

**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, 2020

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"/>

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. Yes No

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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 19, 2021, shares of common stock outstanding were:

PNMR	85,834,874
PNM	39,117,799
TNMP	6,358

On June 30, 2020, 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 \$38.44 per share reported by The Wall Street Journal, was \$3,061,885,307. 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 11, 2021.

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**

INDEX

	<u>Page</u>
GLOSSARY	iv
PART I	
ITEM 1. BUSINESS	A - 1
THE COMPANY	A - 1
WEBSITES	A - 2
OPERATIONS AND REGULATION	A - 2
REGULATED OPERATIONS	
PNM	A - 2
TNMP	A - 4
CORPORATE AND OTHER	A - 5
SOURCES OF POWER	A - 5
FUEL AND WATER SUPPLY	A - 8
ENVIRONMENTAL MATTERS	A - 9
COMPETITION	A - 9
EMPLOYEES	A - 10
DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS	A - 10
SECURITIES ACT DISCLAIMER	A - 12
ITEM 1A. RISK FACTORS	A - 12
ITEM 1B. UNRESOLVED STAFF COMMENTS	A - 24
ITEM 2. PROPERTIES	A - 24
ITEM 3. LEGAL PROCEEDINGS	A - 25
ITEM 4. MINE SAFETY DISCLOSURES	A - 25
SUPPLEMENTAL ITEM – EXECUTIVE OFFICERS OF PNM RESOURCES, INC.	A - 25
PART II	
ITEM 5. MARKET FOR PNMR’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES	A - 26
ITEM 6. SELECTED FINANCIAL DATA	A - 27
ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	A - 29
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK	A - 63
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	B - 1
ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	C - 1
ITEM 9A. CONTROLS AND PROCEDURES	C - 1
ITEM 9B. OTHER INFORMATION	C - 2
PART III	
ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE	C - 2
ITEM 11. EXECUTIVE COMPENSATION	C - 2
ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	C - 2
ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE	C - 2
ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES	C - 2
PART IV	
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES	D - 1
ITEM 16. FORM 10-K SUMMARY	D - 14
SIGNATURES	E - 1

GLOSSARY**Definitions:**

2017 IRP	PNM's 2017 IRP
2020 IRP	PNM's 2020 IRP
2020 DCOS	TNMP's application for a distribution cost recovery factor filed on April 6, 2020
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
ABO	Accumulated Benefit Obligation
ACE Rule	Affordable Clean Energy Rule
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
Avangrid	Avangrid, Inc., a New York corporation
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
Board	Board of Directors of PNMR
BSER	Best system of emission reduction technology
BTMU	MUFU 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
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
Casa Mesa Wind	Casa Mesa Wind Energy Center
CCAE	Coalition for Clean Affordable Energy
CCN	Certificate of Convenience and Necessity
CCR	Coal Combustion Residuals
CFIUS	Committee on Foreign Investment in the United States
CFRE	Citizens for Fair Rates and the Environment
CIAC	Contributions in Aid of Construction
CO ₂	Carbon Dioxide
COVID-19	Novel coronavirus global pandemic
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
EPA	United States Environmental Protection Agency
EPE	El Paso Electric Company
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
ESG	Environmental, Social, and Governance principles
ETA	The New Mexico Energy Transition Act
EUEA	The New Mexico Efficient Use of Energy Act
Exchange Act	Securities Exchange Act of 1934

[Table of Contents](#)

Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
Four Corners Abandonment Application	PNM's January 8, 2021 application for approval for the abandonment of Four Corners and issuance of a securitized financing order
Four Corners CSA	Four Corners' coal supply contract with NTEC
Four Corners Purchase and Sale Agreement	PNM's pending sale of its 13% ownership interest in Four Corners to NTEC
FPPAC	Fuel and Purchased Power Adjustment Clause
FTC	Federal Trade Commission
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
HSR	Hart-Scott Rodino Antitrust Improvement Act of 1976
IBEW	International Brotherhood of Electrical Workers
Iberdrola	Iberdrola, S.A., a corporation organized under the laws of the Kingdom of Spain, and 81.5% owner of Avangrid
IRC	Internal Revenue Code
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt Hour
La Joya Wind I	La Joya Wind Facility generating 166 MW of output that became operational in February 2021
La Joya Wind II	La Joya Wind Facility generating 140 MW of output that is expected to be operational in March 2021
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
Merger	The merger of Merger Sub with and into PNMR pursuant to the Merger Agreement, with PNMR surviving the Merger as a direct, wholly-owned subsidiary of Avangrid
Merger Agreement	The Agreement and Plan of Merger, dated October 20, 2020, between PNMR, Avangrid and Merger Sub
Merger Backstop Revolving Facility	\$300.0 million 364-day revolving credit facility
Merger Backstop Term Loan	\$50.0 million 364-day delayed-draw term loan credit facility
Merger Sub	NM Green Holdings, Inc., a New Mexico corporation and wholly-owned subsidiary of Avangrid which will merge with and into PNMR at the effective time of the Merger (defined below)
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
OATT	Open Access Transmission Tariff
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds
PM	Particulate Matter
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2017 New Mexico Credit Facility	PNM's \$40.0 Million Unsecured Revolving Credit Facility
PNM 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 2020 Fixed Rate PCRBs	PNM's \$302.5 million PCRBs remarketed on July 22, 2020
PNM 2020 Note Purchase Agreement	PNM's Agreement for the sale of PNM 2020 SUNs
PNM 2020 SUNs	PNM's \$200.0 million Senior Unsecured Notes issued on April 30, 2020
PNM 2020 Term Loan	PNM's \$250.0 million Unsecured Term Loan issued on April 15, 2020, of which \$100.0 million was repaid on April 30, 2020
PNM Floating Rate PCRBs	PNM's \$100.3 million PCRBs remarketed on July 1, 2020
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 on 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 2019 Term Loan	PNMR's \$150.0 Million 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 2020 Term Loan	PNMR's \$150.0 million Unsecured Term Loan that matures on January 31, 2022
PNMR 2020 Delayed-Draw Term Loan	PNMR's \$300.0 million Unsecured Delayed-Draw Term Loan that matures on January 31, 2022
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development's \$40.0 million Unsecured Revolving Credit Facility
PNMR Development Term Loan	PNMR Development's \$65.0 Million Unsecured Term Loan that matures on January 31, 2022
PNMR Revolving Credit Facility	PNMR's \$300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
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
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
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
SNCR	Selective Non-Catalytic Reduction
SO ₂	Sulfur Dioxide
SRP	Salt River Project
SUNs	Senior Unsecured Notes
Tax Act	Federal tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act

[Table of Contents](#)

Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TEP	Transportation Electrification Program
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
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
WFB LOC	Letter of credit arrangements with Wells Fargo Bank, N.A., entered into in August 2020
WRA	Western Resource Advocates
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 financial objectives:

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

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

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

PNMR's success in accomplishing its financial objectives is highly dependent on two key factors: fair and timely regulatory treatment for its utilities and the utilities' strong operating performance. Both PNM and TNMP seek cost recovery for their investments through general rate cases, periodic cost of service filings, 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.

Proposed Transaction with Avangrid

On October 20, 2020, PNMR, Avangrid and Merger Sub entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid.

Pursuant to the Merger Agreement, each issued and outstanding share of the common stock of PNMR (other than (i) the issued shares of PNMR common stock that are owned by Avangrid, Merger Sub, PNMR or any wholly-owned subsidiary of Avangrid or PNMR, which will be automatically cancelled at the Effective Time and (ii) shares of PNMR common stock outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of, or consented in writing to, the Merger who is entitled to, and who has demanded, payment for fair value of such shares) at the Effective Time will be converted into the right to receive \$50.30 in cash.

The proposed Merger has been unanimously approved by the Boards of Directors of PNMR, Avangrid and Merger Sub and approved by PNMR shareholders at the Special Meeting of Shareholders held on February 12, 2021. On January 20, 2021, the FTC notified PNMR and Avangrid that early termination of the waiting period under the HSR Act in connection with the Merger was granted. CFIUS completed its review of the Merger on February 2, 2021, and has concluded that there are no unresolved national security concerns with respect to the Merger. The early termination of the waiting period under the HSR Act and clearance by CFIUS satisfies two of the conditions to the closing of the transactions contemplated by the Merger Agreement. Consummation of the Merger remains subject to the satisfaction or waiver of certain customary closing conditions,

including, without limitation, the absence of any material adverse effect on PNMR, the receipt of required regulatory approvals (including the PUCT, the NMPRC, FERC, FCC, and the NRC), and the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made. The Merger is currently expected to close in the second half of 2021.

WEBSITES

The PNMR website, 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 websites are:

- PNMR: www.pnmresources.com
- PNM: www.pnm.com
- TNMP: www.tnmp.com

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

The contents of these websites are not a part of this Form 10-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. These reports are also available in print upon request from PNMR free of charge.

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

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

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

OPERATIONS AND REGULATION

Regulated Operations

PNM

Operational Information

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 2.5% of its revenues for the year ended December 31, 2020. Other services provided by PNM include wholesale transmission services to third parties. 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.

Weather-normalized retail electric KWh sales decreased by 0.8% in 2020 and increased by 0.3% in 2019. The system peak demands for retail and firm-requirements customers were as follows:

	System Peak Demands		
	2020	2019	2018
	(Megawatts)		
Summer	1,974	1,937	1,885
Winter	1,460	1,440	1,351

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. 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 41.4%, 8.1%, and 6.6% of PNM's 2020 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.

PNM owns 3,389 miles of electric transmission lines that interconnect with other utilities in New Mexico, Arizona, Colorado, Texas, and Utah. New Mexico ranks third in the Nation for energy potential from solar power according to the Nebraska Department of Energy & Energy Sun Index and ranks third in the Nation for land-based wind capacity according to the U.S. Office of Energy Efficiency and Renewable Energy. 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 \$277 million for anticipated expansions of PNM's transmission system in 2021 to provide additional service to transmit power from these generation resources to customers in New Mexico and California.

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.

Regulatory Activities

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 2019 and does not expect to exceed the

limitation in 2020. 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 Transmission

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, PNM will provide transmission service to approximately 800 MW of new wind generation to be located in eastern New Mexico beginning in 2021 using an incremental rate. All necessary approvals for PNM to purchase and provide transmission service from the Western Spirit line have been obtained. See Note 17.

The Energy Transition Act ("ETA")

The ETA became effective on June 14, 2019. As discussed below, 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 to qualified investors securitized bonds, or "energy transition bonds," related to the retirement of certain coal-fired generating facilities. 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. On April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the related securitized financing under the ETA.

On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of energy transition bonds as provided by the ETA.

PNM expects the ETA will have a significant impact on PNM's future generation portfolio, including PNM's planned retirements of SJGS in 2022 and the Four Corners exit in 2024. PNM cannot predict the full impact of the ETA or the outcome of its pending and potential future generating resource abandonment and replacement resource filings with the NMPRC. See additional discussion of the ETA and PNM's SJGS and Four Corners Abandonment Applications in Notes 16 and 17.

Renewable Energy

The REA was enacted to encourage the development of renewable energy in New Mexico. 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.

TNMP

Operational Information

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 consumers billed on KWh usage, TNMP experienced an increase in weather normalized retail KWh sales of 2.9% in 2020 and an decrease of 2.0% in 2019. For its weather normalized demand-based load, excluding retail transmission consumers, TNMP experienced a decrease of 1.3% in 2020 and an increase of 4.9% in 2019. As of December 31, 2020, 110 active REPs receive transmission and distribution services from TNMP. In 2020, the three largest REPs accounted for 21%, 18%, and 11% of TNMP's operating revenues. No other consumer accounted for more than 10% of revenues.

Regulatory Activities

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.

The PUCT approved interim adjustments to TNMP's transmission rates of \$14.3 million in March 2019, \$3.3 million in September 2019, \$7.8 million in March 2020, and \$2.0 million in October 2020. On January 22, 2021, TNMP filed an application to further update its transmission rates, which would increase revenues by \$14.1 million annually. The application is pending before the PUCT.

On April 6, 2020, TNMP filed its 2020 DCOS that requested an increase in TNMP's annual distribution revenue requirement of \$14.7 million based on net capital incremental distribution investments of \$149.2 million. On June 26, 2020, the parties filed a unanimous settlement for a \$14.3 million annual distribution revenue requirement and on August 13, 2020, the PUCT approved the unanimous settlement with rates effective September 1, 2020.

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, 2020, the total net generation capacity of facilities owned or leased by PNM was 2,168 MW. PNM also obtains power under long-term PPAs for the power produced by Valencia, New Mexico Wind, Red Mesa Wind, Casa Mesa 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, 2020 is:

Type	Name	Location	Generation Capacity (MW)	Percent of Generation Capacity
Coal	SJGS	Waterflow, New Mexico	562	20.0 %
Coal	Four Corners	Fruitland, New Mexico	200	7.1 %
Coal-fired resources			762	27.1 %
Gas	Reeves Station	Albuquerque, New Mexico	146	5.2 %
Gas	Afton (combined cycle)	La Mesa, New Mexico	235	8.3 %
Gas	Lordsburg	Lordsburg, New Mexico	85	3.0 %
Gas	Luna (combined cycle)	Deming, New Mexico	190	6.7 %
Gas/Oil	Rio Bravo	Albuquerque, New Mexico	149	5.3 %
Gas	Valencia	Belen, New Mexico	155	5.5 %
Gas	La Luz	Belen, New Mexico	41	1.5 %
Gas-fired resources			1,001	35.5 %
Nuclear	PVNGS	Wintersburg, Arizona	402	14.3 %
Solar	PNM-owned solar	Twenty-four sites in New Mexico	158	5.6 %
Solar	NMRD-owned solar	Los Lunas, New Mexico	130	4.6 %
Wind	New Mexico Wind	House, New Mexico	200	7.1 %
Wind	Red Mesa Wind	Seboyeta, New Mexico	102	3.6 %
Wind	Casa Mesa Wind	House, New Mexico	50	1.8 %
Geothermal	Lightning Dock Geothermal	Lordsburg, New Mexico	11	0.4 %
Renewable resources			651	23.1 %
			2,816	100.0 %

The NMPRC has approved plans for PNM to procure energy and RECs from additional wind and solar-PV renewable resources totaling 1,056 MW to serve retail customers and a data center located in PNM's service territory, including the portfolio to replace the planned retirement of SJGS for solar PPAs of 650 MW combined with 300 MW of battery storage facilities. 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. If adjusted for these plans, the table above would reflect the percentage of generation capacity from fossil-fueled resources of 33.3%, from nuclear resources of 11.1%, and from renewable and battery storage resources of 55.6%. In addition, PNM also has a customer distributed solar generation program that represented 161.0 MW at December 31, 2020.

Fossil-Fueled Plants

SJGS is operated by PNM and, until December 2017, consisted of four units. SJGS Units 2 and 3 were retired in December 2017 and the ownership interests in SJGS Unit 4 were restructured. PNM has received 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 at December 31, 2020:

	Unit 1	Unit 4
Capacity (MW)	340	507
PNM ⁽¹⁾	50.000 %	77.297 %
Tucson	50.000	—
Farmington	—	8.475
Los Alamos	—	7.200
UAMPS	—	7.028
Total	100.000 %	100.000 %

⁽¹⁾ 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. 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. PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024. See Note 17.

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.

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 and Note 8 for additional information concerning the PVNGS leases.

Solar

At December 31, 2020, PNM owns a total of 158 MW of solar facilities in commercial operation. PNM is also entitled to the entire output from 130 MW of NMRD-owned solar facilities. As discussed in Note 21, NMRD is a 50% equity method investee of PNMR Development.

Plant Operating Statistics

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

Plant	Operator	2020	2019
SJGS	PNM	73.3%	73.1%
Four Corners	APS	63.9%	78.2%
PVNGS	APS	89.5%	90.8%

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. On April 1, 2020, the NMPRC approved the abandonment of PNM's remaining interest in SJGS. 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. On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024. 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. See Notes 16 and 17 for additional information about PNM's coal supply, PNM's SJGS Abandonment Application, and PNM's Four Corners Abandonment Application.

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, 2020, renewable energy procured under these agreements from wind, solar-PV, and geothermal facilities aggregated to 352 MW, 130 MW, and 11 MW. These agreements currently have

expiration dates beginning in January 2035 and extending through June 2045. The NMPRC has approved PNM’s request to enter into additional PPAs for renewable energy and RECs for an additional 166 MW of energy from La Joya Wind I, 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, also includes a PPA for an additional 140 MW of wind energy from La Joya Wind II to serve retail customers. The entire portfolio of replacement resources approved by the NMPRC in PNM’s SJGS Abandonment Application, includes replacement of SJGS capacity with the procurement of 650 MW of solar PPAs combined with 300 MW of battery storage agreements. In addition, on February 8, 2021 PNM filed an application with the NMPRC for approval to service the Facebook data center for an additional 190 MW of solar PPA combined with 100 MW of battery storage and a 50 MW solar PPA expected to be operational in 2023. See Note 17.

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

	Year Ended December 31,	
	2020	2019
Purchased under long-term PPAs		
MWh	2,207,238	1,853,225
Cost per MWh	\$ 34.00	\$ 31.62
Other purchased power		
Total MWh	318,061	333,137
Cost per MWh	\$ 51.18	\$ 43.74

TNMP

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

FUEL

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
2020	43.6 %	\$ 3.04	34.7 %	\$ 0.70	17.6 %	\$ 1.63
2019	44.2 %	\$ 2.80	33.7 %	\$ 0.66	19.1 %	\$ 1.35

In 2020 and 2019, 4.1% and 3.0% of PNM’s generation was from utility-owned solar, which has no fuel cost. The generation mix for 2021, including power procured under PPAs, is expected to be 38.5% coal, 30.2% nuclear, 13.1% gas and oil, and 18.2% 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. The contract provides for pricing adjustments over its term based on economic indices. In connection with the exit of Four Corners, PNM would make payments of \$75.0 million to NTEC for relief from PNM’s obligations under the coal supply agreement for Four Corners after December 31, 2024.

See Notes 16 and 17 for additional information about PNM’s December 2018 Compliance Filing, PNM’s SJGS Abandonment Application, PNM’s Four Corners Abandonment Application, and the 2020 IRP, which all focus on a carbon-free electricity portfolio by 2040 that would eliminate coal at the end of 2024.

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. 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 55% through 2028. Additional needed supplies are covered through existing inventories or spot market transactions. For conversion services, 100% are contracted through 2025 and 70% through 2030. Additional needed conversion services are covered through existing inventories or spot market transactions. For enrichment services 100% is contracted through 2022 and 80% through 2026. For fuel assembly fabrication 100% is contracted 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.

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
- The Energy Transition Act
- Environmental Matters under the caption "The Clean Air Act"
- 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 to serve its New Mexico retail customers. 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.

HUMAN CAPITAL RESOURCES

PNM Resources employees make the Company successful through our core values of safety, caring, and integrity. PNM Resources seeks to attract and retain its employees by offering competitive compensation and benefits as well as opportunities for career advancement. Total compensation packages are reviewed periodically to ensure competitiveness within the industry and consistency with performance levels. The Company has implemented an enterprise-wide leadership development program focused on ensuring our leaders' success. In addition, the Company has embarked on a company-wide culture alignment that creates a shift in behavior and mindset to accentuate shared purpose, transparency and collaboration creating both individual and organizational accountability for achieving key results. The Company values also drive a culture committed to diversity and inclusion. Our diverse workforce enables the Company to provide exceptional value to our customers and stakeholders. Our 1,708 employees include 39%, represented by a bargaining unit, 26% women, and 50% minorities. Annually, the Company performs a robust succession planning process evaluating our plans for diversity and inclusion. The Company's value of safety has been evident in our response to COVID-19. In order to keep our employees safe throughout the year, we have leveraged flexible and remote work policies, enhanced cleaning protocols, adjusted attendance policies, provided regular employee communications, created new physical safety and travel policies, provided personal protective equipment, and implemented procedures to address actual and suspected COVID-19 cases and potential exposure.

The Board agrees that human capital management is an important component of PNM Resources' continued growth and success, and is essential for its ability to attract, retain and develop talented and skilled employees. Management regularly reports to the Compensation Committee of the Board on human capital management topics, including corporate culture, diversity and inclusion, employee development and compensation and benefits. The Compensation Committee has oversight of talent retention and development and succession planning, and the Board provides input on important decisions in each of these areas.

The following table sets forth the number of employees of PNMR, PNM, and TNMP as of December 31, 2020:

	PNMR	PNM	TNMP
Corporate ⁽¹⁾	409	—	—
PNM	917	917	—
TNMP	382	—	382
Total	1,708	917	382

⁽¹⁾ Represents employees of PNMR Services Company.

As of December 31, 2020, PNM had 461 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, 2023. As of December 31, 2020, TNMP had 204 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 expected timing and likelihood of completion of the pending Merger, including the timing, receipt and terms and conditions of any required governmental and regulatory approvals of the pending Merger that could reduce anticipated benefits or cause the parties to abandon the transaction
- The failure by Avangrid to obtain the necessary financing arrangement set forth in commitment letter received in connection with the Merger
- The occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement
- The risk that the parties may not be able to satisfy the conditions to the proposed Merger in a timely manner or at all
- The risk that the proposed Merger could have an adverse effect on the ability of PNMR to retain and hire key personnel and maintain relationships with its customers and suppliers, and on its operating results and businesses generally
- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the prudence of PNM's decision to continue participation in Four Corners and recovery of PNM's investments and other costs associated with that plant, and any actions resulting from the pending appeal of the NMPRC's approval of PNM's request to issue Securitized Bonds in PNM's SJGS Abandonment Application (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, or resulting from potential mid-term or long-term impacts related to COVID-19, and supporting forecasts utilized in FTY rate proceedings
- Uncertainty relating to PNM's recent decision to return the currently leased generating capacity in PVNGS Units 1 and 2 at the expiration of their lease terms in 2023 and 2024, including future regulatory requests relating to the ratemaking treatment and replacement resources for the leased assets and the NRC's actions related to transfer of ownership
- 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 proposed exit of Four Corners in 2024, 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, the impacts of COVID-19 on customer usage, 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, from the economic impacts of COVID-19 or from the entry into the Merger Agreement
- The risks associated with completion of generation, transmission, distribution, and other projects, including uncertainty related to regulatory approvals and cost recovery, and the ability of counterparties to meet their obligations under certain arrangements, and supply chain or other outside support services that may be disrupted by the impacts of COVID-19
- 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, including the impacts of COVID-19, as well 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 and the impacts of COVID-19, 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. 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 2021-2025 to be \$4.0 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 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 which were ultimately unsuccessful and remanded to the NMPRC. 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. On December 29, 2020, Sierra Club filed a motion asking the NMPRC to re-open the NM 2016 Rate Case for the limited purpose of conducting a prudence review of certain Four Corners investments that were deferred at the conclusion of the case. On February 10, 2021, the NMPRC rejected Sierra Club's motion to re-open the NM 2016 Rate Case and stated that issues on whether the terms of the ETA provide an opportunity for consideration of prudence for Four Corners undepreciated investments included in a financing order or what effects the rates approved in the NM 2016 Rate Case may have on determining energy transition cost should be considered in the Four Corners Abandonment Application.

On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of energy transition bonds as provided by the ETA. On January 26, 2021, Sierra Club filed a motion in the Four Corners Abandonment Application requesting that the NMPRC order PNM to file supplemental testimony addressing the prudence of Four Corners investments or alternatively that the NMPRC dismiss the Four Corners Application and that PNM may refile after the prudence issue is resolved. In addition, on January 28, 2021, NEE and CFRE filed a motion requesting that the NMPRC dismiss the application, stating that PNM is requesting the NMPRC act contrary to the ETA by using the NTEC transaction as a means of complying with the RPS, that the sale of 200 MW to NTEC is a net detriment to public interest and that none of the costs incurred by PNM in connection with the application or the proposed sale were reasonable or prudent for purpose of recovery. On February 26, 2021, the Hearing Examiner issued an order on the sufficiency of the Four Corners Application requiring PNM to file an amended application with supplemental testimony addressing the prudence of its investment in Four Corners by March 15, 2021. The order also established that the nine-month period for review of the amended application shall start on the date of PNM's filing of the amended application and run through December 15, 2021. See additional discussion of the ETA and PNM's Four Corners Abandonment Application in Notes 16 and 17.

As discussed in Note 16, 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 proposed 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 included a request to issue up to \$361 million of energy transition bonds (the "Securitized Bonds").

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. As discussed in Note 17, after multiple filings and proceedings, in January 2020, the NM Supreme Court issued an order requiring the NMPRC to apply the ETA to all aspects of PNM's SJGS Abandonment Application and indicating that any previous NMPRC orders inconsistent with the Court's ruling should be vacated.

As discussed in Note 17, on April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the related securitized financing under the ETA. On April 10, 2020, CFRE and NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's approval of PNM's request to issue securitized financing under the ETA. The NM Supreme Court granted motions to intervene filed by PNM, WRA, CCAE, and the Sierra

Club. On May 8, 2020, CFRE and NEE filed a joint statement of issues with the NM Supreme Court which asserts that the NMPRC improperly applied the ETA and that the ETA violates the New Mexico Constitution. On June 19, 2020, WRA filed a motion to dismiss CFRE and NEE's constitutional challenges to the ETA on the ground that the New Mexico Constitution provides that only New Mexico district courts have original jurisdiction over the claims. On July 24, 2020, the NM Supreme Court issued an order denying WRA's motion to dismiss. On August 17, 2020, the appellants filed a Brief in Chief and on October 5, 2020, PNM, WRA, CCAE, and Sierra Club filed Answer Briefs. PNM cannot predict the outcome of this matter.

On January 29, 2021 PNM filed its 2020 IRP addressing the 20-year planning period, from 2020 through 2040. The plan focuses on a carbon-free electricity portfolio by 2040 that would eliminate coal at the end of 2024. This includes replacing the power from San Juan with a mix of approved carbon-free resources and the plan to exit Four Corners at the end of 2024. The plan highlights the need for additional investments in a diverse set of resources, including renewables to supply carbon-free power, energy storage to balance supply and demand, and efficiency and other demand-side resources to mitigate load growth.

On June 11, 2020, PNM provided notices to the lessors and the NMPRC that PNM will return the leased assets under both its PVNGS Unit 1 and Unit 2 leases upon expiration of the leases in January 2023 and 2024. PNM issued an RFP for replacement power resources on June 25, 2020. PNM intends to file for the abandonment and approval of replacement resources for its share of PVNGS leased capacity with the NMPRC in 2021.

An adverse decision of the NMPRC regarding PNM's ability to recover certain PVNGS decommissioning costs, PNM's Four Corners Abandonment Application, or the decision made by PNM to 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 generation resources prior to their planned retirement dates, or the NMPRC's denial, modification or delay of PNM's applications 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 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. In connection with its exit from Four Corners discussed, and subject to approval of its Four Corners Abandonment Application discussed in Note 17, PNM will be relieved of its obligations under the coal supply agreement after December 31, 2024. 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.

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.

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 control 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 promulgated the ACE Rule, which required states to set performance standards consistent with the EPA's determination of "best system of emission reduction" technology. On January 19, 2021, the U.S. Court of Appeals for the District of Columbia vacated and remanded the ACE Rule. EPA will now act on remand, and it is unclear what next steps the agency will take. In November 2020, the Trump Administration officially withdrew from the Paris Agreement on climate change. On January 20, 2021, President Biden signed an executive order to rejoin the Paris Agreement and will develop new nationally determined contributions to GHG reductions. That same day, President Biden also signed an executive order requiring a review of environmental regulations issued under the Trump Administration. Also, on January 19, 2021, the day before inauguration of President Biden, the U.S. Court of Appeals for the D.C. Circuit issued an opinion vacating and remanding the ACE Rule. Therefore, PNMR is dealing with an uncertain regulatory and policy environment. Under the Biden Administration, EPA and other federal agencies will seek to expand climate change regulations and work to aggressively reduce GHG emissions. Many state agencies, environmental advocacy groups, and other organizations will continue to focus on decarbonization with enhanced attention on GHG from fossil-fueled generation facilities. See discussion above and Note 17, regarding PNM's abandonment applications 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. The anticipated expansion of federal and 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, 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 currently preparing its next regional haze SIP and has notified PNM that it will not be required to submit a regional haze four-factor analysis for SJGS since PNM will retire its share of SJGS 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, power plant emissions, changes to the ambient air quality standards, and other environmental issues, 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 Biden 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. These advances in technology have reduced the costs of these alternative methods of producing power to a level that is competitive with that of central station power production. In addition, advances made in the capabilities of energy storage have further decreased power production and peak usage through the dispatch of more battery systems. These technological advances have resulted in demand reduction that negatively impact revenue and/or result in underutilized assets that have 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. These estimates include many assumptions about future events and are inherently imprecise. In the event the costs to decommission the 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.

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 recent abandonment applications for SJGS and Four Corners will increase PNM's dependency on other generation resources, including renewable resources, gas-fired facilities, and PVNGS, and will reduce PNM's flexibility in managing those resources. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, 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, 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 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. Further, the Company's use of technologies manufactured by third parties may be subject to espionage activities, and cyber attack of the third party resulting in losses outside of the control of the company. Although the Company has implemented security measures to identify, prevent, detect, respond to, and recover from cyber and physical security events and supply chain disruptions, 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 or supply compromise. 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 PNM, 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 14.3% of PNM's total generating capacity as of December 31, 2020. 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 PNM 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.

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

PNM is obligated to supply power to retail customers. As PNM continues to complete the significant transition in generation resources necessary to achieve 100% carbon emission-free generation by 2040, there are certain potential deliverability and cost risks associated with this transition. These risks are in three main areas, including 1) risk of completion of replacement resources prior to planned generation unit retirements, 2) increasing levels of renewable generation presenting risks of uncertainty and variability that will be further compounded as neighboring systems transition towards increasing levels of renewable resources, and 3) risks for mitigating possible resource volatility through a shrinking energy market.

At peak times, power demand could exceed PNM's forecasted available generation capacity, particularly if PNM's power plants are not performing as anticipated and additional resources are not approved as PNM transitions its system. Competitive market forces or adverse regulatory actions may require PNM to purchase capacity and energy from the market or build additional resources to meet customers' energy needs in an expedited manner. If that occurs, PNM may see opposition to recovery of these additional costs and could experience 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.

Difficulties in obtaining permits and rights-of-way could negatively impact PNM's results of operations

PNM's ability to execute planned operational activities and projects may be inhibited by difficulties in obtaining permits and rights-of-way and other delays. Many of PNM's transmission and distribution lines cross federal, state, and tribal lands. The Company can experience significant delays in obtaining approvals for new infrastructure, as well as renewals of existing rights-of-way and access for critical maintenance, including vegetation management on these lands. The environmental regulations governing siting and permitting on federal, state, and tribal lands are complex, involve multiple agencies, and include a public process. Any of these risk factors could result in higher costs, delays, or the inability to complete planned projects.

General Economic and Weather Factors

The outbreak of COVID-19 and its impact on business and economic conditions could negatively affect the Company's business, results of operations, financial condition, cash flows, and the trading value of PNM's common stock and the Company's debt securities.

The scale and scope of the ongoing COVID-19 outbreak, the resulting global pandemic, and the impact on the economy and financial markets could adversely affect the Company's business, results of operations, financial condition, cash flows, and access to the capital markets. The Company provides critical electric services and has implemented business continuity and emergency response plans to continue to provide these services to its customers and to support the Company's operations. The Company is also working to ensure the health and safety of its employees is not compromised. These measures include precautions with regard to employee and facility hygiene, travel limitations, directing our employees to work remotely whenever possible, and protocols for required work within customer premises to protect our employees, customers and the public. We are also working with our suppliers to understand and mitigate the potential impacts to our supply chain and have taken steps to ensure the integrity of our information systems.

However, there is no assurance that the continued spread of COVID-19 and efforts to contain the virus will not adversely impact our business, results of operations, financial condition, cash flows, ability to access the capital markets, and the trading value of the Company's common stock and debt securities. The continued spread of COVID-19 and related efforts to contain the virus could adversely impact the Company by:

- reducing usage and/or demand for electricity by our customers in New Mexico and Texas;
- reducing the availability and productivity of our employees;
- increasing costs as a result of our emergency measures, including costs to ensure the security of our information systems and delayed payments from our customers and uncollectable accounts;
- causing delays and disruptions in the availability of and timely delivery of materials and components used in our operations;
- causing delays and disruptions in the supply chain resulting in disruptions in the commercial operation dates of certain projects;
- causing a deterioration in the credit quality of our counterparties, including power purchase agreement providers, contractors or retail customers, that could result in credit losses;
- causing impairments of goodwill or long-lived assets and adversely impacting the Company's ability to develop, construct and operate facilities;
- impacting the Company's ability to meet the requirements of the covenants in our existing credit facilities, including covenants regarding debt to capitalization;
- causing a deterioration in our financial metrics or the business environment that impacts our credit ratings;
- decreasing the value of our investment securities held in trusts for pension and other postretirement benefits, and for nuclear and coal mine decommissioning, which could lead to increased funding requirements;
- impacting our liquidity position and cost of and ability to access funds from financial institutions and capital markets;
- receiving unfavorable regulatory treatment in recovery of deferred costs including bad debt expense incurred during the Governor of New Mexico's emergency executive order; and
- causing other unpredictable events.

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.

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.

In mid-February 2021, Texas experienced a severe winter storm delivering the coldest temperatures in 100 years for many parts of the state. On February 15, 2021, ERCOT declared its highest state of emergency, an Emergency Energy Alert Level 3 (EEA3), due to exceptionally high electric demand exceeding supply amid the arctic temperatures. Ultimately, the ERCOT market was not able to deliver sufficient generation load to the grid resulting in significant, statewide outages as ERCOT directed transmission operators to curtail thousands of firm load megawatts. TNMP complied with ERCOT directives to curtail the delivery of electricity in its service territory and did not experience significant outages on its system outside of the ERCOT directed curtailments. Additionally, the PUCT issued an order directing ERCOT to ensure that firm load that is being shed in EEA3 is accounted for in ERCOT's scarcity pricing signals. Energy prices across the ERCOT system eventually were cleared at the system-wide offer cap of \$9,000 per MWh. In response to the severe winter weather, the Governor of Texas issued a Declaration of a State of Disaster for all counties in Texas. In addition, to assist in the recovery from the emergency conditions, the PUCT issued an order that placed a temporary moratorium on customer disconnections due to non-payment for transmission and distribution utilities. The moratorium remains in effect until otherwise ordered by the PUCT. Consequently, the duration of the severe winter storm and high energy costs potentially pose a financial hardship to REPs in the ERCOT region. TNMP has regulatory authorization to defer bad debt expense from REPs to a regulatory asset and seek recovery in a general rate case. On February 19, 2021 the Texas Attorney General issued civil investigation demands to ERCOT and 11 power companies in Texas related to power outages, emergency plans, energy pricing and other factors associated with the severe weather storm. TNMP intends to fully cooperate with all regulatory directives and inquiries with the PUCT, the Texas Attorney General and any other regulatory agencies.

Risks relating to the proposed Merger with Avangrid

There is no assurance when or if the proposed Merger will be completed.

Completion of the proposed Merger is subject to the satisfaction or waiver of a number of conditions as set forth in the Merger Agreement, including regulatory approval and other customary closing conditions. There can be no assurance that the conditions to completion of the proposed Merger will be satisfied or waived or that other events will not intervene to delay or result in the failure to close the proposed Merger. In addition, each of Avangrid and PNMR may unilaterally terminate the

Merger Agreement under certain circumstances, and Avangrid and PNMR may agree at any time to terminate the Merger Agreement, even if PNMR shareholders have already approved the Merger Agreement.

Avangrid and PNMR may be unable to obtain the regulatory approvals required to complete the proposed Merger.

In addition to other conditions set forth in the Merger Agreement, completion of the proposed Merger remains conditioned upon the receipt of various state and U.S. federal regulatory approvals, including, but not limited to, approval by NMPRC, PUCT, FERC, NRC and the FCC. Avangrid and PNMR have made various filings and submissions and will pursue all required consents, orders and approvals in accordance with the Merger Agreement. These consents, orders and approvals may impose requirements, limitations or costs or place restrictions, and if such consents, orders and approvals require an extended period of time to be obtained, such extended period of time could increase the chance that an event occurs that constitutes a material adverse effect with respect to PNMR and thereby may allow Avangrid not to complete the proposed Merger. Such extended period of time also may increase the chance that other adverse effects with respect to PNMR could occur, such as the loss of key personnel. Further, no assurance can be given that the required consents, orders and approvals will be obtained or that the required conditions to closing will be satisfied.

The announcement and pendency of the proposed Merger, during which PNMR is subject to certain operating restrictions, could have an adverse effect on PNMR's businesses, results of operations, financial condition or cash flows.

The announcement and pendency of the proposed Merger could disrupt PNMR's businesses, and uncertainty about the effect of the Merger may have an adverse effect on PNMR. These uncertainties could disrupt the business of PNMR and cause suppliers, vendors, partners and others that deal with PNMR to defer entering into contracts with PNMR or making other decisions concerning PNMR or seek to change or cancel existing business relationships with PNMR. In addition, PNMR's employees may experience uncertainty regarding their roles after the Merger. For example, employees may depart either before the completion of the Merger because of such uncertainty and issues relating to the difficulty of coordination or a desire not to remain following the Merger; and the pendency of the Merger may adversely affect PNMR's ability to retain, recruit and motivate key personnel. Additionally, the Merger requires PNMR to obtain Avangrid's consent prior to taking certain specified actions while the Merger is pending. These restrictions may prevent PNMR from pursuing otherwise attractive business opportunities or other capital structure alternatives and making other changes to its business or executing certain of its business strategies prior to the completion of the Merger. Further, the Merger may give rise to potential liabilities, including as a result of pending and future shareholder lawsuits relating to the Merger. Any of these matters could adversely affect the businesses of, or harm the results of operations, financial condition or cash flows of PNMR.

PNMR will incur substantial transaction fees and costs in connection with the proposed Merger.

PNMR has incurred and expects to incur additional material non-recurring expenses in connection with the proposed Merger and completion of the transactions contemplated by the Merger Agreement. Further, even if the proposed Merger is not completed, PNMR will need to pay certain costs relating to the proposed Merger incurred prior to the date the proposed Merger was abandoned, such as legal, accounting, financial advisory, filing and printing fees.

The termination of the Merger Agreement could negatively impact PNMR.

If the Merger is not completed for any reason, the ongoing businesses of PNMR may be adversely affected and, without realizing any of the anticipated benefits of having completed the Merger, PNMR would be subject to a number of risks, including the following:

- PNMR may experience negative reactions from the financial markets, including a decline of its stock price (which may reflect a market assumption that the Merger will be completed);
- PNMR may experience negative reactions from its customers, regulators and employees;
- PNMR may be required to pay certain costs relating to the Merger, whether or not the Merger is completed; and
- Matters relating to the Merger will have required substantial commitments of time and resources by PNMR management, which would otherwise have been devoted to day-to-day operations and other opportunities that may have been beneficial to PNMR as an independent company.

If the Merger Agreement is terminated and the Board seeks another merger, business combination or other transaction, PNMR shareholders cannot be certain that PNMR will be able to find a party willing to offer equivalent or more attractive consideration than the consideration PNMR shareholders would receive in the Merger. If the Merger Agreement is terminated under certain circumstances specified in the Merger Agreement, PNMR may be required to pay Avangrid a termination fee of \$130.0 million, depending on the circumstances surrounding the termination. Additionally, PNMR may be required to reimburse Avangrid for its reasonable and documented out-of-pocket transaction fees and expenses, up to an amount of \$10.0 million, with any such reimbursable expenses previously paid by PNMR to Avangrid credited and offset against PNMR's payment of the termination fee.

Litigation instituted against PNMR and members of the Board challenging the proposed Merger, and adverse judgments in these lawsuits may prevent the proposed Merger from becoming effective within the expected timeframe or at all.

PNMR and members of the Board have been named as defendants in proceedings challenging the proposed Merger. If the plaintiffs in any of these actions seek a preliminary or permanent injunction and are successful in obtaining one, the parties may be prevented from completing the proposed Merger in the expected timeframe, if at all. Even if the plaintiffs in these actions are not successful in obtaining an injunction, they may nevertheless continue the action and seek damages after the transaction has closed. In addition, the costs of defending against such claims could adversely affect the financial condition of PNMR and such actions could adversely affect the reputation of PNMR and members of its boards of directors or management. See Note 16.

The Merger Agreement contains provisions that could discourage a potential alternative acquirer that might be willing to pay more to acquire PNMR.

The Merger Agreement contains customary “no shop” provisions which state that we will not solicit or facilitate proposals regarding a merger or similar transaction with another party except in certain limited circumstances. While the Board may withdraw or change its recommendation regarding the Merger Agreement in response to an unsolicited third-party proposal to acquire PNMR that the Board determines to be superior to the Merger, there are restrictions on its ability to do so, and in certain circumstances, PNM may also be required to pay Avangrid a termination fee. These provisions could discourage a potential third-party acquirer from considering or proposing an alternative acquisition, even if it were prepared to pay consideration with a higher value than that proposed to be paid in the Merger.

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, FERC, 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 2021-2025 to be \$4.0 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. As discussed in MD&A - Liquidity and Capital Resources, all of PNMR, PNM, and TNMP debt ratings are investment grade. 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% liability matching fixed and 50% return generating income, which includes alternative 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 30% equities and 70% fixed income.

The NDT investment portfolio maintains a target of 80% fixed income and 20% equity 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, 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 the Biden administration will make changes to some, or all, provisions of the Tax Act. In addition, further changes to U.S. Treasury regulations, IRS interpretations of the current provisions of the Tax Act, and actions by the NMPRC, PUCT, and FERC could cause the Company's expectations of the impacts of the Tax Act to change. Any such changes 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, 2020, PNM owned, or jointly owned, 3,389 miles of electric transmission lines, 6,077 miles of distribution overhead lines, 5,962 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, 2020, TNMP owned 983 miles of overhead electric transmission lines, 7,282 miles of overhead distribution lines, 1,348 miles of underground distribution lines, and 110 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

- Navajo Nation Environmental Issues
- Cooling Water Intake Structures
- Santa Fe Generating Station
- Continuous Highwall Mining Royalty Rate
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Navajo Nation Allottee Matters
- Merger Related Litigation

Note 17

- PNM – Renewable Portfolio Standard
- PNM – Energy Efficiency and Load Management
- PNM – 2020 Decoupling
- PNM – Integrated Resource Plans
- PNM – SJGS Abandonment Application
- PNM – Four Corners Abandonment Application
- PNM – COVID-19 Regulatory Matters
- 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 19, 2021 and offices held with PNMR for the past five years are as follows:

Name	Age	Office	Initial Effective Date
P. K. Collawn	62	Chairman, President, and Chief Executive Officer	January 2012
J. D. Tarry	50	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
C. N. Eldred	67	Executive Vice President, Corporate Development and Finance	January 2020
		Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	69	Senior Vice President, General Counsel, and Secretary	January 2010
R. N. Darnell	63	Senior Vice President, Public Policy	January 2012
C. M. Olson	63	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 \$0.2900 per share in July 2019 and \$0.3075 per share in July 2020, which are reflected as being in the second quarter. The Board declared dividends on common stock considered to be for the third quarter of \$0.2900 per share in September 2019 and \$0.3075 per share in September 2020, which are reflected as being in the third quarter above. In December 2019, the Board increased the quarterly dividend from \$0.2900 to \$0.3075 per share and in December 2020 the Board increased the quarterly dividend from \$0.3075 to \$0.3275 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 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.

On February 19, 2021, there were 7,902 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. On December 15, 2020 PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share, aggregating net proceeds of \$283.1 million.

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, 2020, 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 2020 and 2019. 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

	2020	2019	2018	2017	2016
	(In thousands except per share amounts and ratios)				
Total Operating Revenues	\$ 1,523,012	\$ 1,457,603	\$ 1,436,613	\$ 1,445,003	\$ 1,362,951
Net Earnings	\$ 187,316	\$ 92,131	\$ 101,282	\$ 95,419	\$ 131,896
Net Earnings Attributable to PNMR	\$ 172,775	\$ 77,362	\$ 85,642	\$ 79,874	\$ 116,849
Net Earnings Attributable to PNMR per Common Share					
Basic	\$ 2.16	\$ 0.97	\$ 1.07	\$ 1.00	\$ 1.47
Diluted	\$ 2.15	\$ 0.97	\$ 1.07	\$ 1.00	\$ 1.46
Cash Flow Data					
Net cash flows from operating activities	\$ 485,700	\$ 503,163	\$ 428,226	\$ 523,462	\$ 408,283
Net cash flows from investing activities	\$ (733,799)	\$ (673,898)	\$ (475,724)	\$ (466,163)	\$ (699,375)
Net cash flows from financing activities	\$ 292,194	\$ 172,446	\$ 45,646	\$ (58,847)	\$ 242,392
Total Assets	\$ 7,939,854	\$ 7,298,774	\$ 6,865,551	\$ 6,646,103	\$ 6,471,080
Long-Term Debt, including current installments	\$ 3,295,150	\$ 3,007,717	\$ 2,670,111	\$ 2,437,645	\$ 2,392,712
Financing Leases⁽¹⁾	\$ 20,442	\$ 8,739	\$ —	\$ —	\$ —
Common Stock Data					
Market price per common share at year end	\$ 48.53	\$ 50.71	\$ 41.09	\$ 40.45	\$ 34.30
Book value per common share at year end	\$ 25.64	\$ 21.07	\$ 21.20	\$ 21.28	\$ 21.04
Tangible book value per share at year end	\$ 22.16	\$ 17.58	\$ 17.70	\$ 17.79	\$ 17.55
Average number of common shares outstanding – diluted	80,303	79,990	80,012	80,141	80,132
Dividends declared per common share	\$ 1.2500	\$ 1.1775	\$ 1.0850	\$ 0.9925	\$ 0.9025
Capitalization					
PNMR common stockholders' equity	38.3 %	35.8 %	38.6 %	40.9 %	41.1 %
Preferred stock of subsidiary, without mandatory redemption requirements	0.2	0.2	0.3	0.3	0.3
Long-term debt	61.5	64.0	61.1	58.8	58.6
	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

⁽¹⁾ 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

	2020	2019	2018	2017	2016
	(In thousands)				
PNM Revenues					
Residential	\$ 482,852	\$ 427,883	\$ 433,009	\$ 419,105	\$ 395,490
Commercial	392,257	396,987	408,333	408,354	394,150
Industrial	90,845	69,601	61,119	58,851	56,650
Public authority	23,126	20,322	21,688	23,604	23,174
Economy service	15,911	25,757	26,764	30,645	31,121
Transmission	59,856	57,214	54,280	45,932	34,267
Firm-requirements wholesale	—	—	—	4,468	22,497
Other sales for resale ⁽¹⁾	66,253	81,934	76,168	101,897	70,375
Mark-to-market activity	(1,046)	(997)	(1,051)	1,317	(1,645)
Other miscellaneous ⁽²⁾	13,311	13,134	14,098	10,057	9,834
Alternative revenue programs ⁽³⁾	(3,531)	1,987	(2,443)	—	—
Total PNM Revenues	\$ 1,139,834	\$ 1,093,822	\$ 1,091,965	\$ 1,104,230	\$ 1,035,913
TNMP Revenues					
Residential	\$ 158,066	\$ 150,742	\$ 130,288	\$ 126,587	\$ 124,462
Commercial	118,243	116,953	111,261	106,503	103,174
Industrial	27,367	22,405	17,317	18,140	17,427
Other miscellaneous	87,966	76,210	81,583	89,543	81,975
Alternative revenue programs ⁽³⁾	(8,464)	(2,529)	4,199	—	—
Total TNMP Revenues	\$ 383,178	\$ 363,781	\$ 344,648	\$ 340,773	\$ 327,038

⁽¹⁾ Includes sales to Tri-State under hazard sharing agreement.

⁽²⁾ For the years ended December 31, 2020 and 2019, \$7.9 million and \$6.8 million of sales related to the SJGS 65 MW are classified as other miscellaneous revenue from contracts with customers (Note 4).

⁽³⁾ 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.

	2020	2019	2018	2017	2016
PNM MWh Sales					
Residential	3,438,381	3,227,338	3,250,560	3,136,066	3,189,527
Commercial	3,404,595	3,732,099	3,814,659	3,774,417	3,831,295
Industrial	1,412,619	1,152,536	879,308	850,914	875,109
Public authority	245,386	231,538	241,238	250,500	249,860
Economy service ⁽¹⁾	444,903	670,128	667,288	722,501	805,733
Firm-requirements wholesale ⁽²⁾	—	—	—	87,600	429,345
Other sales for resale ⁽³⁾	2,556,184	2,842,759	2,525,220	3,632,137	2,899,322
Total PNM MWh Sales	11,502,068	11,856,398	11,378,273	12,454,135	12,280,191
TNMP MWh Sales					
Residential	3,090,482	3,044,760	3,094,965	2,936,291	2,933,938
Commercial	3,302,589	3,401,288	3,186,788	2,793,263	2,742,366
Industrial	4,952,121	4,281,962	3,681,480	3,202,528	2,976,800
Other	98,775	99,863	100,300	94,767	98,596
Total TNMP MWh Sales	11,443,967	10,827,873	10,063,533	9,026,849	8,751,700

⁽¹⁾ 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.

⁽²⁾ Decrease beginning in 2017 reflects the loss of NEC as a wholesale generation customer (Note 17).

⁽³⁾ Includes sales to Tri-State under hazard sharing agreement.

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
PNM Customers					
Residential	479,112	473,803	470,192	465,950	462,921
Commercial	57,669	57,369	57,000	56,655	56,357
Industrial	194	201	236	239	247
Economy service	1	1	1	1	1
Other sales for resale	19	26	39	36	36
Other	935	930	932	931	887
Total PNM Customers	<u>537,930</u>	<u>532,330</u>	<u>528,400</u>	<u>523,812</u>	<u>520,449</u>
TNMP Consumers					
Residential	217,511	213,435	210,696	207,788	204,744
Commercial	41,267	41,054	40,508	39,814	39,817
Industrial	97	96	88	82	66
Other	1,901	1,911	1,924	1,948	1,993
Total TNMP Consumers	<u>260,776</u>	<u>256,496</u>	<u>253,216</u>	<u>249,632</u>	<u>246,620</u>
PNM Generation Statistics					
Net Capability – MW, including PPAs ⁽¹⁾	2,816	2,761	2,661	2,580	2,791
Coincidental Peak Demand – MW	1,974	1,937	1,885	1,843	1,908
Average Fuel Cost per MMBTU	\$ 1.851	\$ 1.716	\$ 1.808	\$ 1.704	\$ 1.821
BTU per KWh of Net Generation	10,147	10,055	10,193	10,396	9,975

⁽¹⁾ 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 2019 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 799,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR’s electric utilities are PNM and TNMP. PNMR strives to create a clean and bright energy future for customers, communities, and shareholders. PNMR’s strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power built on a foundation of Environmental, Social and Governance (ESG) principles.

Recent Developments

Merger

On October 20, 2020, PNMR, Avangrid and Merger Sub entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid.

Pursuant to the Merger Agreement, each issued and outstanding share of the common stock of PNMR (other than (i) the issued shares of PNMR common stock that are owned by Avangrid, Merger Sub, PNMR or any wholly-owned subsidiary of Avangrid or PNMR, which will be automatically cancelled at the Effective Time and (ii) shares of PNMR common stock outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of, or consented in writing to, the Merger who is entitled to, and who has demanded, payment for fair value of such shares) at the Effective Time will be converted into the right to receive \$50.30 in cash.

The proposed Merger has been unanimously approved by the Boards of Directors of PNMR, Avangrid and Merger Sub and approved by PNMR shareholders at the Special Meeting of Shareholders held on February 12, 2021. On January 20, 2021, the FTC notified PNMR and Avangrid that early termination of the waiting period under the HSR Act in connection with the Merger was granted. CFIUS completed its review of the Merger on February 2, 2021, and has concluded that there are no unresolved national security concerns with respect to the Merger. The early termination of the waiting period under the HSR Act and clearance by CFIUS satisfies two of the conditions to the closing of the transactions contemplated by the Merger Agreement. Consummation of the Merger remains subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the absence of any material adverse effect on PNMR, the receipt of required regulatory approvals (including the PUCT, the NMPRC, FERC, FCC, and the NRC), and the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made. The Merger is currently expected to close in the second half of 2021.

Texas Winter Storm

In mid-February 2021, Texas experienced a severe winter storm delivering the coldest temperatures in 100 years for many parts of the state. As a result, the ERCOT market was not able to deliver sufficient generation load to the grid resulting in significant, statewide outages as ERCOT directed transmission operators to curtail thousands of firm load megawatts. TNMP complied with ERCOT directives to curtail the delivery of electricity in its service territory and did not experience significant outages on its system outside of the ERCOT directed curtailments. In the event a REP files for bankruptcy, TNMP has regulatory authorization to defer bad debt expense from REPs to a regulatory asset and seek recovery in a general rate case. At this time, the Company does not expect significant financial impacts related to this event.

Financial and Business Objectives

PNMR is focused on achieving three key financial objectives:

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

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

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

Earning Authorized Returns on Regulated Businesses

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

Fair and timely rate treatment from regulators is crucial to PNM and TNMP in earning their allowed returns and critical for PNMR to achieve its financial objectives. PNMR believes that earning allowed returns is viewed positively by credit rating agencies and that improvements in the Company's ratings could lower costs to utility customers. Additional information about rate filings is provided in Note 17.

State Regulation

The rates PNM and TNMP charge customers are subject to traditional rate regulation by the NMPRC, FERC, and the PUCT.

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.

The NMPRC's order included a determination that PNM was imprudent in purchasing certain leased capacity in PVNGS Unit 2, extending other PVNGS leased capacity, and installing BDT environmental controls equipment on SJGS. PNM appealed the NMPRC's imprudence findings to the NM Supreme Court. 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 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.

In May 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 upheld all of the decisions in the NMPRC's order except for their decision to permanently disallow recovery of future decommissioning costs related to the purchased and extended leases because PNM was deprived of its rights to due process of law and remanded the case to the NMPRC for further proceedings. In January 2020, the NMPRC issued its order in response to the NM Supreme Court's remand that 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. This amount reflects capital costs not previously impaired during the pendency of the appeal related to PNM's purchase of 64.1 MW, undepreciated capital improvements made in PVNGS Unit 1 during the period such interests had been leased, and investments in BDT environmental controls equipment on SJGS Units 1 and 4. The impairment 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.

On December 29, 2020, Sierra Club filed a motion to re-open the 2016 rate case. The motion requests that the NMPRC re-open the 2016 rate case for the limited purpose of conducting a prudence review of certain Four Corners capital expenditures that the NMPRC deferred in its order approving the settlement agreement. Alternatively, Sierra Club requested that the deferred prudence review be conducted, and given weight as appropriate, in the Four Corners Abandonment Application. On February 10, 2021, the NMPRC rejected Sierra Club's motion to re-open the NM 2016 Rate Case and stated that issues on whether the terms of the ETA provide an opportunity for consideration of prudence for Four Corners undepreciated investments included in a financing order or what effects the rates approved in the NM 2016 Rate Case may have on determining energy transition cost should be considered in the Four Corners Abandonment Application. See Note 17.

2020 Decoupling Petition – On May 28, 2020, PNM filed a petition for approval of a rate adjustment mechanism that would decouple the rates of its residential and small power rate classes. Decoupling is a rate design principle that severs the link between the recovery of fixed costs of the utility through volumetric charges. If approved, customer bills would not be impacted until January 1, 2022. On October 2, 2020, PNM requested an order to vacate the public hearing, scheduled to begin October 13, 2020, and stay the proceeding until the NMPRC decides whether to entertain a petition to issue a declaratory order resolving the issues raised in the motions to dismiss. On October 7, 2020, the Hearing Examiner approved PNM's request to stay the proceeding and vacate the public hearing and on October 30, 2020 PNM filed a petition for declaratory order asking the NMPRC to issue an order finding that full revenue decoupling is authorized by the EUEA. See Note 17. PNM cannot predict the outcome of this matter.

Advanced Metering – Currently, TNMP has more than 242,000 advanced meters across its service territory. Beginning in 2019, the majority of costs associated with TNMP's AMS program are being recovered through base rates. On October 2,

2020, TNMP filed an application with the PUCT for authorization to implement necessary technological upgrades of approximately \$46 million to its AMS program by November 2022. On January 14, 2021, the PUCT approved TNMP's application. TNMP will seek recovery of the investment associated with the upgrade in a future general rate proceeding or distribution cost recovery factor filing.

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, 2022, and 2023 included a proposal for an AMI pilot project, although PNM did not recommend the proposal due to the limited benefits that are cost-effective under a pilot structure. On September 17, 2020 the Hearing Examiner in the energy efficiency case issued a recommended decision recommending that PNM's proposed 2021 energy efficiency and load management program be approved, with the exception of the proposed AMI pilot program. On October 28, 2020 the NMPRC approved the recommended decision.

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.

On April 6, 2020, TNMP filed its 2020 DCOS that requested an increase in annual distribution revenues of \$14.7 million and that new rates go into effect beginning in September 2020. On June 26, 2020, TNMP reached a unanimous settlement agreement with parties that would authorize TNMP to collect a \$14.3 million annual distribution revenue requirement beginning in September 2020. On August 13, 2020, the PUCT approved the unanimous settlement. See Note 17.

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 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.

In May 2019, PNM filed an application with FERC requesting approval to purchase a new 165-mile long 345-kV transmission line and related facilities (the "Western Spirit Line"). Under related agreements, PNM will provide transmission service to approximately 800 MW of new wind generation to be located in eastern New Mexico beginning in 2021 using an incremental rate. All necessary regulatory approvals for PNM to purchase and provide transmission service from the Western Spirit Line have been obtained.

Delivering At or Above Industry-Average Earnings and Dividend Growth

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

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

Under the terms of the Merger Agreement, PNMR has agreed not to declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its equity securities, or make any other actual, constructive or deemed distribution in respect of any equity securities (except (i) PNMR may continue the declaration and payment of planned regular quarterly cash dividends on PNMR common stock for each quarterly period ended after the date of the Merger Agreement, in an amount not to exceed \$0.3275 for any fiscal quarters in 2021 and 2022, with usual record and payment dates in accordance with past dividend practice, and (ii) for any cash dividend or cash distribution by a wholly-owned subsidiary of PNMR to PNMR or another wholly-owned subsidiary of PNMR).

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

Approval Date	Percent Increase
December 2019	6.0 %
December 2020	6.5 %

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. On April 6, 2020, S&P downgraded the ratings for PNMR, PNM, and TNMP one notch and affirmed TNMP's first mortgage bond rating. On September 1, 2020, Moody's affirmed the credit rating and stable outlook for PNM. On September 4, 2020, Moody's affirmed the credit rating for PNMR and TNMP, affirmed the stable outlook for PNMR, and changed TNMP's rating outlook from stable to negative. Upon the announcement of the Merger on October 21, 2020, S&P revised its ratings outlook from stable to positive for PNMR, PNM, and TNMP and affirmed each of the ratings. All of the credit ratings issued by both Moody's and S&P on the Company's debt continue to be investment grade.

Business Focus

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

Safe, Reliable, and Affordable Power

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

PNMR measures reliability and benchmark performance of PNM and TNMP against other utilities using industry-standard metrics, including System Average Interruption Duration Index ("SAIDI"), System Average Interruption Frequency Index ("SAIFI") and Customer Average Interruption Duration Index ("CAIDI"). PNM's and TNMP's investment plans include projects designed to support reliability and reduce the amount of time customers are without power.

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

In March 2020, the World Health Organization declared COVID-19 a global pandemic and then President Trump declared the COVID-19 pandemic a national emergency in the U.S. The Company continues to closely monitor developments and has taken and continues to take steps to mitigate the potential risks related to the COVID-19 pandemic. The Company has assessed and updated its existing business continuity plans in response to the impacts of the pandemic through crisis team meetings and working with other utilities and operators. It has identified its critical workforce, staged backups and limited access to control rooms and critical assets. The Company has worked to protect the safety of its employees using a number of

measures, including minimizing exposure to other employees and the public and mandating work-from-home and flexible arrangements for all applicable job functions. The Company is also working with its suppliers to understand the potential impacts to its supply chain and remains focused on the integrity of its information systems and other technology systems used to run its business. However, the Company cannot predict the extent or duration of the ongoing COVID-19 pandemic, its effects on the global, national or local economy, or on the Company's financial position, results of operations, and cash flows. The Company will continue to monitor developments related to COVID-19 and will remain focused on protecting the health and safety of its customers, employees, contractors, and other stakeholders, and on its objective to provide safe, reliable, affordable and environmentally responsible power. As discussed in Note 17, both PNM and TNMP suspended disconnecting certain customers for past due bills, waived late fees during the pandemic, and have been provided regulatory mechanisms to recover these and other costs resulting from COVID-19. See additional discussion below regarding the Company's customer, community, and stakeholder engagement in response to COVID-19 and in Item 1A. Risk Factors.

Utility Plant and Strategic Investments

Utility Plant Investments – During the 2019 and 2020 period, PNM and TNMP together invested approximately \$1.3 billion in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. During 2018 and 2019 PNM constructed 50 MW of PNM-owned solar-PV facilities, which were approved by the NMPRC in PNM's 2018 renewable energy procurement plan. 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.

New Mexico's clean energy future depends on a reliable, resilient, secure grid to deliver an evolving mix of energy resources to customers. PNM has launched the Wired for the Future capital initiative, which emphasizes new investments in its transmission and distribution infrastructure with three primary objectives: delivering clean energy, enhancing customer satisfaction and increasing grid resilience. Projects are aimed at advancing the infrastructure beyond its original architecture to a more flexible and redundant system accommodating growing amounts of intermittent and distributed generation resources and integrating evolving technologies that provide long-term customer value. See the subheading Capital Requirements included in the full discussion of Liquidity and Capital Resources below for additional discussion of the Company's projected capital requirements.

Strategic Investments – In 2017, PNMR Development and AEP OnSite Partners created NMRD to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. Abundant renewable resources, large tracts of affordable land, and strong government and community support make New Mexico a favorable location for renewable generation. New Mexico ranks third in the Nation for energy potential from solar power according to the Nebraska Department of Energy & Energy Sun Index and ranks third in the Nation for land-based wind capacity according to the U.S. Office of Energy Efficiency and Renewable Energy. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. Through NMRD, PNMR anticipates being able to provide additional renewable generation solutions to customers within and surrounding its regulated jurisdictions through partnering with a subsidiary of one of the United States' largest electric utilities. As of December 31, 2020, NMRD's renewable energy capacity in operation was 135.1 MW, which includes 130 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. 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.

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

Environmentally Responsible Power

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

- Developing strategies to provide reliable and affordable power while transitioning to a 100% emissions-free generating

portfolio by 2040

- Preparing PNM's system to meet New Mexico's increasing renewable energy requirements as cost-effectively as possible
- Increasing energy efficiency participation

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

On September 21, 2020, PNM announced an agreement to partner with Sandia National Laboratories in research and development projects focused on energy resiliency, clean energy, and national security. The partnership demonstrates PNMR's commitment to ESG principles and its support of projects that further its emissions-free generation goals and plans for a reliable, resilient, and secure grid to deliver New Mexico's clean energy future.

The Energy Transition Act ("ETA")

On June 14, 2019, Senate Bill 489, known as the ETA, became effective. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA provides for a transition from fossil-fueled generating resources to renewable and other carbon-free resources by allowing utilities to issue securitized bonds, or "energy transition bonds," related to the retirement of certain coal-fired generating facilities to qualified investors. 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 the planned Four Corners exit in 2024. PNM cannot predict the full impact of the ETA on potential future generating resource abandonment and replacement filings with the NMPRC.

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 sought NMPRC approval to retire PNM's share of SJGS in mid-2022, and for approval of replacement resources and the issuance of approximately \$361 million of Securitized Bonds as provided by the ETA. The application included several replacement resource scenarios including PNM's recommended replacement scenario, which is consistent with PNM's goal of having a 100% emissions-free generating portfolio by 2040 and would have provided cost savings to customers while preserving system reliability. The application included three other replacement resource scenarios that would have placed a greater amount of resources in the San Juan area, or resulted 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 were expected to result in increased costs to customers and the two alternative resource scenarios that resulted in no new fossil-fueled generating facilities were expected to not provide adequate system reliability.

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

In February 2020, the Hearing Examiners issued two recommended decisions recommending approval of PNM's proposed abandonment of SJGS, subject to approval of the separate replacement resources proceeding, and approval of PNM's proposed financing order to issue Securitized Bonds. The Hearing Examiners recommended, among other things, that PNM be authorized to abandon SJGS by June 30, 2022, to issue Securitized Bonds of up to \$361 million, and to establish 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 funds. On April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the Securitized Bonds.

On June 24, 2020, the Hearing Examiners issued a second recommended decision on PNM's request for approval of replacement resources that addressed the entire portfolio of replacement resources. On July 29, 2020 the NMPRC issued an order approving resource selection criteria identified in the ETA and would include PPA's for 650 MW of solar and 300 MW of battery storage. See additional discussion of the ETA and PNM's San Juan Abandonment Application in Notes 16 and 17.

Four Corners Abandonment Application - On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's 13% share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of energy transition bonds as provided by the ETA. If approved, PNM would exit its 200 MW ownership interest in Four Corners seven years earlier than planned and accelerate its exit of coal to 2024. See additional discussion of the ETA and PNM's Four Corners Abandonment Application in Notes 16 and 17.

Other Environmental Matters – SJGS and Four Corners may be required to comply with environmental rules that affect coal-fired generating units, including regional haze rules and the ETA. On June 19, 2019, EPA repealed the Clean Power Plan, promulgated the ACE Rule, and revised the implementing regulations for all emission guidelines issued under the CAA Section 111(d). 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. However, on January 19, 2021, the U.S. Court of Appeals for the D.C. Circuit issued an opinion vacating and remanding the rule, holding that it was based on a misconstruction of Section 111(d) of the Clean Air Act. In addition, on January 27, 2021, President Biden signed an executive order requiring a review of environmental regulations issued under the Trump Administration, which will include a review of the ACE rule. The Biden Administration has made clear that it will seek greater authority in regulating greenhouse gas emissions to address climate change.

SJGS may also be required to comply with additional CO₂ 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.

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

To demonstrate PNMR's commitment to increase the electrification of vehicles in its service territory, PNM filed a Transportation Electrification Program (“TEP”) with the NMPRC on December 18, 2020. The TEP supports customer adoption of electric vehicles by focusing on addressing the barriers to electric vehicle adoption and encourage use. PNM's proposed program budget will be dedicated to low and moderate income customers by providing rebates to both residential and non-residential customers towards the purchase of chargers and/or behind-the-meter infrastructure. See Note 17.

Renewable Energy

PNM's renewable procurement strategy includes utility-owned solar capacity, as well as solar, wind, and geothermal energy purchased under PPAs. As of December 31, 2020, PNM has 158 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 161.0 MW at December 31, 2020. PNM also owns the 500 KW PNM Prosperity Energy Storage Project. The project was one of the first combinations of battery storage and solar-PV energy in the nation and involved extensive research and development of advanced grid concepts. The facility also was the nation's first solar storage facility fully integrated into a utility's power grid. PNM also purchases the output from New Mexico Wind, a 200 MW wind facility, and the output of Red Mesa Wind, an existing 102 MW wind energy center. PNM's 2020 renewable energy procurement plan was approved by the NMPRC in January 2020 and includes a PPA to procure 140 MW of renewable energy and RECs from La Joya Wind II beginning in March 2021. The NMPRC's approved portfolio to replace the planned retirement of SJGS will result in PNM executing solar PPAs of 650 MW combined with 300 MW of battery storage facilities. 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.

As discussed in Strategic Investments above, PNM is currently purchasing the output of 130 MW of solar capacity from NMRD that is used to serve the Facebook data center which includes two 25-year PPAs to purchase renewable energy and

RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities constructed by NMRD to supply power to Facebook, Inc. The first 50 MW of these facilities began commercial operations in November 2019 and the second 50 MW facility began commercial operations in July 2020. Additionally, PNM has entered into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply additional renewable power to the Facebook data center. These PPAs include the purchase of power and RECs from a 50 MW wind project, which was placed in commercial operation in November 2018, a 166 MW wind project which became operational in February 2021, and a 50 MW solar-PV project to be operational in December 2021. On February 8, 2021 PNM filed an application with the NMPRC for approval to service the Facebook data center for an additional 190 MW of solar PPA combined with 100 MW of battery storage and a 50 MW solar PPA expected to be operational in 2023. 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 Solar Direct”). The costs of the program would be recovered directly from subscribing customers through a rate rider, including the costs to procure renewable energy from 50 MW of solar-PV facilities under a 15-year PPA. These facilities are expected to be placed in commercial operation in September 2021. In March 2020, the NMPRC approved PNM’s application, including the rate rider and PPA.

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

Energy Efficiency

Energy efficiency plays a significant role in helping to keep customers’ electricity costs low while meeting their energy needs and is one of the Company’s approaches to supporting environmentally responsible power. PNM’s and TNMP’s energy efficiency and load management portfolios continue to achieve robust results. In 2020, incremental energy saved as a result of new participation in PNM’s portfolio of energy efficiency programs is estimated to be approximately 72 GWh. This is equivalent to the annual consumption of approximately 10,600 homes in PNM’s service territory. PNM’s load management and annual energy efficiency programs also help lower peak demand requirements. In 2020, TNMP’s incremental energy saved as a result of new participation in TNMP’s energy efficiency programs is estimated to be approximately 17 GWh. This is equivalent to the annual consumption of approximately 2,011 homes in TNMP’s service territory. As discussed above, in April 2020, PNM filed an application for energy efficiency and load management programs to be offered in 2021, 2022, and 2023. The proposed program also included an AMI pilot program that PNM did not recommend due to the limited benefits that are cost-effective under a pilot structure. On September 17, 2020 the Hearing Examiner in the case issued a recommended decision recommending that PNM’s proposed 2021 energy efficiency and load management program be approved, with the exception of the proposed AMI pilot program. On October 28, 2020 the NMPRC issued an order adopting the recommended decision in its entirety.

Water Conservation and Solid Waste Reduction

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

In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. In 2020, 18 of the Company’s 23 facilities met the solid waste diversion goal of a 65% diversion rate. The Company expects to continue to do well in this area in the future.

Customer, Stakeholder, and Community Engagement

Another key element of the Company’s commitment to ESG principles is fostering relationships with its customers, stakeholders, and communities. The Company strives to deliver a superior customer experience. Through outreach, collaboration, and various community-oriented programs, the Company has demonstrated a commitment to building productive relationships with stakeholders, including customers, community partners, regulators, intervenors, legislators, and shareholders. 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. As a result, PNM has seen significant gains in customer satisfaction in recent years in both the JD Power Electric Utility Residential Customer Satisfaction StudySM and its

own proprietary relationship surveys. In September 2020, J.D. Power also ranked PNM as one of the top performers in the industry for improved impression of the company based on PNM's response to the COVID-19 pandemic.

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

With reliability being the primary role of a transmission and distribution service provider in Texas' deregulated market, TNMP continues to focus on keeping end-users updated about interruptions and to encourage consumer preparation when severe weather is forecasted. This summer, TNMP provided a 33-person team for two weeks in support of another utility that experienced significant damage to their transmission and distribution system as a result of Hurricane Laura.

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

Another demonstration of the Company's commitment to ESG principles is the Company's tradition of supporting the communities it serves in New Mexico and Texas. This support extends beyond corporate giving and financial donations from the PNM Resources Foundation to also include collaborations on community projects, customer low-income assistance programs, and employee volunteerism. In response to COVID-19, additional efforts were made in each of these areas and exhibit the Company's core value of caring for its customers and communities.

During the three years ending December 31, 2020, corporate giving contributed \$7.7 million to civic, educational, environmental, low income, and economic development organizations. PNM recognizes its responsibility to support programs and organizations that enrich the quality of life across its service territories and seeks opportunities to further demonstrate its commitment in these areas as needs arise. In response to COVID-19 community needs, PNM donated to an Emergency Action Fund in partnership with key local agencies to benefit approximately ninety nonprofits and small businesses facing challenges due to lack of technology, shifting service needs, and cancelled fundraising events. Additionally, employee teams have supported first responders and other front-line workers through the delivery of food and other supplies often procured from local businesses struggling during stay-at-home orders. PNM also donated to the Pueblo Relief Fund and delivered personal protective supplies to pueblo areas and tribal nations throughout New Mexico. While its service territory does not include the Navajo Nation, PNM's operations include generating facilities and employees in this region that has been disproportionately affected by the pandemic. In response, employee teams focused efforts to this region and also provided available supplies of personal protective equipment. PNM has also collaborated with the Navajo Tribal Utility Authority Wireless ("NTUAW") to set up wireless "hot spots" throughout the Navajo Nation in areas without internet access to assist first responders and support continued education opportunities amidst school closures. These actions supplement PNM's continued support for the Navajo Nation. The PNM Navajo Nation Workforce Training Scholarship Program provides support for Navajo tribal members and encourages the pursuit of education and training in existing and emerging jobs in the communities in which they live. In 2019, PNM invested an additional \$500,000 into this scholarship program to further assist in the development and education of the Navajo Nation workforce. PNM has invested in paid summer college engineering internship programs for American Indian students available in the greater Albuquerque area. PNM also continues to partner in the Light up Navajo project, piloted in 2019 and modeled after mutual aid to connect homes without electricity to the power grid. In 2020, PNM also partnered with key local organizations to initiate funding for programs focused on diversity, equity and inclusion.

Another important outreach program is tailored for low-income customers and includes the PNM Good Neighbor Fund to provide customer assistance with their electric utility bills. COVID-19 has increased the needs of these customers along with customers who may not otherwise need to seek assistance. In addition to the suspension of customer disconnections and expansion of customer payment plans, PNM responded with increased communications through media outlets and customer outreach to connect customers with nonprofit community service providers offering financial assistance, food, clothing, medical programs, and services for seniors. As a result of these communication efforts, 3,487 families in need have received emergency assistance through the PNM Good Neighbor Fund during 2020.

Additionally as part of corporate giving, on October 1, 2020, PNM introduced \$2.0 million in funding for new COVID Customer Relief Programs to support income-qualified residential customers and small business customers who have been impacted by the financial challenges created by COVID-19 and have past due electric bills. Qualified customers that pay a portion of their past-due balance can receive assistance toward their remaining balance.

Volunteerism is also an important facet of employee culture keeping our communities safer, stronger, smarter and more vibrant. In 2020, PNM and TNMP employees and retirees contributed over 6,200 virtual and in-person volunteer hours serving local communities by supporting at least 250 organizations. Volunteers also participate in a company-wide annual Day of Service at nonprofits across New Mexico and Texas along with participation on a variety of nonprofit boards and independent volunteer activities throughout the year.

In addition 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. Beginning in 2020, the PNM Resources Foundation is funding grants with a three-year focus on decreasing homelessness, increasing access to affordable housing, reducing carbon emissions, and community safety, with an emphasis on COVID-19 programs. As part of this emphasis, \$0.4 million has been awarded to nonprofits in New Mexico and Texas to assist with work being done on the front lines of the pandemic for community safety, with a focus on helping senior citizens and people currently experiencing homelessness during the shelter-in-place directives. In 2020, the PNM Resources Foundation expanded its matching donation program to offer 2-to-1 matching on employee donations made to social justice nonprofits and increased the annual amount of matching donations available to each of its employees.

Economic Factors

PNM – In 2020, PNM experienced an increase in weather normalized residential load of 5.8%, partially offset by a decrease in weather normalized commercial load of 9.9% compared to 2019, primarily due to New Mexico state restrictions related to COVID-19. PNM did not experience significant impacts to its other customer classes.

TNMP – In 2020, TNMP experienced an increase in volumetric weather normalized retail load of 2.9% compared to 2019. Weather normalized demand-based load, excluding retail transmission consumers, decreased 1.3% in 2020 compared to 2019. TNMP has experienced increased volumetric usage related to residential consumers offset by decreases in its demand based load as a result of impacts related to COVID-19.

The Company is unable to determine the duration or final impacts from COVID-19 as discussed in more detail in Item 1A. Risk Factors. The Company does not currently expect significant negative impacts to customer usage at PNM and TNMP resulting from the economic impacts of COVID-19. However, if current economic conditions worsen, the Company may be required to implement additional measures such as reducing or delaying operating and maintenance expenses and planned capital expenditures.

Results of Operations

Net earnings attributable to PNMR were \$172.8 million, or \$2.15 per diluted share in the year ended December 31, 2020 compared to \$77.4 million, or \$0.97 per diluted share in 2019. Among other things, earnings in 2020 benefited from higher weather normalized residential load at PNM, higher volumetric load at TNMP, warmer weather at PNM, higher earnings on PNM's renewable rate rider, higher transmission rates at PNM and TNMP, higher distribution rates at TNMP, lower plant maintenance costs at PNM, and lower interest expense at PNM. In addition, a regulatory disallowance recorded in 2019 resulting from the NM Supreme Court's opinion in PNM's appeal of the NMPRC's decisions in the NM 2015 Rate Case decreased earnings in 2019 compared to 2020. These increases were partially offset by lower weather normalized commercial load at PNM, lower demand-based load at TNMP, milder weather conditions at TNMP, higher operational and maintenance expense, including higher employee related, outside service and vegetation management expenses at PNM and TNMP, increased depreciation at PNM and TNMP, a donation to COVID Customer Relief Programs at PNM, and lower gains on PNM's PVNGS and coal mine reclamation investment securities. 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 and contains two one-year extension options, subject to approval by a majority of the lenders. PNMR Development has a revolving credit facility with a capacity of \$40.0 million, with the option, subject to lender approval, to further increase the capacity up to \$50.0 million upon 15-days advance notice, that expires in January 2022. 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 \$773.1 million at February 19, 2021. Total availability at PNMR, on a consolidated basis, does not reflect a reduction of \$100.3 million that PNM has reserved to provide liquidity support for the PNM Floating Rate PCRBS. The Company utilizes these credit facilities and cash

flows from operations to provide funds for both construction and operational expenditures. PNMR also has intercompany loan agreements with each of its subsidiaries.

PNMR projects that its consolidated capital requirements, consisting of construction expenditures and dividends, will total \$4.5 billion for 2021-2025. 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 expenditures for PNM's Wired for the Future capital initiative.

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 had 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. On December 15, 2020 PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share aggregating net proceeds of \$283.1 million. Following this settlement, no shares of PNMR's common stock remain subject to future settlement under the PNMR 2020 Forward Equity Sale Agreements. See Note 7.

To fund capital spending requirements to meet growth that balances earnings goals, credits metrics and liquidity needs, the Company has entered into a number of other financing arrangements in 2020, including the TNMP 2020 Bond Purchase Agreements, the PNM 2020 Term Loan, the PNM 2020 Note Purchase Agreement, the PNMR 2020 Term Loan, and the PNMR 2020 Delayed-Draw Term Loan. For further discussion on these financing arrangements see Liquidity and Capital Resources discussion below as well as Note 7.

See discussion of the NMPRC's April 1, 2020 approval of PNM's request to issue approximately \$361 million of Securitized Bonds upon the retirement of SJGS in 2022, and the related appeal of that order to the NM Supreme Court in Note 17.

After considering the effects of these financings and the Company's short-term liquidity position as of February 19, 2021, the Company has consolidated maturities of long-term and short-term debt aggregating \$872.3 million in the period from January 1, 2021 through December 31, 2021, and an additional \$295.0 million that will mature by February 28, 2022. 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 2021-2025 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
	2020	2019	2020/2019
	(In millions, except per share amounts)		
Net earnings attributable to PNMR	\$ 172.8	\$ 77.4	\$ 95.4
Average diluted common and common equivalent shares	80.3	80.0	0.3
Net earnings attributable to PNMR per diluted share	\$ 2.15	\$ 0.97	\$ 1.18

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

	Change
	2020/2019
	(In millions)
PNM	\$ 104.8
TNMP	2.8
Corporate and Other	(12.2)
Net change	\$ 95.4

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
	2020	2019	2020/2019
	(In millions)		
Electric operating revenues	\$ 1,139.8	\$ 1,093.8	\$ 46.0
Cost of energy	345.2	317.7	27.5
Utility margin	794.7	776.1	18.6
Operating expenses	414.4	554.7	(140.3)
Depreciation and amortization	165.3	160.4	4.9
Operating income	214.9	61.1	153.8
Other income (deductions)	31.6	41.3	(9.7)
Interest charges	(64.6)	(72.9)	8.3
Segment earnings (loss) before income taxes	181.9	29.5	152.4
Income (taxes) benefit	(21.9)	26.0	(47.9)
Valencia non-controlling interest	(14.0)	(14.2)	0.2
Preferred stock dividend requirements	(0.5)	(0.5)	—
Segment earnings	<u>\$ 145.5</u>	<u>\$ 40.7</u>	<u>\$ 104.8</u>

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
	2020	2019	2020/2019
	(Gigawatt hours, except customers)		
Residential	3,438.4	3,227.3	6.5 %
Commercial	3,404.6	3,732.1	(8.8)
Industrial	1,412.6	1,152.5	22.6
Public authority	245.4	231.5	6.0
Economy service ⁽¹⁾	444.9	670.1	(33.6)
Other sales for resale	2,556.2	2,842.8	(10.1)
	<u>11,502.1</u>	<u>11,856.3</u>	<u>(3.0) %</u>
Average retail customer (thousands)	<u>535.2</u>	<u>530.3</u>	<u>0.9 %</u>

⁽¹⁾ 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 – 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

	Year Ended December 31, 2020
	Change
	(In millions)
<i>Utility margin:</i>	
<i>Retail customer usage/load</i> – Weather normalized retail KWh sales increased 5.8%, for residential customers, partially offset by decreased sales to commercial customers of 9.9%	0.2
<i>Weather</i> – Warmer weather in 2020; cooling degree days were 16.1% higher	4.8
<i>Leap Year</i> – Increase in revenue due to additional day in 2020	1.8
<i>Transmission</i> – Increase primarily due to higher revenue under formula transmission rates, the addition of new customers, and higher volumes	4.9
<i>Rate riders</i> – Includes renewable energy, fuel clause, and energy efficiency riders which are partially offset in operating expense and depreciation and amortization	5.4
<i>Coal mine reclamation</i> – Increase primarily due to lower expense on surface mine reclamation in 2020 and the remeasurement of PNM's obligation for Four Corners coal mine reclamation in 2019	3.1
<i>Late/disconnect fees</i> – Suspension of late/disconnect fees due to COVID-19	(0.9)
<i>Other</i>	(0.7)
Net Change	<u>\$ 18.6</u>

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

	Year Ended December 31, 2020
	Change
	(In millions)
<i>Operating expenses:</i>	
Lower plant maintenance and administrative costs at SJGS, partially offset with higher costs at Four Corners, PVNGS and gas-fired plants	\$ (5.6)
Regulatory disallowance resulting from the NM Supreme Court's May 2019 decision on PNM's appeal of the NM 2015 Rate Case (Note 17)	(150.6)
2020 increase in estimated coal mine reclamation costs associated with ownership restructuring of SJGS and Four Corners (Note 16)	1.1
Higher employee related and outside service expenses	8.0
Reclassification of upfront and quarterly commitment fees, offset in interest charges	1.3
Higher vegetation management expenses	2.0
Higher bad debt expense	0.7
Higher costs associated with rate riders, which are offset in utility margin	2.4
Other	0.4
Net Change	<u>\$ (140.3)</u>

Depreciation and amortization:

Increased utility plant in service, including solar facilities under the renewable rider	\$ 6.7
Lower accretion expense for PVNGS plant decommissioning AROs resulting from new 2020 study (Note 16)	(1.6)
Other	(0.2)
Net Change	<u>\$ 4.9</u>

	Year Ended December 31, 2020	
	Change	
	(In millions)	
<i>Other income (deductions):</i>		
Lower gains on investment securities in the NDT and coal mine reclamation trusts	\$	(8.0)
Higher equity AFUDC		0.3
Higher trust expenses partially offset by higher interest income related to investment securities in the NDT and coal mine reclamation trusts		(0.3)
COVID Customer Relief Programs donation		(2.0)
Other		0.3
Net Change	\$	<u>(9.7)</u>
<i>Interest charges:</i>		
Issuance of \$200.0 million of SUNs entered into in April 2020	\$	(4.5)
Reclassification of upfront and quarterly commitment fees, offset in operating expenses		1.3
Lower interest on term loans		2.3
Lower interest on PCRBs remarketed in 2020		7.9
Lower debt AFUDC resulting from FERC audit		(1.9)
Interest on deposit by PNMR Development for potential transmission interconnections in 2019, which is offset in Corporate and Other		3.3
Other		(0.1)
Net Change	\$	<u>8.3</u>
<i>Income (taxes) benefits:</i>		
Higher segment earnings before income taxes	\$	(38.8)
Non-deductible compensation		(1.2)
Reversal of excess deferred income taxes resulting from regulatory disallowances in the NM 2015 Rate Case (Note 17)		(7.5)
Other		(0.4)
Net Change	\$	<u>(47.9)</u>

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:

	Year Ended December 31,		Change
	2020	2019	2020/2019
	(In millions)		
Electric operating revenues	\$ 383.2	\$ 363.8	\$ 19.4
Cost of energy	102.1	95.1	7.0
Utility margin	281.1	268.7	12.4
Operating expenses	104.9	98.6	6.3
Depreciation and amortization	87.8	84.3	3.5
Operating income	88.5	85.8	2.7
Other income (deductions)	6.8	4.1	2.7
Interest charges	(30.4)	(29.1)	(1.3)
Segment earnings before income taxes	64.9	60.8	4.1
Income (taxes)	(6.3)	(5.0)	(1.3)
Segment earnings	\$ 58.6	\$ 55.8	\$ 2.8

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

	Year Ended December 31,		Percentage Change	
	2020	2019	2020/2019	
Volumetric load ⁽¹⁾ (GWh)				
Residential	3,069.6	3,044.8	0.8	%
Commercial and other	31.5	31.5	—	%
Total volumetric load	3,101.1	3,076.3	0.8	%
Demand-based load ⁽²⁾ (MW)	20,061.5	19,386.7	3.5	%
Average retail consumers (thousands) ⁽³⁾	258.8	255.2	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 – 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

	Year Ended December 31,
	2020
	Change
	(In millions)
<i>Utility margin:</i>	
<i>Transmission rate relief/load</i> – Transmission cost of service rate increases in March 2019, September 2019, March 2020, and October 2020, and higher wholesale transmission demand-based sales	\$ 11.3
<i>Distribution rate relief</i> – Distribution cost of service rate established in September 2020	5.3
<i>Volumetric-based customer usage/load</i> – Weather normalized KWh sales increased 2.9% in addition to the leap-year impact; the average number of retail consumers increased 1.4%	2.6
<i>Demand based customer usage/load</i> – Demand-based sales for large commercial and industrial customers excluding retail transmission customers decreased 1.3%	(0.7)
<i>Weather</i> – Milder weather in 2020; heating degree days were 19.8% lower in 2020	(2.4)
<i>Rate riders and other</i> – Impacts of rate riders, including the CTC surcharge, energy efficiency rider, rate case expense rider and transmission cost recovery factor, which are offset in operating expense and depreciation and amortization	(3.7)
Net Change	\$ 12.4

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

	Year Ended December 31,
	2020
	Change
	(In millions)
<i>Operating expenses:</i>	
Higher employee related and outside service expenses	\$ 3.4
Higher vegetation management expenses	1.6
Higher property tax due to increased utility plant in service partially offset by lower assessed property values	0.5
Higher amortization of rate expenses offset in utility margin	1.0
Other	(0.2)
Net Change	\$ 6.3

	Year Ended December 31, 2020	
	Change	
	(In millions)	
<i>Depreciation and amortization:</i>		
Increased utility plant in service	\$	6.6
Decreased amortization of CTC (Note 17)		(3.3)
Other	\$	0.2
Net Change	\$	<u>3.5</u>
<i>Other income (deductions):</i>		
Higher equity AFUDC	\$	1.5
Higher CIAC		0.9
Other		0.3
Net Change	\$	<u>2.7</u>
<i>Interest charges:</i>		
Repayment of \$172.3 million 9.5% first mortgage bonds in April 2019	\$	4.3
Issuance of \$305.0 million first mortgage bonds in 2019		(3.6)
Repayment of \$35.0 million term loan in December 2019		1.1
Issuance of \$185.0 million of first mortgage bonds in 2020		(3.4)
Other		0.3
Net Change	\$	<u>(1.3)</u>
<i>Income (taxes) benefits:</i>		
Higher segment earnings before income taxes	\$	(0.9)
Other		(0.4)
Net Change	\$	<u>(1.3)</u>

Corporate and Other

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

	Year Ended December 31,		Change
	2020	2019	2020/2019
	(In millions)		
Total revenues	\$ —	\$ —	\$ —
Cost of energy	—	—	—
Utility margin	—	—	—
Operating expenses	(4.4)	(20.5)	16.1
Depreciation and amortization	22.5	23.2	(0.7)
Operating income (loss)	(18.1)	(2.7)	(15.4)
Other income (deductions)	(1.4)	(1.8)	0.4
Interest charges	(19.4)	(19.0)	(0.4)
Segment earnings (loss) before income taxes	(38.8)	(23.5)	(15.3)
Income (taxes) benefit	7.5	4.4	3.1
Segment earnings (loss)	\$ (31.3)	\$ (19.1)	\$ (12.2)

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 an increase for the reclassification of \$0.7 million in upfront and quarterly commitment fees, previously recorded as interest charges that were not allocated to PNM and TNMP. In addition, operating expenses include \$17.0 million in costs related to the Merger in 2020 and \$1.6 million in cost to review strategic growth opportunities in 2019 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 – 2020 compared to 2019

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

	Year Ended December 31, 2020
	Change
	(In millions)
<i>Other income (deductions):</i>	
Higher equity method investment income from NMRD	\$ 1.1
Increase in donations and other contributions	(0.8)
Other	0.1
Net Change	<u>\$ 0.4</u>
<i>Interest charges:</i>	
Lower interest on term loans	\$ 2.0
Reclassification of upfront and quarterly commitment fees, primarily offset in operating expense	0.9
Elimination of intercompany interest (Note 7)	(3.3)
Net Change	<u>\$ (0.4)</u>
<i>Income (taxes) benefits:</i>	
Higher segment loss before income taxes	\$ 3.9
Other impairments, valuation allowances, and non-deductible expenses	0.5
Non-deductible merger related costs	(1.2)
Other	(0.1)
Net Change	<u>\$ 3.1</u>

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows

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

	Year Ended December 31,		Change
	2020	2019	2020/2019
	(In millions)		
Net cash flows from:			
Operating activities	\$ 485.7	\$ 503.2	\$ (17.5)
Investing activities	(733.8)	(673.9)	(59.9)
Financing activities	292.2	172.4	119.8
Net change in cash and cash equivalents	<u>\$ 44.1</u>	<u>\$ 1.7</u>	<u>\$ 42.4</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 Four Corners Purchase and Sale Agreement and NMRD. Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

	Year Ended December 31,		Change
	2020	2019	2020/2019
Cash (Outflows) for Utility Plant Additions			
(In millions)			
PNM:			
Generation	\$ (35.0)	\$ (72.1)	\$ 37.1
Renewables	—	(62.7)	62.7
Transmission and distribution	(276.1)	(180.1)	(96.0)
Nuclear fuel	(24.0)	(26.9)	2.9
	<u>(335.1)</u>	<u>(341.8)</u>	<u>6.7</u>
TNMP:			
Transmission	(122.9)	(73.9)	(49.0)
Distribution	(198.6)	(180.1)	(18.5)
	<u>(321.5)</u>	<u>(254.0)</u>	<u>(67.5)</u>
Corporate and Other:			
Computer hardware and software	(22.4)	(20.5)	(1.9)
	<u>(679.0)</u>	<u>(616.3)</u>	<u>(62.7)</u>
Other Cash Flows from Investing Activities			
Proceeds from sales of investment securities	591.0	494.5	96.5
Purchases of investment securities	(607.6)	(513.8)	(93.8)
Investments in NMRD	(23.3)	(38.3)	15.0
Other, net	(14.9)	—	(14.9)
	<u>(54.8)</u>	<u>(57.6)</u>	<u>2.8</u>
Net cash flows from investing activities	<u>\$ (733.8)</u>	<u>\$ (673.9)</u>	<u>\$ (59.9)</u>

Cash Flow from Financing Activities

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

- Short-term borrowings decreased \$153.1 million in 2020 compared to a decrease of \$50.8 million in 2019, resulting in a net decrease in cash flows from financing activities of \$102.3 million in 2020
- In 2020, PNMR had net amounts received under transmission interconnection arrangements of \$5.5 million compared to \$5.7 million in 2019
- 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")
- In 2020, PNM borrowed \$250.0 million under the PNM 2020 Term Loan and used the proceeds to repay the PNM 2019 \$250.0 million Term Loan
- In 2020, PNM issued \$200.0 million of PNM 2020 SUNs and used \$100.0 million of proceeds to pay \$100.0 million of the PNM 2020 Term Loan. The remaining \$100.0 million of proceeds from the PNM 2020 SUNs were used to repay borrowings on the PNM Revolving Credit Facility and for other corporate purposes.
- In 2020, PNM prepaid without penalty the remaining \$150.0 million balance of the PNM 2020 Term Loan
- In 2020, PNM purchased PCRBs totaling \$100.3 million that were subject to mandatory tender on June 1, 2020, utilizing borrowings under the PNM Revolving Credit Facility. On July 1, 2020, these bonds were remarketed to investors in the weekly mode
- In 2020, PNM notified bondholders that it was calling PCRBs aggregating \$302.5 million, purchased the bonds in lieu of redemption, and remarketed them to new investors
- In 2020, TNMP issued \$185.0 million of TNMP 2020 Bonds and used the proceeds to reduce short-term debt and for other corporate purposes
- In 2020, PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share, aggregating net proceeds of \$283.1 million
- In 2020, PNMR borrowed \$150.0 million under the PNMR 2020 Term Loan and used the proceeds to repay the \$50.0 million PNMR 2018 Two-Year Term Loan and for other corporate purposes

- In 2020, PNMR executed a \$300.0 million delayed-draw term loan (the “PNMR 2020 Delayed-Draw Term Loan”) and drew \$80.0 million under its terms
- In 2020, the PNMR Development Term Loan was amended to reduce the balance by \$25.0 million

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 informational financing filing and short-term financing plan with the NMPRC. The Company’s ability to access the credit and capital markets at a reasonable cost is largely dependent upon its:

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

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.

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 is 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 all obligations of SJCC, including those under the letter of credit support agreements. See Note 16. In May 2020, JPMorgan Chase Bank N.A. gave notice that it would not extend the letters of credit beyond their October 21, 2020 expiration. In August 2020, PNMR entered into replacement letter of credit arrangements with Wells Fargo Bank, N.A. (the “WFB LOC Facility”) to replace the JPM LOC Facility. Letters of credit were issued under the WFB LOC Facility and exchanged for the letters of credit outstanding under the JPM LOC Facility prior to the expiration of the JPM LOC Facility. On October 21, 2020, the JPM LOC Facility expired according to its terms.

As discussed in Note 7 at December 31, 2020, PNMR had \$300.0 million outstanding of PNMR 2018 SUNs that are expected to mature on March 9, 2021. PNMR intends to utilize the remaining \$220.0 million of capacity under the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs.

As discussed in Note 7 at December 31, 2020, PNMR Development had \$10.0 million outstanding under the PNMR Development Revolving Credit Facility that was expected to mature on February 23, 2021. On February 22, 2021, PNMR Development extended the facility to January 31, 2022.

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. On November 25, 2020, the PNMR Development Term Loan was amended to reduce the balance from \$90.0 million to \$65.0 million and the maturity was subsequently extended to January 31, 2022. The PNMR Development Term Loan bears interest at a variable rate, which was 1.52% on December 31, 2020. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development’s obligations under the loan.

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 was 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, had the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates. On December 15, 2020, PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share aggregating net proceeds of \$283.1 million. In addition, PNMR recorded a net \$0.1 million for equity issuance costs reimbursed by the lead underwriter. Following the settlement, no shares of PNMR’s common stock remain subject to future settlement under the PNMR 2020 Forward Equity Sale Agreements.

In April 2020, PNM entered into the \$250.0 million PNM 2020 Term Loan and used the proceeds to prepay the PNM 2019 \$250.0 million Term Loan, without penalty. As discussed below, on April 30, 2020, PNM used \$100.0 million of proceeds from the PNM 2020 SUNs to prepay without penalty an equal amount of the PNM 2020 Term Loan. On December 21, 2020, PNM prepaid without penalty the remaining \$150.0 million balance of the PNM 2020 Term Loan.

On April 24, 2020, TNMP entered into the TNMP 2020 Bond Purchase Agreement with institutional investors for the sale of \$185.0 million aggregate principal amount of four series of TNMP first mortgage bonds (the "TNMP 2020 Bonds") offered in private placement transactions. TNMP issued \$110.0 million of TNMP 2020 Bonds on April 24, 2020 and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. TNMP issued the remaining \$75.0 million of TNMP 2020 Bonds on July 15, 2020 and used the proceeds from that issuance to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. The TNMP 2020 Bonds are subject to continuing compliance with the covenants set forth in the indenture governing the TNMP 2020 Bonds. The terms of the indenture governing the TNMP 2020 Bonds 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 2020 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium.

On April 30, 2020, PNM issued \$200.0 million aggregate principal amount of PNM 2020 SUNs offered in private placement transactions. PNM used \$100.0 million of proceeds from the PNM 2020 SUNs to repay an equal amount of the PNM 2020 Term Loan. The remaining \$100.0 million of proceeds from the PNM 2020 SUNs were used to repay borrowings on the PNM Revolving Credit Facility and for other corporate purposes. The PNM 2020 Note Purchase Agreement includes customary covenants, including a covenant that requires PNM to maintain 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 2020 SUNs at par. As discussed below, the change of control provisions in the PNM debt agreements, including the PNM 2020 Note Purchase Agreement, are not triggered by the close of the Merger. PNM has the right to redeem any or all of the PNM 2020 SUNs prior to their maturities, subject to payment of a customary make-whole premium.

At December 31, 2019, PNM had \$40.0 million of outstanding PCRBs, which have a final maturity of June 1, 2040 and two series of outstanding PCRBs of \$39.3 million and \$21.0 million, which have a final maturity of June 1, 2043. These PCRBs, aggregating \$100.3 million, were subject to mandatory tender on June 1, 2020. On June 1, 2020, PNM purchased these PCRBs utilizing borrowings under the PNM Revolving Credit Facility and converted the PCRBs to the weekly mode. PNM held these PCRBs (without legally canceling them) until July 1, 2020, when they were remarketed in the weekly mode and PNM used the remarketing proceeds to repay the revolver borrowings. PNM Floating Rate PCRBs in the weekly mode bear interest at rates that are reset weekly, giving investors the option to return the bonds for remarketing to new investors upon 7 days' notice. A corresponding portion of the borrowing capacity under the PNM Revolving Credit Facility is reserved to support the investors' option to return the PNM Floating Rate PCRBs upon 7 days' notice.

At December 31, 2019, PNM had PCRBs outstanding of \$36.0 million at 6.25% issued by the Maricopa County, Arizona Pollution Control Corporation as well as \$255.0 million at 5.90% and \$11.5 million at 6.25% issued by the City of Farmington, New Mexico. On June 22, 2020, PNM provided notice to the bondholders that it was calling the PCRBs aggregating \$302.5 million. On July 22, 2020, PNM purchased the PCRBs in lieu of redemption and remarketed them to new investors. For information concerning the funding dates, mandatory tender dates, and interest rates on the PNM 2020 Fixed Rate PCRBs. See Note 7.

On October 20, 2020, the execution of the Merger Agreement constituted a "Change of Control" under certain PNMR, TNMP and PNMR Development debt agreements. Under each of the specified debt agreements, a "Change of Control" constitutes an "Event of Default," pursuant to which the lender parties thereto had the right to accelerate the indebtedness under the debt agreements. The definition of Change of Control under the PNM debt agreements and PNM note purchase agreements is not triggered by the execution of the Merger Agreement.

To ensure sufficient liquidity pending lender consent to the signing of the Merger Agreement, on October 20, 2020, PNMR entered into backstop credit facilities related to the Merger between PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent. The \$300.0 million 364-day revolving credit facility ("Merger Backstop Revolving Facility") was available to provide liquidity to refinance the PNMR Revolving Credit Facility, if needed, and the \$50.0 million, 364-day delayed-draw term loan ("Merger Backstop Term Loan") was available to provide liquidity to refinance any of the applicable PNMR term loan or TNMP and PNMR Development credit facilities, if needed, and to fund other corporate purposes.

The Merger Backstop Revolving Facility expired upon the execution of the necessary waiver amendments (discussed below). Had PNMR made borrowings under the Merger Backstop Term Loan, those borrowings would have matured on the earliest of the closing of the Merger or October 19, 2021 and would have borne interest at a variable rate based on a pricing grid. As PNMR did not make any borrowings under the Merger Backstop Term Loan by the commitment termination date of December 18, 2020, the Merger Backstop Term Loan expired according to its terms.

On October 26, 2020, PNMR, TNMP and PNMR Development entered into amendment agreements with the lender parties thereto to amend the definition of "Change of Control" such that the entry into the Merger Agreement would not constitute a Change of Control and to waive the Event of Default arising from entry into the Merger Agreement. The amended Change of Control definition under the PNMR, TNMP, and PNMR Development debt agreements will however be triggered again upon the closing of the Merger. Prior to the closing of the Merger, the Company intends to coordinate with the lenders and Avangrid to either amend the definition of Change of Control permitting Avangrid ownership of the Company; or to refinance or enter into new debt agreements that would include Avangrid as owners of the Company. The Change of Control provisions in the PNM debt agreements are not triggered by the close of the Merger.

The documents governing TNMP's aggregate \$750.0 million of outstanding First Mortgage Bonds ("TNMP FMBs") obligated TNMP to offer, within 30 business days following the signing of the Merger Agreement, to prepay all \$750.0 million outstanding TNMP FMBs at 100% of the principal amount, plus accrued and unpaid interest thereon, but without any make-whole amount or other premium. TNMP made such offer to prepay the TNMP FMBs in accordance with the terms of the TNMP FMBs, and none of the holders of the TNMP FMBs accepted TNMP's offer. The documents governing the TNMP FMBs require TNMP to make another offer, within 30 business days of closing of the Merger, to prepay all outstanding TNMP FMBs at par. TNMP will make such offer to prepay the TNMP FMBs in accordance with the terms of the TNMP FMBs; however, holders of the TNMP FMBs are not required to tender their TNMP FMBs and may accept or reject such offer to prepay.

The information in this Annual Report on Form 10-K is for informational purposes only and is neither an offer to purchase, nor a solicitation of an offer to sell, subscribe for or buy any securities in any jurisdiction pursuant to the proposed transactions or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. Similar to the offer to prepay made after signing the Merger Agreement, the post-Merger closing offer to prepay the TNMP FMBs will be made only pursuant to an offer to prepay, which will set forth the terms and conditions of the offer to prepay.

On December 21, 2020, PNMR entered into a \$150.0 million term loan agreement (the "PNMR 2020 Term Loan"), between PNMR and U.S. Bank National Association, as sole lender. Proceeds from the PNMR 2020 Term Loan were used to repay the \$50.0 million PNMR 2018 Two-Year Term Loan and for other corporate purposes. The PNMR 2020 Term Loan bears interest at a variable rate, which was 1.25% at December 31, 2020, and matures on January 31, 2022.

On December 22, 2020, PNMR entered into the \$300.0 million PNMR 2020 Delayed-Draw Term Loan, among PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent. Initially PNMR drew \$80.0 million to refinance existing indebtedness and for other corporate purposes. Draws on the PNMR 2020 Delayed-Draw Term Loan, bear interest at a variable rate, which was 1.40% at December 31, 2020, and mature on January 31, 2022. PNMR expects to use the remaining \$220.0 million of capacity from the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs.

At December 31, 2019, PNMR had a \$50.0 million term loan agreement (the "PNMR 2018 Two-Year Term Loan"). On December 21, 2020, the PNMR 2018 Two-Year Term Loan was repaid and terminated in accordance with its terms.

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

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 was prepaid in April 2020 without penalty.

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 0.80% at December 31, 2020, and must be repaid on or before June 18, 2021.

At January 1, 2019 TNMP had \$35.0 million under 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 indenture governing the TNMP 2019 Bonds 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.

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 2021-2025 are:

	2021	2022-2025	Total
	(In millions)		
Construction expenditures	\$ 1,016.5	\$ 2,944.7	\$ 3,961.2
Dividends on PNMR common stock	112.4	449.8	562.2
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	<u>\$ 1,129.4</u>	<u>\$ 3,396.6</u>	<u>\$ 4,526.0</u>

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. The construction expenditures above include net investments of \$277.2 million in 2021 resulting from PNM's agreement to purchase the Western Spirit Line, subject to certain conditions being met prior to closing. Also included in the table above are expenditures for PNM's Wired for the Future capital initiative that includes investments in transmission and distribution infrastructure to deliver clean energy, enhance customer satisfaction, and increase grid resilience. Not included in the table above are potential future contribution to NMRD and incremental expenditures for new customer growth in New Mexico and Texas, and other transmission and renewable energy expansion in New Mexico. The ability of PNMR to pay dividends on its common stock is dependent upon the ability of PNM and TNMP to 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, 2020, 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. The PNM 2019 \$40.0 million Term Loan matures in June 2021. In addition, PNM has \$146.0 million of PCRBs that must be repriced and \$160.0 million of SUNs that mature in October 2021. PNMR has \$300.0 million of PNMR 2018 SUNs that mature in March 2021. PNMR intends to utilize the remaining capacity of \$220.0 million under the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs. The \$150.0 million PNMR 2019 Term Loan matures in June 2021. The \$150.0 million PNMR 2020 Term Loan, borrowings under the \$300.0 million PNMR Delayed-Draw Term Loan, and the \$65.0 million PNMR Development Term Loan all mature in January 2022. See Note 7 for additional information about the Company's long-term debt and equity arrangements. Funds received from the issuance of approximately 6.2 million shares of PNMR common stock in December 2020 under the PNMR 2020 Forward Equity Sale Agreements were used to repay existing indebtedness and for other corporate purposes. The Company may also enter into new arrangements similar to the existing agreements, borrow under the revolving credit facilities, or issue new long-term debt or equity in the public or private capital markets, or a combination of these sources. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

Liquidity

PNMR’s liquidity arrangements include the \$300.0 million PNMR Revolving Credit Facility, the \$400.0 million PNM Revolving Credit Facility, and the \$75.0 million TNMP Revolving Credit Facility. The PNMR and PNM facilities currently expire in October 2023 but can be extended through October 2024, subject to approval by a majority of the lenders. The TNMP Revolving Credit Facility matures in September 2022 and contains two one-year extension options, subject to approval by a majority of the lenders. PNM also has a \$40.0 million revolving credit facility with banks having a significant presence in New Mexico that expires in December 2022. PNMR Development has a \$40.0 million revolving credit facility that expires in January 2022. PNMR Development has the option, subject to lender approval, to further increase the capacity of this facility to \$50.0 million upon 15-days advanced notice. 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 21. 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.

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, 2020		2020		2019	
	Low	High	Low	High	Low	High
	(In millions)					
PNM:						
PNM Revolving Credit Facility	\$ —	\$ 35.5	\$ —	\$ 147.9	\$ —	\$ 53.4
PNM 2017 New Mexico Credit Facility	—	20.0	—	40.0	—	40.0
TNMP Revolving Credit Facility	—	25.0	—	74.9	—	55.0
PNMR Revolving Credit Facility	10.0	203.5	10.0	203.5	20.0	112.1
PNMR Development Revolving Credit Facility	—	17.0	—	17.0	—	38.9

At December 31, 2020, the average interest rates were 1.66% for the PNMR Revolving Credit Facility, 1.41% for the PNM 2017 New Mexico Credit Facility, and 1.15% for the PNMR Development Revolving Credit Facility. There were no borrowings outstanding under the PNM and TNMP Revolving Credit Facilities at December 31, 2020.

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 and physically settled all the shares for an aggregate of \$283.1 million in net proceeds. 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 2021 - 2025 period, including interim financing to fund construction of replacement resources prior to the issuance of the Securitized Bonds included in PNM’s SJGS Abandonment Application. This could include new debt and/or equity issuances, including instruments such as mandatory convertible securities. 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 market conditions worsen, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives.

Currently, all of the credit ratings issued by both Moody’s and S&P on the Company’s debt are investment grade. 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. On June 25, 2020, Moody’s assigned PNM a short-term issuer rating of P-2. On June 22, 2020, S&P assigned PNM a short-term issuer rating of A-2. 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. On April 6, 2020, S&P reduced the issuer credit ratings for PNMR, PNM, and TNMP by one notch, reduced the senior unsecured debt ratings for PNMR and PNM by one notch, affirmed TNMP’s senior secured debt rating, and issued a

stable outlook for each entity. In addition, S&P reduced PNM's preferred stock rating to BB+. On September 1, 2020, Moody's affirmed the credit rating and stable outlook for PNM. On September 4, 2020, Moody's affirmed the credit rating for PNMR and TNMP, affirmed the stable outlook for PNMR, and changed TNMP's rating outlook from stable to negative. Upon the announcement of the Merger on October 21, 2020, S&P revised its ratings outlook from stable to positive for PNMR, PNM, and TNMP and affirmed each of the ratings. Moody's published an Issuer Comment stating that PNMR's acquisition by Avangrid would be credit positive for PNMR.

As of February 19, 2021, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
S&P			
Issuer rating	BBB	BBB	BBB+
Senior secured debt	*	*	A
Senior unsecured debt	BBB-	BBB	*
Short-term issuer rating	*	A-2	*
Preferred stock	*	BB+	*
Moody's			
Issuer rating	Baa3	Baa2	A3
Senior secured debt	*	*	A1
Senior unsecured debt	Baa3	Baa2	*
Short-term issuer rating	*	P-2	*
* 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 19, 2021, is as follows:

	PNM	TNMP	PNMR Separate	PNMR Development	PNMR Consolidated
(In millions)					
Financing capacity:					
Revolving Credit Facility	\$ 400.0	\$ 75.0	\$ 300.0	\$ 40.0	\$ 815.0
PNM 2017 New Mexico Credit Facility	40.0	—	—	—	40.0
Total financing capacity	\$ 440.0	\$ 75.0	\$ 300.0	\$ 40.0	\$ 855.0
Amounts outstanding as of February 19, 2021:					
Revolving Credit Facility	\$ —	\$ 27.4	\$ 38.9	\$ 10.0	\$ 76.3
PNM 2017 New Mexico Credit Facility	—	—	—	—	—
Letters of credit	2.2	—	3.4	—	5.6
Total short-term debt and letters of credit	2.2	27.4	42.3	10.0	81.9
Remaining availability as of February 19, 2021	\$ 437.8	\$ 47.6	\$ 257.7	\$ 30.0	\$ 773.1
Invested cash as of February 19, 2021	\$ 32.6	\$ —	\$ 0.9	\$ —	\$ 33.5

⁽¹⁾ Availability for the PNM Revolving Credit Facility does not reflect a reduction of \$100.3 million that PNM has reserved to provide liquidity support for the PNM Floating Rate PCRBS.

In addition to the above, PNMR has \$30.3 million of letters of credit outstanding under the WFB LOC Facility. The above table excludes intercompany debt. As of February 19, 2021, PNM, and TNMP had no intercompany borrowings from PNMR. PNMR Development had \$0.4 million in 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 \$650.0 million of Senior Unsecured Notes that expires in May 2023.

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, 2020. See Note 8 for further details about the Company's significant leases.

Contractual Obligations	Payments Due				
	2021	2022-2023	2024-2025	2026 and Thereafter	Total
	(In thousands)				
Long-term debt ^(a)	\$ 576,000	\$ 904,845	\$ 559,000	\$ 1,254,198	\$ 3,294,043
Interest on long-term debt ^(b)	71,329	121,377	106,822	445,852	745,380
Leases ^(c)	34,260	57,167	21,893	29,977	143,297
Transmission service arrangements	17,293	29,044	7,475	4,009	57,821
Coal contracts ^(d)	100,296	75,799	73,628	217,555	467,278
Coal mine reclamation ^{(e) (f)}	4,916	20,098	44,646	45,510	115,170
Nuclear decommissioning funding requirements ^{(f) (i)}	1,300	2,600	2,600	—	6,500
SJGS plant decommissioning funding requirements	—	14,670	—	—	14,670
Information technology outsourcing	6,879	12,324	3,402	—	22,605
Pension and retiree medical ^(g)	1,434	2,737	2,519	—	6,690
Construction expenditures ^(h)	1,016,473	1,526,442	1,418,327	—	3,961,242
Total ⁽ⁱ⁾	<u>\$ 1,830,180</u>	<u>\$ 2,767,103</u>	<u>\$ 2,240,312</u>	<u>\$ 1,997,101</u>	<u>\$ 8,834,696</u>

(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 \$26.7 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)

(d) Represents certain minimum payments that may be required under the coal contracts in effect on December 31, 2020 if no deliveries are taken for SJGS and Four Corners. See Note 17 for information related to the Four Corners Abandonment Application

(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 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

(i) 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

(j) 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 \$13.2 million is not reflected in this table; amounts PNM is obligated to pay Valencia are not included above since Valencia is consolidated by PNM, 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 I, La Joya Wind II, 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. As discussed above, in April 2020, S&P downgraded PNMR's and PNM's senior unsecured debt ratings which triggered pricing changes in the PNMR and PNM Revolving Credit Facilities. No other conditions have occurred that would result in any of the above contingent provisions being implemented. 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,	
	2020	2019
PNMR		
PNMR common equity	38.3 %	35.8 %
Preferred stock of subsidiary	0.2	0.2
Long-term debt	61.5	64.0
Total capitalization	<u>100.0 %</u>	<u>100.0 %</u>
PNM		
PNM common equity	51.4 %	45.2 %
Preferred stock	0.3	0.4
Long-term debt	48.3	54.4
Total capitalization	<u>100.0 %</u>	<u>100.0 %</u>
TNMP		
Common equity	49.2 %	52.9 %
Long-term debt	50.8	47.1
Total capitalization	<u>100.0 %</u>	<u>100.0 %</u>

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 and potential federal and/or state regulation of GHG. Management has published, with Board oversight, a Climate Change Report available at <http://www.pnmresources.com/about-us/sustainability-portal.aspx>, that details the Company's efforts to transition to an emissions-free generating portfolio by 2040.

As part of management's continuing effort to monitor climate-related risks and assess opportunities, the Company has advanced its understanding of climate change by participating in the "2 Degree Scenario" planning 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 5.6 million metric tons of CO₂, which comprises the vast majority of PNM's GHG.

As of December 31, 2020, 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. Similarly, if PVNGS experienced prolonged outages or if PNM's entitlement from PVNGS were reduced, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG Note 8.

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. In 2020, PNM received authorization for a June 2022 abandonment of SJGS Units 1 and 4. In addition, PNM has filed a request with the NMPRC for approval to sell its ownership interest in Four Corners by the end of 2024. See additional discussion of the SJGS and Four Corners Abandonment 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 those two coal-fired stations represent approximately 84% of PNM's 2019 GHG emissions from generation.

As of December 31, 2020, PNM owns or procures power under PPAs from 651 MW of capacity from renewable generation resources. This is comprised of solar-PV, wind, and geothermal facilities including 158 MW of PNM owned solar and 130 MW of solar-PV capacity to serve a data center located in PNM's service territory. This amount will increase to 1,057 MW in 2021, as 306 MW of wind and 100 MW of solar-PV are anticipated to begin commercial operation to serve retail customers and the data center located in PNM's service territory. Finally, the entire portfolio of replacement resources approved by the NMPRC on July 29, 2020, in PNM's SJGS Abandonment Application, includes replacement of SJGS capacity with procurement of 650 MW of solar PPAs combined with 300 MW of battery storage agreements. These resources will result in PNM owning, leasing, or procuring through PPAs, capacity from renewable resources and battery storage facilities totaling 2,007 MW plus the capacity from PVNGS resources totaling 402 MW for a total of 2,409 MW from emissions-free resources. See additional discussion of these resources in Notes 16 and 17.

PNM also has a customer distributed solar generation program that represented 161.0 MW at December 31, 2020. PNM's distributed solar programs will make an estimated 322.0 GWh of emission-free solar energy available this year to offset PNM's annual production from fossil-fueled electricity generation. PNM has offered its customers a comprehensive portfolio

of energy efficiency and load management programs since 2007. PNM's cumulative savings from these programs was approximately 5,194 GWh of electricity through 2020. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 9,500 GWh of electricity savings, which will avoid at least 1.0 million metric tons of CO₂ 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. Moreover, the effects of COVID-19 are still undetermined and will likely impact the energy efficiency savings for 2020. However, PNM is unable to quantify these impacts at this time.

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 (CO₂, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final Prevention of Significant Deterioration ("PSD") and Title V Greenhouse Gas Tailoring Rule to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, the PSD construction permit and Title V operating permit programs, to avoid impacting millions of small GHG emitters. On June 23, 2014, the US Supreme Court found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year, and thus held EPA may not require a source to obtain a PSD permit solely on the basis of its potential GHG. However, the court upheld EPA's authority to apply the PSD program for GHG to "anyway" sources - those sources that are required to comply with the PSD program for other non-GHG pollutants.

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

On August 3, 2015, EPA responded to the Climate Action Plan by issuing 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, and the challenges successfully petitioned the US Supreme Court for a stay of the Clean Power Plan. However, before the DC Circuit could issue an opinion regarding either the Carbon Pollution Standards or the Clean Power Plan, President Trump took office and his administration asked the court to hold both cases in abeyance while the rules were re-evaluated, which the court granted.

On June 19, 2019, EPA repealed the Clean Power Plan, promulgated the ACE Rule, and revised the implementing regulations for all emission guidelines issued under CAA Section 111(d). EPA set the BSER for existing coal-fired power plants as heat rate efficiency improvements based on a range of “candidate technologies” to be applied inside the fence-line. Rather than setting a specific numerical standard of performance, EPA’s rule directed states to determine which of the candidate technologies to apply to each coal-fired unit and to establish standards of performance based on the degree of emission reduction achievable based on the application of BSER.

While corresponding NSR reform regulations were proposed as part of the proposed ACE Rule, the final rule did not include such reform measures. Unrelated to the ACE 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 final rule on NSR Project Emissions Accounting became effective on December 24, 2020 clarifying 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, but the rule may be reconsidered by the Biden Administration.

On January 19, 2021, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *American Lung Association and American Public Health Association v. EPA, et al.* regarding challenges to the EPA’s ACE Rule regulating emissions of carbon dioxide from EGUs under section 111(d) of the Clean Air Act. The D.C. Circuit vacated the ACE Rule and remanded the record to EPA for further consideration consistent with the court’s opinion, finding that EPA misinterpreted the Clean Air Act when it determined that the language of section 111 unambiguously barred consideration of emissions reductions options that were not applied at the source. Unless the court issues a stay of its mandate, the mandate for its decision will issue in March 2021 after the deadline passes for petitions for rehearing or rehearing *en banc*, although an appeal via petitions for certiorari to the US Supreme Court will remain available until June 2021. EPA has filed a motion seeking a partial stay of the mandate as to the repeal of the Clean Power Plan, to ensure the court’s order will not render effective the now out-of-date Clean Power Plan, but the court has not yet acted on that motion. The litigation over the Carbon Pollution Standards remains held in abeyance, but could be reactivated by the parties upon a determination by the court that the Biden Administration is unlikely to finalize the revisions proposed in 2018 and that reconsideration of the rule has concluded.

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

Federal Legislation

Prospects for enactment in Congress of legislation imposing a new or enhanced regulatory program to address climate change remain highly likely in 2021. President Biden has indicated that climate change is a top priority for his administration. A number of legislative proposals to address climate change are already being considered in the Democratic-led U.S. House of Representatives, but the thin majority held by the Democrats in the Senate may make enactment of new laws to address climate change difficult.

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 CO₂ emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the evolving nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. In its 2020 filing for Four Corners Abandonment, PNM analyzed resource portfolio plans for scenarios that assumed Four Corners will operate through 2031 and for scenarios that assumed PNM will exit Four Corners at the end of 2024. The key findings of the analysis include that exiting Four Corners in 2024 would provide long-term economic benefits to PNM’s customers. See 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 “energy transition 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 a NMPRC financing order and are paid by a non-bypassable charge paid by all customers of the issuing utility. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA requires the NMPRC to prioritize replacement resources in a manner intended to mitigate the economic impact to communities affected by these plant retirements. See additional discussion of the ETA in Note 16. PNM expects the ETA will have a significant impact on PNM’s future generation portfolio, including PNM’s scheduled 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. The NM Supreme Court issued a subsequent opinion, on July 23, 2020, more fully explaining the legal rationale for the January 29, 2020 ruling. In February 2020, the Hearing Examiners assigned to the SJGS abandonment and financing proceedings issued recommended decisions recommending approval of PNM’s abandonment application and for the issuance of Securitized Bonds consistent with the requirements of the ETA. On April 1, 2020, the NMPRC approved the Hearing Examiners’ recommendation to approve PNM’s application to retire its share of SJGS in 2022 and for the issuance of Securitized Bonds. See additional discussion of PNM’s SJGS Abandonment Application in Note 17. PNM has also requested approval of energy transition bonds for the Four Corners Abandonment costs of that transition away from coal-fired generation. PNM cannot predict the full impact of the ETA or the outcome of 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. As a result of the President's notice to the United Nations, the U.S. officially withdrew from the Paris Agreement on November 4, 2020. On January 20, 2021, President Biden signed an instrument that will allow the United States to rejoin the Paris Agreement on Climate Change. The instrument was deposited with the United Nations on January 21, 2021, and the United States officially became a party to the Agreement on February 19, 2021.

PNM has calculated GHG reductions that would result from scenarios that assume PNM's scheduled retirement of its share of the SJGS in 2022 and would exit from Four Corners in either 2024 or 2031 and PNM has set a goal to have a 100% emissions-free generating portfolio by 2040. While the Company has not conducted an independent 2 Degree Scenario analysis, our commitment to becoming 100% emissions-free by 2040 produces a carbon emissions reduction pathway that tracks within the ranges of climate scenario pathways that are consistent with limiting the global warming average to less than 2 degrees Celsius. In addition, as an investor-owned utility operating in the state of New Mexico, PNM is required to comply with the 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. On April 1, 2020, the NMPRC approved PNM's application to retire its share of SJGS in 2022. PNM filed for abandonment of Four Corners on January 8, 2021. See Note 17.

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

Assessment of Legislative/Regulatory Impacts

The Company has assessed, and continues to assess, the impacts of climate change legislation and regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding specific GHG limits; the timing of implementation of these limits; the possibility of a market-based trading program, including the associated costs and the availability of emission credits or allowances; the development of emission reduction and/or renewable energy technologies; and provisions for cost containment. Moreover, the assessment assumes various market reactions such as the price of coal and gas and regional plant economics. These assumptions are, at best, preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation or regulation could, among other things, result in significant compliance costs, including large capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Notes 16 and 17. While PNM currently expects the retirement of SJGS in 2022 will provide savings to customers, the ultimate consequences of climate change and environmental regulation could lead to increased costs to customers and affect results of operations, cash flows, and financial condition if the incurred costs are not fully recovered through regulated rates. Higher rates could also contribute to reduced usage of electricity. PNM's assessment process is evolving and is too speculative at this time for a meaningful prediction of the long-term financial impact.

Transmission Issues

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

Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Reform Act"), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and record keeping and may impose margin requirements on swaps that are not centrally cleared. The U.S. Commodity Futures Trading Commission ("CFTC") has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge or mitigate commercial risk. PNM has elected the end-user exception to the mandatory clearing requirement. PNM expects to be in compliance with the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of implementing and complying with the Dodd-Frank Reform Act and related rules, PNM's swap activities could be subject to increased costs, including from higher margin requirements. 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. 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. Impairment testing may 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 2020, the Company utilized a qualitative analysis for the PNM reporting unit and a quantitative analysis for the TNMP reporting unit. No impairments were indicated in the Company's annual goodwill testing, which was performed as of April 1, 2020. 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 analysis performed for the PNM and TNMP reporting units in 2020, 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

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 76% 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 \$10.0 million at December 31, 2020. 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 NMPRC's order to address the recovery of decommissioning costs in a future proceeding.

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 \$9.8 million at December 31, 2020. 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 pledged 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.

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 risk limits to the Board's Finance Committee for its approval
- Reporting to the Board's Audit and Finance Committees on these activities

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

Commodity Risk

Information concerning accounting for derivatives and the risks associated with commodity contracts is set forth in Note 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, 2020 and 2019, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts that meet the definition of a derivative, are recorded at fair value on the 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, 2020 and 2019.

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

Credit Risk

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

**Schedule of Credit Risk Exposure
December 31, 2020**

Rating ⁽¹⁾	Credit Risk Exposure ⁽²⁾	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
(Dollars in thousands)			
External ratings:			
Investment grade	\$ 1,131	1	\$ 1,115
Non-investment grade	—	—	—
Split ratings	—	—	—
Internal ratings:			
Investment grade	889	2	860
Non-investment grade	—	—	—
Total	\$ 2,020		\$ 1,975

- (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, 2020, 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, 2020 was \$1.1 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 9.1%, 15.7%, and 5.4%, if interest rates were to decline by 50 basis points from their levels at December 31, 2020. 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 19, 2021, 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	1.62 %	38,900	\$ 300,000
PNM Revolving Credit Facility	—	—	400,000
PNM 2017 New Mexico Credit Facility	—	—	40,000
TNMP Revolving Credit Facility	0.86	27,400	75,000
PNMR-D Revolving Credit Facility	1.13	10,000	40,000
		<u>76,300</u>	<u>\$ 855,000</u>
Long-term Debt:			
PNM 2019 \$40.0 Million Term Loan	0.77 %	\$ 40,000	
PNMR 2019 Term Loan	1.23	150,000	
PNMR 2020 Term Loan	1.08	150,000	
PNMR 2020 Delayed-Draw Term Loan	1.38	80,000	
PNMR Development Term Loan	1.50	65,000	
		<u>\$ 485,000</u>	

The investments held by PNM in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits had an estimated fair value of \$1.1 billion at December 31, 2020, of which 44.5% 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, 2020, the decrease in the fair value of the fixed-rate securities would be 3.9%, or \$12.5 million. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of \$79.1 million at December 31, 2020, of which 32.3% 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, 2020, the decrease in the fair value of the fixed-rate securities would be 6.4%, or \$0.6 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 include future contributions made by PNM for decommissioning of PVNGS to the extent applicable to certain capacity purchased and leased by PNM in rates charged to retail customers. The NM Supreme Court ruled that the NMPRC's decision to disallow recovery of such future contributions for decommissioning denied PNM due process and remanded the matter back to the NMPRC for further proceedings. 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, 2020. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 45.3% and 52.6% of the securities held by the various PNM and TNMP trusts as of December 31, 2020. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$50.8 million for PNM and \$4.2 million for TNMP.

Alternatives Investment Risk

As of December 31, 2020, PNM and TNMP had 19.6% of its combined pension assets invested in the alternative asset class. The Company's target for this class is 15%. 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 \$9.8 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**

INDEX

	<u>Page</u>
Management's Annual Reports on Internal Control Over Financial Reporting	2
Reports of Independent Registered Public Accounting Firm	5
Financial Statements:	
PNM Resources, Inc. and Subsidiaries	
Consolidated Statements of Earnings	12
Consolidated Statements of Comprehensive Income	13
Consolidated Statements of Cash Flows	14
Consolidated Balance Sheets	16
Consolidated Statements of Changes in Equity	18
Public Service Company of New Mexico and Subsidiaries	
Consolidated Statements of Earnings	19
Consolidated Statements of Comprehensive Income	20
Consolidated Statements of Cash Flows	21
Consolidated Balance Sheets	23
Consolidated Statements of Changes in Equity	25
Texas-New Mexico Power Company and Subsidiaries	
Consolidated Statements of Earnings	26
Consolidated Statements of Cash Flows	27
Consolidated Balance Sheets	29
Consolidated Statements of Changes in Common Stockholder's Equity	31
Notes to Consolidated Financial Statements	32
Supplementary Data:	
Schedule I - Condensed Financial Information of Parent Company	121
Schedule II - Valuation and Qualifying Accounts	124

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, 2020.

The effectiveness of our internal control over financial reporting as of and for the year ended December 31, 2020 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, 2020.

/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, 2020.

/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, 2020 and 2019, 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, 2020, and the related notes and financial statement Schedules 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, 2020, 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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, 2020 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 Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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 \$800.3 million as of December 31, 2020.

We identified the evaluation of the pension and other postretirement benefit obligations as a critical audit matter. This was due to the specialized skills and knowledge required to understand the Company's actuarial models and evaluate the assumptions related to the determination of the discount rates utilized in the measurement of the pension and other postretirement benefit obligations. 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 following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the pension and other postretirement benefit obligations process, including controls related to the development of the discount rates used and the evaluation of the actuarial models. We involved actuarial professionals 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 changes in the discount rates from the prior year against changes in published indices.

Palo Verde Nuclear Generating Station asset retirement obligation

As discussed in Notes 1 and 15 to the consolidated financial statements, the Company recorded an asset retirement obligation (ARO) liability of \$138.4 million as of December 31, 2020 for the estimated future cost of nuclear decommissioning and other asset retirement activities at the Palo Verde Nuclear Generating Station (PVNGS).

We identified the evaluation of the PVNGS ARO liability for nuclear decommissioning costs as a critical audit matter. This was due to the specialized skills and knowledge needed to evaluate the Company's selection of planned decommissioning activities to satisfy their legal obligation and determine the associated estimates of decommissioning costs of those selected activities. In addition, there was subjectivity in performing procedures due to the sensitivity of the PVNGS ARO liability to changes in the estimates of decommissioning costs.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the PVNGS ARO, including controls related to the selection of planned decommissioning activities and the estimated decommissioning costs associated with those activities. We involved professionals with specialized skills and knowledge, who assisted in:

- Assessing (1) the professional qualifications of the Company's third-party engineering specialists and engineering firm, (2) the knowledge, skill, and ability of the Company's third-party engineering specialists, and (3) the relationship of the third-party engineering specialists and the engineering firm to the Company.

- Evaluating the Company's planned decommissioning activities and estimates of decommissioning costs for those activities. This included evaluating the third-party engineering specialist's reports, which are based on the engineering specialist's observations of the physical characteristics of PVNGS, and comparing the planned activities to third-party information such as guidance obtained from the United States Nuclear Regulatory Commission, which specifies acceptable decommissioning plans.
- Assessing the Company's rationale for changes in the estimate of decommissioning costs from the prior year and evaluating the changes.

/s/ KPMG LLP

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

Albuquerque, New Mexico

March 1, 2021

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, 2020 and 2019, 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, 2020, and the related notes and financial statement 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

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 \$720.3 million as of December 31, 2020.

We identified the evaluation of the pension and other postretirement benefit obligations as a critical audit matter. This was due to the specialized skills and knowledge required to understand the Company's actuarial models and evaluate the assumptions related to the determination of the discount rates utilized in the measurement of the pension and other postretirement benefit obligations. 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 following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the pension and other postretirement benefit obligations process, including controls related to the development of the discount rates used and the evaluation of the actuarial models. We involved actuarial professionals 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 changes in the discount rates from the prior year against changes in published indices.

Palo Verde Nuclear Generating Station asset retirement obligation

As discussed in Notes 1 and 15 to the consolidated financial statements, the Company recorded an asset retirement obligation (ARO) liability of \$138.4 million as of December 31, 2020 for the estimated future cost of nuclear decommissioning and other asset retirement activities at the Palo Verde Nuclear Generating Station (PVNGS).

We identified the evaluation of the PVNGS ARO liability for nuclear decommissioning costs as a critical audit matter. This was due to the specialized skills and knowledge needed to evaluate the Company's selection of planned decommissioning activities to satisfy their legal obligation and determine the associated estimates of decommissioning costs of those selected activities. In addition, there was subjectivity in performing procedures due to the sensitivity of the PVNGS ARO liability to changes in the estimates of decommissioning costs.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the PVNGS ARO, including controls related to the selection of planned decommissioning activities and the estimated decommissioning costs associated with those activities. We involved professionals with specialized skills and knowledge, who assisted in:

- Assessing (1) the professional qualifications of the Company's third-party engineering specialists and engineering firm, (2) the knowledge, skill, and ability of the Company's third-party engineering specialists, and (3) the relationship of the third-party engineering specialists and the engineering firm to the Company.
- Evaluating the Company's planned decommissioning activities and estimates of decommissioning costs for those activities. This included evaluating the third-party engineering specialist's reports, which are based on the engineering specialist's observations of the physical characteristics of PVNGS, and comparing the planned activities to third-party information such as guidance obtained from the United States Nuclear Regulatory Commission, which specifies acceptable decommissioning plans.
- Assessing the Company's rationale for changes in the estimate of decommissioning costs from the prior year and evaluating the changes.

/s/ KPMG LLP

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

Albuquerque, New Mexico
March 1, 2021

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, 2020 and 2019, 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, 2020, and the related notes and Schedules 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, 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.

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.

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 judgments. 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.

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 \$80.0 million as of December 31, 2020.

We identified the evaluation of the pension and other postretirement benefit obligations as a critical audit matter. This was due to the specialized skills and knowledge required to understand the Company's actuarial models and evaluate the assumptions related to the determination of the discount rates utilized in the measurement of the pension and other postretirement benefit obligations. 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 following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the pension and other postretirement benefit

obligations process, including controls related to the development of the discount rates used and the evaluation of the actuarial models. We involved actuarial professionals 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 changes in the discount rates from the prior year against changes in published indices.

/s/ KPMG LLP

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

Albuquerque, New Mexico
March 1, 2021

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share amounts)		
Electric Operating Revenues			
Contracts with customers	\$ 1,469,799	\$ 1,377,208	\$ 1,359,740
Alternative revenue programs	(11,994)	(542)	1,756
Other electric operating revenue	65,207	80,937	75,117
Total electric operating revenues	1,523,012	1,457,603	1,436,613
Operating Expenses:			
Cost of energy	447,241	412,812	399,726
Administrative and general	216,334	189,227	188,470
Energy production costs	137,977	142,545	149,477
Regulatory disallowances and restructuring costs	1,098	151,095	65,598
Depreciation and amortization	275,612	267,808	241,188
Transmission and distribution costs	77,943	69,862	76,434
Taxes other than income taxes	81,526	80,054	79,673
Total operating expenses	1,237,731	1,313,403	1,200,566
Operating income	285,281	144,200	236,047
Other Income and Deductions:			
Interest income	14,223	14,022	15,540
Gains (losses) on investment securities	21,599	29,589	(17,176)
Other income	19,973	15,382	17,586
Other (deductions)	(18,732)	(15,328)	(15,696)
Net other income and (deductions)	37,063	43,665	254
Interest Charges	114,392	121,016	127,244
Earnings before Income Taxes	207,952	66,849	109,057
Income Taxes (Benefits)	20,636	(25,282)	7,775
Net Earnings	187,316	92,131	101,282
(Earnings) Attributable to Valencia Non-controlling Interest	(14,013)	(14,241)	(15,112)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Net Earnings Attributable to PNMR	\$ 172,775	\$ 77,362	\$ 85,642
Net Earnings Attributable to PNMR per Common Share:			
Basic	\$ 2.16	\$ 0.97	\$ 1.07
Diluted	\$ 2.15	\$ 0.97	\$ 1.07

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,		
	2020	2019	2018
	(In thousands)		
Net Earnings	\$ 187,316	\$ 92,131	\$ 101,282
Other Comprehensive Income (Loss):			
Unrealized Gains on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(5,736), \$(6,534), and \$(963)	16,850	19,190	2,827
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$2,412, \$3,572, and \$970	(7,085)	(10,491)	(2,849)
Pension Liability Adjustment:			
Experience gains (losses), net of income tax (expense) benefit of \$(1,562), \$973, and \$2,637	4,587	(2,856)	(7,745)
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(2,108), \$(1,880), and \$(1,922)	6,192	5,524	5,646
Fair Value Adjustment for Cash Flow Hedges:			
Change in fair market value, net of income tax (expense) benefit of \$(323), \$888, and \$(145)	948	(2,607)	425
Reclassification adjustment for losses included in net earnings, net of income tax (benefit) of \$442, \$(186), and \$(56)	(1,298)	547	160
Total Other Comprehensive Income (Loss)	<u>20,194</u>	<u>9,307</u>	<u>(1,536)</u>
Comprehensive Income	207,510	101,438	99,746
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,013)	(14,241)	(15,112)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Comprehensive Income Attributable to PNMR	<u>\$ 192,969</u>	<u>\$ 86,669</u>	<u>\$ 84,106</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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 187,316	\$ 92,131	\$ 101,282
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	314,668	301,068	275,641
Deferred income tax expense (benefit)	20,405	(25,385)	8,019
(Gains) losses on investment securities	(21,599)	(29,589)	17,176
Stock based compensation expense	8,141	6,414	7,120
Regulatory disallowances and restructuring costs	1,098	151,095	65,598
Allowance for equity funds used during construction	(11,254)	(9,478)	(10,404)
Other, net	3,497	2,395	3,529
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(42,035)	3,796	(8,702)
Materials, supplies, and fuel stock	11,512	(6,095)	(5,331)
Other current assets	(8,135)	1,872	2,491
Other assets	29,923	42,803	(840)
Accounts payable	7,403	(272)	(20,714)
Accrued interest and taxes	(9,347)	14,691	1,713
Other current liabilities	23,740	(7,212)	2,614
Other liabilities	(29,633)	(35,071)	(10,966)
Net cash flows from operating activities	<u>485,700</u>	<u>503,163</u>	<u>428,226</u>
Cash Flows From Investing Activities:			
Additions to utility and non-utility plant	(679,028)	(616,273)	(501,213)
Proceeds from sales of investment securities	590,998	494,528	984,533
Purchases of investment securities	(607,591)	(513,866)	(1,007,022)
Investments in NMRD	(23,250)	(38,250)	(9,000)
Principal repayments on Westmoreland Loan	—	—	56,640
Other, net	(14,928)	(37)	338
Net cash flows from investing activities	<u>(733,799)</u>	<u>(673,898)</u>	<u>(475,724)</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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term loan borrowings (repayments)	—	(150,000)	50,000
Revolving credit facilities borrowings (repayments), net	(153,100)	99,200	(119,500)
Long-term borrowings	1,267,845	745,000	984,652
Repayment of long-term debt	(977,845)	(407,302)	(750,162)
Issuance of common stock	283,208	—	—
Proceeds from stock option exercise	24	943	963
Awards of common stock	(11,984)	(9,918)	(12,635)
Dividends paid	(98,502)	(92,926)	(84,961)
Valencia's transactions with its owner	(18,056)	(15,401)	(17,095)
Amounts received under transmission interconnection arrangements	11,452	10,015	4,060
Refunds paid under transmission interconnection arrangements	(5,905)	(4,325)	(2,830)
Other, net	(4,943)	(2,840)	(6,846)
Net cash flows from financing activities	<u>292,194</u>	<u>172,446</u>	<u>45,646</u>
Change in Cash and Cash Equivalents	<u>44,095</u>	<u>1,711</u>	<u>(1,852)</u>
Cash and Cash Equivalents at Beginning of Year	<u>3,833</u>	<u>2,122</u>	<u>3,974</u>
Cash and Cash Equivalents at End of Year	<u>\$ 47,928</u>	<u>\$ 3,833</u>	<u>\$ 2,122</u>
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	<u>\$ 106,575</u>	<u>\$ 115,476</u>	<u>\$ 119,308</u>
Income taxes paid (refunded), net	<u>\$ 969</u>	<u>\$ (2,929)</u>	<u>\$ 842</u>
Supplemental schedule of noncash investing and financing activities:			
(Increase) decrease in accrued plant additions	<u>\$ (58,796)</u>	<u>\$ 8,781</u>	<u>\$ (11,502)</u>
Contribution of utility plant to NMRD	<u>\$ 801</u>	<u>\$ —</u>	<u>\$ 578</u>

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2020	2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 47,928	\$ 3,833
Accounts receivable, net of allowance for uncollectible accounts of \$8,333 and \$1,163	113,410	85,889
Unbilled revenues	55,504	57,416
Other receivables	23,797	12,165
Materials, supplies, and fuel stock	66,417	77,929
Regulatory assets	202	7,373
Income taxes receivable	5,672	4,933
Other current assets	64,549	44,472
Total current assets	377,479	294,010
Other Property and Investments:		
Investment securities	440,115	388,832
Equity investment in NMRD	90,655	65,159
Other investments	284	356
Non-utility property, including financing leases	24,075	12,459
Total other property and investments	555,129	466,806
Utility Plant:		
Plant in service, held for future use, and to be abandoned	8,480,799	7,918,601
Less accumulated depreciation and amortization	2,835,170	2,713,503
	5,645,629	5,205,098
Construction work in progress	218,719	161,106
Nuclear fuel, net of accumulated amortization of \$41,367 and \$42,354	100,801	99,805
Net utility plant	5,965,149	5,466,009
Deferred Charges and Other Assets:		
Regulatory assets	557,790	556,930
Goodwill	278,297	278,297
Operating lease right-of-use assets, net of accumulated amortization	105,133	131,212
Other deferred charges	100,877	105,510
Total deferred charges and other assets	1,042,097	1,071,949
	\$ 7,939,854	\$ 7,298,774

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2020	2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 32,000	\$ 185,100
Current installments of long-term debt	575,518	490,268
Accounts payable	169,317	103,118
Customer deposits	6,606	10,585
Accrued interest and taxes	68,206	76,815
Regulatory liabilities	7,471	505
Operating lease liabilities	27,460	29,068
Dividends declared	28,243	24,625
Other current liabilities	62,841	47,397
Total current liabilities	977,662	967,481
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,719,632	2,517,449
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	694,512	626,058
Regulatory liabilities	850,228	866,243
Asset retirement obligations	183,421	181,962
Accrued pension liability and postretirement benefit cost	58,101	95,037
Operating lease liabilities	81,065	105,512
Other deferred credits	255,230	185,753
Total deferred credits and other liabilities	2,122,557	2,060,565
Total liabilities	5,819,851	5,545,495
Commitments and Contingencies (See Note 16)		
Cumulative Preferred Stock of Subsidiary		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 85,834,874 and 79,653,624 shares)	1,429,941	1,150,552
Accumulated other comprehensive income (loss), net of income taxes	(79,183)	(99,377)
Retained earnings	698,707	627,523
Total PNMR common stockholders' equity	2,049,465	1,678,698
Non-controlling interest in Valencia	59,009	63,052
Total equity	2,108,474	1,741,750
	\$ 7,939,854	\$ 7,298,774

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			Total PNMR Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock	AOCI	Retained Earnings			
	(In thousands)					
Balance at December 31, 2017, as originally reported	\$ 1,157,665	\$ (95,940)	\$ 633,528	\$ 1,695,253	\$ 66,195	\$ 1,761,448
Cumulative effect adjustment (Note 9)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	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)
Balance at December 31, 2018	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	—	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)
Balance at December 31, 2019	1,150,552	(99,377)	627,523	1,678,698	63,052	1,741,750
Net earnings before subsidiary preferred stock dividends	—	—	173,303	173,303	14,013	187,316
Total other comprehensive income	—	20,194	—	20,194	—	20,194
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(101,591)	(101,591)	—	(101,591)
Proceeds from stock option exercise	24	—	—	24	—	24
Awards of common stock	(11,984)	—	—	(11,984)	—	(11,984)
Issuance of common stock	283,208	—	—	283,208	—	283,208
Stock based compensation expense	8,141	—	—	8,141	—	8,141
Valencia's transactions with its owner	—	—	—	—	(18,056)	(18,056)
Balance at December 31, 2020	<u>\$ 1,429,941</u>	<u>\$ (79,183)</u>	<u>\$ 698,707</u>	<u>\$ 2,049,465</u>	<u>\$ 59,009</u>	<u>\$ 2,108,474</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,		
	2020	2019	2018
	(In thousands)		
Electric Operating Revenues			
Contracts with customers	\$ 1,078,158	\$ 1,010,898	\$ 1,019,291
Alternative revenue programs	(3,531)	1,987	(2,443)
Other electric operating revenue	65,207	80,937	75,117
Total electric operating revenues	<u>1,139,834</u>	<u>1,093,822</u>	<u>1,091,965</u>
Operating Expenses:			
Cost of energy	345,167	317,725	314,036
Administrative and general	180,113	172,903	173,178
Energy production costs	137,977	142,545	149,477
Regulatory disallowances and restructuring costs	1,098	150,599	66,339
Depreciation and amortization	165,325	160,368	151,866
Transmission and distribution costs	49,534	42,970	46,855
Taxes other than income taxes	45,723	45,644	45,181
Total operating expenses	<u>924,937</u>	<u>1,032,754</u>	<u>946,932</u>
Operating income	<u>214,897</u>	<u>61,068</u>	<u>145,033</u>
Other Income and Deductions:			
Interest income	14,469	14,303	13,089
Gains (losses) on investment securities	21,599	29,589	(17,176)
Other income	9,800	9,213	10,992
Other (deductions)	(14,279)	(11,813)	(11,128)
Net other income and (deductions)	<u>31,589</u>	<u>41,292</u>	<u>(4,223)</u>
Interest Charges	<u>64,615</u>	<u>72,900</u>	<u>76,458</u>
Earnings before Income Taxes	181,871	29,460	64,352
Income Taxes (Benefit)	21,857	(25,962)	(5,971)
Net Earnings	160,014	55,422	70,323
(Earnings) Attributable to Valencia Non-controlling Interest	(14,013)	(14,241)	(15,112)
Net Earnings Attributable to PNM	146,001	41,181	55,211
Preferred Stock Dividends Requirements	(528)	(528)	(528)
Net Earnings Available for PNM Common Stock	<u>\$ 145,473</u>	<u>\$ 40,653</u>	<u>\$ 54,683</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 COMPREHENSIVE INCOME

	Year Ended December 31, 2020		
	2020	2019	2018
	(In thousands)		
Net Earnings	\$ 160,014	\$ 55,422	\$ 70,323
Other Comprehensive Income (Loss):			
Unrealized Gains on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(5,736), \$(6,534), and \$(963)	16,850	19,190	2,827
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$2,412, \$3,572, and \$970	(7,085)	(10,491)	(2,849)
Pension Liability Adjustment:			
Experience gains (losses), net of income tax (expense) benefit of \$(1,562), \$973, and \$2,637	4,587	(2,856)	(7,745)
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of \$(2,108), \$(1,880), and \$(1,922)	6,192	5,524	5,646
Total Other Comprehensive Income (Loss)	<u>20,544</u>	<u>11,367</u>	<u>(2,121)</u>
Comprehensive Income	180,558	66,789	68,202
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,013)	(14,241)	(15,112)
Comprehensive Income Attributable to PNM	<u>\$ 166,545</u>	<u>\$ 52,548</u>	<u>\$ 53,090</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, 2020		
	2020	2019	2018
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 160,014	\$ 55,422	\$ 70,323
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	198,418	191,213	182,355
Deferred income tax expense (benefit)	22,442	(20,145)	3,334
(Gains) losses on investment securities	(21,599)	(29,589)	17,176
Regulatory disallowances and restructuring costs	1,098	150,599	66,339
Allowance for equity funds used during construction	(6,958)	(6,656)	(8,173)
Other, net	4,950	2,697	3,395
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(41,340)	5,877	(7,959)
Materials, supplies, and fuel stock	11,753	(5,128)	(6,238)
Other current assets	(2,718)	(1,453)	(468)
Other assets	24,882	31,409	6,894
Accounts payable	6,267	(3,617)	(14,290)
Accrued interest and taxes	(11,572)	5,579	(7,617)
Other current liabilities	16,682	18,002	(17,975)
Other liabilities	(36,556)	(39,087)	(3,761)
Net cash flows from operating activities	<u>325,763</u>	<u>355,123</u>	<u>283,335</u>
Cash Flows From Investing Activities:			
Utility plant additions	(335,055)	(341,847)	(255,627)
Proceeds from sales of investment securities	590,998	494,528	984,533
Purchases of investment securities	(607,591)	(513,866)	(1,007,022)
Other, net	(14,942)	(87)	544
Net cash flows from investing activities	<u>(366,590)</u>	<u>(361,272)</u>	<u>(277,572)</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,		
	2020	2019	2018
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term borrowings (repayments), net	(48,000)	15,600	2,600
Short-term borrowings (repayments) - affiliate, net	—	(19,800)	19,800
Long-term borrowings	852,845	290,000	450,000
Repayment of long-term debt	(902,845)	(200,000)	(450,025)
Equity contribution from parent	230,000	—	—
Valencia's transactions with its owner	(18,056)	(15,401)	(17,095)
Dividends paid	(41,181)	(528)	(77,904)
Amounts received under transmission interconnection arrangements	4,050	10,015	72,260
Refunds paid under transmission interconnection arrangements	(5,905)	(72,525)	(2,830)
Other, net	364	(296)	(3,592)
Net cash flows from financing activities	<u>71,272</u>	<u>7,065</u>	<u>(6,786)</u>
Change in Cash and Cash Equivalents	30,445	916	(1,023)
Cash and Cash Equivalents at Beginning of Year	1,001	85	1,108
Cash and Cash Equivalents at End of Year	\$ 31,446	\$ 1,001	\$ 85
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	<u>\$ 60,663</u>	<u>\$ 65,445</u>	<u>\$ 73,029</u>
Income taxes paid (refunded), net	<u>\$ —</u>	<u>\$ (3,544)</u>	<u>\$ 134</u>
Supplemental schedule of noncash investing activities:			
(Increase) decrease in accrued plant additions	<u>\$ (48,037)</u>	<u>\$ 4,751</u>	<u>\$ (12,310)</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**

	December 31,	
	2020	2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 31,446	\$ 1,001
Accounts receivable, net of allowance for uncollectible accounts of \$8,333 and \$1,163	88,239	60,447
Unbilled revenues	43,724	46,602
Other receivables	21,814	11,039
Affiliate receivables	8,819	8,825
Materials, supplies, and fuel stock	60,472	72,225
Regulatory assets	—	7,373
Income taxes receivable	15,706	15,122
Other current assets	51,908	36,561
Total current assets	322,128	259,195
Other Property and Investments:		
Investment securities	440,115	388,832
Other investments	120	178
Non-utility property, including financing leases	9,505	4,470
Total other property and investments	449,740	393,480
Utility Plant:		
Plant in service, held for future use, and to be abandoned	6,022,753	5,753,267
Less accumulated depreciation and amortization	2,158,915	2,076,291
	3,863,838	3,676,976
Construction work in progress	148,962	108,787
Nuclear fuel, net of accumulated amortization of \$41,367 and \$42,354	100,801	99,805
Net utility plant	4,113,601	3,885,568
Deferred Charges and Other Assets:		
Regulatory assets	457,953	435,467
Goodwill	51,632	51,632
Operating lease right-of-use assets, net of accumulated amortization	97,461	120,585
Other deferred charges	88,518	97,064
Total deferred charges and other assets	695,564	704,748
	\$ 5,581,033	\$ 5,242,991

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

	December 31,	
	2020	2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$ 10,000	\$ 58,000
Current installments of long-term debt	345,570	350,268
Accounts payable	121,050	66,746
Affiliate payables	14,058	12,524
Customer deposits	6,606	10,585
Accrued interest and taxes	32,630	43,617
Regulatory liabilities	5,419	371
Operating lease liabilities	25,130	25,927
Dividends declared	132	132
Other current liabilities	33,737	25,066
Total current liabilities	594,332	593,236
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,351,050	1,397,752
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	579,150	521,990
Regulatory liabilities	664,873	683,398
Asset retirement obligations	182,718	181,081
Accrued pension liability and postretirement benefit cost	56,273	87,838
Operating lease liabilities	75,941	97,992
Other deferred credits	201,415	155,744
Total deferred credits and liabilities	1,760,370	1,728,043
Total liabilities	3,705,752	3,719,031
Commitments and Contingencies (See Note 16)		
Cumulative Preferred Stock		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,494,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(78,511)	(99,055)
Retained earnings	388,336	283,516
Total PNM common stockholder's equity	1,804,743	1,449,379
Non-controlling interest in Valencia	59,009	63,052
Total equity	1,863,752	1,512,431
	\$ 5,581,033	\$ 5,242,991

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					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2017, as originally reported	\$ 1,264,918	\$ (97,093)	\$ 254,349	\$ 1,422,174	\$ 66,195	\$ 1,488,369
Cumulative effect adjustment (Note 9)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	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)
Balance at December 31, 2018	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)
Dividends declared on common stock	—	—	—	—	—	—
Valencia's transactions with its owner	—	—	—	—	(15,401)	(15,401)
Balance at December 31, 2019	1,264,918	(99,055)	283,516	1,449,379	63,052	1,512,431
Net earnings	—	—	146,001	146,001	14,013	160,014
Total other comprehensive income	—	20,544	—	20,544	—	20,544
Dividends declared on preferred stock	—	—	(528)	(528)	—	(528)
Equity contribution from parent	230,000	—	—	230,000	—	230,000
Dividends declared on common stock	—	—	(40,653)	(40,653)	—	(40,653)
Valencia's transactions with its owner	—	—	—	—	(18,056)	(18,056)
Balance at December 31, 2020	<u>\$ 1,494,918</u>	<u>\$ (78,511)</u>	<u>\$ 388,336</u>	<u>\$ 1,804,743</u>	<u>\$ 59,009</u>	<u>\$ 1,863,752</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,		
	2020	2019	2018
	(In thousands)		
Electric Operating Revenues			
Contracts with customers	\$ 391,641	\$ 366,310	\$ 340,449
Alternative revenue programs	(8,463)	(2,529)	4,199
Total electric operating revenues	383,178	363,781	344,648
Operating Expenses:			
Cost of energy	102,074	95,087	85,690
Administrative and general	44,811	40,530	38,642
Regulatory disallowances	—	496	(741)
Depreciation and amortization	87,799	84,259	66,189
Transmission and distribution costs	28,409	26,892	29,579
Taxes other than income taxes	31,632	30,703	28,792
Total operating expenses	294,725	277,967	248,151
Operating income	88,453	85,814	96,497
Other Income and Deductions:			
Other income	8,546	5,559	5,487
Other (deductions)	(1,718)	(1,428)	(1,422)
Net other income and (deductions)	6,828	4,131	4,065
Interest Charges	30,388	29,100	32,091
Earnings before Income Taxes	64,893	60,845	68,471
Income Taxes	6,308	5,046	16,880
Net Earnings	\$ 58,585	\$ 55,799	\$ 51,591

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,		
	2020	2019	2018
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 58,585	\$ 55,799	\$ 51,591
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	89,010	85,453	68,078
Regulatory disallowances	—	496	(741)
Deferred income tax expense (benefit)	(7,773)	(7,650)	1,780
Allowance for equity funds used during construction and other, net	(4,305)	(2,808)	(2,048)
Other, net			
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(695)	(2,081)	(744)
Materials and supplies	(241)	(967)	907
Other current assets	(1,291)	(798)	1,929
Other assets	8,553	8,366	(7,174)
Accounts payable	1,607	1,829	(4,199)
Accrued interest and taxes	(530)	186	12,263
Other current liabilities	2,518	771	6,719
Other liabilities	2,135	(1,004)	(6,610)
Net cash flows from operating activities	<u>147,573</u>	<u>137,592</u>	<u>121,751</u>
Cash Flows From Investing Activities:			
Utility plant additions	(321,505)	(254,006)	(223,448)
Net cash flows from investing activities	<u>(321,505)</u>	<u>(254,006)</u>	<u>(223,448)</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,		
	2020	2019	2018
	(In thousands)		
Cash Flow From Financing Activities:			
Short-term borrowings (repayments), net	(15,000)	(2,500)	17,500
Short-term borrowings (repayments) – affiliate, net	—	(100)	100
Long-term borrowings	185,000	305,000	95,000
Repayment of long-term debt	—	(207,302)	—
Amounts received under transmission interconnection arrangements	7,402	—	—
Equity contribution from parent	71,000	80,000	30,000
Dividends paid	(58,534)	(55,265)	(41,903)
Other, net	(2,136)	(2,419)	(700)
Net cash flows from financing activities	187,732	117,414	99,997
Change in Cash and Cash Equivalents	13,800	1,000	(1,700)
Cash and Cash Equivalents at Beginning of Year	1,000	—	1,700
Cash and Cash Equivalents at End of Year	\$ 14,800	\$ 1,000	\$ —
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	\$ 28,114	\$ 28,055	\$ 28,629
Income taxes paid, (refunded) net	\$ 16,790	\$ 13,611	\$ 4,266
Supplemental schedule of noncash investing and financing activities:			
(Increase) decrease in accrued plant additions	\$ (11,415)	\$ 5,035	\$ 1,810

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 BALANCE SHEETS**

	December 31,	
	2020	2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 14,800	\$ 1,000
Accounts receivable	25,171	25,442
Unbilled revenues	11,780	10,814
Other receivables	3,703	2,713
Affiliate receivables	—	—
Materials and supplies	5,945	5,704
Regulatory assets	202	—
Other current assets	1,738	1,280
Total current assets	63,339	46,953
Other Property and Investments:		
Other investments	164	178
Non-utility property, including financing leases	13,298	6,684
Total other property and investments	13,462	6,862
Utility Plant:		
Plant in service and plant held for future use	2,193,270	1,919,256
Less accumulated depreciation and amortization	537,707	516,795
	1,655,563	1,402,461
Construction work in progress	61,359	42,554
Net utility plant	1,716,922	1,445,015
Deferred Charges and Other Assets:		
Regulatory assets	99,837	121,463
Goodwill	226,665	226,665
Operating lease right-of-use assets, net of accumulated amortization	7,206	9,954
Other deferred charges	5,149	3,527
Total deferred charges and other assets	338,857	361,609
	\$ 2,132,580	\$ 1,860,439

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 BALANCE SHEETS

	December 31,	
	2020	2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$ —	\$ 15,000
Accounts payable	33,620	20,598
Affiliate payables	5,883	5,419
Accrued interest and taxes	41,538	42,068
Regulatory liabilities	2,052	134
Operating lease liabilities	2,193	2,753
Other current liabilities	4,486	3,565
Total current liabilities	89,772	89,537
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	853,673	670,691
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	145,369	140,151
Regulatory liabilities	185,355	182,845
Asset retirement obligations	703	881
Accrued pension liability and postretirement benefit cost	1,828	7,199
Operating lease liabilities	4,779	7,039
Other deferred credits	25,423	7,469
Total deferred credits and other liabilities	363,457	345,584
Total liabilities	1,306,902	1,105,812
Commitments and Contingencies (See Note 16)		
Common Stockholder's Equity:		
Common stock (\$10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	685,166	614,166
Retained earnings	140,448	140,397
Total common stockholder's equity	825,678	754,627
	\$ 2,132,580	\$ 1,860,439

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 CHANGES IN COMMON STOCKHOLDER'S EQUITY

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
(In thousands)				
Balance at December 31, 2017	\$ 64	\$ 504,166	\$ 130,175	\$ 634,405
Net earnings	—	—	51,591	51,591
Equity contribution from parent	—	30,000	—	30,000
Dividends declared on common stock	—	—	(41,903)	(41,903)
Balance at December 31, 2018	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)
Balance at December 31, 2019	64	614,166	140,397	754,627
Net earnings	—	—	58,585	58,585
Equity contributions from parent	—	71,000	—	71,000
Dividends declared on common stock	—	—	(58,534)	(58,534)
Balance at December 31, 2020	<u>\$ 64</u>	<u>\$ 685,166</u>	<u>\$ 140,448</u>	<u>\$ 825,678</u>

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

(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. On October 20, 2020, PNMR, Avangrid, and Merger Sub, entered into an Agreement and Plan of Merger (the "Merger Agreement") pursuant to which Merger Sub will merge with and into PNMR (the "Merger"), with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid. See Note 22.

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 2019 and 2018 Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2020 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 Services Company expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost and are reflected as general and administrative expenses in the business segments. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, as well as equity transactions, and interconnection billings. 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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. Regulatory assets and liabilities are amortized into earnings over the authorized recovery period. 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

Cash deposits received and held for a period of time that are restricted to a specific purpose, under the terms of their effective agreements, are considered 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. At December 31, 2020 and 2019 there was no restricted cash for PNMR, PNM, and TNMP.

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 and amortization of non-utility property, including right-of-use assets for finance leases as discussed in Note 8, 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,		
	2020	2019	2018
PNM			
Electric plant	2.47 %	2.47 %	2.40 %
Common, intangible, and general plant	7.65 %	7.91 %	8.18 %
TNMP	3.95 %	4.04 %	3.49 %

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

“debt AFUDC”) and a return on other funds (allowance for equity funds used during construction or “equity AFUDC”). The debt 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, 2020, 2019, and 2018, PNM recorded \$3.0 million, \$5.0 million, and \$6.1 million of debt AFUDC at annual rates of 2.40%, 2.99%, and 3.19% and \$7.0 million, \$6.7 million, and \$8.2 million of equity AFUDC at annual rates of 3.42%, 3.95%, and 4.25%. For the years ended December 31, 2020, 2019, and 2018, TNMP recorded \$2.1 million, \$2.4 million, and \$2.3 million of debt AFUDC at rates of 2.20%, 3.23%, and 3.32% and \$4.3 million, \$2.8 million, and \$2.2 million of equity AFUDC at rates of 4.42%, 3.78%, and 3.29%.

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	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Coal	\$ 12,012	\$ 24,914	\$ 12,012	\$ 24,914	\$ —	\$ —
Materials and supplies	54,405	53,015	48,460	47,311	5,945	5,704
	\$ 66,417	\$ 77,929	\$ 60,472	\$ 72,225	\$ 5,945	\$ 5,704

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. 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. For the years ended December 31, 2020, 2019 and 2018, PNM recorded impairment losses on the available-for-sale debt securities of \$3.2 million, \$5.7 million and \$13.7 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.

On January 1, 2020, the Company adopted *Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changed the way entities recognize impairments of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. The majority of the amendments made by the new standard were required to be applied using a modified retrospective approach. The amendments in ASU 2016-13 also required entities to separately measure and realize an impairment for credit losses on available-for-sale debt securities for which carrying value exceeded fair value, unless such securities have been determined to be other than temporarily impaired and the entire decrease in value had been realized as an impairment. The amendments relating to available-for-sale debt securities were required to be applied prospectively on the date of adoption. PNM records a realized loss as an impairment for any available-for-sale debt security that has a fair value that is less than its carrying value. As a result, the Company has no available-for-sale debt securities for which carrying value exceeds fair value and there are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings. Adoption of the standard did not result in the Company recording a cumulative effect adjustment or impact the Company’s accounting for its available-for-sale debt securities. All gains and losses resulting from sales and changes in the fair value of equity securities are recognized immediately in earnings.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

Equity Method Investment

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. See Note 21.

Goodwill

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 Credit Losses

Accounts receivable consists primarily of trade receivables from customers. In the normal course of business, credit is extended to customers on a short-term basis. PNM estimates the allowance for credit losses on trade receivables based on historical experience and estimated default rates. Accounts receivable balances are reviewed monthly, adjustments to the allowance for credit losses are made as necessary, and amounts that are deemed uncollectible are written off. See Note 4. TNMP has a regulatory mechanism to recover uncollectible amounts from REPs as a regulatory asset and as a result has no allowance for credit losses on trade receivables. As discussed in Note 17, both PNM and TNMP suspended disconnecting certain customers for past due bills, waived late fees during the pandemic, and have been provided regulatory mechanisms to recover bad debt expense and other costs resulting from COVID-19.

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.

Derivatives

The Company records derivative instruments, including energy contracts, on the balance sheet as either an asset or liability measured at their fair value. Changes in the derivatives' fair value are recognized 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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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. 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, 2020, 2019, and 2018, as well as the amounts of environmental liabilities at December 31, 2020 and 2019 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. All deferred taxes are 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. Rate-regulated enterprises are required to 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. Certain unusual or infrequently occurring items, as well as adjustments due to enactment of new tax laws, have been excluded from the estimated annual effective tax rate calculation.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Lease Commitments

See Note 8 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 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.

(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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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.

2020	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
Electric operating revenues	\$ 1,139,834	\$ 383,178	\$ —	\$ 1,523,012
Cost of energy	345,167	102,074	—	447,241
Utility margin	794,667	281,104	—	1,075,771
Other operating expenses	414,445	104,852	(4,419)	514,878
Depreciation and amortization	165,325	87,799	22,488	275,612
Operating income (loss)	214,897	88,453	(18,069)	285,281
Interest income	14,469	—	(246)	14,223
Other income (deductions)	17,120	6,828	(1,108)	22,840
Interest charges	(64,615)	(30,388)	(19,389)	(114,392)
Segment earnings (loss) before income taxes	181,871	64,893	(38,812)	207,952
Income taxes (benefit)	21,857	6,308	(7,529)	20,636
Segment earnings (loss)	160,014	58,585	(31,283)	187,316
Valencia non-controlling interest	(14,013)	—	—	(14,013)
Subsidiary preferred stock dividends	(528)	—	—	(528)
Segment earnings (loss) attributable to PNMR	<u>\$ 145,473</u>	<u>\$ 58,585</u>	<u>\$ (31,283)</u>	<u>\$ 172,775</u>
At December 31, 2020:				
Total Assets	\$ 5,581,033	\$ 2,132,580	\$ 226,241	\$ 7,939,854
Goodwill	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

2019	PNM	TNMP	Corporate and Other	PNMR Consolidated
(In thousands)				
Electric operating revenues	\$ 1,093,822	\$ 363,781	\$ —	\$ 1,457,603
Cost of energy	317,725	95,087	—	412,812
Utility margin	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
Operating income	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)
Segment earnings (loss) before income taxes	29,460	60,845	(23,456)	66,849
Income taxes	(25,962)	5,046	(4,366)	(25,282)
Segment earnings (loss)	55,422	55,799	(19,090)	92,131
Valencia non-controlling interest	(14,241)	—	—	(14,241)
Subsidiary preferred stock dividends	(528)	—	—	(528)
Segment earnings (loss) attributable to PNMR	<u>\$ 40,653</u>	<u>\$ 55,799</u>	<u>\$ (19,090)</u>	<u>\$ 77,362</u>
At December 31, 2019:				
Total Assets	\$ 5,242,991	\$ 1,860,439	\$ 195,344	\$ 7,298,774
Goodwill	\$ 51,632	\$ 226,665	\$ —	\$ 278,297

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

2018	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
Electric operating revenues	\$ 1,091,965	\$ 344,648	\$ —	\$ 1,436,613
Cost of energy	314,036	85,690	—	399,726
Utility margin	777,929	258,958	—	1,036,887
Other operating expenses	481,030	96,272	(17,650)	559,652
Depreciation and amortization	151,866	66,189	23,133	241,188
Operating income (loss)	145,033	96,497	(5,483)	236,047
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)
Segment earnings (loss) before income taxes	64,352	68,471	(23,766)	109,057
Income taxes (benefit)	(5,971)	16,880	(3,134)	7,775
Segment earnings (loss)	70,323	51,591	(20,632)	101,282
Valencia non-controlling interest	(15,112)	—	—	(15,112)
Subsidiary preferred stock dividends	(528)	—	—	(528)
Segment earnings (loss) attributable to PNMR	\$ 54,683	\$ 51,591	\$ (20,632)	\$ 85,642
At December 31, 2018:				
Total Assets	\$ 5,035,883	\$ 1,665,177	\$ 164,491	\$ 6,865,551
Goodwill	\$ 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.

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,		
	2020	2019	2018
REP A	21 %	22 %	21 %
REP B	18 %	17 %	15 %
REP C	11 %	12 %	12 %

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

(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)				
Balance at December 31, 2017, as originally reported	\$ 13,169	\$ (110,262)	\$ (97,093)	\$ 1,153	\$ (95,940)
Cumulative effect adjustment (Note 9)	(11,208)	—	(11,208)	—	(11,208)
Balance at January 1, 2018, as adjusted	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)
Balance at December 31, 2018	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
Balance at December 31, 2019	10,638	(109,693)	(99,055)	(322)	(99,377)
Amounts reclassified from AOCI (pre-tax)	(9,497)	8,300	(1,197)	(1,740)	(2,937)
Income tax impact of amounts reclassified	2,412	(2,108)	304	442	746
Other OCI changes (pre-tax)	22,586	6,149	28,735	1,271	30,006
Income tax impact of other OCI changes	(5,736)	(1,562)	(7,298)	(323)	(7,621)
Net after-tax change	9,765	10,779	20,544	(350)	20,194
Balance at December 31, 2020	<u>\$ 20,403</u>	<u>\$ (98,914)</u>	<u>\$ (78,511)</u>	<u>\$ (672)</u>	<u>\$ (79,183)</u>

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

(4) Electric Operating Revenues

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

estimated. Unbilled electric revenue is estimated based on daily generation volumes, estimated customer usage by class, line losses, historical trends and experience, applicable customer rates or by using AMS data where available. 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. 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. Additional disclosures to further disaggregate 2020, 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, 2020, 2019, and 2018 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. 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. ARP revenues are required to be reported separately from 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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. Regulatory assets and liabilities are recognized 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 integrated 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. 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-ahead, week-ahead, month-ahead, and other sales of excess generation not required to fulfill retail load and contractual commitments.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	\$ 482,852	\$ 158,066	\$ 640,918
Commercial	392,257	118,243	510,500
Industrial	90,845	27,367	118,212
Public authority	23,126	5,853	28,979
Economy energy service	15,911	—	15,911
Transmission	59,856	78,374	138,230
Miscellaneous	13,311	3,738	17,049
Total revenues from contracts with customers	1,078,158	391,641	1,469,799
Alternative revenue programs	(3,531)	(8,463)	(11,994)
Other electric operating revenues	65,207	—	65,207
Total Electric Operating Revenues	\$ 1,139,834	\$ 383,178	\$ 1,523,012
Year Ended December 31, 2019			
Electric Operating Revenues:			
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
Total Electric Operating Revenues	\$ 1,093,822	\$ 363,781	\$ 1,457,603
Year Ended December 31, 2018			
Electric Operating Revenues:			
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
Total Electric Operating Revenues	\$ 1,091,965	\$ 344,648	\$ 1,436,613

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 credit losses, includes \$86.2 million and \$59.3 million at December 31, 2020 and 2019 resulting from contracts with customers. All of TNMP's accounts receivable results from contracts with customers. On January 1, 2020, the Company adopted *Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. As a result of the adoption of the new standard and economic conditions resulting from the COVID-19 pandemic, PNM updated its allowance for accounts receivable balances and recorded incremental credit losses of \$7.2 million in the year ended December 31, 2020. The NMPRC issued an order authorizing all public utilities to create a regulatory asset to defer incremental costs related to COVID-19, including increases in uncollectible accounts. See additional discussion of ASU 2016-13 in Note 9 and the related regulatory treatment in Note 17.

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, 2020. Contract liabilities arise when consideration is received in advance from a customer before satisfying the performance obligations. Therefore, revenue is deferred and not recognized until the obligation is satisfied. Under its OATT, PNM accepts upfront consideration for capacity reservations requested by transmission customers, which requires PNM to defer the customer's transmission capacity rights for a specific period of time. PNM recognizes the revenue of these capacity reservations over the period it defers the customer's capacity rights. Other utilities pay PNM and TNMP in advance for the joint-use of their utility poles. These revenues are recognized over the period of time specified in the joint-use contract, typically for one calendar year. Deferred revenues on these arrangements are recorded as contract liabilities. 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

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:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands, except per share amounts)		
Net Earnings Attributable to PNMR	\$ 172,775	\$ 77,362	\$ 85,642
Average Number of Common Shares:			
Outstanding during year	79,941	79,654	79,654
Vested awards of restricted stock	216	277	236
Average Shares – Basic	80,157	79,931	79,890
Dilutive Effect of Common Stock Equivalents:			
PNMR 2020 Forward Equity Sale Agreements	106	—	—
Stock options and restricted stock	40	59	122
Average Shares – Diluted	80,303	79,990	80,012
Net Earnings Attributable to PNMR Per Share of Common Stock:			
Basic	\$ 2.16	\$ 0.97	\$ 1.07
Diluted	\$ 2.15	\$ 0.97	\$ 1.07
Dividends Declared per Common Share	\$ 1.2500	\$ 1.1775	\$ 1.0850

(6) Stockholders' Equity

Common Stock and Equity Contributions

On December 15, 2020 PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share aggregating net proceeds of \$283.1 million. In addition, PNMR recorded a net \$0.1 million for equity issuance costs reimbursed by the lead underwriter. Following this settlement, no shares of PNMR's common stock remain subject to future settlement under the PNMR 2020 Forward Equity

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Sale Agreements. See Note 7. Neither PNM nor TNMP issued any common stock during the year ended December 31, 2020. PNMR, PNM, and TNMP did not issue any common stock during the years ended December 31, 2019 and 2018.

PNMR funded \$230.0 million, zero, and zero of cash equity contributions to PNM in 2020, 2019, and 2018, respectively. PNMR also funded \$71.0 million, \$80.0 million, and \$30.0 million of cash equity contributions to TNMP in 2020, 2019, and 2018, respectively.

PNMR offered shares of PNMR common stock through the PNMR Direct Plan. As required by the Merger Agreement, effective November 2, 2020, PNMR entered into the Second Amendment to the Third Amended and Restated PNM Resources, Inc. Direct Plan (the "PNMR Direct Plan"), which among other matters, terminated the right to purchase shares of PNMR common stock under the PNMR Direct Plan with respect to any cash dividends and optional cash investments not received by noon Eastern Time on November 17, 2020. No purchases of shares of PNMR common stock under the PNMR Direct Plan may occur after November 18, 2020. The shares of PNMR common stock utilized in the PNMR Direct Plan were offered under a SEC shelf registration statement that expires in March 2021.

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 \$40.7 million, zero, and \$77.4 million in 2020, 2019, and 2018. TNMP declared and paid cash dividends to PNMR of \$58.5 million, \$55.3 million, and \$41.9 million in 2020, 2019, and 2018.

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. Debt-to-capitalization ratio requirements, as discussed in Note 7, 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, 2020, none of the numerical tests would restrict the payment of dividends from the retained earnings of PNM or TNMP, and the 70% debt-to-capitalization covenant would restrict the payment of dividends by PNMR to \$423.7 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, respectively.

(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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 informational financing filing and short-term financing plan with the NMPRC.

Financing Activities

PNMR

At January 1, 2018, 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.

At January 1, 2018, 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 all obligations of SJCC, including those under the letter of credit support agreements. See Note 16. In May 2020, JPMorgan Chase Bank N.A. gave notice that it would not extend the letters of credit beyond their October 21, 2020 expiration. In August 2020, PNMR entered into replacement letter of credit arrangements with Wells Fargo Bank, N.A. (the "WFB LOC Facility") to replace the JPM LOC Facility. Letters of credit were issued under the WFB LOC Facility and exchanged for the letters of credit outstanding under the JPM LOC Facility prior to the expiration of the JPM LOC Facility. On October 21, 2020, the JPM LOC Facility expired according to its terms.

At January 1, 2018, 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 in December 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. PNMR intends to utilize the remaining \$220.0 million of capacity under the PNMR 2020 Delayed-Draw Term Loan, discussed below, to repay an equivalent amount of the PNMR 2018 SUNs. As PNMR can demonstrate the intent and ability to extend that portion of the \$300.0 million SUNs through January 31, 2022, \$220.0 million of the PNMR 2018 SUNs is reflected as long-term debt in the Consolidated Balance Sheet at December 31, 2020.

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. On November 25, 2020 the PNMR Development Term Loan was amended to reduce the balance from \$90.0 million to \$65.0 million and the maturity was subsequently extended to January 31, 2022. The PNMR Development Term Loan bears interest at a variable rate, which was 1.52% on December 31, 2020. PNMR, as parent company of PNMR Development, continues to guarantee PNMR Development's obligations under the loan.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 1.11% at December 31, 2020.

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. On December 21, 2020, the PNMR 2018 Two-Year Term Loan was repaid and terminated in accordance with its terms.

On January 7, 2020, PNMR entered into forward sale agreements with each of Citibank N.A., and Bank of America N.A., as forward purchasers 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) (the “PNMR 2020 Forward Equity Sale Agreements”). On January 8, 2020, the underwriters exercised in full their option to purchase the 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, had the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates.

On December 15, 2020 PNMR physically settled all shares under the PNMR 2020 Forward Equity Sale Agreements by issuing 6.2 million shares to the forward purchasers at a price of \$45.805 per share aggregating net proceeds of \$283.1 million. In addition, PNMR recorded a net \$0.1 million for equity issuance costs reimbursed by the lead underwriter. Following this settlement, no shares of PNMR’s common stock remain subject to future settlement under the PNMR 2020 Forward Equity Sale Agreements. The PNMR 2020 Forward Equity 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, was determined using the treasury stock method, which resulted in dilution during periods when the average market price of PNMR stock during the reporting period was higher than the applicable forward sales price as of the end of that period. See Note 5.

On October 20, 2020, the execution of the Merger Agreement constituted a “Change of Control” under certain PNMR, TNMP and PNMR Development debt agreements. Under each of the specified debt agreements, a “Change of Control” constitutes an “Event of Default,” pursuant to which the lender parties thereto had the right to accelerate the indebtedness under the debt agreements. The definition of Change of Control under the PNM debt agreements and PNM note purchase agreements is not triggered by the execution of the Merger Agreement.

To ensure sufficient liquidity pending lender consent to the signing of the Merger Agreement, on October 20, 2020, PNMR entered into backstop credit facilities related to the Merger between PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent. The \$300.0 million 364-day revolving credit facility (“Merger Backstop Revolving Facility”) was available to provide liquidity to refinance the PNMR Revolving Credit Facility, if needed, and the \$50.0 million, 364-day delayed-draw term loan (“Merger Backstop Term Loan”) was available to provide liquidity to refinance any of the applicable PNMR term loans or TNMP and PNMR Development credit facilities, if needed, and to fund other corporate purposes.

The Merger Backstop Revolving Facility expired upon the execution of the necessary waiver amendments (discussed below). Had PNMR made borrowings under the Merger Backstop Term Loan, those borrowings would have matured on the earliest of the closing of the Merger or October 19, 2021 and would have borne interest at a variable rate based on a pricing grid. As PNMR did not make any borrowings under the Merger Backstop Term Loan by the commitment termination date of December 18, 2020, the Merger Backstop Term Loan expired according to its terms.

On October 26, 2020, PNMR, TNMP and PNMR Development entered into amendment agreements with the lender parties thereto to amend the definition of “Change of Control” such that the entry into the Merger Agreement would not constitute a Change of Control and to waive the Event of Default arising from entry into the Merger Agreement. The amended Change of Control definition under the PNMR, TNMP, and PNMR Development debt agreements will, however, be triggered again upon the closing of the merger transaction. Prior to the closing of the Merger, the Company intends to coordinate with

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

the lenders and Avangrid to either amend the definition of Change of Control permitting Avangrid ownership of the Company; or to refinance or enter into new debt agreements that would include Avangrid as owners of the Company. The Change of Control provisions in the PNM debt agreements are not triggered by the close of the Merger.

The documents governing TNMP's aggregate \$750.0 million of outstanding First Mortgage Bonds ("TNMP FMBs") obligated TNMP to offer, within 30 business days following the signing of the Merger Agreement, to prepay all \$750.0 million outstanding TNMP FMBs at 100% of the principal amount, plus accrued and unpaid interest thereon, but without any make-whole amount or other premium. TNMP made such offer to prepay the TNMP FMBs in accordance with the terms of the TNMP FMBs, and none of the holders of the TNMP FMBs accepted TNMP's offer. The documents governing the TNMP FMBs require TNMP to make another offer, within 30 business days of closing of the Merger, to prepay all outstanding TNMP FMBs at par. TNMP will make such offer to prepay the TNMP FMBs in accordance with the terms of the TNMP FMBs; however, holders of the TNMP FMBs are not required to tender their TNMP FMBs and may accept or reject such offer to prepay.

The information in this Annual Report on Form 10-K is for informational purposes only and is neither an offer to purchase, nor a solicitation of an offer to sell, subscribe for or buy any securities in any jurisdiction pursuant to the proposed transactions or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. Similar to the offer to prepay made after signing the Merger Agreement, the post-Merger closing offer to prepay the TNMP FMBs will be made only pursuant to an offer to prepay, which will set forth the terms and conditions of the offer to prepay.

On December 21, 2020, PNMR entered into a \$150.0 million term loan agreement (the "PNMR 2020 Term Loan"), between PNMR and U.S. Bank National Association, as sole lender. Proceeds from the PNMR 2020 Term Loan were used to repay the \$50.0 million PNMR 2018 Two-Year Term Loan and for other corporate purposes. The PNMR 2020 Term Loan bears interest at a variable rate, which was 1.25% at December 31, 2020, and matures on January 31, 2022.

On December 22, 2020, PNMR entered into a \$300.0 million delayed-draw term loan agreement (the "PNMR 2020 Delayed-Draw Term Loan"), among PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent. Initially PNMR drew \$80.0 million to refinance existing indebtedness and for other corporate purposes. Draws on the PNMR 2020 Delayed-Draw Term Loan, aggregating \$80.0 million, bear interest at a variable rate, which was 1.40% at December 31, 2020, and mature on January 31, 2022. PNMR expects to use the remaining \$220.0 million of capacity from the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs.

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, 2018, PNM had 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. 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. As discussed above, the change of control provisions in the PNM debt agreements are not triggered by the close of the Merger. PNM has 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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. 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 was prepaid in April 2020 without penalty.

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 0.80% at December 31, 2020, and must be repaid on or before June 18, 2021.

On April 15, 2020, PNM entered into a \$250.0 million term loan agreement (the "PNM 2020 Term Loan"), between PNM, the lenders party thereto, and U.S. Bank, as administrative agent. Proceeds from the PNM 2020 Term Loan were used to prepay the PNM 2019 \$250.0 million Term Loan due July 2020, without penalty. As discussed below, on April 30, 2020, PNM used \$100.0 million of proceeds from the PNM 2020 SUNs to prepay without penalty an equal amount of the PNM 2020 Term Loan. On December 21, 2020, PNM prepaid without penalty, the remaining \$150.0 million balance of the PNM 2020 Term Loan.

On April 30, 2020, PNM entered into an agreement (the "PNM 2020 Note Purchase Agreement") with institutional investors for the sale of \$200.0 million aggregate principal amount of senior unsecured notes offered in private placement transactions. Under the agreement, PNM issued \$150.0 million aggregate principal amount of its 3.21% senior unsecured notes, Series A, due April 30, 2030, and \$50.0 million of its aggregate principal amount of its 3.57% senior unsecured notes, Series B, due April 29, 2039 (the "PNM 2020 SUNs"). The PNM 2020 SUNs were issued on April 30, 2020. PNM used \$100.0 million of proceeds from the PNM 2020 SUNs to repay an equal amount of the PNM 2020 Term Loan. The remaining \$100.0 million of the PNM 2020 SUNs were used to repay borrowings on the PNM Revolving Credit Facility and for other corporate purposes. The PNM 2020 Note Purchase Agreement includes customary covenants, including a covenant that requires PNM to maintain 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 2020 SUNs at par. As discussed above, the change of control provisions in the PNM debt agreements are not triggered by the close of the Merger. PNM has the right to redeem any or all of the PNM 2020 SUNs prior to their maturities, subject to payment of a customary make-whole premium.

At December 31, 2019, PNM had \$40.0 million of outstanding PCRBs, which have a final maturity of June 1, 2040 and two series of outstanding PCRBs of \$39.3 million and \$21.0 million, which have a final maturity of June 1, 2043. These PCRBs, aggregating \$100.3 million, were subject to mandatory tender on June 1, 2020. On June 1, 2020, PNM purchased these PCRBs utilizing borrowings under the PNM Revolving Credit Facility and converted the PCRBs to the weekly mode. PNM held these PCRBs (without legally canceling them) until July 1, 2020, when they were remarketed in the weekly mode (the "PNM Floating Rate PCRBs") and PNM used the remarketing proceeds to repay the revolver borrowings. PNM Floating Rate PCRBs in the weekly mode bear interest at rates that are reset weekly, giving investors the option to return the PCRBs for remarketing to new investors upon 7 days' notice. At December 31, 2020, this rate was 0.19%. A corresponding portion of the borrowing capacity under the PNM Revolving Credit Facility is reserved to support the investors' option to return the PNM Floating Rate PCRBs upon 7 days' notice.

At December 31, 2019, PNM had PCRBs outstanding of \$36.0 million at 6.25% issued by the Maricopa County, Arizona Pollution Control Corporation as well as \$255.0 million at 5.90% and \$11.5 million at 6.25% issued by the City of Farmington, New Mexico. The \$36.0 million PCRBs became callable at 101% of par on January 1, 2020 and the remaining \$266.5 million PCRBs became callable at par on June 1, 2020. On June 22, 2020, PNM provided notice to the bondholders that it was calling the PCRBs aggregating \$302.5 million. On July 22, 2020, PNM purchased the PCRBs in lieu of redemption and remarketed them to new investors (the "PNM 2020 Fixed Rate PCRBs"). Information concerning the funding dates, mandatory tender dates, and interest rates on the PNM 2020 Fixed Rate PCRBs are provided below.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

On April 1, 2020, the NMPRC approved PNM's request to issue approximately \$361 million of Securitized Bonds upon the retirement of SJGS in 2022. The NMPRC's approval of the issuance of these Securitized Bonds is currently being appealed to the NM Supreme Court. See SJGS Abandonment Application in Note 17.

PNM has a shelf registration statement, which will expire in May 2023, with capacity for the issuance of up to \$650.0 million of senior unsecured notes.

TNMP

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 indenture governing the TNMP 2019 Bonds 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.

On April 24, 2020, TNMP entered into the TNMP 2020 Bond Purchase Agreement with institutional investors for the sale of \$185.0 million aggregate principal amount of four series of TNMP first mortgage bonds (the "TNMP 2020 Bonds") offered in private placement transactions. TNMP issued \$110.0 million of TNMP 2020 Bonds on April 24, 2020 and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. TNMP issued the remaining \$75.0 million of TNMP 2020 Bonds on July 15, 2020 and used the proceeds from that issuance to repay borrowings under the TNMP Revolving Credit facility and for other corporate purposes. The TNMP 2020 Bonds are subject to continuing compliance with the representations, warranties and covenants set forth in the indenture governing the TNMP 2020 Bonds. The terms of the indenture governing the TNMP 2020 Bonds 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 2020 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium. Information concerning the funding dates, maturities and interest rates on the TNMP 2020 Bonds issued in April and July 2020 are provided below.

Interest Rate Hedging Activities

At January 1, 2018, 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 \$0.9 million and \$0.4 million that are included in other current liabilities on the Consolidated Balance Sheets at December 31, 2020 and 2019. 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, including using forward LIBOR curves under the mid-market convention to discount cash flows over the remaining term of the agreement.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Borrowing Arrangements Between PNMR and its Subsidiaries

PNMR has intercompany loan agreements with its subsidiaries. Individual subsidiary loan agreements vary in amount up to \$150.0 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. PNM and TNMP had no borrowings from PNMR at December 31, 2020 and 2019, and no borrowings at February 19, 2021. PNMR Development had \$0.3 million and zero in short-term borrowings outstanding from PNMR at December 31, 2020 and 2019 and \$0.4 million at February 19, 2021.

Short-term Debt and Liquidity

Currently, the PNMR Revolving Credit Facility has a financing capacity of \$300.0 million and the PNM Revolving Credit Facility has a financing capacity of \$400.0 million. Both facilities currently expire on October 31, 2023 and contain options to be extended through October 2024, subject to approval by a majority of the lenders. PNM also has the \$40.0 million PNM 2017 New Mexico Credit Facility that expires on December 12, 2022. 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 and matures on September 23, 2022 and contains two one-year extension options, subject to approval by a majority of the lenders. PNMR Development has a \$40.0 million revolving credit facility that was expected to expire on February 23, 2021. On February 22, 2021, PNMR Development extended the facility to January 31, 2022. PNMR Development has the option, subject to lender approval, to further increase the capacity of this facility to \$50.0 million upon 15-days advance notice. 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. 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.

Short-term debt outstanding consists of:

Short-term Debt	December 31,	
	2020	2019
	(In thousands)	
PNM:		
PNM Revolving Credit Facility	\$ —	\$ 48,000
PNM 2017 New Mexico Credit Facility	10,000	10,000
	<u>10,000</u>	<u>58,000</u>
TNMP Revolving Credit Facility	—	15,000
PNMR:		
PNMR Revolving Credit Facility	12,000	112,100
PNMR Development Revolving Credit Facility	10,000	—
	<u>\$ 32,000</u>	<u>\$ 185,100</u>

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of \$4.7 million, \$2.2 million, and zero at December 31, 2020 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 WFB LOC Facility. At December 31, 2020, interest rates on outstanding borrowings were 1.66% for the PNMR Revolving Credit Facility, 1.41% for the PNM 2017 New Mexico Credit Facility, and 1.15% for the PNMR Development Revolving Credit Facility. There were no borrowings outstanding under the PNM and TNMP Revolving Credit Facilities at December 31, 2020.

At February 19, 2021, PNMR, PNM, TNMP, and PNMR Development had \$257.7 million, \$397.8 million, \$47.6 million, and \$30.0 million of availability under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit. PNM had \$40.0 million of availability under the PNM 2017 New Mexico Credit Facility. Total availability at February 19, 2021, on a consolidated basis, was \$773.1 million for PNMR. Availability under PNM's Revolving Credit Facility and total availability at PNMR, on a consolidated basis, does not reflect a reduction of \$100.3 million that PNM has reserved to provide liquidity support for the PNM Floating Rate PCRBS. At February 19, 2021, PNMR, PNM, and TNMP had invested cash of \$0.9 million, \$32.6 million, and zero.

Long-Term Debt

As discussed above, in June 2020, PNM purchased an aggregate amount of \$100.3 million PCRBS using borrowings under the PNM Revolving Credit Facility. In July 2020, PNM remarketed the PCRBS in the weekly mode and used the

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

proceeds to repay the borrowings under the PNM Revolving Credit Facility. A corresponding amount of the PNM Revolving Credit Facility is reserved to support the investors' option to return the PCRBs upon 7 days' notice. As PNM can demonstrate the intent and ability to keep the PNM Floating Rate PCRBs outstanding through at least the October 31, 2023 maturity of the PNM Revolving Credit Facility, PNM Floating Rate PCRBs, aggregating \$100.3 million, are reflected as long-term debt in the Consolidated Balance Sheets at December 31, 2020.

Also discussed above, PNMR intends to use the remaining capacity of \$220.0 million under the PNMR 2020 Delayed-Draw Term Loan to repay an equivalent amount of the PNMR 2018 SUNs. As PNMR can demonstrate the intent and ability to extend that portion of the \$300.0 million SUNs through January 31, 2022, \$220.0 million of the PNMR 2018 SUNs is reflected as long-term debt in the Consolidated Balance Sheet at December 31, 2020.

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

	December 31, 2020		December 31, 2019	
	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net
	(In thousands)			
PNM Debt				
Senior Unsecured Notes, Pollution Control Revenue Bonds:				
1.875% due April 2033, mandatory tender - October 1, 2021	\$ 146,000	\$ 301	\$ 146,000	\$ 662
6.25% due January 2038	—	—	36,000	205
2.125% due June 2040, mandatory tender - June 1, 2022	37,000	135	37,000	224
5.20% due June 2040, mandatory tender - June 1, 2020	—	—	40,045	17
5.90% due June 2040	—	—	255,000	1,857
6.25% due June 2040	—	—	11,500	84
2.45% due September 2042, mandatory tender - June 1, 2022	20,000	50	20,000	85
2.40% due June 2043, mandatory tender - June 1, 2020	—	—	39,300	50
5.20% due June 2043, mandatory tender - June 1, 2020	—	—	21,000	10
Floating rate, weekly-mode	100,345	798	—	—
1.05% due January 2038, mandatory tender - June 1, 2022	36,000	226	—	—
1.20% due June 2040, mandatory tender - June 1, 2022	11,500	72	—	—
1.10% due June 2040, mandatory tender June 1, 2023	130,000	892	—	—
1.15% due June 2040, mandatory tender - June 1, 2024	125,000	894	—	—
Senior Unsecured Notes:				
5.35% due October 2021	160,000	129	160,000	292
3.15% due May 2023	55,000	184	55,000	261
3.45% due May 2025	104,000	457	104,000	562
3.85% due August 2025	250,000	1,375	250,000	1,675
3.68% due May 2028	88,000	457	88,000	518
3.78% due August 2028	15,000	80	15,000	91
3.93% due May 2033	38,000	221	38,000	238
4.22% due May 2038	45,000	275	45,000	291
4.50% due May 2048	20,000	128	20,000	133
4.60% due August 2048	85,000	550	85,000	570
3.21% due April 2030	150,000	1,490	—	—
3.57% due April 2039	50,000	511	—	—
PNM 2019 \$250.0 Million Term Loan due July 2020	—	—	250,000	—
PNM 2019 \$40.0 Million Term Loan due June 2021	40,000	—	40,000	—
	1,705,845	9,225	1,755,845	7,825
Less current maturities	346,000	430	350,345	77
	1,359,845	8,795	1,405,500	7,748

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

	December 31, 2020		December 31, 2019	
	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net	Principal	Unamortized Discounts, (Premiums), and Issuance Costs, net
	(In thousands)			
TNMP Debt				
First Mortgage Bonds:				
6.95% due April 2043	93,198	(15,917)	93,198	(16,632)
4.03% due July 2024	80,000	369	80,000	475
3.53% due February 2026	60,000	420	60,000	502
3.22% due August 2027	60,000	380	60,000	437
3.85% due June 2028	60,000	469	60,000	531
3.79% due March 2034	75,000	497	75,000	535
3.92% due March 2039	75,000	514	75,000	542
4.06% due March 2044	75,000	524	75,000	546
3.60% due July 2029	80,000	511	80,000	571
2.73% due April 24, 2030	85,000	784	—	—
3.36% due April 24, 2050	25,000	243	—	—
2.93% due July 15, 2035	25,000	241	—	—
3.36% due July 15, 2050	50,000	490	—	—
	843,198	(10,475)	658,198	(12,493)
Less current maturities	—	—	—	—
	843,198	(10,475)	658,198	(12,493)
PNMR Debt				
PNMR 3.25% 2018 SUNs due March 2021	300,000	137	300,000	917
PNMR Development Term Loan due January 2022	65,000	—	90,000	42
PNMR 2018 Two-Year Term Loan due December 2020	—	—	50,000	—
PNMR 2019 Term Loan due June 2021	150,000	6	150,000	35
PNMR 2020 Term Loan due January 2022	150,000	—	—	—
PNMR 2020 Delayed-Draw Term Loan due January 2022	80,000	—	—	—
	745,000	143	590,000	994
Less current maturities	230,000	52	140,000	—
	515,000	91	450,000	994
Total Consolidated PNMR Debt	3,294,043	(1,107)	3,004,043	(3,674)
Less current maturities	576,000	482	490,345	77
	\$ 2,718,043	\$ (1,589)	\$ 2,513,698	\$ (3,751)

Reflecting mandatory tender dates, long-term debt maturities as of December 31, 2020 are follows:

	PNMR	PNM	TNMP	PNMR Consolidated
	(In thousands)			
2021	\$ 230,000	\$ 346,000	\$ —	\$ 576,000
2022	515,000	104,500	—	619,500
2023	—	285,345	—	285,345
2024	—	125,000	80,000	205,000
2025	—	354,000	—	354,000
Thereafter	—	491,000	763,198	1,254,198
Total	\$ 745,000	\$ 1,705,845	\$ 843,198	\$ 3,294,043

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

(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 Consolidated Balance Sheets by recognizing a present value liability for future cash 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. 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. The Company leases office buildings, vehicles, and other equipment. In addition, PNM leases interests in PVNGS Units 1 and 2 and certain rights-of-way agreements that are classified as leases. All of the Company's leases with terms in excess of one year are recorded on the Consolidated Balance Sheets by recording a present value lease liability and a corresponding right-of-use asset. Operating lease expense is recognized within operating expenses according to the use of the asset on a straight-line basis. Financing lease costs, which are comprised primarily of fleet and office equipment leases commencing after January 1, 2019, are recognized by amortizing the right-of-use asset on a straight-line basis and by recording interest expense on the lease liability. Financing lease right-of-use assets amortization is reflected in depreciation and amortization and interest on financing lease liabilities is reflected as interest charges on the Company's 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 had the option to purchase the assets underlying each of the extended leases at their fair market value or to return the lease interests to the lessors on the expiration dates. Under the terms of the extended leases, PNM had until January 15, 2020 for the Unit 1 leases and 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 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. On March 3, 2020, and April 10, 2020, PNM filed additional notices of waivers of the deadlines. 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. On June 11, 2020, PNM provided notice to the lessors and the NMPRC of its intent to return the assets underlying in both the PVNGS Unit 1 and Unit 2 leases upon their expiration in January 2023 and 2024. Although PNM elected to return the assets underlying the extended leases, PNM retains certain obligations related to PVNGS, including costs to decommission the facility. PNM is depreciating its capital improvements related to the extended leases using NMPRC approved rates through the end of the NRC license period for each unit, which expire in June 2045 for Unit 1 and in June 2046 for Unit 2. Any transfer of the assets underlying the leases will be required to comply with NRC licensing requirements. For example, the NRC could limit the transfer of ownership of the assets underlying all or a portion of PNM's currently leased

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

interests in PVNGS. If a qualified buyer cannot be identified, PNM may be required to retain all or a portion of its currently leased capacity in PVNGS or be exposed to other claims for damages by the lessors. PNM will seek to recover its undepreciated investments, as well as any other obligations related to PVNGS from NM retail customers.

PNM is exposed to loss under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to PVNGS or the occurrence of specified nuclear events), PNM would be required to make specified payments to the lessors and take title to the leased interests. If such an event had occurred as of December 31, 2020, amounts due to the lessors under the circumstances described above would be up to \$154.5 million, payable on January 15, 2021 in addition to the scheduled lease payments due on that date.

Land Easements and Rights-of-Ways

Many of PNM's electric transmission and distribution facilities are located on lands that require the grant of rights-of-way from governmental entities, Native American tribes, or private parties. PNM has completed several renewals of rights-of-way, the largest of which is a renewal with the Navajo Nation. PNM is obligated to pay the Navajo Nation annual payments of \$6.0 million, subject to adjustment each year based on the Consumer Price Index, through 2029. PNM's April 2020 payment for the amount due under the Navajo Nation right-of-way lease was \$7.1 million, which included amounts due under the Consumer Price Index adjustment. Changes in the Consumer Price Index subsequent to January 1, 2019 are considered variable lease payments.

PNM has other prepaid rights-of-way agreements that are not accounted for as leases or recognized as a component of plant in service. PNM reflects the unamortized balance of these prepayments in other deferred charges on the Consolidated Balance Sheets and recognizes amortization expense associated with these agreements in the Consolidated Statement of Earnings over their term. As of December 31, 2020 and 2019, the unamortized balance of these rights-of-ways was \$55.8 million and \$60.2 million. During the years ended December 31, 2020, 2019, and 2018, PNM recognized amortization expense associated with these agreements of \$4.4 million, \$3.7 million, and \$3.8 million.

Fleet Vehicles and Equipment

Fleet vehicle and equipment leases commencing on or after January 1, 2019 are classified as financing leases. Fleet vehicle and equipment leases existing as of December 31, 2018 are classified as operating leases. The Company's fleet vehicle and equipment lease agreements include non-lease components for insignificant administrative and other costs that are billed over the life of the agreement. At December 31, 2020, residual value guarantees on fleet vehicle and equipment leases are \$0.9 million, \$1.4 million, and \$2.3 million for PNM, TNMP, and PNMR.

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

	December 31, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating leases:						
Operating lease assets, net of amortization	\$ 97,461	\$ 7,206	\$ 105,133	\$ 120,585	\$ 9,954	\$ 131,212
Current portion of operating lease liabilities	25,130	2,193	27,460	25,927	2,753	29,068
Long-term portion of operating lease liabilities	75,941	4,779	81,065	97,992	7,039	105,512

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)			(In thousands)		
Financing leases:						
Non-utility property	\$ 11,453	\$ 13,299	\$ 25,055	\$ 4,857	\$ 4,910	\$ 10,028
Accumulated depreciation	(2,044)	(2,241)	(4,383)	(482)	(466)	(973)
Non-utility property, net	\$ 9,409	\$ 11,058	\$ 20,672	\$ 4,375	\$ 4,444	\$ 9,055
Other current liabilities	\$ 1,993	\$ 2,397	\$ 4,470	\$ 722	\$ 850	\$ 1,637
Other deferred credits	7,176	8,669	15,972	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, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
Weighted average remaining lease term (years):						
Operating leases	6.23	3.46	6.04	6.70	4.10	6.49
Financing leases	4.78	4.84	4.79	5.64	5.54	5.54
Weighted average discount rate:						
Operating leases	3.93 %	4.06 %	3.94 %	3.89 %	3.95 %	3.90 %
Financing leases	2.76 %	2.84 %	2.80 %	3.68 %	3.65 %	3.64 %

Information for the components of lease expense is as follows:

	Year Ended December 31, 2020		
	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Operating lease cost	\$ 27,302	\$ 2,870	\$ 30,418
Amounts capitalized	(1,020)	(2,375)	(3,395)
Total operating lease expense	26,282	495	27,023
Financing lease cost:			
Amortization of right-of-use assets	1,563	1,775	3,412
Interest on lease liabilities	221	285	511
Amounts capitalized	(1,056)	(1,754)	(2,810)
Total financing lease expense	728	306	1,113
Variable lease expense	221	—	221
Short-term lease expense	288	5	295
Total lease expense for the period	\$ 27,519	\$ 806	\$ 28,652

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

	Year Ended December 31, 2019		
	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Operating lease cost	\$ 28,254	\$ 3,341	\$ 31,963
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
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:

	Year Ended December 31, 2020			Year Ended December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Cash paid for amounts included in the measurement of lease liabilities:						
Operating cash flows from operating leases	\$ 26,007	\$ 596	\$ 27,121	\$ 26,392	\$ 935	\$ 27,849
Operating cash flows from financing leases	82	48	136	44	25	71
Finance cash flows from financing leases	557	307	936	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	6,588	8,985	15,614	4,473	4,910	9,645

Capitalized costs excluded from the operating and financing cash paid for leases above for the year ended December 31, 2020 are \$1.0 million and \$1.1 million at PNM, \$2.4 million and \$1.8 million at TNMP, and \$3.4 million and \$2.8 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, 2020. For the year ended December 31, 2019, capitalized costs excluded 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Future expected lease payments are shown below:

	As of December 31, 2020					
	PNM		TNMP		PNMR Consolidated	
	Financing	Operating	Financing	Operating	Financing	Operating
	(In thousands)					
2021	\$ 2,214	\$ 26,572	\$ 2,672	\$ 2,426	\$ 4,970	\$ 29,290
2022	2,159	26,266	2,557	1,987	4,797	28,464
2023	2,095	17,735	2,372	1,481	4,511	19,395
2024	1,434	7,899	1,897	895	3,335	8,841
2025	854	6,946	1,190	690	2,044	7,673
Later years	1,030	27,530	1,120	75	2,150	27,827
Total minimum lease payments	9,786	112,948	11,808	7,554	21,807	121,490
Less: Imputed interest	617	11,877	742	582	1,365	12,965
Lease liabilities as of December 31, 2020	\$ 9,169	\$ 101,071	\$ 11,066	\$ 6,972	\$ 20,442	\$ 108,525

The above tables include \$11.0 million, \$15.6 million, and \$26.7 million for PNM, TNMP, and PNMR at December 31, 2020 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 as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability varies based on commodity location, market liquidity, and term of the agreement. Valuations of derivative assets and liabilities take into account nonperformance risk, including the effect of counterparties' and the Company's credit risk. The Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimation technique.

Energy Related Derivative Contracts

Overview

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

Beginning January 1, 2018, PNM 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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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.

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, 2020, 2019, and 2018, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flow 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 and considered Level 2 fair value measurements, are presented in the following line items on the Consolidated Balance Sheets:

	Economic Hedges	
	December 31,	
	2020	2019
	(In thousands)	
Other current assets	\$ 1,096	\$ 1,089
Other deferred charges	455	1,507
	<u>1,551</u>	<u>2,596</u>
Other current liabilities	(1,096)	(1,089)
Other deferred credits	(455)	(1,507)
	<u>(1,551)</u>	<u>(2,596)</u>
Net	<u>\$ —</u>	<u>\$ —</u>

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. All of the assets and liabilities in the table above at December 31, 2020 and December 31, 2019 result from PNM's hazard sharing arrangements with Tri-State. The hazard sharing arrangements are net-settled upon delivery.

At December 31, 2020 and 2019, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at December 31, 2020 and 2019, amounts posted as cash collateral under margin arrangements were \$0.5 million and \$0.5 million. At December 31, 2020 and 2019, obligations to return cash collateral were \$0.9 million and \$0.9 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, 2020 or 2019.

The effects of mark-to-market commodity derivative instruments on PNM's revenues and cost of energy during the years ended December 31, 2020 and 2019 were less than \$0.1 million. Commodity derivatives had no impact on OCI for the periods presented.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020 and 2019, 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, 2020 and 2019, the fair value of investment securities included \$379.2 million and \$336.0 million for the NDT and \$60.9 million and \$52.8 million for the coal mine reclamation trusts.

In June 2016, the FASB issued *Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the way entities recognize impairments of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. The majority of the amendments made by the new standard are required to be applied using a modified retrospective approach. The amendments in ASU 2016-13 also require 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. The amendments relating to available-for-sale debt securities are required to be applied prospectively on the date of adoption. PNM records a realized loss as an impairment for any available-for-sale debt security that has a fair value that is less than its carrying value. As a result, the Company has no available-for-sale debt securities for which carrying value exceeds fair value and there are no impairments considered to be "other than temporary" that are included in AOCI and not recognized in earnings. The Company adopted ASU 2016-13 on January 1, 2020, its required effective date. Adoption of the standard did not result in the Company recording a cumulative effect adjustment or impact the Company's accounting for its available-for-sale debt securities. All gains and losses resulting from sales and changes in the fair value of equity securities are recognized immediately in earnings.

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:

	Year ended December 31,		
	2020	2019	2018
	(In thousands)		
Equity securities:			
Net gains from equity securities sold	\$ 5,861	\$ 5,698	\$ 4,864
Net gains (losses) from equity securities still held	17,707	18,319	(10,523)
Total net gains (losses) on equity securities	<u>23,568</u>	<u>24,017</u>	<u>(5,659)</u>
Available-for-sale debt securities:			
Net gains (losses) on debt securities	(1,969)	5,572	(11,517)
Net gains (losses) on investment securities	<u>\$ 21,599</u>	<u>\$ 29,589</u>	<u>\$ (17,176)</u>

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 \$(3.2) million, \$3.0 million, and \$(9.4) million for the years ended December 31, 2020, 2019 and 2018.

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Proceeds from sales	\$ 590,998	\$ 494,528	\$ 984,533
Gross realized gains	\$ 35,904	\$ 25,760	\$ 19,358
Gross realized (losses)	\$ (28,817)	\$ (17,453)	\$ (16,624)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

At December 31, 2020, the available-for-sale debt securities held by PNM, had the following final maturities:

	Fair Value
	(In thousands)
Within 1 year	\$ 33,301
After 1 year through 5 years	89,646
After 5 years through 10 years	89,130
After 10 years through 15 years	14,947
After 15 years through 20 years	9,256
After 20 years	43,730
	<u>\$ 280,010</u>

Fair Value Disclosures

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

For investment securities, Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For Level 2 fair values, the pricing provider predominantly uses the market approach using bid side market values based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company's long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. The valuation of Level 3 investments, when applicable, requires significant judgment by the pricing provider due to the absence of quoted market values, changes in market conditions, and the long-term nature of the assets. The Company has no Level 3 investments as of December 31, 2020 and 2019. Management of the Company independently verifies the information provided by pricing services.

In August 2018, the FASB issued *Accounting Standards Update 2018-13 – Fair Value Measurements (Topic 820) Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurements*, 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. The Company adopted ASU 2018-13 on January 1, 2020, its required effective date. The Company applied the requirements of the new standard using retrospective application, except for the new disclosures related to Level 3 investments, which are to be applied prospectively. Adoption of the standard did not have a material impact on the Company's disclosures.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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)	Unrealized Gains
	(In thousands)			
December 31, 2020				
Cash and cash equivalents	\$ 6,107	\$ 6,107	\$ —	
Equity securities:				
Corporate stocks, common	85,271	85,271	—	
Corporate stocks, preferred	9,910	3,608	6,302	
Mutual funds and other	58,817	58,762	55	
Available-for-sale debt securities:				
U.S. government	55,839	29,579	26,260	\$ 950
International government	16,032	—	16,032	2,537
Municipals	50,139	—	50,139	2,779
Corporate and other	158,000	3	157,997	21,121
	<u>\$ 440,115</u>	<u>\$ 183,330</u>	<u>\$ 256,785</u>	<u>\$ 27,387</u>
December 31, 2019				
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>\$ 14,297</u>

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

	Carrying Amount		Fair Value	
	(In thousands)			
December 31, 2020				
PNMR	\$ 3,295,150		\$ 3,355,761	
PNM	\$ 1,696,620		\$ 1,602,547	
TNMP	\$ 853,673		\$ 1,006,722	
December 31, 2019				
PNMR	\$ 3,007,717		\$ 3,142,704	
PNM	\$ 1,748,020		\$ 1,795,149	
TNMP	\$ 670,691		\$ 753,317	

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 2020 consist of 35% equities, 15% 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. 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. 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, 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 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 estimates of liquidation value, current operating performance, and future expectations of performance. Neither the employee benefit plans nor the PNMR Master Trust have any Level 3 investments as of December 31, 2020 or 2019.

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

	Total	GAAP Fair Value Hierarchy	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2020			
PNM Pension Plan			
Participation in PNMR Master Trust Investments:			
Investments categorized within fair value hierarchy	\$ 498,907	\$ 241,445	\$ 257,462
Uncategorized investments	88,984		
Total Master Trust Investments	<u>\$ 587,891</u>		
TNMP Pension Plan			
Participation in PNMR Master Trust Investments:			
Investments categorized within fair value hierarchy	\$ 56,966	\$ 28,732	\$ 28,234
Uncategorized investments	9,230		
Total Master Trust Investments	<u>\$ 66,196</u>		
PNM OPEB Plan			
Cash and cash equivalents	\$ 1,310	\$ 1,310	\$ —
Equity securities:			
Mutual funds	92,400	52,284	40,116
	<u>\$ 93,710</u>	<u>\$ 53,594</u>	<u>\$ 40,116</u>
TNMP OPEB Plan			
Cash and cash equivalents	\$ 18	\$ 18	\$ —
Equity securities:			
Mutual funds	12,843	10,806	2,037
	<u>\$ 12,861</u>	<u>\$ 10,824</u>	<u>\$ 2,037</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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

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

	Total	GAAP Fair Value Hierarchy	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
December 31, 2020			
PNMR Master Trust			
Cash and cash equivalents	\$ 20,812	\$ 20,812	\$ —
Equity securities:			
Corporate stocks, common	114,983	114,983	—
Corporate stocks, preferred	1,187	135	1,052
Mutual funds and other	173,931	47,418	126,513
Fixed income securities:			
U.S. government	97,460	86,829	10,631
International government	6,202	—	6,202
Municipals	6,277	—	6,277
Corporate and other	135,021	—	135,021
Total investments categorized within fair value hierarchy	<u>555,873</u>	<u>\$ 270,177</u>	<u>\$ 285,696</u>
Uncategorized investments:			
Private equity funds	12,552		
Hedge funds	52,285		
Real estate funds	33,377		
	<u>\$ 654,087</u>		

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

<u>December 31, 2019</u> PNMR Master Trust	<u>GAAP Fair Value Hierarchy</u>		
	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>
	(In thousands)		
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	<u>\$ 169,493</u>	<u>\$ 325,844</u>
Uncategorized investments:			
Private equity funds	15,827		
Hedge funds	47,618		
Real estate funds	33,204		
	<u>\$ 591,986</u>		

(10) Variable Interest Entities

How an enterprise evaluates and accounts for its involvement with variable interest entities, focuses primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity (“VIE”). This evaluation requires continual reassessment of the primary beneficiary of a VIE.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 155 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the years ended December 31, 2020, 2019, and 2018, PNM paid \$20.0 million, \$19.9 million, and \$19.6 million for fixed charges and \$1.4 million, \$1.2 million, and \$1.4 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM’s assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

PNM sources fuel for the plant, controls when the facility operates through its dispatch, and receives the entire output of the plant, which factors directly and significantly impact the economic performance of Valencia. Therefore, PNM has concluded that the third-party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Summarized financial information for Valencia is as follows:

Results of Operations

	Year Ended December 31		
	2020	2019	2018
	(In thousands)		
Operating revenues	\$ 21,297	\$ 21,073	\$ 21,025
Operating expenses	7,284	6,832	5,913
Earnings attributable to non-controlling interest	\$ 14,013	\$ 14,241	\$ 15,112

Financial Position

	December 31,	
	2020	2019
	(In thousands)	
Current assets	\$ 3,911	\$ 5,094
Net property, plant and equipment	55,744	58,581
Total assets	59,655	63,675
Current liabilities	646	623
Owners' equity – non-controlling interest	\$ 59,009	\$ 63,052

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”), as well as the announcement that 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 letter of credit support agreements. 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 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 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, 2020.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

(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.

A plan sponsor is required 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.

Unrecognized prior service costs and unrecognized gains or losses are required 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. Actual gains and losses on pension and OPEB plan assets are 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 August 2018, the FASB issued *Accounting Standards Update 2018-14 - Compensation Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)* 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. ASU 2018-14 clarifies the disclosure requirements for plans with PBOs and ABOs that are in excess of plan assets and requires an explanation for significant gains and losses related to changes in the benefit obligation during the period be disclosed. The Company has adopted ASU 2018-14 for the period ended December 31, 2020, its required effective date by modifying the disclosures herein as appropriate.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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,	
	2020	2019	2020	2019
	(In thousands)			
PBO at beginning of year	\$ 605,745	\$ 564,258	\$ 65,574	\$ 60,587
Service cost	—	—	—	—
Interest cost	19,941	25,175	2,177	2,686
Actuarial (gain) loss	47,567	61,151	4,459	7,889
Benefits paid	(42,349)	(44,839)	(4,820)	(5,588)
PBO at end of year	630,904	605,745	67,390	65,574
Fair value of plan assets at beginning of year	531,467	489,978	59,367	55,074
Actual return on plan assets	98,412	86,328	11,602	9,881
Employer contributions	—	—	—	—
Benefits paid	(42,349)	(44,839)	(4,820)	(5,588)
Fair value of plan assets at end of year	587,530	531,467	66,149	59,367
Funded status – asset (liability) for pension benefits	\$ (43,374)	\$ (74,278)	\$ (1,241)	\$ (6,207)

Actuarial (gain) loss results from changes in:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
	(in thousands)			
Discount rates	\$ 44,960	\$ 66,108	\$ 4,756	\$ 8,006
Demographic experience	2,607	(732)	(54)	394
Mortality rate	—	(4,225)	—	(296)
Other assumptions and experience	—	—	(243)	(215)
	\$ 47,567	\$ 61,151	\$ 4,459	\$ 7,889

The following table presents pre-tax information about net actuarial (gain) loss in AOCI as of December 31, 2020.

	PNM		TNMP	
	(In thousands)			
Amounts in AOCI not yet recognized in net periodic benefit cost (income) at beginning of year	\$ 146,391	\$ —	\$ —	\$ —
Experience (gain) loss	(21,393)	3,860	—	—
Regulatory asset (liability) adjustment	15,211	(3,860)	—	—
Amortization recognized in net periodic benefit cost (income)	(8,131)	—	—	—
Amounts in AOCI not yet recognized in net periodic benefit cost (income) at end of year	\$ 132,078	\$ —	\$ —	\$ —

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
PNM			
Service cost	\$ —	\$ —	\$ —
Interest cost	19,941	25,175	24,270
Expected return on plan assets	(29,453)	(34,103)	(34,686)
Amortization of net (gain) loss	17,860	15,518	16,348
Amortization of prior service cost	(554)	(965)	(965)
Net periodic benefit cost	<u>\$ 7,794</u>	<u>\$ 5,625</u>	<u>\$ 4,967</u>
TNMP			
Service cost	\$ —	\$ —	\$ —
Interest cost	2,177	2,686	2,625
Expected return on plan assets	(3,284)	(3,868)	(3,963)
Amortization of net (gain) loss	1,258	941	1,088
Amortization of prior service cost	—	—	—
Net periodic benefit cost (income)	<u>\$ 151</u>	<u>\$ (241)</u>	<u>\$ (250)</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,		
	2020	2019	2018
PNM			
Discount rate for determining December 31 PBO	2.66 %	3.42 %	4.65 %
Discount rate for determining net periodic benefit cost (income)	3.42 %	4.65 %	4.05 %
Expected return on plan assets	5.90 %	6.86 %	6.54 %
Rate of compensation increase	N/A	N/A	N/A
TNMP			
Discount rate for determining December 31 PBO	2.69 %	3.46 %	4.63 %
Discount rate for determining net periodic benefit cost (income)	3.46 %	4.63 %	4.01 %
Expected return on plan assets	5.90 %	6.90 %	6.57 %
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 2021 net periodic benefit cost to increase \$5.2 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 19.3% and 20.4% for the year ended December 31, 2020.

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 35% equities, 15% alternative investments (both of which are considered return generating), and 50% liability matching securities that are primarily bonds and other fixed income investments. Equity investments are primarily in domestic securities that include large-, mid-, and small-capitalization companies. The pension plans have a 13% targeted allocation to equities of companies domiciled primarily in developed countries outside of the U.S. The equity investments category includes actively managed 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, and event driven. Private equity fund

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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)	
2021	\$ 46,312	\$ 5,301
2022	45,583	5,193
2023	44,299	4,936
2024	43,066	4,702
2025	41,869	4,589
2026 - 2030	188,950	19,829

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 2021 or 2022. PNM and TNMP expect to contribute \$10.8 million and zero in 2023, \$11.5 million and zero in 2024, and \$10.6 million and zero in 2025. The funding assumptions were developed using discount a rate of 2.9%. 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,	
	2020	2019	2020	2019
	(In thousands)			
APBO at beginning of year	\$ 75,121	\$ 75,305	\$ 11,235	\$ 10,064
Service cost	38	53	46	50
Interest cost	2,453	3,316	373	451
Participant contributions	1,714	2,131	243	316
Actuarial (gain) loss	3,261	2,587	747	1,004
Benefits paid	(7,391)	(8,271)	(706)	(650)
APBO at end of year	75,196	75,121	11,938	11,235
Fair value of plan assets at beginning of year	86,400	69,703	10,844	8,744
Actual return on plan assets	9,423	19,257	2,505	2,434
Employer contributions	3,256	3,580	—	—
Participant contributions	1,714	2,131	243	316
Benefits paid	(7,391)	(8,271)	(707)	(650)
Fair value of plan assets at end of year	93,402	86,400	12,885	10,844
Funded status – asset (liability)	\$ 18,206	\$ 11,279	\$ 947	\$ (391)

As of December 31, 2020, the fair value of plan assets exceeds the APBO for both PNM's and TNMP's OPEB Plans and the resulting net asset is presented in other deferred charges on the Consolidated Balance Sheets.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Actuarial (gain) loss results from changes in:

	PNM		TNMP	
	Year Ended December 31,		Year Ended December 31,	
	2020	2019	2020	2019
	(in thousands)			
Discount rates	\$ 4,959	\$ 7,236	\$ 1,008	\$ 1,375
Claims, contributions, and demographic experience	(1,698)	(4,022)	(261)	(311)
Assumed participation rate	—	—	—	—
Mortality rate	—	(627)	—	(60)
	<u>\$ 3,261</u>	<u>\$ 2,587</u>	<u>\$ 747</u>	<u>\$ 1,004</u>

In the year ended December 31, 2020, actuarial gains of \$0.6 million were recorded as adjustments to regulatory assets for the PNM OPEB plan. For the TNMP OPEB plan, actuarial gains of \$1.2 million were recorded as adjustments to regulatory liabilities.

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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
PNM			
Service cost	\$ 38	\$ 53	\$ 83
Interest cost	2,453	3,316	3,439
Expected return on plan assets	(5,548)	(5,278)	(5,414)
Amortization of net (gain) loss	348	675	2,354
Amortization of prior service credit	—	(397)	(1,664)
Net periodic benefit cost (income)	<u>\$ (2,709)</u>	<u>\$ (1,631)</u>	<u>\$ (1,202)</u>
TNMP			
Service cost	\$ 46	\$ 50	\$ 134
Interest cost	373	451	477
Expected return on plan assets	(538)	(517)	(542)
Amortization of net (gain) loss	(323)	(444)	(227)
Amortization of prior service cost	—	—	—
Net periodic benefit cost (income)	<u>\$ (442)</u>	<u>\$ (460)</u>	<u>\$ (158)</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,		
	2020	2019	2018
PNM			
Discount rate for determining December 31 APBO	2.65 %	3.42 %	4.63 %
Discount rate for determining net periodic benefit cost	3.42 %	4.63 %	4.00 %
Expected return on plan assets	7.00 %	7.20 %	7.42 %
Rate of compensation increase	N/A	N/A	N/A
TNMP			
Discount rate for determining December 31 APBO	2.65 %	3.42 %	4.63 %
Discount rate for determining net periodic benefit cost	3.42 %	4.63 %	4.00 %
Expected return on plan assets	5.60 %	5.80 %	5.86 %
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 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

1% decrease in the expected long-term rate of return would cause PNM's and TNMP's 2021 net periodic benefit cost to increase \$0.9 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 11.1% and 23.6% for the year ended December 31, 2020.

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

	PNM	
	December 31,	
	2020	2019
Health care cost trend rate assumed for next year	6.25 %	6.50 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %
Year that the rate reaches the ultimate trend rate	2026	2026

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 30% equities and 70% 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)			
2021	\$	6,455	\$	649
2022		6,132		678
2023		5,960		698
2024		5,711		709
2025		5,357		713
2026 - 2030		22,474		3,400

PNM and TNMP made no cash contributions to the OPEB trusts in 2020 or 2019 and PNM and TNMP do not expect to make cash contributions to the OPEB trusts in 2021-2025. 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 2021 and \$13.1 million in 2022-2025.

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,	
	2020	2019	2020	2019
	(In thousands)			
PBO at beginning of year	\$	14,994	\$	14,726
Service cost		—		—
Interest cost		491		651
Actuarial (gain) loss		78		1,053
Benefits paid		(1,341)		(1,436)
PBO at end of year – funded status		14,222		14,994
Less current liability		1,323		1,434
Non-current liability	\$	12,899	\$	13,560
			\$	587
			\$	601

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

The following table presents pre-tax information about net actuarial loss in AOCI as of December 31, 2020.

	December 31, 2020	
	PNM	TNMP
	(In thousands)	
Amount in AOCI not yet recognized in net periodic benefit cost at beginning of year	\$ 2,395	\$ —
Experience (gain) loss	78	58
Regulatory asset (liability) adjustment	(45)	(58)
Amortization recognized in net periodic benefit cost (income)	(169)	—
Amount in AOCI not yet recognized in net periodic benefit cost at end of year	<u>\$ 2,259</u>	<u>\$ —</u>

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

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
PNM			
Service cost	\$ —	\$ —	\$ —
Interest cost	491	651	622
Amortization of net (gain) loss	403	318	359
Amortization of prior service cost	—	—	—
Net periodic benefit cost	<u>\$ 894</u>	<u>\$ 969</u>	<u>\$ 981</u>
TNMP			
Service cost	\$ —	\$ —	\$ —
Interest cost	22	30	29
Amortization of net (gain) loss	24	15	15
Amortization of prior service cost	—	—	—
Net periodic benefit cost	<u>\$ 46</u>	<u>\$ 45</u>	<u>\$ 44</u>

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,		
	2020	2019	2018
Discount rate for determining December 31 PBO	2.68 %	3.44 %	4.66 %
Discount rate for determining net periodic benefit cost	3.44 %	4.66 %	4.05 %
Long-term rate of return on plan assets	N/A	N/A	N/A
Rate of compensation increase	N/A	N/A	N/A
TNMP			
Discount rate for determining December 31 PBO	2.69 %	3.46 %	4.63 %
Discount rate for determining net periodic benefit cost	3.46 %	4.63 %	4.01 %
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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020 and \$1.4 million and \$0.1 million for the year ended December 31, 2019. The following executive retirement plan payments, which reflect expected future service, are expected:

	PNM	TNMP
	(In thousands)	
2021	\$ 1,341	\$ 93
2022	1,303	90
2023	1,259	85
2024	1,210	80
2025	1,156	73
2026 - 2030	4,856	252

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,		
	2020	2019	2018
	(In thousands)		
PNMR			
401(k) plan	\$ 16,247	\$ 16,097	\$ 16,677
Non-qualified plan	\$ 2,090	\$ 4,551	\$ 865
PNM			
401(k) plan	\$ 11,676	\$ 11,587	\$ 12,052
Non-qualified plan	\$ 1,544	\$ 3,384	\$ 621
TNMP			
401(k) plan	\$ 4,572	\$ 4,511	\$ 4,625
Non-qualified plan	\$ 547	\$ 1,167	\$ 244

(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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020, 2019, and 2018 was \$8.1 million, \$6.4 million, and \$7.1 million. Stock compensation expense of \$5.5 million, \$4.2 million, and \$4.9 million was charged to PNM and \$2.6 million, \$2.2 million, and \$2.2 million was charged to TNMP. At December 31, 2020, PNMR had unrecognized compensation expense related to stock awards of \$4.0 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. All excess tax benefits and deficiencies are recorded to tax expense and classified as operating cash flows when used to reduce taxes payable.

Excess Tax Benefits	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
PNM	\$ 279	\$ 559	\$ 1,007
TNMP	112	236	377
PNMR	391	795	1,384

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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,		
	2020	2019	2018
Expected quarterly dividends per share	\$ 0.3075	\$ 0.2900	\$ 0.2650
Risk-free interest rate	0.72 %	2.47 %	2.38 %
Market-Based Shares			
Dividend yield	2.51 %	2.59 %	2.96 %
Expected volatility	19.41 %	19.55 %	19.12 %
Risk-free interest rate	0.72 %	2.51 %	2.36 %

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
Outstanding at December 31, 2019	161,542	\$ 38.21	2,000	\$ 12.22
Granted	246,029	36.73	—	—
Exercised	(238,054)	34.86	(2,000)	12.22
Forfeited	(1,456)	41.32	—	—
Outstanding at December 31, 2020	<u>168,061</u>	<u>\$ 40.77</u>	<u>—</u>	<u>\$ —</u>

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 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 142,080 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 were exercisable, was less than \$0.1 million. All the options were exercised or expired in February 2020.

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

Restricted Stock	Year Ended December 31,		
	2020	2019	2018
Weighted-average grant date fair value	\$ 36.73	\$ 37.92	\$ 29.65
Total fair value of restricted shares that vested (in thousands)	\$ 8,299	\$ 6,246	\$ 8,558
Stock Options			
Total intrinsic value of options exercised (in thousands)	\$ 84	\$ 2,617	\$ 3,117

(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,	
	2020	2019	2020	2019
(In thousands)				
Assets:				
Current:				
FPPAC	\$ —	\$ 7,373	\$ —	\$ —
Energy efficiency costs	—	—	202	—
	—	7,373	202	—
Non-Current:				
CTC, including carrying charges	—	—	324	7,412
Coal mine reclamation costs ⁽³⁾	9,980	13,995	—	—
Deferred income taxes	65,564	66,296	9,817	8,997
Loss on reacquired debt	19,748	19,426	28,914	30,212
Pension and OPEB ⁽¹⁾	190,147	214,771	22,863	27,947
Shutdown of SJGS Units 2 and 3	107,231	113,508	—	—
Hurricane recovery costs ⁽²⁾	—	—	480	1,041
AMS surcharge	—	—	18,761	25,015
AMS retirement and other costs	—	—	13,915	15,542
Renewable energy costs	—	643	—	—
Deferred cost under the ETA	42,703	—	—	—
Deferred COVID-19 costs	8,761	—	676	—
SJGS replacement resources	8,282	—	—	—
Other	5,537	6,828	4,087	5,297
	457,953	435,467	99,837	121,463
Total regulatory assets	\$ 457,953	\$ 442,840	\$ 100,039	\$ 121,463

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

	PNM		TNMP	
	December 31,		December 31,	
	2020	2019	2020	2019
Liabilities:				
Current:				
FPPAC	\$ (2,274)	\$ —	\$ —	\$ —
Renewable energy rider	(2,044)	—	—	—
Other	(1,101)	(371)	(2,052)	(134)
	<u>(5,419)</u>	<u>(371)</u>	<u>(2,052)</u>	<u>(134)</u>
Non-Current:				
Cost of removal	(284,695)	(271,025)	(59,613)	(46,091)
Deferred income taxes	(343,844)	(374,122)	(119,695)	(131,871)
PVNGS ARO	(5,394)	(11,341)	—	—
Renewable energy tax benefits	(17,912)	(19,069)	—	—
Accelerated depreciation SNCRs ⁽⁴⁾	(12,045)	(7,758)	—	—
Pension and OPEB	—	—	(5,535)	(4,775)
COVID-19 cost savings	(900)	—	—	—
Other	(83)	(83)	(512)	(108)
	<u>(664,873)</u>	<u>(683,398)</u>	<u>(185,355)</u>	<u>(182,845)</u>
Total regulatory liabilities	<u>\$ (670,292)</u>	<u>\$ (683,769)</u>	<u>\$ (187,407)</u>	<u>\$ (182,979)</u>

⁽¹⁾ Includes \$1.6 million for certain PNM pension costs as described in Note 11

⁽²⁾ Amount shown is net of amounts owed under the PUCT's January 25, 2018 order as described in Note 17

⁽³⁾ Includes \$9.3 million in coal mine reclamation costs related to PNM's planned retirement of SJGS in 2022 and recoverable under the ETA as described in Note 16

⁽⁴⁾ Amounts to be refunded under the ETA

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); PVNGS ARO (to be determined in a future regulatory proceeding); costs recoverable under the ETA (over the securitization period); deferred COVID-19 costs (to be determined in a future regulatory proceeding); and SJGS replacement resources (to be determined in a future regulatory proceeding).

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. 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 \$335.1 million in 2020, 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 \$321.5 million during 2020. On a consolidated basis, PNMR's expenditures for additions to utility plant were \$679.0 million in 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020, PNM's interests and investments in jointly-owned generating facilities are:

Station (Fuel Type)	Plant in Service	Accumulated Depreciation⁽¹⁾	Construction Work in Progress	Composite Interest
	(In thousands)			
SJGS (Coal)	\$ 780,544	\$ (448,213)	\$ 659	66.35 %
PVNGS (Nuclear) ⁽²⁾	\$ 828,191	\$ (387,436)	\$ 37,235	10.20 %
Four Corners Units 4 and 5 (Coal)	\$ 301,867	\$ (100,187)	\$ 7,820	13.00 %
Luna (Gas)	\$ 76,917	\$ (29,758)	\$ 57	33.33 %

⁽¹⁾ Includes cost of removal.

⁽²⁾ 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 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 and 17 for additional information about Four Corners.

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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:

	2021	2022	2023	2024	2025	Total
	(In millions)					
PNM	\$ 661.9	\$ 396.6	\$ 382.0	\$ 388.5	\$ 379.9	\$ 2,208.9
TNMP	320.1	342.0	348.0	298.0	299.0	1,607.1
Corporate and Other	34.5	26.5	31.2	26.5	26.5	145.2
Total PNMR	<u>\$ 1,016.5</u>	<u>\$ 765.1</u>	<u>\$ 761.2</u>	<u>\$ 713.0</u>	<u>\$ 705.4</u>	<u>\$ 3,961.2</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 approximately \$277 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.

A reconciliation of the ARO liabilities is as follows:

	PNMR	PNM	TNMP
	(In thousands)		
Liability at December 31, 2017	\$ 146,679	\$ 145,707	\$ 793
Liabilities incurred	—	—	—
Liabilities settled	(192)	—	—
Accretion expense	11,482	11,402	67
Revisions to estimated cash flows	705	705	—
Liability at December 31, 2018	<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 ⁽¹⁾	11,640	11,640	—
Liability at December 31, 2019	<u>181,962</u>	<u>181,081</u>	<u>881</u>
Liabilities incurred	—	—	—
Liabilities settled	(1,444)	(1,192)	(252)
Accretion expense	11,310	11,235	75
Revisions to estimated cash flows ⁽²⁾	(8,407)	(8,407)	—
Liability at December 31, 2020	<u>\$ 183,421</u>	<u>\$ 182,717</u>	<u>\$ 704</u>

⁽¹⁾ Reflects the impacts of an updated SJGS decommissioning study that assumes PNM will retire its share of SJGS in 2022.

⁽²⁾ Reflects a decrease of \$9.2 million related to an updated PVNGS decommissioning study and an increase of \$0.8 million related to an updated Four Corners decommissioning study.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

(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. 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.

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 for each of the years ended December 31, 2020, 2019, and 2018 into the qualified trust funds. The market value of the trusts at December 31, 2020 and 2019 was \$379.2 million and \$336.0 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. In July 2020, APS accepted the DOE's extension of the settlement agreement for recovery of costs incurred through December 31, 2022. Under the settlement agreement, APS must submit claims annually for payment of allowable costs. PNM records estimated claims on a quarterly basis. The benefit from the claims is passed through to customers under the FPPAC to the extent applicable to NMPRC regulated operations.

PNM estimates that it will incur approximately \$59.6 million (in 2019 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the nuclear fuel is consumed. At December 31, 2020 and 2019, PNM had a liability for interim storage costs of \$12.8 million and \$12.7 million, which is included in other deferred credits.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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. 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 CO₂ emissions to no more than 1,100 lbs. per MWh beginning January 1, 2023 for new or existing coal-fired EGUs with original installed capacities exceeding 300 MW.

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 energy transition costs (as defined by the ETA). These costs may include plant decommissioning and coal mine reclamation costs provided those costs have not previously been recovered from customers or disallowed by the NMPRC or by a court order. 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 retirements of SJGS in 2022 and the planned Four Corners exit in 2024. PNM cannot predict the full impact of the ETA or the outcome of its pending and potential future generating resource abandonment and replacement resource filings with the NMPRC. See additional discussion in Note 17 of PNM’s SJGS and Four Corners Abandonment Applications.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

The Clean Air Act
Regional Haze

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

In 2017, EPA published 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 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 2016 as a companion to the regional haze rule revisions. The final guidance differs from the draft in several ways, but is likely to be reconsidered by the Biden Administration. SIPs for the second planning 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 be required to submit a regional haze four-factor analysis for SJGS since PNM will retire its share of SJGS in 2022. PNM cannot predict the outcome of these matters with respect to Four Corners.

SJGS

December 2018 Compliance Filing – 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 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. 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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

Court lifted the stay and denied PNM's petition without discussion. On July 1, 2019, PNM filed its SJGS Abandonment Application. See Note 17.

Long-lived assets are required to 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 was 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 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 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 complaint. PNM is not able to predict the potential outcome of this matter but does not anticipate the NMPRC will take any further action.

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 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 and the Four Corners Abandonment Application.

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. 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. The court granted NTEC's motion and dismissed the case with prejudice, terminating the proceedings. In November 2017, the environmental group plaintiffs filed a Notice of Appeal of the dismissal in the U.S. Court of Appeals for the Ninth Circuit, and the court granted their subsequent motion to expedite the appeal. 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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

reconsideration, which was denied in December 2019. On March 24, 2020, the environmental groups filed a petition for *writ of certiorari* in the U.S. Supreme Court seeking review of the Ninth Circuit's decision. The U.S. Supreme Court denied the petition on June 29, 2020, making the decision of the Ninth Circuit to affirm the District Courts dismissal of the case final. This matter is now complete.

Carbon Dioxide Emissions

On August 3, 2015, EPA established standards to limit CO₂ 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 and challengers successfully petitioned the US Supreme Court for a stay of the Clean Power Plan. However, before the DC Circuit could issue an opinion regarding either the Carbon Pollution Standards or the Clean Power Plan, the Trump Administration asked that the case be held in abeyance while the rule was being re-evaluated, which was granted.

On June 19, 2019, EPA repealed the Clean Power Plan; promulgated the ACE Rule; and revised the implementing regulations for all emission guidelines. EPA set the 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 directed 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. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss the cases challenging the Clean Power Plan as moot due to EPA's issuance of the ACE Rule.

However, on January 19, 2021, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *American Lung Association and American Public Health Association v. EPA, et al.* regarding challenges to the ACE Rule. The D.C. Circuit vacated the ACE Rule and remanded the record back to the EPA for further consideration consistent with its opinion, finding that EPA misinterpreted the CAA when it determined that the language of section 111 unambiguously barred consideration of emissions reductions options that were not applied at the source. Unless the court issues a stay of its mandate, the mandate for its decision will issue in March 2021 after the deadline passes for petitions for rehearing or rehearing en banc, although an appeal via petitions for certiorari to the US Supreme Court will remain available until June 2021. EPA has filed a motions seeking a partial stay of the mandate as to the repeal of the Clean Power Plan, to ensure the court's order will not render effective the now out-of-date Clean Power Plan, but the court has not yet acted on that motion. The litigation over the Carbon Pollution Standards remains held in abeyance but could be reactivated by the parties upon a determination by the court that the Biden Administration is unlikely to finalize the revisions proposed in 2018 and that reconsideration of the rule has concluded.

While corresponding NSR reform regulations were proposed as part of the proposed ACE Rule, the final rule did not include such reform measures. Unrelated to the ACE 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 final rule on NSR Project Emissions Accounting became effective on December 24, 2020 clarifying 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, but the rule may be reconsidered by the Biden Administration.

On January 27, 2021, President Biden signed an extensive Executive Order aimed at addressing climate change concerns domestically and internationally. The order is intended build on the initial climate-related actions the Biden Administration took on January 20, 2021. It addresses a wide range of issues, including establishing climate change concerns as an essential element of U.S. foreign and security policy, identifying a process to determine the U.S. INDC under the Paris Agreement, and establishing a Special Presidential Envoy for Climate that will sit on the National Security Council.

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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_x, SO₂, ozone, and particulate matter.

NO_x Standard – On April 18, 2018, EPA published the final rule to retain the current primary health-based NO_x standards of which NO₂ is the constituent of greatest concern and is the indicator for the primary NAAQS. EPA concluded that the current 1-hour and annual primary NO₂ standards are requisite to protect public health with an adequate margin of safety. The rule became effective on May 18, 2018.

SO₂ Standard – On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO₂ NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO₂ sources to identify maximum 1-hour SO₂ concentrations. This characterization requires areas be designated as attainment, nonattainment, or unclassifiable for compliance with the 1-hour SO₂ NAAQS.

On August 11, 2015, EPA released the Data Requirements Rule for SO₂, telling states how to model or monitor to determine attainment or nonattainment with the new 1-hour SO₂ NAAQS. 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 SO₂ emissions. NMED submitted the second and third annual modeling report to EPA in July 2019 and July 2020. Those reports 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 SO₂. Specifically, EPA will retain the current 1-hour standard for SO₂, which is 75 parts per billion, based on the 3-year average of the 99th percentile of daily maximum 1-hour SO₂ concentrations.

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_x and volatile organic compounds since these are the pollutants that form ground level ozone. On July 13, 2020, EPA proposed to retain the existing ozone NAAQS based on a review of the full body of currently available scientific evidence and exposure/risk information. EPA finalized its decision to retain the ozone NAAQS in a notice published on December 31, 2020 making it immediately effective.

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 Doña Ana County, New Mexico is designated as marginal non-attainment. Although Afton is located in Doña Ana County, it is not located within the small area designated as nonattainment for the 2015 ozone standard. 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 Doña Ana County designated as marginal/non-attainment for ozone into compliance and will look at all sources of NO_x 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_x 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. Comments or requests for a public hearing were required by January 21, 2020.

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 Doña Ana County. Until EPA approves attainment designations for the Navajo Nation and releases a proposal to implement the revised ozone NAAQS, PNM is unable to predict what impact the adoption of these standards may have on Four Corners. PNM cannot predict the outcome of this matter.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

PM Standard – On January 30, 2020, EPA published in the Federal Register a notice announcing the availability of its final Policy Assessment for the Review of the NAAQS for Particulate Matter (the “Final PA”). The final assessment was prepared as part of the review of the primary and secondary PM NAAQS. In the assessment, EPA recommended lowering the primary annual PM_{2.5} standard to between 8 µg/m³ and 10 µg/m³. However, on April 30, 2020, EPA published a proposed rule to retain the current standards for PM due to uncertainties in the data relied upon in the Final PA. EPA accepted comments on the proposed rule through June 29, 2020. On December 7, 2020, EPA announced it will retain, without revision, the existing primary (health-based) and secondary (welfare-based) NAAQS for PM, and EPA published a notice of that final action on December 18, 2020, making it immediately effective. On February 9, 2021, the Center for Biological Diversity filed a petition for review in the U.S. Court of Appeals for the DC Circuit challenging EPA’s final rule regarding NAAQS particulate matter.

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, 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, particularly given the NMPRC’s April 1, 2020 approval for PNM to retire its share of SJGS by June 2022.

On May 23, 2018, several environmental groups sued EPA Region IX in the U.S. Court of Appeals for the Ninth Circuit Court over EPA’s failure to timely reissue the Four Corners NPDES permit. The petitioners asked the court to issue a *writ of mandamus* compelling EPA Region IX to take final action on the pending NPDES permit by a reasonable date. EPA subsequently reissued the NPDES permit on June 12, 2018. The permit did not contain conditions related to the cooling water intake structure rule as EPA determined that the facility has achieved BTA for both impingement and entrainment by operating a closed-cycle recirculation system. On July 16, 2018, several environmental groups filed a petition for review with EPA’s Environmental Appeals Board (“EAB”) concerning the reissued permit. The environmental groups alleged that the permit was reissued in contravention of several requirements under the Clean Water Act and did not contain required provisions concerning certain revised 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 EAB. EAB 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 EAB. Oral argument was heard on September 3, 2020. The EAB issued an order denying the

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

petition for review on September 30, 2020. The denial was based on the EAB's determination that the petitioners had failed to demonstrate that review of the permit was warranted on any of the grounds presented in the petition. PNM cannot predict whether there will be further appeals of this matter or whether the outcome of any such appeal 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 signed the final Steam Electric Effluent Limitation Guidelines rule on September 30, 2015. The final rule, which became effective on January 4, 2016, phased in the new, more stringent requirements in the form of effluent limits for arsenic, mercury, selenium, and nitrogen for wastewater discharged from wet scrubber systems and zero discharge of pollutants in ash transport water that must be incorporated into plants' NPDES permits. The 2015 rule required each plant to comply between 2018 and 2023 depending on when it needs a new or revised NPDES permit.

The Steam Electric Effluent Limitation 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. 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. 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. On October 13, 2020, EPA published in the Federal Register the final Steam Electric Effluent Limitation Guidelines and standards for the Steam Electric Power Generating Point Source Category, revising the final 2015 guidelines for both flue gas desulfurization wastewater and bottom ash transport water. The rule will require compliance with new limits as soon as possible on or after October 13, 2021 (beginning one year after the publication date) but no later than December 31, 2025.

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

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

Santa Fe Generating Station

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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

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

Coal Combustion Residuals Waste Disposal

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

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

On August 14, 2019, EPA published the "Phase Two" proposed rule 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. The spring 2020 regulatory agenda states EPA is not taking final action at this time on this proposed rule but will continue to reconsider these issues and seek additional information.

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". EPA's final Part A CCR rule was issued on August 28, 2020 and became effective on September 28, 2020. This rule finalizes the classification of soil-lined and clay-lined surface impoundments as unlined, triggering closure or retrofit requirements for those impoundments. The final rule also gives operators until April 11, 2021, rather than the originally proposed October 31, 2020 deadline, to cease receipt of waste at these units and begin the closure process. On March 3, 2020, EPA issued a proposed rule, Part B, addressing demonstrations for clay liners and regulations addressing beneficial use for closure of surface impoundments. On October 16, 2020, EPA released a prepublication draft copy of the final Part B rule. This rule did not include beneficial use of CCR for closure, which EPA explains will be addressed in subsequent rulemaking action. EPA intends to issue several other rulemakings covering legacy ponds and finalizing parts of previously proposed rules. These proposed rules and final rules are expected in 2021.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

On February 20, 2020, EPA published a proposed rule establishing a federal permitting program for the handling of CCR within the boundaries of Native American reservations and in states without their own federally authorized state programs. Permits for units within the boundaries of Native American reservations would be due 18 months after the effective date of the rule. The deadline to provide comments was extended to August 7, 2020. The final rule is expected in May 2021. 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 that would be considered impoundments or landfills under the rule. PNM would seek recovery from its retail customers of all CCR costs for jurisdictional assets that are ultimately incurred.

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

Other Commitments and Contingencies

Coal Supply

SJGS

The coal requirements for SJGS are supplied by WSJ LLC. 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, 2020 and 2019, 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 PNM and the other owners of SJGS evaluated alternatives for the supply of coal to SJGS. On July 1, 2015, PNM and Westmoreland entered into a new coal supply agreement (the "SJGS CSA"), pursuant to which Westmoreland, through its indirectly wholly-owned subsidiary SJCC, agreed to supply all of the coal requirements of SJGS through June 30, 2022. PNM and Westmoreland also entered into agreements under which CCR disposal and mine reclamation services for SJGS would be provided. As discussed in Note 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. 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 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.

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, the assets owned by

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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

Four Corners

APS purchases all of Four Corners' coal requirements from NTEC, an entity owned by the Navajo Nation, under the Four Corners CSA that expires in 2031. The coal comes from reserves located within the Navajo Nation. 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. In connection with the exit of Four Corners, PNM would make payments of \$75 million to NTEC for relief from its obligations under the coal supply agreement for Four Corners after December 31, 2024. See Note 17 for additional information on PNM's Four Corners Abandonment Application. PNM's share of the coal costs is being recovered through the FPPAC.

Coal Mine Reclamation

As indicated under Coal Combustion Residuals Waste Disposal above, SJGS currently disposes of CCRs in the surface mine pits adjacent to the plant and Four Corners disposes of CCRs in ponds and dry storage areas. 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 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 an increase in overall reclamation costs of \$39.2 million 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. The increase includes costs for 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 million for both SJGS and Four Corners. 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.

A subsequent mine reclamation costs study was completed in late 2020 for the mine that serves SJGS and in December 2020 PNM remeasured its liability, which resulted in an increase in overall reclamation costs of \$3.6 million, due primarily to higher inflationary factors. As a result, PNM recorded less than \$0.1 million as a decrease in the liability at December 31, 2020 related to the underground mine in regulatory assets on the Consolidated Balance Sheets and recorded \$3.6 million as an increase in the liability 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. PNM cannot predict the ultimate cost to reclaim the mine that serves SJGS and would seek to recover all costs related to reclaiming the underground mine from its customers but could be exposed to additional loss related to surface mine reclamation.

A coal mine reclamation study for the mine that serves Four Corners was issued in 2019. The study reflected operation of the mine through 2031, the term of the Four Corners CSA. The study resulted in a net increase in PNM's share of the coal mine reclamation obligation of \$0.8 million, which was primarily driven by lower overhead costs offset by an increase driven by a reduction in the discount rate used by PNM to measure the liability and is reflected in cost of energy in the Consolidated Statements of Earnings. As discussed in Note 17, PNM remains responsible for its share of costs associated with mine reclamation under the Four Corners Purchase and Sale Agreement with NTEC. NTEC and PNM will complete a reclamation study in 2024 providing the final mine reclamation cost estimate on the date of ownership transfer. PNM will make its final reclamation payment to NTEC based on the reclamation study in 2024 and will have no further obligations regarding the mine reclamation after 2024. PNM determined that events and circumstances regarding Four Corners, including the Four Corners Purchase and Sale Agreement with NTEC and the Four Corners Abandonment Application, indicated that it is more likely than not that PNM's share of Four Corners coal mine reclamation obligation would be settled in 2024, rather than 2031. As of

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

December 31, 2020, PNM remeasured its Four Corners coal mine reclamation liability. As a result, PNM recorded a decrease to the liability of \$2.5 million on the Consolidated Balance Sheet and a decrease to regulatory disallowances and restructuring costs on the Consolidated Statement 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 \$80.1 million for the surface mines at both SJGS and Four Corners and \$35.1 million for the underground mine at SJGS as of December 31, 2020. At December 31, 2020 and 2019, liabilities, in current dollars, of \$71.7 million and \$70.3 million for surface mine reclamation and \$26.1 million and \$25.3 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 \$3.2 million in 2020, \$5.5 million in 2019, and \$10.0 million in 2018. Based on PNM's reclamation trust fund balance at December 31, 2020, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be \$5.8 million in 2021, \$6.2 million in 2022, and zero in 2023.

Under the Four Corners CSA 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 \$2.0 million in 2020 and \$2.3 million in each of 2019 and 2018 and anticipates providing additional funding of \$2.1 million in each of the years from 2021 through 2024. PNM will make its final reclamation payment to NTEC based on the reclamation study in 2024 and will have no further obligations regarding the mine reclamation.

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 2018 Compliance Filing above and its SJGS and Four Corners Abandonment Applications 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.

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 \$13.8 billion per occurrence. PVNGS maintains the maximum available nuclear

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

liability insurance in the amount of \$450 million, which is provided by American Nuclear Insurers. The remaining \$13.3 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.

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. 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.

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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

Merger-Related Litigation

As of February 19, 2021 six purported shareholders of PNMR have filed lawsuits against PNMR and the members of the Board challenging the proposed Merger with Avangrid. Five of the lawsuits were filed in the United States District Court for the Southern District of New York and one was filed in the United States District Court for the Eastern District of New York. The lawsuits pending in the Southern District of New York have been consolidated and the consolidated case is captioned *In re PNM Resources, Inc. Shareholder Litigation, Consolidated Civil Action No. 1:20-CV-10874*. The case pending in the Eastern District of New York is captioned *Durlacher v. PNM Resources, Inc., et al., Case No. 1:21-cv-0024*. The lawsuits challenge the adequacy of the disclosures in the definitive proxy statement filed by PNMR with the SEC on January 5, 2021 and seek, among other things, to enjoin the Merger or, if the Merger has been consummated, to rescind the Merger or an award of damages, and an award of attorneys' and experts' fees and expenses. PNMR believes that the claims raised in the actions are without merit and intends to defend against them vigorously.

(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")

In 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. 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 of purchased capacity was leased, rent expense aggregating \$18.1 million annually for leases

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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. 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. 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 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 on remand, which 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

New Mexico 2016 General Rate Case (“NM 2016 Rate Case”)

In 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates. PNM’s 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.

On December 29, 2020, Sierra Club filed a motion asking the NMPRC to re-open the NM 2016 Rate Case for the limited purpose of conducting a prudence review of certain Four Corners investments that were deferred at the conclusion of the case. In the alternative, Sierra Club requested that the NMPRC order that the deferred prudence review be conducted in the Four Corners Abandonment Application, filed on January 8, 2021. On February 10, 2021, the NMPRC rejected Sierra Club’s motion to re-open the NM 2016 Rate Case and stated that issues on whether the terms of the ETA provide an opportunity for consideration of prudence for Four Corners undepreciated investments included in a financing order or what effects the rates approved in the NM 2016 Rate Case may have on determining energy transition cost should be considered in the Four Corners Abandonment Application. See discussion regarding PNM’s Four Corners Abandonment Application discussed below.

Renewable Portfolio Standard

As discussed in Note 16, the ETA, enacted on June 14, 2019 amends the REA including removal of diversity requirements and certain customer caps and exemptions relating to the application of the RPS under the REA.

The REA provides for streamlined proceedings for approval of utilities’ renewable energy procurement plans, assures that utilities recover costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. The ETA sets a RCT of \$60 per MWh using an average annual levelized resource cost basis. PNM makes renewable procurements consistent with the NMPRC approved plans and recovers certain renewable procurement costs from customers through a rate rider. See Renewable Energy Rider below.

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

- 158 MW of PNM-owned solar-PV facilities
- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 200 MW, and a PPA through 2035 for the output of Red Mesa Wind, having an aggregate capacity of 102 MW
- A PPA through 2040 for 140 MW of output from La Joya Wind II
- A PPA through 2042 for the output of the Lightning Dock Geothermal facility with a current capacity of 11 MW
- Solar distributed generation, aggregating 161.0 MW at December 31, 2020, owned by customers or third parties from whom PNM purchases any net excess output and RECs

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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. 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. 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 requested approval of a 20-year PPA to purchase 140 MW of renewable energy and RECs from La Joya Wind II. 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 requested 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 II 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 December 2, 2019, the Hearing Examiner issued a recommended decision in the case recommending approval of PNM’s 2020 renewable energy procurement plan including La Joya Wind II. On January 29, 2020, the NMPRC accepted the Hearing Examiners recommended decision and approved PNM’s 2020 renewable energy procurement plan.

On June 1, 2020, PNM filed its 2021 renewable energy procurement plan. In the plan, PNM proposed to collect a revenue requirement of approximately \$67.8 million through the renewable energy rider, including recovery of a regulatory asset of \$2.3 million for costs of administering PNM’s Sky Blue voluntary renewable energy program that PNM has not been able to collect from Sky Blue participants. The Sky Blue regulatory asset of \$2.3 million included carrying charges of 8.64% totaling approximately \$0.7 million. PNM did not propose any new procurements in the plan. On November 18, 2020 the NMPRC issued a final order approving the 2021 renewable energy procurement plan with the exception of PNM’s request to recover the Sky Blue regulatory asset. The NMPRC denied PNM’s request to recover the regulatory asset, in part, because PNM did not adequately account for the renewable energy certificates associated with the regulatory asset. The NMPRC indicated that it will initiate a separate proceeding on the subject of whether the Sky Blue program should continue in its current form, be modified, or be terminated. The NMPRC also placed conditions on PNM’s ability to recover the Sky Blue regulatory asset from all customers, rather than from program participants, in a future proceeding, including that the carrying charge associated with the regulatory asset be reduced from 8.64% to 4% and that PNM be prohibited from collecting carrying charges from the date of the final order. However, PNM is permitted to seek recovery of carrying charges for the full 8.64% through the current Sky Blue program.

Renewable Energy Rider

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. PNM recorded revenues from the rider of \$56.4 million, \$52.0 million, and \$41.4 million in 2020, 2019, and 2018. The 2020 renewable energy procurement plan became effective on February 1, 2020. In its 2021 renewable energy procurement plan case, PNM proposed to collect \$67.8 million through a revised rate rider beginning in 2021. The NMPRC approved recovery of \$65.5 million through the rider in 2021, which reflected the NMPRC’s rejection of PNM’s request to recover the \$2.3 million Sky Blue regulatory asset in 2021. The revised rate rider became effective on January 1, 2021.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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 2019 and does not expect to exceed the limitation in 2020.

Energy Efficiency and Load Management

Program Costs and Incentives/Disincentives

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

On July 26, 2017, PNM, NMPRC staff, and other parties filed a stipulation in PNM's energy efficiency and load management application, providing for all of PNM's proposed energy efficiency and load management programs to 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. 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.

In 2019, PNM submitted a filing to address incentives to be earned in 2020. PNM's proposed incentive mechanism was 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.

On April 15, 2020, PNM filed an application for energy efficiency and load management programs to be offered in 2021, 2022, and 2023. The proposed program portfolio consists of twelve programs with a total annual budget of \$31.4 million in 2021, \$31.0 million in 2022, and \$29.6 million in 2023. The application also sought approval of an annual base incentive of 7.1% of the portfolio budget if PNM were to achieve energy savings of at least 80 GWh in a year. The proposed incentive would increase if PNM is able to achieve savings greater than 80 GWh in a year. The application also proposed an advanced metering infrastructure ("AMI") pilot program, which included the installation of 5,000 AMI meters at a cost of \$2.9 million. PNM proposed the pilot program to comply with an NMPRC order denying PNM's February 2016 application to replace its existing customer metering equipment with AMI. PNM did not recommend the AMI pilot program due to the limited benefits that are cost-effective under a pilot structure. On September 17, 2020 the Hearing Examiner in the case issued a recommended decision recommending that PNM's proposed energy efficiency and load management program be approved, with the exception of the proposed AMI pilot program. On October 28, 2020 the NMPRC issued an order adopting the recommended decision in its entirety.

2020 Decoupling Petition

As discussed above, the legislature amended the EUEA to, among other things, include a decoupling mechanism for disincentives. On May 28, 2020, PNM filed a petition for approval of a rate adjustment mechanism that would decouple the rates of its residential and small power rate classes. Decoupling is a rate design principle that severs the link between the recovery of fixed costs of the utility through volumetric charges. PNM proposed to record the difference between the annual revenue per customer derived from the cost of service approved in the NM 2015 Rate Case and the annual revenue per customer actually recovered from the rate classes beginning on January 1, 2021. If approved, on January 1, 2022, PNM would begin to collect the difference from customers if the revenue per customer from the NM 2015 Rate Case exceeds the actual

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

revenue recovered in 2021, or return the difference to customers if the actual revenue per customer recovered in 2021 exceeds the revenue per customer from the NM 2015 Rate Case. On July 13, 2020, NEE, ABCWUA, the City of Albuquerque, and Bernalillo County filed motions to dismiss the petition on the grounds that approving PNM's proposed rate adjustment mechanism outside of a general rate case would result in retroactive ratemaking and piecemeal ratemaking. The motions to dismiss also allege that PNM's proposed rate adjustment mechanism is inconsistent with the EUEA. Responses to the motions to dismiss were filed on August 7, 2020. On September 16, 2020 ABCWUA, Bernalillo County, CCAE, the City of Albuquerque, NEE, NMAG, Staff and WRA filed testimony. CCAE and WRA support PNM's petition, but recommend that the rate adjustment mechanism not take effect until new rates are approved in PNM's next general rate case. The other parties filing testimony oppose PNM's petition. On October 2, 2020, PNM requested an order to vacate the public hearing, scheduled to begin October 13, 2020, and staying the proceeding until the NMPRC decides whether to entertain a petition to issue a declaratory order resolving the issues raised in the motions to dismiss. On October 7, 2020, the Hearing Examiner approved PNM's request to stay the proceeding and vacate the public hearing and required PNM to file a petition for declaratory order by October 30, 2020. On October 30, 2020 PNM filed a petition for declaratory order asking the NMPRC to issue an order finding that full revenue decoupling is authorized by the EUEA. On November 4, 2020, ABCWUA and Bernalillo County jointly filed a competing petition asking the NMPRC to issue a declaratory order on the EUEA's requirements related to disincentives. On November 24, 2020, the NMAG requested that the NMPRC deny both petitions for declaratory orders and instead address disincentives under the EUEA in a rulemaking. PNM cannot predict the outcome of this matter.

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.

2017 IRP

PNM filed its 2017 IRP on July 3, 2017 addressing the 20-year planning period, from 2017 through 2036. 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. PNM's 2017 IRP was subject to extensive hearings and legal challenges and was accepted as compliant with the applicable statute and rules by the NMPRC on December 19, 2018, with further consideration being denied.

2020 IRP

NMPRC rules required PNM to file its 2020 IRP in July 2020. On March 16, 2020, PNM filed a motion to extend the deadline to file its 2020 IRP to six months after the NMPRC issues a final order approving a replacement resource portfolio and closes the docket in the bifurcated SJGS Abandonment Application and replacement resource proceedings. On April 8, 2020, the NMPRC approved PNM's motion to extend the deadline to file its 2020 IRP as requested. On January 29, 2021 PNM filed its 2020 IRP addressing the 20-year planning period, from 2020 through 2040. The plan focuses on a carbon-free electricity portfolio by 2040 that would eliminate coal at the end of 2024. This includes replacing the power from San Juan with a mix of approved carbon-free resources and the plan to exit Four Corners at the end of 2024. The plan highlights the need for additional investments in a diverse set of resources, including renewables to supply carbon-free power, energy storage to balance supply and demand, and efficiency and other demand-side resources to mitigate load growth.

Abandonment Applications made under the ETA

As discussed in Note 16, the ETA sets a statewide standard that requires investor-owned electric utilities to have specified percentages of their electric-generating portfolios be from renewable and zero-carbon generating resources. The ETA also provides for a transition from fossil-fuel generation resources to renewable and other carbon-free resources through certain provisions relating to the abandonment of coal-fired generating facilities. These provisions include the use of energy transition bonds, which are designed to be highly rated bonds that can be issued to finance certain costs of abandoning coal-fired facilities that are retired prior to January 1, 2023 for facilities operated by a "qualifying utility," or prior to January 1, 2032 for facilities that are not operated by the qualifying utility.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

SJGS Abandonment Application

On July 1, 2019, PNM filed a Consolidated Application for the Abandonment and Replacement of SJGS and Related Securitized Financing Pursuant to the ETA (the “SJGS Abandonment Application”). The SJGS Abandonment Application sought NMPRC approval to retire PNM’s share of SJGS after the existing coal supply and participation agreements end in June 2022, for approval of replacement resources, and for the issuance of energy transition bonds. PNM’s application proposed several replacement resource scenarios including PNM’s recommended replacement scenario, which would have provided cost savings to customers compared to continued operation of SJGS, preserved system reliability, and is consistent with PNM’s plan to have an emissions-free generation portfolio by 2040. This plan would have provided 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 have allowed 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 have placed a greater amount of resources in the San Juan area, or resulted 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 were expected to result in increased costs to customers and the two alternative resource scenarios that result in no new fossil-fueled generating facilities were expected to not provide adequate system reliability. The SJGS Abandonment Application also included a request to issue approximately \$361 million of energy transition bonds (the “Securitized Bonds”). PNM’s request for the issuance of Securitized Bonds included approximately \$283 million of forecasted undepreciated investments in SJGS at June 30, 2022, an estimated \$28.6 million for plant decommissioning and coal mine reclamation costs, approximately \$9.6 million in upfront financing costs, and approximately \$20.0 million for job training and severance costs for affected employees. Proceeds from the Securitization Bonds would also be used to fund approximately \$19.8 million for economic development in the four corners area.

As discussed in Note 16, 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. 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. On July 22, 2019, Western Resource Advocates filed a motion requesting 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 would 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.

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

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 predating 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 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. The NM Supreme Court issued a subsequent opinion, on July 23, 2020, fully explaining the legal rationale for the January 29, 2020 ruling.

Hearings on the abandonment and securitized financing proceedings were held in December 2019 and hearings on replacement resources were held in January 2020. On February 21, 2020, the Hearing Examiners issued two recommended decisions recommending approval of PNM's proposed abandonment of SJGS, subject to approval of replacement resources, and approval of PNM's proposed financing order to issue Securitized Bonds. The Hearing Examiners recommended that PNM be authorized to abandon SJGS by June 30, 2022, and to record regulatory assets for certain other abandonment costs that are not specifically addressed under the provisions of the ETA to preserve its ability to recover the costs in a future general rate case. The Hearing Examiner recommended that this authority only extend to the deferral of the costs and it not be an approval of any ratemaking treatment. The Hearing Examiners also recommended PNM be authorized to issue Securitized Bonds of up to \$361 million and establish a rate rider to collect non-bypassable customer charges for repayment of the bonds and be subject to bi-annual adjustments (the "Energy Transition Charge"). The Hearing Examiners recommended an interim rate rider adjustment upon the start date of the Energy Transition Charge to provide immediate credits to customers for the full value of PNM's revenue requirement related to SJGS until those reductions are reflected in base rates. In addition, the Hearing Examiners recommended PNM be granted authority to establish regulatory assets to recover costs that PNM will pay prior to the issuance of the Securitized Bonds, including costs associated with the bond issuances as well as for severances, job training, economic development, and workforce training. On April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the related securitized financing under the ETA. On April 10, 2020, CFRE and NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's approval of PNM's request to issue securitized financing under the ETA. The NM Supreme Court granted motions to intervene filed by PNM, WRA, CCAE, and the Sierra Club. On May 8, 2020, CFRE and NEE filed a joint statement of issues with the NM Supreme Court which asserts that the NMPRC improperly applied the ETA and that the ETA violates the New Mexico Constitution. On June 19, 2020, WRA filed a motion to dismiss CFRE and NEE's constitutional challenges to the ETA on the ground that the New Mexico Constitution provides that only New Mexico district courts have original jurisdiction over the claims. On July 24, 2020, the NM Supreme Court issued an order denying WRA's motion to dismiss. On August 17, 2020, the appellants filed a Brief in Chief and on October 5, 2020, PNM, WRA, CCAE, and Sierra Club filed Answer Briefs. PNM cannot predict the outcome of this matter.

PNM evaluated the consequences of the NMPRC's April 1, 2020 orders approving the abandonment of SJGS and the related issuance of Securitized Bonds. This evaluation indicated that it is probable that PNM will be required to fund severances for PNM employees at the facility upon its retirement in 2022 and for PNMR shared services employees providing administrative and other support services to SJGS. In addition, the evaluation indicated that it is probable PNM will be obligated to fund severances and other costs for the WSJ LLC employees and to fund certain state agencies for economic development and workforce training upon the issuance of the Securitized Bonds. As a result, in March 2020, PNMR and PNM recorded obligations of \$9.4 million and \$8.1 million for estimated severances, \$8.9 million for obligations to fund severances and other costs of WSJ LLC employees, and to fund \$19.8 million to state agencies for economic development and workforce training upon the issuance of the Securitized Bonds. The total amount recorded for these estimates of \$38.1 million and \$36.8 million is reflected in other deferred credits and as a corresponding deferred regulatory asset on PNMR's and PNM's

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

Consolidated Balance Sheets as of December 31, 2020. These estimates may be adjusted in future periods as the Company refines its expectations. In addition, as discussed above these costs may be challenged by parties pursuant to the notices of appeal filed with the NM Supreme Court on April 10, 2020.

On March 27, 2020, the Hearing Examiners issued a partial recommended decision on PNM's request for approval of replacement resources recommending that the NMPRC bifurcate consideration of PNM's requested replacement resources. The Hearing Examiners recommended that the NMPRC approve two of PNM's requested replacement resources, including the 300 MW solar PPA combined with a 40 MW battery storage agreement and the 50 MW solar PPA combined with a 20 MW battery storage agreement. The Hearing Examiners recommended that the two solar and battery procurements be approved first because they are the most cost-effective resources proposed in the case, are supported by the majority of parties, and the economics of the projects will be in jeopardy if approval is delayed past April 30, 2020. The Hearing Examiners recommended that PNM be permitted to recover the energy costs of these PPAs through its FPPAC, and that PNM should recover the demand cost of the energy storage agreements in base rates in a future general rate case. On April 29, 2020, the NMPRC issued an order declining to bifurcate a determination on replacement resources and deferring final consideration until the issuance of a comprehensive recommended decision addressing the entire portfolio of replacement resources.

On June 24, 2020, the Hearing Examiners issued a second recommended decision on PNM's request for approval of replacement resources that addressed the entire portfolio of replacement resources and superseded their March 27, 2020 partial recommended decision. The Hearing Examiners concluded that the ultimate selection of a portfolio of replacement resources involves policy considerations that are the province of the NMPRC and stated that they did not intend to make that decision for the NMPRC. The Hearing Examiners recommended that the NMPRC take one of two approaches to select replacement resources. The first approach emphasized resource selection criteria identified in the ETA which include the location of replacement resources over resource selection criteria traditionally applied by the NMPRC including price and reliability. This approach recommended approval of a replacement resource portfolio that includes a 300 MW solar PPA combined with a 150 MW battery storage agreement, a 50 MW solar PPA combined with a 20 MW battery storage agreement, a 200 MW solar PPA combined with a 100 MW battery storage agreement, a 100 MW solar PPA combined with a 30 MW battery storage agreement, and approximately 24 MW of demand response. The second approach emphasized the NMPRC's traditional resource selection criteria including price and reliability, which included a mix of solar PPAs combined with battery storage agreements and a 200 MW PNM-owned natural gas facility. The Hearing Examiners recommended that the NMPRC require PNM to file, within 30 days, any new proposed PPAs and battery storage agreements required to implement the replacement resource portfolio approved by the NMPRC in a new docket for expedited consideration. The Hearing Examiners also recommended that PNM be permitted to recover the energy costs of these PPAs through its FPPAC, and that PNM should recover the demand cost of the battery storage agreements in base rates in a future general rate case. On July 29, 2020, the NMPRC issued an order approving the Hearing Examiners' first recommended approach, concluding that this approach satisfies threshold reliability considerations for replacement resources. The order also granted in part PNM's request for an extension of time for PNM to file the application to implement the replacement resource portfolio. PNM has 60 days from the date of the order to file an application in a separate docket seeking approval of the proposed final, executed contracts, for any replacement resources that are not currently in evidence that have been approved by the NMPRC.

On September 28, 2020 PNM filed its application for approval of the final executed contracts for the replacement resources. PNM proposed an alternative to the 200 MW solar PPA combined with a 100 MW battery storage agreement and the 100 MW solar PPA combined with a 30 MW battery storage agreement: a single 299 MW solar PPA combined with a 130 MW battery storage agreement. Approval of the alternative would result in customer savings without materially changing the resource selection criteria relied on by the NMPRC in approving the replacement resources. In addition, PNM provided updated costs estimates of \$8.1 million for the SJGS replacement resources, based on the NMPRC authorization to create regulatory assets granted in the abandonment order, which it plans to seek recovery of in a future general rate case. PNM asked the NMPRC to issue a final order in the proceeding no later than December 4, 2020 to allow for expeditious approval of the contracts so that the replacement resources may be in service to meet peak summer demand in 2022. On November 13, 2020 the Hearing Examiner issued a recommended decision recommending approval of a 200 MW solar PPA combined with a 100 MW battery storage agreement and the 100 MW solar PPA combined with a 30 MW battery storage agreement and denial of PNM's alternative request for approval of a single 299 MW solar PPA combined with a 130 MW battery storage agreement. On December 2, 2020 the NMPRC issued an order adopting the recommended decision in its entirety.

Four Corners Abandonment Application

On November 1, 2020, PNM entered into the Four Corners Purchase and Sale Agreement with NTEC, pursuant to which PNM will sell its 13% ownership interest (other than certain transmission assets) in Four Corners to NTEC. The sale is contingent upon NMPRC approval and expected to close by the end of 2024. In connection with the sale, PNM would make payments of \$75.0 million to NTEC for relief from its obligations under the coal supply agreement for Four Corners after

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

December 31, 2024. Pursuant to the Four Corners Purchase and Sale Agreement, PNM will retain its current plant decommissioning and coal mine reclamation obligations. PNM made an initial payment to NTEC of \$15.0 million in November 2020, subject to refund with interest upon termination of the Four Corners Purchase and Sale Agreement prior to closing. Under the terms of the Four Corners Purchase and Sale Agreement, upon receipt of the NMPRC approval, PNM would make a final payment of \$60.0 million. The initial \$15.0 million payment was recorded in other current assets on the Consolidated Balance Sheet as of December 31, 2020.

On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM's share of Four Corners as of December 31, 2024, and issuance of approximately \$300 million of energy transition bonds as provided by the ETA. PNM's request for the issuance of Securitized Bonds included approximately \$272 million of forecasted undepreciated investments in Four Corners at December 31, 2024, an estimated \$4.6 million for plant decommissioning costs, estimated \$7.3 million in upfront financing costs, and estimated \$16.5 million in economic development. PNM intends to submit a separate application for NMPRC approval of a replacement resource portfolio following NMPRC action on this application. This deferral is authorized by the ETA and will provide for adequate time to complete a competitive bid process to develop and finalize a replacement resource portfolio from feasible replacement resources for NMPRC consideration.

On January 26, 2021, Sierra Club filed a motion in the Four Corners Abandonment Application requesting that the NMPRC order PNM to file supplemental testimony addressing the prudence of Four Corners investments or alternatively that the NMPRC dismiss the Four Corners Abandonment Application and permit PNM to refile after the prudence issue is resolved. In addition, on January 28, 2021, NEE and CFRE filed a motion requesting that the NMPRC dismiss the application, stating that approval of the abandonment would be contrary to the provision of the REA that prevents the sale of carbon dioxide emitting electricity-generating resources as a means of complying with the RPS, and that the Four Corners Abandonment Application does not demonstrate that the sale of 200 MW to NTEC will not result in a net detriment to public interest. Parties filed positions on the sufficiency of PNM's application on February 11, 2021. On February 18, 2021, PNM filed a consolidated response to the motions and the positions on the sufficiency of the application which defended the legal sufficiency of PNM's application and addressed potential amendments to the application and testimonies. On February 26, 2021 the Hearing Examiner issued an order on the sufficiency of the Four Corners Application finding that the application was deficient on its face and fails to adequately support whether or not the sale and transfer of PNM's interest in Four Corners to NTEC is in the public interest. However, given the NMPRC's preference to address Four Corners issues in the case, as well as PNM's concession on filing an amended application, the Hearing Examiner did not dismiss the case. The order requires PNM to file an amended application by March 15, 2021; establishes that the nine-month period for review of the amended application shall start on the date of PNM's filing of the amended application and run through December 15, 2021; requires PNM to file supplemental testimony addressing the prudence of its investment in Four Corners; requires PNM to more explicitly address the statutory standards for approval of the proposed transfer to NTEC; and requires PNM to withdraw the January 8, 2021 Four Corners Application.

The financial impact of an early exit of Four Corners and the NMPRC approval process are influenced by many factors outside of PNM's control, including the overall political and economic conditions of New Mexico. See additional discussion of the ETA in Note 16. PNM cannot predict the outcome of these matters.

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.

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. In 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 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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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.

Facebook, Inc. Data Center Project

PNM has a special service contract to provide service to Facebook, Inc. for a data center being constructed in PNM's service area. 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, 2020, PNM is procuring energy from 130 MW of solar-PV capacity from NMRD, a 50% equity method investee of PNMR Development. See additional discussion of NMRD in Note 21.

PNM has NMPRC approval for additional 25-year PPAs to purchase renewable energy and RECs 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
- 166 MW from La Joya Wind I, owned by Avangrid Renewables, LLC, which is located near Estancia, New Mexico and began commercial operational in February 2021
- 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 began commercial operation in July 2020.

On February 8, 2021 PNM filed an application with the NMPRC for approval to service the data center for an additional 190 MW of solar PPA combined with 100 MW of battery storage and a 50 MW solar PPA expected to be operational in 2023. In its application, PNM filed a Motion for Expedited Consideration seeking an expedited schedule for this proceeding that would provide a Final Order by June 1, 2021, in order to facilitate timely completion of the renewable resources to meet the expected completion date of the Data Center expansion. On February 17, 2021 the NMPRC approved an order with a schedule targeting a final order by June 1, 2021.

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 proposed to recover costs of the program directly from subscribing customers through a rate rider. Under the rider, PNM would procure renewable energy from 50 MW of solar-PV facilities under a 15-year PPA. PNM had fully subscribed the entire output of the 50 MW facilities at the time of the filing. Hearings on the application concluded on January 9, 2020. On March 11, 2020, the hearing examiner issued a recommended decision recommending approval of PNM's application. The hearing examiner's recommended decision was approved by the NMPRC on March 25, 2020. These facilities are expected to begin commercial operations in September 2021. This matter is now concluded.

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. 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. On June 12, 2019, the NMPRC issued an updated final order granting the CCN but defers rate making treatment to a future rate case. On October 2, 2020, PNM made a voluntary interim compliance filing notifying the NMPRC that the cost of the project increased by approximately \$24 million, to approximately \$109 million. The filing states that the updated engineering

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

requirements, particularly increased strength requirements for the steel structures as the reason for the cost increase. The BB2 Line was placed in service in December 2020. 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.

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. On September 11, 2019, the Hearing Examiner 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.

On October 29, 2020 PNM received written notice from Western Spirit that all conditions set forth in the Build Transfer Agreement for Development Completion had been satisfied. These conditions include state and federal regulatory approvals, real property rights for right-of-way easements, environmental and construction permits and arrangements for financing the project. On November 5, 2020 PNM provided Western Spirit Development Completion Acknowledgement. On December 31, 2020 Pattern Energy Group LP achieved financial close on financing necessary for construction of the combined wind and transmission projects related to Western Spirit.

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.

COVID-19 Regulatory Matters

In March 2020, PNM and other utilities voluntarily implemented a temporary suspension of disconnections and late payment fees for non-payment of utility bills in response to the impacts of the novel coronavirus global pandemic (“COVID-19”). On March 18, 2020, the NMPRC conducted an emergency open meeting for the purpose of adopting emergency amendments to its rules governing service to residential customers. The NMPRC’s emergency order is applicable during the duration of the Governor of New Mexico’s emergency executive order and allows for the closure of payment centers, prohibits the discontinuance of a residential customer’s service for non-payment, and suspends the expiration of medical certificates for certain customers. On April 27, 2020, PNM, El Paso Electric Company, New Mexico Gas Company, and

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Southwestern Public Service Company filed a joint motion with the NMPRC requesting authorization to track costs resulting from each utility's response to the COVID-19 outbreak. The utilities propose these incremental costs and uncollected customer accounts receivable resulting from COVID-19 during the period March 11, 2020 through December 31, 2020 be recorded as a regulatory asset. On June 24, 2020, the NMPRC issued an order authorizing all public utilities regulated by the NMPRC to create a regulatory asset to defer incremental costs related to COVID-19, including increases to bad debt expense incurred during the period beginning March 11, 2020 through the termination of the Governor of New Mexico's emergency executive order. The NMPRC order requires public utilities creating regulatory assets to pursue all federal, state, or other subsidies available, to record a regulatory liability for all offsetting cost savings resulting from the COVID-19 pandemic, and allows PNM to request recovery in future ratemaking proceedings. As of December 31, 2020 PNM deferred incremental costs related to COVID-19 of \$8.8 million in a regulatory asset and cost savings related to COVID-19 of \$0.9 million in a regulatory liability on the Consolidated Balance Sheet. The NMPRC's order also imposed additional quarterly reporting requirements on public utilities creating regulatory assets that include changes in customer usage and increased costs and savings recorded to regulatory assets and liabilities.

On February 3, 2021 the NMPRC issued an order finding that the temporary mandatory moratorium on disconnections of residential utility customers shall be in effect from the date of the order for 100 days (May 14th). At the end of the moratorium, a 90 day transition period will begin, which continues the temporary moratorium on disconnections to provide the utilities additional time to assist residential customers with arrearages to enter into installment agreements. The transition period may be a mandatory continuation of the temporary moratorium on disconnections if the Governor of New Mexico's executive order remains in effect or may be a consensual continuation of the moratorium on disconnections if the Governor of New Mexico's executive order terminates or expires prior to the end of the transition period. All regulated public utilities may begin disconnections at the end of the transition period.

Transportation Electrification Program

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

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. 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 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 December 20, 2018, the PUCT approved an unopposed settlement agreement in the case. 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%, 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 reflect the lower federal income tax rate of 21% in rates and refund approximately \$37.8 million of the regulatory liability recorded at December 31, 2017 related to

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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.

Recovery of TNMP Rate Case Costs

Recovery of the cost of TNMP's rate case was moved into a separate proceeding 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 three 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 in December 2019, which is reflected as regulatory disallowances on TNMP's Consolidated Statements of Earnings.

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 in August 2011 and 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.

TNMP was notified by its largest AMS service provider that its existing communication platform would be decommissioned in February 2022. TNMP evaluated technological alternatives for its AMS and on October 2, 2020, filed an application with the PUCT for authorization to implement necessary upgrades of approximately \$46 million by November 2022. On January 14, 2021, the PUCT approved TNMP's application. TNMP will seek recovery of the investment associated with the upgrade in a future general rate proceeding or distribution cost recovery factor filing.

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:

<u>Effective Date</u>	<u>Aggregate Collection Amount</u>	<u>Performance Bonus</u>
	(In millions)	
March 1, 2018	\$ 6.0	\$ 1.1
March 1, 2019	5.6	0.8
March 1, 2020	5.9	0.8

On May 29, 2020, TNMP filed its request to adjust the EECRF to reflect changes in costs for 2021. The total amount requested was \$5.9 million of program costs in 2021, which included a performance bonus of \$1.0 million based on TNMP's energy efficiency achievements in the 2019 plan year. On July 27, 2020, a unanimous settlement stipulation was filed with the PUCT to recover its requested costs in 2021, including the performance bonus of \$1.0 million. On September 10, 2020, the PUCT issued a final order approving TNMP's energy efficiency application.

Transmission Cost of Service Rates

TNMP can update its transmission cost of service ("TCOS") rates twice per year to reflect changes in its invested capital although updates are not allowed while a general rate case is in process. Updated rates reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, and the

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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 27, 2018	\$ 32	\$ 0.6
March 21, 2019	111.8	14.3
September 19, 2019	21.9	3.3
March 27, 2020	59.2	7.8
October 7, 2020	10.8	2.0

On January 22, 2021, TNMP filed an application to further update its transmission rates, which would increase revenues by \$14.1 million annually, based on an increase in rate base of \$112.6 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.

On April 6, 2020, TNMP filed its 2020 DCOS that requested an increase in TNMP's annual distribution revenue requirement of \$14.7 million based on net capital incremental distribution investments of \$149.2 million. On June 26, 2020, the parties filed a unanimous settlement for a \$14.3 million annual distribution revenue requirement with rates effective September 1, 2020. Subsequently, the ALJ issued an order on June 30, 2020, approving interim rates effective September 1, 2020, and remanding the case to the PUCT for approval. On August 13, 2020 the PUCT approved the unanimous settlement.

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 July 10, 2020, TNMP filed to reconcile and stop the CTC surcharge beginning on September 1, 2020, as TNMP had fully collected its CTC regulatory asset. On July 23, 2020, the ALJ accepted TNMP's filing effectively stopping the CTC surcharge on September 1, 2020. TNMP made a compliance filing on September 14, 2020, to reconcile recoveries under the rider. On September 28, 2020, PUCT Staff filed its recommendation for approval of TNMP's proposed revisions to the CTC Rider and on September 29, 2020 the ALJ approved the recommended decision with rates effective for one month in November 2020. Pursuant to the order approved by the ALJ, a final compliance filing was made on January 11, 2021, concluding the matter.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018**

COVID-19 Electricity Relief Program

On March 26, 2020, the PUCT issued an order establishing an electricity relief program for electric utilities, REPs, and customers impacted by COVID-19. The program allowed providers to implement a rider to collect unpaid residential retail customer bills and to ensure these customers continued to have electric service. In addition, the program provided transmission and distribution providers access to zero-interest loans from ERCOT. Collectively, ERCOT's loans could not exceed \$15 million. The program had a term of six months unless extended by the PUCT. In a separate order, the PUCT authorized electric utilities to establish a regulatory asset for costs related to COVID-19. These costs included but were not limited to costs related to unpaid accounts.

TNMP filed its rider on March 30, 2020. The rider was effective immediately and establishes a charge of \$0.33 per MWh in accordance with the PUCT's order. As of December 31, 2020, collections under the rider exceeded unpaid residential retail customer bills and are presented net as a regulatory liability of \$0.1 million on the Consolidated Balance Sheet. Other COVID-19 related costs of \$0.7 million were also recorded as a regulatory asset on the Consolidated Balance Sheet. On April 14, 2020, TNMP executed an interest-free loan agreement to borrow \$0.5 million from ERCOT. On October 30, 2020, TNMP repaid the balance of the loan.

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

(18) Income Taxes

Federal Income Tax Reform

In 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 2020, the IRS issued final regulations related to certain officer compensation and, in January 2021, issued final regulations on interest deductibility that provide a 10% "de minimis" exception that allows entities with predominantly regulated activities to fully deduct interest expenses. In addition, in 2019, 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.

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.

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.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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,		
	2020	2019	2018
	(In thousands)		
Current federal income tax	\$ —	\$ 60	\$ —
Current state income tax	231	43	(244)
Deferred federal income tax	17,574	(20,372)	7,716
Deferred state income tax	3,721	(4,491)	648
Amortization of accumulated investment tax credits	(890)	(522)	(345)
Total income taxes (benefits)	<u>\$ 20,636</u>	<u>\$ (25,282)</u>	<u>\$ 7,775</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,		
	2020	2019	2018
	(In thousands)		
Federal income tax at statutory rates	\$ 43,670	\$ 14,038	\$ 22,902
Amortization of accumulated investment tax credits	(890)	(522)	(345)
Amortization of excess deferred income tax (Note 17)	(30,723)	(37,799)	(19,779)
Flow-through of depreciation items	1,368	1,136	712
Earnings attributable to non-controlling interest in Valencia	(2,943)	(2,991)	(3,173)
State income tax, net of federal benefit	6,961	298	1,358
Impairment of state net operating loss carryforwards	—	—	—
Allowance for equity funds used during construction	(2,363)	(1,990)	(2,185)
Impairment of charitable contribution carryforward	—	—	—
Regulatory recovery of prior year impairments of state net operating loss carryforward, including amortization	1,367	1,367	1,367
Federal income tax rate change	—	—	2,914
Tax expense (benefit) related to stock compensation awards	(392)	(795)	4,647
Non-deductible compensation	2,630	1,156	891
Other	1,951	820	(1,534)
Total income taxes (benefits)	<u>\$ 20,636</u>	<u>\$ (25,282)</u>	<u>\$ 7,775</u>
Effective tax rate	9.92 %	(37.82)%	7.13 %

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

The components of PNMR's net accumulated deferred income tax liability were:

	December 31,	
	2020	2019
	(In thousands)	
Deferred tax assets:		
Net operating loss	\$ 41,419	\$ 59,488
Regulatory liabilities related to income taxes	148,961	145,087
Federal tax credit carryforwards	121,354	101,231
Regulatory disallowances	38,531	34,639
Other	42,885	54,199
Total deferred tax assets	<u>393,150</u>	<u>394,644</u>
Deferred tax liabilities:		
Depreciation and plant related	(738,342)	(787,928)
Investment tax credit	(98,669)	(81,186)
Regulatory assets related to income taxes	(61,330)	(58,495)
CTC	—	(1,466)
Pension	(37,099)	(35,029)
Regulatory asset for shutdown of SJGS Units 2 and 3	(27,237)	(28,831)
Other	(124,985)	(27,767)
Total deferred tax liabilities	<u>(1,087,662)</u>	<u>(1,020,702)</u>
Net accumulated deferred income tax liabilities	<u>\$ (694,512)</u>	<u>\$ (626,058)</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:

	Year Ended	
	December 31, 2020	
	(In thousands)	
Net change in deferred income tax liability per above table	\$ 68,454	
Change in tax effects of income tax related regulatory assets and liabilities		(11,602)
Amortization of excess deferred income tax		(30,723)
Tax effect of mark-to-market adjustments		(3,206)
Tax effect of excess pension liability		(3,670)
Adjustment for uncertain income tax positions		2,459
Reclassification of unrecognized tax benefits		(2,459)
Amortization of state net operating loss recovered in prior years		1,367
Refundable alternative minimum tax credit carryforward reclassified to receivable		—
Other		(215)
Deferred income taxes (benefits)	<u>\$ 20,405</u>	

PNM

PNM's income taxes (benefit) consist of the following components:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Current federal income tax	\$ —	\$ (6,266)	\$ (6,644)
Current state income tax	(585)	449	(2,661)
Deferred federal income tax	20,125	(12,308)	5,661
Deferred state income tax	2,560	(7,590)	(2,080)
Amortization of accumulated investment tax credits	(243)	(247)	(247)
Total income taxes (benefit)	<u>\$ 21,857</u>	<u>\$ (25,962)</u>	<u>\$ (5,971)</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Federal income tax at statutory rates	\$ 38,193	\$ 6,187	\$ 13,514
Amortization of accumulated investment tax credits	(243)	(247)	(247)
Amortization of excess deferred income tax (Note 17)	(21,609)	(28,923)	(19,779)
Flow-through of depreciation items	1,279	1,077	674
Earnings attributable to non-controlling interest in Valencia	(2,943)	(2,991)	(3,173)
State income tax, net of federal benefit	7,111	92	1,323
Impairment of state net operating loss carryforwards	—	—	—
Allowance for equity funds used during construction	(1,461)	(1,398)	(1,716)
Regulatory recovery of prior year impairment of state net operating loss carryforward, net of amortization	1,367	1,367	1,367
Federal income tax rate change	—	—	(683)
Allocation of tax expense (benefit) related to stock compensation awards	(279)	(559)	3,967
Non-deductible compensation	1,554	683	612
Other	(1,112)	(1,250)	(1,830)
Total income taxes (benefit)	<u>\$ 21,857</u>	<u>\$ (25,962)</u>	<u>\$ (5,971)</u>
Effective tax rate	12.02 %	(88.13)%	(9.28)%

The components of PNM's net accumulated deferred income tax liability were:

	December 31,	
	2020	2019
	(In thousands)	
Deferred tax assets:		
Net operating loss	\$ —	\$ 25,889
Regulatory liabilities related to income taxes	121,569	114,849
Federal tax credit carryforwards	84,719	82,983
Shutdown of SJGS Units 2 and 3	—	—
Regulatory disallowance	38,531	34,639
Other	46,444	38,735
Total deferred tax assets	<u>291,263</u>	<u>297,095</u>
Deferred tax liabilities:		
Depreciation and plant related	(576,079)	(630,293)
Investment tax credit	(74,424)	(74,667)
Regulatory assets related to income taxes	(51,493)	(49,479)
Pension	(32,413)	(30,609)
Regulatory asset for shutdown of SJGS Units 2 and 3	(27,237)	(28,831)
Other	(108,767)	(5,206)
Total deferred tax liabilities	<u>(870,413)</u>	<u>(819,085)</u>
Net accumulated deferred income tax liabilities	<u>\$ (579,150)</u>	<u>\$ (521,990)</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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:

	Year Ended December 31, 2020
	(In thousands)
Net change in deferred income tax liability per above table	\$ 57,160
Change in tax effects of income tax related regulatory assets and liabilities	(7,936)
Amortization of excess deferred income tax	(21,609)
Tax effect of mark-to-market adjustments	(3,325)
Tax effect of excess pension liability	(3,670)
Adjustment for uncertain income tax positions	2,454
Reclassification of unrecognized tax benefits	(1,999)
Amortization of state net operating loss recovered in prior years	1,367
Other	—
Deferred income taxes (benefits)	\$ 22,442

TNMP

TNMP's income taxes consist of the following components:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Current federal income tax	\$ 12,048	\$ 10,792	\$ 13,347
Current state income tax	2,033	1,904	1,753
Deferred federal income tax	(7,744)	(7,621)	(540)
Deferred state income tax	(29)	(29)	2,320
Total income taxes	\$ 6,308	\$ 5,046	\$ 16,880

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:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Federal income tax at statutory rates	\$ 13,628	\$ 12,778	\$ 14,379
Amortization of excess deferred income tax	(9,113)	(8,876)	—
State income tax, net of federal benefit	1,625	1,532	1,454
Allocation of tax expense (benefit) related to stock compensation awards	(112)	(236)	735
Officer compensation	1,071	471	277
Other	(791)	(623)	35
Total income taxes	\$ 6,308	\$ 5,046	\$ 16,880
Effective tax rate	9.71 %	8.29 %	24.65 %

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

The components of TNMP's net accumulated deferred income tax liability at December 31, were:

	December 31,	
	2020	2019
	(In thousands)	
Deferred tax assets:		
Regulatory liabilities related to income taxes	\$ 27,392	\$ 30,238
Other	4,548	3,788
Total deferred tax assets	<u>31,940</u>	<u>34,026</u>
Deferred tax liabilities:		
Depreciation and plant related	(148,279)	(142,791)
CTC	—	(1,466)
Regulatory assets related to income taxes	(9,836)	(9,016)
Loss on reacquired debt	(6,072)	(6,345)
Pension	(4,685)	(4,420)
AMS	(6,915)	(8,473)
Other	(1,522)	(1,666)
Total deferred tax liabilities	<u>(177,309)</u>	<u>(174,177)</u>
Net accumulated deferred income tax liabilities	<u>\$ (145,369)</u>	<u>\$ (140,151)</u>

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:

	Year Ended
	December 31, 2020
	(In thousands)
Net change in deferred income tax liability per above table	\$ 5,218
Change in tax effects of income tax related regulatory assets and liabilities	(3,666)
Amortization of excess deferred income tax	(9,113)
Other	(212)
Deferred income taxes (benefits)	<u>\$ (7,773)</u>

Other Disclosures

The Company is required to 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:

	PNMR	PNM	TNMP
	(In thousands)		
Balance at December 31, 2017	\$ 9,429	\$ 6,563	\$ 63
Additions based on tax positions related to 2018	543	543	—
Additions (reductions) for tax positions of prior years	222	182	40
Settlement payments	—	—	—
Balance at December 31, 2018	<u>10,194</u>	<u>7,288</u>	<u>103</u>
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	<u>10,693</u>	<u>7,776</u>	<u>114</u>
Additions based on tax positions related to 2020	2,286	2,286	—
Additions (reductions) for tax positions of prior years	173	168	5
Settlement payments	—	—	—
Balance at December 31, 2020	<u>\$ 13,152</u>	<u>\$ 10,230</u>	<u>\$ 119</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Included in the balance of unrecognized tax benefits at December 31, 2020 are \$10.7 million, \$7.8 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 2021.

PNMR, PNM, and TNMP had no estimated interest income or expense for the years ended December 31, 2020, 2019, and 2018. There was no accumulated accrued interest receivable or payable related to income taxes as of December 31, 2020 and 2019.

The Company files a federal consolidated and several consolidated and separate state income tax returns. The tax years prior to 2017 are closed to examination by either federal or state taxing authorities other than Arizona. The tax years prior to 2016 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, 2020, the Company has \$222.1 million of federal net operating loss carryforwards that expire beginning in 2031 and \$121.4 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. The proposed Merger may impact the Company's ability to utilize its federal net operating loss and tax credit carryforwards.

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 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. 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.

The Company earns investment tax credits for construction or purchase of eligible property. The Company uses the deferral method of accounting for these investment tax credits.

The impairments after reflecting the expiration of carryforwards under applicable tax laws, net of federal tax benefit, for 2018 through 2020 are as follows:

	PNMR	PNM	TNMP
	(In thousands)		
December 31, 2020:			
State tax credit carryforwards	\$ (425)	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 96	\$ 61	\$ 35
December 31, 2019:			
State tax credit carryforwards	\$ 425	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ (99)	\$ (100)	\$ 2
December 31, 2018:			
State tax credit carryforwards	\$ —	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 410	\$ 298	\$ 111

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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, 2020 and 2019 are as follows:

	PNMR	PNM	TNMP
	(In thousands)		
December 31, 2020:			
State tax credit carryforwards	\$ —	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 407	\$ 259	\$ 148
December 31, 2019:			
State tax credit carryforwards	\$ 425	\$ —	\$ —
State net operating loss carryforwards	\$ —	\$ —	\$ —
Charitable contribution carryforwards	\$ —	\$ —	\$ —
Compensation expense	\$ 311	\$ 198	\$ 113

(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.

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

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

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

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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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. PNMR also evaluates its stock price relative to historical performance, industry peers, and to major market indices, including an evaluation of PNMR's market capitalization relative to the carrying value of its reporting units.

For 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 exceeded their fair values.

For its annual evaluations performed as of April 1, 2019, PNMR performed qualitative analyses for both the PNM and TNMP reporting units. In addition to the typical considerations discussed above, the qualitative analysis considered changes in the Company's expectations of future financial performance since the April 1, 2018 quantitative analysis performed for PNM, as well as the quantitative analysis performed for TNMP at April 1, 2016 and the previous 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 its annual evaluations performed as of April 1, 2020, PNMR performed a qualitative analysis for the PNM reporting unit and a quantitative analysis for the TNMP reporting unit. In addition to the typical considerations discussed above, the qualitative analysis considered changes in PNM's expectations of future financial performance since the April 1, 2018 quantitative analysis as well as the 2019 qualitative analysis. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2020 carrying value of PNM exceeded its fair value. Using the methods and considerations discussed above, the 2020 quantitative analysis indicated the fair value of the TNMP reporting unit, which has goodwill of \$226.7 million, exceeded its carrying value by approximately 38%. Based on an evaluation of these and other factors, the Company determined it was not more likely than not that the April 1, 2020 carrying value of TNMP exceeded its fair value. Since the April 1, 2020 annual evaluation, there have been no events, including the Merger, or indications that the fair values of the reporting units with recorded goodwill have decreased below their carrying values.

(20) Related Party Transactions

PNMR, PNM, TNMP, and NMRD are considered related parties, as is PNMR Services Company, a wholly-owned subsidiary of PNMR that provides corporate services to PNMR and its subsidiaries in accordance with shared services agreements. These services are billed at cost on a monthly basis to the business units. In addition, PNMR provides construction and operations and maintenance services to NMRD, a 50% owned subsidiary of PNMR Development (Note 21), 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

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:

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Services billings:			
PNMR to PNM	\$ 100,872	\$ 96,327	\$ 95,637
PNMR to TNMP	39,053	36,554	33,493
PNM to TNMP	383	375	367
TNMP to PNMR	141	141	140
TNMP to PNM	—	—	—
PNMR to NMRD	260	238	183
Renewable energy purchases:			
PNM from NMRD	9,638	3,124	2,924
Interconnection and facility study billings:			
PNM to NMRD	350	650	2,108
PNM to PNMR	—	—	68,820
PNMR to PNM	—	68,820	—
Interest billings:			
PNMR to PNM	6	3,365	2,585
PNM to PNMR	255	299	289
PNMR to TNMP	2	42	136
Income tax sharing payments:			
PNMR to TNMP	—	—	—
PNMR to PNM	—	—	—
PNM to PNMR	—	—	134
TNMP to PNMR	15,820	12,996	3,424

(21) Equity Method Investment

In September 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 2020, 2019, and 2018 PNMR Development and AEP OnSite Partners each made cash contributions of \$23.3 million, \$38.3 million, and \$9.0 million to NMRD for its construction activities. At December 31, 2020, NMRD's renewable energy capacity in operation is 135.1 MW, which includes 130 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. 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. Summarized financial information for NMRD is as follows:

	December 31,		
	2020	2019	2018
	(In thousands)		
Operating revenues	\$ 10,366	\$ 3,662	\$ 3,147
Operating expenses	7,476	2,971	2,136
Net earnings	\$ 2,890	\$ 691	\$ 1,011

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

Financial Position		
December 31,		
	2020	2019
(In thousands)		
Current assets	\$ 8,046	\$ 7,187
Net property, plant, and equipment	172,585	132,772
Non-current assets	1,900	—
Total assets	182,531	139,959
Current liabilities	841	9,640
Non-current liabilities	\$ 380	\$ —
Owners' equity	\$ 181,310	\$ 130,319

(22) Merger

On October 20, 2020, PNMR, Avangrid, and Merger Sub, entered into the Merger Agreement pursuant to which Merger Sub will merge with and into PNMR, with PNMR surviving the Merger as a wholly-owned subsidiary of Avangrid.

Pursuant to the Merger Agreement, each issued and outstanding share of the common stock of PNMR (other than (i) the issued shares of PNMR common stock that are owned by Avangrid, Merger Sub, PNMR or any wholly-owned subsidiary of Avangrid or PNMR, which will be automatically cancelled at the time the Merger is consummated (the "Effective Time") and (ii) shares of PNMR common stock outstanding immediately prior to the Effective Time and held by a holder who has not voted in favor of, or consented in writing to, the Merger who is entitled to, and who has demanded, payment for fair value of such shares) will be converted into the right to receive \$50.30 in cash.

The proposed Merger has been unanimously approved by the Boards of Directors of PNMR, Avangrid and Merger Sub and approved by PNMR shareholders at the Special Meeting of Shareholders held on February 12, 2021. On January 20, 2021, the FTC notified PNMR and Avangrid that early termination of the waiting period under the HSR Act in connection with the Merger was granted. CFIUS completed its review of the Merger on February 2, 2021, and has concluded that there are no unresolved national security concerns with respect to the Merger. The early termination of the waiting period under the HSR Act and clearance by CFIUS satisfies two of the conditions to the closing of the transactions contemplated by the Merger Agreement. Consummation of the Merger remains subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the absence of any material adverse effect on PNMR, the receipt of required regulatory approvals (including the PUCT, the NMPRC, FERC, the FCC, and the NRC) and the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made. The Merger is currently expected to close in the second half of 2021.

In connection with the Merger, Iberdrola, S.A. a corporation organized under the laws of the Kingdom of Spain, which owns 81.5% of the outstanding common stock of Avangrid ("Iberdrola"), has provided Avangrid a commitment letter (the "Iberdrola Funding Commitment Letter"), pursuant to which Iberdrola has unilaterally agreed to provide to Avangrid, or arrange the provision to Avangrid of, funds to the extent necessary for Avangrid to consummate the Merger, including the payment of the aggregate Merger consideration. To the extent Avangrid wishes to effect a funding transaction under the Iberdrola Funding Commitment Letter in order to pay the Merger consideration, the specific terms of any such transaction will be negotiated between Iberdrola and Avangrid on an arm's length basis and must be approved by both (i) a majority of the members of the unaffiliated committee of the board of directors of Avangrid, and (ii) the entire board of directors of Avangrid. Under the terms of such commitment letter, Iberdrola has agreed to negotiate with Avangrid the specific terms of any transaction effecting such funding commitment promptly and in good faith, with the objective that such terms shall be commercially reasonable and approved by Avangrid. Avangrid's and Merger Sub's obligations under the Merger Agreement are not conditioned upon Avangrid obtaining financing.

The Merger Agreement provides for certain customary termination rights including the right of either party to terminate the Merger Agreement if the Merger is not completed on or before January 20, 2022 (subject to a three-month extension by either party if all of the conditions to the closing, other than the conditions related to obtaining regulatory approvals, have been satisfied or waived). The Merger Agreement further provides that, upon termination of the Merger Agreement under certain specified circumstances (including if Avangrid terminates the Merger Agreement due to a change in recommendation of the Board or if PNMR terminates the Merger Agreement to accept a superior proposal (as defined in the Merger Agreement)), PNMR will be required to pay Avangrid a termination fee of \$130.0 million. In addition, the Merger Agreement provides that (i) if the Merger Agreement is terminated by either party due to a failure of a regulatory closing condition and such failure is the result of Avangrid's breach of its regulatory covenants, or (ii) Avangrid fails to effect the closing when all closing conditions have been satisfied and it is otherwise obligated to do so under the Merger Agreement, then, in either such case, upon termination of the Merger Agreement, Avangrid will be required to pay PNMR a termination fee of \$184.0 million as the sole

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

and exclusive remedy. Upon the termination of the Merger Agreement under certain specified circumstances involving a breach of the Merger Agreement, either PNMR or Avangrid will be required to reimburse the other party's reasonable and documented out-of-pocket fees and expenses up to \$10.0 million (which amount will be credited toward, and offset against, the payment of any applicable termination fee).

(23) Quarterly Operating Results (Unaudited)

Unaudited operating results by quarters for 2020 and 2019 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)			
PNMR				
2020				
Operating revenues	\$ 333,622	\$ 357,649	\$ 472,465	\$ 359,276
Operating income	47,738	71,150	147,805	18,588
Net earnings (loss)	(11,399)	61,561	125,453	11,701
Net earnings (loss) attributable to PNMR	(15,260)	57,489	121,768	8,778
Net earnings (loss) attributable to PNMR per common share:				
Basic	(0.19)	0.72	1.52	0.11
Diluted	(0.19)	0.72	1.52	0.10
2019				
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 attributable to PNMR per common share:				
Basic	0.23	(0.95)	1.29	0.40
Diluted	0.23	(0.95)	1.28	0.40
PNM				
2020				
Operating revenues	\$ 248,133	\$ 260,788	\$ 364,504	\$ 266,409
Operating income	33,605	49,584	116,540	15,168
Net earnings (loss)	(12,196)	49,612	103,004	19,594
Net earnings (loss) attributable to PNM	(15,925)	45,672	99,451	16,803
2019				
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
TNMP				
2020				
Operating revenues	\$ 85,489	\$ 96,861	\$ 107,961	\$ 92,867
Operating income	14,345	23,175	31,779	19,154
Net earnings	7,092	16,174	23,921	11,398
2019				
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

⁽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.

SCHEDULE I
PNM RESOURCES, INC.
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
STATEMENTS OF EARNINGS

	Year ended December 31,		
	2020	2019	2018
	(In thousands)		
Operating Revenues	\$ —	\$ —	\$ —
Operating Expenses	28,299	3,983	7,475
Operating income (loss)	(28,299)	(3,983)	(7,475)
Other Income and Deductions:			
Equity in earnings of subsidiaries	211,291	96,324	109,995
Other income	(269)	731	2,048
Net other income and deductions	211,022	97,055	112,043
Interest Charges	19,078	19,581	19,453
Earnings Before Income Taxes	163,645	73,491	85,115
Income Tax Expense (Benefit)	(9,130)	(3,872)	(527)
Net Earnings	\$ 172,775	\$ 77,363	\$ 85,642

SCHEDULE I
PNM RESOURCES, INC.
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2020	2019	2018
	(In thousands)		
Cash Flows From Operating Activities:			
Net Cash Flows From Operating Activities	\$ (17,646)	\$ 2,001	\$ (2,566)
Cash Flows From Investing Activities:			
Utility plant additions	1,122	1,100	826
Investments in subsidiaries	(301,000)	(80,000)	(30,000)
Cash dividends from subsidiaries	99,187	54,465	129,379
Net cash flows from investing activities	(200,691)	(24,435)	100,205
Cash Flows From Financing Activities:			
Short-term loan borrowings (repayments)	—	(150,000)	50,000
Revolving credit facility borrowings (repayments), net	(131,900)	123,900	(148,700)
Long-term borrowings	230,000	150,000	349,652
Repayment of long-term debt	(50,000)	—	(250,000)
Issuance of common stock	283,208	—	—
Proceeds from stock option exercise	24	943	963
Awards of common stock	(11,984)	(9,918)	(12,635)
Dividends paid	(97,974)	(92,398)	(84,433)
Other, net	(3,064)	(107)	(2,414)
Net cash flows from financing activities	218,310	22,420	(97,567)
Change in Cash and Cash Equivalents	(27)	(14)	72
Cash and Cash Equivalents at Beginning of Period	79	93	21
Cash and Cash Equivalents at End of Period	\$ 52	\$ 79	\$ 93
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	\$ 16,869	\$ 18,702	\$ 15,450
Income taxes paid (refunded), net	\$ —	\$ —	\$ —

SCHEDULE I
PNM RESOURCES, INC.
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY
BALANCE SHEETS

	December 31,	
	2020	2019
	(In thousands)	
Assets		
Cash and cash equivalents	\$ 52	\$ 79
Intercompany receivables	71,567	79,059
Income taxes receivable	—	4,635
Other, net	5,545	2,876
Total current assets	77,164	86,649
Property, plant and equipment, net of accumulated depreciation of \$15,706 and \$14,583	23,191	24,313
Investment in subsidiaries	2,631,567	2,197,918
Other long-term assets	58,695	55,077
Total long-term assets	2,713,453	2,277,308
	\$ 2,790,617	\$ 2,363,957
Liabilities and Stockholders' Equity		
Short-term debt	\$ 12,000	\$ 112,100
Short-term debt-affiliate	8,819	40,619
Current maturities of long-term debt	229,948	50,000
Accrued interest and taxes	8,124	5,239
Other current liabilities	29,549	25,450
Total current liabilities	288,440	233,408
Long-term debt	449,909	449,048
Other long-term liabilities	2,803	2,803
Total liabilities	741,152	685,259
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 85,834,874 shares)	1,429,941	1,150,552
Accumulated other comprehensive income (loss), net of tax	(79,183)	(99,377)
Retained earnings	698,707	627,523
Total common stockholders' equity	2,049,465	1,678,698
	\$ 2,790,617	\$ 2,363,957

See Notes 7, 8, 14, and 16 for information regarding commitments, contingencies, and maturities of long-term debt.

SCHEDULE II
PNM RESOURCES, INC. AND SUBSIDIARIES
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 and other	
			(In thousands)		
Allowance for doubtful accounts, year ended December 31:					
2018	\$ 1,081	\$ 3,360	\$ —	\$ 3,035	\$ 1,406
2019	\$ 1,406	\$ 2,835	\$ —	\$ 3,078	\$ 1,163
2020	\$ 1,163	\$ 3,527	\$ 6,070	\$ 2,427	\$ 8,333

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 and other	
Allowance for doubtful accounts, year ended December 31:					
2018	\$ 1,081	\$ 3,338	\$ —	\$ 3,013	\$ 1,406
2019	\$ 1,406	\$ 2,790	\$ —	\$ 3,033	\$ 1,163
2020	\$ 1,163	\$ 3,482	\$ 6,070	\$ 2,382	\$ 8,333

(In thousands)

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 and other	
Allowance for doubtful accounts, year ended December 31:					
2018	\$ —	\$ 22	\$ —	\$ 22	\$ —
2019	\$ —	\$ 44	\$ —	\$ 44	\$ —
2020	\$ —	\$ 45	\$ —	\$ 45	\$ —

(In thousands)

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, 2020 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, 2020 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, 2020 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, 2020 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 Nine Director Nominees Named in the Proxy Statement" in PNMR's Proxy Statement relating to the annual meeting of shareholders to be held on May 11, 2021 (the "2021 Proxy Statement"), to PART I, SUPPLEMENTAL ITEM – "EXECUTIVE OFFICERS OF THE COMPANY" in this Form 10-K, "Information About Our Corporate Governance – Code of Ethics," and "Additional Information About Our Board and Board Committees – Board Committees and Their Functions" – "Audit and Ethics Committee" in the 2021 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 2021 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 2021 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 2021 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 2021 Proxy Statement. Independent auditor fees for PNM and TNMP are reported in the 2021 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 2019, 2018, and 2017 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:

Exhibit No		Description
2.1	PNMR	Agreement and Plan of Merger, dated as of October 20, 2020, by and among PNM Resources, Inc., Avangrid, Inc., and NM Green Holdings, Inc. (incorporated by reference to Exhibit 2.1 to PNMR's Current Report on Form 8-K filed October 21, 2020)
10.1	PNMR	2021 Director Compensation Summary
10.2	PNMR	First Amendment to PNMR 2019 Long-Term Incentive Plan executed December 28, 2020
10.3	PNMR	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Charles Eldred, effective December 4, 2020
10.4	PNMR	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Patricia Collawn, effective December 4, 2020
10.5	PNMR	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Patrick Apodaca, effective December 4, 2020
10.6	PNMR	First Amendment to PNMR 2020 Long-Term Incentive Plan executed December 28, 2020
10.7	PNMR	Second Amendment to PNMR Executive Savings Plan II executed December 28, 2020
10.8	PNMR	PNM Resources, Inc. Officer Retention Plan, executed October 20, 2020, as amended and restated effective October 20, 2021 (incorporated by reference to Exhibit 10.3 to PNMR's Current Report on Form 8-K filed October 21, 2020)
10.9	PNMR	Merger Backstop Revolving Facility, dated as of October 20, 2020, by and among PNMR, the lenders party thereto and MUFG Bank, Ltd., as administrative agent (incorporated by reference to Exhibit 10.1 to PNMR's Current Report on Form 8-K filed October 21, 2020)
10.10	PNMR	Merger Backstop Term Loan, dated as of October 20, 2020, by and among PNM Resources, Inc., the lenders party thereto and MUFG Bank, Ltd., as administrative agent (incorporated by reference to Exhibit 10.2 to PNMR's Current Report on Form 8-K filed October 21, 2020)
10.11	PNMR	Eighth Amendment to Credit Agreement, dated as of October 26, 2020, among PNMR, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (incorporated by reference to Exhibit 10.1 to PNMR's Current Report on Form 8-K filed October 28, 2020)
10.12	PNMR	Second Amendment to Term Loan Agreement, dated as of October 26, 2020, among PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent (incorporated by reference to Exhibit 10.2 to PNMR's Current Report on Form 8-K filed October 28, 2020)
10.13	PNMR	First Amendment to Term Loan Agreement, dated as of October 26, 2020, between PNMR and Bank of America, N.A., as sole lender (incorporated by reference to Exhibit 10.3 to PNMR's Current Report on Form 8-K filed October 28, 2020)
10.14	PNMR	First Amendment to Term Loan Credit Agreement, dated as of October 26, 2020, among PNMR Development and KeyBank, N.A., as administrative agent and sole lender (incorporated by reference to Exhibit 10.7 to PNMR's Current Report on Form 8-K filed October 28, 2020)
10.15	PNMR	Second Amendment to Term Loan Credit Agreement, dated as of November 25, 2020, among PNMR Development and KeyBank, National Association, as administrative agent and sole lender (incorporated by reference to Exhibit 10.1 to PNMR's Current Report on Form 8-K filed November 25, 2020)
10.16	PNMR	Term Loan Agreement, dated as of December 21, 2020, between PNMR and U.S. Bank National Association, as sole lender (incorporated by reference to Exhibit 10.1 to PNMR's Current Report on Form 8-K filed December 22, 2020)

[Table of Contents](#)

10.17	PNMR	Term Loan Agreement, dated as of December 22, 2020, between PNMR, the lenders party thereto, and MUFG Bank Ltd., as administrative agent (incorporated by reference to Exhibit 10.2 to PNMR's Current Report on Form 8-K filed December 22, 2020)
10.18	PNM	Purchase and Sale Agreement dated November 1, 2020, between Navajo Transitional Energy Company and PNM
10.19	PNM	Second Amendment to Build Transfer Agreement dated November 5, 2020 among New Mexico Renewable Energy Transmission Authority, Western Spirit Transmission LLC, and PNM
10.20	TNMP	Second Amendment to Third Amended and Restated Credit Agreement, dated as of October 26, 2020, among TNMP identified therein and KeyBank National Association, as administrative agent (incorporated by reference to Exhibit 10.5 to PNMR's Current Report on Form 8-K filed October 28, 2020)
21	PNMR	Certain subsidiaries of PNM Resources, Inc.
23.1	PNMR	Consent of KPMG LLP for PNM Resources, Inc.
23.2	PNM	Consent of KPMG LLP for Public Service Company of New Mexico
31.1	PNMR	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	PNMR	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	PNM	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	PNM	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.5	TNMP	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.6	TNMP	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	PNMR	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	PNM	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	TNMP	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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).

Exhibit No.	Description of Exhibit	Filed as Exhibit:	Registrant (s) File No:
Plan of Acquisition, reorganization, liquidation or succession			
2.1	Agreement and Plan of Merger, dated as of October 20, 2020, by and among PNM Resources, Inc., Avangrid, Inc., and NM Green Holdings, Inc. (Merger Agreement)	2.1 to PNMR's Current Report on Form 8-K filed October 21, 2020	1-32462 PNMR
Articles of Incorporation and By-laws			
3.1	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)	3.1 to PNMR's Current Report on Form 8-K filed November 21, 2008	1-32462 PNMR
3.2	Restated Articles of Incorporation of PNM, as amended through May 31, 2002	3.1.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002	1-6986 PNM
3.3	Articles of Incorporation of TNMP, as amended through July 7, 2005	3.1.2 to TNMP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005	2-97230 TNMP
3.4	Bylaws of PNMR, Inc. with all amendments to and including October 24, 2017	3.4 to PNMR's Current Report on Form 8-K filed October 25, 2017	1-32462 PNMR
3.5	Bylaws of PNM with all amendments to and including May 31, 2002	3.1.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002	1-6986 PNM
3.6	Bylaws of TNMP with all amendments to and including June 18, 2013	3.6 to TNMP's Current Report on Form 8-K filed June 20, 2013	2-97230 TNMP
Securities Instruments‡			
PNMR			
4.1	Description of PNM Resources, Inc. Securities	4.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2019	1-32462 PNMR
4.2	Indenture, dated as of March 15, 2005, between PNMR and JPMorgan Chase Bank, N.A., as Trustee	10.2 to PNMR's Current Report on Form 8-K filed March 31, 2005	1-32462 PNMR
4.3	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)	4.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-32462 PNMR
4.4	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)	4.2 to PNMR's Current Report on Form 8-K filed March 9, 2018	1-32462 PNMR
PNM			
4.5	Description of Public Service Company of New Mexico Securities	4.2 to PNM's Annual Report on Form 10-K for the year ended December 31, 2019	1-6986 PNM
4.6	Indenture (for Senior Notes), dated as of March 11, 1998, between PNM and The Chase Manhattan Bank, as Trustee	4.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998	1-6986 PNM

[Table of Contents](#)

4.7	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)	4.6.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003	1-6986 PNM
4.8	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)	10.1 to PNM's Current Report on Form 8-K/A filed July 29, 2010	1-6986 PNM
4.9	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)	10.2 to PNM's Current Report on Form 8-K/A filed July 29, 2010	1-6986 PNM
4.10	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)	4.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-6986 PNM
4.11	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)	4.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012	1-6986 PNM
4.12	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)	4.1 to PNM's Current Report on Form 8-K filed September 27, 2016	1-6986 PNM
4.13	Indenture (for Senior Notes), dated as of August 1, 1998, between PNM and The Chase Manhattan Bank, as Trustee	4.1 to PNM's Registration Statement No. 333-53367	333-53367 PNM
4.14	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)	4.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011	1-6986 PNM
4.15	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)	4.1 to PNM's Current Report on Form 8-K filed October 12, 2011	1-6986 PNM
4.16	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)	4.2 to PNM's Current Report on Form 8-K filed August 11, 2015	1-6986 PNM
TNMP			
4.17	First Mortgage Indenture dated as of March 23, 2009 between TNMP and The Bank of New York Mellon Trust Company, N.A., as Trustee	4.1 to TNMP's Current Report on Form 8-K filed March 27, 2009	2-97230 TNMP
4.18	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)	4.1 to TNMP's Current Report on Form 8-K filed May 6, 2009	2-97230 TNMP

[Table of Contents](#)

4.19	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)	4.1 to TNMP's Current Report on Form 8-K filed December 17, 2010	2-97230 TNMP
4.20	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)	4.4 to TNMP's Quarterly Report Form 10-Q for the quarter ended June 30, 2011	2-97230 TNMP
4.21	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)	4.1 to TNMP's Current Report on Form 8-K filed April 3, 2013	2-97230 TNMP
4.22	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)	4.1 to TNMP's Current Report on Form 8-K filed June 27, 2014	2-97230 TNMP
4.23	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)	4.1 to TNMP's Current Report on Form 8-K filed February 10, 2016	2-97230 TNMP
4.24	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)	4.1 to TNMP's Current Report on Form 8-K filed August 24, 2017	2-97230 TNMP
4.25	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)	4.1 to TNMP's Current Report on Form 8-K filed July 2, 2018	2-97230 TNMP
4.26	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)	4.1 to TNMP's Current Report on Form 8-K filed March 29, 2019	2-97230 TNMP
4.27	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)	4.1 to TNMP's Current Report on Form 8-K filed July 1, 2019	2-97230 TNMP
4.28	Twelfth Supplemental Indenture, dated as of April 24, 2020, between TNMP and MUFG Union Bank, N.A., as Trustee (\$85,000,000 of 2.73% First Mortgage Bonds due 2030, Series 2020A, \$25,000,000 of 3.36% First Mortgage Bonds due 2050, Series 2020B)	4.1 to TNMP's Current Report on Form 8-K filed April 24, 2020	2-97230 TNMP
4.29	Thirteenth Supplemental Indenture, dated as of July 15, 2020, between TNMP and MUFG Union Bank, N.A., as Trustee (\$25,000,000 of 2.93% First Mortgage Bonds due 2035, Series 2020C, \$50,000,000 of 3.36% First Mortgage Bonds due 2050, Series 2020D)	4.1 to TNMP's Current Report on Form 8-K filed July 15, 2020	2-97230 TNMP
Material Contracts			
10.21	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)	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018	1-32462 PNMR

[Table of Contents](#)

10.22	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)	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2018	1-32462 PNMR
10.23	Eighth Amendment to Credit Agreement, dated as of October 26, 2020, among PNMR, the lenders party thereto, and Wells Fargo Bank, National Association, as administrative agent (PNMR Revolving Credit Facility)	10.1 to PNMR's Current Report on Form 8-K filed October 28, 2020	1-32462 PNMR
10.24	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)	10.1 to PNMR's Current Report on Form 8-K filed December 17, 2018	1-32462 PNMR
10.25	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	10.1 to PNMR's Current Report on Form 8-K filed December 13, 2019	1-32462 PNMR
10.26	Second Amendment to Term Loan Agreement, dated as of October 26, 2020, among PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent	10.2 to PNMR's Current Report on Form 8-K filed October 28, 2020	1-32462 PNMR
10.27	Term Loan Agreement dated December 21, 2018 among PNMR and Bank of America, N.A., as lender (PNMR 2-Year Unsecured Term Loan) (terminated and repaid at December 21, 2020 maturity)	10.1 to PNMR's Current Report on Form 8-K filed December 21, 2018	1-32462 PNMR
10.28	First Amendment to Term Loan Agreement, dated as of October 26, 2020, between PNMR and Bank of America, N.A., as sole lender (PNMR 2-Year Unsecured Term Loan) (terminated and repaid at December 21, 2020 maturity)	10.3 to PNMR's Current Report on Form 8-K filed October 28, 2020	1-32462 PNMR
10.29	Term Loan Agreement, dated as of December 21, 2020, between PNMR and U.S. Bank National Association, as sole lender (PNMR 2020 Term Loan)	10.1 to PNMR's Current Report on Form 8-K filed December 22, 2020	1-32462 PNMR
10.30	Term Loan Agreement, dated as of December 22, 2020, between PNMR, the lenders party thereto, and MUFG Bank Ltd., as administrative agent (PNMR 2020 Delayed-Draw Term Loan)	10.2 to PNMR's Current Report on Form 8-K filed December 22, 2020	1-32462 PNMR
10.31	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)	10.1 to PNMR's Current Report on Form 8-K filed November 28, 2018	1-32462 PNMR
10.32	First Amendment to Term Loan Credit Agreement, dated as of October 26, 2020, among PNMR Development and KeyBank, N.A., as administrative agent and sole lender (PNMR Development Term Loan)	10.7 to PNMR's Current Report on Form 8-K filed October 28, 2020	1-32462 PNMR
10.33	Second Amendment to Term Loan Credit Agreement, dated as of November 25, 2020, among PNMR Development and KeyBank, National Association, as administrative agent and sole lender (PNMR Development Term Loan)	10.1 to PNMR's Current Report on Form 8-K filed November 25, 2020	1-32462 PNMR
10.34	Guaranty dated as of November 26, 2018 made by PNMR in favor of lenders under PNMR Development Term Loan	10.2 to PNMR's Current Report on Form 8-K filed November 28, 2018	1-32462 PNMR
10.35	Forward Sale Agreement dated January 7, 2020 between PNMR and Citibank, N.A. (settled on December 15, 2020)	10.1 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.36	Forward Sale Agreement dated January 7, 2020 between PNMR and Bank of America, N.A. (settled on December 15, 2020)	10.2 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR

[Table of Contents](#)

10.37	Additional Forward Sale Agreement dated January 8, 2020 between PNMR and Citibank, N.A. (settled on December 15, 2020)	10.3 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.38	Additional Forward Sale Agreement dated January 8, 2020 between PNMR and Bank of America, N.A. (settled on December 15, 2020)	10.4 to PNMR's Current Report on Form 8-K filed January 10, 2020	1-32462 PNMR
10.39	Merger Backstop Revolving Facility, dated as of October 20, 2020, by and among PNMR, the lenders party thereto and MUFG Bank, Ltd., as administrative agent (terminated October 26, 2020)	10.1 to PNMR's Current Report on Form 8-K filed October 21, 2020	1-32462 PNMR
10.40	Merger Backstop Term Loan, dated as of October 20, 2020, by and among PNM Resources, Inc., the lenders party thereto and MUFG Bank, Ltd., as administrative agent (terminated December 18, 2020)	10.2 to PNMR's Current Report on Form 8-K filed October 21, 2020	1-32462 PNMR
10.41	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)	10.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018	1-6986 PNM
10.42	Credit Agreement dated as of December 12, 2017 among PNM, the lenders identified therein, and U.S. Bank National Association, as administrative agent and BOKF, N.A. d/b/a Bank of Albuquerque, as syndication agent (PNM New Mexico Credit Facility)	10.1 to PNM's Current Report on Form 8-K filed December 12, 2017	1-6986 PNM
10.43	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) (prepaid on April 15, 2020)	10.1 to PNM's Current Report on Form 8-K filed January 18, 2019	1-6986 PNM
10.44	Term Loan Agreement dated April 15, 2020 among PNM, the lenders party thereto, and U.S. Bank National Association, as administrative agent (prepaid on December 21, 2020)	10.1 to PNM's Current Report on Form 8-K filed April 17, 2020	1-6986 PNM
10.45	Note Purchase Agreement dated July 28, 2017 between PNM and the purchasers named therein (PNM 2018 SUNs, Series A-H)	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017	1-6986 PNM
10.46	Note Purchase Agreement dated April 30, 2020 between PNM and the purchasers named therein (PNM 2020 SUNs, Series A-B)	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2020	1-6986 PNM
10.47	Build Transfer Agreement dated May 1, 2019 among PNM, Renewable Energy Transmission Authority, and Western Spirit Transmission LLC (Western Spirit Line)	10.1 to PNM's Current Report on Form 8-K filed May 1, 2019	1-6986 PNM
10.48	First Amendment to Build Transfer Agreement dated August 31, 2020 among New Mexico Renewable Energy Transmission Authority, Western Spirit Transmission, LLC, and PNM (Western Spirit Line)	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2020	1-6986 PNM
10.49	Second Amendment to Build Transfer Agreement dated November 5, 2020 among New Mexico Renewable Energy Transmission Authority, Western Spirit Transmission LLC, and PNM (Western Spirit Line)	10.19 to PNM's Annual Report on Form 10-K for the year ended December 31, 2020	1-6986 PNM
10.50	Purchase and Sale Agreement dated November 1, 2020, between Navajo Transitional Energy Company and PNM	10.18 to PNM's Annual Report on Form 10-K for the year ended December 31, 2020	1-6986 PNM
10.51	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)	10.1 to TNMP's Current Report on Form 8-K filed September 27, 2017	2-97230 TNMP

[Table of Contents](#)

10.52	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)	10.6 to TNMP's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	2-97230 TNMP
10.53	Second Amendment to Third Amended and Restated Credit Agreement, dated as of October 26, 2020, among TNMP identified therein and KeyBank National Association, as administrative agent (TNMP Revolving Credit Facility)	10.5 to PNMR's Current Report on Form 8-K filed October 28, 2020	2-97230 TNMP
10.54	Bond Purchase Agreement dated April 24, 2020, between TNMP and the purchasers named therein (\$185,000,000 of 2020 Bonds)	10.1 to TNMP's Current Report on Form 8-K filed April 24, 2020	2-97230 TNMP
10.55	Bond Purchase Agreement dated February 26, 2019 between TNMP and the purchasers named therein (\$305,000,000 of 2019 TNMP Bonds)	10.3 to TNMP's Annual Report on Form 10-K for the year ended December 31, 2018	2-97230 TNMP
10.56	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)	10.1 to TNMP's Current Report on Form 8-K filed July 2, 2018	2-97230 TNMP
10.57	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)	10.1 to TNMP's Current Report on Form 8-K filed June 14, 2017	2-97230 TNMP
10.58**	PNMR 2014 Performance Equity Plan dated May 15, 2014	4.3 to PNMR's Form S-8 Registration Statement filed May 15, 2014	333-195974 PNMR
10.59**	First Amendment to PNMR 2014 Performance Equity Plan	99.1 to PNMR's Current Report on Form 8-K filed December 15, 2015	1-32462 PNMR
10.60**	Second Amendment to PNMR 2014 Performance Equity Plan effective January 1, 2017	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.61**	PNMR 2019 Officer Annual Incentive Plan dated March 28, 2019	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.62**	PNMR 2020 Officer Annual Incentive Plan dated March 30, 2020	10.8 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-32462 PNMR
10.63**	PNMR 2018 Long-Term Incentive Plan dated March 28, 2018	10.2 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018	1-32462 PNMR
10.64**	PNMR 2019 Long-Term Incentive Plan dated March 28, 2019	10.2 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.65**	First Amendment to PNMR 2019 Long-Term Incentive Plan executed December 28, 2020	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.66**	PNMR 2020 Long-Term Incentive Plan dated March 30, 2020	10.9 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-32462 PNMR
10.67**	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Charles Eldred, effective December 4, 2020	10.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR

[Table of Contents](#)

10.68**	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Patricia Collawn, effective December 4, 2020	10.4 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.69**	Letter Amendment to PNMR 2020 Long-Term Incentive Plan for Patrick Apodaca, effective December 4, 2020	10.5 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.70**	First Amendment to PNMR 2020 Long-Term Incentive Plan executed December 28, 2020	10.6 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.71**	PNMR Director Deferred Stock Rights Program effective December 1, 2017	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.72**	Employee Retention Agreement executed March 4, 2015 between PNMR and Patricia K. Collawn	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2015	1-32462 PNMR
10.73**	Discretionary Credit Award Agreement between PNMR and Charles Eldred effective February 21, 2019	10.5 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019	1-32462 PNMR
10.74**	Discretionary Award Agreement between PNMR and Charles Eldred effective February 20, 2020	10.10 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-32462 PNMR
10.75**	Acknowledgement Form for officer restricted stock rights and awards granted under the PNMR 2014 Performance Equity Plan dated May 15, 2014	10.4.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR
10.76**	2020 Director Compensation Summary	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2019	1-32462 PNMR
10.77**	2021 Director Compensation Summary	10.1 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.78**	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	10.4.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR
10.79**	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	10.5 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.80**	PNMR Executive Spending Account Plan (amended and restated effective January 1, 2011)	10.4 to PNMR's Current Report on Form 8-K filed March 1, 2011	1-32462 PNMR
10.81**	First Amendment to PNMR Executive Spending Account Plan effective January 1, 2011	10.7 to PNMR's Current Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.82**	Second Amendment to PNMR Executive Spending Account executed December 13, 2017	10.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.83**	Third Amendment to PNMR Executive Spending Account effective February 22, 2018	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2018	1-32462 PNMR
10.84**	PNMR Executive Savings Plan II (amended and restated effective January 1, 2015)	10.1.2 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2014	1-32462 PNMR

[Table of Contents](#)

10.85**	First Amendment to PNMR Executive Savings Plan II executed April 15, 2016	10.7 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016	1-32462 PNMR
10.86**	Second Amendment to PNMR Executive Savings Plan II executed December 28, 2020	10.7 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
10.87**	Summary of PNMR Officer Paid Time Off Program	10.6 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	1-32462 PNMR
10.88**	PNMR Annual Executive Physical Exam Program Wraparound Plan Document effective as of January 1, 2014	10.7 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2013	1-32462 PNMR
10.89**	PNMR Non-Union Severance Pay Plan effective August 1, 2007 (amended and restated)	10.3 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007	1-32462 PNMR
10.90**	First Amendment to the PNMR Non-Union Severance Pay Plan executed November 20, 2008	10.3 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.91**	Second Amendment (executed March 27, 2012) to PNMR Non-Union Severance Pay Plan	10.8 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012	1-32462 PNMR
10.92**	Third Amendment (executed November 11, 2015) to PNMR Non-Union Severance Pay Plan	10.6 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2017	1-32462 PNMR
10.93**	PNMR Officer Retention Plan executed October 20, 2020, as amended and restated effective as of October 20, 2020	10.3 to PNMR's Current Report on Form 8-K filed October 21, 2020	1-32462 PNMR
10.94**	PNMR Officer Life Insurance Plan dated April 28, 2004	10.24.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2004	333-32170 PNMR
10.95**	First Amendment to PNMR Officer Life Insurance Plan dated December 16, 2004	10.27 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2004.	333-32170 PNMR
10.96**	Second Amendment to PNMR Officer Life Insurance Plan executed April 15, 2007	10.5 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2007	1-32462 PNMR
10.97**	Third Amendment to the PNMR Officer Life Insurance Plan effective January 1, 2009	10.10 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.98**	Fourth Amendment to the PNMR Officer Life Insurance Plan effective January 1, 2009	10.15 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2008	1-32462 PNMR
10.99**	Fifth Amendment to the PNMR Officer Life Insurance Plan executed December 16, 2011	10.5 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2011	1-32462 PNMR
10.100**	PNMR Officers Long Term Disability Coverage Description for Prudential Policy effective January 1, 2012	10.8 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2016	333-32170 PNMR
10.101**	Form of Amended and Restated Indemnity Agreement for PNMR officers and directors approved July 23, 2019	10.1 to PNMR's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019	1-32462 PNMR

[Table of Contents](#)

10.102	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
10.103	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)	10.1.1 to PNM's Annual Report on Form 10-K for year ended December 31, 1995	1-6986 PNM
10.104	Amendment and Supplement No. 2 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011	1-6986 PNM
10.105	Amendment and Supplement No. 3 to Supplemental and Additional Indenture of Lease with the Navajo Nation dated March 7, 2011	10.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2011	1-6986 PNM
10.106	Coal Supply Agreement dated July 1, 2015 between Westmoreland Coal Company and PNM	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.107	Amendment No. 1 to Coal Supply Agreement dated November 1, 2017 between Westmoreland Coal Company and PNM	10.4 to PNM's Annual Report on Form 10-K for the year ended December 31, 2017	1-6986 PNM
10.108	Amendment No. 2 to Coal Supply Agreement dated January 1, 2020 between Westmoreland San Juan Mining LLC and PNM	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-6986 PNM
10.109	Amendment No. 3 to Coal Supply Agreement dated January 1, 2020 between Westmoreland San Juan Mining LLC and PNM	10.2 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-6986 PNM
10.110	Amendment No. 4 to Coal Supply Agreement dated January 1, 2020 between Westmoreland San Juan Mining LLC and PNM	10.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020	1-6986 PNM
10.111	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	10.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.112	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	10.4 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015	1-6986 PNM
10.113	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	10.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017	1-6986 PNM

[Table of Contents](#)

10.114	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
10.115	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
10.116	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
10.117	Amendment No. 8 effective September 12, 1983, to the Arizona Nuclear Power Project Participation Agreement (refiled)	10.58 to PNM's Annual Report on Form 10-K for year ended December 31, 1993	1-6986 PNM
10.118	Amendment No. 9 to Arizona Nuclear Power Project Participation Agreement dated as of June 12, 1984 (refiled)	10.8.4 to PNM's Annual Report of the Registrant on Form 10-K for year ended December 31, 1994	1-6986 PNM
10.119	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)	10.8.5 to PNM's Annual Report of the Registrant on Form 10-K for year ended December 31, 1995	1-6986 PNM
10.120	Amendment No. 12 to Arizona Nuclear Power Project Participation Agreement dated June 14, 1988, and effective August 5, 1988	19.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended September 30, 1990	1-6986 PNM
10.121	Amendment No. 13 to the Arizona Nuclear Power Project Participation Agreement dated April 4, 1990, and effective June 15, 1991	10.8.10 to PNM's Annual Report on Form 10-K for the year ended December 31, 1990	1-6986 PNM
10.122	Amendment No. 14 to the Arizona Nuclear Power Project Participation Agreement effective June 20, 2000	10.8.9 to PNM's Annual Report on Form 10-K for the year ended December 31, 2000	1-6986 PNM
10.123	Amendment No. 15 to the Arizona Nuclear Power Project Participation Agreement dated November 29, 2010 and effective January 13, 2011	10.1 to PNM's Current Report on Form 8-K filed March 1, 2011	1-6986 PNM
10.124	Amendment No. 16, effective as of April 28, 2014, to the Arizona Nuclear Power Project Participation Agreement	10.3 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 2014	1-6986 PNM
10.125	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)	10.18 to PNM's Annual Report on Form 10-K for year ended December 31, 1995	1-6986 PNM
10.126	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)	10.19 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.127	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)	10.21 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.128	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)	10.3 to PNM's Annual Report on Form 10-K for year ended December 31, 2013	1-6986 PNM

[Table of Contents](#)

10.129	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)	10.22 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM
10.130	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	10.1 to PNM's Current Report on Form 8-K filed March 18, 2014	1-6986 PNM
10.131	Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station dated March 15, 1996, between PNM and Mellon Bank, N.A.	10.68 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996	1-6986 PNM
10.132	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.	10.68.1 to PNM's Annual Report on Form 10-K for year ended December 31, 1997	1-6986 PNM
10.133	Amendment Number Two to the Master Decommissioning Trust Agreement for Palo Verde Nuclear Generating Station between PNM and Mellon Bank, N.A.	10.68.2 to PNM's Annual Report on Form 10-K for year ended December 31, 2003	1-6986 PNM
10.134	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	10.86 to PNM's Annual Report on Form 10-K for the year ended December 31, 2002	1-6986 PNM
10.135	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	10.134 to PNMR's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005	1-32462 PNMR/ TNMP
Subsidiaries			
21	Certain subsidiaries of PNMR	21 to PNMR's Annual Report on Form 10-K for the year ended December 31, 2020	1-32462 PNMR
Additional Exhibits			
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	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)	99.5 to PNM's Annual Report on Form 10-K for year ended December 31, 1996	1-6986 PNM

[Table of Contents](#)

99.3	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)	99.11 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997	1-6986 PNM
99.4	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)	99.14 to PNM's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997	1-6986 PNM
99.5	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	99.19 to PNM's Annual Report on Form 10-K for year ended December 31, 2013	1-6986 PNM
99.6	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	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.

PUBLIC SERVICE COMPANY OF NEW MEXICO

(Registrant)

Date: March 1, 2021

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 1, 2021
<u>/s/ J. D. Tarry</u> J. D. Tarry Senior Vice President and Chief Financial Officer	Principal Financial Officer and Director	March 1, 2021
<u>/s/ H. E. Monroy</u> H. E. Monroy Vice President and Corporate Controller	Principal Accounting Officer	March 1, 2021
<u>/s/ R. N. Darnell</u> R. N. Darnell	Director	March 1, 2021
<u>/s/ C. N. Eldred</u> C. N. Eldred	Director	March 1, 2021
<u>/s/ C. M. Olson</u> C. M. Olson	Director	March 1, 2021

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.

Date: March 1, 2021

By

TEXAS-NEW MEXICO POWER COMPANY

(Registrant)

/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 1, 2021
<u>/s/ J. D. Tarry</u> J. D. Tarry Senior Vice President and Chief Financial Officer	Principal Financial Officer and Director	March 1, 2021
<u>/s/ H. E. Monroy</u> H. E. Monroy Vice President and Corporate Controller	Principal Accounting Officer	March 1, 2021
<u>/s/ R. N. Darnell</u> R. N. Darnell	Director	March 1, 2021
<u>/s/ C. N. Eldred</u> C. N. Eldred	Director	March 1, 2021
<u>/s/ C. M. Olson</u> C. M. Olson	Director	March 1, 2021
<u>/s/ J. N. Walker</u> J. N. Walker	Director	March 1, 2021

2021 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 2020 Board meeting, the Board approved making the following changes to director compensation for 2021: increasing the annual cash retainer from \$85,000 to \$90,000 and the market value of the annual award of restricted stock rights from \$115,000 to \$120,000. Thus, the 2021 annual retainer for non-employee directors is as follows:

Annual Retainer:	An annual cash retainer of \$90,000 paid in quarterly installments and restricted stock rights* with a grant date market value of \$120,000 awarded on the date of the 2021 Annual Meeting of Shareholders
Lead Director Fee:	\$25,000 paid in quarterly installments
Audit and Ethics Committee Chair Retainer:	\$15,000 paid in quarterly installments
Compensation and Human Resources Committee Chair Retainer:	\$12,500 paid in quarterly installments
Finance Committee Chair Retainer:	\$10,000 paid in quarterly installments
Nominating and Governance Committee Chair Retainer:	\$10,000 paid in quarterly installments
Supplemental Meeting Fees:	\$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 \$120,000 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.

**FIRST AMENDMENT
TO THE
PNM RESOURCES, INC.
2019 LONG-TERM INCENTIVE PLAN**

The 2019 Long-Term Incentive Plan (the “Plan”) was adopted pursuant to the PNM Resources, Inc. 2014 Performance Equity Plan (the “PEP”). By this instrument, the Company desires to amend the Plan as set forth below.

1. The fourth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- A prorated Performance Share Award will be provided to an Officer who has a Separation from Service in the second half of the Performance Period (in other words, between July 1, 2020 and December 31, 2021) due to death, Disability, Retirement or Impaction. A prorated Performance Share Award will not be paid to an Officer who incurs a Separation from Service for any of these reasons during the first half of the Performance Period. If an Officer incurs a Separation from Service prior to the last day of the Performance Period for any reason other than as set forth in this paragraph or due to a Qualifying Change in Control Termination, the Officer will not be entitled to receive an Award.

2. The seventh bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- Upon an Officer’s Separation from Service at any time during the Performance Period due to a Qualifying Change in Control Termination, all Performance Shares will vest at the end of the Performance Period, or such earlier time as determined under the terms of the PEP, based on the level of achievement of the performance goals in accordance with the applicable provisions of the PEP.
-

3. Section 1(b) (Performance Share Awards – Separation from Service; Forfeiture) of Attachment D (2019 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(b) **Separation from Service; Forfeiture.** Unless an Officer qualifies for a full or prorated Award as described in the Plan due to a Qualifying Change in Control Termination, as the result of the Officer's Separation from Service during the second half of the Performance Period due to death, Disability, Retirement, or Impaction, or as otherwise described in the Plan, the Officer's Award will be forfeited upon the Officer's Separation from Service prior to the end of the Performance Period. If the Company terminates an Officer's employment for Cause during or following the expiration of the Performance Period, all vested and unvested Performance Shares shall be canceled and forfeited immediately, regardless of whether the Officer elects Retirement. As described in the Plan, the Company's Executive Vice President and Chief Financial Officer (determined as of the first day of the Performance Period) shall be entitled to a full (rather than a prorated) Performance Share Award, calculated at the end of the Performance Period based on actual performance during the Performance Period, if he has a Separation from Service at any time during the Performance Period for reasons other than for Cause.

4. This First Amendment amends only the provisions of the Plan as noted above, and those provisions not expressly amended shall be considered in full force and effect. Notwithstanding the foregoing, this First Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this First Amendment.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized representative on this 28th day of December, 2020.

PNM RESOURCES, INC.

By: /s/ Patrick V. Apodaca

Patrick V. Apodaca

Its: Senior Vice President, General Counsel



December __, 2020

Mr. Charles Eldred
Executive Vice President, Corporate Development and Finance
PNM Resources, Inc.
Corporate Headquarters
Albuquerque, NM 87158-1275

Re: **Amendment to the 2020 Long-Term Incentive Plan**

Dear Chuck:

On March 30, 2020, PNM Resources, Inc. (the "Company") adopted the 2020 Long-Term Incentive Plan, which has been amended on one occasion (the "Plan"). The Plan was adopted pursuant to the PNM Resources, Inc. 2014 Performance Equity Plan. As the Company's Executive Vice President, Corporate Development and Finance, you are an eligible participant in the Plan and may be entitled to certain Performance Share Awards, depending on the achievement of the performance metrics during the Performance Period.

The Company entered into an Agreement and Plan of Merger, dated as of October 20, 2020, by and among Avangrid, Inc., NM Green Holdings, Inc. and PNM Resources, Inc. (the "Company") (the "Merger Agreement") and in connection with the Merger Agreement, the Company is authorized to take such actions as are necessary or appropriate to prevent any payments or benefits that could be paid or provided from constituting "excess parachute payments" (as defined in Section 280G of the Internal Revenue Code (the "Code")). The Company deems it appropriate to amend the Plan to provide for the delivery of the Performance Shares under the Plan upon your involuntary termination of employment following the closing of the transaction contemplated by the Merger Agreement to remediate certain potential consequences imposed under Section 280G of the Code.

Pursuant to the resolutions adopted by the Company's Board of Directors on December 4, 2020, the Company hereby amends the Plan as follows effective as of December 4, 2020:

1. Solely as it pertains to Charles Eldred, the fourth bullet point (out of 11 bullet points in the Section) under the "Other Provisions" Section of the First Amendment to the Plan is hereby amended and restated in its entirety to read as follows:

- A full Performance Share Award will be provided to Mr. Eldred if he becomes Disabled during the Performance Period or if he has a Separation from Service during the Performance Period due to death, or Impaction. Mr. Eldred will not be entitled to receive an Award under the Plan unless he (1) remains employed through the end of the Performance Period, (2) incurs a Qualifying Change in Control Termination



prior to the end of the Performance Period or (3) incurs a Separation from Service prior to the last day of the Performance Period for the reasons set forth in this paragraph.

2. Solely as it pertains to Charles Eldred, the sixth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- Notwithstanding any provision in the Plan to the contrary, the Company’s Executive Vice President, Corporate Development and Finance (determined as of the Grant Date for the Performance Share Awards) shall be entitled to a full (rather than a prorated) Performance Share Award, calculated at the end of the Performance Period based on actual performance during the Performance Period, if he becomes Disabled or has a Separation from Service due to death or Impaction at any time during the Performance Period.

3. Solely as it pertains to Charles Eldred, the eighth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- If an individual ceases to be an Officer during a Performance Period but remains employed by the Company or its Affiliates, the Committee may pay a prorated Performance Share Award to the former Officer on such terms and conditions as the Committee deems to be appropriate as long as the individual was an Officer for at least half of the Performance Period. If Mr. Eldred ceases to be an Officer during the Performance Period and subsequently becomes Disabled or terminates employment due to death, or Impaction, the Committee may pay a full Performance Share Award to Mr. Eldred.

4. Solely as it pertains to Charles Eldred, Section 1(b) (Performance Share Awards – Separation from Service; Forfeiture) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(b) **Separation from Service; Forfeiture.** Unless Mr. Eldred qualifies for a full Award as described in the Plan due to a Qualifying Change in Control Termination, Disability, or as the result of a Separation from Service due to death or Impaction, or as otherwise described in the Plan, Mr. Eldred’s Award will be forfeited upon his Separation from Service prior to the end of the Performance Period. If the Company terminates Mr. Eldred’s employment for Cause during or following the expiration of the



Performance Period, all vested and unvested Performance Shares shall be canceled and forfeited immediately, regardless of whether Mr. Eldred elects Retirement.

5. Solely as it pertains to Charles Eldred, Section 1(c) (Performance Share Awards – Form and Timing of Delivery of Stock) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) **Form and Timing of Delivery of Stock.** All of the Performance Shares awarded and vested pursuant to the Plan will be paid in Stock on or before March 15 of the calendar year following the calendar year in which the Performance Period ends (in other words, by March 15, 2023). The Performance Shares granted under this Plan are intended to fit within the short-term deferral exception to Section 409A of the Code. If the Company determines that the Performance Shares do not qualify for the short-term deferral exception to Section 409A, the restrictions described in Section 18.3 of the PEP will apply to the Performance Shares. If the transaction contemplated by the Merger Agreement closes prior to the end of the Performance Period, pursuant to the Merger Agreement, the “Earned Performance Shares” (as defined in the Merger Agreement) shall be determined prior to the closing of the transaction contemplated by the Merger Agreement. In such instance, the Earned Performance Shares due to Mr. Eldred shall be delivered to him within thirty (30) days following the earliest of (1) his Qualifying Change in Control Termination, (2) his Disability during the Performance Period, (3) his termination of employment during the Performance Period due to death or Impaction, or (4) between January 1, 2023 and March 15, 2023.

This Letter Amendment amends only the provisions of the Plan as set forth herein. Those provisions not expressly amended by this Letter Amendment shall continue in full force and effect. Notwithstanding the foregoing, this Letter Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and the intent of this Letter Amendment.



If you are in agreement with the terms of this Letter Amendment, please so indicate by signing and returning to me a signed copy of this letter, which will constitute our binding agreement.

PNM RESOURCES, INC.

By: /s/ Joseph D. Tarry
Its: Senior Vice President and Chief
Financial Officer

AGREED,

/s/ Charles Eldred December 17, 2020
Charles Eldred Date
Executive Vice President,
Corporate Development and Finance

*Human Resources, Corporate Headquarters, Albuquerque, NM 87158-0745
Phone: 505-241-2691 Toll-Free 800-640-4692 FAX 505-241-2389*



December __, 2020

Ms. Patricia K. Collawn
President and Chief Executive Officer
PNM Resources, Inc.
Corporate Headquarters
Albuquerque, NM 87158-1275

Re: Amendment to the 2020 Long-Term Incentive Plan

Dear Pat:

On March 30, 2020, PNM Resources, Inc. (the "Company") adopted the 2020 Long-Term Incentive Plan, which has been amended on one occasion (the "Plan"). The Plan was adopted pursuant to the PNM Resources, Inc. 2014 Performance Equity Plan. As the Company's President and Chief Executive Officer, you are an eligible participant in the Plan and may be entitled to certain Performance Share Awards, depending on the achievement of the performance metrics during the Performance Period.

The Company entered into an Agreement and Plan of Merger, dated as of October 20, 2020, by and among Avangrid, Inc., NM Green Holdings, Inc. and PNM Resources, Inc. (the "Company") (the "Merger Agreement") and in connection with the Merger Agreement, the Company is authorized to take such actions as are necessary or appropriate to prevent any payments or benefits that could be paid or provided from constituting "excess parachute payments" (as defined in Section 280G of the Internal Revenue Code (the "Code")). The Company deems it appropriate to amend the Plan to provide for the delivery of the Performance Shares under the Plan upon your involuntary termination of employment following the closing of the transaction contemplated by the Merger Agreement to remediate certain potential consequences imposed under Section 280G of the Code.

Pursuant to the resolutions adopted by the Company's Board of Directors on December 4, 2020, the Company hereby amends the Plan as follows effective as of December 4, 2020:

1. Solely as it pertains to Patricia K. Collawn, the fourth bullet point (out of 11 bullet points in the Section) under the "Other Provisions" Section of the First Amendment to the Plan is hereby amended and restated in its entirety to read as follows:

- A prorated Performance Share Award will be provided to an Officer who becomes Disabled during the second half of the Performance Period (in other words, between July 1, 2021 and December 31, 2022) or who has a Separation from Service in the second half of the Performance Period (in other words, between July 1, 2021 and December 31, 2022) due to death, or Impaction. A prorated Performance Share Award will not be paid to an



Officer who becomes Disabled or incurs a Separation from Service for either of these reasons during the first half of the Performance Period. An Officer will not be entitled to receive an Award under the Plan unless the Officer (1) remains employed through the end of the Performance Period, (2) incurs a Qualifying Change in Control Termination prior to the end of the Performance Period or (3) incurs a Separation from Service prior to the last day of the Performance Period for the reasons set forth in this paragraph.

2. Solely as it pertains to Pat K. Collawn, the eighth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- If an individual ceases to be an Officer during a Performance Period but remains employed by the Company or its Affiliates, the Committee may pay a prorated Performance Share Award to the former Officer on such terms and conditions as the Committee deems to be appropriate as long as the individual was an Officer for at least half of the Performance Period. If an individual ceases to be an Officer during the Performance Period and subsequently becomes Disabled or terminates employment due to death, or Impaction, the Committee may pay a prorated Performance Share Award to the former Officer, provided the individual was an Officer for at least half of the Performance Period.

3. Solely as it pertains to Pat K. Collawn, Section 1(b) (Performance Share Awards – Separation from Service; Forfeiture) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(b) **Separation from Service; Forfeiture.** Unless an Officer (or individual) qualifies for a full or prorated Award as described in the Plan due to a Qualifying Change in Control Termination, Disability during the second half of the Performance Period or as the result of a Separation from Service during the second half of the Performance Period due to death or Impaction, or as otherwise described in the Plan, the Officer's Award will be forfeited upon the Officer's Separation from Service prior to the end of the Performance Period. If the Company terminates an Officer's employment for Cause during or following the expiration of the Performance Period, all vested and unvested Performance Shares shall be canceled and forfeited immediately, regardless of whether the Officer elects Retirement.



4. Solely as it pertains to Pat K. Collawn, Section 1(c) (Performance Share Awards – Form and Timing of Delivery of Stock) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) **Form and Timing of Delivery of Stock.** All of the Performance Shares awarded and vested pursuant to the Plan will be paid in Stock on or before March 15 of the calendar year following the calendar year in which the Performance Period ends (in other words, by March 15, 2023). The Performance Shares granted under this Plan are intended to fit within the short-term deferral exception to Section 409A of the Code. If the Company determines that the Performance Shares do not qualify for the short-term deferral exception to Section 409A, the restrictions described in Section 18.3 of the PEP will apply to the Performance Shares. If the transaction contemplated by the Merger Agreement closes prior to the end of the Performance Period, pursuant to the Merger Agreement, the “Earned Performance Shares” (as defined in the Merger Agreement) shall be determined prior to the closing of the transaction contemplated by the Merger Agreement. In such instance, the Earned Performance Shares due to Ms. Collawn shall be delivered to her within thirty (30) days following the earliest of (1) her Qualifying Change in Control Termination, (2) her Disability during the second half of the Performance Period, (3) her termination of employment in the second half of the Performance Period due to death or Impaction, or (4) between January 1, 2023 and March 15, 2023.

This Letter Amendment amends only the provisions of the Plan as set forth herein. Those provisions not expressly amended by this Letter Amendment shall continue in full force and effect. Notwithstanding the foregoing, this Letter Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and the intent of this Letter Amendment.



If you are in agreement with the terms of this Letter Amendment, please so indicate by signing and returning to me a signed copy of this letter, which will constitute our binding agreement.

PNM RESOURCES, INC.

By: /s/ Joseph D. Tarry
Its: Senior Vice President and Chief
Financial Officer

AGREED,

/s/ Patricia K. Collawn December 17, 2020
Patricia K. Collawn Date
President and Chief Executive Officer

*Human Resources, Corporate Headquarters, Albuquerque, NM 87158-0745
Phone: 505-241-2691 Toll-Free 800-640-4692 FAX 505-241-23894834-8503-5986.2*



December __, 2020

Mr. Patrick Apodaca
Senior Vice President and General Counsel
PNM Resources, Inc.
Corporate Headquarters
Albuquerque, NM 87158-1275

Re: **Amendment to the 2020 Long-Term Incentive Plan**

Dear Patrick:

On March 30, 2020, PNM Resources, Inc. (the "Company") adopted the 2020 Long-Term Incentive Plan, which has been amended on one occasion (the "Plan"). The Plan was adopted pursuant to the PNM Resources, Inc. 2014 Performance Equity Plan. As the Company's Senior Vice President and General Counsel, you are an eligible participant in the Plan and may be entitled to certain Performance Share Awards, depending on the achievement of the performance metrics during the Performance Period.

The Company entered into an Agreement and Plan of Merger, dated as of October 20, 2020, by and among Avangrid, Inc., NM Green Holdings, Inc. and PNM Resources, Inc. (the "Company") (the "Merger Agreement") and in connection with the Merger Agreement, the Company is authorized to take such actions as are necessary or appropriate to prevent any payments or benefits that could be paid or provided from constituting "excess parachute payments" (as defined in Section 280G of the Internal Revenue Code (the "Code")). The Company deems it appropriate to amend the Plan to provide for the delivery of the Performance Shares under the Plan upon your involuntary termination of employment following the closing of the transaction contemplated by the Merger Agreement to remediate certain potential consequences imposed under Section 280G of the Code.

Pursuant to the resolutions adopted by the Company's Board of Directors on December 4, 2020, the Company hereby amends the Plan as follows effective as of December 4, 2020:

1. Solely as it pertains to Patrick Apodaca, the fourth bullet point (out of 11 bullet points in the Section) under the "Other Provisions" Section of the First Amendment to the Plan is hereby amended and restated in its entirety to read as follows:

- A prorated Performance Share Award will be provided to an Officer who becomes Disabled during the second half of the Performance Period (in other words, between July 1, 2021 and December 31, 2022) or who has a Separation from Service in the second half of the Performance Period (in other words, between July 1, 2021 and December 31, 2022) due to death, or Impaction. A prorated Performance Share Award will not be



paid to an Officer who becomes Disabled or incurs a Separation from Service for either of these reasons during the first half of the Performance Period. An Officer will not be entitled to receive an Award under the Plan unless the Officer (1) remains employed through the end of the Performance Period, (2) incurs a Qualifying Change in Control Termination prior to the end of the Performance Period or (3) incurs a Separation from Service prior to the last day of the Performance Period for the reasons set forth in this paragraph.

2. Solely as it pertains to Patrick Apodaca, the eighth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- If an individual ceases to be an Officer during a Performance Period but remains employed by the Company or its Affiliates, the Committee may pay a prorated Performance Share Award to the former Officer on such terms and conditions as the Committee deems to be appropriate as long as the individual was an Officer for at least half of the Performance Period. If an individual ceases to be an Officer during the Performance Period and subsequently becomes Disabled or terminates employment due to death, or Impaction, the Committee may pay a prorated Performance Share Award to the former Officer, provided the individual was an Officer for at least half of the Performance Period.

3. Solely as it pertains to Patrick Apodaca, Section 1(b) (Performance Share Awards – Separation from Service; Forfeiture) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(b) **Separation from Service; Forfeiture.** Unless an Officer (or individual) qualifies for a full or prorated Award as described in the Plan due to a Qualifying Change in Control Termination, Disability during the second half of the Performance Period or as the result of a Separation from Service during the second half of the Performance Period due to death or Impaction, or as otherwise described in the Plan, the Officer's Award will be forfeited upon the Officer's Separation from Service prior to the end of the Performance Period. If the Company terminates an Officer's employment for Cause during or following the expiration of the Performance Period, all vested and unvested Performance Shares shall be canceled and forfeited immediately, regardless of whether the Officer elects Retirement.



4. Solely as it pertains to Patrick Apodaca, Section 1(c) (Performance Share Awards – Form and Timing of Delivery of Stock) of Attachment D (2020 Long-Term Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) **Form and Timing of Delivery of Stock.** All of the Performance Shares awarded and vested pursuant to the Plan will be paid in Stock on or before March 15 of the calendar year following the calendar year in which the Performance Period ends (in other words, by March 15, 2023). The Performance Shares granted under this Plan are intended to fit within the short-term deferral exception to Section 409A of the Code. If the Company determines that the Performance Shares do not qualify for the short-term deferral exception to Section 409A, the restrictions described in Section 18.3 of the PEP will apply to the Performance Shares. If the transaction contemplated by the Merger Agreement closes prior to the end of the Performance Period, pursuant to the Merger Agreement, the “Earned Performance Shares” (as defined in the Merger Agreement) shall be determined prior to the closing of the transaction contemplated by the Merger Agreement. In such instance, the Earned Performance Shares due to Mr. Apodaca shall be delivered to him within thirty (30) days following the earliest of (1) his Qualifying Change in Control Termination, (2) his Disability during the second half of the Performance Period, (3) his termination of employment in the second half of the Performance Period due to death or Impaction, or (4) between January 1, 2023 and March 15, 2023.

This Letter Amendment amends only the provisions of the Plan as set forth herein. Those provisions not expressly amended by this Letter Amendment shall continue in full force and effect. Notwithstanding the foregoing, this Letter Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and the intent of this Letter Amendment.



If you are in agreement with the terms of this Letter Amendment, please so indicate by signing and returning to me a signed copy of this letter, which will constitute our binding agreement.

PNM RESOURCES, INC.

By: /s/ Joseph D. Tarry
Its: Senior Vice President and Chief
Financial Officer

AGREED,

/s/ Patrick V. Apodaca December 28, 2020
Patrick V. Apodaca Date
Senior Vice President, General Counsel

*Human Resources, Corporate Headquarters, Albuquerque, NM 87158-0745
Phone: 505-241-2691 Toll-Free 800-640-4692 FAX 505-241-2389*

**FIRST AMENDMENT
TO THE
PNM RESOURCES, INC.
2020 LONG-TERM INCENTIVE PLAN**

The 2020 Long-Term Incentive Plan (the “Plan”) was adopted pursuant to the PNM Resources, Inc. 2014 Performance Equity Plan (the “PEP”). By this instrument, the Company desires to amend the Plan as set forth below.

1. The fourth bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- A prorated Performance Share Award will be provided to an Officer who has a Separation from Service in the second half of the Performance Period (in other words, between July 1, 2021 and December 31, 2022) due to death, Disability, Retirement or Impaction. A prorated Performance Share Award will not be paid to an Officer who incurs a Separation from Service for any of these reasons during the first half of the Performance Period. If an Officer incurs a Separation from Service prior to the last day of the Performance Period for any reason other than as set forth in this paragraph or due to a Qualifying Change in Control Termination, the Officer will not be entitled to receive an Award.

2. The seventh bullet point (out of 11 bullet points in the Section) under the “Other Provisions” Section of the Plan is hereby amended and restated in its entirety to read as follows:

- Upon an Officer’s Separation from Service at any time during the Performance Period due to a Qualifying Change in Control Termination, all Performance Shares will vest at the end of the Performance Period, or such earlier time as determined under the terms of the PEP, based on the level of achievement of the performance goals in accordance with the applicable provisions of the PEP.

3. Section 1(b) (Performance Share Awards – Separation from Service; Forfeiture) of Attachment D (2020 Long-Term

Incentive Plan Terms and Conditions) of the Plan is hereby amended and restated in its entirety to read as follows:

(b) **Separation from Service; Forfeiture.** Unless an Officer qualifies for a full or prorated Award as described in the Plan due to a Qualifying Change in Control Termination, as the result of a Separation from Service during the second half of the Performance Period due to death, Disability, Retirement, or Impaction, or as otherwise described in the Plan, the Officer's Award will be forfeited upon the Officer's Separation from Service prior to the end of the Performance Period. If the Company terminates an Officer's employment for Cause during or following the expiration of the Performance Period, all vested and unvested Performance Shares shall be canceled and forfeited immediately, regardless of whether the Officer elects Retirement. As described in the Plan, the Company's Executive Vice President, Corporate Development and Finance (determined as of the Grant Date for the Performance Share Awards) shall be entitled to a full (rather than a prorated) Performance Share Award, calculated at the end of the Performance Period based on actual performance during the Performance Period, if he has a Separation from Service at any time during the Performance Period for reasons other than for Cause.

4. This First Amendment amends only the provisions of the Plan as noted above, and those provisions not expressly amended shall be considered in full force and effect. Notwithstanding the foregoing, this First Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this First Amendment.

IN WITNESS WHEREOF, the Company has caused this First Amendment to be executed by its duly authorized representative on this 28th day of December, 2020.

PNM RESOURCES, INC.

By: /s/ Patrick V. Apodaca

Patrick V. Apodaca

Its: Senior Vice President, General Counsel

**SECOND AMENDMENT
TO THE
PNM RESOURCES, INC.
EXECUTIVE SAVINGS PLAN II**

Effective as of December 15, 2004, PNM Resources, Inc. (the “Company”) adopted the PNM Resources, Inc. Executive Savings Plan II (the “Plan”). The Plan has been amended or restated on a number of occasions, with the most recent restatement being generally effective as of January 1, 2015. The Plan has been amended on one previous occasion. By this instrument, the Company now desires to amend the Plan as set forth below.

1. This Second Amendment shall be effective as of January 1, 2020.
2. This Second Amendment amends only the provisions of the Plan as set forth herein, and those provisions not expressly amended hereby shall be considered in full force and effect. Notwithstanding the foregoing, this Second Amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions and intent of this Second Amendment.
3. Section 3.4(c) (Supplemental Credits – Termination During the Plan Year) of the Plan is hereby amended and restated in its entirety to read as follows:

(c) **Termination During the Plan Year.** An Eligible Officer must be employed on December 1 of the relevant Plan Year in order to receive the Supplemental Credit called for by Section 3.4 (Supplemental Credits) for that Plan Year. Notwithstanding the prior sentence, an Eligible Officer shall receive the full (rather than pro-rata) Supplemental Credit if the Eligible Officer incurs a Separation from Service before December 1 of any Plan Year and the Separation from Service occurs (1) in the year in which a Change in Control occurs, and (2) under circumstances that entitle the Eligible Officer to receive benefits under the Officer Retention Plan. Further notwithstanding the first sentence of this paragraph, an Eligible Officer shall receive a pro-rata Supplemental Credit if the Eligible Officer incurs a Separation from Service before December 1 of any Plan Year under any of the following circumstances: (1) after reaching

Normal Retirement Date; (2) in a calendar year other than the year in which a Change in Control occurs and such termination occurs under circumstances that entitle the Eligible Officer to receive benefits under the Officer Retention Plan; (3) due to Disability; or (4) due to the death of the Eligible Officer. The pro-rata Supplemental Credit shall be calculated based on the time elapsed between December 1 of the prior Plan Year and the date of the Eligible Officer's Separation from Service as compared to 365 days and shall be credited to the Eligible Officer's Supplemental Credit Account within thirty (30) days of the Eligible Officer's Separation from Service. For example, if an Eligible Officer terminates employment on June 1, 2012 due to retirement, the Eligible Officer will receive 50% of the Supplemental Credits for the 2012 Plan Year and that amount will be credited to the Eligible Officer's Supplemental Credit Account by July 1, 2012.

IN WITNESS WHEREOF, the Company has caused this Second Amendment to be executed as of this 28th day of December, 2020.

PNM RESOURCES, INC.

By: /s/ Patrick V. Apodaca
Patrick V. Apodaca
Senior Vice President and General Counsel

PURCHASE AND SALE AGREEMENT

BY AND BETWEEN

NAVAJO TRANSITIONAL ENERGY COMPANY, LLC,

**a Navajo Nation limited liability company,
and**

Public Service Company of New Mexico,

a New Mexico corporation

Dated as of November 1, 2020

TABLE OF CONTENTS

	Page
ARTICLE 1 DEFINITIONS	1
1.1 Defined Terms	1
1.2 Index of Other Defined Terms	11
1.3 Interpretation	13
ARTICLE 2 PURCHASE AND SALE OF ASSETS	14
2.1 Transfer of Assets	14
2.2 Excluded Assets	17
2.3 Assumption of Liabilities	18
2.4 Excluded Liabilities	19
2.5 Asset and Liability Delineation Mechanism.	21
ARTICLE 3 CLOSING	25
3.1 Closing	25
3.2 Purchase Price	25
3.3 CSA Assignment Payment	25
3.4 Payment	25
3.5 Allocation of Purchase Price	25
3.6 Prorations	26
3.7 Deliveries by Seller	27
3.8 Deliveries by Purchaser	28
3.9 Facilities Contracts	29
ARTICLE 4 REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER	29
4.1 Organization and Existence	30
4.2 Execution, Delivery and Enforceability	30
4.3 No Violation	30
4.4 Compliance with Laws	30
4.5 Permits, Licenses, Etc	31
4.6 Litigation	31
4.7 Title	31
4.8 Brokers	31
4.9 Taxes	31
4.10 Environmental Matters	32
4.11 Facilities Project Contracts	33
4.12 Excluded Assets	34
4.13 Emission Allowances	34
4.14 Sufficiency for Delivery..	34

ARTICLE 5 REPRESENTATIONS AND WARRANTIES OF PURCHASER	34
5.1 Organization and Existence	34
5.2 Execution, Delivery and Enforceability	34
5.3 No Violation	35
5.4 Compliance with Laws	35
5.5 Litigation	35
5.6 Brokers	35
5.7 Investigation	36
5.8 “AS IS” SALE	36
ARTICLE 6 COVENANTS OF EACH PARTY	36
6.1 Efforts to Close; Conduct Pending Closing	36
6.2 Consents and Approvals	39
6.3 Tax Matters	40
6.4 Risk of Loss	42
6.5 Cooperation Relating to Insurance	42
6.6 Reasonable Cooperation	42
6.7 Exclusivity	43
6.8 Post Closing — Further Assurances	43
6.9 Post Closing — Information and Records	43
6.10 Limited Waiver of Sovereign Immunity	44
ARTICLE 7 REclamation and CSA True-Up Payment calculation	46
7.1 Reclamation Obligations.	46
7.2 Selection of Independent Third Party; Use of Scheduled Study.	46
7.3 Pre-Closing Reclamation Study.	47
7.4 CSA True-Up Payment Calculation..	48
7.5 Escrow Account	48
7.6 CSA Release.	48
7.10 Prompt Resolution.	51
ARTICLE 8 - INDEMNIFICATION	51
8.1 Indemnification by Seller	51
8.2 Indemnification by Purchaser	52
8.3 Notice of Claim	52
8.4 Defense of Third Party Claims	53
8.5 (Reserved).	53
8.6 Direct Claim Procedures	53
8.7 Cooperation	53
8.8 Mitigation and Limitation on Claims	54
8.9 Exclusivity	54

ARTICLE 9 CONDITIONS PRECEDENT TO OBLIGATIONS OF PURCHASER AT THE CLOSING	55
9.1 Compliance with Provisions	55
9.2 Injunction	55
9.3 Required Regulatory Approvals	55
9.4 Representations and Warranties	55
9.5 Seller’s Closing Deliverables	55
9.6 Liens	55
9.7 Required Consents	55
9.8 Facilities Permits; Transmission	56
ARTICLE 10 CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER AT THE CLOSING	56
10.1 Compliance with Provisions	56
10.2 Injunction	56
10.3 Required Regulatory Approvals	56
10.4 Representations and Warranties	56
10.5 Purchaser’s Closing Deliverables	56
10.6 Required Consents	56
10.7 Facilities Permits	56
10.8 Consent Decree	57
10.9 Financial Assurance	57
10.10 Settlement Agreement	57
ARTICLE 11 TERMINATION	57
11.1 Rights To Terminate	57
11.2 Effect of Termination	58
11.3 Specific Performance; Limitation of Damages	58
11.4 Refund Upon Termination.	59
ARTICLE 12 MISCELLANEOUS AGREEMENTS AND ACKNOWLEDGMENTS	59
12.1 Expenses	59
12.2 Entire Document	60
12.3 Amendment and Waiver	60
12.4 Schedules	60
12.5 Counterparts	60
12.6 Severability	60
12.7 Assignability	61
12.8 Reliance on Counsel; Mutuality of Drafting	61
12.9 Captions	61
12.10 Governing Law	61
12.11 Jurisdiction; Service of Process	61
12.12 WAIVER OF JURY TRIAL	62

12.13	Notices	62
12.14	Public Statements	63
12.15	Time is of the Essence	63
12.16	No Third Party Beneficiaries	63
12.17	No Joint Venture	63
12.18	Construction of Agreement	63
12.19	Conflicts	63
12.20	Survival	63

Schedules:

- 1.1.4 “Amended Contracts”
- 1.1.11 “Capital Improvements”
- 1.1.47(a) “Seller’s Officers, Employees, and Knowledgeable Persons”
- 1.1.47(b) “Purchaser’s Officers, Employees and Authorized Agents”
- 1.1.62 “Purchaser’s Required Consents”
- 1.1.63 “Purchaser’s Required Regulatory Approvals”
- 1.1.72 “Seller’s Required Consents”
- 1.1.73 “Seller’s Required Regulatory Approvals”
- 2.1(b) “Leased Property”
- 2.1(c) “Rights-of-Way/Easements and Water Rights”
- 2.1(h) “Facilities Contracts”
- 2.1(i) “Facilities Permits”
- 2.1(k) “Third Party Warranties”
- 2.1(r) “Miscellaneous Assets”
- 2.2(a) “Excluded Assets”
- 2.2(c) “Cash Exceptions”
- 3.6(a)(ii) “Operating and Maintenance Expense Pro-Rations”
- 4.6 “Litigation”
- 4.7 “Title”
- 4.9(c) “Tax Proceedings”
- 4.9(g) “Partnership Taxes”
- 4.10 “Environmental Matters”
- 4.11 “Facilities Project Contracts”
- 4.12 “Other Material Real Property”

Exhibits:

- Exhibit A Acquired Interests
- Exhibit B Excluded Switchyard Interests
- Exhibit C Assignment and Assumption Agreement
- Exhibit D Bill of Sale
- Exhibit E Landfill
- Exhibit F Lease Assignment
- Exhibit G Form of CSA Release
- Exhibit H Form of CSA Assignment
- Exhibit I Pre-Closing Reclamation Study Required Methodology

PURCHASE AND SALE AGREEMENT

This **PURCHASE AND SALE AGREEMENT** (this “**Agreement**”) is made as of November 1, 2020 (the “**Effective Date**”), by and between **NAVAJO TRANSITIONAL ENERGY COMPANY, LLC**, a Navajo Nation limited liability company (“**Purchaser**”), and **PUBLIC SERVICE COMPANY OF NEW MEXICO**, a New Mexico corporation (“**Seller**”).

BACKGROUND

A. Seller owns certain interests, as more thoroughly described in Exhibit A to this Agreement (the “**Acquired Interests**”), in facilities and Units comprising the fossil fuel generating facility known as the Four Corners Power Plant located in San Juan County, New Mexico (the “**Plant**”), as well as certain Assets (as defined herein) associated with the ownership of the Acquired Interests.

B. Seller has identified various interests, as more thoroughly described in Exhibit B, in the Facilities Switchyard (as defined herein) that it deems necessary to retain and exclude from the transactions contemplated by this Agreement (the “**Excluded Switchyard Interests**”).

C. Seller is a party to the Coal Supply Agreement (as defined herein). In connection with the transactions contemplated by this Agreement, Purchaser seeks to release Seller from its obligations and liabilities pursuant to and under the Coal Supply Agreement pursuant to the CSA Release (as defined herein) in exchange for the consideration set forth herein and the assignment of such obligations and liabilities pursuant to the CSA Assignment (as defined herein) by Seller.

D. Seller desires to sell, and Purchaser desires to purchase, the Acquired Interests, and the Assets, on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the respective representations, warranties, covenants and agreements contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

ARTICLE 1 DEFINITIONS

1.1 Defined Terms. The following terms when used in this Agreement (or in the Schedules and Exhibits to this Agreement) with initial letters capitalized have the meanings set forth below:

1.1.1 2019 Reclamation Study. “**2019 Reclamation Study**” means that study and report titled “Navajo Mine 2031 Final Reclamation and Closure Plan Cost Estimate”, published by Golder Associates, Inc. and dated as of September 2019 and incorporated herein by reference.

1.1.2 Affiliate. “**Affiliate**” of a Person means any other Person that (a) directly or indirectly controls the specified Person; (b) is controlled by or is under direct or indirect common control with the specified Person; or (c) is an officer, director, employee, representative or agent or subsidiary of the Person. For the purposes of this definition, “control,” when used with respect to any specified Person, means the power to direct the management or policies of the specified Person,

directly or indirectly, whether through the ownership of voting securities, partnership or limited liability company interests, by contract or otherwise.

1.1.3 Agreement. “**Agreement**” means this Purchase and Sale Agreement, together with the Schedules and Exhibits hereto.

1.1.4 Amended Contracts. “**Amended Contracts**” means those Facilities Contracts and Facilities Documents set forth on Schedule 1.1.4 to be amended or reissued in order for (i) Purchaser to become, and assume the obligations of, a Facilities Owner or (ii) Seller and Purchaser to otherwise achieve the respective benefits of the transactions contemplated hereby, including, for the avoidance of doubt, the Facilities Co-Tenancy Agreement Amendment and the Facilities Operating Agreement Amendment. The Amended Contracts shall provide that (a) to the extent the Facilities Contracts and Facilities Documents apply thereto, Seller shall retain all liability for, and Purchaser shall have no liability with respect to, the Excluded Liabilities contemplated herein associated with Landfill Obligations, Decommissioning and Pre-Closing Environmental Liabilities (subject to Section 2.4(i)), including direct billing of payment obligations associated with such liabilities to Seller and (b) to the extent permitted by the other Facilities Owners, Seller shall retain its rights and obligations with respect to Decommissioning under the Facilities Co-Tenancy Agreement, including, for the avoidance of doubt, any voting rights, veto rights or rights to control the processes or liabilities directly related to Decommissioning.

1.1.5 Ancillary Agreements. “**Ancillary Agreements**” means the Lease Assignment, the Bill of Sale, the Assignment and Assumption Agreement, and any other agreement to be executed and delivered by the Parties under this Agreement, and for Purchaser also includes any counterparts to the Facilities Contracts that Purchaser will be required to execute at the Closing.

1.1.6 Article. “**Article**” means a numbered article of this Agreement. An Article includes all the numbered sections of this Agreement that begin with the same number as that Article.

1.1.7 Assignment and Assumption Agreement. “**Assignment and Assumption Agreement**” means the assignment and assumption agreement between Seller and Purchaser in the form attached to this Agreement as Exhibit C, to be delivered at the Closing and pursuant to which Seller shall assign to Purchaser all of Seller’s right, title and interest in and to the Facilities Contracts, certain intangible assets and certain other Assets (which, for the avoidance of doubt, shall not include those interests assigned pursuant to the Lease Assignment and the CSA Assignment), and Purchaser shall accept such assignments and assume the Assumed Liabilities.

1.1.8 Bill of Sale. “**Bill of Sale**” means the bill of sale from Seller to Purchaser in the form attached to this Agreement as Exhibit D, to be delivered at the Closing.

1.1.9 Business Day. “**Business Day**” means a day other than Saturday, Sunday or a day on which banks are legally closed for business in the State of New Mexico.

1.1.10 Capital Expenditure. “**Capital Expenditure**” means any additions to or replacements of property, plant and equipment in accordance with any of the Facilities Contracts, including any costs associated with Capital Improvements.

1.1.11 Capital Improvements. “Capital Improvements” means the contemplated or ongoing capital improvements to the Plant listed on Schedule 1.1.11.

1.1.12 Coal Supply Agreement. “Coal Supply Agreement” means the Amended and Restated Four Corners 2016 Coal Supply Agreement, dated as of June 29, 2018, but effective as of July 1, 2018 by and among Purchaser, Arizona Public Service Company, Seller, Salt River Project Agricultural and Improvement District, and Tucson Electric Power Company.

1.1.13 Code. “Code” means the Internal Revenue Code of 1986, as amended.

1.1.14 Commercially Reasonable Efforts. “Commercially Reasonable Efforts” means efforts by a reasonable Person in the position of a Party which are designed to enable a Party to satisfy a condition to, or otherwise assist in the consummation of, the transactions contemplated by, or to perform its obligations under, this Agreement and which do not require the performing Party to expend any funds or assume liabilities other than expenditures and liabilities which are customary and reasonable in nature and amount for transactions like those contemplated by this Agreement.

1.1.15 Consent Decree. “Consent Decree” means that certain Consent Decree, dated August 17, 2015, as amended by that certain First Amendment to Consent Decree, dated June 19, 2018, that settled litigation pending in the United States District Court for the District of New Mexico alleging violations of (a) the Prevention of Significant Deterioration provisions of Part C of Subchapter I of the Clean Air Act (“CAA”), 42 U.S.C. §§ 7470-7492 and the regulations promulgated thereunder as set forth at 40 C.F.R. § 52.21; (b) Section 111 of the CAA, 42 U.S.C. § 7411 and the regulations promulgated thereunder as set forth at 40 C.F.R. § 60.14; and (c) the requirements of Title V of the CAA, 42 U.S.C. §§ 7661 7661f.

1.1.16 Contemporaneous Reclamation. “Contemporaneous Reclamation” has the meaning set forth in the Coal Supply Agreement.

1.1.17 Contemporaneous Reclamation Costs. “Contemporaneous Reclamation Costs” means any costs arising from or related to Contemporaneous Reclamation.

1.1.18 CSA Assignment. “CSA Assignment” means an assignment, assumption and release agreement between Purchaser and Seller in the form attached to this Agreement as Exhibit H, effective as of Closing, assigning the Coal Supply Agreement and all rights and obligations thereunder, including, for the avoidance of doubt, any Reclamation liabilities of Seller, from Seller to Purchaser.

1.1.19 Discount Rate. “Discount Rate” means six point seven percent (6.7%) as set forth in Exhibit J.

1.1.20 Dispute Resolution. “Dispute Resolution” means the dispute resolution mechanisms set forth in Section 7.6 through 7.10 of this Agreement by which to determine any disputes under Article 7.

1.1.21 Emission Allowance. “Emission Allowance” means an authorization to emit one specified unit of pollutant or Hazardous Substance from the Assets, which units are established by the Governmental Authority with jurisdiction over the Assets under (a) an air pollution control

and emission reduction program designed to mitigate interstate or intrastate transport of air pollutants, (b) a program designed to mitigate environmental impairment of surface waters, watersheds, or groundwater or (c) any pollution reduction program with a similar purpose. Emission Allowances include allowances, as described above, including credits, regardless of whether the Governmental Authority establishing such allowances designates such allowances by a name other than “allowances.” Except as specifically addressed in Section 2.2(l) with respect to SO₂ Emission Allowances, the amount of the Emission Allowances shall be all Emission Allowances granted to the Facilities or to Seller as a result of its ownership interests in the Facilities and in existence and not consumed as of the Closing Date, or subsequently authorized in respect of the Assets, reduced by the Emission Allowances consumed in the operation of the Facilities between the Effective Date and the Closing Date in the ordinary course of business.

1.1.22 Encumbrances. “Encumbrances” means any and all mortgages, pledges, claims, liens, interests, security interests, conditional and installment sales agreements, easements, activity and use restrictions and limitations, exceptions, rights-of-way, deed restrictions, defects of title, encumbrances, and charges of any kind.

1.1.23 Environment. “Environment” means all soil, real property, air, water (including surface waters, streams, ponds, drainage basins, washes and wetlands), groundwater, water body sediments, drinking water supply, stream sediments or land (including land surface or subsurface strata or soil vapor), fish, plants, wildlife and other biota or other environmental medium or natural resource.

1.1.24 Environmental Condition. “Environmental Condition” means the presence, Release or threatened Release to the Environment of Hazardous Substances, including any migration of Hazardous Substances through the Environment, at, to or from the Facilities or the Facilities Switchyard regardless of when such presence, Release or threatened Release occurred or is discovered.

1.1.25 Environmental Laws. “Environmental Laws” means all federal, state, local and tribal civil and criminal laws (including common law), statutes, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders relating to the Environment or human health and welfare, as the same may be amended or adopted, including, without limitation, those relating to Releases or threatened Releases to the Environment or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, threatened Release, transport, disposal or handling of Hazardous Substances, including but not limited to, the Comprehensive Environmental Response, Compensation, and Liability Act (42 U.S.C. § 9601 *et seq.*), the Hazardous Materials Transportation Act (49 U.S.C. § 1801 *et seq.*), the Resource Conservation and Recovery Act (42 U.S.C. § 6901 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. § 1251 *et seq.*), the Clean Air Act (42 U.S.C. § 7401 *et seq.*), the Toxic Substances Control Act (15 U.S.C. § 2601 *et seq.*), the Oil Pollution Act (33 U.S.C. § 2701 *et seq.*), the Emergency Planning and Community Right-to-Know Act (42 U.S.C. § 11001 *et seq.*), the Oil Pollution Act (33 U.S.C. Sec. 2701 *et seq.*), the Safe Drinking Water Act (42 U.S.C. Secs. 300f through 300j), the Occupational Safety and Health Act (29 U.S.C. Sec. 651 *et seq.*), or any similar and applicable laws of any Governmental Authority.

1.1.26 Environmental Permits. “**Environmental Permits**” means all permits, approvals, licenses, registrations, identification numbers and authorizations from any Governmental Authority issued pursuant to any Environmental Law.

1.1.27 Escrow Agreement. “**Escrow Agreement**” means that certain Four Corners Power Plant Escrow Agreement, dated as of January 15, 2014, by and between Purchaser, U.S. Bank National Association and Operating Agent (on behalf of itself and Seller).

1.1.28 Exhibits. “**Exhibits**” means the exhibits to this Agreement.

1.1.29 Facilities. “**Facilities**” means the “Four Corners Project,” as that term is defined in the Facilities Co-Tenancy Agreement, as well as those facilities defined by the following terms in the Facilities Co-Tenancy Agreement, to the extent they relate to the Four Corners Project, and to the extent such facilities exist, as of the Closing Date: “Existing New Facilities,” “Existing Related Facilities,” “Future New Facilities,” and “Future Related Facilities.”

1.1.30 Facilities Co-Tenancy Agreement. “**Facilities Co-Tenancy Agreement**” means that certain Four Corners Project Co-Tenancy Agreement executed as of July 19, 1966, by and among the Facilities Owners, as amended through Amendment No. 12 dated September 1, 2019.

1.1.31 Facilities Insurance Policies. “**Facilities Insurance Policies**” means all insurance policies carried by or for the benefit of the Facilities Owners with respect to the ownership, operation or maintenance of the Facilities or the Facilities Switchyard, including all liability, property damage, self-insurance arrangements, retrospective assessments and business interruption policies in respect thereof.

1.1.32 Facilities Lease. “**Facilities Lease**” means the Supplemental and Additional Indenture of Lease executed as of July 6, 1966, between the Navajo Tribe of Indians and the Facilities Owners, which supplemented and revised the Indenture of Lease dated December 1, 1960, between the Navajo Tribe of Indians and APS, as amended by Amendment and Supplement No. 1 to Supplemental and Additional Indenture of Lease, dated April 25, 1985, as further amended by Amendment and Supplement No. 2 to Supplemental and Additional Indenture of Lease, dated March 7, 2011, and as further amended by Amendment and Supplement No. 3 to Supplemental and Additional Indenture of Lease, dated March 7, 2011.

1.1.33 Facilities Operating Agreement. “**Facilities Operating Agreement**” means that certain Four Corners Project Operating Agreement entered into as of May 15, 1969, by and among the Facilities Owners, as the same has been amended through Amendment No. 19 dated September 1, 2019.

1.1.34 Facilities Owner. “**Facilities Owner**” means each Person who, as of the relevant time, is a “Participant” under the Facilities Co-Tenancy Agreement, which, as of the date of this Agreement, means Seller, Arizona Public Service Company, Purchaser, Salt River Project Agricultural Improvement and Power District and Tucson Electric Power Company, in each case in such Person’s capacity as a “Participant”.

1.1.35 Facilities Switchyard. “**Facilities Switchyard**” means the 500 kV, 345 kV and 230 kV switchyards located at the Facilities, except the Excluded Switchyard Interests.

1.1.36 FERC. “**FERC**” means the Federal Energy Regulatory Commission as established by the Department of Energy Organization Act of 1977, 42 U.S.C. § 7171, as amended, or its regulatory successor, as applicable.

1.1.37 Final Reclamation. “**Final Reclamation**” means, under the Coal Supply Agreement, all reclamation and remediation activities not included within the definition of Contemporaneous Reclamation (as defined in the Coal Supply Agreement), which are conducted by Purchaser at the Navajo Mine to decommission facilities and restore topography, drainage, vegetation and land use and which are reasonably conducted consistent with prudent mining practices and as required by all federal and state laws, regulations, mine lease terms, and mine permits applicable to Purchaser’s mining operations at the Navajo Mine.

1.1.38 Final Reclamation Costs. “**Final Reclamation Costs**” means all reasonable costs associated with Final Reclamation, estimated in accordance with the Pre-Closing Reclamation Study as set forth in this Agreement.

1.1.39 FIRPTA Certificate. “**FIRPTA Certificate**” means a certificate of non-foreign status that satisfies the requirements of Treasury Regulation Section 1.1445-2(b)(2) and Section 1445 of the Code, to be delivered at the Closing.

1.1.40 Four Corners Financial Assurance Policy. “**Four Corners Financial Assurance Policy**” means the policy set forth as Exhibit 1 to Amendment No. 16 to the Facilities Operating Agreement.

1.1.41 Governmental Authority. “**Governmental Authority**” means any federal, state, local or other government; any governmental, regulatory or administrative agency, commission, body or other authority exercising or entitled to exercise any administrative, executive, judicial, legislative, police, regulatory or taxing authority or power; and any court or governmental tribunal; and any Tribal Authority.

1.1.42 Hazardous Substances. “**Hazardous Substances**” means (a) any petroleum, asbestos, urea formaldehyde foam insulation and/or transformer or other equipment that contains polychlorinated biphenyls, (b) any chemical, material or substance defined as or included in the definition of “hazardous substances,” “hazardous wastes,” “hazardous materials,” “hazardous constituents,” “restricted hazardous materials,” “extremely hazardous substances,” “toxic substances,” “toxic pollutants,” “contaminants,” “pollutants” or “hazardous air pollutants,” or words of similar meaning and regulatory effect, under any Environmental Law, and/or (c) any other chemical, material or substance that is listed or regulated under any Environmental Law because it poses a hazard to human health or welfare or the Environment.

1.1.43 Income Tax. “**Income Tax**” means any Tax imposed by any Governmental Authority (a) based upon, measured by or calculated with respect to gross or net income, profits or receipts (including municipal gross receipt Taxes, capital gains Taxes and minimum Taxes) or (b) based upon, measured by or calculated with respect to multiple bases (including corporate franchise Taxes) if one or more of such bases is described in clause (a), in each case together with any interest, penalties or additions attributable to such Tax.

1.1.44 Independent Accounting Firm. “**Independent Accounting Firm**” means such nationally recognized, independent accounting firm as is mutually appointed by Seller and Purchaser for purposes of this Agreement.

1.1.45 Independent Third Party. “**Independent Third Party**” means either Golder Associates Inc. or, in the event that Golder Associates Inc. is unable to be the Independent Third Party, such other party as otherwise selected by the Parties pursuant to Section 7.2 of this Agreement.

1.1.46 Inflation Rate. “**Inflation Rate**” means three percent (3%) as set forth in Exhibit J.

1.1.47 Knowledge. The term “**Knowledge**” or similar phrases in this Agreement means: (a) in the case of Seller, the extent of the actual and current knowledge of Seller’s officers, employees, and knowledgeable persons listed in Schedule 1.1.47(a) at the Effective Date (or, with respect to the certificate delivered pursuant to Section 3.7(j), the date of delivery of the certificate) without any implication of verification or investigation concerning such knowledge; or (b) in the case of Purchaser, the extent of the actual and current knowledge of Purchaser’s officers, employees and authorized agents listed in Schedule 1.1.47(b) at the Effective Date (or, with respect to the certificate delivered pursuant to Section 3.8(g), the date of delivery of the certificate) without any implication of verification or investigation concerning such knowledge.

1.1.48 Landfill. “**Landfill**” means that certain landfill as identified in the sections labeled “LANDFILL” on the map attached as Exhibit E hereto.

1.1.49 Laws. “**Laws**” means all federal, state, local and tribal civil and criminal laws, statutes, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders.

1.1.50 Lease Assignment. “**Lease Assignment**” means an assignment and assumption of Seller’s interest in the Facilities Lease in the form attached hereto as Exhibit F, pursuant to which Seller will convey certain of its right, title and interest in the Assets identified therein to Purchaser under this Agreement, subject to Permitted Encumbrances and may include the retention of certain rights by Seller to access and use the Excluded Switchyard Interests, Excluded Assets and perform Excluded Liabilities, as applicable, including with respect to the § 323 Grants.

1.1.51 Material Adverse Effect. “**Material Adverse Effect**” means any change, event, circumstance, development, occurrence or effect that, individually or in the aggregate with any other change, event, circumstance, development, occurrence or effect has had or would reasonably be expected to have a materially adverse effect on the business, liabilities, operations or condition (financial or otherwise) of the Acquired Interests and the Assumed Liabilities, taken as a whole, except for any such change or event resulting from or arising out of (a) changes in economic conditions generally or in the industries in which the Facilities operate, whether international, national, regional or local, (b) changes in international, national or regional wholesale or retail markets (including market description or pricing) for energy, electricity or ancillary services, including those due to actions by competitors or changes in international, national or regional electric transmission or distribution systems, including the operation or condition thereof, (c) changes in general regulatory or political conditions, including any acts of war, civil unrest or terrorist activities

(or similar activities), (d) any changes in the costs of commodities, services, equipment, materials or supplies, including fuel and other consumables, or changes in the price of energy, capacity or ancillary services, (e) any natural disaster, act of God, pandemic or epidemic, including the coronavirus pandemic, (f) any change in Law, accounting standards or regulatory policy adopted or approved by any Governmental Authority, (g) any changes or adverse conditions in securities markets, interest rate or currency exchange rates, (h) any actions specifically required to be taken or consent to pursuant to or in accordance with this Agreement, (i) the execution and delivery of this Agreement, the identity of Purchaser, the transactions contemplated herein or the announcement thereof, or (j) any failure to meet any estimates or budgets for any period.

1.1.52 Navajo Mine. “Navajo Mine” means the coal mine located on the Navajo Nation property that is owned by Purchaser and that supplies coal to the Facilities.

1.1.53 NMPRC. “NMPRC” means the New Mexico Public Regulation Commission, or its regulatory successor, as applicable.

1.1.54 NMPRC Approval. “NMPRC Approval” means a final, non-appealable approval of NMPRC received by Seller pursuant to Section 6.2 of this Agreement.

1.1.55 Operating Agent. “Operating Agent” means Arizona Public Service Company, as operating agent under the Facilities Co-Tenancy Agreement and the Facilities Operating Agreement, or its successor in interest.

1.1.56 Party. “Party” means either Seller or Purchaser, as the context requires; “Parties” means, collectively, Seller and Purchaser.

1.1.57 Permitted Encumbrances. “Permitted Encumbrances” means (a) liens for Property Taxes and other governmental charges and assessments which are not yet due and payable, (b) liens, encumbrances or title imperfections with respect to the Assets created by or resulting from the acts or omissions of Purchaser or Operating Agent, (c) liens, charges, claims, pledges, security interests, equities and encumbrances arising under the Facilities Contracts, or which will be and are discharged or released either prior to, or simultaneously with, the Closing, (d) the Assumed Liabilities, and (e) liens, charges, claims, pledges, security interests, equities and encumbrances that (i) do not apply only and exclusively to the interest of Seller but that also constitute liens, charges, claims, pledges, security interests, equities or encumbrances upon the interests of all other Facilities Owners in common and/or the Operating Agent, as agent for all of the Facilities Owners and (ii) that, individually or in the aggregate, are not materially adverse to the operations or physical condition of the Facilities or the Facilities Switchyard.

1.1.58 Person. “Person” means an individual, partnership, joint venture, corporation, limited liability company, trust, association or unincorporated organization, or any Governmental Authority.

1.1.59 Pre-Closing Tax Period. “Pre-Closing Tax Period” means (a) any Tax period ending on or before the Closing Date and (b) with respect to a Straddle Period, the portion of such period ending on the Closing Date (which may be the same period as subsection (a)).

1.1.60 Property Tax. “**Property Tax**” means any Tax imposed on the value of real or personal property or a possessory interest in real or personal property assessed by any Governmental Authority.

1.1.61 Purchaser. “**Purchaser**” has the meaning set forth in the introductory paragraph of this Agreement.

1.1.62 Purchaser’s Required Consents. “**Purchaser’s Required Consents**” means all consents specified in Schedule 1.1.62, which include the consent of any Person (other than a Governmental Authority) necessary for Purchaser’s consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

1.1.63 Purchaser’s Required Regulatory Approvals. “**Purchaser’s Required Regulatory Approvals**” means all approvals specified in Schedule 1.1.63, which include the final, non-appealable approval by any Governmental Authority with general regulatory authority over Purchaser or the business and assets represented by the Assets and whose approval is required for Purchaser’s consummation of the transactions contemplated by this Agreement and the Ancillary Agreements.

1.1.64 Reclamation. “**Reclamation**” means all liabilities and obligations allocable to the Acquired Interest with respect to reclamation of the Navajo Mine and the site comprising the same or on which the Navajo Mine exists or has existed which liabilities and obligation arise under Laws (including Environmental Laws) and any other legally binding obligations.

1.1.65 Release. “**Release**” means any release, spill, leak, discharge, disposal of, pumping, pouring, emitting, emptying, injecting, leaching, dumping, depositing, dispersing, escaping or migration of a Hazardous Substance into, onto or through the Environment or within any building, structure, facility or fixture, including the abandonment or discarding of Hazardous Substances in barrels, drums, or other containers.

1.1.66 Remediation. “**Remediation**” means any action of any kind to address an Environmental Condition or Release or threatened Release or the presence of Hazardous Substances on or in the Environment relating to the Facilities, the Facilities Switchyard, or any other location at which Hazardous Substances or non-hazardous substances or materials generated or originating at the Facilities were transported, stored or disposed of, including the following: (a) monitoring, investigation, treatment, cleanup, containment, remediation, removal, mitigation, response or restoration work; (b) obtaining any permits, consents, approvals or authorizations of any Governmental Authority necessary to conduct any such work; (c) preparing and implementing any plans or studies for such work; (d) obtaining a written notice from a Governmental Authority with jurisdiction under applicable Environmental Laws that no material additional work is required by such Governmental Authority; (e) any response to or preparation for, any inquiry, order, hearing or other proceeding by or before any Governmental Authority with respect to any such Environmental Condition, Release or threatened Release or presence of Hazardous Substances, and (f) any other activities reasonably determined by the Operating Agent of the Facilities or the Facilities Switchyard, as applicable, to be necessary or required under Environmental Laws to address an Environmental Condition, the presence, Release or threatened Release of Hazardous Substances on or in the Environment at the Facilities, the Facilities Switchyard or any other location at which Hazardous

Substances or non-hazardous substances or materials generated or originating at the Facilities were transported, stored or disposed of.

1.1.67 Right of First Refusal. “**Right of First Refusal**” means the right of first refusal held by each other Facilities Owner with respect to the Acquired Interests under Section 13 of the Facilities Co-Tenancy Agreement.

1.1.68 Schedule of Exceptions. “**Schedule of Exceptions**” means the disclosure schedules to this Agreement.

1.1.69 Section. “**Section**” means a numbered section of this Agreement included within the Article that begins with the same number as that section.

1.1.70 § 323 Grants. “**§ 323 Grants**” means one or more grants of rights-of-way and easements under the Act of February 5, 1948 (62 Stat. 17, 18, 25 U.S.C. § 323-328), the Act of March 3, 1879 (20 Stat. 394, 5 U.S.C. § 485), as amended, and the Acts of July 9, 1832, and July 27, 1868 (4 Stat. 564, 15 Stat. 228, 25 U.S.C. § 2) and such regulations promulgated thereunder, as are applicable, including 25 C.F.R. § 1.2 and 25 C.F.R. Part 169 granted to the Facilities Owners pursuant to the Facilities Lease.

1.1.71 Seller. “**Seller**” has the meaning set forth in the introductory paragraph of this Agreement.

1.1.72 Seller’s Required Consents. “**Seller’s Required Consents**” means all consents specified in Schedule 1.1.72 and consents of any Person (other than a Governmental Authority) necessary for Seller’s consummation of the transactions contemplated by this Agreement and the Ancillary Agreements, which includes a consent, waiver and release Agreement by the other Facilities Owners (as further described in Schedule 1.1.72) as detailed in Section 13.11.2 of the Facilities Co-Tenancy Agreement and a consent, waiver and release Agreement by the other Facilities Owners (as further described in Schedule 1.1.72) of the Facilities Operating Agreement.

1.1.73 Seller’s Required Regulatory Approvals. “**Seller’s Required Regulatory Approvals**” means all approvals specified in Schedule 1.1.73, which include the final, non-appealable approval of any Governmental Authority with general regulatory authority over Seller or the business and assets represented by the Assets and whose approval is required for Seller’s consummation of the transaction contemplated by this Agreement and the Ancillary Agreements.

1.1.74 Settlement Agreement. “**Settlement Agreement**” means that Restated and Amended Settlement and Closing Agreement, by and between Seller and the Office of the Navajo Tax Commission, dated as of August 8, 2016.

1.1.75 Straddle Period. “**Straddle Period**” means any Tax period that begins before and ends on or after the Closing Date.

1.1.76 Tax. “**Tax**” means (a) any federal, Tribal Authority, state, local or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, transactional, use,

transfer, registration, value added, alternative or add-on minimum, estimated tax, or other tax of any kind whatsoever, including any interest, penalty or addition thereto, whether disputed or not, including, without limitation, any item for which liability arises as a transferee or successor-in-interest and (b) any liability for the payment of amounts determined by reference to amounts described in clause (a) as a result of being or having been a member of any group of corporations that files, will file, or has filed Tax Returns on a combined, consolidated, unitary or similar basis, as a result of any obligation under any agreement or arrangement (including any Tax allocation agreement, Tax indemnity agreement or Tax sharing agreement), as a result of being a transferee or successor-in-interest, or by contract or otherwise.

1.1.77 Tax Return. “**Tax Return**” means any return, report, information return, declaration, claim for refund, or other document, together with all amendments and supplements thereto (including all related or supporting information), required to be supplied to any Governmental Authority responsible for the administration of Laws governing Taxes.

1.1.78 Third Party Claim. “**Third Party Claim**” means a claim by a Person that is not a member of the Seller Group or the Purchaser Group, including any claim for the costs of conducting Remediation or seeking an order or demanding that a Person undertake Remediation.

1.1.79 Transferable Permits. “**Transferable Permits**” means all those permits relating to the Facilities or the Facilities Switchyard (and all applications pertaining thereto) relating to the Acquired Interests which are transferable under applicable Laws from Seller to Purchaser with or without a filing with, notice to, or consent or approval of any Governmental Authority.

1.1.80 Transfer Tax. “**Transfer Tax**” means any sales Tax, transaction privilege Tax, transaction Tax, conveyance fee, recording fee, use Tax, stamp Tax, stock transfer Tax or other similar Tax, including any related penalties, interest and additions thereto.

1.1.81 Tribal Authority. “**Tribal Authority**” means any sovereign nation recognized by the United States government, federally recognized Indian tribe, or any governmental subdivision, agency, department, or instrumentality thereof with the authority to administer and collect tribal Taxes, administer and enforce tribal laws and administer and enforce tribal agency processes. For the avoidance of doubt, “Tribal Authority” shall include the Navajo Nation.

1.2 Index of Other Defined Terms

<u>Defined Term</u>	<u>Section</u>
AAA	7.7
Acquired Interests	Recital A
Allocation	3.4
Applicable Tax Law	3.4
Applicant	6.2(a)
Arbitration Award	7.7(g)
Arbitration Notice	7.7(a)
Assets	2.1
Assumed Liabilities	2.3
Claimant	7.7(a)

Closing	3.1
Closing Date	3.1
CSA Assignment Payment	3.3
CSA Release	7.6
CSA True-Up Payment	7.4
Damages	7.1(a)
Dispute Protest	7.6(b)
Draft Reclamation Study	7.3(a)
Effective Date	Preamble
Environmental Assessment	6.1(c)(i)
Environmental Consultant	6.1(c)(i)
Environmental Liability	2.5(c)
Escrow Deliverables	7.5
Excluded Assets	2.2
Excluded Claims	2.2(i)
Excluded Liabilities	2.4
Excluded Switchyard Interests	Recital B
Facilities Contracts	2.1(h)
Facilities Co-Tenancy Agreement Amendment	6.1(e)
Facilities Documents	2.1(j)
Facilities Permits	2.1(i)
Facilities Project Contracts	4.12
Facilities Operating Agreement Amendment	6.1(e)
Final Allocation	3.4
Final CSA Assignment Payment	3.3(b)
Final Reclamation Acceptance	7.3(c)
Fuel Inventory	2.1(e)
Indemnifiable Claim	8.8
Indemnitee	8.3
Indemnitor	8.3
Independent Asset Classification	2.5(a)(ii)
Independent Asset Expert	2.5(a)(ii)
Independent Asset Expert Panel	2.5(a)(ii)
Independent Environmental Liabilities Classification	2.5(c)(iii)(b)
Independent Environmental Liabilities Expert	2.5(c)(iii)(b)
Independent Environmental Liabilities Expert Panel	2.5(c)(iii)(b)
Independent Liabilities Classification	2.5(b)(i)
Independent Liabilities Expert	2.5(b)(i)
Independent Liabilities Expert Panel	2.5(b)(i)
Initial CSA Assignment Payment	3.3(a)
Inventory	2.1(f)
Landfill Obligations	2.4(f)
Leased Property	2.1(b)
Notice of Claim	7.3
Notice of Dispute	7.6(a)

Owned Personal Property	2.1(a)
PIT	3.7(b)
Plant	Recital A
Post-Closing Environmental Liabilities	2.3(b)
Pre-Closing Environmental Liabilities	2.4(i)
Pre-Closing Reclamation Study	7.3(a)
Pre-Closing Study Final Reclamation Costs	7.1
Protesting Party	7.6(b)
Purchase Price	3.2
Purchaser Claims	8.1(a)
Purchaser Event of Default	11.1(a)
Purchaser Group	8.1(a)
Purchaser's Closing Deliverables	3.7
Respondent	7.7(a)
Scheduled Study	7.2
Seller Claims	8.2(a)
Seller Event of Default	11.1(b)
Seller Group	8.2(a)
Seller Permits	4.5
Seller's Closing Deliverables	3.6
SO ₂ Emission Allowances	2.2(l)
Subsequent Modifications	4.11
Updated Seller's Schedule of Exceptions	12.4

1.3 Interpretation. In this Agreement, unless a clear contrary intention appears:

- (a) the singular number includes the plural number and vice versa;
- (b) reference to any Person includes such Person's successors and assigns but, if applicable, only if such successors and assigns are permitted by this Agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity;
- (c) reference to any gender includes each other gender;
- (d) reference to any agreement (including this Agreement), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof;
- (e) reference to any Article, Section, Schedule or Exhibit means such Article, Section, Schedule or Exhibit to this Agreement, and references in any Article, Section, Schedule, Exhibit or definition to any clause means such clause of such Article, Section, Schedule, Exhibit or definition;
- (f) "hereunder," "hereof," "hereto" and words of similar import are references to this Agreement as a whole and not to any particular Section or other provision hereof or thereof;

(g) “including” (and with correlative meaning “include”) means including without limiting the generality of any description preceding such term;

(h) relative to the determination of any period of time, “from” means “from and including,” “to” means “to but excluding” and “through” means “through and including;”

(i) reference to any law (including statutes and ordinances) means such law as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time, including rules and regulations promulgated thereunder; and

(j) any agreement, instrument, insurance policy, statute, regulation, rule or order defined or referred to herein or in any agreement or instrument that is referred to herein means such agreement, instrument, insurance, policy, statute, regulation, rule or order as from time to time amended, modified or supplemented, including (in the case of agreements or instruments) by waiver or consent and (in the case of statutes, regulations, rules or orders) by succession of comparable successor statutes, regulations, rules or orders and references to all attachments thereto and instruments incorporated therein.

ARTICLE 2 **PURCHASE AND SALE OF ASSETS**

2.1 Transfer of Assets. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller will sell, convey, assign, transfer and deliver to Purchaser, and Purchaser will purchase and acquire from Seller, those interests of Seller in the Facilities and the Facilities Switchyard as described herein, including Seller’s undivided interest therein as a tenant in common, which Seller owns or to which Seller has rights by reason of any of the Facilities Contracts, free and clear of all Encumbrances other than Permitted Encumbrances, including, without limitation, Seller’s interest in the following, but excluding all Excluded Assets and subject to Section 2.5 (collectively, the “**Assets**”):

(a) **Owner Property Rights.** Other than as set forth in Section 2.1(d), the property owned by Seller, or by the Operating Agent on behalf of Seller, as one of the Facilities Owners, relating to the Facilities or the Facilities Switchyard, together with all buildings, facilities and other improvements thereon and all appurtenances thereto, including all construction work in process (the “**Owned Personal Property**”);

(b) **Leased Real Property.** The real property leasehold estates and the related lease or sublease agreements, if any, related to the Facilities or the Facilities Switchyard, together with all buildings, fixtures and real property improvements thereon and thereto, including all construction work in process (the “**Leased Property**”), including, without limitation, the items set forth on Schedule 2.1(b);

(c) **Rights-of-Way/Easements and Water Rights.** All rights-of-way, easements, grants and privileges (including all water rights) appurtenant to the Owned Personal Property or the Leased Property, including, without limitation, the items set forth on Schedule 2.1(c), except those certain rights retained by Seller in the Lease Assignment (with respect to the Facilities Lease and § 323 Grants);

(d) **Equipment.** All machinery, mobile or otherwise, equipment (including computer hardware and software and communications equipment), vehicles, tools, fixtures, furniture and furnishings, and other tangible personal property that (i) are not Inventory, (ii) are licensed, owned or leased by Seller, or the Operating Agent, on behalf of the Facilities Owners or on behalf of Seller, as one of the Facilities Owners, as of the Closing, and (iii) are related to, used, or useful in the operation of the Facilities or the Facilities Switchyard, or are typically located at the Facilities, the Facilities Switchyard or other locations or facilities which are owned, operated, maintained or under the control of the Operating Agent;

(e) **Fuel Inventory.** All coal under contract or in inventory relating to the operation of the Facilities located at or in transit to the Facilities (the “**Fuel Inventory**”);

(f) **Inventory.** The following items intended to be consumed at the Facilities or the Facilities Switchyard in the ordinary course of business: inventories of spare parts; maintenance, shop and office supplies; and other similar items of tangible personal property in existence as of the Closing, wherever located, excluding Fuel Inventory (the “**Inventory**”) and excluding any Inventory apportioned to the Excluded Switchyard Interests (which shall be an Excluded Asset);

(g) **Emission Allowances.** All Emission Allowances, except for allowances which are to be retained by Seller pursuant to Section 2.2(k);

(h) **Facilities Contracts.** The contracts, agreements, arrangements, licenses and leases of any nature, (i) to which Seller, in its capacity as a Facilities Owner, is a party or under which Seller has rights as a Facilities Owner, including, without limitation, the items set forth on Schedule 2.1(h), or (ii) to which the Operating Agent, on behalf of the Facilities Owners or on behalf of Seller, as one of the Facilities Owners, is a party, and by or to which Seller, the Facilities, or the Facilities Switchyard are bound or subject, in each case relating to the ownership, lease, maintenance or operation of the Facilities or the Facilities Switchyard (the “**Facilities Contracts**”); provided that Seller shall retain all rights under the Facilities Contracts with respect to any Excluded Assets or Excluded Liabilities;

(i) **Permits, Licenses, Etc.** The Transferable Permits and any other permits, licenses, approvals, registrations, franchises, certificates, other authorizations and consents of Governmental Authorities relating to the ownership, lease, maintenance or operation of the Facilities or the Facilities Switchyard that, in each case, as of the Closing are in favor of the Facilities Owners, or the Operating Agent, as agent for the Facilities Owners, except for such licenses, permits, approvals, registrations, franchises, certificates, other authorizations and consents to the extent they relate to Excluded Assets as identified on Schedule 2.1(i) (the “**Facilities Permits**”);

(j) **Documents.** The books, records, materials, documents, information, drawings, reports, operating data, operating safety and maintenance manuals, inspection reports, engineering design plans, blueprints, specifications, and procedures and similar items (i) located at and/or relating to the Facilities or the Facilities Switchyard, other than any Tax Returns or Tax records, or (ii) otherwise relating to the Facilities or the Facilities Switchyard and owned by the Facilities Owners in common or by the Operating Agent as agent for the Facilities Owners, (the

“**Facilities Documents**”); provided that Seller may retain, at its own expense, and may use subject to any confidentiality obligations that may apply to the Facilities Owners, copies of any Facilities Documents related to any Excluded Assets or Excluded Liabilities;

(k) **Third Party Warranties**. All unexpired, transferable warranties and guarantees from third parties with respect to the Facilities or the Facilities Switchyard or arising out of the Facilities Contracts or any contracts entered into thereunder, except to the extent they relate to Excluded Assets or Excluded Liabilities as identified on Schedule 2.1(k);

(l) **Intellectual Property**. All intangible assets of an intellectual property nature, including all patents and patent rights, trademarks and trademark rights, inventions, trade names and copyrights relating to the Facilities or the Facilities Switchyard, including the name of the Facilities and the Facilities Switchyard and all pending applications therefor, together with any trade secrets relating to the Facilities or the Facilities Switchyard, in each case that are owned in common by the Facilities Owners or by the Operating Agent as agent for the Facilities Owners;

(m) **Claims, Rights and Causes of Action**. All rights in, to and under (i) any claims, rights or causes of action against any third parties (including indemnification, contribution and insurance claims) relating to the Assets or the Assumed Liabilities, whether occurring prior to, on or after the Closing, if any, including any claims for refunds, prepayments, offsets, recoupment, insurance proceeds, condemnation awards, judgments and the like; whether received as payment or credit against future liabilities, and (ii) any actual or potential claim or cause of action as a Facilities Owner against the Operating Agent, whether known or unknown, contingent or accrued, arising prior to and in existence at the Closing, except in each case for Excluded Claims;

(n) **Prepayments**. If applicable, any advance payments, prepayments, prepaid expenses, deposits, credits, rights of setoff, recoupment and the like, other than any prepaid Taxes or any other prepaid costs and expenses under the Facilities Contracts (prorated to Seller or applicable to Seller’s Excluded Liabilities), which shall be governed by Section 3.6(b), other than Excluded Assets, if any;

(o) **Insurance Proceeds and Condemnation Proceeds**. Subject to Section 6.4, the right to any claims, settlement or proceeds thereof from a condemnation or eminent domain proceeding and the right to any proceeds from insurance policies to the extent covering the Assets or the Assumed Liabilities, except for Excluded Claims;

(p) **Transferred Transmission Facilities**. Seller’s undivided ownership interests in the Facilities Switchyard. This includes, for the avoidance of doubt, the assets and rights necessary to transmit power within the associated switchyard; and

(q) **Reserved**.

(r) **Miscellaneous**. Any miscellaneous assets necessary, useful or used in or ancillary to operating the Facilities or the Facilities Switchyard and primarily utilized in connection therewith but not otherwise enumerated above, including, without limitation, the assets specified on Schedule 2.1(r), except for Excluded Assets, which in the ordinary course of business are typically located at the Facilities, the Facilities Switchyard or other locations or facilities which

are owned, operated, maintained or under the control of the Operating Agent or one of its Affiliates.

2.2 Excluded Assets. Subject to Section 2.5, nothing in this Agreement will constitute or be construed as conferring on Purchaser, and Purchaser is not acquiring, any right, title or interest of Seller in or to the following (the “**Excluded Assets**”):

(a) the assets listed or described on Schedule 2.2(a), which are associated with the Assets but are specifically excluded from the sale;

(b) certificates of deposit, shares of stock, securities, bonds, debentures, evidences of indebtedness, and interests in joint ventures, partnerships, limited liability companies and other entities;

(c) all cash, cash equivalents, bank deposits, accounts and notes receivable (trade or otherwise) in existence and/or due as of the Closing, except for such assets on deposit with, or under the control of, the Operating Agent; provided, that such exception shall not apply to such assets set forth on Schedule 2.2(c) which are associated with Excluded Liabilities;

(d) any and all data and information pertaining to customers of Seller or its Affiliates, unrelated to the Assets or Assumed Liabilities;

(e) rights in, to and under all agreements and arrangements of any nature, which are not assigned to Purchaser under the terms of this Agreement, including any agreements for the sale by Seller of energy, capacity or ancillary services from the Facilities prior to the Closing, and any trade accounts receivable and all collateral, security arrangements, notes, bonds, and other evidences of indebtedness of and rights to receive payments arising out of or related to such sales, including any rights with respect to any third party collection procedures or any other actions or proceedings which have been commenced in connection therewith;

(f) rights of Seller arising under this Agreement, any instrument or document executed and delivered pursuant to the terms hereof, or the transactions contemplated hereby;

(g) any and all books and records not described in Section 2.1(j);

(h) any rights in, to and under (i) any claims, rights or causes of action against any third parties (including indemnification, contribution and insurance claims) relating to the Excluded Assets or Excluded Liabilities, whether occurring prior to, on or after the Closing, if any, including any claims for refunds, prepayments, offsets, recoupment, insurance proceeds, condemnation awards, judgments and the like; whether received as payment or credit against future liabilities, (ii) any insurance proceeds or condemnation awards, to the extent that such insurance proceeds or condemnation awards relate to costs and expenses incurred by Seller with respect to such event requiring the payment of insurance proceeds or condemnation awards (in connection with Section 6.4 or otherwise), (iii) any actual or potential claim or cause of action as a Facilities Owner against the Operating Agent, whether known or unknown, contingent or accrued, arising prior to and in existence at the Closing relating to the Excluded Assets or Excluded Liabilities, and (iv) any claims for refunds, credits, prepayments, offsets, recoupments, judgments and the like relating to Taxes (claims described in clauses (i) — (iv), “**Excluded Claims**”);

(i) all privileged or proprietary books, records, materials, documents, information, drawings, reports, operating data, operating safety and maintenance manuals, inspection reports, engineering design plans, blueprints, specifications, and procedures and similar items not owned by the Facilities Owners in common or by the Operating Agent as agent for the Facilities Owners and any and all rights to use the same, including, without limitation, intangible assets of an intellectual property nature such as trademarks, service marks and trade names (whether or not registered), computer software that is proprietary to Seller, or the use of which under the pertinent license therefor is limited to operation by Seller or its Affiliates or on equipment owned by Seller or its Affiliates;

(j) the right to receive mail and other communications relating to any of the Excluded Assets or Excluded Liabilities, all of which mail and other communications shall be promptly forwarded by Purchaser to Seller;

(k) Emission Allowances for sulfur dioxide (SO₂) (“**SO₂ Emission Allowances**”) consisting of (i) that portion of the SO₂ Emission Allowances assigned to Seller for the period the Plant is operated by Seller prior to Closing or otherwise required to be provided to Owner to meet any compliance obligations during its ownership and operation of the Acquired Interest (whether before or after Closing), and (ii) any SO₂ Emission Allowances that, pursuant to the Consent Decree, may not be transferred;

(l) Properties, assets and rights of Seller that are not used in the ownership or operation of the Assets or rights that relate primarily to the Excluded Liabilities;

(m) the Excluded Switchyard Interests and any and all transmission rights of Seller other than the Facilities Switchyard; and

(n) any rights specifically excluded from the definition of the Assets under Section 2.1.

At any time or from time to time, up to ninety (90) days following the Closing, any and all of the Excluded Assets that are not part of the Facilities or the Facilities Switchyard may be removed from the Facilities and the Facilities Switchyard by Seller (at no expense to Purchaser, but without charge by Purchaser for temporary storage) provided that Seller shall do so in a manner that does not unduly or unnecessarily disrupt normal business activities at the Facilities and the Facilities Switchyard and Seller provides Purchaser with reasonable notice of its intent to remove such Excluded Assets, and provided further that Excluded Assets may be retained at the Facilities and the Facilities Switchyard to the extent permitted by easements, licenses, agreements or similar arrangements in favor of Seller that have not been assigned to Purchaser pursuant to this Agreement. Further, if Purchaser is in possession of an Excluded Asset that is not part of the Facilities or the Facilities Switchyard following Closing, promptly following the written request of Seller, Purchaser shall make arrangements to deliver to Seller such Excluded Asset at Seller’s sole cost and expense.

2.3 Assumption of Liabilities. Subject to Section 2.5, from and after the Closing, Purchaser will assume the following obligations and liabilities of Seller subject to (the “**Assumed**

Liabilities”), except to the extent that such obligations and liabilities are Excluded Liabilities (as defined below):

(a) All liabilities and obligations, whether or not accrued, contingent, absolute, determined or determinable under the Assets (including arising under applicable Laws (other than as set forth in Section 2.3(b) and (c) below) and under all agreements, contracts, permits, undertakings, and licenses assigned to Purchaser under this Agreement, including the Facilities Contracts and the Transferable Permits in accordance with the terms thereof, including, for the avoidance of doubt, all obligations under the Coal Supply Agreement pursuant to the CSA Assignment (and all Reclamation obligations under the Coal Supply Agreement whenever incurred, accrued or assessed), in all cases (A) to the extent attributable to the period on or after the Closing Date and (B) including any payment obligations arising on or after the Closing Date, whether attributable to an occurrence, claim or liability (including any change in Law or any Capital Expenditure requirements payable on or after the Closing Date) arising prior to the Closing Date or not (other than those payments made by Seller as provided hereunder prior to the Closing Date), except: (i) the payment obligations pro-rated to Seller under Section 3.6, and (ii) as specifically contemplated under Section 2.4;

(b) All liabilities or obligations, whether or not accrued, contingent, absolute, determined or determinable (including, without limitation, any fines, penalties or costs imposed by a Governmental Authority) allocable to the Acquired Interest arising under Environmental Laws or relating to Environmental Conditions or Hazardous Substances in connection with the Assets or the Facilities, in each case, in connection with the post-Closing period, including liability for any Post-Closing off-site disposal of any solid or Hazardous Substances, any violations of Environmental Laws or Environmental Permits occurring or arising post-Closing and any Release of Hazardous Substances occurring or arising post-Closing (collectively, “**Post-Closing Environmental Liabilities**”);

(c) All Pre-Closing Environmental Liabilities (as defined below) arising out of the enactment, coming into force or change in any Environmental Law (including any change in the interpretation, application or enforcement of any such Environmental Law) that requires payment (or the payment of any portion thereof) of such Pre-Closing Environmental Liabilities on or after the Closing Date but in all cases, excluding any of the foregoing liabilities or obligations, including Remediation, arising in connection with Decommissioning;

(d) Any liabilities or obligations in respect of Purchaser’s share of the items prorated in Section 3.6(a); and

(e) Taxes attributable to the ownership, operation or use of the Assets or the Acquired Interests for any Tax period (or portion thereof) after the Closing Date (except for Taxes for which Seller is liable pursuant to Section 3.6, including Seller’s Income Taxes) and any Taxes for which Purchaser is liable under Section 6.3.

2.4 Excluded Liabilities. Subject to Section 2.5, Seller shall retain certain liabilities and obligations after the Closing (the “**Excluded Liabilities**”), all of which Excluded Liabilities shall remain the sole responsibility of Seller and shall be paid and performed by Seller when such payment or performance is required. The Excluded Liabilities include the following:

(a) Except as otherwise specifically set forth in Section 2.3(a) or (c), to the extent attributable to the period prior to the Closing Date, all liabilities and obligations, whether or not accrued, contingent, absolute, determined or determinable (including, without limitation, under the Excluded Assets), including arising under applicable Laws or and including arising under all agreements, contracts, permits, undertakings, and licenses assigned to Purchaser under or in connection with this Agreement, including the Facilities Contracts and the Transferable Permits in accordance with the terms thereof, in all cases (A) to the extent attributable to the period before the Closing Date and (B) including any payment obligations arising before the Closing Date, whether attributable to an occurrence, claim or liability (including any change in Law or any Capital Expenditure requirements payable prior to the Closing Date).

(b) Any liabilities or obligations of Seller in respect of any Excluded Assets or other assets which are not Assets and Seller's ownership, operation and conduct of any business in connection therewith or therefrom;

(c) The prorated payments allocated to Seller under Section 3.6;

(d) Any applicable tariffs on file with the applicable Governmental Authority for general service over facilities that may include, but are not exclusively, the Acquired Interests;

(e) Without duplicating the liabilities set forth in subpart (h) below, any fines, penalties or costs (other than Taxes) resulting from an actual failure to comply with Laws, including Environmental Laws, including costs for environmental mitigation projects, if any, imposed by a Governmental Authority with respect to the Assets, unless such fines, penalties or costs are Post-Closing Environmental Liabilities;

(f) All costs allocable to the Acquired Interest of removal of, or to conduct or perform Remediation of any Environmental Conditions or Hazardous Substances at the Landfill or to conduct or perform Remediation of any Environmental Conditions or Hazardous Substances at the Landfill which liabilities and obligations arise under Laws (including Environmental Laws), the Facilities Lease or the § 323 Grants (collectively, the "**Landfill Obligations**") other than Post-Closing Environmental Liabilities;

(g) All liabilities and obligations allocable to the Acquired Interest with respect to decommissioning the Facilities and the Facilities Switchyard (as determined by application of the FERC Uniform System of Accounts upon the decommissioning of the Facilities or the Facilities Switchyard), including without limitation the dismantling and removal of the Facilities and the Facilities Switchyard and the restoration of their sites and any decommissioning costs necessary to maintain the Facilities and the Facilities Switchyard in a safe condition should decommissioning activities be delayed following cessation of the Coal Supply Agreement in 2031 or earlier as determined by the then existing Facilities Owners (collectively, "**Decommissioning**") under Laws (including Environmental Laws) and any other legally binding obligations;

(h) All liabilities or obligations, whether or not accrued, contingent, absolute, determined or determinable (including, without limitation, any fines, penalties or costs imposed by a Governmental Authority) allocable to the Acquired Interest arising under Environmental Laws or relating to Environmental Conditions or Hazardous Substances in connection with the

Assets, the Facilities, or the Facilities Switchyard, in each case, in connection with the pre-Closing Date period otherwise not constituting Post-Closing Environmental Liabilities, including liabilities for any pre-Closing off-site disposal of any solid or Hazardous Substances, any violations of Environmental Laws or Environmental Permits occurring or arising pre-Closing and any release of Hazardous Substances occurring or arising pre-Closing even if continuing following the Closing Date subject to Section 2.5 (collectively, “**Pre-Closing Environmental Liabilities**”), or arising in connection with the Consent Decree, including any enactment, coming into force or change in any Environmental Law, including any change in the interpretation, application or enforcement of any such Environmental Law that requires payment (or the payment of any portion thereof) of such Pre-Closing Environmental Liabilities prior to the Closing Date, but excluding any Pre-Closing Environmental Liabilities assumed by Purchaser in Section 2.3(c);

- (i) Any liability of Seller arising out of a breach by Seller of any of its obligations under this Agreement or the Ancillary Agreements;
- (j) Any obligation of Seller to indemnify any Person who is a member of the Purchaser Group pursuant to Article 8;
- (k) Any liabilities or obligations in respect of Seller’s share of the items prorated in Section 3.6(a);
- (l) Any liabilities or obligations attributable to the fraud, gross negligence or willful misconduct of Seller;
- (m) Taxes attributable to the ownership, operation or use of the Assets or the Acquired Interests for a Pre-Closing Tax Period (except for Taxes for which Purchaser is liable pursuant to Section 3.6, including Purchaser’s Income Taxes) and any Taxes for which Seller is liable under Section 6.3;
- (n) Any employment-related claims possessed by current, future, or former employees of Seller;
- (o) Any liabilities related to default by Seller in its obligations with respect to the Facilities, the Acquired Interests, or the Assets prior to Closing; and
- (p) Reserved.
- (q) All other liabilities expressly allocated to Seller in this Agreement.

2.5 Asset and Liability Delineation Mechanism.

(a) If the Parties disagree on whether any item of property (the “**Item**”) is either an Asset or Excluded Asset as provided above is not readily discernible by the Parties as provided above, then the Parties will use Commercially Reasonable Efforts to collaborate to determine the historical and potential use of the Item and:

- (i) mutually agree on the designation as an Asset or an Excluded Asset within thirty (30) days; or

(ii) to the extent mutual agreement is not achieved pursuant to clause (i), consult the Operating Agent regarding historical practices (if applicable and agreed to by the Parties) or retain a mutually agreed and qualified third party engineering firm (the “**Independent Asset Expert**”) to complete an assessment and make a determination regarding the proper classification of the Item pursuant to the terms hereof (the “**Independent Asset Classification**”). Upon the event the Parties cannot agree on an Independent Asset Expert, each Party shall pick an Independent Asset Expert and such two Independent Asset Experts shall select a third Independent Asset Expert (the Independent Asset Experts, collectively, the “**Independent Asset Expert Panel**”). After the Independent Asset Expert Panel has been determined, then within ten (10) Business Days, each Party shall be permitted to submit grounds and documents with respect to the classification of any such Item. Without limiting the other Items that the Independent Asset Expert or Independent Asset Expert Panel, as applicable, may classify as Assets, upon a finding that any Item is necessary to access, develop, build, construct, install, own, use, operate, electrically interconnect or maintain the Assets, the Independent Asset Expert or Independent Asset Expert Panel shall determine such Item to be an Asset hereunder. The Independent Asset Expert or Independent Asset Expert Panel, as applicable, shall render its written determination on the Independent Asset Classification as soon as possible, but in any event, no later than twenty (20) Business Days following the submission of the Independent Asset Classification to the Independent Asset Expert or Independent Asset Expert Panel, as applicable. The determination by the Independent Asset Expert or Independent Asset Expert Panel, as applicable, shall be deemed to be agreed to by the Parties and shall become final and binding upon the Parties for all purposes hereunder (with respect to the facts and circumstances at the time of such determination). Any fees or expenses charged by the Independent Asset Expert or the Independent Asset Expert Panel, as applicable, in connection with the resolution of any such Independent Asset Classification shall be borne equally by the Parties. By mutual agreement, the Parties may, any time prior to the determination of the Independent Asset Expert or Independent Asset Expert Panel, as applicable, withdraw a matter from consideration under this Section 2.5(a)(ii) and, by notifying the Independent Asset Expert or Independent Asset Expert Panel, as applicable, in writing upon such agreement.

(b) If the Parties disagree on whether any liability, cost, expense or other item is either an Assumed Liability or Excluded Liability as provided above, then the following will apply (other than with respect to Pre-Closing Environmental Liabilities and Post-Closing Environmental Liabilities which shall be determined pursuant to subsection (c) below):

(i) Where the origin of Liabilities cannot be readily discernible by the Parties as an Assumed Liability or Excluded Liability as provided above, then, the Parties will use Commercially Reasonable Efforts to collaborate to determine the most likely start date and classification of the Liability and either (1) mutually agree on the origin and classification of such Liability within thirty (30) days; or (2) to the extent mutual agreement is not achieved, retain a mutually agreed and qualified third party engineering firm as the independent liabilities expert (“**Independent Liabilities Expert**”) to complete an assessment to determine the origination date and classification of the Liability (“**Independent Liabilities Classification**”). In the event the Parties cannot agree on an Independent Liabilities Expert, the Parties shall empanel an “**Independent Liabilities Expert Panel**” pursuant to the empanelment procedures set forth in Section 2.5(a)(ii), applied *mutatis mutandis*. After the Independent Liabilities Expert Panel has been determined, then within ten (10) Business Days, each Party shall be permitted to submit

grounds and documents with respect to the classification of any such Liability. The Independent Liabilities Expert or Independent Liabilities Expert Panel, as applicable, shall render its written determination on the Independent Liabilities Classification as soon as possible, but in any event, no later than twenty (20) Business Days following the submission of the Independent Liabilities Classification to the Independent Liabilities Expert or Independent Liabilities Expert Panel, as applicable. The determination by the Independent Liabilities Expert or Independent Liabilities Expert Panel, as applicable, shall be deemed to be agreed to by the Parties and shall become final and binding upon the Parties for all purposes hereunder (with respect to the facts and circumstances at the time of such determination). Any fees or expenses charged by the Independent Liabilities Expert or the Independent Liabilities Expert Panel, as applicable, in connection with the resolution of any such Independent Liabilities Classification shall be borne equally by the Parties. By mutual agreement, the Parties may, any time prior to the determination of the Independent Liabilities Expert or Independent Liabilities Expert Panel, as applicable, withdraw a matter from consideration under this Section 2.5(b)(i) by notifying the Independent Liabilities Expert or Independent Liabilities Expert Panel, as applicable, in writing upon such agreement.

(c) With respect to Pre-Closing Environmental Liabilities and Post-Closing Environmental Liabilities (Pre-Closing Environmental Liabilities and Post-Closing Environmental Liabilities, as applicable, an “**Environmental Liability**”), the following shall apply:

(i) Any Environmental Liabilities identified in the Environmental Assessment performed pursuant to Section 6.1(c), shall be Pre-Closing Environmental Liabilities and shall be retained by Seller as provided above, whether such costs and expenses arise prior to, on or after Closing.

(ii) With respect to Environmental Liabilities not identified in the Environmental Assessment, the origin of which cannot be readily discernible by the Parties as a Pre-Closing Environmental Liability or a Post-Closing Environmental Liability as provided above, then:

(iii) The Parties will use Commercially Reasonable Efforts to collaborate to determine the most likely start date and classification of the Environmental Liability and either:

a. mutually agree on the origin and classification of such Environmental Liability within thirty (30) days; or

b. to the extent mutual agreement is not achieved, consult the Environmental Consultant regarding the appropriate origin and classification if agreed to by the Parties or retain a mutually agreed and qualified third party environmental engineering firm (the “**Independent Environmental Liabilities Expert**”) to complete an assessment to determine the origination date and classification of the Environmental Liability (“**Independent Environmental Liabilities Classification**”). In the event the Parties cannot agree on an Independent Environmental Liabilities Expert, the Parties shall empanel an “**Independent Environmental Liabilities Expert Panel**” pursuant to the empanelment procedures set forth in Section 2.5(a)(ii), applied *mutatis mutandis*. After the Independent Environmental Liabilities Expert Panel has been determined, then within ten (10) Business Days, each Party shall be permitted to submit grounds and documents with respect to the classification of any such Environmental Liability. The

Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable, shall render its written determination on the Independent Environmental Liabilities Classification as soon as possible, but in any event, no later than twenty (20) Business Days following the submission of the Independent Environmental Liabilities Classification to the Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable. The determination by the Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable, shall be deemed to be agreed to by the Parties and shall become final and binding upon the Parties for all purposes hereunder (with respect to the facts and circumstances at the time of such determination). Any fees or expenses charged by the Independent Environmental Liabilities Expert or the Independent Environmental Liabilities Expert Panel, as applicable, in connection with the resolution of any such Independent Environmental Liabilities Classification shall be borne equally by the Parties. By mutual agreement, the Parties may, any time prior to the determination of the Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable, withdraw a matter from consideration under this Section 2.5(c)(ii)(1)(b) and, upon such agreement by so notifying the Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable in writing.

c. If a determination is not made by the Parties or the Independent Environmental Liabilities Expert or Independent Environmental Liabilities Expert Panel, as applicable, as provided in a. or b. above, then the Environmental Liabilities shall be divided between the parties on a pro rata basis, seventy-five percent (75%) to Seller and twenty-five percent (25%) to Purchaser and such pro rata amounts shall be treated as Pre-Closing Environmental Liabilities and Post-Closing Environmental Liabilities as provided herein.

(iv) The ability to conduct the Environmental Assessment shall be subject to the Facilities Documents and the Operating Agent's approval under the Facilities Operating Agreement, to the extent applicable. If the Facilities Owners or Operating Agent are otherwise aware of an Environmental Liability and choose to allow that Environmental Liability to exist and as a result of that decision such Environmental Liability escalates then:

(1) If such decision to delay addressing was decided prior to Closing, PNM shall retain liability for costs associated with the escalation as a Pre-Closing Environmental Liability, including to the extent the Facilities Owner or the Operating Agent acts according to such decision following Closing.

(2) If such decision to delay addressing was decided as an initial matter on or after Closing, Purchaser shall be liable for costs associated with the escalation as a Post-Closing Environmental Liability.

(3) If the Parties dispute when the decision to delay addressing was made or the level of escalation then the Parties shall use the procedures in paragraph (ii) above applied *mutatis mutandis* to complete an assessment and make a determination of the degree and assignment of the escalation.

ARTICLE 3
CLOSING

3.1 Closing. The closing of the sale of the Assets and the Acquired Interests to, and the assumption of the Assumed Liabilities by, Purchaser (the “**Closing**”) will take place at the offices of Seller, 414 Silver Ave. SW, Albuquerque, New Mexico, at 11:59 p.m. MST on December 31, 2024, or on such other date, in any such other place or in any such other way as agreed to by the Parties, but in no circumstance prior to the satisfaction or waiver of the conditions set forth in Article 9 and Article 10. The time and date of Closing is hereinafter called the “**Closing Date**.”

3.2 Purchase Price. The purchase price for the Assets and the Acquired Interest shall be one dollar (\$1.00) (the “**Purchase Price**”), it being understood that the consideration of the transaction is the assumption of the Assumed Liabilities and retention of Excluded Liabilities, among other things.

3.3 CSA Assignment Payment. Seller shall, as set forth herein, pay to Purchaser the “**CSA Assignment Payment**” in consideration of Purchaser assuming the obligations under the Coal Supply Agreement pursuant to the CSA Assignment and providing the CSA Release, which shall include the Initial CSA Assignment Payment, the Final CSA Assignment Payment and the CSA True-Up Payment, as set forth below and subject to Section 3.4:

(a) Within one (1) Business Day of the execution of this Agreement, Seller shall make an initial payment of fifteen million dollars (\$15,000,000.00) (the “**Initial CSA Assignment Payment**”) to Purchaser. Such Initial CSA Assignment Payment shall be subject to the refund and offset mechanisms pursuant to Section 11.4.

(b) Ten (10) Business Days after Seller’s receipt of the NMPRC Approval pursuant to Section 6.2 (and subject to Section 6.2(b)), Seller shall make a payment of sixty million dollars (60,000,000.00) (the “**Final CSA Assignment Payment**”) to Purchaser. Such Final CSA Assignment Payment shall be subject to the refund and offset mechanisms pursuant to Section 11.4.

(c) At the Closing, Seller shall pay the CSA True-Up Payment as calculated pursuant to Article 7 to Purchaser.

3.4 Payment. Any cash payments required by this Agreement (including the CSA Assignment Payment) shall be paid in U.S. dollars in immediately available funds. The recipient of such funds will designate the account or accounts to which the funds will be wire transferred.

3.5 Allocation of Purchase Price. At least thirty (30) calendar days after the Closing Date, Seller or its designated representative shall propose and deliver to Purchaser a preliminary allocation among the Assets of the Purchase Price and such other consideration to be paid by Seller pursuant to this Agreement as determined in accordance with Applicable Tax Law (as defined below) (an “**Allocation**”). The Allocation shall be consistent with Code Section 1060 and the regulations thereunder (“**Applicable Tax Law**”) and shall be prepared in a manner that facilitates Property Tax reporting and shall separately allocate the Purchase Price to all of the Assets. Purchaser shall within thirty (30) days thereafter propose any changes to the Allocation. Within thirty (30) days following delivery of such proposed changes, Seller shall provide Purchaser with

a statement of any objections to such proposed changes, together with a reasonably detailed explanation of the reasons therefor. If Seller and Purchaser are unable to resolve any disputed objections within ten (10) days thereafter, such objections shall be referred to the Independent Accounting Firm, which shall resolve the disputed item. The Independent Accounting Firm shall be instructed to deliver to Seller and Purchaser a written determination of the proper allocation of such disputed items within twenty (20) Business Days from the date of engagement. Such determination shall be final, conclusive and binding upon the Parties for all Tax purposes, and the Allocation shall be so adjusted (the allocation, including the adjustment, if any, to be referred to as the “**Final Allocation**”). The fees and disbursements of the Independent Accounting Firm attributable to any Allocation shall be shared equally by Seller and Purchaser. Seller and Purchaser agree to timely file Internal Revenue Service Form 8594, and all Tax Returns, in accordance with such Allocation or Final Allocation, as the case may be, and to report the transactions contemplated by this Agreement for federal Income Tax and all other Tax purposes in a manner consistent with the Allocation or Final Allocation, as the case may be. Each of Seller and Purchaser further agree to provide a copy of its Internal Revenue Service Form 8594 for inspection by the other Party not fewer than ten (10) Business Days prior to filing such form. For the avoidance of doubt, the CSA Assignment Payment is not subject to this Section 3.5 and is allocated to the release of liabilities hereunder, including the CSA Release.

3.6 Prorations

(a) Purchaser and Seller agree that, except as otherwise specifically provided in this Agreement, all of the budgeted, ordinary, and recurring items normally charged to the Facilities Owners, including those listed below and excluding Taxes (except as set forth in Section 3.6(b)), relating to the business and operation of the Assets owned by Seller, shall be prorated and charged as of the Closing Date, without any duplication of payment under the Facilities Contracts, with Seller liable to the extent such items relate to the Acquired Interest and any time period prior to the Closing Date, and Purchaser liable to the extent such items relate to the Acquired Interest and periods commencing with the Closing Date (measured in the same units used to compute the item in question, otherwise measured by calendar days):

(i) Retrospective adjustments and policyholder distributions for the applicable period during which the Closing occurs with respect to Facilities Insurance Policies included in the Assets occurring within ninety (90) days after the year-end following the Closing, if applicable; and

(ii) Operating and maintenance expenses and Capital Expenditures incurred in any period prior to the Closing Date in the nature of the expenses shown on Schedule 3.6(a)(ii), but only to the extent that the amount of such expenses are determined within ninety (90) days after the year end following the Closing.

(b) Any and all liability for any Property Tax or any other possessory interest Tax imposed *in rem* upon the Assets pursuant to the Settlement Agreement (“**PIT**”) shall (x) be the responsibility of Seller to the extent attributable to a Pre-Closing Tax Period, and (y) otherwise be the responsibility of by Purchaser; provided that PIT that is attributable to a Straddle Period shall be prorated to the Pre-Closing Tax Period on a per diem basis based upon the number of days in the Straddle Period prior to the Closing Date and the total number of days in such Straddle

Period. To the extent that prior to the Closing, Seller has made a prepayment of any amount for which Purchaser is liable under this Section 3.6(b), Purchaser shall reimburse Seller for the amount of such prepayment within five (5) Business Days of Seller's delivery of a written request therefor to Purchaser.

(c) In connection with the prorations referred to in Sections 3.6(a) and (b), in the event that actual figures are not available at the Closing Date, the proration shall be based upon the respective amounts accrued through the Closing Date or paid for the most recent year or other appropriate period for which such amounts paid are available. All prorated amounts shall be recalculated and paid to the appropriate Party within sixty (60) days after the date that the previously unavailable actual figures become available, but in any event not later June 1 of the calendar year following the Closing. Seller and Purchaser shall furnish each other with such documents and other records as may be reasonably requested in order to confirm all proration calculations made pursuant to this Section 3.6. Within thirty (30) days after the determination of any prorations referred to in Sections 3.6(a) and (b), either Party may object in good faith to such amounts in writing, stating in reasonable detail its objections thereto. Seller and Purchaser shall attempt to resolve such dispute by negotiation. If the Parties are unable to resolve such dispute within thirty (30) days after any objection by the objecting Party, the Parties shall appoint the Independent Accounting Firm, which shall, at Seller's and Purchaser's joint expense, review the disputed proration and determine the appropriate proration, if any, within thirty (30) days after such appointment. The Parties agree to cooperate with the Independent Accounting Firm and provide it with such information as it reasonably requests to enable it to make such determination. Upon determination of the appropriate prorations pursuant to this Section 3.6 by agreement of the Parties or by binding determination of the Independent Accounting Firm, the Party owing the difference shall deliver such amount to the other Party no later than three (3) Business Days after such determination, in immediately available funds or in any other manner as reasonably requested by the payee.

3.7 Deliveries by Seller. Subject to the terms and conditions hereof, at the Closing Seller shall deliver, or cause to be delivered, the following to Purchaser (collectively, "**Seller's Closing Deliverables**"):

(a) As necessary, the Lease Assignment, duly executed by Seller and in recordable form, subject only to Permitted Encumbrances and to such limitations as set forth therein, together with any normal and customary affidavits or similar documents reasonably requested by Purchaser and required by the title insurer in connection with any leasehold title policy obtained by Purchaser;

(b) The Bill of Sale, duly executed by Seller;

(c) The Assignment and Assumption Agreement, duly executed by Seller;

(d) Evidence of Seller's receipt of (i) Seller's Required Regulatory Approvals, (ii) Seller's Required Consents, and (iii) documentation evidencing the release of all Encumbrances on the Assets, excluding any Permitted Encumbrances, in each case of clauses (i) through (iii), without restrictions that would have a Material Adverse Effect on the operation of the Facilities in the ordinary course after Closing;

(e) A Certificate of Good Standing with respect to Seller, as of a recent date, issued by the New Mexico Secretary of State;

(f) The FIRPTA Certificate and a Seller's properly completed Form W-9, in each case, duly executed by Seller or its taxable parent named therein, as applicable;

(g) Copies, certified by the Secretary or Assistant Secretary of Seller, of corporate minutes or resolutions, as applicable, authorizing the execution and delivery of this Agreement, each Ancillary Agreement to which Seller is a party and the authorization or ratification of all of the other agreements and instruments, in each case, to be executed and delivered by Seller in connection herewith;

(h) A certificate of the Secretary or Assistant Secretary of Seller identifying the name and title and bearing the signatures of the officers of Seller authorized to execute and deliver this Agreement, each Ancillary Agreement to which Seller, is a party and the other agreements and instruments contemplated hereby;

(i) A certificate from Seller, executed by an authorized officer, dated the Closing Date, to the effect that the conditions set forth in Sections 9.1, 9.3 (insofar as such relate to Seller's Required Regulatory Approvals), 9.4 and 9.6 have been satisfied by Seller;

(j) The Updated Seller's Schedule of Exceptions;

(k) An assignment of the Settlement Agreement to Purchaser, where Purchaser shall take on all rights and obligations of Seller thereunder and Seller shall be released from all obligations and liabilities thereunder;

(l) The Amended Contracts (including the Facilities Co-Tenancy Agreement Amendment and the Facilities Operating Agreement Amendment), each, duly executed by all parties thereto (other than Purchaser);

(m) The CSA Assignment, duly executed by Seller;

(n) The CSA True-Up Payment pursuant to Section 3.3;

(o) The Escrow Deliverables; and

(p) All such other agreements, documents, instruments and writings required to be delivered by Seller at or prior to the Closing Date pursuant to this Agreement or as the Parties and their respective counsel shall deem reasonably necessary to sell, assign, convey, transfer and deliver all of Seller's rights, title and interests in and to the Assets, to Purchaser, in accordance with this Agreement and, where necessary or desirable, in recordable form.

3.8 Deliveries by Purchaser. Subject to the terms and conditions hereof, at the Closing, Purchaser shall deliver, or cause to be delivered, the following to Seller (collectively, "**Purchaser's Closing Deliverables**"):

(a) The Assignment and Assumption Agreement, duly executed by Purchaser;

- (b) Evidence of Purchaser's receipt of (i) Purchaser's Required Regulatory Approvals, and (ii) Purchaser's Required Consents;
- (c) A Certificate of Good Standing or equivalent with respect to Purchaser, as of a recent date, issued by the Navajo Nation;
- (d) Copies, certified by the Secretary of Purchaser, of corporate minutes or resolutions, as applicable, authorizing the execution and delivery of this Agreement, each Ancillary Agreement to which Purchaser is a party and the authorization or ratification of all of the agreements and instruments, in each case, to be executed and delivered by Purchaser in connection herewith;
- (e) A certificate of the Secretary of Purchaser identifying the name and title and bearing the signatures of the officers of Purchaser authorized to execute and deliver this Agreement, each Ancillary Agreement to which Purchaser is a party and the other agreements contemplated hereby;
- (f) A certificate from Purchaser, executed by an authorized officer, dated the Closing Date, to the effect that the conditions set forth in Sections 10.1, 10.3 (insofar as it relates to Purchaser's Required Regulatory Approvals), 10.5 and 10.7 (insofar as it related to Purchaser's Required Consents) have been satisfied by Purchaser.
- (g) A counterpart duly executed by Purchaser of each Amended Contract (including the Facilities Co-Tenancy Agreement Amendment and the Facilities Operating Agreement Amendment);
- (h) Evidence that Purchaser has met the financial requirements required of the Facilities Owners, including any requirements under the Four Corners Financial Assurance Policy;
- (i) The CSA Assignment, duly executed by Purchaser;
- (j) The CSA Release, duly executed by Purchaser; and
- (k) All such other agreements, documents, instruments and writings required to be delivered by Purchaser at or prior to the Closing Date pursuant to this Agreement.

3.9 Facilities Contracts. The Parties agree that between the date hereof and the Closing Date, the ownership, lease, maintenance and operation of the Facilities and the Facilities Switchyard will be governed by the Facilities Contracts.

ARTICLE 4 **REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER**

Except as set forth in Seller's Schedule of Exceptions corresponding to the Section of this Agreement to which such disclosure applies, Seller represents, warrants and, where specified, disclaims to Purchaser as follows:

4.1 Organization and Existence. Seller is a corporation, duly organized, validly existing and in good standing under the laws of the State of New Mexico and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as is now being conducted. Seller has heretofore delivered to Purchaser complete and correct copies of its Articles of Incorporation and operating agreement as currently in effect.

4.2 Execution, Delivery and Enforceability. Seller has full corporate power to enter into, and carry out its obligations under, this Agreement and the Ancillary Agreements which are executed by Seller and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Ancillary Agreements which are executed by Seller, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary corporate action required on the part of Seller and no other corporate proceedings on the part of Seller are necessary to authorize this Agreement and the Ancillary Agreements to which it is a party or to consummate the transactions contemplated hereby and thereby. Assuming Purchaser's due authorization, execution and delivery of this Agreement and the Ancillary Agreements when executed by Purchaser, this Agreement does and the Ancillary Agreements, when executed by Seller, will constitute the valid and legally binding obligations of Seller, enforceable against Seller in accordance with their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

4.3 No Violation. Subject to Seller obtaining Seller's Required Regulatory Approvals and Seller's Required Consents, neither the execution and delivery of this Agreement or any of the Ancillary Agreements executed by Seller, nor the compliance with any provision hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby will:

(a) violate, or conflict with, or result in a breach of any provisions of the Articles of Incorporation or bylaws of Seller;

(b) result in a default (or give rise to any right of termination, cancellation or acceleration) under or conflict with any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, license, or agreement or other instrument or obligation to which Seller is a party or by which Seller or any of the Assets may be bound, except for such defaults (or rights of termination or acceleration) as to which requisite waivers or consents have been, or prior to the Closing Date will have been, obtained and delivered to Purchaser;

(c) violate any law, rule, regulation, order, writ, injunction, or decree, applicable to Seller or any of its assets, except where such violations, individually or in the aggregate, will not affect the validity or enforceability of this Agreement or the Ancillary Agreements or the validity of the transactions contemplated hereby or thereby; or

(d) require consent or approval of, filing with, or notice to any Person which, if not obtained would prevent Seller from performing its obligations hereunder.

4.4 Compliance with Laws. Seller has no Knowledge that it is in material violation of any applicable Laws, orders, ordinances, rules, regulations or judgment of any Governmental

Authority in existence as of the Effective Date with respect to the Assets, except for violations or alleged violations by the Facilities Owners in common, or by the Operating Agent acting on their behalf.

4.5 Permits, Licenses, Etc. Seller holds all material permits, registrations, franchises, certificates, licenses and other authorizations, consents and approvals of all Governmental Authorities that Seller requires in order to own any of the Assets (collectively, “**Seller Permits**”), except for such failures to hold such Seller Permits that are also failures of all the other Facilities Owners.

4.6 Litigation. There is no claim, action, proceeding or investigation pending, or to Seller’s Knowledge, threatened against or relating to Seller or its Affiliates before any court, arbitrator or Governmental Authority, or any judgment, decree or order of any court, arbitrator or Governmental Authority, which could, individually or in the aggregate, reasonably be expected to result, or has resulted, in (a) the institution of legal proceedings to prohibit or restrain the performance of this Agreement or any of the Ancillary Agreements, or the consummation of the transactions contemplated hereby or thereby, (b) a claim against Purchaser or its Affiliates for damages as a result of Seller entering into this Agreement or any of the Ancillary Agreements, or the consummation by Seller of the transactions contemplated hereby or thereby, or (c) a material impairment of Seller’s ability to perform its obligations under this Agreement or any of the Ancillary Agreements, except for claims, actions, proceedings or investigations pending against, or judgments, decrees or orders set forth on Schedule 4.6 involving all of the other Facilities Owners or the Operating Agent as agent for the Facilities Owners.

4.7 Title. Seller has good and marketable title, or valid and effective leasehold rights in the case of leased property, and valid and effective licenses in the case of licensed rights, to the Owned Personal Property and Leased Property included in the Assets to be sold, conveyed, assigned, transferred and delivered to Purchaser by Seller, free and clear of all Encumbrances of any nature whatsoever, except for (a) those created pursuant to this Agreement by Purchaser, (b) those which will be discharged or released prior to or substantially simultaneously with, the Closing, (c) Permitted Encumbrances and (d) those set forth on Schedule 4.7, which do not apply only and exclusively to the interest of Seller but that also apply to interests of the other Facilities Owners in common and/or the Operating Agent, as agent for any of the Facilities Owners.

4.8 Brokers. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on by Seller and in such a manner as not to give rise to any valid claim against Purchaser (by reason of Seller’s actions) for a brokerage commission, finder’s fee or other like payment to any Person.

4.9 Taxes. To Seller’s Knowledge:

(a) All Tax Returns required to be filed, on or prior to the Closing Date, by Seller with respect to the Assets and the Acquired Interests have been timely filed. Such Tax Returns are true, complete and correct in all material respects. All Taxes due and owing by Seller with respect to the Assets and the Acquired Interests for the Pre-Closing Tax Period (except for any applicable Straddle Period) have been timely paid.

(b) No extensions or waivers of statutes of limitations have been given or requested for any Taxes owed with respect to the Assets or the Acquired Interests.

(c) Seller is not a party to any Tax proceeding with any Governmental Authority with respect to the Assets or the Acquired Interests, other than protests related to property taxes in the ordinary course of business disclosed on Schedule 4.9(c). There are no pending or threatened Tax audits by any Governmental Authority with respect to the Assets or the Acquired Interests.

(d) There are no Encumbrances for Taxes upon the Assets or the Acquired Interests nor is any Governmental Authority in the process of imposing any Encumbrances for Taxes on the Assets or the Acquired Interests, in each case, other than Permitted Encumbrances.

(e) Seller is not a “foreign person” as that term is used in Treasury Regulations Section 1.1445-2.

(f) All Taxes with respect to the Assets and the Acquired Interests which are required by Law to be withheld or collected for payment have been duly withheld and collected and have been paid to the appropriate Governmental Authority.

(g) Except as disclosed on Schedule 4.9(g), none of the Assets or the Acquired Interests are subject to any Tax partnership agreement or are otherwise treated as held in an arrangement requiring a partnership income Tax Return to be filed under Subchapter K of Chapter 1 of Subtitle A of the Code.

4.10 Environmental Matters. Except as disclosed on Schedule 4.10:

(a) Seller has not received and does not have Knowledge of any of the following written notices for which any allegations or potential liability remains unresolved: (i) from any Governmental Authority, either (y) alleging a material violation of Environmental Laws with respect to the Facilities, the Facilities Switchyard, or the Assets or (z) requesting information concerning compliance with Environmental Laws with respect to the Facilities, the Facilities Switchyard, or Assets; (ii) from any Person threatening or initiating a lawsuit or other proceedings based upon allegations of material violations of Environmental Laws with respect to the Facilities, the Facilities Switchyard, or the Assets; (iii) from any Person or Governmental Authority alleging the occurrence of any Release of Hazardous Materials arising, occurring, or originating within or emanating from the Facilities, the Facilities Switchyard, or the Assets, or in connection with any Hazardous Materials generated or transported in connection with the Facilities, the Facilities Switchyard, or the Assets, which would reasonably be expected to impose material liability upon any Facility Owner; or (iv) from any person alleging any indemnification obligation in connection with Environmental Laws or Hazardous Materials in connection with the Facilities, the Facilities Switchyard, or the Assets.

(b) To Seller’s Knowledge, the Facilities, the Facilities Switchyard, and the Assets are, and have been since September 1, 2015, in compliance with all Environmental Laws. To Seller’s Knowledge, the Facilities, the Facilities Switchyard, the Assets, the Facility Owners and the Operating Agent hold, have an interest in or are subject to all Environmental Permits necessary for the ownership and operations of the Facilities, the Facilities Switchyard, and the

Assets in material compliance with Environmental Laws, all such Environmental Permits are listed on Schedule 4.10 and are in full force and effect, the Facilities, the Facilities Switchyard, the Assets, the Facility Owners and the Operating Agent are, and have been since September 1, 2015, in material compliance with all such Environmental Permits, timely and complete renewal applications have been filed for any such Environmental Permits that will expire within the next twelve (12) months, and Seller has no Knowledge of facts or conditions that would reasonably be expected to result in the modification, termination or revocation of such Environmental Permits.

(c) To Seller's Knowledge, no facts or circumstances exist with regard to Hazardous Materials, Environmental Conditions, Environmental Laws or Releases of Hazardous Materials that would reasonably be expected to have a Material Adverse Effect on the Facilities, the Facilities Switchyard, or Assets.

(d) To Seller's Knowledge, no material obligations must be performed under any settlement agreement, order, or consent decree in connection with the Facilities, the Facilities Switchyard, or the Assets, including under the Consent Decree.

(e) To Seller's Knowledge, seller has provided to Purchaser copies of all material environmental reports and other material environmental documents regarding the current compliance of the Facilities, the Facilities Switchyard, and the Assets with Environmental Law, and any Environmental Condition in connection with the Facilities, the Facilities Switchyard or the Assets that would reasonably be expected to result in material liabilities or obligations with respect to such Assets.

4.11 Facilities Project Contracts. Seller has listed on Schedule 2.1(h) and made available to Purchaser an accurate and complete copy of each Facilities Contract, including all amendments, supplements and waivers. With respect to each Facilities Contracts constituting either a "Project Agreement" as such term is defined in the Facilities Co-Tenancy Agreement or a "Project Agreement" as such term is defined in the Facilities Operating Agreement (collectively, "**Facilities Project Contracts**"), (a) each Facilities Project Contract is valid, binding and in full force and effect, and is enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar Laws relating to creditors' rights generally, and general equitable principles, (b) Seller has performed, in all material respects, the obligations required to be performed by it under each Facilities Project Contract and there has not occurred a material violation of, or material default or material breach by, Seller under any Facilities Project Contract and (c) to Seller's Knowledge, each other party under each Facilities Project Contract has performed, in all material respects, the obligations required to be performed by it under such Facilities Project Contract and there has not occurred a material violation of, or material default or material breach by, any other party under any Facilities Project Contract. Seller has timely paid all undisputed amounts owed by it under the Facilities Project Contracts and any disputed amount owed by Seller under the Facilities Project Contracts is set forth on Schedule 4.11. To the extent any agreement listed on Schedule 2.1(h) is amended following the date hereof (each such amendment, a "**Subsequent Modification**"), Seller shall provide to Purchaser the amendment and an updated Schedule 2.1(h). No Subsequent Modification entered into by Seller has a Material Adverse Effect.

4.12 Excluded Assets. None of the Excluded Assets are necessary to access, develop, build, construct, install, own, use, operate, electrically interconnect and maintain the Assets. Except as set forth on Schedule 4.12, Seller does not own, lease, sublease, occupy, use or otherwise have any interest in any real property that is material to access, develop, build, construct, install, own, use, operate, electrically interconnect and maintain the Assets other than the Assets and the Excluded Assets.

4.13 Emission Allowances. There are no Emission Allowances with respect to the Facilities held in common by the Facilities Owners and all Emission Allowances of Seller with respect to the Facilities will be conveyed to Purchaser pursuant to Section 2.1(g) or retained by Seller pursuant to Section 2.2(k).

4.14 Sufficiency for Delivery. The interest being purchased by Purchaser of the Facilities Switchyard and Assets are of sufficient capacity to physically deliver the output of energy, ancillary services, and any other electrical products produced by the Acquired Interests to the high side of the 345kV and 500 kV buses of the Facilities Switchyard and that the Excluded Assets are not necessary for such delivery.

ARTICLE 5 **REPRESENTATIONS AND WARRANTIES OF PURCHASER**

Except as set forth in Purchaser's Schedule of Exceptions corresponding to the Section of this Agreement to which such disclosure applies Purchaser represents, warrants and, where specified, disclaims to Seller as follows:

5.1 Organization and Existence. Purchaser is a limited liability company, duly organized, validly existing and in good standing under the laws of the Navajo Nation and has all requisite limited liability company power and authority to own, lease and operate its properties and to carry on its business as is now being conducted. Purchaser is duly qualified to do business and is in good standing in the state where the Facilities are located. Purchaser has heretofore delivered to Seller complete and correct copies of its Certificate of Formation and operating agreement as currently in effect.

5.2 Execution, Delivery and Enforceability. Purchaser has full limited liability company power to enter into, and carry out its obligations under, this Agreement and the Ancillary Agreements which are executed by Purchaser and to consummate the transactions contemplated hereby and thereby. The execution, delivery and performance of this Agreement and the Ancillary Agreements which are executed by Purchaser, and the consummation of the transactions contemplated hereby and thereby, have been duly and validly authorized by all necessary limited liability company action required on the part of Purchaser and no other limited liability company proceedings on the part of Purchaser are necessary to authorize this Agreement and the Ancillary Agreements to which it is a party or to consummate the transactions contemplated hereby and thereby. Assuming Seller's due authorization, execution and delivery of this Agreement and the Ancillary Agreements when executed by Seller, this Agreement does and the Ancillary Agreements, when executed by Purchaser, will constitute the valid and legally binding obligations of Purchaser, enforceable against Purchaser in accordance with its and their terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or other

similar laws of general application relating to or affecting the enforcement of creditors' rights and by general equitable principles.

5.3 No Violation. Subject to Purchaser obtaining the Purchaser's Required Regulatory Approvals and the Purchaser's Required Consents, neither the execution and delivery of this Agreement or any of the Ancillary Agreements executed by Purchaser, nor the compliance with any provision hereof or thereof, nor the consummation of the transactions contemplated hereby or thereby will:

(a) violate, or conflict with, or result in a breach of any provisions of the operating agreement or other organizational documents of Purchaser;

(b) result in a default (or give rise to any right of termination, cancellation or acceleration) under or conflict with any of the terms, conditions or provisions of any material note, bond, mortgage, indenture, license, or agreement or other instrument or obligation to which Purchaser is a party or by which Purchaser may be bound, except for such defaults (or rights of termination or acceleration) as to which requisite waivers or consents have been, or prior to the Closing Date will have been, obtained;

(c) violate any law, rule, regulation, order, writ, injunction, or decree, applicable to Purchaser or any of its assets, except where such violations, individually or in the aggregate will not affect the validity or enforceability of this Agreement or the Ancillary Agreements or the validity of the transactions contemplated hereby or thereby; or

(d) require consent or approval of, filing with, or notice to any Person which, if not obtained would prevent Purchaser from performing its obligations hereunder.

5.4 Compliance with Laws. Purchaser has no Knowledge that it is in material violation of any applicable Laws, orders, ordinances, rules, regulations or judgment of any Governmental Authority in existence as of the Effective Date with respect to the Assets.

5.5 Litigation. There is no claim, action, proceeding or investigation pending, or to Purchaser's Knowledge, threatened against or relating to Purchaser or its Affiliates before any court, arbitrator or Governmental Authority, or any judgment, decree or order of any court, arbitrator or Governmental Authority, which could, individually or in the aggregate, reasonably be expected to result, or has resulted, in (a) the institution of legal proceedings to prohibit or restrain the performance of this Agreement or any of the Ancillary Agreements, or the consummation of the transactions contemplated hereby or thereby, (b) a claim against Seller or its Affiliates for damages as a result of Purchaser entering into this Agreement or any of the Ancillary Agreements, or the consummation by Purchaser of the transactions contemplated hereby or thereby or (c) a material impairment of Purchaser's ability to perform its obligations under this Agreement or any of the Ancillary Agreements.

5.6 Brokers. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on by Purchaser and in such a manner as not to give rise to any valid claim against Seller (by reason of Purchaser's actions) for a brokerage commission, finder's fee or other like payment to any Person.

5.7 Investigation. Purchaser is an informed and sophisticated purchaser, and has engaged expert advisors, experienced in the evaluation and purchase of property and assets such as the Assets as contemplated hereunder. Purchaser has undertaken such investigation and has been provided with and has evaluated such documents and information as it has deemed necessary to enable it to make an informed and intelligent decision with respect to the execution, delivery and performance of this Agreement. Without limiting the generality of the foregoing, Purchaser has reviewed, understands, and at the Closing will be able to perform all of its obligations as a Facilities Owner under the Facilities Contracts, including the Four Corners Financial Assurance Policy.

5.8 “AS IS” SALE. EXCEPT IN THE CASE OF FRAUD OR AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT OR ANY ANCILLARY AGREEMENT, PURCHASER UNDERSTANDS AND AGREES THAT THE ASSETS ARE BEING ACQUIRED “AS IS, WHERE IS” AND “WITH ALL FAULTS”, AND IN THEIR CONDITION ON THE CLOSING DATE, AND THAT PURCHASER IS RELYING ON ITS OWN EXAMINATION OF THE ASSETS. WITHOUT LIMITING THE GENERALITY OF THE FOREGOING AND EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT OR ANY ANCILLARY AGREEMENT, PURCHASER UNDERSTANDS AND AGREES THAT SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES AS TO LIABILITIES, OPERATIONS OF THE ASSETS, TITLE, CONDITION, VALUE OR QUALITY OF THE ASSETS OR THE PROSPECTS (FINANCIAL, ENVIRONMENTAL OR OTHERWISE), RISKS AND OTHER INCIDENTS OF THE ASSETS AND ANY REPRESENTATION OR WARRANTY OF MERCHANTABILITY, USAGE, SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ASSETS OR ANY PART THEREOF, OR AS TO THE WORKMANSHIP THEREOF, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT. PURCHASER FURTHER AGREES THAT NO INFORMATION OR MATERIAL PROVIDED BY OR COMMUNICATION MADE BY SELLER OR ANY REPRESENTATIVE OF SELLER WILL CAUSE OR CREATE ANY REPRESENTATION OR WARRANTY DISCLAIMED BY THE FOREGOING EXCEPT AS DISCLOSED IN THIS AGREEMENT, IN A SCHEDULE ATTACHED HERETO OR IN AN ANCILLARY AGREEMENT.

ARTICLE 6 **COVENANTS OF EACH PARTY**

6.1 Efforts to Close; Conduct Pending Closing

(a) **Commercially Reasonable Efforts.** Subject to the terms and conditions herein provided, including the specific deadlines set forth in Section 6.2, each of the Parties hereto agrees to use its Commercially Reasonable Efforts to consummate and make effective, as soon as reasonably practicable, the transactions contemplated hereby, including the satisfaction of all conditions thereto set forth herein. Such actions shall include, without limitation, exerting their Commercially Reasonable Efforts to (i) obtain the consents, authorizations and approvals of all private parties and any Governmental Authority whose consent is reasonably necessary to effectuate the transactions contemplated hereby, and (ii) effect all other necessary registrations and filings, including, without limitation, filings under applicable Laws, including with NMPRC,

FERC or any other applicable Governmental Authority. Each Party will provide the other with copies of all written communications from Governmental Authorities relating to the approval or disapproval of the transactions contemplated by the Agreement and the Ancillary Agreements.

(b) **Expenses.** Whether or not the transactions contemplated hereby are consummated, except as otherwise provided in this Agreement, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the Party incurring such expenses. Notwithstanding the foregoing:

(i) Costs associated with preliminary title reports and title policies, extended coverage and any endorsements shall be borne by Purchaser; and except as otherwise specifically set forth in Section 6.2, all fees, charges and costs of economists and other experts, if any, jointly retained by Purchaser and Seller in connection with submissions made to any Governmental Authority and advice in connection therewith respecting approval of the transactions will be borne one-half by Purchaser and one-half by Seller.

(ii) All such charges and expenses shall be promptly settled between the Parties at the Closing or upon termination of this Agreement, or with respect to such charges and expenses not determined as of such time, as soon thereafter as is reasonably practicable.

(c) **Environmental Assessments.** The Parties acknowledge that all Environmental Liabilities set forth herein shall be apportioned pursuant to Section 2.5(c).

(i) No later than ten (10) Business Days before December 1, 2023, the Parties shall consult and use Commercially Reasonable Efforts to select a mutually acceptable environmental consultant (“**Environmental Consultant**”) in order to conduct a Phase I environmental site assessment and other environmental compliance audits of the Facilities and the Facilities Switchyard as the Parties deem necessary (subject to the Facilities Operating Agreement or any other Facilities Document and any required permissions or approvals from the Facilities Owners or Operating Agent), with the scope of such assessments and investigations to be mutually agreed by the Parties (the “**Environmental Assessment**”). In the event an Environmental Consultant declines to act as Environmental Consultant and perform the Environmental Assessment or to perform the Environmental Assessment according to the mutually agreed-upon requirements set forth in this Section 6.1(c), then, as soon as is reasonably practicable, but in no case later than January 1, 2024, the Parties agree they shall select a mutually agreed upon replacement Environmental Consultant to conduct the Environmental Assessment. Each Party will submit to the other Party a list of up to three (3) suggested Environmental Consultants capable of carrying out the obligations of the Environmental Consultant under this Agreement and a summary of each suggested Environmental Consultant’s experience and qualifications. Within five (5) Business Days thereafter, the Parties will meet and confer by telephone or in person to seek to agree upon the Environmental Consultant from the lists that have been exchanged. If such agreement is not reached as the result of such meeting, the Parties will provide a second list of suggested Environmental Consultant to one another, and the Parties will meet and confer again within five (5) Business Days thereafter to attempt to reach agreement upon an Environmental Consultant.

(ii) Beginning January 1, 2024 (or some other reasonable time as mutually agreed among the Parties and the Environmental Consultant), the Environmental Consultant shall, using the methodologies mutually agreed by the Parties and the Environmental Consultant as set forth in Section 6.1(c)(i), carry out the Environmental Assessment. The Environmental Consultant shall provide the Parties with a copy of any final written reports resulting from such Environmental Assessment. Seller shall cooperate with and shall use Commercially Reasonable Efforts to assist the Environmental Consultant in gaining access to the Facility and Facilities Switchyard, personnel and records necessary to conduct such Environmental Assessments and shall promptly notify Environmental Consultant and Purchaser of any communications by Operating Agent or any other Person with respect to any material threatened or existing violations of Environmental Law, material or existing Environmental Conditions or material or existing liability under Environmental Law in connection with the Facilities or the Facilities Switchyard and shall provide to Purchaser any information reasonably requested by it in connection with the foregoing. The results of such Environmental Assessments shall not be binding on the Parties, and shall not be deemed to constitute an agreement by the Parties as to the existence or extent of current Environmental Conditions at the Facilities, although the Parties may introduce such Environmental Assessments into evidence if admissible under applicable Law, and otherwise use such Environmental Assessments, in connection with any proceeding or dispute between them in connection with this Agreement. Any information obtained from any Environmental Assessment pursuant to this Section 6.1(c) shall be kept confidential by the Parties hereto unless otherwise required by Law to be disclosed to a Governmental Authority or to a court of law or other tribunal in any judicial proceeding or as needed for a Party to perform routine business operations, such as communications with its accountants, financial advisors and attorneys or as a Party chooses to use such information or Environmental Assessment in connection with any proceeding or dispute between the Parties in connection with this Agreement.

(iii) All costs arising from or related to the Environmental Assessment and the engagement of the Environmental Consultant shall be borne fifty percent (50%) by each of Seller and Purchaser.

(d) **Conduct Pending Closing.** Prior to consummation of the transactions contemplated hereby or the termination or expiration of this Agreement pursuant to its terms, and except to the extent approved by Purchaser or otherwise contemplated by this Agreement, Seller shall:

(i) Not: (A) sell, lease, transfer or dispose of, or make any contract for the sale, lease, transfer or disposition of, any assets or properties which would be included in the Assets, other than sales in the ordinary course of business which would not, individually or in the aggregate, have a Material Adverse Effect, (but Seller shall use Commercially Reasonable efforts to tender the Acquired Interests upon Closing under circumstances that will allow continued operation and generation of the Plant under the Facilities Contracts through the duration of the Coal Supply Agreement, which efforts shall include, for the avoidance of doubt, making no affirmative vote as a Facilities Owner to reduce the production from or cease the operation of the Plant prior to the end of the Coal Supply Agreement term); (B) incur, assume, guaranty, or otherwise become liable in respect of any indebtedness for money borrowed, in each case which would result in Purchaser assuming such liability hereunder after the Closing; (C) delay the payment and discharge of any liability which, upon Closing, would be an Assumed Liability,

because of the transactions contemplated hereby; or (D) encumber or voluntarily subject to any lien any Asset, except for Permitted Encumbrances;

(ii) Approve, or take all steps necessary to approve, all scheduled Capital Improvements in accordance with the Facilities Co-Tenancy Agreement and any requirements therein, unless mutually agreed not to approve by Purchaser and Seller;

(iii) Not take any action under its control which would cause the Operating Agent to operate the Facilities under the Facilities Operating Agreement in violation of applicable Laws, including Environmental Laws; provided, that the foregoing shall not require Seller to violate the terms or conditions of the Facilities Co-Tenancy Agreement or the Facilities Operating Agreement;

(iv) Upon the request of Purchaser, deliver to Purchaser any written notices from the Operating Agent regarding Environmental Conditions or violations or potential violations of Environmental Law; provided, that the foregoing shall not require Seller to violate the terms or conditions of the Facilities Co-Tenancy Agreement or the Facilities Operating Agreement or any other confidentiality obligation of Seller;

(v) Provide Purchaser and its consultants, representatives and agents with reasonable access and information; provided, that the foregoing shall not require Seller to violate the terms or conditions of the Facilities Co-Tenancy Agreement or the Facilities Operating Agreement or any other confidentiality obligation of Seller; and

(vi) With respect to the Assets or the Acquired Interests, not (A) make or change any material Tax election, (B) settle or compromise any claim, notice, audit report or assessment in respect of material Taxes, (C) change any annual Tax accounting period, adopt or change any method of Tax accounting, (D) enter into any Tax allocation agreement, Tax sharing agreement, Tax indemnity agreement or closing agreement relating to any material Tax, or (E) consent to any extension or waiver of the statute of limitations period applicable to any Tax claim or assessment, other than, in all cases, in the ordinary course of business and consistent with past practices.

(e) **Amended Contracts**. Subject to the terms and conditions herein provided, each of the Parties agrees to cooperate and to use its Commercially Reasonable Efforts in order to amend or amend and restate any Amended Contract in a form reasonably satisfactory to the Facilities Owners. The Parties shall use Commercially Reasonable Efforts to prepare an amendment to the Facilities Co-Tenancy Agreement (the “**Facilities Co-Tenancy Agreement Amendment**”) and an amendment to the Facilities Operating Agreement (the “**Facilities Operating Agreement Amendment**”), each, in form and substance reasonably acceptable to Purchaser and Seller.

Consents and Approvals.

(a) Subject to Section 6.1(a), Purchaser will file the application for any Purchaser’s Required Regulatory Approvals and any Facilities Permits and Seller will file Seller’s Required Regulatory Approvals, in each case, no later than March 30, 2021, unless a later date is mutually agreed to by Purchaser and Seller (each, an “**Applicant**” as applicable); provided, that in

the event that a Purchaser's Required Regulatory Approval or a Seller's Required Regulatory Approval would reasonably expire prior to the Closing Date if such filing occurs prior to March 30, 2021, then the Parties shall make Commercially Reasonable Efforts to select a reasonable date for such filing but in all events to ensure that such approvals will be received by, and will continue to be effective on, December 31, 2024. Subject to Section 6.1(a), Purchaser shall be responsible for obtaining all of Purchaser's Required Consents, Purchaser's Required Regulatory Approvals and Facilities Permits and Seller shall be responsible for obtaining all of Seller's Required Consents and Seller's Required Regulatory Approvals. As promptly as practicable after the date of this Agreement, each Applicant shall use Commercially Reasonable Efforts to take all necessary actions to obtain the same, shall diligently prosecute all applications and shall coordinate with the other Party and afford the other Party the opportunity to review all filings; provided that no Party shall make application to FERC pursuant to sections 203 or 205 of the Federal Power Act prior to January 1, 2023, or such other date as mutually agreed to by the Parties. The other Party will use Commercially Reasonable Efforts to support the application filings of the Applicant and both Parties shall otherwise cooperate with each other with respect to the consummation of such approvals. Each Party will provide the other with copies of all material written communications from Governmental Authorities relating to the approval or disapproval of the transactions contemplated by this Agreement.

(b) Notwithstanding the foregoing, nothing in this Agreement shall be deemed to require Purchaser or Seller to agree to, accept or become subject to, any material requirement, obligation or condition imposed by a Governmental Authority on Applicant or its Affiliates as a condition of granting any necessary approvals, which conditions include, without limitation, conditions that: (i) impose material conditions on Applicant, its Affiliates or its customers or ratepayers; (ii) require the divestiture of any portion of any assets or businesses of Applicant or its Affiliates; (iii) require the redirection or distribution of benefits and burdens associated with this Agreement as between Applicant and its customers or ratepayers, in a manner that is adverse to Applicant (other than in an immaterial way); or (iv) otherwise result in or require Applicant or its Affiliates to take on risk, responsibilities or liabilities (other than any immaterial risks, responsibilities or liabilities) that were not expected or anticipated pursuant to this Agreement.

6.3 Tax Matters.

(a) All Transfer Taxes, if any and to the extent required by applicable Laws, incurred in connection with this Agreement and the transactions contemplated hereby shall be borne fifty percent (50%) by each of Seller and Purchaser. Purchaser will file, to the extent required by applicable Laws, all necessary Tax Returns and other documentation with respect to any such Transfer Taxes, and Seller, if required by applicable Laws, will join in the execution of any such Tax Returns or other documentation; provided that Seller will be entitled to review in advance and provide comments on any Tax Returns the execution of which it joins pursuant to this Section 6.3(a), which comments Purchaser shall consider in good faith.

(b) With respect to Taxes to be prorated in accordance with Section 3.6 of this Agreement, Purchaser shall prepare and timely file all Tax Returns required to be filed after the Closing Date with respect to the Assets and the Acquired Interests, if any, and shall duly and timely pay all such Taxes shown to be due on such Tax Returns. Purchaser's preparation of those Tax Returns that are for a Pre-Closing Tax Period or a Straddle Period shall be subject to Seller's

approval, which approval shall not be unreasonably withheld or delayed. Purchaser shall make such Tax Returns available for Seller's review and approval (which approval shall not be unreasonably withheld or delayed) no later than fifteen (15) Business Days prior to the due date for filing such Tax Returns, it being understood that Seller's failure to approve any such Tax Returns shall not limit Purchaser's obligation to timely file such Tax Returns and duly and timely pay all Taxes shown to be due thereon. Not less than five (5) Business Days prior to the due date of any such Tax Return, Seller shall, to the extent that such Tax has not been prepaid and has not been reflected in an adjustment to the Purchase Price, pay to Purchaser Seller's prorated portion of the amount shown as due on such Tax Returns as determined in accordance with Section 3.6 of this Agreement and shall, to the extent required by law, join in the execution of any such Tax Returns. Purchaser and Seller shall cooperate in providing each other with any appropriate resale exemption certifications and other similar documentation.

(c) Purchaser and Seller shall provide the other Party with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any Governmental Authority, or any judicial or administrative proceedings relating to liability for Taxes with respect to the Assets, and each will retain and provide the requesting Party with any records or information which may be relevant to such return, audit or examination, proceedings or determination as reasonably requested by the requesting Party. Purchaser and Seller shall retain all books and records with respect to liability for Taxes with respect to the Assets for the full period of any applicable statute of limitations for Taxes with respect to the Assets. Any information obtained pursuant to this Section 6.3 or pursuant to any other Section hereof providing for the sharing of information or review of any Tax Return or other schedule relating to Taxes shall be kept confidential by the Parties hereto unless otherwise required by Law to be disclosed to a Governmental Authority in an audit or examination or to a court of law or other tribunal in any judicial Tax proceeding.

(d) In the event that a dispute arises between Seller and Purchaser as to the amount of any Taxes due with respect to the Assets, the Parties shall attempt in good faith to resolve such dispute, and any amount so agreed upon shall be paid to the appropriate Party. If such dispute is not resolved within thirty (30) days thereafter, the Parties shall submit the dispute to the Independent Accounting Firm for resolution, which resolution shall be final, conclusive and binding on the Parties. Notwithstanding anything in this Agreement to the contrary, the fees and expenses of the Independent Accounting Firm in resolving the dispute shall be borne equally by Seller and Purchaser. Any payment required to be made as a result of the resolution of the dispute by the Independent Accounting Firm shall be made within ten (10) days after such resolution, together with any interest determined by the Independent Accounting Firm to be appropriate.

(e) If Purchaser receives or becomes entitled to any Tax refund or any amount credited against Tax that is attributable to the ownership, operation or use of the Assets prior to the Closing Date, Purchaser shall (i) in the case of a refund, pay Seller the amount of any such refund, reduced by any net Tax required under applicable Laws to be paid by Purchaser with respect thereto, and (ii) in the case of a credit, pay to Seller at such time or times as such credit is actually utilized, the excess of (A) the amount of Taxes that would have been payable (or the amount of the Tax refund, offset or other reduction in Tax liability actually receivable) by Purchaser in the absence of such credit over (B) the amount of Taxes actually payable (or the

amount of the Tax refund, offset or other reduction in Tax liability that would have been receivable) by Purchaser.

(f) Nothing in this Section 6.3 or elsewhere in this Agreement shall make either Party liable for the Income Taxes of the other or for any Taxes (other than Transfer Taxes, if applicable) imposed on the other as a result of the transactions contemplated by this Agreement.

6.4 Risk of Loss. Subject to Section 2.2(h), if, before the Closing Date, all or any portion of the Facilities or the Facilities Switchyard, becomes subject to or is threatened with any condemnation or eminent domain proceeding, Seller shall notify Purchaser promptly in writing of such fact. In the event of such taking, Seller, upon the Closing, shall assign to Purchaser any claim, settlement or proceeds thereof. If, before the Closing Date all or any portion of the Facilities or the Facilities Switchyard are damaged or destroyed (whether by fire, theft, vandalism or other casualty) in whole or in part, Seller shall, upon the Closing, transfer the proceeds or the rights to the proceeds of applicable insurance to Purchaser; provided, that any proceeds relating to the Excluded Switchyard Interests (or any other applicable Excluded Assets) shall be retained by Seller.

6.5 Cooperation Relating to Insurance. Until the Closing, Seller will not take any action that will decrease the level of insurance coverage for the Facilities and the Facilities Switchyard as in effect on the date hereof, including, without limitation, property damage and liability insurance, unless agreed by the other Facilities Owners and Purchaser. In addition, Seller agrees to use Commercially Reasonable Efforts to assist Purchaser in making any claims against pre-Closing insurance policies of Seller that may provide coverage related to Assumed Liabilities. Purchaser agrees that it will indemnify Seller for its reasonable out-of-pocket expenses incurred in providing such assistance and cooperation. On and after the Closing, Seller shall authorize the Operating Agent to take any actions necessary to remove Seller from any Facilities Insurance Policies and, except with respect to (a) the extent required to cover the Excluded Assets and (b) insurance rights retained by Seller pursuant to Section 2.2(h), Seller agrees to waive its rights with respect to such insurance coverage from and after the Closing. If requested by Seller, Purchaser agrees to exercise Commercially Reasonable Efforts to assist Seller, at Seller's cost, in obtaining so-called "tail" coverage in respect of claims brought after the Closing for events occurring prior to the Closing, including, if appropriate, listing Seller as an additional insured or named insured in policies of Purchaser and/or the Facilities Owners. Seller agrees that it will reimburse Purchaser for its reasonable out-of-pocket expenses incurred in providing such assistance to Seller in obtaining tail coverage.

6.6 Reasonable Cooperation. Each Party agrees to use Commercially Reasonable Efforts to cooperate with the other Party to effect the consummation of the transactions contemplated by this Agreement, including with respect to all consents and approvals required for Closing, and to provide the other Party with such access or information related to the Facilities as may reasonably be requested in connection with such transactions. Without limiting the generality of the forgoing, the Parties shall work with each other prior to the Closing Date to determine if any Facilities Contract which is not currently listed on Schedule 2.1(h) or Schedule 1.1.62, or approval of any Governmental Authority which is not currently listed on Schedule 1.1.63 or Schedule 1.1.73, should be listed on such Schedules. Each Party agrees to provide reasonably requested assistance of the other and will use Commercially Reasonable Efforts to collaborate with each

other, including involvement as required by applicable Laws. Each Party agrees to use Commercially Reasonable Efforts to reach agreement, if necessary, on mutually acceptable terms and conditions for operation of the Facilities Switchyard post-Closing, including allowing Purchaser transmission access on an open access basis pursuant to a FERC-approved tariff, that does not materially and adversely impact the value (economically or operationally) of the transaction to Purchaser.

6.7 Exclusivity. During the term of this Agreement, and except as necessary to fulfill its obligations under the Facilities Co-Tenancy Agreement, Seller will (a) deal exclusively with Purchaser and will not offer to sell, solicit offers to sell or negotiate with any third party for the sale of the Assets; and (b) promptly notify Purchaser of any unsolicited offer, interest or inquiry by a third party concerning a possible purchase of the Assets and will not provide to any third party any information with respect to a possible sale of the Assets; provided, that Purchaser acknowledges that Seller is required to provide information pursuant to the Facilities Contracts for right of first refusal purposes, and to entertain and negotiate with Facilities Owners with respect to right of first refusal.

6.8 Post Closing — Further Assurances. At any time or from time to time after the Closing, each Party will, upon the reasonable request of the other Party, execute and deliver any further instruments or documents, and exercise Commercially Reasonable Efforts to take such further actions as may reasonably be required to fulfill and implement the terms of this Agreement or realize the benefits intended to be afforded hereby. After the Closing, and upon prior reasonable request, each Party shall exercise Commercially Reasonable Efforts to cooperate with the other, at the requesting Party's expense (but including only out-of-pocket expenses to third parties and not the costs incurred by any Party for the wages or other benefits paid to its officers, directors or employees), in furnishing non-privileged records, information, testimony and other assistance in connection with any inquiries, actions, audits, proceedings or disputes involving either of the Parties hereto (other than in connection with disputes between the Parties hereto) and based upon contracts, arrangements or acts of Seller, Purchaser, the other Facilities Owners or the Operating Agent on behalf of one or more of the Facilities Owners which were in effect or occurred on, prior to, or after Closing and which relate to the Assets, including, without limitation, arranging discussions with (and calling as a witness) officers, directors, employees, agents, and representatives of Purchaser or Seller. Without limiting the generality of the foregoing, Purchaser shall use Commercially Reasonable Efforts to (i) assist Seller, at Seller's expense, by making available Purchaser's representatives to provide testimony in proceedings on behalf of Seller and (ii) permit Seller to participate consistent with current practice in the financial audits for the Facilities with respect to pre-Closing periods.

6.9 Post Closing — Information and Records.

(a) Following the Closing, Purchaser will not dispose of any books, records, documents or information reasonably relating to any Excluded Assets or Excluded Liabilities except in accordance with Purchaser's existing record retention policies. During such period, Purchaser will permit Seller to examine and make copies, at Seller's expense, of such books, records, documents and information for any reasonable purpose, including any litigation now pending or hereafter commenced by or against Seller, or the preparation of income or other Tax

Returns. Seller will provide reasonable notice to Purchaser of its need to access such books, records, documents or other information.

(b) Seller shall not be entitled to examine or copy privileged and/or attorney work product documents or information pursuant to Section 6.9(a). If privileged and/or attorney work product documents or information, including communications between Purchaser and its counsel, are disclosed to Seller in the books, records, documents or other information made available by Purchaser, Seller agrees (i) such disclosure is inadvertent, (ii) such disclosure will not constitute a waiver, in whole or in part, of any privilege or work product, (iii) such information will be kept confidential, and (iv) Seller will promptly return to Purchaser (or will destroy or make inaccessible such information to the extent reasonably possible and certify as such to Purchaser) all copies of such books, records, documents or other information in the possession of Seller.

6.10 Limited Waiver of Sovereign Immunity

(a) Purchaser irrevocably agrees that, to the extent that it has or hereafter may acquire any right of immunity against Seller, whether characterized as sovereign immunity or otherwise, from any legal proceedings, whether in the courts of the United States of America, any state of the United States of America, in the courts of the Navajo Nation, in an arbitration proceeding as set forth in the Dispute Resolution or any other arbitrations, or elsewhere, to enforce or collect upon this Agreement or the other agreements entered into in connection with this Agreement, including immunity from service of process, immunity from jurisdiction or judgment of any court or tribunal, immunity from execution of judgment and immunity of any of its property from attachment prior to entry of judgment, or from attachment in aid of execution upon a judgment, Purchaser expressly, unconditionally and irrevocably waives any such immunity and consents and submits to the Laws set forth in Section 12.10 and the jurisdiction set forth in Section 12.11 to resolve any dispute arising out of, under, or in connection with this Agreement and/or the other agreements entered into in connection with this Agreement.

(b) Purchaser clearly, expressly, unequivocally, and irrevocably waives any benefits, rights, immunities, privileges, or limitations in applicable Navajo Nation Law that would otherwise foreclose specific performance, injunctive relief, money damages, or any other remedies or relief from Purchaser pursuant to this Agreement.

(c) Purchaser clearly, expressly, unequivocally, and irrevocably waives any otherwise existing right or claim of right to require exhaustion of tribal administrative or judicial remedies prior to exercise of the dispute resolution provisions of the Agreement including with respect to Dispute Resolution and any ancillary litigation proceedings, to compel arbitration or enforce any arbitration award in a New Mexico state court of competent jurisdiction. Purchaser's consent to the jurisdiction of a New Mexico state court of competent jurisdiction as provided in this Agreement is irrevocable. Purchaser waives any rights to have any dispute heard in a Navajo Nation tribunal or in any Navajo Nation administrative or judicial body whatsoever.

(d) Purchaser agrees and clearly, expressly, unequivocally, and irrevocably waives its sovereign immunity, but only to Seller and exclusively for the purposes of this Agreement, for recourse and enforcement against any and all of the assets of Purchaser only. Purchaser's agreement and express, unequivocal, and irrevocable waiver of its sovereign immunity

shall not be asserted, interpreted, or applied to permit or authorize the sale or transfer of any property held by the Navajo Nation apart from the Purchaser's property, or any other property held by any other Navajo Nation instrumentality or entity other than Purchaser, whether such property is held in trust by the United States, or otherwise.

(e) Purchaser clearly, expressly, unequivocally, and irrevocably waives its sovereign immunity for Seller to seek to obtain, and where deemed appropriate by an arbitrator, an arbitration panel, or a judge of a New Mexico state court of competent jurisdiction, for Seller to obtain one or more of the following: (A) interpretation of this Agreement; (B) to make Purchaser perform a specific action Purchaser is obligated to perform pursuant to this Agreement, or to make Purchaser discontinue some specific action Purchaser is precluded from performing pursuant to this Agreement; or (C) to require Purchaser to comply with the duties and obligations clearly and expressly agreed to by Purchaser within this Agreement.

(f) Purchaser clearly, expressly, unequivocally, and irrevocably agrees that, to the extent Purchaser changes its company, corporate, or organizational form, any resulting company, corporation, or organization will, by Navajo Nation Council resolution if necessary, provide all of the same limited waivers of sovereign immunity to Seller as those set forth in this Section 6.10.

(g) Purchaser agrees that to the extent any later changes in Navajo Nation Law cause Purchaser to be unable to comply with any provision(s) of this Agreement, Purchaser shall nonetheless remain subject to all of its obligations under this Agreement notwithstanding any such changes in Navajo Nation Law, and Purchaser's failure to comply with any provision(s) of this Agreement on the basis of any such change in Navajo Nation Law shall not be excused and shall constitute a breach this Agreement and be actionable under the dispute resolution terms of this Agreement.

(h) Purchaser's agreement and clear, express, unequivocal, and irrevocable waiver of its sovereign immunity shall not apply, rebound, or inure to any other third party (or non-Party) person or entity other than Seller and Seller's successors and assigns.

(i) Purchaser's limited waiver as set forth in this Section 6.10 shall survive the termination or expiration of this Agreement and any ancillary agreements thereto and remain effective until any applicable statute of limitations runs.

(j) Purchaser represents and warrants that all of the persons creating and executing this Agreement and any related agreements necessary to effectuate this Agreement, are actually, fully, properly, apparently, and impliedly authorized to vest all of the persons creating and executing this Agreement with all authorities necessary to bind and obligate Purchaser to the terms of this Agreement.

(k) Nothing in this Agreement and/or the other agreements entered into in connection with this Agreement, and no waiver of Purchaser's sovereign immunity pursuant to this Section 6.10 shall be construed as a waiver of the sovereign immunity or exhaustion of tribal remedies by the Navajo Nation or any other instrumentality of the Navajo Nation, and no such waiver by Purchaser shall create any liability on the part of the Navajo Nation or any other

instrumentality of the Navajo Nation for the debts and obligations of Purchaser, or shall be construed as a consent to the encumbrance or attachment of any property of the Navajo Nation or any other instrumentality of the Navajo Nation based on any action, adjudication, or other determination of liability of any nature incurred by Purchaser. The acts and omissions of Purchaser, its directors, officers, employees, and agents shall not create any liability, obligation, or indebtedness either of the Navajo Nation or payable out of assets, revenues, or income of the Navajo Nation.

ARTICLE 7
RECLAMATION AND CSA TRUE-UP PAYMENT CALCULATION

7.1 Reclamation Obligations. The Parties agree that, subject to Section 7.4 herein, Final Reclamation Costs attributable to Seller at the Navajo Mine under the Coal Supply Agreement shall be paid to Purchaser by Seller as provided in Section 7.4 of this Agreement, and such Final Reclamation Costs shall be determined by the results of the Pre-Closing Reclamation Study (as defined below) pursuant to Section 7.3 (the “**Pre-Closing Study Final Reclamation Costs**”) and shall be apportioned to Seller pursuant to the apportionment set forth in the Coal Supply Agreement, and such Pre-Closing Reclamation Study shall be conducted by a mutually agreed upon Independent Third Party engaged by the Parties pursuant to Section 7.2 of this Agreement, if applicable. This Agreement will in no way be construed to expand or alter Seller’s obligations with respect to Contemporaneous Reclamation Costs pursuant to the Coal Supply Agreement.

7.2 Selection of Independent Third Party; Use of Scheduled Study.

(a) No later than ten (10) Business Days before December 1, 2023, the Parties shall consult with the other Facilities Owners to determine if a reclamation study to estimate the costs of Final Reclamation has been scheduled or will be scheduled pursuant to the Coal Supply Agreement (“**Scheduled Study**”), with such Scheduled Study to commence within ninety (90) calendar days of December 1, 2023, or such other reasonable period as mutually agreed to by the Parties. If the Parties determine that such a Scheduled Study is to occur within such time frame and the Parties mutually agree that the methodology of the Scheduled Study is substantially similar to the methodology set forth in Exhibit I, the Parties agree to use Commercially Reasonable Efforts to (i) obtain any necessary consents or approvals from the Facilities Owners to use the Scheduled Study as the Pre-Closing Reclamation Study for the purposes of this Agreement and (ii) reach an agreement with the Person providing the Scheduled Study to carry out such Scheduled Study pursuant to the terms of Article 7 hereof. If such conditions are met, then the Scheduled Study will operate as the Pre-Closing Reclamation Study for the purposes of this Agreement.

(b) If any of the conditions required to use a Scheduled Study as the Pre-Closing Reclamation Study in Section 7.2(a) are not met, the Parties shall engage the Independent Third Party, who the Parties agree is qualified to accurately conduct the Pre-Closing Reclamation Study to the reasonable satisfaction of all Parties. The Parties shall engage the Independent Third Party no later than December 1, 2023 upon the terms set forth in Section 7.3 herein to carry out the Pre-Closing Reclamation Study.

(c) In the event the Independent Third Party declines to act as the Independent Third Party and perform the Pre-Closing Reclamation Study or to perform the Pre-Closing Reclamation Study according to the requirements set forth in this Article 7, then, as soon as is reasonably practicable, but in no case later than January 1, 2024, the Parties agree they shall select a mutually agreed upon replacement Independent Third Party to conduct the Pre-Closing Reclamation Study. Each Party will submit to the other Party a list of up to three (3) suggested Independent Third Parties capable of carrying out the obligations of the Independent Third Party under this Agreement and a summary of each suggested Independent Third Party's experience and qualifications. Within five (5) Business Days thereafter, the Parties will meet and confer by telephone or in person to seek to agree upon the Independent Third Party from the lists that have been exchanged.

(d) If such agreement is not reached as the result of such meeting, the Parties will provide a second list of suggested Independent Third Parties to one another, and the Parties will meet and confer again within five (5) Business Days thereafter to attempt to reach agreement upon an Independent Third Party. If such agreement on the Independent Third Party is not reached pursuant to the second list of suggested Independent Third Parties, the Parties will proceed to arbitration as further set forth in Dispute Resolution under this Agreement.

7.3 Pre-Closing Reclamation Study.

(a) Beginning January 1, 2024 (or some other reasonable time as mutually agreed among the Parties and the Independent Third Party), the Independent Third Party shall, using substantially the same methodology as the 2019 Reclamation Study set forth in Exhibit I hereto, conduct a study of the Navajo Mine to determine, as accurately as possible, the Final Reclamation Costs arising from the Final Reclamation of the Navajo Mine as provided for in the Coal Supply Agreement that shall make up the Pre-Closing Study Final Reclamation Costs (the "**Pre-Closing Reclamation Study**"). The Parties will work in good faith with the Independent Third Party to ensure that the Pre-Closing Reclamation Study shall be delivered to both Parties as expeditiously as is reasonably practicable, but it is the intent of the Parties that such delivery will occur by or before July 1, 2024.

(b) Upon completion of the Pre-Closing Reclamation Study, the Independent Third Party will provide a draft of the Pre-Closing Reclamation Study to the Parties (the "**Draft Reclamation Study**"). Within thirty (30) days of the receipt of the Draft Reclamation Study, the Parties shall provide any comments to the Independent Third Party. Any comments provided by a Party to the Independent Third Party must also be provided to the other Party to this Agreement contemporaneously with their submission to the Independent Third Party. All communications between a Party and the Independent Third Party with respect to the Draft Reclamation Study shall be copied to the other Party if in writing, and a Party shall be provided an opportunity to participate in any telephonic conversations, in-person meetings, or otherwise between the Independent Third Party and the other Party. The Independent Third Party will provide timely responses to any reasonable comment by any Party with respect to the Draft Reclamation Study and will agree to meet and confer with such commenting Party as necessary. Within sixty (60) days (or some other time as mutually agreed to by the Parties) after the receipt of the final comments by any Party with respect to the Draft Reclamation Study, the Independent Third Party shall issue the Pre-Closing Reclamation Study in writing to both Parties.

(c) Upon the receipt of the Pre-Closing Reclamation Study, the Parties shall have ten (10) Business Days, or such other time period as agreed to by the Parties, to deliver notice of acceptance or rejection of the results of the Pre-Closing Reclamation Study pursuant to Section 12.13. If a Party has not delivered a notice of acceptance or rejection by the end of the time period set forth in this Section 7.3(c), that Party will be deemed to have accepted the results of the Pre-Closing Reclamation Study for purposes of this Agreement. Both an affirmative acceptance of the results of the Pre-Closing Reclamation Study and the lack of rejection within ten (10) Business Days will be defined as a “**Final Reclamation Acceptance**.” Upon the mutual receipt of the Final Reclamation Acceptance, the Parties shall be bound by the findings of the Pre-Closing Reclamation Study.

(d) In the event that (i) ten (10) Business Days lapse without the mutual receipt of the Final Reclamation Acceptance by both Parties from the other Party or (ii) either Party notifies the other Party in writing of its rejection of the Pre-Closing Reclamation Study pursuant to Section 2.3(c), the Parties will proceed to Dispute Resolution.

7.4 CSA True-Up Payment Calculation. When both Parties have tendered their respective Final Reclamation Acceptance pursuant to Section 7.3(c), Seller shall become bound and obligated to pay its proportionate share, as such proportionate share is defined in the Coal Supply Agreement, of the Pre-Closing Study Final Reclamation Costs. Seller shall, subject to the adjustments herein, pay amounts equal to its proportionate share of such Pre-Closing Study Final Reclamation Costs, adjusted for the Inflation Rate and Discount Rates, in unrestricted, immediately available funds to Purchaser, paid by wire transfer to an account or accounts designated in writing by Purchaser at the Closing of this Agreement (the “**CSA True-Up Payment**”). The CSA True-Up Payment will be reduced by the amount of funds held by Seller under the Escrow Agreement, and the CSA True-Up Payment calculation methodology is set forth on Exhibit J.

7.5 Escrow Account. Contemporaneously with the CSA True-Up Payment, Seller shall deliver (a) an executed counterpart to an amendment to the Escrow Agreement, executed by the parties thereto, which will release Seller from all obligations and liabilities and (b) an assignment agreement in a form reasonably satisfactory to Purchaser that assigns all of Seller’s rights and obligations associated with the Escrow Account and to any funds within the Escrow Account ((a) and (b) together, the “**Escrow Deliverables**”).

7.6 CSA Release. At the Closing, Purchaser shall release Seller from all obligations under the Coal Supply Agreement pursuant to the release in the form attached hereto as Exhibit G (the “**CSA Release**”).

7.7 Resolution of Disputes; Executive Conference. Any dispute between the Parties arising pursuant to, out of, or in connection with this Article and its meaning, interpretation, or application, shall be resolved as set forth in this Dispute Resolution.

(a) The Dispute Resolution process will be initiated by the delivery of a written notice by a Party (“**Noticing Party**”) of the dispute (“**Notice of Dispute**”) to the Party with which a dispute is claimed. The Notice of Dispute will specify the existence, nature and extent of the dispute. Copies of the Notice of Dispute will be served on all other Parties. The Notice of Dispute

will specifically state the sums allegedly due, any non-monetary obligation allegedly not performed, or both if applicable.

(b) Within fifteen (15) Business Days of receipt of the Notice of Dispute, the Party alleged not to be performing may protest in writing any or all of the matters set forth in the Notice of Dispute (“**Dispute Protest**”), specifying the basis of the Dispute Protest. Copies of the Dispute Protest will be served by the protesting Party (“**Protesting Party**”) on the other Party.

(c) Within fifteen (15) Business Days of the service of a Notice of Dispute under Section 7.6(a) or within ten (10) Business Days of the service of a Dispute Protest under Section 7.6(b), the executive representatives of the Parties involved in the dispute will meet at a mutually agreeable time and place to attempt to negotiate a timely and amicable resolution of the dispute. If an executive of a Party intends to be accompanied by counsel, the other Parties will be given at least five (5) Business Days’ written notice of such intent and may also be accompanied by counsel. All negotiations will be confidential and will be treated as compromise and settlement negotiations under New Mexico Law. If the matter is not thereafter resolved within sixty (60) calendar days after a Party’s receipt of a notice of dispute from the other Party or such other time period agreed to in writing by the Parties, the matter shall be submitted to binding arbitration, as set forth below.

7.8 Binding Arbitration. In the event negotiations between the Parties do not result in resolution of the Parties’ dispute(s), the Parties shall submit to binding arbitration conducted pursuant to the American Arbitration Association’s (“AAA”) Commercial Arbitration Rules and Mediation Procedures for Large, Complex Commercial Disputes, except that if such rules and practices, as modified herein, conflict with New Mexico Rules of Civil Procedure or any other provisions of New Mexico Law then in force which are specifically applicable to arbitration proceedings, such New Mexico Law will govern. Any substantive resolution of disputes will be governed by the contract and commercial Laws of the State of New Mexico, subject to and conditioned by the following:

(a) Arbitration Notice. The demanding Party (the “Claimant”) shall provide a notice of arbitration (the “Arbitration Notice”) to the other Party (the “Respondent”), which shall include: (i) the designation of such Party’s arbitrator; and (ii) a reasonably detailed statement of the facts and theories supporting that Party’s claims. Within this same period, the Claimant shall provide a copy of the Arbitration Notice to the Respondent in accordance with the notice provisions of Section 12.13. The Claimant shall also provide a copy of the Arbitration Notice to Respondent’s counsel (whether in-house or external) as identified in Section 12.13 of this Agreement.

(b) Response to Arbitration Notice. Within thirty (30) calendar days of receipt of the Arbitration Notice (unless otherwise agreed to in writing by the Parties), the Respondent shall provide the Claimant a Response to the Arbitration Notice, which shall include: (i) the designation of such Party’s arbitrator; and (ii) a reasonably detailed statement of the facts and theories supporting the Respondent’s defenses and counter-claims.

(c) Third Neutral Arbitrator. The two (2) Party arbitrators shall choose the third neutral arbitrator for the arbitration panel. In the event the two (2) Party arbitrators cannot agree

on a third arbitrator, the AAA shall select a third arbitrator from its National Roster, who shall be free of any association of any kind with either Party and whose participation as an arbitrator shall not otherwise constitute a conflict of interest or give rise to an appearance of impropriety. The arbitrators shall be bound by, and strictly adhere to the AAA's Code of Ethics for Arbitration in Commercial Disputes, with particular attention to Canon IX.

(d) Fees and Expenses. Each Party shall pay the costs, fees and expenses of its appointed arbitrator, and the Parties shall each pay one-half of the third arbitrator's costs, fees, and expenses, to conduct the arbitral hearing or proceeding.

(e) Arbitration Panel and Arbitrator Authority to Issue Interim Exigent Equitable Relief. Unless agreed to otherwise, within thirty (30) days of the selection of a third arbitrator, the Parties shall conduct an arbitration hearing or proceeding, and such arbitration shall address all issues then currently in dispute. The arbitration panel shall have authority to issue interim/equitable relief prior to any arbitration proceeding, including the authority to direct discovery, specific performance and injunctive relief during the pendency of the dispute resolution proceedings provided by this Agreement.

(f) Location of Arbitration. The arbitration shall be conducted at a mutually-agreed-upon location, which shall be either of the following cities: Shiprock, Navajo Nation or Albuquerque, New Mexico. In the event the Parties cannot agree to the location of the arbitration hearing or proceeding, a majority of the arbitral panel shall decide on the location of the arbitration hearing or proceeding; which shall be either of the following cities: Shiprock, Navajo Nation or Albuquerque, New Mexico.

(g) Award and Enforcement. The decision or award of the arbitration panel ("**Arbitration Award**") shall be made by a majority of the panel, and given in writing to the Parties within thirty (30) days after the conclusion of the arbitral hearing or proceeding, the submittal of any post-hearing briefs or other filings that may be requested by the arbitration panel. The arbitration panel is authorized to award monetary damages and equitable relief, specific performance and injunctive (preliminary and permanent) and declaratory relief, and/or specific performance to a Party, if such relief, in their opinion, is appropriate. In any arbitration, each Party shall bear its own costs, expenses, and attorneys' fees, unless the arbitration panel orders otherwise. This agreement to arbitrate is specifically enforceable, and the Arbitration Award will be final and binding upon the Parties to the extent provided by the Laws of the State of New Mexico. Any Arbitration Award may be filed with a court of competent jurisdiction in New Mexico and upon motion of a Party the court shall enter a judgment in conformity therewith as provided by the New Mexico Uniform Arbitration Act. Said judgment is enforceable in other States and Territories of the United States under the Full Faith and Credit provisions of the United States Constitution and other Laws.

7.9 Actions to Compel Arbitration, for Equitable Relief, and for Enforcement of Arbitration Provisions or an Arbitral Award.

(a) Forum. The Judicial District Court of the State of New Mexico and any federal court located in the United States District Court for the District of New Mexico shall have exclusive jurisdiction to compel the Parties' participation in binding arbitration pursuant to this

Agreement, enforce an arbitral award, and grant any exigent equitable relief necessary to maintain the status quo, during the pendency of the arbitration.

(b) Choice of Law. The validity, interpretation, and effect of this Dispute Resolution shall be governed by Section 12.10 of this Agreement.

7.10 Legal Remedies. Nothing in this Dispute Resolution will be deemed to prevent a Party from commencing judicial action: (i) to obtain a provisional remedy to protect the effectiveness of the arbitration proceeding; (ii) to confirm, enforce, modify, correct, vacate or challenge an Arbitration Award on grounds provided for in the New Mexico Uniform Arbitration Act; (iii) to obtain relief in instances where the arbitrators are unable or unwilling to act within the time provided for in Section 7.10; (iv) where, as the result of the unreasonable or dilatory conduct of another Party, a Party is not able to obtain a timely valid and enforceable Arbitration Award; (v) if a Party is prohibited by Law from participating in binding arbitration; or (vi) as otherwise set forth in this Agreement.

7.10 Prompt Resolution. The Parties acknowledge the importance of prompt dispute resolution. Accordingly, it is agreed that any arbitration proceeding hereunder will be scheduled and conducted in such a manner that the decision of the arbitrators is rendered no later than one hundred and eighty (180) days after an Arbitration Notice is served pursuant to Section 7.6(a).

ARTICLE 8- INDEMNIFICATION

7.1 Indemnification by Seller

(a) **Purchaser Claims.** Subject to Section 8.1(b) and 8.8(b), from and after the Closing, Seller will indemnify, defend, release and hold harmless Purchaser and its Affiliates, and each of their officers, directors, employees, attorneys, agents and successors and assigns (collectively, the “**Purchaser Group**”), from and against any and all demands, suits, penalties, obligations, damages, claims, losses, liabilities, payments, costs and expenses (including reasonable legal, accounting and other expenses in connection therewith) (collectively, “**Damages**”), and including costs and expenses incurred in connection with investigations, and settlement proceedings arising out of, with respect to or by reason of, the following (collectively, “**Purchaser Claims**”):

- (i) Seller’s breach or violation of any covenant or agreement set forth in this Agreement;
- (ii) any breach or inaccuracy of the representations or warranties made by Seller contained in Article 4 of this Agreement;
- (iii) the Excluded Assets; and
- (iv) the Excluded Liabilities.

(b) **SELLER LIMITATIONS.** IF THE CLOSING OCCURS, THE PURCHASER GROUP WILL NOT BE ENTITLED TO ANY PUNITIVE, INCIDENTAL,

INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES RESULTING FROM OR ARISING OUT OF ANY PURCHASER CLAIMS, INCLUDING SUCH DAMAGES FOR LOST REVENUES, INCOME, PROFITS OR TAX BENEFITS, DIMINUTION IN VALUE OF THE FACILITIES, OR ANY OTHER SUCH DAMAGE RESULTING FROM THE DISRUPTION TO OR LOSS OF OPERATION OF THE ASSETS, EXCEPT TO THE EXTENT PAYABLE WITH RESPECT TO ANY THIRD PARTY CLAIMS OR THE FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT OF SELLER.

8.2 Indemnification by Purchaser.

(a) **Seller Claims.** Subject to Section 8.2(b) and 8.8(b), from and after the Closing, Purchaser will indemnify, defend and hold harmless Seller and its Affiliates and each of their officers, directors, employees, attorneys, agents and successors and assigns (collectively, the “**Seller Group**”), from and against any and all Damages, and including costs and expenses incurred in connection with, investigations and settlement proceedings arising out of, with respect to or by reason of the following (collectively, “**Seller Claims**”):

- (i) Purchaser’s breach or violation of any covenant or agreement set forth in this Agreement;
- (ii) Any breach or inaccuracy of the representations or warranties made by Purchaser contained in Article 5 of this Agreement
- (iii) the Assets; and
- (iv) the Assumed Liabilities.

(b) **PURCHASER LIMITATIONS.** IF THE CLOSING OCCURS, THE SELLER GROUP WILL NOT BE ENTITLED TO ANY PUNITIVE, INCIDENTAL, INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES RESULTING FROM OR ARISING OUT OF ANY SELLER CLAIM, INCLUDING SUCH DAMAGES FOR LOST REVENUES, INCOME, PROFITS OR TAX BENEFITS, DIMINUTION IN THE VALUE OF THE FACILITIES OR ANY OTHER SUCH DAMAGE RESULTING FROM THE DISRUPTION TO OR LOSS OF OPERATION OF THE ASSETS, EXCEPT TO THE EXTENT PAYABLE WITH RESPECT TO ANY THIRD PARTY CLAIMS OR THE FRAUD, GROSS NEGLIGENCE, OR WILLFUL MISCONDUCT OF PURCHASER.

8.3 Notice of Claim. Subject to the terms of this Agreement and upon a Party’s receipt of notice of the assertion of a claim or of the commencement of any suit, action or proceeding made or brought by any Person who is not a Party to this Agreement or an Affiliate, the Party seeking indemnification hereunder (the “**Indemnitee**”) will promptly notify the Party against whom indemnification is sought (the “**Indemnitor**”) in writing of any damage, claim, loss, liability or expense which the Indemnitee has determined has given or could give rise to a claim under Section 8.1 or Section 8.2. (The written notice is referred to as a “**Notice of Claim**.”) A Notice of Claim will specify, in reasonable detail, the facts known to the Indemnitee regarding the claim. Subject to the terms of this Agreement, the failure to provide (or timely provide) a Notice of Claim will not affect the Indemnitee’s rights to indemnification except, and then only to the extent, such failure shall have materially and adversely prejudiced Indemnitor.

8.4 Defense of Third Party Claims.

(a) The Indemnitor will defend, in good faith and at its expense, any Third Party Claim set forth in a Notice of Claim. The Indemnitee, at its expense, may participate in the defense and employ, at its expense, separate counsel of its choice for such purpose. The Indemnitee cannot settle or compromise any Third Party Claim so long as the Indemnitor is defending in good faith. If the Indemnitor elects not to or does not contest a Third Party Claim, or the Indemnitor has an unresolvable conflict of interest and therefore cannot undertake the defense of the Third Party Claim on behalf of Indemnitee, the Indemnitee may undertake its defense and the Indemnitor will be bound by the result obtained by the Indemnitee, and the Indemnitor agrees to pay to the Indemnitee promptly upon demand from time to time all reasonable attorneys' fees and other reasonable costs and expenses of defending the Third Party Claim.

(b) The Indemnitor may at any time request the Indemnitee to agree to the payment or compromise by the Indemnitor of the Third Party Claim if such payment or compromise includes a full, complete and unconditional release of the Indemnitee from further liability. If the Indemnitee does not object in writing within fifteen (15) days of the Indemnitor's request, the Indemnitor may proceed with the payment or compromise of the Third Party Claim stated in the request. If within that fifteen (15) day period the Indemnitee notifies the Indemnitor in writing that it has determined that the contest of the Third Party Claim should be continued, the Indemnitor will be liable under this Article 8 only for an amount up to the amount which the third party to the contested Third Party Claim had agreed to accept in payment or compromise as of the time the Indemnitor made its request.

(c) This Section 8.4 is subject to the rights of any Indemnitee's insurance carrier that is defending the Third Party Claim, which insurance carrier's rights shall supersede the rights of Indemnitor with respects to any conflicts.

8.5 (Reserved).

8.6 Direct Claim Procedures. In the event Indemnitee has a claim for indemnity under Section 8.1 or 8.2 against Indemnitor that does not involve a Third Party Claim, Indemnitee agrees to promptly deliver a Notice of Claim to Indemnitor. The Notice of Claim will specify, in reasonable detail, the facts known to the Indemnitee regarding the claim. Subject to the terms of this Agreement, the failure to provide (or timely provide) a Notice of Claim will not affect the Indemnitee's rights to indemnification unless, and then only to the extent that, such failure shall have materially and adversely prejudiced Indemnitor. If the Indemnitor does not notify the Indemnitee within thirty (30) days following the receipt of a Notice of Claim that the Indemnitor disputes its indemnity obligation to the Indemnitee with respect to such claim, such claim shall be conclusively deemed a liability of the Indemnitor and the Indemnitor shall promptly pay to the Indemnitee any and all damages arising out of such claim. If the Indemnitor has timely disputed its indemnity obligation with respect to such claim, the Parties shall proceed to resolve such dispute using negotiations or by seeking any other remedy available under contract or applicable Laws.

8.7 Cooperation. The Party defending the Third Party Claim will (a) consult with the other Party throughout the pendency of the Third Party Claim regarding the investigation, defense, settlement, trial, appeal or other resolution of the Third Party Claim; and (b) afford the other Party

the opportunity to be associated in the defense of the Third Party Claim. The Parties will cooperate in the defense of the Third Party Claim. The Indemnitee will make available to the Indemnitor or its representatives all records and other materials reasonably required by them for use in contesting any Third Party Claim (subject to obtaining an agreement to maintain the confidentiality of confidential or proprietary materials in a form reasonably acceptable to Indemnitor and Indemnitee). If requested by the Indemnitor, the Indemnitee will cooperate with the Indemnitor and its counsel in contesting any Third Party Claim that the Indemnitor elects to contest or, if appropriate, in making any counterclaim against the Person asserting the claim or demand, or any cross-complaint against any Person. The Indemnitor will reimburse the Indemnitee for any expenses incurred by Indemnitee in cooperating with or acting at the request of the Indemnitor.

8.8 Mitigation and Limitation on Claims. As used in this Agreement, the term “**Indemnifiable Claim**” means any Purchaser Claims or Seller Claims. Notwithstanding anything to the contrary contained herein:

(a) **Reasonable Steps to Mitigate.** The Indemnitee will take all reasonable steps to mitigate all Damages relating to an Indemnifiable Claim, including to the extent reasonable in the circumstances availing itself of any defenses, limitations, rights of contribution, claims against third Persons and other rights at law or equity, and will provide such evidence and documentation of the nature and extent of the Indemnifiable Claim as may be reasonably requested by the Indemnitor. The Indemnitee’s reasonable steps include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expense for which indemnification would otherwise be due under this Article 8, and the Indemnitor will reimburse the Indemnitee for the Indemnitee’s reasonable expenditures in undertaking the mitigation, together with, interest thereon from the date of payment to the date of repayment at the “prime rate” as published in *The Wall Street Journal*.

(b) **Minimum Claim.** No Party shall have any liability or obligation to indemnify under Section 8.1(a)(ii) or Section 8.2(a)(ii), as the case may be, unless the aggregate amount for which such Party would be liable thereunder, but for this provision, exceeds One Hundred Fifty Thousand Dollars (\$150,000), and recovery shall be limited only to such amounts as exceed One Hundred Fifty Thousand Dollars (\$150,000). For purposes of the foregoing, individual claims of Fifteen Thousand Dollars (\$15,000) or less shall not be aggregated for purposes of calculating such deductible threshold amount or for calculating damages in excess of such amount. In no event shall either Party’s liability under Section 8.1(a)(ii) or Section 8.2(a)(ii), respectively, exceed five million dollars (\$5,000,000.00); provided that this limitation shall not apply to indemnification with respect to Sections 4.7 (Title). Nothing in this Section 8.8 is intended to modify or limit a Party’s liability or obligation hereunder for other Indemnifiable Claims, including claims of Purchaser with respect to Excluded Liabilities or claims of Seller with respect to Assumed Liabilities.

(c) The survival periods applicable to this Article 8 are set forth in Section 12.20.

8.9 Exclusivity. Except as specifically set forth in this Agreement, and except for intentional fraud, following the Closing, the rights and remedies of Seller Group, on the one hand, and Purchaser Group, on the other hand, for money damages under this Article 8 are, solely as

between Seller Group on the one hand and Purchaser Group on the other hand, exclusive and in lieu of any and all other rights and remedies for money damages which each of Seller on the one hand, and Purchaser on the other hand, may have under this Agreement under applicable Laws with respect to any Indemnifiable Claim, whether at common law or in equity. Other than with regards to rights or claims either Seller Group or Purchaser Group may have under this Agreement, Seller Group and Purchaser Group each release each other from any Damages arising under Environmental Law in connection with the Facilities, the Facilities Switchyard, or the Assets, their operations and their disposal practices.

ARTICLE 9
CONDITIONS PRECEDENT TO OBLIGATIONS
OF PURCHASER AT THE CLOSING

The obligations of Purchaser under this Agreement to complete the purchase of the Assets and assume the Assumed Liabilities are subject to the satisfaction or waiver, or deemed satisfaction or waiver, on or prior to the Closing, of each of the following conditions precedent:

9.1 Compliance with Provisions. Seller has performed or complied in all material respects with all covenants, agreements and conditions contained in this Agreement on its part required to be performed or complied with at or prior to the Closing.

9.2 Injunction. No preliminary or permanent injunction or other order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to cooperate in all efforts to have any such injunction, order or decree lifted) and no Law shall have been enacted by any state or federal government or Governmental Authority, which prohibits the consummation of the sale of the Assets.

9.3 Required Regulatory Approvals. Without limiting the generality of Sections 6.1 and 6.2, Purchaser shall have received all of Purchaser's Required Regulatory Approvals and Seller shall have received all of Seller's Required Regulatory Approvals.

9.4 Representations and Warranties. The representations and warranties of Seller set forth in this Agreement shall be true and correct of the Closing Date, in each case as though made at and as of the Closing Date, except as would not result in a Material Adverse Effect.

9.5 Seller's Closing Deliverables. Purchaser shall have received all of Seller's Closing Deliverables.

9.6 Liens. Any and all Encumbrances (other than Permitted Encumbrances) on the Assets shall have been released and any documents necessary to evidence such release shall have been delivered to Purchaser.

9.7 Required Consents. Without limiting the generality of Sections 6.1(a) and 6.2, all of Seller's Required Consents shall have been obtained. In addition, the Parties have submitted for approval from the Bureau of Indian Affairs any required consent or waiver to the proposed transaction by the Department of the Interior pursuant to the §323 Grant.

9.8 Facilities Permits; Transmission. Purchaser shall have secured the transfer, reissuance or procurement of the Facilities Permits, effective as of the Closing Date. Purchaser shall have secured a reasonably satisfactory agreement, if necessary, with Seller or another qualified party regarding the operation of the Facilities Switchyard post-Closing including allowing Purchaser transmission access on an open access basis pursuant to a FERC-approved tariff, that does not materially and adversely impact the value (economically or operationally) of the transaction to Purchaser.

ARTICLE 10
CONDITIONS PRECEDENT TO OBLIGATIONS OF SELLER AT THE CLOSING

The obligations of Seller under this Agreement to complete the sale of the Assets and transfer the Assets and Assumed Liabilities to Purchaser are subject to the satisfaction or waiver, or deemed satisfaction or waiver, on or prior to the Closing, of each of the following conditions precedent:

10.1 Compliance with Provisions. Purchaser has performed or complied in all material respects with all covenants, agreements and conditions contained in this Agreement on its part required to be performed or complied with at or prior to the Closing.

10.2 Injunction. No preliminary or permanent injunction or other order or decree by any federal or state court or Governmental Authority which prevents the consummation of the sale of the Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its best efforts to have any such injunction, order or decree lifted) and no Law shall have been enacted by any state or federal government or Governmental Authority in the United States which prohibits the consummation of the sale of the Assets.

10.3 Required Regulatory Approvals. Without limiting the generality of Sections 6.1(a) and 6.2, Purchaser shall have received all of Purchaser's Required Regulatory Approvals, and Seller shall have received all of Seller's Required Regulatory Approvals.

10.4 Representations and Warranties. The representations and warranties of Purchaser set forth in this Agreement shall be true and correct as of the Closing Date, in each case as though made at and as of the Closing Date, except as would not result in a material adverse effect on Purchaser's ability to consummate the transactions contemplated herein.

10.5 Purchaser's Closing Deliverables. Seller shall have received all of Purchaser's Closing Deliverables.

10.6 Required Consents. Without limiting the generality of Sections 6.1(a) and 6.2, all of Purchaser's Required Consents shall have been obtained, (b) all of Seller's Required Consents shall have been obtained and (c) the Closing shall not result in a material breach by Seller of a material Facilities Contract. In addition, the Parties have submitted for approval from the Bureau of Indian Affairs any required consent or waiver to the proposed transaction by the Department of the Interior pursuant to the §323 Grant.

10.7 Facilities Permits. Purchaser shall have secured the transfer, reissuance or procurement of the Facilities Permits, effective as of the Closing Date.

10.8 Consent Decree. (a) The United States Department of Justice shall have consented to the addition of Purchaser as a party to the Consent Decree effective as of the Closing, (b) the United States District Court for the District of New Mexico shall have issued an appropriate order modifying the Consent Decree to that effect and (c) pursuant to the actions in (a) and (b), Seller shall have been relieved of all rights and obligations under and associated with the Consent Decree.

10.9 Financial Assurance. Purchaser has satisfied the financial credit obligations specified in the Four Corners Financial Assurance Policy of the Facilities Operating Agreement.

10.10 Settlement Agreement. (a) Purchaser shall have assumed all rights and obligations under the Settlement Agreement and (b) Seller shall have been relieved of all rights and obligations under and associated with the Settlement Agreement, pursuant to an executed assignment agreement as described in Section 3.7(k).

ARTICLE 11 **TERMINATION**

11.1 Rights To Terminate. This Agreement may, by written notice given on or prior to the Closing Date, in the manner provided in Section 12.13, be terminated at any time prior to the Closing Date (or such other date as may be set forth below):

(a) by Seller if there has been a misrepresentation by Purchaser that would have a material adverse effect with respect to this Agreement and the transactions contemplated herein or a material default or material breach by Purchaser with respect to the due and timely performance of any of Purchaser's covenants and agreements contained in this Agreement (a "**Purchaser Event of Default**"), and such misrepresentation, default or breach is not cured by the earlier of the Closing Date or the date thirty (30) days after receipt by Purchaser, of written notice specifying particularly such misrepresentation, default or breach;

(b) by Purchaser if there has been a misrepresentation by Seller that would have a Material Adverse Effect with respect to this Agreement and the transactions contemplated herein or a material default or material breach by Seller with respect to the due and timely performance of any of Seller's covenants and agreements contained in this Agreement (a "**Seller Event of Default**" and together with a Purchaser Event of Default, an "**Event of Default**"), and such misrepresentation, default or breach is not cured by the earlier of the Closing Date, or the date thirty (30) days after receipt by Seller of written notice specifying particularly such misrepresentation, default or breach;

(c) by Purchaser or Seller upon written notice, if any Right of First Refusal has not expired or been waived in writing by every Facilities Owner other than Seller and Purchaser (as applicable) within one hundred and eighty (180) days of the Effective Date or such other date as mutually agreed by the Parties; provided, that if any Facilities Owner exercises its Right of First Refusal, then the Purchaser, to the extent it is authorized to exercise its Right of Refusal under the Facilities Co-Tenancy Agreement, shall exercise such right in accordance with Section 13 of the Facilities Co-Tenancy Agreement; and provided, further, the Purchaser and Seller, pursuant to Section 6.6 and subject to the requirements of Section 13 of the Facilities Co-Tenancy Agreement, agree to (i) amend this Agreement to account for such exercise (to amend the description of the

Assets to reflect the reduced interest to be acquired hereunder); and (ii) this Agreement, as so amended, shall (A) be the terms and conditions upon which Seller will convey the amended Assets to Purchaser provided hereunder with respect to the exercise of Purchaser's Right of First Refusal under the Facilities Co-Tenancy Agreement and (B) be deemed by Purchaser and Seller to have met the requirements of Section 13 of the Facilities Co-Tenancy Agreement;

(d) by Purchaser or Seller, if a permanent injunction or other order or decree by any federal or state court or Governmental Authority is issued which prevents the consummation of the transactions or if a Law shall have been enacted by any state or federal government or Governmental Authority in the United States which prohibits the consummation of the transactions; provided, that the Party seeking termination hereunder has satisfied any reasonable appeals process with respect to such permanent injunction or other order or decree;

(e) by Seller if a Seller's Required Regulatory Approval is denied or if Seller has a material condition placed upon it as set forth in Section 6.2 or by Purchaser if a Purchaser's Required Regulatory Approval is denied or if Purchaser has a material condition placed upon it as set forth in Section 6.2;

(f) by Purchaser or Seller, if Closing does not occur by December 31, 2024 (unless such date has been mutually agreed to be changed pursuant to Section 3.1, in which case such other mutually agreed date shall apply); provided, that the defaulting or breaching Party shall have no right to terminate this Agreement under this Section 11.1(f) if such Party's default or breach caused, or resulted in, the failure of the Closing to occur on or before December 31, 2024 (unless such date has been mutually agreed to be changed pursuant to Section 3.1, in which case such other mutually agreed date shall apply);

(g) by Purchaser pursuant to Section 12.4; or

(h) by mutual agreement of Seller and Purchaser.

11.2 Effect of Termination. If this Agreement is terminated pursuant to Section 11.1, all further obligations and liabilities of the Parties to consummate the transactions hereunder will terminate; provided, that the Parties will have all remedies at law or in equity for breach or default occurring prior to termination (including specific performance as provided in Section 11.3) and the obligations set forth in Sections 4.8, 5.6, and Articles 8, 11 and 12 shall survive. Upon termination, the originals of any items, documents or written materials provided by one Party to the other Party will be returned by the receiving Party to the providing Party.

11.3 Specific Performance; Limitation of Damages. Seller acknowledges that the transactions contemplated by this Agreement are unique and that Purchaser will be irreparably injured should such transactions not be consummated in a timely fashion. Consequently, Purchaser will not have an adequate remedy at law if Seller shall fail to transfer, assign and convey the Assets when required to do so hereunder. In such event, prior to any termination of this Agreement pursuant to Section 11.1, Purchaser shall have the right, in addition to any other remedy available in equity or law, to seek specific performance of such obligation by Seller and to seek an injunction or injunctions to prevent breaches by Seller hereunder, subject to Purchaser's performance of its obligations hereunder. Purchaser acknowledges that the transactions contemplated by this

Agreement are unique and that Seller will be irreparably injured should such transactions not be consummated in a timely fashion. Consequently, Seller will not have an adequate remedy at law if Purchaser shall fail to purchase the Assets when required to do so hereunder. In such event, prior to any termination of this Agreement pursuant to Section 11.1, Seller shall have the right, in addition to any other remedy available in equity or law, to seek specific performance of such obligation by Purchaser and to seek an injunction or injunctions to prevent breaches by Purchaser hereunder, subject to Seller's performance of its obligations hereunder. Except with respect to Third Party Claims as contemplated in Sections 8.1(b) and 8.2(b), neither Party will be entitled to any punitive, incidental, indirect, special or consequential damages, including such damages for lost revenues, income or profits, resulting from or arising out of a breach of this Agreement, whether or not the Closing occurs.

11.4 Refund Upon Termination.

(a) In the event this Agreement is terminated pursuant to Section 11.1 (other than a termination under Section 11.1(b) or Section 12.4) prior to the Closing, Purchaser shall refund any portion of the Initial CSA Assignment Payment and Final CSA Assignment Payment received by Purchaser from Seller prior to such termination. Purchaser shall pay any such amount at the sooner of (i) within twenty (20) Business Days of the termination of this Agreement and (ii) December 31, 2024; or such other date as mutually agreed to in writing by the Parties. Upon the termination of this Agreement, any payment made pursuant to this Section 11.4 shall be made by Purchaser to Seller in cash, with interest at an annual compounded rate of six point seven percent (6.7%) with such interest accruing from the date any such refunded amount was originally paid to Purchaser and ending on the date such payment set forth herein is paid to Seller.

(b) In the event this Agreement is terminated pursuant to Section 11.1(b) or Section 12.4, Purchaser shall offset any portion of the Initial CSA Assignment Payment and Final CSA Assignment Payment received from Seller against payments owed to Purchaser by Seller under the Coal Supply Agreement in an amount equal to such Initial CSA Assignment Payment and Final CSA Assignment Payment received. Upon the event of such termination as set forth herein, the Parties agree that they shall cooperate to create and implement any mechanisms required, if necessary, to carry out the offset against Seller's obligations under the Coal Supply Agreement. Any amount offset against Seller's obligations under the Coal Supply Agreement made pursuant to this Section 11.4(b) shall be increased by interest deemed accrued at an annual compounded rate of six point seven percent (6.7%), with such interest accruing from the date any such offset amount was originally paid to Purchaser and ending on the date such termination event giving rise to Seller's right of offset occurs.

ARTICLE 12 **MISCELLANEOUS AGREEMENTS AND ACKNOWLEDGMENTS**

12.1 Expenses. Except as otherwise provided herein, each Party is responsible for its own costs and expenses (including attorneys' and consultants' fees, costs and expenses) incurred in connection with this Agreement and the consummation of the transactions contemplated by this Agreement.

12.2 Entire Document. This Agreement (including the Exhibits and Schedules to this Agreement) and the Ancillary Agreements contain the entire agreement between the Parties with respect to the transactions contemplated hereby and supersede all negotiations, representations, warranties, commitments, offers, contracts and writings between the Parties with respect to the subject matter of this Agreement prior to the execution date of this Agreement, written or oral.

12.3 Amendment and Waiver. No waiver and no modification or amendment of any provision of this Agreement is effective unless made in writing and duly signed, in the case of an amendment, by each Party to this Agreement, or in the case of a waiver, by the Party against whom the waiver is to be effective, referring specifically to this Agreement, and then only to the specific purpose, extent and interest so provided. Except as otherwise provided in this Agreement, no failure or delay by any Party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude or estop any other or further exercise thereof or the exercise of any other right, power or privilege. Except as set forth in Section 8.9, the rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

12.4 Schedules. The Parties agree and acknowledge that the Schedules delivered pursuant to the terms of this Agreement are an integral part of this Agreement to the same extent as if they were set forth verbatim herein. In addition to the foregoing, if after the Effective Date, Seller gains Knowledge of any potential breach of any representation or warranty set forth in Article 4, then until eleven (11) Business Days prior to the Closing, Seller shall have the right to supplement, modify, or update the Seller's Schedule of Exceptions (the "**Updated Seller's Schedule of Exceptions**") (including with respect to representations and warranties set forth in Article 4 that are not qualified by reference to Seller's Schedule of Exceptions as of the date hereof); provided, that such right to supplement, modify, or update shall not apply to Schedule 2.1(q) and Schedule 2.4(q). Such Updated Seller's Schedule of Exceptions shall be given effect for all purposes under this Agreement, including with respect to the satisfaction of the conditions precedent set forth in Article 9 and with respect to the determination of indemnification obligations under Article 8; provided, that if without giving effect to the Updated Seller's Schedule of Exceptions there would be a breach that would allow the termination of this Agreement, then Purchaser shall have the right to terminate this Agreement by providing written notice to Seller within ten (10) Business Days after such Updated Seller's Schedule of Exceptions was provided.

12.5 Counterparts. This Agreement may be executed in one or more counterparts, each of which is an original, but all of which together constitute one and the same instrument. This Agreement shall become effective when each Party hereto shall have received a counterpart hereof signed by the other Party hereto.

12.6 Severability. If any provision hereof is held invalid or unenforceable, including as a result of future legislative action, this holding or action will be strictly construed and will not affect the validity or effect of any other provision hereof, so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such a determination, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible. To the extent permitted by law, the Parties waive, to

the maximum extent permissible, any provision of law that renders any provision hereof prohibited or unenforceable in any respect.

12.7 Assignability.

(a) Except as provided in Section 12.7(b), this Agreement is not assignable by either Party without the prior written consent of the other Party, which may not be unreasonably withheld by the non-assigning Party, and no assignment shall relieve the assigning Party of any of its obligations hereunder, except with consent of the non-assigning Party, such consent not to be unreasonably withheld, conditioned or delayed. Notwithstanding the foregoing, prior written consent of the other Party shall not be required for any upstream change in control, merger or similar transaction with respect to either Party or any of such Party's Affiliates. This Agreement is binding upon and inures to the benefit of the successors and permitted assigns of the Parties.

(b) Purchaser shall have the right upon written notice to Seller (without requiring the consent of Seller) to assign all or any part of this Agreement and Purchaser's rights and obligations hereunder to any corporation or entity the stock or ownership of which is wholly owned by Purchaser; provided, that such assignee expressly assumes the rights and obligations of Purchaser being assigned; provided, further, that in the event of such assignment, Purchaser shall provide a guaranty guaranteeing all of such assignee's obligations under this Agreement in form and substance reasonably acceptable to Seller.

12.8 Reliance on Counsel; Mutuality of Drafting. Each of the Parties agrees that it has been represented by independent counsel during the negotiation and execution of this Agreement, and that it has executed this Agreement upon the advice of such independent counsel. Each of the Parties agrees that it is not relying on the statements of the other Party as inducements to enter into this Agreement, and that no representations and warranties are made by any Party other than those set forth in this Agreement. Each Party cooperated in the drafting and preparation of this Agreement, and any and all drafts related thereto shall be deemed the work product of the Parties and not construed against any Party by reason of its preparation. Each Party hereby waives the application of any law, regulation, holding or rule of construction that provides that ambiguities in an agreement are construed against the Party drafting such agreement or document.

12.9 Captions. The captions of the various Articles, Sections, Exhibits and Schedules of this Agreement have been inserted only for convenience of reference and do not modify, explain, enlarge or restrict any of the provisions of this Agreement.

12.10 Governing Law. The validity, interpretation and effect of this Agreement are governed by and will be construed in accordance with the laws of the state of New Mexico applicable to contracts made and performed in such state and without regard to conflicts of law doctrines except to the extent that certain matters are preempted by federal law.

12.11 Jurisdiction; Service of Process. Each of the Parties hereto, and subject to Dispute Resolution (a) hereby irrevocably consents to the exclusive jurisdiction of the courts of the State of New Mexico and of any federal court located in the United States District Court for the District of New Mexico (or, if such courts do not accept jurisdiction, any state or federal court of competent jurisdiction in the United States) in connection with any suit, action or other proceeding arising

out of or relating to this Agreement or the transactions contemplated herein, (b) hereby agrees to waive any objection to venue in the State of New Mexico and Bernalillo County, and (c) agrees that, to the extent permitted by law, service of process in connection with any such proceeding may be effected by mailing in the same manner provided in Section 12.13 hereof.

12.12 WAIVER OF JURY TRIAL. EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY ACTION, SUIT OR PROCEEDING RELATING TO A DISPUTE AND FOR ANY COUNTERCLAIM WITH RESPECT THERETO.

12.13 Notices. All notices, requests, demands and other communications under this Agreement must be in writing and must be delivered in person or sent by certified mail, postage prepaid, or by overnight delivery, and properly addressed as follows:

If to Purchaser:

Navajo Transitional Energy Company, LLC
4801 N Butler Ave.
Farmington, NM 87401
Attention: Bernard Masters

With a copy to:

Zev Simpser
50 South 6th Street
Suite 1500
Minneapolis, MN 55402

If to Seller:

Public Service Company of New Mexico
414 Silver Ave. SW
Albuquerque, NM 87102
Attn: Thomas Fallgren

With a copy to:

Madonna Bixby
414 Silver Ave. SW
Albuquerque, NM 87102
Attn: General Counsel

Any Party may from time to time change its address for the purpose of notices to that Party by a similar notice specifying a new address, but no such change is effective until it is actually received by the Party sought to be charged with its contents.

All notices and other communications required or permitted under this Agreement which are addressed as provided in this Section 12.13 are effective upon delivery, if received prior to

5:00 p.m. in the place of receipt and such day is a Business Day in the place of receipt. Otherwise, any such notice or communication shall be deemed not to have been received until the next succeeding Business Day.

12.14 Public Statements. The Parties shall first cooperate with each other prior to disseminating any press release or other public announcement or disclosure concerning this Agreement, the transactions contemplated herein or the Closing (which cooperation will include information that cannot be disseminated except in accordance with the following proviso); provided, that if pursuant to such cooperation the Parties have agreed in writing that certain information not be disseminated, then neither the other Party nor any of its respective Affiliates will disseminate any such press release or other public announcement or disclosure without the prior written consent of the requesting Party.

12.15 Time is of the Essence. Time is of the essence of each term of this Agreement Without limiting the generality of the foregoing, all times provided for in this Agreement for the performance of any act will be strictly construed.

12.16 No Third Party Beneficiaries. Except as may be specifically set forth in this Agreement, nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any Persons other than the Parties and their respective permitted successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third Persons to any Party, nor give any third Persons any right of subrogation or action against any Party.

12.17 No Joint Venture. Nothing contained in this Agreement creates or is intended to create an association, trust, partnership, or joint venture or impose a trust or partnership duty, obligation, or liability on or with regard to any Party.

12.18 Construction of Agreement. Ambiguities or uncertainties in the wording of this Agreement will not be construed for or against any Party, but will be construed in the manner that most accurately reflects the Parties' intent as of the date they executed this Agreement.

12.19 Conflicts. In the event of any inconsistencies between the terms of and statements in the body of this Agreement and those in the Ancillary Agreements or the Exhibits and Schedules (other than an exception expressly set forth as such in the Schedules), the terms of and statements in the body of this Agreement will control.

12.20 Survival.

(a) The representations and warranties given or made by any Party in Article 4 or Article 5 hereof or in any certificate or other writing furnished in connection herewith shall survive the Closing until the first anniversary of the Closing Date, provided that the representations and warranties contained in Sections 4.7 (Title), 4.8 (Brokers), 5.6 (Brokers), 5.7 (Investigation) and 5.8 (As Is Sale) shall survive indefinitely or until the latest date permitted by law and the representations and warranties contained in Section 4.9 (Taxes) shall survive the Closing until the date that is thirty (30) days following the expiration of the applicable statute of limitations.

(b) The covenants and agreements of the Parties contained in this Agreement, including those set forth in Sections 6.9, 6.10, and 11.4 and Article 8, shall survive the Closing indefinitely or until the latest date permitted by law, unless otherwise specified herein.

Notwithstanding the foregoing, any breach of covenant, agreement, representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to this Section 12.20, if notice of the inaccuracy or breach thereof giving rise to such right of indemnity shall have been given to the Party against whom such indemnity may be sought prior to such time.

(Signature page follows)

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first above written.

NAVAJO TRANSITIONAL ENERGY COMPANY, LLC,
a Navajo Nation limited liability company

By: /s/ Clark A. Moseley

Name: Clark A. Moseley

Title: Management Committee Executive

[Signature Page to Purchase and Sale Agreement]

PUBLIC SERVICE COMPANY OF NEW MEXICO,
a New Mexico corporation

By: /s/ Thomas Fallgren
Name: Thomas Fallgren
Title: Vice President of Generation

[Signature Page to Purchase and Sale Agreement]

SECOND AMENDMENT TO BUILD TRANSFER AGREEMENT

This Second Amendment to Build Transfer Agreement (this "Amendment"), dated as of November 5, 2020, is made and entered into by and among **NEW MEXICO RENEWABLE ENERGY TRANSMISSION AUTHORITY**, a public body of the State of New Mexico, politic and corporate, separate and apart from the state, constituting a governmental instrumentality for the performance of essential public functions ("RETA Seller"), **WESTERN SPIRIT TRANSMISSION LLC**, a Delaware limited liability company ("WST Seller", and together with RETA Seller, the "Sellers", and each, a "Seller") and **PUBLIC SERVICE COMPANY OF NEW MEXICO**, a New Mexico corporation ("Buyer"). Buyer and Sellers are sometimes referred to herein individually as a "Party" and jointly as the "Parties."

RECITALS

WHEREAS, Buyer and Sellers entered into that certain Build Transfer Agreement, dated as of May 1, 2019, as amended by the First Amendment to Build Transfer Agreement, dated as of August 31, 2020 (as so amended, the "Agreement");

WHEREAS, the Parties have agreed on certain modifications to Attachments 1-4 of Annex 2 to the Agreement, and such modifications are reflected in the contents of the subfolders containing such Attachments in the Annex Data Room as of the date of this Amendment;

WHEREAS, a new Attachment 5 to Annex 2 to the Agreement sets forth Buyer's additional requirements agreed to by the Parties after the Execution Date of the Agreement and on or before the date of this Amendment;

WHEREAS, the Parties desire to document their mutual agreement on additional Specifications for the Project, in accordance with Section 1.4(e) of the Agreement; and

WHEREAS, the Parties desire to amend the Agreement as set forth herein.

NOW THEREFORE, in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the sufficiency and adequacy of which are hereby acknowledged, the Parties agree to the following:

1. Defined Terms. All capitalized terms not defined herein are used herein as defined in the Agreement.
2. Amendment to Annex 1 to the Agreement. Annex 1 to the Agreement is hereby amended by:

Deleting the defined term "Annex Data Room" in its entirety and replacing it with the following defined term:

"Annex Data Room" means the virtual data room titled "3rd Party Accessible – Western Spirit BTA Annexes (PNM)" which is hosted by Viewpoint; provided that if such virtual data room is required, necessary or appropriate to be re-established elsewhere, then the

contents of such Annex Data Room may be re-established verbatim and maintained by WST Seller or any of its Affiliates in another virtual data room subject to the prior written consent of Buyer, not to be unreasonably withheld, conditioned or delayed.

3. Amendments to Annex 2 of the Agreement. Annex 2 of the Agreement is hereby amended as follows:
 - a. In the “Project Specifications” section therein, the following language is deleted in its entirety: “and Buyer’s requirements set forth on **Attachments 2-4** to this Annex 2”. Such language is replaced with the following language: “and Buyer’s requirements set forth on **Attachments 2-5** to this Annex 2”.
 - b. The “Attachments” section therein is deleted in its entirety and is replaced as follows:

“Attachments:

Attachments 1-5 are located in the Annex Data Room in separate subfolders at the following pathway:

“<https://download.4projects-na.viewpointcs.com?LinkID=029f3058-0839-48e0-9d3d-381332170302>”
 - c. Inserting a new reference page for Attachment 5 in the form of Exhibit A hereto immediately after the reference page for Attachment 4.
4. Project Costs. Within 60 days of the date of this Amendment, WST Seller shall provide an interim accounting of Project Costs substantially in the form of Annex 13 to the Agreement that reflects WST Seller’s reasonable estimate as of such date of the aggregate Project Costs. Notwithstanding WST Seller’s provision of such interim accounting, such interim accounting estimate shall not limit or modify WST Seller’s ability under Section 7.1(l) of the Agreement to adjust such interim accounting when providing the updated accounting in the form of Annex 13 to Buyer prior to Closing in satisfaction of the condition precedent to Closing, which adjusted updated accounting shall represent WST Seller’s Project Costs actually incurred as of such date and anticipated to be incurred thereafter and as properly reflected in the categorization of such Project Costs in the updated accounting. Furthermore, nothing in this Section 5 shall modify any of the rights or obligations of the Parties under Section 2.5 of the Agreement.
5. Governing Law. THIS AMENDMENT SHALL BE DEEMED MADE AND PREPARED AND SHALL BE GOVERNED, CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW MEXICO, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS THEREOF WHICH MAY REQUIRE THE APPLICATION OF THE LAW OF ANOTHER JURISDICTION.

6. Counterparts. This Amendment may be executed and delivered in counterparts, each of which shall be an original, but each of which, when taken together, shall constitute one and the same instrument. This Amendment may be delivered by electronic transmission.
7. Effect of Amendment. The Agreement is modified only by the express provisions of this Amendment, and shall as so modified remain in full force and effect and is hereby ratified and confirmed by Buyer and Sellers in all respects.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Parties have caused this AMENDMENT to be duly executed as of the date first set forth above.

WESTERN SPIRIT TRANSMISSION LLC

By: /s/ Andrew Murray
Name: Andrew Murray
Title: Authorized Signatory

NEW MEXICO RENEWABLE ENERGY TRANSMISSION
AUTHORITY

By: /s/ Robert E. Busch
Name: Robert E. Busch
Title: Chairman

PUBLIC SERVICE COMPANY OF
NEW MEXICO

By: /s/ Todd Fridley
Name: Todd Fridley
Title: VP, New Mexico Operations

EXHIBIT A

Attachment 5

Additional Buyer's Requirements

[Located in Annex Data Room]

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 1, 2021, with respect to the consolidated balance sheets of PNM Resources, Inc. and subsidiaries as of December 31, 2020 and 2019, 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, 2020, 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, 2020, which report appears in the December 31, 2020 annual report on Form 10-K of PNM Resources, Inc.

/s/ KPMG LLP

Albuquerque, New Mexico
March 1, 2021

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. 333-238234 on Form S-3 of Public Service Company of New Mexico of our report dated March 1, 2021, with respect to the consolidated balance sheets of Public Service Company of New Mexico as of December 31, 2020 and 2019, 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, 2020, and the related notes and financial statement Schedule II – Valuation and Qualifying Accounts (collectively, the financial statements), which report appears in the December 31, 2020 annual report on Form 10-K of Public Service Company of New Mexico.

/s/ KPMG LLP

Albuquerque, New Mexico
March 1, 2021

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 1, 2021

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 1, 2021

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 1, 2021

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 1, 2021

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 1, 2021

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 1, 2021

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, 2020, for PNM Resources, Inc. (“Company”), as filed with the Securities and Exchange Commission on March 1, 2021 (“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 1, 2021

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, 2020, for Public Service Company of New Mexico (“Company”), as filed with the Securities and Exchange Commission on March 1, 2021 (“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 1, 2021

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, 2020, for Texas-New Mexico Power Company (“Company”), as filed with the Securities and Exchange Commission on March 1, 2021 (“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 1, 2021

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