the date of implementation. After extensive public hearings and discovery, on March 19, 2018, the Hearing Examiner issued a recommended decision finding that PNM had not proven a net public benefit in the case and recommending the NMPRC not approve the application. On April 2, 2018, PNM filed a statement on exceptions to the recommended decision indicating, among other things, that PNM disagreed with the finding that the record did not demonstrate a net public benefit to customers, but that PNM would not take exception to a recommendation to not approve the application. No other parties filed exceptions to the recommended decision by the required deadline. On April 11, 2018, the NMPRC adopted an order accepting the recommended decision and disapproving PNM's application. The order indicated that PNM's 2021 energy efficiency plan application, to be filed in 2020, should include a proposal for an AMI pilot project.

*Facebook, Inc. Data Center Project*

On August 17, 2016, the NMPRC approved a PNM application in connection with services to be provided to Facebook, Inc. for a data center being constructed in PNM's service area. The application included:

- Two new electric service rates
- A PPA under which PNM would purchase renewable energy from an affiliate of PNMR
- A special service contract to provide electric service

Facebook's service requirements include the acquisition by PNM of a sufficient amount of new renewable energy resources and RECs to match the energy and capacity requirements of the data center. The cost of renewable energy procured is passed through to Facebook under a rate rider. A special service rate is applied to Facebook's energy consumption in those hours of the month when their consumption exceeds the energy production from the renewable resources. As of December 31, 2019, PNM is procuring energy from 80 MW of solar-PV capacity from NMRD, a 50% equity method investee of PNMR Development. See additional discussion of NMRD in Note 1.

In late 2017, PNM obtained NMPRC approval to enter into additional 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply renewable energy to the data center. These PPAs include the purchase of the power and RECs from:

- Casa Mesa Wind, LLC, a subsidiary of NextEra Energy Resources, LLC, which is located near House, New Mexico, has a total capacity of 50 MW, and became operational in November 2018
- A 166 MW portion of the La Joya Wind Facility, owned by Avangrid Renewables, LLC, which is expected to be located near Estancia, New Mexico and be operational in November 2020
- Route 66 Solar Energy Center, LLC, a subsidiary of NextEra Energy Resources, LLC, which is expected to be located west of Albuquerque, New Mexico, have a total capacity of 50 MW, and be operational in December 2021
- Two PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities to be owned and operated by NMRD. The first 50 MW of these facilities began commercial operation in December 2019 and the remaining capacity is expected to begin commercial operation in June 2020.

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The two PPAs aggregating approximately 100 MW of capacity were subject to FERC approval, which was granted on August 1, 2019.

*PNM Solar Direct*

On May 31, 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 proposes to recover costs of the program directly from subscribing customers through a rate rider. If approved by the NMPRC, 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. Hearings on the application concluded on January 9, 2020. On February 14, 2020, PNM and several other parties filed a joint proposed recommended decision addressing the Hearing Examiner's questions in the filing and recommending the NMPRC approve PNM's application. PNM cannot predict the outcome of this matter.

*Application for a New 345-kV Transmission Line*

On August 10, 2018, PNM filed an application seeking NMPRC approval of a CCN to construct and operate a 345-kV transmission line and associated facilities (the "BB2 Line"), and to determine the rate making treatment to apply to the BB2 line and related rights-of-way. In the application, PNM states that the BB2 line would run adjacent to one of PNM's existing transmission lines and is necessary to serve additional renewable generating resources to be located in eastern New Mexico. PNM's use of the BB2 line would benefit all customers and would include delivery of approximately 166 MW of renewable energy and RECs under a PPA, which had previously been approved by the NMPRC, from La Joya Wind and 140 MW from La Joya Wind that PNM included in PNM's 2020 renewable energy procurement plan. PNM's application requested that the NMPRC apply standard ratemaking treatment to the estimated \$85 million cost of the project resulting in a jurisdictional allocation of costs to all of PNM's transmission and retail customers. NMPRC staff supported PNM's proposed ratemaking treatment of the BB2 project and indicated that the capacity and energy of the La Joya Wind PPA and related network upgrades to PNM's transmission system would benefit all of PNM's customers. On March 11, 2019, the Hearing Examiner assigned to the application issued a recommended decision recommending approval of the CCN and related rights-of-way but recommending the NMPRC deny PNM's request to allocate a portion of cost of the BB2 Line to retail customers. The Hearing Examiner's recommendation indicated the costs not recovered from retail customers be directly reimbursed to PNM by Facebook, Inc. As a result, Facebook, Inc. would be responsible for approximately 46%, or \$39.0 million, of the estimated cost of the project. On March 20, 2019, PNM filed exceptions to the recommended decision and requested oral argument. In its filing, PNM refuted the proposed finding that the BB2 Line is not part of PNM's overall transmission system, opposed the recommendation that approximately 46% of the estimated cost of the project be directly assigned to Facebook, Inc. and presented legal arguments in support of PNM's originally proposed ratemaking treatment. On April 16, 2019, the NMPRC issued an order approving the Hearing Examiner's recommended decision, including the requirement that PNM be directly reimbursed by Facebook, Inc. In late April 2019, PNM and other parties submitted filings with the NMPRC requesting rehearing and seeking reconsideration of the NMPRC's decision to deny standard ratemaking treatment of the cost of the BB2 Line and associated facilities, which were denied. On May 21, 2019, PNM filed a motion requesting the NMPRC reopen the proceeding to admit new evidence of the benefits of the BB2 Line to retail customers and to modify the final order. On June 12, 2019, the NMPRC issued an updated final order but denied PNM's motion to reopen the proceedings. The updated final order grants the CCN but defers rate making treatment to a future rate case. This matter is now concluded.

*Western Spirit Line*

On May 1, 2019, PNM, the New Mexico Renewable Energy Transmission Authority ("RETA"), a New Mexico state authority, and Western Spirit Transmission LLC ("Western Spirit"), an affiliate of Pattern Energy Group, Inc., entered into agreements for the construction of a transmission line to transmit power generated from wind facilities to be owned by Pattern Wind New Mexico, LLC ("Pattern Wind"), an affiliate of Western Spirit and Pattern Development. As a part of the arrangement, the parties executed a Build Transfer Agreement that would allow PNM to purchase the approximately 165-mile 345-kV transmission line and associated facilities (the "Western Spirit Line"). The Western Spirit Line will be developed and constructed by RETA and Western Spirit LLC and sold to PNM upon its commercial operation date. The Build Transfer Agreement contains a number of customary representations and warranties and indemnification provisions as well as closing conditions, including regulatory and third-party approvals, and if necessary, anti-trust review under the Hart-Scott-Rodino Act. The Build Transfer Agreement also includes termination provisions that can be exercised under certain circumstances, including failure of the developer to achieve project milestones or to achieve commercial operation by specified dates, and failure of an affiliate of Pattern Wind to provide adequate credit support prior to closing. PNM estimates the net cost of the project to be approximately \$285 million, including an estimated \$75 million that Pattern Wind has chosen to self-fund under the agreement.

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On May 10, 2019, PNM filed an application with the NMPRC requesting that the NMPRC determine that it is not unlawful or inconsistent with the public interest for PNM to purchase the Western Spirit Line and requesting the NMPRC rule by November 6, 2019. Hearings were held on August 13, 2019. On September 11, 2019, the Hearing Examiner assigned to the application issued a recommended decision that would allow PNM to purchase the Western Spirit Line, and indicating that PNM's proposal satisfies the NMPRC's acquisition standards and that no CCN is required until such time that PNM seeks recovery for costs associated with the line from retail rate payers. On October 2, 2019, the NMPRC approved the recommended decision with limited modifications.

PNM also has entered into Transmission Service Agreements and other ancillary agreements ("TSAs") with Pattern Wind for firm transmission service. The TSAs use an incremental rate based on the construction and other ongoing costs of the Western Spirit Line, including adjustments for construction costs that Pattern Wind has chosen to self-fund under the agreement. FERC approved PNM's TSAs with Pattern Wind effective July 9, 2019. On August 8, 2019, FERC approved PNM's request to purchase the Western Spirit Line.

#### *Hazard Sharing Agreements*

On June 1, 2016, PNM and Tri-State entered into a one-year hazard sharing agreement, which expired on May 31, 2017. PNM and Tri-State entered into an additional agreement, under substantially identical terms, for a term of five years beginning June 1, 2017, which was approved by the NMPRC.

Under these agreements, each party sells the other party 100 MW of capacity and energy from each party's designated primary resource, which is SJGS Unit 4 for PNM and Springerville Generating Station Unit 3 for Tri-State, on a unit contingent basis subject to certain performance guarantees. The agreements reduce the magnitude of each party's single largest generating hazard and assist in enhancing the reliability and efficiency of their respective operations. Both purchases and sales are made at the same market index price. PNM passes the sales and purchases through to customers under PNM's FPPAC.

Information about PNM's purchases and sales is as follows:

	Sales		Purchases	
	GWh	Amount (In millions)	GWh	Amount (In millions)
Year Ended December 31, 2019	766.4	\$ 21.7	693.6	\$ 21.8
Year Ended December 31, 2018	725.7	25.8	822.7	28.7
Year Ended December 31, 2017	827.1	23.6	849.0	24.2

#### *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.

#### **TNMP**

##### *TNMP 2018 Rate Case*

On May 30, 2018, TNMP filed a general rate proceeding with the PUCT (the "TNMP 2018 Rate Case") requesting an annual increase to base rates of \$25.9 million based on a ROE of 10.5%, a cost of debt of 7.2%, and a capital structure comprised of 50% debt and 50% equity. TNMP's application included a request to establish new rate riders to recover Hurricane Harvey restoration, rate case, and additional vegetation management costs. The application also included the integration of revenues previously recorded under the AMS rider and collection of other unrecovered AMS investments into base rates. In 2018, TNMP recorded revenues of \$20.2 million under the AMS rider. The TNMP 2018 Rate Case application also proposed to return the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers and to reduce the federal corporate income tax rate to 21%. As discussed in Note 18, at December 31, 2017, TNMP recorded a regulatory liability of \$146.5 million to reflect the change in federal corporate income tax rates that will be refunded to customers in future periods. The TNMP 2018

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Rate Case application proposed to refund \$14.4 million of this regulatory liability over a period of five years and the remaining amount over the estimated useful lives of plant in service as of December 31, 2017.

On November 2, 2018, TNMP and other parties to the case filed an unopposed settlement agreement that was approved by the PUCT on December 20, 2018. The PUCT's final order results in a \$10.0 million annual increase to base rates. The key elements of the approved settlement include a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. As stated by the settlement agreement, the PUCT's final order excludes certain items from rate base that were requested in TNMP's original filing, including approximately \$10.6 million of transmission investments that TNMP included in its January 2019 transmission cost of service filing, which was approved by the PUCT in March 2019. In addition, the PUCT's final order requires TNMP to refund approximately \$37.8 million of the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers over a period of five years and the remaining amount over the estimated useful lives of plant in service as of December 31, 2017; approves TNMP's request to integrate revenues historically recorded under TNMP's AMS rider, as well as other unrecovered AMS investments, into base rates; approves TNMP's request for new depreciation rates; and approves a new rider to recover Hurricane Harvey restoration costs, net of amounts to be refunded to customers resulting from the reduction in the federal income tax rate in 2018. See Notes 13 and 18. The new rider is being charged to customers over a period of approximately three years beginning on the effective date of new base rates. New rates under the TNMP 2018 Rate Case were effective beginning on January 1, 2019.

*Advanced Meter System Deployment*

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect \$113.4 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011. Deployment of advanced meters began in September 2011. TNMP completed its mass deployment in 2016 and has installed more than 242,000 advanced meters. The TNMP 2018 Rate Case and associated approved settlement discussed above included a reconciliation of AMS costs and integrate TNMP's AMS recovery into base rates beginning on January 1, 2019.

*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 or over collected costs from prior years, rate case expenses, and performance bonuses (if the programs exceed mandated savings goals).

The following sets forth TNMP's approved EECRF increases:

Effective Date	Aggregate Collection		Performance Bonus
	Amount		
		(In millions)	
March 1, 2017	\$	6.0	\$ 0.8
March 1, 2018		6.0	1.1
March 1, 2019		5.6	0.8

On May 30, 2019, TNMP filed its request to adjust the EECRF to reflect changes in costs for 2020. On August 30, 2019, a unanimous settlement stipulation was filed with the PUCT that would allow TNMP to recover its requested \$5.9 million of program costs in 2020, which includes a performance bonus of \$0.8 million based on TNMP's energy efficiency achievements in the 2018 plan year. The PUCT approved the settlement on December 13, 2019.

*Recovery of TNMP Rate Case Costs*

Recovery of the cost of TNMP's rate case was moved into separate proceedings to begin after the conclusion of TNMP 2018 Rate Case. TNMP sought recovery of costs incurred through August 2019 in the amount of \$3.8 million and proposed these costs be collected from customers over a three-year period. In October 2019, TNMP and other parties to the proceedings filed an unopposed settlement stipulation that reduced TNMP's cost recovery to \$3.3 million and provide for recovery over a period not to exceed two-years beginning on March 1, 2020. On January 16, 2020, the PUCT approved the settlement. As a result of the PUCT's order, TNMP recorded a pre-tax write-off of \$0.5 million as of December 31, 2019, which is reflected as regulatory disallowances on TNMP's Consolidated Statements of Earnings.

*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

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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:

Effective Date	Approved Increase in Rate Base	Annual Increase in Revenue
(In millions)		
March 14, 2017	\$ 30.2	\$ 4.8
September 13, 2017	27.5	4.7
March 27, 2018	32.0	0.6
March 21, 2019	111.8	14.3
September 19, 2019	21.9	3.3

On February 6, 2020, TNMP filed an application to further update its transmission rates, which would increase revenues by \$7.8 million annually, based on an increase in rate base of \$59.2 million. The application is pending before the PUCT.

*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. TNMP has not made a filing to adjust rates for additional investments in distribution assets but plans to submit a distribution rate adjustment filing in April 2020.

*Competition Transition Charge Compliance Filing*

In connection with the adoption of Senate Bill 7 by the Texas Legislature in 1999 that deregulated electric utilities operating within ERCOT, TNMP was allowed to recover its stranded costs through the CTC and to recover a carrying charge on the CTC. The amounts yet to be collected are recorded as regulatory assets by TNMP. Further, the order authorizing TNMP's CTC included a true-up provision requiring an adjustment to the CTC due to a cumulative over- or under-collection of revenues, including interest, greater-than or equal to 15% of the most recent annual CTC funding amount. On March 13, 2017, TNMP made a filing to true-up the CTC. The requested adjustment reduces the collection of the amortization by \$1.1 million annually. The change was approved on April 5, 2017 and went into effect on June 1, 2017. TNMP estimates the CTC will be fully recovered in 2020.

*Order Related to Changes in Federal Income Tax Rates*

On January 25, 2018, the PUCT issued an accounting order that addresses the change in the federal corporate income tax rates on investor-owned utilities in the state of Texas. The order required investor-owned utilities to record a regulatory liability equal to the reduction in accumulated federal deferred income tax balances at the end of 2017 due to the change in the federal corporate income tax rate. In addition, the order required that a regulatory liability be recorded to reflect the difference between revenues collected under existing rates and those that would have been collected had those rates been set reflecting federal income tax reform beginning on the date of the order. In compliance with the PUCT order, during the year ended December 31, 2018, TNMP reduced revenues by \$5.4 million, which amount was offset against TNMP's Hurricane Harvey restoration costs and is being refunded to customers as a component of a new rate rider over a period of approximately three years beginning on January 1, 2019.

**(18) Income Taxes**

**Federal Income Tax Reform**

On December 22, 2017, comprehensive changes in U.S. 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 2019, the IRS issued proposed regulations related to certain officer compensation and proposed 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, the IRS issued proposed regulations interpreting Tax Act amendments to depreciation provisions of the IRC that allow the Company to claim a bonus depreciation deduction on certain construction projects placed in service subsequent to the third quarter of 2017.

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Although most of the provisions of the Tax Act were not effective until 2018, GAAP required that some effects be recognized in 2017. Under the asset and liability method of accounting for income taxes used by the Company, deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. At the date of enactment of the Tax Act, the Company had net deferred tax liabilities for its regulated activities and net deferred tax assets for non-regulated activities. As a result of the change in the federal income tax rate, the Company re-measured and adjusted its deferred tax assets and liabilities as of December 31, 2017. The portion of that adjustment not related to PNM's and TNMP's regulated activities was recorded as a reduction in net deferred tax assets and an increase in income tax expense. The portion related to PNM's and TNMP's regulated activities was recorded as a reduction in net deferred tax liabilities and an increase in regulatory liabilities.

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, the unprotected portion of excess deferred federal income taxes to customers over a period of approximately twenty-three years, and excess deferred state income taxes to customers over a period of three years. 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. See additional discussion of PNM's NM 2016 Rate Case and TNMP's 2018 Rate Case in Note 17.

The adjustments to deferred income taxes recorded as increases in regulatory liabilities and income tax expense as a result of the enactment of the Tax Act at December 31, 2017 are presented below:

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Net increase in regulatory liabilities	\$ 402,501	\$ 146,451	\$ —	\$ 548,952
Net decrease in deferred income tax liabilities (deferred income tax assets)	372,895	138,586	(19,990)	491,491
Net deferred income tax expense	<u>\$ 29,606</u>	<u>\$ 7,865</u>	<u>\$ 19,990</u>	<u>\$ 57,461</u>

GAAP requires that the impacts of adjusting existing deferred tax assets and liabilities for a change in an income tax rate be recognized in income tax expense during the period of enactment, including impacts that are reflected in AOCI. This resulted in the tax effects of items within AOCI not reflecting the appropriate tax rate and being stranded in AOCI. In February 2018, the FASB issued *Accounting Standards Update 2018-02 - Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* to address this issue by allowing entities to reclassify the income tax effects of the Tax Act on items within AOCI to retained earnings. The Company records in AOCI, net of income taxes, unamortized gains and losses related to PNM's defined benefit pension plans to the extent not attributed to regulated operations, unrealized gains on PNM's available-for-sale debt securities, and unrealized gains and losses on cash flow hedges related to PNM's interest rate swaps. When amounts are reclassified from AOCI to the Consolidated Statement of Earnings, the Company recognizes the related income tax expense (benefit) at the tax rate in effect at that time. As permitted by ASU 2018-02, as of December 31, 2017, the Company reclassified the stranded federal income tax effects of the Tax Act on items recorded in AOCI, resulting in a net increase in retained earnings of \$17.6 million. See Note 3.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118 ("SAB 118"), which provided guidance to address the application of GAAP to reflect the Tax Act in circumstances where all information and analysis was not yet available or complete. This bulletin provided for a one-year period in which to complete the required analyses and accounting for the impacts of the Tax Act. In accordance with SAB 118, the Company completed its analysis of the impacts of the Tax Act in 2018.

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The adjustments to deferred income taxes resulting from completion of the Company's analysis, which resulted primarily from differences between the estimated amounts recorded as of December 31, 2017 and the actual amounts reflected in the Company's 2017 tax return filing, including adjustments resulting from additional guidance and interpretations to the Tax Act issued in 2018 related to bonus depreciation, certain incentive compensation, and other items are presented below:

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Net increase (decrease) in regulatory liabilities	\$ 11,244	\$ (4,069)	\$ —	\$ 7,175
Net decrease in deferred income tax liabilities (deferred income tax assets)	(2,175)	(9,784)	13,869	1,910
Net increase in affiliate receivables (affiliate payables)	12,300	4,042	(16,342)	—
Net deferred income tax expense	<u>\$ 1,119</u>	<u>\$ 1,673</u>	<u>\$ 2,473</u>	<u>\$ 5,265</u>

As discussed in Note 17, the NM Supreme Court issued a decision in May 2019 on the appeal of the NM 2015 Rate Case resulting in pre-tax impairments of \$150.6 million in the year ending December 31, 2019. The impairments were recognized as discrete items within regulatory disallowances and restructuring costs resulting in tax benefits of \$45.7 million, which is reflected in income taxes on the Company's Consolidated Statements of Earnings for the year ended December 31, 2019.

**PNMR**

PNMR's income taxes (benefits) consist of the following components:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current federal income tax	\$ 60	\$ —	\$ —
Current state income tax	43	(244)	(188)
Deferred federal income tax	(20,372)	7,716	119,182
Deferred state income tax	(4,491)	648	11,632
Amortization of accumulated investment tax credits	(522)	(345)	(286)
Total income taxes (benefits)	<u>\$ (25,282)</u>	<u>\$ 7,775</u>	<u>\$ 130,340</u>

PNMR's provision for income taxes (benefits) differed from the federal income tax computed at the statutory rate for each of the years shown. The differences are attributable to the following factors:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Federal income tax at statutory rates	\$ 14,038	\$ 22,902	\$ 79,016
Amortization of accumulated investment tax credits	(522)	(345)	(286)
Amortization of excess deferred income tax (Note 17)	(37,799)	(19,779)	—
Flow-through of depreciation items	1,136	712	1,147
Earnings attributable to non-controlling interest in Valencia	(2,991)	(3,173)	(5,256)
State income tax, net of federal benefit	298	1,358	5,398
Impairment of state net operating loss carryforwards	—	—	819
Allowance for equity funds used during construction	(1,990)	(2,185)	(3,331)
Impairment of charitable contribution carryforward	—	—	909
Regulatory recovery of prior year impairments of state net operating loss carryforward, including amortization	1,367	1,367	(2,225)
Federal income tax rate change	—	2,914	57,461
Tax expense (benefit) related to stock compensation awards	(795)	4,647	(2,324)
Other	1,976	(643)	(988)
Total income taxes (benefits)	<u>\$ (25,282)</u>	<u>\$ 7,775</u>	<u>\$ 130,340</u>

Effective tax rate

(37.82)%

7.13%

57.73%

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The components of PNMR's net accumulated deferred income tax liability were:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Deferred tax assets:		
Net operating loss	\$ 59,488	\$ 82,386
Regulatory liabilities related to income taxes	145,087	158,416
Federal tax credit carryforwards	101,231	76,481
Shutdown of SJGS Units 2 and 3	—	1,638
Regulatory disallowance related to NM 2015 Rate Case (Note 17)	34,639	—
Other	54,199	97,515
Total deferred tax assets	<u>394,644</u>	<u>416,436</u>
Deferred tax liabilities:		
Depreciation and plant related	(787,928)	(767,482)
Investment tax credit	(81,186)	(57,853)
Regulatory assets related to income taxes	(58,495)	(62,889)
CTC	(1,466)	(3,613)
Pension	(35,029)	(35,407)
Regulatory asset for shutdown of SJGS Units 2 and 3	(28,831)	(30,425)
Other	(27,767)	(59,486)
Total deferred tax liabilities	<u>(1,020,702)</u>	<u>(1,017,155)</u>
Net accumulated deferred income tax liabilities	<u>\$ (626,058)</u>	<u>\$ (600,719)</u>

The following table reconciles the change in PNMR's net accumulated deferred income tax liability to the deferred income tax (benefit) included in the Consolidated Statement of Earnings:

	<b>Year Ended</b>	
	<b>December 31, 2019</b>	
	(In thousands)	
Net change in deferred income tax liability per above table	\$	25,339
Change in tax effects of income tax related regulatory assets and liabilities		(10,332)
Amortization of excess deferred income tax		(37,799)
Tax effect of mark-to-market adjustments		(2,261)
Tax effect of excess pension liability		(908)
Adjustment for uncertain income tax positions		499
Reclassification of unrecognized tax benefits		(499)
Amortization of state net operating loss recovered in prior years		1,367
Refundable alternative minimum tax credit carryforward reclassified to receivable		(576)
Other		(215)
Deferred income taxes (benefits)	<u>\$</u>	<u>(25,385)</u>

**PNM**

PNM's income taxes (benefit) consist of the following components:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Current federal income tax	\$ (6,266)	\$ (6,644)	\$ 118
Current state income tax	449	(2,661)	(1,112)
Deferred federal income tax	(12,308)	5,661	73,308

Deferred state income tax	(7,590)	(2,080)	9,527
Amortization of accumulated investment tax credits	(247)	(247)	(286)
Total income taxes (benefit)	<u>\$ (25,962)</u>	<u>\$ (5,971)</u>	<u>\$ 81,555</u>

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PNM's provision for income taxes (benefit) differed from the federal income tax computed at the statutory rate for each of the years shown. The differences are attributable to the following factors:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Federal income tax at statutory rates	\$ 6,187	\$ 13,514	\$ 59,139
Amortization of accumulated investment tax credits	(247)	(247)	(286)
Amortization of excess deferred income tax (Note 17)	(28,923)	(19,779)	—
Flow-through of depreciation items	1,077	674	1,103
Earnings attributable to non-controlling interest in Valencia	(2,991)	(3,173)	(5,256)
State income tax, net of federal benefit	92	1,323	4,926
Impairment of state net operating loss carryforwards	—	—	627
Allowance for equity funds used during construction	(1,398)	(1,716)	(3,032)
Regulatory recovery of prior year impairment of state net operating loss carryforward, net of amortization	1,367	1,367	(2,225)
Federal income tax rate change	—	(683)	29,606
Allocation of tax expense (benefit) related to stock compensation awards	(559)	3,967	(1,708)
Other	(567)	(1,218)	(1,339)
<b>Total income taxes (benefit)</b>	<b>\$ (25,962)</b>	<b>\$ (5,971)</b>	<b>\$ 81,555</b>
Effective tax rate	(88.13)%	(9.28)%	48.27%

The components of PNM's net accumulated deferred income tax liability were:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
Deferred tax assets:		
Net operating loss	\$ 25,889	\$ 50,762
Regulatory liabilities related to income taxes	114,849	125,395
Federal tax credit carryforwards	82,983	62,230
Shutdown of SJGS Units 2 and 3	—	1,638
Regulatory disallowance	34,639	—
Other	38,735	36,916
<b>Total deferred tax assets</b>	<b>297,095</b>	<b>276,941</b>
Deferred tax liabilities:		
Depreciation and plant related	(630,293)	(606,673)
Investment tax credit	(74,667)	(55,484)
Regulatory assets related to income taxes	(49,479)	(53,561)
Pension	(30,609)	(31,046)
Regulatory asset for shutdown of SJGS Units 2 and 3	(28,831)	(30,425)
Other	(5,206)	(2,519)
<b>Total deferred tax liabilities</b>	<b>(819,085)</b>	<b>(779,708)</b>
<b>Net accumulated deferred income tax liabilities</b>	<b>\$ (521,990)</b>	<b>\$ (502,767)</b>

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The following table reconciles the change in PNM's net accumulated deferred income tax liability to the deferred income tax (benefit) included in the Consolidated Statement of Earnings:

	<b>Year Ended</b>
	<b>December 31, 2019</b>
	(In thousands)
Net change in deferred income tax liability per above table	\$ 19,223
Change in tax effects of income tax related regulatory assets and liabilities	(7,861)
Amortization of excess deferred income tax	(28,923)
Tax effect of mark-to-market adjustments	(2,962)
Tax effect of excess pension liability	(908)
Adjustment for uncertain income tax positions	488
Reclassification of unrecognized tax benefits	(488)
Amortization of state net operating loss recovered in prior years	1,367
Other	(81)
Deferred income taxes (benefits)	\$ (20,145)

**TNMP**

TNMP's income taxes consist of the following components:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Current federal income tax	\$ 10,792	\$ 13,347	\$ 2,472
Current state income tax	1,904	1,753	1,765
Deferred federal income tax	(7,621)	(540)	27,304
Deferred state income tax	(29)	2,320	(29)
Total income taxes	\$ 5,046	\$ 16,880	\$ 31,512

TNMP's provision for income taxes differed from the federal income tax computed at the statutory rate for each of the periods shown. The differences are attributable to the following factors:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
Federal income tax at statutory rates	\$ 12,778	\$ 14,379	\$ 23,475
Amortization of excess deferred income tax	(8,876)	—	—
State income tax, net of federal benefit	1,532	1,454	1,198
Federal income tax rate change	—	—	7,865
Allocation of tax expense (benefit) related to stock compensation awards	(236)	735	(616)
Other	(152)	312	(410)
Total income taxes	\$ 5,046	\$ 16,880	\$ 31,512
Effective tax rate	8.29%	24.65%	46.98%

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The components of TNMP's net accumulated deferred income tax liability at December 31, were:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
(In thousands)		
Deferred tax assets:		
Regulatory liabilities related to income taxes	\$ 30,238	\$ 33,021
Other	3,788	4,517
<b>Total deferred tax assets</b>	<b>34,026</b>	<b>37,538</b>
Deferred tax liabilities:		
Depreciation and plant related	(142,791)	(136,117)
CTC	(1,466)	(3,613)
Regulatory assets related to income taxes	(9,016)	(9,328)
Loss on reacquired debt	(6,345)	(6,617)
Pension	(4,420)	(4,361)
AMS	(8,473)	(10,030)
Other	(1,666)	(3,710)
<b>Total deferred tax liabilities</b>	<b>(174,177)</b>	<b>(173,776)</b>
<b>Net accumulated deferred income tax liabilities</b>	<b>\$ (140,151)</b>	<b>\$ (136,238)</b>

The following table reconciles the change in TNMP's net accumulated deferred income tax liability to the deferred income tax (benefit) included in the Consolidated Statement of Earnings:

	<b>Year Ended</b>
	<b>December 31, 2019</b>
(In thousands)	
Net change in deferred income tax liability per above table	\$ 3,913
Change in tax effects of income tax related regulatory assets and liabilities	(2,471)
Amortization of excess deferred income tax	(8,876)
Other	(216)
<b>Deferred income taxes (benefits)</b>	<b>\$ (7,650)</b>

**Other Disclosures**

GAAP requires that the Company recognize only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority. A reconciliation of unrecognized tax benefits is as follows:

	<b>PNMR</b>	<b>PNM</b>	<b>TNMP</b>
	(In thousands)		
Balance at December 31, 2016	\$ 6,752	\$ 3,949	\$ —
Additions based on tax positions related to 2017	262	262	—
Additions (reductions) for tax positions of prior years	2,415	2,352	63
Settlement payments	—	—	—
<b>Balance at December 31, 2017</b>	<b>9,429</b>	<b>6,563</b>	<b>63</b>
Additions based on tax positions related to 2018	543	543	—
Additions (reductions) for tax positions of prior years	222	182	40
Settlement payments	—	—	—
<b>Balance at December 31, 2018</b>	<b>10,194</b>	<b>7,288</b>	<b>103</b>
Additions based on tax positions related to 2019	329	329	—
Additions (reductions) for tax positions of prior years	170	159	11
Settlement payments	—	—	—

Balance at December 31, 2019	\$ 10,693	\$ 7,776	\$ 114
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Included in the balance of unrecognized tax benefits at December 31, 2019 are \$10.1 million, \$7.2 million, and \$0.1 million that, if recognized, would affect the effective tax rate for PNMR, PNM, and TNMP. The Company does not anticipate that any unrecognized tax expenses or unrecognized tax benefits will be reduced or settled in 2020.

PNMR, PNM, and TNMP had no estimated interest income or expense for the years ended December 31, 2019, 2018, and 2017. There was no accumulated accrued interest receivable or payable related to income taxes as of December 31, 2019 and 2018.

The Company files a federal consolidated and several consolidated and separate state income tax returns. The tax years prior to 2015 are closed to examination by either federal or state taxing authorities other than Arizona. The tax years prior to 2014 are closed to examination by Arizona taxing authorities. Other tax years are open to examination by federal and state taxing authorities and net operating loss carryforwards are open to examination for the years in which the carryforwards are utilized. At December 31, 2019, the Company has \$286.6 million of federal net operating loss carryforwards that expire beginning in 2030 and \$101.2 million of federal tax credit carryforwards that expire beginning in 2023. State net operating losses expire beginning in 2035 and vary from federal due to differences between state and federal tax law.

In 2013, New Mexico House Bill 641 reduced the New Mexico corporate income tax rate from 7.6% to 5.9%. The rate reduction was being phased-in from 2014 to 2018. In accordance with GAAP, PNMR and PNM adjusted accumulated deferred income taxes to reflect the tax rate at which the balances are expected to reverse during the period that includes the date of enactment, which was in the year ended December 31, 2013. At that time, the portion of the adjustment related to PNM's regulated activities was recorded as a reduction in deferred tax liabilities and an increase in a regulatory liability, based on the assumption that PNM would be required to return the benefit to customers over time. PNM's NM 2016 Rate Case (Note 17) reflects the benefit of the lower New Mexico corporate income tax rate being returned to customers over a three-year period beginning February 1, 2018. In addition, the portion of the adjustment that was not related to PNM's regulated activities was recorded as a reduction in deferred tax assets and an increase in income tax expense. Changes in the estimated timing of reversals of deferred tax assets and liabilities resulted in refinements of the impacts of this change in tax rates being recorded through December 31, 2017, at which time the impacts of the rate reduction were fully phased-in. Adjustments to deferred income taxes recorded as increases (decreases) in the regulatory liability and income tax expense were as follows:

	PNMR	PNM	TNMP
	(In thousands)		
<b>December 31, 2017:</b>			
Regulatory liability	\$ (10,109)	\$ (10,109)	\$ —
Income tax expense	\$ (1,259)	\$ (1,179)	\$ —

In 2008, fifty percent bonus tax depreciation was enacted as a temporary two-year stimulus measure as part of the Economic Stimulus Act of 2008. Bonus tax depreciation in various forms has been continuously extended since that time, including by the Protecting Americans from Tax Hikes Act of 2015. The 2015 act extended and phased-out bonus tax depreciation through 2019. As discussed above the Tax Act eliminated bonus depreciation for utilities effective September 28, 2017. However, in 2018 the IRS issued proposed regulations interpreting Tax Act amendments to depreciation provisions of the IRC which allowed the Company to claim a bonus depreciation deduction on certain construction projects placed in service after the third quarter of 2017. As a result of the net operating loss carryforwards for income tax purposes created by bonus depreciation, certain tax carryforwards were not expected to be utilized before their expiration. In addition, as a result of Tax Act changes to the deductibility of officer compensation, certain deferred tax benefits related to compensation are not expected to be realized. In accordance with GAAP, the Company has impaired the deferred tax assets for tax carryforwards which are not expected to be utilized and for compensation that is not expected to be deductible.

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The impairments after reflecting the expiration of carryforwards under applicable tax laws, net of federal tax benefit, for 2017 through 2019 are as follows:

	PNMR	PNM	TNMP
	(In thousands)		
<b>December 31, 2019:</b>			
State tax credit carryforwards	\$ 425	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ (99)	\$ (100)	\$ 2
<b>December 31, 2018:</b>			
State tax credit carryforwards	\$ —	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 410	\$ 298	\$ 111
<b>December 31, 2017:</b>			
State tax credit carryforwards	\$ —	\$ —	\$ —
State net operating loss carryforwards	\$ 819	\$ 627	\$ —
Charitable contribution carryforwards	\$ 909	\$ —	\$ —

The impairments of unexpired state tax credits, state net operating loss, and charitable contribution carryforwards are reflected as a valuation allowance against deferred tax assets. The reserve balances, after reflecting expiration of carryforwards under applicable tax laws, at December 31, 2019 and 2018 are as follows:

	PNMR	PNM	TNMP
	(In thousands)		
<b>December 31, 2019:</b>			
State tax credit carryforwards	\$ 425	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 311	\$ 198	\$ 113
<b>December 31, 2018:</b>			
State tax credit carryforwards	\$ —	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 410	\$ 298	\$ 111

**(19) 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 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.

GAAP requires the Company to evaluate 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.

GAAP provides that 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

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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 goodwill, GAAP currently requires the entity 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. As further discussed under New Accounting Pronouncements in Note 1, a new accounting pronouncement changes how goodwill impairment is determined by eliminating the second step of the quantitative impairment analysis.

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 WACC, and changes in discount rates. The Company also evaluates its stock price relative to historical performance, industry peers, and to major market indices, including an evaluation of the Company's market capitalization relative to the carrying value of its reporting units.

For its annual evaluations performed as of April 1, 2019, PNMR performed qualitative analyses for both the PNM and TNMP reporting units. The qualitative analysis was performed by considering changes in the Company's expectations of future financial performance since the April 1, 2018 quantitative analysis performed for PNM, as well as the quantitative analysis performed for TNMP at April 1, 2016 and the qualitative analyses through April 1, 2018. This analysis considered Company specific events such as the potential impacts of legal and regulatory matters discussed in Note 16 and Note 17, including potential outcomes in PNM's SJGS Abandonment Application, the impacts of the NM Supreme Court's decision in the appeal of the NM 2015 Rate Case, and other potential impacts of changes in PNM's resource needs based on PNM's 2017 IRP. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2019 carrying values of PNM or TNMP exceeded their fair values.

For the annual evaluations performed as of April 1, 2018, PNMR utilized a quantitative analysis for the PNM reporting unit and a qualitative analysis for the TNMP reporting unit. 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%. The 2018 qualitative analysis for the TNMP reporting unit was performed by considering changes in expectations of future financial performance since the April 1, 2016 quantitative analysis that indicated the fair value of the TNMP reporting unit, which has goodwill of \$226.7 million, exceeded its carrying value by approximately 32%. The 2018 analysis considered events specific to TNMP such as the potential impacts of legal and regulatory matters discussed in Note 16 and Note 17, including potential adverse outcomes in the then pending TNMP 2018 Rate Case. Based on an evaluation of these and other factors, the Company determined it is not more likely than not that the April 1, 2018 carrying values of PNM or TNMP exceed their fair values.

For the April 1, 2017 evaluation for both the PNM and TNMP reporting units, the qualitative analyses were performed by considering changes in the Company's expectations of future financial performance since the April 1, 2016 quantitative analyses. These analyses considered Company specific events such as the potential impacts of legal and regulatory matters discussed in

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Note 16 and Note 17, including the estimated impacts of the proposed revised stipulation in the PNM NM 2016 Rate Case, the impacts of potential outcomes of the matters appealed to the NM Supreme Court under the NM 2015 Rate Case, and the impacts of changes in PNM's resource needs based on PNM's 2017 IRP. These evaluations also considered changes in TNMP's regulatory environment such as the PUCT's then proposed amendments to the interim transmission cost of service filing rule, as well as potential outcomes associated with TNMP's general rate case filing, which the Company filed in May 2018. Based on an evaluation of these and other factors, the Company determined it is not more likely than not that the April 1, 2017 carrying values of PNM or TNMP exceed their fair values.

**(20) Related Party Transactions**

PNMR, PNM, TNMP, and NMRD are considered related parties as defined under GAAP, 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 (Note 1), and 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 (Note 7) and NMRD.

PNMR files a consolidated federal income tax return with its affiliated companies. A tax allocation agreement exists between PNMR and each of its affiliated companies. These agreements provide that the subsidiary company will compute its taxable income on a stand-alone basis. If the result is a net tax liability, such amount shall be paid to PNMR. If there are net operating losses and/or tax credits, the subsidiary shall receive payment for the tax savings from PNMR to the extent that PNMR is able to utilize those benefits.

See Note 7 for information on intercompany borrowing arrangements. The table below summarizes the nature and amount of related party transactions of PNMR, PNM and TNMP:

	<b>Year Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
	(In thousands)		
<b>Services billings:</b>			
PNMR to PNM	\$ 96,327	\$ 95,637	\$ 97,914
PNMR to TNMP	36,554	33,493	31,095
PNM to TNMP	375	367	382
TNMP to PNMR	141	140	141
TNMP to PNM	—	—	154
PNMR to NMRD	238	183	—
<b>Renewable energy purchases:</b>			
PNM from NMRD	3,124	2,924	—
<b>Interconnection and facility study billings:</b>			
PNM to NMRD	650	2,108	—
PNM to PNMR	—	68,820	—
PNMR to PNM	68,820	—	—
<b>Interest billings:</b>			
PNMR to PNM	3,365	2,585	21
PNM to PNMR	299	289	220
PNMR to TNMP	42	136	133
<b>Income tax sharing payments:</b>			
PNMR to TNMP	—	—	—
PNMR to PNM	—	—	23,391
PNM to PNMR	—	134	—
TNMP to PNMR	12,996	3,424	20,686

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**(21) Quarterly Operating Results (Unaudited)**

Unaudited operating results by quarters for 2019 and 2018 are presented below. In the opinion of management of the Company, all adjustments (consisting of normal recurring accruals) necessary for a fair statement of the results of operations for such periods have been included. The annual results of basic and diluted earnings per share shown below may be impacted by rounding.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share amounts)			
<b>PNMR</b>				
<b>2019</b> <span style="float: right;">(1)</span>				
Operating revenues	\$ 349,645	\$ 330,228	\$ 433,586	\$ 344,144
Operating income (loss)	36,723	(93,615)	140,540	60,552
Net earnings (loss)	21,662	(72,283)	106,763	35,989
Net earnings (loss) attributable to PNMR	18,700	(75,914)	102,771	31,805
Net earnings (loss) attributable to PNMR per common share:				
Basic	0.23	(0.95)	1.29	0.40
Diluted	0.23	(0.95)	1.28	0.40
<b>2018</b> <span style="float: right;">(2)</span>				
Operating revenues	\$ 317,878	\$ 352,313	\$ 422,666	\$ 343,756
Operating income (loss)	46,132	79,329	127,990	(17,404)
Net earnings (loss)	18,799	42,449	91,573	(51,539)
Net earnings (loss) attributable to PNMR	14,990	38,208	87,521	(55,077)
Net earnings attributable to PNMR per common share:				
Basic	0.19	0.48	1.10	(0.70)
Diluted	0.19	0.48	1.09	(0.69)
<b>PNM</b> <span style="float: right;">(1)</span>				
<b>2019</b>				
Operating revenues	\$ 269,318	\$ 238,219	\$ 331,113	\$ 255,172
Operating income (loss)	24,293	(115,977)	108,453	44,299
Net earnings (loss)	21,974	(83,313)	84,721	32,040
Net earnings (loss) attributable to PNM	19,144	(86,812)	80,861	27,988
<b>2018</b> <span style="float: right;">(2)</span>				
Operating revenues	\$ 236,232	\$ 264,511	\$ 331,374	\$ 259,848
Operating income	28,292	52,879	102,516	(38,654)
Net earnings (loss)	11,514	30,781	81,428	(53,400)
Net earnings (loss) attributable to PNM	7,837	26,672	77,508	(56,806)
<b>TNMP</b>				
<b>2019</b>				
Operating revenues	\$ 80,327	\$ 92,009	\$ 102,473	\$ 88,972
Operating income	12,585	22,578	32,596	18,055
Net earnings	4,098	15,267	25,087	11,347
<b>2018</b>				
Operating revenues	\$ 81,646	\$ 87,802	\$ 91,292	\$ 83,908
Operating income	18,532	26,829	27,824	23,312
Net earnings	9,413	15,367	16,100	10,711

(1) 2019 reflects pre-tax impairments of \$150.6 million offset by \$45.7 million of related tax impacts resulting from the NM Supreme Court's ruling on the appeals in the NM 2015 Rate Case. See Note 17.

(2) 2018 reflects pre-tax regulatory disallowances and restructuring costs of \$63.3 million primarily resulting from the impairment of PNM's 132 MW and 65 MW interests in SJGS Unit 4 and for an adjustment to PNM's coal mine reclamation obligation for the mine that serves SJGS. See additional discussion under December 2018 Compliance Filing and under Coal Mine Reclamation in Note 16.



**SCHEDULE I**  
**PNM RESOURCES, INC.**  
**CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF EARNINGS**

	Year ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Operating Revenues</b>	\$ —	\$ —	\$ —
<b>Operating Expenses</b>	3,983	7,475	2,902
Operating income (loss)	(3,983)	(7,475)	(2,902)
<b>Other Income and Deductions:</b>			
Equity in earnings of subsidiaries	96,324	109,995	111,877
Other income	731	2,048	1,181
Net other income and deductions	97,055	112,043	113,058
<b>Interest Charges</b>	19,581	19,453	12,490
<b>Earnings Before Income Taxes</b>	73,491	85,115	97,666
<b>Income Tax Expense (Benefit)</b>	(3,872)	(527)	17,792
<b>Net Earnings</b>	\$ 77,363	\$ 85,642	\$ 79,874

**SCHEDULE I**  
**PNM RESOURCES, INC.**  
**CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**  
**STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
<b>Net Cash Flows From Operating Activities</b>	\$ 2,001	\$ (2,566)	\$ (7,814)
<b>Cash Flows From Investing Activities:</b>			
Utility plant additions	1,100	826	(180)
Investments in subsidiaries	(80,000)	(30,000)	(50,000)
Cash dividends from subsidiaries	54,465	129,379	105,084
Net cash flows from investing activities	(24,435)	100,205	54,904
<b>Cash Flows From Financing Activities:</b>			
Short-term loan borrowings (repayments)	(150,000)	50,000	—
Revolving credit facility borrowings (repayments), net	123,900	(148,700)	42,600
Long-term borrowings	150,000	349,652	—
Repayment of long-term debt	—	(250,000)	—
Proceeds from stock option exercise	943	963	1,739
Purchases to satisfy awards of common stock	(9,918)	(12,635)	(13,929)
Dividends paid	(92,398)	(84,433)	(77,264)
Other, net	(107)	(2,414)	(269)
Net cash flows from financing activities	22,420	(97,567)	(47,123)
<b>Change in Cash and Cash Equivalents</b>	(14)	72	(33)
<b>Cash and Cash Equivalents at Beginning of Period</b>	93	21	54
<b>Cash and Cash Equivalents at End of Period</b>	\$ 79	\$ 93	\$ 21
<b>Supplemental Cash Flow Disclosures:</b>			
Interest paid, net of amounts capitalized	\$ 18,702	\$ 15,450	\$ 10,899
Income taxes paid (refunded), net	\$ —	\$ —	\$ —

**SCHEDULE I**  
**PNM RESOURCES, INC.**  
**CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY**  
**BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
	(In thousands)	
<b>Assets</b>		
Cash and cash equivalents	\$ 79	\$ 93
Intercompany receivables	79,059	82,539
Income taxes receivable	4,635	7,856
Other, net	2,876	5,635
Total current assets	86,649	96,123
Property, plant and equipment, net of accumulated depreciation of \$14,583 and \$13,518	24,313	25,413
Investment in subsidiaries	2,197,918	2,064,693
Other long-term assets	55,077	60,265
Total long-term assets	2,277,308	2,150,371
	<u>\$ 2,363,957</u>	<u>\$ 2,246,494</u>
<b>Liabilities and Stockholders' Equity</b>		
Short-term debt	\$ 112,100	\$ 170,000
Short-term debt-affiliate	40,619	8,819
Current maturities of long-term debt	50,000	—
Accrued interest and taxes	5,239	4,885
Other current liabilities	25,450	23,297
Total current liabilities	233,408	207,001
Long-term debt	449,048	348,310
Other long-term liabilities	2,803	2,803
Total liabilities	685,259	558,114
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,150,552	1,153,112
Accumulated other comprehensive income (loss), net of tax	(99,377)	(108,685)
Retained earnings	627,523	643,953
Total common stockholders' equity	1,678,698	1,688,380
	<u>\$ 2,363,957</u>	<u>\$ 2,246,494</u>

See Notes 7, 8, 14, and 16 for information regarding commitments, contingencies, and maturities of long-term debt.



**SCHEDULE II**  
**PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at beginning of year	Additions		Deductions	Balance at end of year
		Charged to costs and expenses	Charged to other accounts	Write-offs	
(In thousands)					
Allowance for doubtful accounts, year ended December 31:					
2017	\$ 1,209	\$ 2,615	\$ —	\$ 2,743	\$ 1,081
2018	\$ 1,081	\$ 3,338	\$ —	\$ 3,013	\$ 1,406
2019	\$ 1,406	\$ 2,790	\$ —	\$ 3,033	\$ 1,163

**SCHEDULE II**  
**TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES**  
**A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.**  
**VALUATION AND QUALIFYING ACCOUNTS**

Description	Balance at beginning of year	Additions		Deductions	Balance at end of year
		Charged to costs and expenses	Charged to other accounts	Write-offs	
(In thousands)					
Allowance for doubtful accounts, year ended December 31:					
2017	\$ —	\$ 4	\$ —	\$ 4	\$ —
2018	\$ —	\$ 22	\$ —	\$ 22	\$ —
2019	\$ —	\$ 44	\$ —	\$ 44	\$ —

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**PNMR**

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this annual report, PNMR conducted an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and the 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 concluded that the disclosure controls and procedures are effective as of the end of the period covered by this report.

(b) Management's report on internal control over financial reporting.

"Management's Annual Report on Internal Control Over Financial Reporting" appears on page B-2. This report is incorporated by reference herein. PNMR's internal control over financial reporting as of December 31, 2019 has been audited by KPMG LLP, as an independent registered public accounting firm, as stated in their report which is included herein.

(c) Changes in internal controls.

There have been no changes in PNMR'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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect, PNMR's internal control over financial reporting.

**PNM**

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this annual report, PNM conducted an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and the 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 concluded that the disclosure controls and procedures are effective as of the end of the period covered by this report.

(b) Management's report on internal control over financial reporting.

"Management's Annual Report on Internal Control Over Financial Reporting" appears on page B-3. This report is incorporated by reference herein.

(c) Changes in internal controls.

There have been no changes in PNM'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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect, PNM's internal control over financial reporting.

**TNMP**

(a) Evaluation of disclosure controls and procedures.

As of the end of the period covered by this annual report, TNMP conducted an evaluation under the supervision and with the participation of its management, including the Chief Executive Officer and the 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 concluded that the disclosure controls and procedures are effective as of the end of the period covered by this report.

(b) Management’s report on internal control over financial reporting.

“Management’s Annual Report on Internal Control Over Financial Reporting” appears on page B-4. This report is incorporated by reference herein.

(c) Changes in internal controls.

There have been no changes in 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 December 31, 2019 that have materially affected, or are reasonably likely to materially affect, TNMP’s internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Reference is hereby made to “Proposal 1: Elect as Directors the Ten Director Nominees Named in the Proxy Statement” in PNMR’s Proxy Statement relating to the annual meeting of shareholders to be held on May 12, 2020 (the “2020 Proxy Statement”), to PART I, SUPPLEMENTAL ITEM – “EXECUTIVE OFFICERS OF THE COMPANY” in this Form 10-K, “Delinquent Section 16(a) Reports”, “Code of Ethics,” and “Board Committees and Their Functions” – “Audit and Ethics Committee” in the 2020 Proxy Statement. The Company intends to satisfy the disclosure requirements of Form 8-K relating to amendments to the Company’s code of ethics applicable to its senior executive and financial officers by posting such information on its website. Information about the Company’s website is included under Part I, Item 1 – “Websites.”

**ITEM 11. EXECUTIVE COMPENSATION**

Reference is hereby made to “Executive Compensation”, and all subheadings thereunder from “Compensation Discussion and Analysis” to “Change in Control, Termination, Retirement, or Impaction”, and “Director Compensation,” in the 2020 Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Reference is hereby made to “Ownership of Our Common Stock – Largest Shareholders” and “ – Share Ownership of Executive Officers and Directors” and “Equity Compensation Plan Information” in the 2020 Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Reference is hereby made to “Information About Our Corporate Governance – Related Person Transaction Policy” and “ – Director Independence” in the 2020 Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Reference is hereby made to “Audit and Ethics Committee Report” and “Independent Auditor Fees” in the 2020 Proxy Statement. Independent auditor fees for PNM and TNMP are reported in the 2020 Proxy Statement for PNMR. All such fees are fees of PNMR. PNMR charges a management fee to PNM and TNMP that includes an allocation of independent auditor fees.

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

- (a) - 1. See Index to Financial Statements under Part II, Item 8.
- (a) - 2. Financial Statement Schedules for the years 2018, 2017, and 2016 are omitted for the reason that they are not required or the information is otherwise supplied under Part II, Item 8.

(a) - 3-A. Exhibits Filed:

<b><u>Exhibit No</u></b>		<b><u>Description</u></b>
4.1	PNMR	<a href="#">Description of PNM Resources, Inc. Securities</a>
4.2	PNM	<a href="#">Description of Public Service Company of New Mexico Securities</a>
10.1**	PNMR	<a href="#">2020 Director Compensation Summary</a>
21	PNMR	<a href="#">Certain subsidiaries of PNM Resources, Inc.</a>
23.1	PNMR	<a href="#">Consent of KPMG LLP for PNM Resources, Inc.</a>
23.2	PNM	<a href="#">Consent of KPMG LLP for Public Service Company of New Mexico</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)

(a) -3- B. Exhibits Incorporated By Reference:

The documents listed below are being filed (as shown above) or have been previously filed on behalf of PNM Resources, PNM or TNMP and are incorporated by reference to the filings set forth below pursuant to Exchange Act Rule 12b-32 and Regulation S-K section 10, paragraph (d).

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>	<b><u>Filed as Exhibit:</u></b>	<b><u>Registrant (s) File No:</u></b>
<b>Articles of Incorporation and By-laws</b>			
3.1	<a href="#">Articles of Incorporation of PNMR, as amended to date (Certificate of Amendment dated October 27, 2008 and Restated Articles of Incorporation dated August 3, 2006)</a>	3.1 to PNMR's Current Report on Form 8-K filed November 21, 2008	1-32462 PNMR
3.2	<a href="#">Restated Articles of Incorporation of PNM, as amended through May 31, 2002</a>	3.1.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002	1-6986 PNM
3.3	<a href="#">Articles of Incorporation of TNMP, as amended through July 7, 2005</a>	3.1.2 to TNMP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005	2-97230 TNMP
3.4	<a href="#">Bylaws of PNMR, Inc. with all amendments to and including October 24, 2017</a>	3.4 to PNMR's Current Report on Form 8-K filed October 25, 2017	1-32462 PNMR
3.5	<a href="#">Bylaws of PNM with all amendments to and including May 31, 2002</a>	3.1.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002	1-6986 PNM
3.6	<a href="#">Bylaws of TNMP with all amendments to and including June 18, 2013</a>	3.6 to TNMP's Current Report on Form 8-K filed June 20, 2013	2-97230 TNMP
<b>Securities Instruments‡</b>			
<b>PNMR</b>			
4.3	<a href="#">Description of PNM Resources, Inc. Securities</a>	4.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2019	1-32462 PNMR
4.4	<a href="#">Indenture, dated as of March 15, 2005, between PNMR and JPMorgan Chase Bank, N.A., as Trustee</a>	10.2 to PNMR's Current Report on Form 8-K filed March 31, 2005	1-32462 PNMR
4.5	<a href="#">Agreement of Resignation, Appointment and Acceptance, effective as of June 1, 2011, among PNMR, The Bank of New York Mellon Trust Company, N.A. and Union Bank, N.A. (for March 15, 2005 PNMR Indenture)</a>	4.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-32462 PNMR
4.6	<a href="#">Supplemental Indenture No. 3, dated as of March 9, 2018 between PNMR and MUFG Union Bank, N.A. (formerly Union Bank, N.A., as ultimate successor to JP Morgan Chase Bank, N.A.), as Trustee (for PNMR's \$300,000,000 3.250% Senior Notes due 2021)</a>	4.2 to PNMR's Current Report on Form 8-K filed March 9, 2018	1-32462 PNMR
<b>PNM</b>			
4.7	<a href="#">Description of Public Service Company of New Mexico Securities</a>	4.2 to PNM's Annual Report on Form 10-K for the year ended December 31, 2019	1-6986 PNM
4.8	<a href="#">Indenture (for Senior Notes), dated as of March 11, 1998, between PNM and The Chase Manhattan Bank, as Trustee</a>	4.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998	1-6986 PNM
4.9	<a href="#">Sixth Supplemental Indenture, dated as of May 1, 2003, supplemental to Indenture dated as of March 11, 1998, between PNM and JPMorgan Chase Bank, as Trustee (PVNGS Maricopa PCRBs, Series 2003A)</a>	4.6.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003	1-6986 PNM

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4.10	<a href="#">Eighth Supplemental Indenture, dated as of June 1, 2010, supplemental to Indenture dated as of March 11, 1998, between PNM and The Bank of New York Mellon Trust Company (successor to JPMorgan Chase Bank), as Trustee (SJGS Farmington PCRBs Series 2010A-F)</a>	10.1 to PNM's Current Report on Form 8-K/A filed July 29, 2010	1-6986 PNM
4.11	<a href="#">Ninth Supplemental Indenture, dated as of June 1, 2010, supplemental to Indenture dated as of March 11, 1998, between PNM and The Bank of New York Mellon Trust Company (successor to JPMorgan Chase Bank), as Trustee (PVNGS Maricopa PCRBs Series 2010A-B)</a>	10.2 to PNM's Current Report on Form 8-K/A filed July 29, 2010	1-6986 PNM
4.12	<a href="#">Agreement of Resignation, Appointment and Acceptance effective as of May 1, 2011, among PNM, The Bank of New York Mellon Trust Company, N.A. and Union Bank, N.A. (for March 11, 1998 PNM Indenture)</a>	4.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-6986 PNM
4.13	<a href="#">Tenth Supplemental Indenture, dated as of September 1, 2012, supplemental to Indenture dated as of March 11, 1998, between PNM and Union Bank, N.A. (ultimate successor as trustee to The Chase Manhattan Bank), as Trustee (SJGS Farmington PCRBs Series 2012A)</a>	4.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012	1-6986 PNM
4.14	<a href="#">Eleventh Supplemental Indenture, dated as of September 1, 2016, supplemental to Indenture dated as of March 11, 1998, between PNM and MUFG Union Bank, N.A. (formerly Union Bank, N.A.) (ultimate successor as trustee to The Chase Manhattan Bank), as Trustee (SJGS and Four Corners Farmington PCRBs Series 2016A-B)</a>	4.1 to PNM's Current Report on Form 8-K filed September 27, 2016	1-6986 PNM
4.15	<a href="#">Indenture (for Senior Notes), dated as of August 1, 1998, between PNM and The Chase Manhattan Bank, as Trustee</a>	4.1 to PNM's Registration Statement No. 333-53367	333-53367 PNM
4.16	<a href="#">Agreement of Resignation, Appointment and Acceptance, effective as of June 1, 2011, among PNM, The Bank of New York Mellon Trust Company and Union Bank, N.A. (for August 1, 1998 PNM Indenture)</a>	4.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-6986 PNM
4.17	<a href="#">Fourth Supplemental Indenture, dated as of October 12, 2011, supplemental to Indenture dated as of August 1, 1998, between PNM and Union Bank, N.A. (ultimate successor as trustee to The Chase Manhattan Bank), as Trustee (\$160,000,000 of 5.35% Senior Notes due 2021, Series 2011)</a>	4.1 to PNM's Current Report on Form 8-K filed October 12, 2011	1-6986 PNM
4.18	<a href="#">Fifth Supplemental Indenture, dated as of August 11, 2015, supplemental to the Indenture dated as of August 1, 1998, between PNM and MUFG Union Bank, N.A., as Trustee (\$250,000,000 of 3.85% Senior Notes due 2025, Series 2015)</a>	4.2 to PNM's Current Report on Form 8-K filed August 11, 2015	1-6986 PNM
<b>TNMP</b>			
4.19	<a href="#">First Mortgage Indenture dated as of March 23, 2009 between TNMP and The Bank of New York Mellon Trust Company, N.A., as Trustee</a>	4.1 to TNMP's Current Report on Form 8-K filed March 27, 2009	2-97230 TNMP
4.20	<a href="#">Third Supplemental Indenture dated as of April 30, 2009 between TNMP and The Bank of New York Mellon Trust Company, N.A., as Trustee (\$75,000,000 First Mortgage Bonds due 2011, Series 2009C)</a>	4.1 to TNMP's Current Report on Form 8-K filed May 6, 2009	2-97230 TNMP
4.21	<a href="#">First Amendment dated as of December 16, 2010 between TNMP and The Bank of New York Mellon Trust Company, N.A., as Trustee to The Third Supplemental Indenture dated as of April 30, 2009 (First Mortgage Bonds Series 2009C)</a>	4.1 to TNMP's Current Report on Form 8-K filed December 17, 2010	2-97230 TNMP

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4.22	<a href="#">Agreement of Resignation, Appointment and Acceptance, effective as of June 1, 2011, among TNMP, The Bank of New York Mellon Trust Company, N.A. and Union Bank, N.A. (for March 23, 2009 TNMP Indenture)</a>	4.4 to TNMP's Quarterly Report Form 10-Q for the quarter ended June 30, 2011	2-97230 TNMP
4.23	<a href="#">Fifth Supplemental Indenture dated as of April 3, 2013 between TNMP and Union Bank, N.A., as Trustee (\$93,198,000 of 6.95% First Mortgage Bonds due 2043, Series 2013A)</a>	4.1 to TNMP's Current Report on Form 8-K filed April 3, 2013	2-97230 TNMP
4.24	<a href="#">Sixth Supplemental Indenture dated as of June 27, 2014 between TNMP and Union Bank, N.A., as Trustee (\$80,000,000 of 4.03% First Mortgage Bonds due 2043, Series 2014A)</a>	4.1 to TNMP's Current Report on Form 8-K filed June 27, 2014	2-97230 TNMP
4.25	<a href="#">Seventh Supplemental Indenture dated as of February 10, 2016 between TNMP and MUFG Union Bank, N.A., as Trustee (\$60,000,000 of 3.53% First Mortgage Bonds due 2026, Series 2016A)</a>	4.1 to TNMP's Current Report on Form 8-K filed February 10, 2016	2-97230 TNMP
4.26	<a href="#">Eighth Supplemental Indenture dated as of August 24, 2017 between TNMP and MUFG Union Bank, N.A., as Trustee (\$60,000,000 of 3.22% First Mortgage Bonds due 2028, Series 2017A)</a>	4.1 to TNMP's Current Report on Form 8-K filed August 24, 2017	2-97230 TNMP
4.27	<a href="#">Ninth Supplemental Indenture dated as of June 28, 2018 between TNMP and MUFG Union Bank, N.A., as Trustee (\$60,000,000 of 3.85% First Mortgage Bonds due 2028, Series 2018A)</a>	4.1 to TNMP's Current Report on Form 8-K filed July 2, 2018	2-97230 TNMP
4.28	<a href="#">Tenth Supplemental Indenture dated as of March 29, 2019 between TNMP and MUFG Union Bank, N.A., as Trustee (\$75,000,000 of 3.79% First Mortgage Bonds due 2034, Series 2019B, \$75,000,000 of 3.92% First Mortgage Bonds due 2039, Series 2019C, \$75,000,000 of 4.06% First Mortgage Bonds due 2044, Series 2019D)</a>	4.1 to TNMP's Current Report on Form 8-K filed March 29, 2019	2-97230 TNMP
4.29	<a href="#">Eleventh Supplemental Indenture dated as of July 1, 2019 between TNMP and MUFG Union Bank, N.A., as Trustee (\$80,000,000 of 3.60% First Mortgage Bonds due 2029, Series 2019A)</a>	4.1 to TNMP's Current Report on Form 8-K filed July 1, 2019	2-97230 TNMP

**Material Contracts**

10.2	<a href="#">Sixth Amendment to and Restatement of Credit Agreement dated July 30, 2018 among PNMR, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (PNMR Revolving Credit Facility)</a>	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018	1-32462 PNMR
10.3	<a href="#">Seventh Amendment to Credit Agreement dated December 19, 2018 among PNMR, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (PNMR Revolving Credit Facility)</a>	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2018	1-32462 PNMR
10.4	<a href="#">Term Loan Agreement dated December 14, 2018 among PNMR, the lenders party thereto, and MUFG Bank Ltd., as administrative agent (PNMR 2018 1-Year Unsecured Term Loan)</a>	10.1 to PNMR's Current Report on Form 8-K filed December 17, 2018	1-32462 PNMR
10.5	<a href="#">First Amendment to Term Loan Agreement, dated as of December 13, 2019, among PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent</a>	10.1 to PNMR's Current Report on Form 8-K filed December 13, 2019	1-32462 PNMR
10.6	<a href="#">Term Loan Agreement dated December 21, 2018 among PNMR and Bank of America, N.A., as lender (PNMR 2-Year Unsecured Term Loan)</a>	10.1 to PNMR's Current Report on Form 8-K filed December 21, 2018	1-32462 PNMR

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10.7	<a href="#">Term Loan Credit Agreement dated November 26, 2018 among PNMR Development and Key Bank National Association, as lender and administrative agent (PNMR Development Term Loan)</a>	10.1 to PNMR's Current Report on Form 8-K filed November 28, 2018	1-32462 PNMR
10.8	<a href="#">Guaranty dated as of November 26, 2018 made by PNMR in favor of lenders under PNMR Development Term Loan</a>	10.2 to PNMR's Current Report on Form 8-K filed November 28, 2018	1-32462 PNMR
10.9	<a href="#">Forward Sale Agreement dated January 7, 2020 between PNMR and Citibank, N.A. (defined term for this transaction)</a>	10.1 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.10	<a href="#">Forward Sale Agreement dated January 7, 2020 between PNMR and Bank of America, N.A. (defined term for this transaction)</a>	10.2 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.11	<a href="#">Additional Forward Sale Agreement dated January 8, 2020 between PNMR and Citibank, N.A. (defined term for this transaction)</a>	10.3 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.12	<a href="#">Additional Forward Sale Agreement dated January 8, 2020 between PNMR and Bank of America, N.A. (defined term for this transaction)</a>	10.4 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.13	<a href="#">Fourth Amendment to and Restatement of Credit Agreement dated October 19, 2018 among PNM, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (PNM Revolving Credit Facility)</a>	10.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018	1-6986 PNM
10.14	<a href="#">Credit Agreement dated as of December 12, 2017 among PNM, the lenders identified therein, and U.S. Bank National Association, as administrative agent and BOKE, N.A. d/b/a Bank of Albuquerque, as syndication agent (PNM New Mexico Credit Facility)</a>	10.1 to PNM's Current Report on Form 8-K filed December 12, 2017	1-6986 PNM
10.15	<a href="#">Term Loan Agreement dated as of January 18, 2019 among PNM, the lenders party thereto, and U.S. Bank National Association, as administrative agent (PNM 18-month Unsecured Term Loan)</a>	10.1 to PNM's Current Report on Form 8-K filed January 18, 2019	1-6986 PNM
10.16	<a href="#">Note Purchase Agreement dated July 28, 2017 between PNM and the purchasers named therein (PNM 2018 SUNs, Series A-H)</a>	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017	1-6986 PNM
10.17	<a href="#">Build Transfer Agreement dated May 1, 2019 among PNM, Renewable Energy Transmission Authority, and Western Spirit Transmission LLC (Western Spirit Line)</a>	10.1 to PNM's Current Report on Form 8-K filed May 1, 2019	1-6986 PNM
10.18	<a href="#">Third Amended and Restated Credit Agreement dated as of September 25, 2017 among TNMP, the lenders identified therein and KeyBank National Association, as administrative agent (TNMP Revolving Credit Facility)</a>	10.1 to TNMP's Current Report on Form 8-K filed September 27, 2017	2-97230 TNMP
10.19	<a href="#">First Amendment to Third Amended and Restated Credit Agreement dated April 19, 2019 among TNMP, the lenders party thereto, and KeyBank National Association, as administrative agent (TNMP Revolving Credit Facility)</a>	10.6 to TNMP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	2-97230 TNMP
10.20	<a href="#">Bond Purchase Agreement dated February 26, 2019 between TNMP and the purchasers named therein (\$305,000,000 of 2019 TNMP Bonds)</a>	10.3 to TNMP's Annual Report on Form 10-K for the year ended December 31, 2018	2-97230 TNMP
10.21	<a href="#">Bond Purchase Agreement dated June 28, 2018 between TNMP and the purchasers named therein (\$60,000,000 of 3.85% First Mortgage Bonds due 2028, Series 2018A)</a>	10.1 to TNMP's Current Report on Form 8-K filed July 2, 2018	2-97230 TNMP

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10.22	<a href="#">Bond Purchase Agreement dated June 14, 2017 between TNMP and the purchasers named therein (for \$60,000,000 3.22% First Mortgage Bonds due 2027, Series 2017A)</a>	10.1 to TNMP's Current Report on Form 8-K filed June 14, 2017	2-97230 TNMP
10.23**	<a href="#">PNMR 2014 Performance Equity Plan dated May 15, 2014</a>	4.3 to PNMR's Form S-8 Registration Statement filed May 15, 2014	333-195974 PNMR
10.24**	<a href="#">First Amendment to PNMR 2014 Performance Equity Plan</a>	99.1 to PNMR's Current Report on Form 8-K filed December 15, 2015	1-32462 PNMR
10.25**	<a href="#">Second Amendment to PNMR 2014 Performance Equity Plan effective January 1, 2017</a>	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.26**	<a href="#">PNMR Second Amended and Restated Omnibus Performance Equity Plan dated May 19, 2009</a>	4.1 to PNMR's Form S-8 Registration Statement filed May 20, 2009	333-159361 PNMR
10.27**	<a href="#">Amendment dated May 17, 2011 to PNMR's Second Amended and Restated Omnibus Performance Equity Plan</a>	10.1 to PNMR's Current Report Form 8-K filed May 20, 2011	1-32462 PNMR
10.28**	<a href="#">Second Amendment executed March 28, 2012 to the PNMR Second Amended and Restated Omnibus Performance Equity Plan</a>	10.6 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012	1-32462 PNMR
10.29**	<a href="#">Third Amendment (approved by PNMR shareholders on May 15, 2012) to the PNMR Second Amended and Restated Omnibus Performance Equity Plan</a>	10.1 to PNMR's Current Report on Form 8-K filed May 17, 2012	1-32462 PNMR
10.30**	<a href="#">Fourth Amendment to the PNMR Second Amended and Restated Omnibus Performance Equity Plan effective January 1, 2017</a>	10.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.31**	<a href="#">PNMR 2018 Officer Annual Incentive Plan dated March 22, 2018</a>	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018	1-32462 PNMR
10.32**	<a href="#">PNMR 2019 Officer Annual Incentive Plan dated March 28, 2019</a>	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.33**	<a href="#">PNMR 2018 Long-Term Incentive Plan dated March 28, 2018</a>	10.2 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018	1-32462 PNMR
10.34**	<a href="#">PNMR 2017 Long-Term Incentive Plan dated March 31, 2017</a>	10.2 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017	1-32462 PNMR
10.35**	<a href="#">PNMR 2019 Long-Term Incentive Plan dated March 28, 2019</a>	10.2 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.36**	<a href="#">First Amendment to PNMR 2017 Long-Term Incentive Plan dated February 27, 2019</a>	10.4 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.37**	<a href="#">PNMR Director Deferred Stock Rights Program effective December 1, 2017</a>	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.38**	<a href="#">Form of Stock Option Award Agreement for non-qualified stock options granted under performance equity plan in 2010</a>	10.3 to PNMR's Current Report on Form 8-K filed May 26, 2009	1-32462 PNMR

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10.39**	<a href="#">Form of the award agreement for non-qualified stock options granted under performance equity plan in 2007-2009</a>	10.2 to PNMR's Current Report on Form 8-K filed February 16, 2007	1-32462 PNMR
10.40**	<a href="#">Employee Retention Agreement executed March 4, 2015 between PNMR and Patricia K. Collawn</a>	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015	1-32462 PNMR
10.41**	<a href="#">Discretionary Credit Award Agreement between PNMR and Charles Eldred effective February 21, 2019</a>	10.5 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.42**	<a href="#">Acknowledgement Form for officer restricted stock rights and awards granted under the PNMR 2014 Performance Equity Plan dated May 15, 2014</a>	10.4.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR
10.43**	<a href="#">2019 Director Compensation Summary</a>	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2018	1-32462 PNMR
10.44**	<a href="#">2020 Director Compensation Summary</a>	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2019	1-32462 PNMR
10.45**	<a href="#">Acknowledgement Form for stock option awards granted to directors under the Second Amended and Restated Omnibus Performance Equity Plan dated May 19, 2009, as amended</a>	10.3 to PNMR's Current Report on Form 8-K filed March 1, 2011	1-32462 PNMR
10.46**	<a href="#">Acknowledgment Form with attached Terms and Conditions for restricted stock rights awards granted to directors from 2014 - 2017 under the PNMR 2014 Performance Equity Plan dated May 15, 2014</a>	10.4.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR
10.47**	<a href="#">Acknowledgement Form with attached Terms and Conditions for restricted stock rights granted to directors on and after 2018 under the PNMR 2014 Performance Equity Plan dated May 15, 2014</a>	10.5 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.48**	<a href="#">PNMR Executive Spending Account Plan (amended and restated effective January 1, 2011)</a>	10.4 to PNMR's Current Report on Form 8-K filed March 1, 2011	1-32462 PNMR
10.49**	<a href="#">First Amendment to PNMR Executive Spending Account Plan effective January 1, 2011</a>	10.7 to PNMR's Current Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.50**	<a href="#">Second Amendment to PNMR Executive Spending Account executed December 13, 2017</a>	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.51**	<a href="#">Third Amendment to PNMR Executive Spending Account effective February 22, 2018</a>	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018	1-32462 PNMR
10.52**	<a href="#">PNMR Executive Savings Plan II (amended and restated effective January 1, 2015)</a>	10.1.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR
10.53**	<a href="#">First Amendment to PNMR Executive Savings Plan II executed April 15, 2016</a>	10.7 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016	1-32462 PNMR
10.54**	<a href="#">Summary of PNMR Officer Paid Time Off Program</a>	10.6 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.55**	<a href="#">PNMR Annual Executive Physical Exam Program Wraparound Plan Document effective as of January 1, 2014</a>	10.7 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2013	1-32462 PNMR

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10.56**	<a href="#">PNMR Non-Union Severance Pay Plan effective August 1, 2007 (amended and restated)</a>	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007	1-32462 PNMR
10.57**	<a href="#">First Amendment to the PNMR Non-Union Severance Pay Plan executed November 20, 2008</a>	10.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.58**	<a href="#">Second Amendment (executed March 27, 2012) to PNMR Non-Union Severance Pay Plan</a>	10.8 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012	1-32462 PNMR
10.59**	<a href="#">Third Amendment (executed November 11, 2015) to PNMR Non-Union Severance Pay Plan</a>	10.6 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.60**	<a href="#">PNMR Officer Retention Plan executed March 28, 2012 as amended and restated effective as of January 1, 2012</a>	10.7 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012	1-32462 PNMR
10.61**	<a href="#">PNMR Officer Life Insurance Plan dated April 28, 2004</a>	10.24.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004	333-32170 PNMR
10.62**	<a href="#">First Amendment to PNMR Officer Life Insurance Plan dated December 16, 2004</a>	10.27 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2004.	333-32170 PNMR
10.63**	<a href="#">Second Amendment to PNMR Officer Life Insurance Plan executed April 15, 2007</a>	10.5 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007	1-32462 PNMR
10.64**	<a href="#">Third Amendment to the PNMR Officer Life Insurance Plan effective January 1, 2009</a>	10.10 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.65**	<a href="#">Fourth Amendment to the PNMR Officer Life Insurance Plan effective January 1, 2009</a>	10.15 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.66**	<a href="#">Fifth Amendment to the PNMR Officer Life Insurance Plan executed December 16, 2011</a>	10.5 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2011	1-32462 PNMR
10.67**	<a href="#">PNMR Officers Long Term Disability Coverage Description for Prudential Policy effective January 1, 2012</a>	10.8 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	333-32170 PNMR
10.68**	<a href="#">Form of Amended and Restated Indemnity Agreement for PNMR officers and directors approved July 23, 2019</a>	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019	1-32462 PNMR
10.69	Supplemental Indenture of Lease dated as of July 19, 1966 between PNM and other participants in the Four Corners Project and the Navajo Indian Tribal Council	4-D to PNM's Registration Statement No. 2-26116	2-26116 PNM
10.70	<a href="#">Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease dated April 25, 1985 between the Navajo Tribe of Indians and Arizona Public Service Company, El Paso Electric Company, Public Service Company of New Mexico, Salt River project Agricultural Improvement and Power District, Southern California Edison Company, and Tucson Electric Power Company (refiled)</a>	10.1.1 to PNM's Annual Report on Form 10-K for year ended December 31, 1995	1-6986 PNM
10.71	<a href="#">Amendment and Supplement No. 2 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011</a>	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011	1-6986 PNM

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10.72	<a href="#">Amendment and Supplement No. 3 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011</a>	10.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011	1-6986 PNM
10.73	<a href="#">Coal Supply Agreement dated July 1, 2015 between Westmoreland Coal Company and PNM</a>	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.74	<a href="#">Amendment No. 1 to Coal Supply Agreement dated November 1, 2017 between Westmoreland Coal Company and PNM</a>	10.4 to PNM's Annual Report on Form 10-K for the year ended December 31, 2017	1-6986 PNM
10.75	<a href="#">San Juan Project Restructuring Agreement executed as of July 31, 2015 among PNM, Tucson Electric Coal Company, The City of Farmington, New Mexico, M-S-R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management Corporation</a>	10.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.76	<a href="#">Restructuring Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement made as of July 31, 2015 among PNM, Tucson Electric Power Company, The City of Farmington, New Mexico, M-S-R Public Power Agency, The Incorporated County of Los Alamos, New Mexico, Southern California Public Power Authority, City of Anaheim, Utah Associated Municipal Power Systems, Tri-State Generation and Transmission Association, Inc., and PNMR Development and Management Corporation</a>	10.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.77	<a href="#">New Exit Date Amendment Amending and Restating the Amended and Restated San Juan Project Participation Agreement made as of September 1, 2017 among PNM, Tucson Electric Power Company, The City of Farmington, New Mexico, The Incorporated County of Los Alamos, New Mexico and Utah Associated Municipal Power Systems</a>	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017	1-6986 PNM
10.78	Arizona Nuclear Power Project Participation Agreement among PNM and Arizona Public Service Company, Salt River Project Agricultural Improvement and Power District, Tucson Gas & Electric Company and El Paso Electric Company, dated August 23, 1973	5-T to PNM's Registration Statement No. 2-50338	2-50338 PNM
10.79	Amendments No. 1 through No. 6 to Arizona Nuclear Power Project Participation Agreement	10.8.1 to PNM's Annual Report on Form 10-K for year ended December 31, 1991	1-6986 PNM
10.80	Amendment No. 7 effective April 1, 1982, to the Arizona Nuclear Power Project Participation Agreement (refiled)	10.8.2 to PNM's Annual Report on Form 10-K for year ended December 31, 1991	1-6986 PNM
10.81	<a href="#">Amendment No. 8 effective September 12, 1983, to the Arizona Nuclear Power Project Participation Agreement (refiled)</a>	10.58 to PNM's Annual Report on Form 10-K for year ended December 31, 1993	1-6986 PNM
10.82	<a href="#">Amendment No. 9 to Arizona Nuclear Power Project Participation Agreement dated as of June 12, 1984 (refiled)</a>	10.8.4 to PNM's Annual Report of the Registrant on Form 10-K for year ended December 31, 1994	1-6986 PNM
10.83	<a href="#">Amendment No. 10 dated as of November 21, 1985 and Amendment No. 11 dated as of June 13, 1986 and effective January 10, 1987 to Arizona Nuclear Power Project Participation Agreement (refiled)</a>	10.8.5 to PNM's Annual Report of the Registrant on Form 10-K for year ended December 31, 1995	1-6986 PNM

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10.84	<a href="#">Amendment No. 12 to Arizona Nuclear Power Project Participation Agreement dated June 14, 1988, and effective August 5, 1988</a>	19.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990	1-6986 PNM
10.85	<a href="#">Amendment No. 13 to the Arizona Nuclear Power Project Participation Agreement dated April 4, 1990, and effective June 15, 1991</a>	10.8.10 to PNM's Annual Report on Form 10-K for the year ended December 31, 1990	1-6986 PNM
10.86	<a href="#">Amendment No. 14 to the Arizona Nuclear Power Project Participation Agreement effective June 20, 2000</a>	10.8.9 to PNM's Annual Report on Form 10-K for the year ended December 31, 2000	1-6986 PNM
10.87	<a href="#">Amendment No. 15 to the Arizona Nuclear Power Project Participation Agreement dated November 29, 2010 and effective January 13, 2011</a>	10.1 to PNM's Current Report on Form 8-K filed March 1, 2011	1-6986 PNM
10.88	<a href="#">Amendment No. 16, effective as of April 28, 2014, to the Arizona Nuclear Power Project Participation Agreement</a>	10.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014	1-6986 PNM
10.89	<a href="#">Facility Lease dated as of December 16, 1985 between The First National Bank of Boston, as Owner Trustee, and PNM (Unit 1 transaction) together with Amendments No. 1, 2 and 3 thereto (refiled)</a>	10.18 to PNM's Annual Report on Form 10-K for year ended December 31, 1995	1-6986 PNM
10.90	<a href="#">Facility Lease dated as of July 31, 1986, between the First National Bank of Boston, as Owner Trustee, and PNM (Unit 1 transaction) together with Amendments No. 1, 2 and 3 thereto (refiled)</a>	10.19 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.91	<a href="#">Facility Lease dated as of December 15, 1986, between The First National Bank of Boston, as Owner Trustee, and PNM (Unit 1 Transaction) together with Amendment No. 1 thereto (refiled)</a>	10.21 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.92	<a href="#">Amendment No. 4 dated as of December 11, 2013 to Facility Lease dated as of December 16, 1985 as heretofore amended, between U.S. Bank National Association (ultimate successor to The First National Bank of Boston), as Owner Trustee, and PNM (Unit 1 transaction)</a>	10.3 to PNM's Annual Report on Form 10-K for year ended December 31, 2013	1-6986 PNM
10.93	<a href="#">Facility Lease dated as of December 15, 1986, between The First National Bank of Boston, as Owner Trustee, and PNM (Unit 2 Transaction) together with Amendment No. 1 thereto (refiled)</a>	10.22 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.94	<a href="#">Amendment No. 2 dated as of March 18, 2014, to the Facility Lease dated December 15, 1986, as heretofore amended, between U.S. Bank National Association, not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with PV2-PNM December 35 Corporation, Lessor, and PNM, Lessee</a>	10.1 to PNM's Current Report on Form 8-K filed March 18, 2014	1-6986 PNM
10.95	<a href="#">Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station dated March 15, 1996, between PNM and Mellon Bank, N.A.</a>	10.68 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996	1-6986 PNM
10.96	<a href="#">Amendment Number One to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station dated January 27, 1997, between PNM and Mellon Bank, N.A.</a>	10.68.1 to PNM's Annual Report on Form 10-K for year ended December 31, 1997	1-6986 PNM
10.97	<a href="#">Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station between PNM and Mellon Bank, N.A.</a>	10.68.2 to PNM's Annual Report on Form 10-K for year ended December 31, 2003	1-6986 PNM

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10.98	<a href="#">Stipulation in the matter of PNM's transition plan Utility Case No. 3137, dated October 10, 2002 as amended by Amendment to Stipulated Agreement dated October 18, 2002</a>	10.86 to PNM's Annual Report on Form 10-K for the year ended December 31, 2002	1-6986 PNM
10.99	<a href="#">Stipulation dated February 28, 2005 in NMPRC Case No. 04-00315-UT regarding the application of PNMR and TNMP for approval of the TNP acquisition</a>	10.134 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005	1-32462 PNMR/ TNMP
<b>Subsidiaries</b>			
21	Certain subsidiaries of PNMR	21 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2019	1-32462 PNMR
<b>Additional Exhibits</b>			
99.1*	Participation Agreement dated as of December 16, 1985, among the Owner Participant named therein, First PV Funding Corporation, The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 16, 1985 with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 16, 1985 with the Owner Trustee), and PNM (Unit 1 transaction), including Appendix A definitions, together with Amendment No. 1 dated July 15, 1986 and Amendment No. 2 dated November 18, 1986 (refiled)	99.2 to PNM's Annual Report on Form 10-K for year ended December 31, 1995	1-6986 PNM
99.2	<a href="#">Participation Agreement dated as of July 31, 1986, among the Owner Participant named herein, First PV Funding Corporation, The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of July 31, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of July 31, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions together with Amendment No. 1 thereto (refiled)</a>	99.5 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
99.3	<a href="#">Participation Agreement dated as of December 15, 1986, among the Owner Participant named therein, First PV Funding Corporation, The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 15, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions (Unit 1 Transaction) (refiled)</a>	99.11 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997	1-6986 PNM
99.4	<a href="#">Participation Agreement dated as of December 15, 1986, among the Owner Participant named therein, First PV Funding Corporation, The First National Bank of Boston, in its individual capacity and as Owner Trustee (under a Trust Agreement dated as of December 15, 1986, with the Owner Participant), Chemical Bank, in its individual capacity and as Indenture Trustee (under a Trust Indenture, Mortgage, Security Agreement and Assignment of Rents dated as of December 15, 1986, with the Owner Trustee), and Public Service Company of New Mexico, including Appendix A definitions (Unit 2 Transaction) (refiled)</a>	99.14 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997	1-6986 PNM

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99.5	<a href="#">Agreement for the Sale and Purchase of Wastewater Effluent, dated November 13, 2000, among the City of Tolleson, Arizona Public Service Company and Salt River Project Agricultural Improvement and Power District</a>	99.19 to PNM's Annual Report on Form 10-K for year ended December 31, 2013	1-6986 PNM
99.6	<a href="#">Municipal Effluent Purchase and Sale Agreement dated April 23, 2010 between Cities of Phoenix, Mesa, Tempe, Scottsdale and Glendale, Arizona municipal corporations; and APS, SRP, acting on behalf of themselves and EPE, SCE, PNM, SCPPA, and Los Angeles Department of Water and Power</a>	10.6 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010	1-6986 PNM

\* One or more additional documents, substantially identical in all material respects to this exhibit, have been entered into, relating to one or more additional sale and leaseback transactions. Although such additional documents may differ in other respects (such as dollar amounts and percentages), there are no material details in which such additional documents differ from this exhibit.

\*\* Designates each management contract or compensatory plan or arrangement required to be identified pursuant to paragraph 3 of Item 15(a) of Form 10-K.

‡ Certain instruments defining the rights of holders of long-term debt of the registrants included in the financial statements of registrants filed herewith have been omitted because the total amount of securities authorized thereunder does not exceed 10% of the total assets of registrants. The registrants hereby agree to furnish a copy of any such omitted instrument to the SEC upon request.

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**PNM RESOURCES, INC.**

(Registrant)

Date: March 2, 2020

By

/s/ P. K. Collawn

P. K. Collawn

Chairman, President, and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ P. K. Collawn</u> P. K. Collawn Chairman, President, and Chief Executive Officer	Principal Executive Officer and Director	March 2, 2020
<u>/s/ J. D. Tarry</u> J. D. Tarry Senior Vice President and Chief Financial Officer	Principal Financial Officer	March 2, 2020
<u>/s/ H. E. Monroy</u> H. E. Monroy Vice President and Corporate Controller	Principal Accounting Officer	March 2, 2020
<u>/s/ V.A. Bailey</u> V.A. Bailey	Director	March 2, 2020
<u>/s/ N.P. Becker</u> N. P. Becker	Director	March 2, 2020
<u>/s/ E. R. Conley</u> E. R. Conley	Director	March 2, 2020
<u>/s/ A. J. Fohrer</u> A. J. Fohrer	Director	March 2, 2020
<u>/s/ S. M. Gutierrez</u> S. M. Gutierrez	Director	March 2, 2020
<u>/s/ J.A. Hughes</u> J.A. Hughes	Director	March 2, 2020
<u>/s/ M. T. Mullarkey</u> M. T. Mullarkey	Director	March 2, 2020
<u>/s/ D. K. Schwanz</u> D. K. Schwanz	Director	March 2, 2020

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B. W. Wilkinson

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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**

(Registrant)

Date: March 2, 2020

By

/s/ P. K. Collawn

P. K. Collawn  
President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ P. K. Collawn</u> P. K. Collawn President and Chief Executive Officer	Principal Executive Officer and Chairman of the Board	March 2, 2020
<u>/s/ J. D. Tarry</u> J. D. Tarry Senior Vice President and Chief Financial Officer	Principal Financial Officer and Director	March 2, 2020
<u>/s/ H. E. Monroy</u> H. E. Monroy Vice President and Corporate Controller	Principal Accounting Officer	March 2, 2020
<u>/s/ R. N. Darnell</u> R. N. Darnell	Director	March 2, 2020
<u>/s/ C. N. Eldred</u> C. N. Eldred	Director	March 2, 2020
<u>/s/ C. M. Olson</u> C. M. Olson	Director	March 2, 2020

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

**TEXAS-NEW MEXICO POWER COMPANY**

(Registrant)

Date: March 2, 2020

By

/s/ P. K. Collawn

P. K. Collawn  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Capacity</u>	<u>Date</u>
<u>/s/ P. K. Collawn</u> P. K. Collawn Chief Executive Officer	Principal Executive Officer and Chairman of the Board	March 2, 2020
<u>/s/ J. D. Tarry</u> J. D. Tarry Senior Vice President and Chief Financial Officer	Principal Financial Officer and Director	March 2, 2020
<u>/s/ H. E. Monroy</u> H. E. Monroy Vice President and Corporate Controller	Principal Accounting Officer	March 2, 2020
<u>/s/ R. N. Darnell</u> R. N. Darnell	Director	March 2, 2020
<u>/s/ C. N. Eldred</u> C. N. Eldred	Director	March 2, 2020
<u>/s/ C. M. Olson</u> C. M. Olson	Director	March 2, 2020
<u>/s/ J. N. Walker</u> J. N. Walker	Director	March 2, 2020

**Description of the Registrant's Securities Registered  
Under Section 12 of the Securities Exchange Act of 1934**

**DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK**

*The following summary of the material terms of the common stock and preferred stock of PNM Resources, Inc. ("we" or "our") does not purport to be complete and is subject to and qualified in its entirety by reference to our articles of incorporation, as amended (our "articles of incorporation"), and by-laws, as amended (our "by-laws"), each of which is incorporated herein by reference and attached as an exhibit to our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. For a more complete understanding of our common stock and preferred stock, we encourage you to read carefully our articles of incorporation and by-laws, each as may be amended, and the applicable provisions of the New Mexico Business Corporation Act and the New Mexico Public Utility Act and other applicable provisions of the laws of the state of New Mexico.*

**General**

Our authorized capital stock consists of 120,000,000 shares of common stock, no par value and 10,000,000 shares of preferred stock, no par value, of which 500,000 shares have been designated Convertible Preferred Stock, Series A ("Series A Preferred Stock"). As of February 21, 2020, no shares of our Series A Preferred Stock are issued and outstanding. Each share of Series A Preferred Stock is convertible at the option of the holder at any time into 10 shares of common stock, subject to certain anti-dilution adjustments.

**Dividend Rights with Respect to Our Common Stock and Series A Preferred Stock**

After giving effect to any prior rights of our Series A Preferred Stock, and any other series of preferred stock that should become outstanding, we will pay dividends on our common stock as determined by our Board of Directors (the "Board") out of legally available funds. Our ability to pay dividends depends primarily upon the ability of our subsidiaries to pay dividends or otherwise transfer funds to us. Various financing arrangements, charter provisions and regulatory requirements may impose certain restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

Unless waived by the holders of at least two-thirds of the number of then outstanding shares of Series A Preferred Stock, no dividend on our common stock shall be declared unless a dividend on the Series A Preferred Stock is declared and paid at the same time in an amount equal to the dividend that would be received by a holder of the number of shares (including fractional shares) of common stock into which such Series A Preferred Stock is convertible on the record date for such dividend.

**Voting Rights with Respect to Our Common Stock and Series A Preferred Stock**

Holders of common stock are entitled to one vote for each share held by them on all matters submitted to our shareholders. Holders of our common stock do not have cumulative voting rights in the election of directors. The New Mexico Business Corporation Act and our articles of incorporation and by-laws generally require the affirmative vote of a majority of the shares represented at a shareholder meeting and entitled to vote for shareholder action, including the election of directors. Under the New Mexico Business Corporation Act, some corporate actions, including amending the articles of incorporation and approving a plan of merger, consolidation or share exchange, require the affirmative vote of a majority of the outstanding shares entitled to vote, which could include, in certain circumstances, classes of preferred stock.

Our articles of incorporation limit the Board to designating voting rights for series of preferred stock only (1) when we fail to pay dividends on the applicable series of preferred stock, (2) when proposed changes to the articles of incorporation would adversely impact preferred shareholders' rights and privileges and (3) if the Board issues a new series of preferred stock convertible into common stock and confers upon the holders of such convertible preferred stock the right to vote as a single class with holders of common stock on all matters submitted to a vote of holders of common stock at a meeting of shareholders other than for election of directors, with the same number of votes as the number of shares of common stock into which the shares of such preferred stock are convertible,

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provided that at all times the aggregate preferred stock outstanding with such voting rights is convertible into no more than 12 million shares of common stock.

Holders of each outstanding share of Series A Preferred Stock are entitled to vote as a single class with holders of our common stock on all matters submitted to our shareholders except the election of directors. Without first obtaining the consent or approval of the holders of a majority of the outstanding shares of Series A Preferred Stock, voting as a separate class, we cannot amend any provisions of our articles of incorporation in a manner that would have an adverse impact on the rights and privileges of the Series A Preferred Stock. Holders of our outstanding shares of Series A Preferred Stock are entitled to the number of votes corresponding to the number of shares of common stock into which such shares of Series A Preferred Stock are convertible on the record date for determining shareholders entitled to vote.

Our articles of incorporation do not allow our directors to create classes of directors. All directors are elected annually.

#### **Liquidation Rights with Respect to Our Common Stock and Series A Preferred Stock**

In the event we are liquidated or dissolved, either voluntarily or involuntarily, each share of Series A Preferred Stock is entitled to a liquidation preference of \$1.00 per share. After that claim is satisfied, holders of our common stock are entitled to, ratably, an amount equal to (i) \$1.00, divided by the number of shares of common stock into which a share of Series A Preferred Stock is then convertible, (ii) multiplied by the number of shares of common stock then outstanding. After that claim is satisfied, all remaining assets will be distributed to the holders of the Series A Preferred Stock and common stock ratably on the basis of the number of shares of outstanding common stock and, in the case of the Series A Preferred Stock, the number of shares of common stock into which the outstanding shares of Series A Preferred Stock are then convertible. The rights of the holders of our common stock to share ratably (according to the number of shares held by them) in the distribution of remaining assets will also be subject to the liquidation preferences and other rights of any additional series of preferred stock that we may issue in the future.

#### **Preemptive Rights with Respect to Our Common Stock and Series A Preferred Stock**

Neither the holders of our common stock nor the holders of our Series A Preferred Stock have a preemptive right to purchase shares of our authorized but unissued shares, or securities convertible into shares or carrying a right to subscribe to or acquire shares, except under the terms and conditions as may be provided by our Board in its sole judgment.

As discussed above, each share of Series A Preferred Stock is convertible at the option of the holder at any time into 10 shares of common stock, subject to certain anti-dilution adjustments.

#### **Listing**

Our common stock is listed on the New York Stock Exchange under the “PNM” symbol.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company, N.A. 250 Royall Street, Canton, MA 02021.

#### **Preferred Stock**

Our Board is authorized, pursuant to our articles of incorporation, by resolution to provide for the issuance of up to 10,000,000 shares of preferred stock in one or more series and to fix, from time to time before issuance:

- the serial designation, authorized number of shares and the stated value;
  - the dividend rate, if any, the date or dates on which the dividends will be payable, and the extent to which the dividends may be cumulative;
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- the price or prices at which shares may be redeemed, and any terms, conditions and limitations upon any redemption;
- the amount or amounts to be received by the holders in the event of our dissolution, liquidation, or winding up;
- any sinking fund provisions for redemption or purchase of shares of any series;
- the terms and conditions, if any, on which shares may be converted into, or exchanged for, shares of other capital stock, or of other series of preferred stock; and
- the voting rights, if any, for the shares of each series, limited to circumstances when (1) we fail to pay dividends on the applicable series of preferred stock, (2) proposed changes to the articles of incorporation would adversely impact preferred shareholders' rights and privileges and (3) the Board issues a new series of preferred stock convertible into common stock and confers upon the holders of such convertible preferred stock the right to vote as a single class with holders of common stock on all matters submitted to a vote of holders of common stock at a meeting of shareholders other than for election of directors, with the same number of votes as the number of shares of common stock into which the shares of such preferred stock are convertible, provided that at all times the aggregate preferred stock outstanding with such voting rights is convertible into no more than 12 million shares of common stock. Currently, of the 10,000,000 authorized shares of preferred stock, 500,000 have been designated as Series A Preferred Stock, and no Series A Preferred Stock shares have been issued and are outstanding.

Prior to the issuance of shares of each series of our preferred stock, our Board is required to adopt resolutions and file articles of amendment with the New Mexico Public Regulation Commission. The certificate of amendment will fix for each series the designation and number of shares and the rights, preferences, privileges and restrictions of the shares subject to the limitations set forth above.

All shares of preferred stock will, when issued, be fully paid and nonassessable and will not have any preemptive or similar rights. We are not required by the New Mexico Business Corporation Act to seek shareholder approval prior to any issuance of authorized but unissued stock.

#### **Limitation of Liability and Indemnification of Officers and Directors**

Our articles of incorporation provide that liability for our directors for monetary damages will be eliminated or limited to the fullest extent permissible under New Mexico law and our by-laws provide that we must indemnify our officers and directors to the fullest extent permissible under New Mexico law.

#### **Certain Other Matters**

Our articles of incorporation and by-laws include a number of provisions that may have the effect of discouraging persons from acquiring large blocks of our stock or delaying or preventing a change in our control. The material provisions that may have such an effect include:

- authorization for our Board to issue our preferred stock in series and to fix rights and preferences of the series (including, among other things, whether, and to what extent, the shares of any series will have voting rights, within the limitations described above, and the extent of the preferences of the shares of any series with respect to dividends and other matters);
- advance notice procedures with respect to any proposal other than those adopted or recommended by our Board; and
- provisions specifying that only a majority of the Board, the chairman of the Board, the president or holders of not less than one-tenth of all our shares entitled to vote may call a special meeting of stockholders.

Under the New Mexico Public Utility Act, approval of the New Mexico Public Regulation Commission is required for certain transactions which may result in our change in control or exercise of control.

**Description of the Registrant's Securities Registered  
Under Section 12 of the Securities Exchange Act of 1934**

**DESCRIPTION OF PREFERRED STOCK**

*The following summary of the material terms of the preferred stock of Public Service Company of New Mexico ("we" or "our") does not purport to be complete and is subject to and qualified in its entirety by reference to our restated articles of incorporation, as amended (our "articles of incorporation"), and bylaws, as amended (our "bylaws"), each of which is incorporated herein by reference and attached as an exhibit to our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. For a more complete understanding of our preferred stock, we encourage you to read carefully our articles of incorporation and bylaws, each as may be amended, and the applicable provisions of the New Mexico Business Corporation Act and the New Mexico Public Utility Act and other applicable provisions of the laws of the state of New Mexico.*

**General**

Our authorized capital stock consists of 10,000,000 shares of preferred stock, without par value, issuable in series from time to time, and 40,000,000 shares of common stock, without par value. As of February 21, 2020, our only series of outstanding preferred stock is our Cumulative Preferred Stock, 1965 Series, 4.58% (the "1965 Series Preferred Stock"), stated value \$100 per share, of which 115,293 shares are outstanding out of 130,000 authorized shares. All of our common stock is currently held by PNM Resources, Inc.

**Dividend Rights with Respect to Our 1965 Series Preferred Stock**

The holders of the 1965 Series Preferred Stock, in preference to the holders of any stock ranking junior to the 1965 Series Preferred Stock, are entitled to receive cash dividends at a rate of 4.58% per annum, payable on dates fixed by our Board of Directors, when and as declared by the Board of Directors, out of legally available funds.

Dividends on shares of our 1965 Series Preferred Stock are cumulative from the first day of the dividend period (as defined in our articles of incorporation) in which the stock was originally issued and will be paid, or declared and set apart for payment, before any dividends shall be declared or paid on or set apart for any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets, so that if, for any past dividend period, dividends or the current dividend period dividends on the 1965 Series Preferred Stock have not been paid, or declared and set apart for payment, the deficiency must be fully paid or declared and funds set apart for the payment of those dividends before any dividends will be declared or paid on or set apart for any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets.

No dividends may at any time be paid on or set apart for any share of 1965 Series Preferred Stock unless at the same time there is paid on or set apart for all shares of 1965 Series Preferred Stock then outstanding dividends in such amount that the holders of all shares of 1965 Series Preferred Stock will receive or have set apart for them a uniform percentage of the full annual dividend to which they are, respectively, entitled.

Unless and until full cumulative dividends upon the 1965 Series Preferred Stock for all past dividend periods and for the current dividend period shall have been paid, or declared and set apart for payment, no dividend whatsoever (other than a dividend payable in shares of any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends and assets) may be paid or declared on, and no distribution may be made or ordered in respect of, any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets, and no money (other than the net proceeds received from the sale of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets) may be set aside or applied to the purchase or redemption (through a sinking fund or otherwise) of any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets.

So long as any shares of the 1965 Series Preferred Stock are outstanding, we may not declare or pay any dividends on our common stock (other than dividends payable in common stock) or make any distribution on, or

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purchase or otherwise acquire for value, any of our common stock (each such payment, distribution, purchase or acquisition being referred to as a “common stock dividend”), unless certain capitalization ratio tests are met as set forth in our articles of incorporation.

#### **Voting Rights with Respect to Our 1965 Series Preferred Stock**

No holder of the 1965 Series Preferred Stock is entitled to vote for the election of directors or in respect of any matter, except as provided in our articles of incorporation as described below, limited to circumstances when (1) we fail to pay dividends on the 1965 Series Preferred Stock in an amount equivalent to four quarterly dividends and (2) when a proposed amendment to our articles of incorporation would have an adverse impact on the rights and privileges of the holders of 1965 Series Preferred Stock, or as may be required by law.

Our articles of incorporation provide that if dividends payable on the outstanding 1965 Series Preferred Stock are accumulated and unpaid in an amount equivalent to four (4) quarterly dividends, the holders of the stock will be entitled, until all accumulated and unpaid dividends have been fully paid or declared and funds set apart for payment: (a) voting for as a single class, at the next annual meeting of stockholders, to elect one third of the directors to be elected at that annual meeting of stockholders and at the following annual meeting of stockholders, if dividends payable on the outstanding 1965 Series Preferred Stock continue to be due and unpaid, to elect a majority of the directors to be elected at that annual meeting of stockholders, and to continue to elect a majority of the Board of Directors until all accumulated and unpaid dividends on the outstanding 1965 Series Preferred Stock have been paid; and (b) to vote on all questions so that the holders will have one (1) vote for each ten dollars (\$10) of stated value per share of 1965 Series Preferred Stock (stated values not equaling dollar increments shall be rounded up to the next ten dollar increment for these purposes), and this right to vote will not be cumulative; provided that if and when profits available for dividends are in excess of accumulated and unpaid dividends, then the declaration and payment of the dividends will not be unreasonably withheld.

Without first obtaining the affirmative vote of the holders of two-thirds of the outstanding shares of 1965 Series Preferred Stock, we cannot amend any provisions of our articles of incorporation to create or authorize any stock ranking senior to the 1965 Series Preferred Stock or in a manner that would have an adverse impact on the rights and privileges of the 1965 Series Preferred Stock.

Without first obtaining the affirmative vote of the holders of a majority of the outstanding shares of 1965 Series Preferred Stock, except as provided in our articles of incorporation, we cannot (1) issue any shares of the 1965 Series Preferred Stock or shares of any stock ranking on a parity with the 1965 Series Preferred Stock except as provided in our articles of incorporation or (2) issue or assume any unsecured debentures or other unsecured indebtedness (excluded unsecured indebtedness maturing within 18 months after issuance) for any purpose other than the refunding of secured or unsecured indebtedness previously created or assumed by us and then outstanding, or the retiring of shares of the 1965 Series Preferred Stock or shares of any stock of equal or prior ranking.

Our articles of incorporation do not allow our directors to create classes of directors. All directors are elected annually.

#### **Liquidation Rights with Respect to Our 1965 Series Preferred Stock**

In the event we are liquidated or dissolved, either voluntarily or involuntarily, the holders of shares of 1965 Series Preferred Stock are entitled, in preference to any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets, to be paid in full, out of our net assets, a liquidation preference of \$100 per share plus an amount equal to the accrued dividends on their shares to the date of distribution. In the event our liquidation, dissolution or winding up is voluntary, the holders of the 1965 Series Preferred Stock will also be entitled to receive for each share, in preference to any class of stock ranking junior to the 1965 Series Preferred Stock as to dividends or assets, a premium fixed by our Board of Directors. If upon any liquidation, dissolution or winding up, the assets distributable among the holders of the 1965 Series Preferred Stock are insufficient to permit the payment of the full preferential amounts to which they are entitled, then all of our assets to be distributed will be distributed among the holders of the 1965 Series Preferred Stock ratably in proportion to the full preferential amounts to which they are respectively entitled.

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**Preemptive Rights with Respect to Our 1965 Series Preferred Stock**

The holders of our preferred stock do not have a preemptive right to acquire authorized but unissued shares, securities convertible into shares or carrying a right to subscribe to or acquire shares, except under the terms and conditions as may be provided by our Board of Directors. Shares of our 1965 Series Preferred Stock are not entitled to a sinking fund and cannot be converted into any other class of our stock.

**Redemption Rights with Respect to Our 1965 Series Preferred Stock**

The 1965 Series Preferred Stock is not subject to a mandatory redemption requirement, but may be redeemed, at our option, at 102% of the stated value plus accrued dividends as described in our articles of incorporation. Holders of 1965 Series Preferred Stock do not have the right to require the redemption or repurchase of shares of 1965 Series Preferred Stock.

Notice will be given not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption of any shares of the 1965 Series Preferred Stock to each holder of record of the shares to be redeemed of our intention to redeem the shares, specifying the date and place of redemption. The time of the mailing will be deemed to be the time of the giving of notice.

In every case of redemption of less than all of the outstanding shares of the 1965 Series Preferred Stock, at the option of the Board of Directors, the redemption will be made pro rata or the shares of the series to be redeemed shall be chosen by lot in the manner prescribed by resolution of the Board of Directors; *provided, however*, that if, at the time any selection by lot is to be made, one thousand (1,000) shares or more of the aggregate number of shares of the 1965 Series Preferred Stock are registered in the name of one holder, then before making the selection by lot, we will allocate to each registered holder holding one thousand (1,000) shares or more of the series a proportion of the shares to be redeemed equal, as nearly as practicable, to the proportion that the shares of the series then outstanding registered in the name of the holder bears to all shares of the series then outstanding. In that case, the selection by lot of the number of shares to be redeemed not so allocated will be made from the registered holders holding less than one thousand (1,000) shares of the series.

If we have given a notice of redemption of any shares of 1965 Series Preferred Stock, then, from and after the date of the deposit of funds necessary for such redemption for the benefit of the holders of any shares of 1965 Series Preferred Stock so called for redemption, or if no deposit is made, from and after the redemption date, such holders will cease to be stockholders with respect to such shares of 1965 Series Preferred Stock, the shares will no longer be transferrable and the holders of such shares of 1965 Series Preferred Stock will have no interest in or claim against us with respect to such shares, except the right to receive the redemption price.

**Listing**

Our 1965 Series Preferred Stock is not listed on any exchange.

**Transfer Agent and Registrar**

The transfer agent and registrar for our 1965 Series Preferred Stock is Computershare Trust Company, N.A. 250 Royall Street, Canton, MA 02021.

**Additional Series of Preferred Stock**

Our Board of Directors is authorized pursuant to our articles of incorporation, by resolution to provide for the issuance of shares of preferred stock in one or more additional series and to fix, from time to time before issuance, the designation, preferences, privileges and voting powers of the shares of each series of preferred stock and its restrictions or qualifications, limited to the following:

- the serial designation, authorized number of shares and the stated value;
-

- the dividend rate, if any, the date or dates on which the dividends will be payable, and the extent to which the dividends may be cumulative;
- the price or prices at which shares may be redeemed, and any terms, conditions and limitations upon any redemption;
- the amount or amounts to be received by the holders in the event of dissolution, liquidation, or winding up of our assets;
- any sinking fund provisions for redemption or purchase of shares of any series;
- the terms and conditions, if any, on which shares may be converted into, or exchanged for, shares of other series of preferred stock of the corporation, but may not be converted into, or exchanged for, shares of our common stock;
- the voting rights, if any, for the shares of each series, limited to circumstances when:
  - we fail to pay dividends on the applicable series; and
  - when a proposed amendment to our articles of incorporation would have an adverse impact on the rights and privileges of our preferred stockholders.

The holders of our preferred stock do not have a preemptive right to acquire authorized but unissued shares, securities convertible into shares or carrying a right to subscribe to or acquire shares, except under the terms and conditions as may be provided by our Board of Directors.

#### **Limitation of Liability and Indemnification of Officers and Directors**

Our articles of incorporation provide that liability for our directors for monetary damages will be eliminated or limited to the fullest extent permissible under New Mexico law and our bylaws provide that we must indemnify our officers and directors to the fullest extent permissible under New Mexico law.

#### **Certain Other Matters**

Under the New Mexico Public Utility Act, approval of the New Mexico Public Regulation Commission is required for certain transactions which may result in our change in control or exercise of control. All of our common stock is currently held by our parent, PNM Resources, Inc.

## 2020 Director Compensation Summary

Non-employee directors of PNM Resources, Inc. (the “Company”) receive their annual retainer in the form of cash and stock-based compensation as determined by the Company's Board of Directors (the “Board”). At the December 2019 Board meeting, the Board approved making the following changes to director compensation for 2020: increasing the annual cash retainer from \$80,000 to \$85,000 and the market value of the annual award of restricted stock rights from \$105,000 to \$115,000, increasing the Compensation Committee chair retainer from \$10,000 to \$12,500 and the Finance and Nominating Committee chair retainers from \$7,500 to \$10,000. Thus, the 2020 annual retainer for non-employee directors is as follows:

<b>Annual Retainer:</b>	An annual cash retainer of \$85,000 paid in quarterly installments and restricted stock rights* with a grant date market value of \$115,000
<b>Lead Director Fee:</b>	\$25,000 paid in quarterly installments
<b>Audit and Ethics Committee Chair Retainer:</b>	\$15,000 paid in quarterly installments
<b>Compensation and Human Resources Committee Chair Retainer:</b>	\$12,500 paid in quarterly installments
<b>Finance Committee Chair Retainer:</b>	\$10,000 paid in quarterly installments
<b>Nominating and Governance Committee Chair Retainer:</b>	\$10,000 paid in quarterly installments
<b>Supplemental Meeting Fees:</b>	\$1,500 –payable for and after each meeting of a particular committee or the full Board, as the case may be, attended by a committee member or non-employee director, respectively, in excess of eight committee or full Board meetings annually

Directors are also reimbursed for any Board-related expenses, such as travel expenses incurred to attend Board and Board committee meetings and director educational programs. Further, directors are indemnified by the Company to the fullest extent permitted by law pursuant to the Company's bylaws and indemnification agreements between the Company and each director. No retirement or other benefit plans are available to directors.

\* The amount of the annual award of restricted stock rights is determined by dividing \$115,000 by the closing price of the Company's stock on the New York Stock Exchange on the day of the grant. Restricted stock rights granted under the Company's Performance Equity Plan vest on the first anniversary of the grant date, subject to vesting acceleration upon certain events, including disability. The directors may defer receipt of vested restricted stock rights granted on and after May 2018 to the earlier of (1) the five-year anniversary of termination of service with the Board or (2) a date certain or termination of service anniversary selected by the director. These awards are typically made at the annual meeting of directors, unless the meeting occurs during a black-out period for trading in the Company's securities as specified in the Company's Insider Trading Policy. As set forth under the Company's Equity Compensation Awards Policy, under those circumstances, the Board will either (a) schedule a special meeting after the expiration of the black-out period, (b) make awards pursuant to a unanimous written consent executed after the expiration of the black-out period, or (c) pre-approve the equity awards with an effective date after the expiration of the black-out period. The date of the awards is the date on which the Board approves the awards, unless (i) the approval date is a non-trading day, in which case the date is the immediately preceding trading date or (ii) in the case of pre-approval during a black-out period, in which case the grant date is the first trading date after the expiration of the black-out period. The PEP limits the maximum amount of shares that may be granted to any non-employee director during any calendar year to no more than 15,000 shares.

Subsidiaries of PNM Resources, Inc.

As of December 31, 2019, PNM Resources, Inc. directly or indirectly owns all of the voting securities of the following subsidiaries:

Public Service Company of New Mexico, a New Mexico corporation that does business under the names "Public Service Company of New Mexico" and "PNM".

Texas-New Mexico Power Company, a Texas corporation that does business under the name "Texas-New Mexico Power Company" and "TNMP".

TNP Enterprises, Inc., a Texas corporation that does business under its corporate name.

The remaining subsidiaries of PNM Resources, Inc. considered in the aggregate as a single subsidiary, do not constitute a "significant subsidiary" (as defined in Rule 1-02(w) of Regulation S-X) as of the end of the year covered by this report.

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
PNM Resources, Inc.:

We consent to the incorporation by reference in the registration statement No. 333-223336 on Form S-3 and registration statement Nos. 333-76288, 333-139108, 333-129454, 333-121371, 333-125010, 333-141282, 333-156243, 333-159361, 333-159362, 333-168797, 333-195974, and 333-230575 on Form S-8 of PNM Resources, Inc. of our report dated March 2, 2020, with respect to the consolidated balance sheets of PNM Resources, Inc. and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule I – Condensed Financial Information of Parent Company and Schedule II – Valuation and Qualifying Accounts (collectively, the financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which report appears in the December 31, 2019 annual report on Form 10-K of PNM Resources, Inc.

/s/ KPMG LLP

Albuquerque, New Mexico  
March 2, 2020

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Public Service Company of New Mexico:

We consent to the incorporation by reference in the registration statement No. 333-218059 on Form S-3 of Public Service Company of New Mexico of our report dated March 2, 2020, with respect to the consolidated balance sheets of Public Service Company of New Mexico as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement Schedule II – Valuation and Qualifying Accounts (collectively, the financial statements), which report appears in the December 31, 2019 annual report on Form 10-K of Public Service Company of New Mexico.

/s/ KPMG LLP

Albuquerque, New Mexico  
March 2, 2020

**EXHIBIT 31.1**  
**CERTIFICATION**

I, Patricia K. Collawn, certify that:

1. I have reviewed this Annual Report on Form 10-K 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;
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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn

President and Chief Executive Officer

PNM Resources, Inc.

**EXHIBIT 31.2**  
**CERTIFICATION**

I, Joseph D. Tarry, certify that:

1. I have reviewed this Annual Report on Form 10-K 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;
  - 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;
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: March 2, 2020

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and  
Chief Financial Officer  
  
PNM Resources, Inc.

**EXHIBIT 31.3**  
**CERTIFICATION**

I, Patricia K. Collawn, certify that:

1. I have reviewed this Annual Report on Form 10-K 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;
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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn  
President and Chief Executive Officer  
Public Service Company of New  
Mexico

**EXHIBIT 31.4**  
**CERTIFICATION**

I, Joseph D. Tarry, certify that:

1. I have reviewed this Annual Report on Form 10-K 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;
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: March 2, 2020

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and  
Chief Financial Officer

Public Service Company of New  
Mexico

**EXHIBIT 31.5**  
**CERTIFICATION**

I, Patricia K. Collawn, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 in order 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 (the 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;
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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn

Chief Executive Officer

Texas-New Mexico Power Company

**EXHIBIT 31.6**  
**CERTIFICATION**

I, Joseph D. Tarry, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 in order 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 (the 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;
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: March 2, 2020

By: /s/ Joseph D. Tarry

Joseph D. Tarry

Senior Vice President and

Chief Financial Officer

Texas-New Mexico Power Company

**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 Annual Report on Form 10-K for the period ended December 31, 2019, for PNM Resources, Inc. (“Company”), as filed with the Securities and Exchange Commission on March 2, 2020 (“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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn

President and Chief Executive Officer

PNM Resources, Inc.

By: /s/ Joseph D. Tarry

Joseph D. Tarry

Senior Vice President and

Chief Financial Officer

PNM Resources, Inc.

**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 Annual Report on Form 10-K for the period ended December 31, 2019, for Public Service Company of New Mexico (“Company”), as filed with the Securities and Exchange Commission on March 2, 2020 (“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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn

President and Chief Executive Officer

Public Service Company of New  
Mexico

By: /s/ Joseph D. Tarry

Joseph D. Tarry

Senior Vice President and

Chief Financial Officer

Public Service Company of New  
Mexico

**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 Annual Report on Form 10-K for the period ended December 31, 2019, for Texas-New Mexico Power Company (“Company”), as filed with the Securities and Exchange Commission on March 2, 2020 (“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: March 2, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn  
Chief Executive Officer  
Texas-New Mexico Power Company

By: /s/ Joseph D. Tarry

Joseph D. Tarry  
Senior Vice President and  
Chief Financial Officer  
Texas-New Mexico Power Company