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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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 Ridge 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:

Registrant	Title of each class	Trading Symbol(s)	Name of exchange on which registered
PNM Resources, Inc.	Common Stock, no par value	PNM	New York Stock Exchange

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.

PNM Resources, Inc. ("PNMR")	Yes	☑	No	☐
Public Service Company of New Mexico ("PNM")	Yes	☑	No	☐
Texas-New Mexico Power Company ("TNMP")	Yes	☐	No	☑

(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	☑	No	☐
PNM	Yes	☑	No	☐
TNMP	Yes	☑	No	☐

Indicate by check mark whether 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	☑	☐	☐	☐	☐
PNM	☐	☐	☑	☐	☐
TNMP	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of October 27, 2020, 79,653,624 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM, no par value per share, outstanding as of October 27, 2020 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP, $10 par value per share, outstanding as of October 27, 2020 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

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

This combined Form 10-Q 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-Q 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-Q that relate to each other registrant are not incorporated by reference therein.

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

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GLOSSARY

Definitions:

2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
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
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
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 Emissions Reduction Technology
CAA	Clean Air Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
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
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EPA	United States Environmental Protection Agency
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
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Power Plant
FPPAC	Fuel and Purchased Power Adjustment Clause
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
IRC	Internal Revenue Code

IRP	Integrated Resource Plan
IRS	Internal Revenue Service
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
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 British Thermal Units
Moody's	Moody's Investor Services, Inc.
MW	Megawatts
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
NEE	New Energy Economy
NEPA	National Environmental Policy Act
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
NMMMD	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
PCRBs	Pollution Control Revenue Bonds

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 Term Loan	PNM’s $200.0 Million Unsecured Term Loan
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, which was repaid on April 15, 2020
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 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 Two-Year Unsecured Term Loan
PNMR 2020 Forward Equity Sale Agreements	PNMR's Block Equity Sale of 6.2 million Shares of PNMR Common Stock with Forward Equity Sales Agreements
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 $90.0 Million Unsecured Term Loan
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
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico’s Renewable Energy Act, as amended by the ETA
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor’s Ratings Services
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 NMPRC consolidated application for 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
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
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
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2018 Rate Case	TNMP’s General Rate Case Application Filed May 30, 2018
TNMP 2019 Bonds	TNMP’s First Mortgage Bonds issued under the TNMP 2019 Bond Purchase Agreement
TNMP 2020 Bond Purchase Agreement	An agreement under which TNMP agreed to issue an aggregate of $185.0 Million of First Mortgage Bonds in 2020
TNMP 2020 Bonds	TNMP's First Mortgage Bonds issued under the TNMP 2020 Bond Purchase Agreement
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
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
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, formerly an indirect wholly-owned subsidiary of Westmoreland, and former owner of SJCC
WSJ LLC	Westmoreland San Juan Mining, LLC, a subsidiary of Westmoreland Mining Holdings, LLC

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(Unaudited)

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands, except per share amounts)			
Electric Operating Revenues:				
Contracts with customers	$ 455,120	$ 418,673	$ 1,121,177	$ 1,049,287
Alternative revenue programs	(12,376)	(6,779)	(7,484)	(300)
Other electric operating revenue	29,721	21,692	50,043	64,471
Total electric operating revenues	472,465	433,586	1,163,736	1,113,458
Operating Expenses:				
Cost of energy	133,991	108,736	326,564	314,145
Administrative and general	51,611	47,613	148,096	142,782
Energy production costs	31,148	30,877	98,111	108,853
Regulatory disallowances and restructuring costs	—	—	—	150,599
Depreciation and amortization	68,400	68,350	207,395	199,771
Transmission and distribution costs	18,742	16,461	54,062	52,333
Taxes other than income taxes	20,768	21,009	62,815	61,327
Total operating expenses	324,660	293,046	897,043	1,029,810
Operating income	147,805	140,540	266,693	83,648
Other Income and Deductions:				
Interest income	3,180	3,440	9,674	10,489
Gains on investment securities	14,401	1,686	3,172	20,299
Other income	7,022	4,256	13,728	11,050
Other (deductions)	(7,361)	(3,612)	(14,141)	(9,980)
Net other income and deductions	17,242	5,770	12,433	31,858
Interest Charges	27,263	30,359	88,785	91,785
Earnings before Income Taxes	137,784	115,951	190,341	23,721
Income Taxes (Benefits)	12,331	9,188	14,726	(32,420)
Net Earnings	125,453	106,763	175,615	56,141
(Earnings) Attributable to Valencia Non-controlling Interest	(3,553)	(3,860)	(11,222)	(10,188)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Net Earnings Attributable to PNMR	$ 121,768	$ 102,771	$ 163,997	$ 45,557
Net Earnings Attributable to PNMR per Common Share:				
Basic	$ 1.52	$ 1.29	$ 2.05	$ 0.57
Diluted	$ 1.52	$ 1.28	$ 2.05	$ 0.57
Dividends Declared per Common Share	$ 0.3075	$ 0.2900	$ 0.9225	$ 0.8700

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Net Earnings	$ 125,453	$ 106,763	$ 175,615	$ 56,141
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Debt Securities:				
Net change in unrealized holding gains arising during the period, net of income tax (expense) of $(1,278), $(1,821), $(3,746), and $(5,869)	3,755	5,347	11,004	17,237
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $1,041, $1,768, $1,818, and $3,191	(3,056)	(5,194)	(5,338)	(9,372)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of $(527), $(470), $(1,581), and $(1,410)	1,548	1,381	4,644	4,143
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $(313), $126, $(9), $931	918	(369)	24	(2,733)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $157, $(46), $284, and $(179)	(460)	136	(833)	528
Total Other Comprehensive Income	2,705	1,301	9,501	9,803
Comprehensive Income	128,158	108,064	185,116	65,944
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,553)	(3,860)	(11,222)	(10,188)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Comprehensive Income Attributable to PNMR	$ 124,473	$ 104,072	$ 173,498	$ 55,360

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 175,615	$ 56,141
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	233,537	225,182
Deferred income tax expense (benefit)	13,804	(33,220)
(Gains) on investment securities	(3,172)	(20,299)
Stock based compensation expense	6,560	5,424
Regulatory disallowances and restructuring costs	—	150,599
Allowance for equity funds used during construction	(6,728)	(6,714)
Other, net	3,107	1,945
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(57,340)	(24,698)
Materials, supplies, and fuel stock	10,495	(5,908)
Other current assets	(9,885)	(1,851)
Other assets	22,608	33,284
Accounts payable	(8,116)	(5,469)
Accrued interest and taxes	(3,765)	12,182
Other current liabilities	16,755	(2,530)
Other liabilities	(25,518)	(32,812)
Net cash flows from operating activities	367,957	351,256
Cash Flows From Investing Activities:		
Additions to utility plant and non-utility plant	(495,334)	(444,920)
Proceeds from sales of investment securities	489,218	375,382
Purchases of investment securities	(498,170)	(385,313)
Investments in NMRD	(23,250)	(29,250)
Other, net	166	(192)
Net cash flows from investing activities	(527,370)	(484,293)

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2020	2019
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	$ 494	$ —
Revolving credit facilities borrowings (repayments), net	(1,300)	53,700
Long-term borrowings	1,037,845	555,000
Repayment of long-term debt	(752,845)	(372,302)
Proceeds from stock option exercise	24	943
Awards of common stock	(11,984)	(9,897)
Dividends paid	(73,876)	(69,695)
Valencia’s transactions with its owner	(14,995)	(10,225)
Transmission interconnection and security deposit arrangements	8,614	8,340
Refunds paid under transmission interconnection arrangements	(4,400)	(2,246)
Debt issuance costs and other, net	(1,104)	(2,609)
Net cash flows from financing activities	186,473	151,009
Change in Cash, Restricted Cash, and Equivalents	27,060	17,972
Cash, Restricted Cash, and Equivalents at Beginning of Period	3,833	2,122
Cash, Restricted Cash, and Equivalents at End of Period	$ 30,893	$ 20,094
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 84,139	$ 85,721
Income taxes paid (refunded), net	$ 969	$ (2,929)
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ 10,318	$ 25,023

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 30,893	$ 3,833
Accounts receivable, net of allowance for credit losses of $3,905 and $1,163	135,400	85,889
Unbilled revenues	64,321	57,416
Other receivables	12,972	12,165
Materials, supplies, and fuel stock	67,435	77,929
Regulatory assets	11,913	7,373
Income taxes receivable	4,981	4,933
Other current assets	50,070	44,472
Total current assets	377,985	294,010
Other Property and Investments:		
Investment securities	408,551	388,832
Equity investment in NMRD	90,519	65,159
Other investments	189	356
Non-utility property, net	22,086	12,459
Total other property and investments	521,345	466,806
Utility Plant:		
Plant in service, held for future use, and to be abandoned	8,106,592	7,918,601
Less accumulated depreciation and amortization	2,811,168	2,713,503
	5,295,424	5,205,098
Construction work in progress	379,848	161,106
Nuclear fuel, net of accumulated amortization of $47,539 and $42,354	99,115	99,805
Net utility plant	5,774,387	5,466,009
Deferred Charges and Other Assets:		
Regulatory assets	571,833	556,930
Goodwill	278,297	278,297
Operating lease right-of-use assets, net of accumulated amortization	111,638	131,212
Other deferred charges	106,627	105,510
Total deferred charges and other assets	1,068,395	1,071,949
	$ 7,742,112	$ 7,298,774

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 184,294	$ 185,100
Current installments of long-term debt	779,597	490,268
Accounts payable	84,684	103,118
Customer deposits	9,173	10,585
Accrued interest and taxes	73,097	76,815
Regulatory liabilities	6,632	505
Operating lease liabilities	26,826	29,068
Dividends declared	24,625	24,625
Other current liabilities	62,651	47,397
Total current liabilities	1,251,579	967,481
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,509,752	2,517,449
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	674,704	626,058
Regulatory liabilities	861,714	866,243
Asset retirement obligations	181,159	181,962
Accrued pension liability and postretirement benefit cost	86,170	95,037
Operating lease liabilities	81,933	105,512
Other deferred credits	250,977	185,753
Total deferred credits and other liabilities	2,136,657	2,060,565
Total liabilities	5,897,988	5,545,495
Commitments and Contingencies (Note 11)		
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 79,653,624 shares)	1,145,152	1,150,552
Accumulated other comprehensive income (loss), net of income taxes	(89,876)	(99,377)
Retained earnings	718,040	627,523
Total PNMR common stockholders' equity	1,773,316	1,678,698
Non-controlling interest in Valencia	59,279	63,052
Total equity	1,832,595	1,741,750
	$ 7,742,112	$ 7,298,774

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at June 30, 2020	$ 1,143,822	$ (92,581)	$ 645,259	$ 1,696,500	$ 59,927	$ 1,756,427
Net earnings before subsidiary preferred stock dividends	—	—	121,900	121,900	3,553	125,453
Total other comprehensive income	—	2,705	—	2,705	—	2,705
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(48,987)	(48,987)	—	(48,987)
Stock based compensation expense	1,330	—	—	1,330	—	1,330
Valencia's transactions with its owner	—	—	—	—	(4,201)	(4,201)
Balance at September 30, 2020	$ 1,145,152	$ (89,876)	$ 718,040	$ 1,773,316	$ 59,279	$ 1,832,595
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	—	—	164,393	164,393	11,222	175,615
Total other comprehensive income	—	9,501	—	9,501	—	9,501
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(73,480)	(73,480)	—	(73,480)
Proceeds from stock option exercise	24	—	—	24	—	24
Awards of common stock	(11,984)	—	—	(11,984)	—	(11,984)
Stock based compensation expense	6,560	—	—	6,560	—	6,560
Valencia's transactions with its owner	—	—	—	—	(14,995)	(14,995)
Balance at September 30, 2020	$ 1,145,152	$ (89,876)	$ 718,040	$ 1,773,316	$ 59,279	$ 1,832,595
Balance at June 30, 2019	$ 1,148,690	$ (100,182)	$ 563,640	$ 1,612,148	$ 62,592	$ 1,674,740
Net earnings before subsidiary preferred stock dividends	—	—	102,903	102,903	3,860	106,763
Total other comprehensive income	—	1,301	—	1,301	—	1,301
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(46,200)	(46,200)	—	(46,200)
Awards of common stock	(5)	—	—	(5)	—	(5)
Stock based compensation expense	898	—	—	898	—	898
Valencia's transactions with its owner	—	—	—	—	(2,277)	(2,277)
Balance at September 30, 2019	$ 1,149,583	$ (98,881)	$ 620,211	$ 1,670,913	$ 64,175	$ 1,735,088
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	—	—	45,953	45,953	10,188	56,141
Total other comprehensive income	—	9,803	—	9,803	—	9,803
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(69,299)	(69,299)	—	(69,299)
Proceeds from stock option exercise	943	—	—	943	—	943
Awards of common stock	(9,897)	—	—	(9,897)	—	(9,897)
Stock based compensation expense	5,424	—	—	5,424	—	5,424
Valencia's transactions with its owner	—	—	—	—	(10,225)	(10,225)
Balance at September 30, 2019	$ 1,149,583	$ (98,881)	$ 620,211	$ 1,670,913	$ 64,175	$ 1,735,088

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	$ 341,850	$ 311,793	$ 825,759	$ 775,795
Alternative revenue programs	(7,067)	(2,372)	(2,377)	(1,617)
Other electric operating revenue	29,721	21,692	50,043	64,471
Total electric operating revenues	364,504	331,113	873,425	838,649
Operating Expenses:				
Cost of energy	108,284	84,915	250,692	243,120
Administrative and general	45,538	44,468	132,257	132,107
Energy production costs	31,148	30,877	98,111	108,853
Regulatory disallowances and restructuring costs	—	—	—	150,599
Depreciation and amortization	40,509	40,545	123,721	119,581
Transmission and distribution costs	12,075	10,858	34,265	33,329
Taxes other than income taxes	10,410	10,997	34,651	34,292
Total operating expenses	247,964	222,660	673,697	821,881
Operating income	116,540	108,453	199,728	16,768
Other Income and Deductions:				
Interest income	3,239	3,515	9,882	10,701
Gains on investment securities	14,401	1,686	3,172	20,299
Other income	2,752	2,095	6,019	6,647
Other (deductions)	(5,590)	(3,011)	(10,700)	(7,639)
Net other income and deductions	14,802	4,285	8,373	30,008
Interest Charges	14,747	18,492	51,554	55,379
Earnings (Loss) before Income Taxes	116,595	94,246	156,547	(8,603)
Income Taxes (Benefits)	13,591	9,525	16,127	(31,984)
Net Earnings	103,004	84,721	140,420	23,381
(Earnings) Attributable to Valencia Non-controlling Interest	(3,553)	(3,860)	(11,222)	(10,188)
Net Earnings Attributable to PNM	99,451	80,861	129,198	13,193
Preferred Stock Dividends Requirements	(132)	(132)	(396)	(396)
Net Earnings Available for PNM Common Stock	$ 99,319	$ 80,729	$ 128,802	$ 12,797

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Net Earnings	$ 103,004	$ 84,721	$ 140,420	$ 23,381
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Debt Securities:				
Net change in unrealized holding gains arising during the period, net of income tax (expense) of $(1,278), $(1,821), $(3,746), and $(5,869)	3,755	5,347	11,004	17,237
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $1,041, $1,768, $1,818, and $3,191	(3,056)	(5,194)	(5,338)	(9,372)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of $(527), $(470), $(1,581), and $(1,410)	1,548	1,381	4,644	4,143
Total Other Comprehensive Income	2,247	1,534	10,310	12,008
Comprehensive Income	105,251	86,255	150,730	35,389
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,553)	(3,860)	(11,222)	(10,188)
Comprehensive Income Attributable to PNM	$ 101,698	$ 82,395	$ 139,508	$ 25,201

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

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

	Nine Months Ended September 30,	
	2020	**2019**
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 140,420	$ 23,381
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	147,790	143,175
Deferred income tax expense (benefit)	16,607	(31,382)
(Gains) on investment securities	(3,172)	(20,299)
Regulatory disallowances and restructuring costs	—	150,599
Allowance for equity funds used during construction	(4,229)	(4,904)
Other, net	4,382	1,911
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(46,312)	(11,187)
Materials, supplies, and fuel stock	10,945	(5,275)
Other current assets	(5,661)	1,076
Other assets	19,184	25,884
Accounts payable	(2,481)	(3,090)
Accrued interest and taxes	564	20,182
Other current liabilities	9,022	24,072
Other liabilities	(30,820)	(35,488)
Net cash flows from operating activities	256,239	278,655
Cash Flows From Investing Activities:		
Utility plant additions	(251,873)	(234,773)
Proceeds from sales of investment securities	489,218	375,382
Purchases of investment securities	(498,170)	(385,313)
Other, net	167	28
Net cash flows from investing activities	(260,658)	(244,676)

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

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

	Nine Months Ended September 30,	
	2020	**2019**
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	$ (36,300)	$ (42,400)
Short-term borrowings (repayments) – affiliate, net	—	(19,800)
Long-term borrowings	852,845	250,000
Repayment of long-term debt	(752,845)	(200,000)
Dividends paid	(41,049)	(396)
Valencia's transactions with its owner	(14,995)	(10,225)
Transmission interconnection and security deposit arrangements	2,212	8,340
Refunds paid under transmission interconnection arrangements	(4,400)	(2,246)
Debt issuance costs and other, net	1,077	(198)
Net cash flows from financing activities	6,545	(16,925)
Change in Cash, Restricted Cash, and Equivalents	2,126	17,054
Cash, Restricted Cash, and Equivalents at Beginning of Period	1,001	85
Cash, Restricted Cash, and Equivalents at End of Period	$ 3,127	$ 17,139
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 45,614	$ 42,284
Income taxes paid (refunded), net	$ —	$ (3,544)
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ 3,955	$ 12,980

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

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

	September 30, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,127	$ 1,001
Accounts receivable, net of allowance for credit losses of $3,905 and $1,163	100,914	60,447
Unbilled revenues	51,523	46,602
Other receivables	11,842	11,039
Affiliate receivables	8,867	8,825
Materials, supplies, and fuel stock	61,281	72,225
Regulatory assets	11,913	7,373
Income taxes receivable	15,602	15,122
Other current assets	37,661	36,561
Total current assets	302,730	259,195
Other Property and Investments:		
Investment securities	408,551	388,832
Other investments	11	178
Non-utility property, net	9,083	4,470
Total other property and investments	417,645	393,480
Utility Plant:		
Plant in service, held for future use, and to be abandoned	5,822,180	5,753,267
Less accumulated depreciation and amortization	2,137,415	2,076,291
	3,684,765	3,676,976
Construction work in progress	227,721	108,787
Nuclear fuel, net of accumulated amortization of $47,539 and $42,354	99,115	99,805
Net utility plant	4,011,601	3,885,568
Deferred Charges and Other Assets:		
Regulatory assets	465,573	435,467
Goodwill	51,632	51,632
Operating lease right-of-use assets, net of accumulated amortization	103,251	120,585
Other deferred charges	96,806	97,064
Total deferred charges and other assets	717,262	704,748
	$ 5,449,238	$ 5,242,991

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

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

	September 30, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 21,700	$ 58,000
Current installments of long-term debt	189,941	350,268
Accounts payable	60,310	66,746
Affiliate payables	10,698	12,524
Customer deposits	9,173	10,585
Accrued interest and taxes	44,661	43,617
Regulatory liabilities	6,032	371
Operating lease liabilities	24,282	25,927
Dividends declared	132	132
Other current liabilities	34,415	25,066
Total current liabilities	401,344	593,236
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,656,046	1,397,752
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	564,256	521,990
Regulatory liabilities	670,574	683,398
Asset retirement obligations	180,223	181,081
Accrued pension liability and postretirement benefit cost	79,947	87,838
Operating lease liabilities	76,252	97,992
Other deferred credits	201,951	155,744
Total deferred credits and liabilities	1,773,203	1,728,043
Total liabilities	3,830,593	3,719,031
Commitments and Contingencies (Note 11)		
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)	1,264,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(88,745)	(99,055)
Retained earnings	371,664	283,516
Total PNM common stockholder's equity	1,547,837	1,449,379
Non-controlling interest in Valencia	59,279	63,052
Total equity	1,607,116	1,512,431
	$ 5,449,238	$ 5,242,991

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

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

	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 June 30, 2020	$ 1,264,918	$ (90,992)	$ 272,345	$ 1,446,271	$ 59,927	$ 1,506,198
Net earnings	—	—	99,451	99,451	3,553	103,004
Total other comprehensive income	—	2,247	—	2,247	—	2,247
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Valencia's transactions with its owner	—	—	—	—	(4,201)	(4,201)
Balance at September 30, 2020	$ 1,264,918	$ (88,745)	$ 371,664	$ 1,547,837	$ 59,279	$ 1,607,116
Balance at December 31, 2019	$ 1,264,918	$ (99,055)	$ 283,516	$ 1,449,379	$ 63,052	$ 1,512,431
Net earnings	—	—	129,198	129,198	11,222	140,420
Total other comprehensive income	—	10,310	—	10,310	—	10,310
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(40,654)	(40,654)	—	(40,654)
Valencia's transactions with its owner	—	—	—	—	(14,995)	(14,995)
Balance at September 30, 2020	$ 1,264,918	$ (88,745)	$ 371,664	$ 1,547,837	$ 59,279	$ 1,607,116
Balance at June 30, 2019	$ 1,264,918	$ (99,948)	$ 174,931	$ 1,339,901	$ 62,592	$ 1,402,493
Net earnings	—	—	80,861	80,861	3,860	84,721
Total other comprehensive income	—	1,534	—	1,534	—	1,534
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Valencia's transactions with its owner	—	—	—	—	(2,277)	(2,277)
Balance at September 30, 2019	$ 1,264,918	$ (98,414)	$ 255,660	$ 1,422,164	$ 64,175	$ 1,486,339
Balance at December 31, 2018	$ 1,264,918	$ (110,422)	$ 242,863	$ 1,397,359	$ 64,212	$ 1,461,571
Net earnings	—	—	13,193	13,193	10,188	23,381
Total other comprehensive income	—	12,008	—	12,008	—	12,008
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Valencia's transactions with its owner	—	—	—	—	(10,225)	(10,225)
Balance at September 30, 2019	$ 1,264,918	$ (98,414)	$ 255,660	$ 1,422,164	$ 64,175	$ 1,486,339

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	$ 113,270	$ 106,880	$ 295,418	$ 273,492
Alternative revenue programs	(5,309)	(4,407)	(5,107)	1,317
Total electric operating revenues	107,961	102,473	290,311	274,809
Operating Expenses:				
Cost of energy	25,707	23,821	75,872	71,025
Administrative and general	11,868	9,418	33,398	30,073
Depreciation and amortization	22,492	22,005	66,696	62,722
Transmission and distribution costs	6,667	5,603	19,797	19,004
Taxes other than income taxes	9,448	9,030	25,249	24,226
Total operating expenses	76,182	69,877	221,012	207,050
Operating income	31,779	32,596	69,299	67,759
Other Income and Deductions:				
Other income	3,546	2,012	6,245	3,952
Other (deductions)	(1,260)	(246)	(1,435)	(869)
Net other income and deductions	2,286	1,766	4,810	3,083
Interest Charges	7,942	7,047	22,475	22,408
Earnings before Income Taxes	26,123	27,315	51,634	48,434
Income Taxes	2,202	2,228	4,447	3,982
Net Earnings	$ 23,921	$ 25,087	$ 47,187	$ 44,452

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

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

	Nine Months Ended September 30,	
	2020	**2019**
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 47,187	$ 44,452
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	67,595	63,654
Deferred income tax expense (benefit)	(10,737)	(12,286)
Allowance for equity funds used during construction	(2,499)	(1,810)
Other, net	33	33
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(11,029)	(13,512)
Materials and supplies	(450)	(633)
Other current assets	(570)	(3,870)
Other assets	5,910	6,444
Accounts payable	952	848
Accrued interest and taxes	12,326	12,000
Other current liabilities	830	1,684
Other liabilities	4,258	(289)
Net cash flows from operating activities	113,806	96,715
Cash Flows From Investing Activities:		
Utility plant additions	(228,976)	(195,054)
Net cash flows from investing activities	(228,976)	(195,054)
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	494	—
Revolving credit facilities borrowings (repayments), net	(15,000)	(2,500)
Short-term borrowings (repayments) – affiliate, net	—	700
Long-term borrowings	185,000	305,000
Repayment of long-term debt	—	(172,302)
Transmission interconnection arrangements	6,402	—
Dividends paid	(34,613)	(30,178)
Debt issuance costs and other, net	(2,113)	(2,381)
Net cash flows from financing activities	140,170	98,339
Change in Cash and Cash Equivalents	25,000	—
Cash and Cash Equivalents at Beginning of Period	1,000	—
Cash and Cash Equivalents at End of Period	$ 26,000	$ —
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 22,340	$ 24,238
Income taxes paid (refunded), net	$ 969	$ 615
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ 1,443	$ 7,799

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26,000	$ 1,000
Accounts receivable	34,486	25,442
Unbilled revenues	12,798	10,814
Other receivables	2,948	2,713
Materials and supplies	6,154	5,704
Other current assets	1,882	1,280
Total current assets	84,268	46,953
Other Property and Investments:		
Other investments	178	178
Non-utility property, net	11,711	6,684
Total other property and investments	11,889	6,862
Utility Plant:		
Plant in service and plant held for future use	2,031,222	1,919,256
Less accumulated depreciation and amortization	537,880	516,795
	1,493,342	1,402,461
Construction work in progress	141,071	42,554
Net utility plant	1,634,413	1,445,015
Deferred Charges and Other Assets:		
Regulatory assets	106,260	121,463
Goodwill	226,665	226,665
Operating lease right-of-use assets, net of accumulated amortization	7,876	9,954
Other deferred charges	3,920	3,527
Total deferred charges and other assets	344,721	361,609
	$ 2,075,291	$ 1,860,439

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 494	$ 15,000
Accounts payable	20,107	20,598
Affiliate payables	4,571	5,419
Accrued interest and taxes	54,394	42,068
Regulatory liabilities	600	134
Operating lease liabilities	2,341	2,753
Other current liabilities	5,407	3,565
Total current liabilities	87,914	89,537
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	853,706	670,691
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	138,873	140,151
Regulatory liabilities	191,140	182,845
Asset retirement obligations	936	881
Accrued pension liability and postretirement benefit cost	6,223	7,199
Operating lease liabilities	5,311	7,039
Other deferred credits	23,987	7,469
Total deferred credits and other liabilities	366,470	345,584
Total liabilities	1,308,090	1,105,812
Commitments and Contingencies (Note 11)		
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	614,166	614,166
Retained earnings	152,971	140,397
Total common stockholder's equity	767,201	754,627
	$ 2,075,291	$ 1,860,439

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
Balance at June 30, 2020	$ 64	$ 614,166	$ 145,224	$ 759,454
Net earnings	—	—	23,921	23,921
Dividends declared on common stock	—	—	(16,174)	(16,174)
Balance at September 30, 2020	$ 64	$ 614,166	$ 152,971	$ 767,201
Balance at December 31, 2019	$ 64	$ 614,166	$ 140,397	$ 754,627
Net earnings	—	—	47,187	47,187
Dividends declared on common stock	—	—	(34,613)	(34,613)
Balance at September 30, 2020	$ 64	$ 614,166	$ 152,971	$ 767,201
Balance at June 30, 2019	$ 64	$ 534,166	$ 144,417	$ 678,647
Net earnings	—	—	25,087	25,087
Dividends declared on common stock	—	—	(15,367)	(15,367)
Balance at September 30, 2019	$ 64	$ 534,166	$ 154,137	$ 688,367
Balance at December 31, 2018	$ 64	$ 534,166	$ 139,863	$ 674,093
Net earnings	—	—	44,452	44,452
Dividends declared on common stock	—	—	(30,178)	(30,178)
Balance at September 30, 2019	$ 64	$ 534,166	$ 154,137	$ 688,367

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at September 30, 2020 and December 31, 2019, and the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2020 and 2019, and cash flows for the nine months ended September 30, 2020 and 2019. 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. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed 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 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2020 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2019 Annual Reports on Form 10-K.

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. 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 18.

Principles of Consolidation

The Condensed 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. See Note 6. 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. See Note 15. All intercompany transactions and balances have been eliminated.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by the 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 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 $0.3075 per share in July 2020 and $0.290 per share in July 2019, which are reflected as being in the second quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings. The Board declared dividends on common stock for the third quarter of $0.3075 per share in September 2020 and $0.290 per share in September 2019, which are reflected as being in the third quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statement of Earnings.

PNM declared and paid cash dividends on its common stock to PNMR of zero and $40.7 million in the three and nine months ended September 30, 2020. PNM did not pay cash dividends on its common stock to PNMR in the three and nine months ended September 30, 2019. TNMP declared and paid cash dividends on its common stock to PNMR of $16.2 million and $34.6 million in the three and nine months ended September 30, 2020 and $15.4 million and $30.2 million in the three and nine months ended September 30, 2019.

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

In August 2018, the FASB issued ASU 2018-14 to improve benefit plan sponsors' disclosures for defined benefit pension and other post-employment benefit plans. ASU 2018-14 removes the requirement to disclose the amounts in other comprehensive income expected to be recognized as benefit cost over the next fiscal year and the requirement to disclose the impact of a one-percentage-point change in the assumed health care cost trend rate; clarifies the disclosure requirements for plans with assets that are less than their projected benefit, or accumulated benefit obligation; and requires significant gains and losses affecting benefit obligations during the period be disclosed. ASU 2018-14 is effective for the Company on December 31, 2020, although early adoption is permitted, and requires retrospective application. As discussed in Note 11 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K and in Note 10, PNM and TNMP maintain qualified defined benefit, other postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The Company is in the process of evaluating the requirements of ASU 2018-14 but does not anticipate these changes will have a significant impact on the Company's defined benefit and other postretirement benefit plan disclosures.

Accounting Standards Update 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.

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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 transactions are reflected in the Corporate and Other segment.

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.

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	PNMR Consolidated
		(In thousands)		
Three Months Ended September 30, 2020				
Electric operating revenues	$ 364,504	$ 107,961	$ —	$ 472,465
Cost of energy	108,284	25,707	—	133,991
Utility margin	256,220	82,254	—	338,474
Other operating expenses	99,171	27,983	(4,885)	122,269
Depreciation and amortization	40,509	22,492	5,399	68,400
Operating income (loss)	116,540	31,779	(514)	147,805
Interest income	3,239	—	(59)	3,180
Other income	11,563	2,286	213	14,062
Interest charges	(14,747)	(7,942)	(4,574)	(27,263)
Segment earnings (loss) before income taxes	116,595	26,123	(4,934)	137,784
Income taxes (benefit)	13,591	2,202	(3,462)	12,331
Segment earnings (loss)	103,004	23,921	(1,472)	125,453
Valencia non-controlling interest	(3,553)	—	—	(3,553)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$ 99,319	$ 23,921	$ (1,472)	$ 121,768
Nine Months Ended September 30, 2020				
Electric operating revenues	$ 873,425	$ 290,311	$ —	$ 1,163,736
Cost of energy	250,692	75,872	—	326,564
Utility margin	622,733	214,439	—	837,172
Other operating expenses	299,284	78,444	(14,644)	363,084
Depreciation and amortization	123,721	66,696	16,978	207,395
Operating income (loss)	199,728	69,299	(2,334)	266,693
Interest income	9,882	—	(208)	9,674
Other income (deductions)	(1,509)	4,810	(542)	2,759
Interest charges	(51,554)	(22,475)	(14,756)	(88,785)
Segment earnings (loss) before income taxes	156,547	51,634	(17,840)	190,341
Income taxes (benefit)	16,127	4,447	(5,848)	14,726
Segment earnings (loss)	140,420	47,187	(11,992)	175,615
Valencia non-controlling interest	(11,222)	—	—	(11,222)
Subsidiary preferred stock dividends	(396)	—	—	(396)
Segment earnings (loss) attributable to PNMR	$ 128,802	$ 47,187	$ (11,992)	$ 163,997
At September 30, 2020:				
Total Assets	$ 5,449,238	$ 2,075,291	$ 217,583	$ 7,742,112
Goodwill	$ 51,632	$ 226,665	$ —	$ 278,297

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	PNM	TNMP	Corporate and Other	PNMR Consolidated
		(In thousands)		
Three Months Ended September 30, 2019				
Electric operating revenues	$ 331,113	$ 102,473	$ —	$ 433,586
Cost of energy	84,915	23,821	—	108,736
Utility margin	246,198	78,652	—	324,850
Other operating expenses	97,200	24,051	(5,291)	115,960
Depreciation and amortization	40,545	22,005	5,800	68,350
Operating income (loss)	108,453	32,596	(509)	140,540
Interest income	3,515	—	(75)	3,440
Other income (deductions)	770	1,766	(206)	2,330
Interest charges	(18,492)	(7,047)	(4,820)	(30,359)
Segment earnings (loss) before income taxes	94,246	27,315	(5,610)	115,951
Income taxes (benefit)	9,525	2,228	(2,565)	9,188
Segment earnings (loss)	84,721	25,087	(3,045)	106,763
Valencia non-controlling interest	(3,860)	—	—	(3,860)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$ 80,729	$ 25,087	$ (3,045)	$ 102,771
Nine Months Ended September 30, 2019				
Electric operating revenues	$ 838,649	$ 274,809	$ —	$ 1,113,458
Cost of energy	243,120	71,025	—	314,145
Utility margin	595,529	203,784	—	799,313
Other operating expenses	459,180	73,303	(16,589)	515,894
Depreciation and amortization	119,581	62,722	17,468	199,771
Operating income (loss)	16,768	67,759	(879)	83,648
Interest income	10,701	—	(212)	10,489
Other income (deductions)	19,307	3,083	(1,021)	21,369
Interest charges	(55,379)	(22,408)	(13,998)	(91,785)
Segment earnings (loss) before income taxes	(8,603)	48,434	(16,110)	23,721
Income taxes (benefit)	(31,984)	3,982	(4,418)	(32,420)
Segment earnings (loss)	23,381	44,452	(11,692)	56,141
Valencia non-controlling interest	(10,188)	—	—	(10,188)
Subsidiary preferred stock dividends	(396)	—	—	(396)
Segment earnings (loss) attributable to PNMR	$ 12,797	$ 44,452	$ (11,692)	$ 45,557
At September 30, 2019:				
Total Assets	$ 5,176,831	$ 1,832,066	$ 192,035	$ 7,200,932
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.

(3) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the nine months ended September 30, 2020 and 2019 is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			Corporate and Other	PNMR Consolidated
	Unrealized Gains on Available-for-Sale Debt Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
Balance at December 31, 2019	$ 10,638	$ (109,693)	$ (99,055)	$ (322)	$ (99,377)
Amounts reclassified from AOCI (pre-tax)	(7,156)	6,225	(931)	(1,117)	(2,048)
Income tax impact of amounts reclassified	1,818	(1,581)	237	284	521
Other OCI changes (pre-tax)	14,750	—	14,750	33	14,783
Income tax impact of other OCI changes	(3,746)	—	(3,746)	(9)	(3,755)
Net after-tax change	5,666	4,644	10,310	(809)	9,501
Balance at September 30, 2020	$ 16,304	$ (105,049)	$ (88,745)	$ (1,131)	$ (89,876)
Balance at December 31, 2018	$ 1,939	$ (112,361)	$ (110,422)	$ 1,738	$ (108,684)
Amounts reclassified from AOCI (pre-tax)	(12,563)	5,553	(7,010)	707	(6,303)
Income tax impact of amounts reclassified	3,191	(1,410)	1,781	(179)	1,602
Other OCI changes (pre-tax)	23,106	—	23,106	(3,664)	19,442
Income tax impact of other OCI changes	(5,869)	—	(5,869)	931	(4,938)
Net after-tax change	7,865	4,143	12,008	(2,205)	9,803
Balance at September 30, 2019	$ 9,804	$ (108,218)	$ (98,414)	$ (467)	$ (98,881)

The Condensed 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 Condensed Consolidated Statements of Earnings.

(4) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. PNMR's potentially dilutive shares consist of restricted stock and PNMR common stock issuable under the PNMR 2020 Forward Equity Sale Agreements, which are calculated under the treasury stock method. See Note 9.

Information regarding the computation of earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	$ 121,768	$ 102,771	$ 163,997	$ 45,557
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	213	294	205	265
Average Shares – Basic	79,867	79,948	79,859	79,919
Dilutive Effect of Common Stock Equivalents:				
PNMR 2020 Forward Equity Sale Agreements	—	—	57	—
Restricted stock	39	53	38	61
Average Shares – Diluted	79,906	80,001	79,954	79,980
Net Earnings Per Share of Common Stock:				
Basic	$ 1.52	$ 1.29	$ 2.05	$ 0.57
Diluted	$ 1.52	$ 1.28	$ 2.05	$ 0.57

(5) Electric Operating Revenues

PNMR is an investor-owned holding company with two regulated utilities providing electricity and electric services in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

Additional information concerning electric operating revenue is contained in Note 4 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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. The Company 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. 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 $2.0 million and $2.7 million in the three and nine months ended September 30, 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 7 and the related regulatory treatment in Note 12.

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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 alternative revenue program revenues ("ARP") and other revenues.

	PNM	TNMP	PNMR Consolidated
Three Months Ended September 30, 2020		(In thousands)	
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 158,549	$ 53,114	$ 211,663
Commercial	125,414	31,077	156,491
Industrial	25,475	6,842	32,317
Public authority	7,982	1,468	9,450
Economy energy service	3,270	—	3,270
Transmission	17,463	19,845	37,308
Miscellaneous	3,697	924	4,621
Total revenues from contracts with customers	341,850	113,270	455,120
Alternative revenue programs	(7,067)	(5,309)	(12,376)
Other electric operating revenues	29,721	—	29,721
Total Electric Operating Revenues	$ 364,504	$ 107,961	$ 472,465
Nine Months Ended September 30, 2020			
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 370,448	$ 122,315	$ 492,763
Commercial	305,127	87,868	392,995
Industrial	65,313	20,232	85,545
Public authority	17,236	4,311	21,547
Economy energy service	11,802	—	11,802
Transmission	45,727	58,095	103,822
Miscellaneous	10,106	2,597	12,703
Total revenues from contracts with customers	825,759	295,418	1,121,177
Alternative revenue programs	(2,377)	(5,107)	(7,484)
Other electric operating revenues	50,043	—	50,043
Total Electric Operating Revenues	$ 873,425	$ 290,311	$ 1,163,736

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	PNM	TNMP	PNMR Consolidated
Three Months Ended September 30, 2019		(In thousands)	
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 137,741	$ 50,718	$ 188,459
Commercial	121,702	31,042	152,744
Industrial	20,946	5,415	26,361
Public authority	6,140	1,440	7,580
Economy energy service	5,731	—	5,731
Transmission	16,068	17,384	33,452
Miscellaneous	3,465	881	4,346
Total revenues from contracts with customers	311,793	106,880	418,673
Alternative revenue programs	(2,372)	(4,407)	(6,779)
Other electric operating revenues	21,692	—	21,692
Total Electric Operating Revenues	$ 331,113	$ 102,473	$ 433,586
Nine Months Ended September 30, 2019			
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 331,371	$ 114,791	$ 446,162
Commercial	305,903	86,529	392,432
Industrial	51,022	16,326	67,348
Public authority	15,447	4,204	19,651
Economy energy service	18,677	—	18,677
Transmission	43,794	48,972	92,766
Miscellaneous	9,581	2,670	12,251
Total revenues from contracts with customers	775,795	273,492	1,049,287
Alternative revenue programs	(1,617)	1,317	(300)
Other electric operating revenues	64,471	—	64,471
Total Electric Operating Revenues	$ 838,649	$ 274,809	$ 1,113,458

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 ARPs. For PNM, accounts receivable reflected on the Condensed Consolidated Balance Sheets, net of allowance for credit losses, includes $94.4 million at September 30, 2020 and $59.3 million at December 31, 2019 resulting from contracts with customers. All of TNMP's accounts receivable results from contracts with customers.

Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance). The Company has no contract assets as of September 30, 2020 or December 31, 2019. 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.

(6) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity ("VIE"). GAAP also requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM's VIEs is contained in Note 10 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three and nine months ended September 30, 2020, PNM paid $5.0 million and $15.0 million for fixed charges and $0.3 million and $1.2 million for variable charges. For the three and nine months ended September 30, 2019, PNM paid $5.0 million and $14.9 million for fixed charges and $0.4 million and $0.7 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM's assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

PNM sources fuel for the plant, controls when the facility operates through its dispatch, and receives the entire output of the plant, which factors directly and significantly impact the economic performance of Valencia. Therefore, PNM has concluded that the third-party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity under GAAP since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the Condensed 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 Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

	Results of Operations			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Operating revenues	$ 5,278	$ 5,409	$ 16,126	$ 15,538
Operating expenses	1,725	1,549	4,904	5,350
Earnings attributable to non-controlling interest	$ 3,553	$ 3,860	$ 11,222	$ 10,188

	Financial Position	
	September 30, 2020	December 31, 2019
	(In thousands)	
Current assets	$ 3,701	$ 5,094
Net property, plant, and equipment	56,453	58,581
Total assets	60,154	63,675
Current liabilities	875	623
Owners' equity – non-controlling interest	$ 59,279	$ 63,052

Westmoreland San Juan Mining, LLC

As discussed in the subheading Coal Supply in Note 11, PNM purchases coal for SJGS under the SJGS CSA. On October 9, 2018, Westmoreland filed a Current Report on Form 8-K with the SEC announcing it had filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. On March 15, 2019, Westmoreland emerged from Chapter 11 bankruptcy as a privately held company owned and operated by a group of its former creditors. Under the reorganization, the assets of SJCC were sold to Westmoreland San Juan Mining, LLC ("WSJ LLC"), a subsidiary of Westmoreland Mining Holdings, LLC. As successor entity to SJCC, WSJ LLC assumed all rights and obligations of WSJ including obligations to PNM under the SJGS CSA and to PNMR under letter of credit support agreements.

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 September 30, 2020.

(7) Fair Value of Derivative and Other Financial Instruments

Additional information concerning energy related derivative contracts and other financial instruments is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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

Energy Related Derivative Contracts

Overview

The primary objective for the use of commodity derivative instruments, including energy contracts, options, swaps, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. PNM's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its customers. PNM is exposed to market risk for the needs of its customers not covered under 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. 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 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 nine months ended September 30, 2020 and the year ended December 31, 2019, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The derivative contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. PNM has no trading transactions.

Commodity Derivatives

PNM's commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges and considered Level 2 fair value measurements, are presented in the following line items on the Condensed Consolidated Balance Sheets:

	Economic Hedges	
	September 30, 2020	December 31, 2019
	(In thousands)	
Other current assets	$ 1,097	$ 1,089
Other deferred charges	729	1,507
	1,826	2,596
Other current liabilities	(1,097)	(1,089)
Other deferred credits	(729)	(1,507)
	(1,826)	(2,596)
Net	$ —	$ —

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 September 30, 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 September 30, 2020 and December 31, 2019, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at both September 30, 2020 and December 31, 2019, amounts posted as cash collateral under margin arrangements were $0.5 million. At both September 30, 2020 and December 31, 2019, obligations to return cash collateral were $0.9 million. Cash collateral amounts are included in other current assets and other current liabilities on the Condensed 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 September 30, 2020 or December 31, 2019.

The effects of mark-to-market commodity derivative instruments on PNM's revenues and cost of energy during the three and nine months ended September 30, 2020 and 2019 were less than $0.1 million. Commodity derivatives had no impact on OCI for the periods presented.

PNM has no open energy or gas commodity volume positions at September 30, 2020 or December 31, 2019.

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 September 30, 2020 and December 31, 2019, PNM had no such contracts in a net liability position.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed 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 11. At September 30, 2020 and December 31, 2019, the fair value of investment securities included $352.0 million and $336.0 million for the NDT and $56.6 million and $52.8 million for the 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Equity securities:				
Net gains from equity securities sold	$ 90	$ 514	$ 4,131	$ 4,675
Net gains from equity securities still held	8,545	1,011	2,991	10,916
Total net gains on equity securities	8,635	1,525	7,122	15,591
Available-for-sale debt securities:				
Net gains (losses) on debt securities	5,766	161	(3,950)	4,708
Net gains on investment securities	$ 14,401	$ 1,686	$ 3,172	$ 20,299

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 $4.2 million and $(4.5) million for the three and nine months ended September 30, 2020 and $0.2 million and $2.8 million for the three and nine months ended September 30, 2019.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Proceeds from sales	$ 134,567	$ 141,371	$ 489,218	$ 375,382
Gross realized gains	$ 12,998	$ 6,510	$ 30,085	$ 21,605
Gross realized (losses)	$ (11,374)	$ (6,026)	$ (25,411)	$ (14,998)

At September 30, 2020, the available-for-sale debt securities held by PNM, had the following final maturities:

	Fair Value
	(In thousands)
Within 1 year	$ 29,941
After 1 year through 5 years	85,926
After 5 years through 10 years	85,507
After 10 years through 15 years	15,533
After 15 years through 20 years	8,861
After 20 years	41,289
	$ 267,057

Fair Value Disclosures

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

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 September 30, 2020 and December 31, 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.

Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy along with gross unrealized gains on investments in available-for-sale debt 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)		
September 30, 2020				
Cash and cash equivalents	$ 8,493	$ 8,493	$ —	
Equity securities:				
Corporate stocks, common	71,490	71,490	—	
Corporate stocks, preferred	9,940	3,718	6,222	
Mutual funds and other	51,571	51,571	—	
Available-for-sale debt securities:				
U.S. government	55,439	30,483	24,956	$ 1,159
International government	14,330	—	14,330	1,586
Municipals	49,064	—	49,064	2,468
Corporate and other	148,224	10	148,214	16,679
	$ 408,551	$ 165,765	$ 242,786	$ 21,892
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
	$ 388,832	$ 163,707	$ 225,125	$ 14,297

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 Condensed Consolidated Balance Sheets, are presented below:

	Carrying Amount	Fair Value
September 30, 2020	(In thousands)	
PNMR	$ 3,289,349	$ 3,333,741
PNM	$ 1,845,987	$ 1,740,129
TNMP	$ 853,706	$ 1,000,248
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 Condensed Consolidated Balance Sheets are not material and not shown in the above table.

(8) 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 as of 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. Additional information concerning stock-based compensation under the PEP is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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 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 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. At September 30, 2020, PNMR had unrecognized expense related to stock awards of $5.0 million, which is expected to be recognized over an average of 1.6 years.

PNMR receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options, and a tax deduction for the value of restricted stock at the vesting date. GAAP requires that all excess tax benefits and deficiencies be recorded to tax expense and classified as operating cash flows when used to reduce income taxes payable. See Note 14.

The grant date fair value for restricted stock and stock awards with internal Company performance targets is determined based on the market price of PNMR common stock on the date of the agreements reduced by the present value of future dividends that will not be received prior to vesting. The grant date fair value is applied to the total number of shares that are anticipated to vest, although the number of performance shares that ultimately vest cannot be determined until after the performance periods end. The grant date fair value of stock awards with market targets is determined using Monte Carlo simulation models, which provide grant date fair values that include an expectation of the number of shares to vest at the end of the measurement period.

The following table summarizes the weighted-average assumptions used to determine the awards grant date fair value:

	Nine Months Ended September 30,	
Restricted Shares and Performance Based Shares	**2020**	**2019**
Expected quarterly dividends per share	$ 0.3075	$ 0.2900
Risk-free interest rate	0.72 %	2.47 %
Market-Based Shares		
Dividend yield	2.51 %	2.59 %
Expected volatility	19.41	19.55
Risk-free interest rate	0.72	2.51

The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the nine months ended September 30, 2020:

	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 September 30, 2020	168,061	$ 40.77	—	$ —

PNMR’s current stock-based compensation program provides for performance and market targets through 2022. Included in 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). Excluded from the table above are 150,543, 142,080 and 142,047 shares for the three-year performance periods ending in 2020, 2021 and 2022 that will be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

In 2015, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive a total of 53,859 shares of PNMR’s common stock if PNMR meets certain performance targets at the end of 2017 and 2019 and she remained an employee of the Company. The retention award was made under the PEP and was approved by the Board on February 26, 2015. Under the agreement, she was to receive 17,953 of the total shares if PNMR achieved specific performance targets at the end of 2017. 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 agreement of 35,906 shares was achieved at the end of 2019. The Board ratified her receiving the shares in February 2020 and such shares are included in the above table.

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

	Nine Months Ended September 30,	
Restricted Stock	**2020**	**2019**
Weighted-average grant date fair value	$ 36.73	$ 37.92
Total fair value of restricted shares that vested (in thousands)	$ 11,740	$ 6,227
Stock Options		
Total intrinsic value of options exercised (in thousands)	$ 84	$ 2,617

(9) 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. Each of the Company’s revolving credit facilities and term loans contain a single financial covenant that requires the maintenance of a debt-to-capitalization ratio. For the PNMR and PNMR Development agreements this ratio must be maintained at less than or equal to 70%, and for the PNM and TNMP agreements this ratio must be maintained at less than or equal to 65%. The Company’s revolving credit facilities and term loans generally also contain customary covenants, events of default, cross-default provisions, and change-of-control provisions. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. Additional information concerning financing activities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Financing Activities

In October 2016, PNMR entered into letter 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 arrangements. See Note 11. 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.

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) with each of Citibank N.A., and Bank of America N.A., as forward purchasers (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, has the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates.

PNMR expects to physically settle all shares under the PNMR 2020 Forward Equity Sale Agreements by delivering newly issued shares to the forward purchasers on or before January 7, 2021 in exchange for cash at the then applicable forward sales price. PNMR also has the option to net settle the agreement in cash or shares of PNMR common stock. Under a net cash settlement, under which no PNMR common stock would be issued, PNMR would receive net proceeds for a decrease in the market value of PNMR's common stock relative to the then applicable forward sales price per share, or would owe cash in the

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event of an increase in the market value of PNMR common stock. Under a net share settlement, PNMR would not receive any cash proceeds and may be required to deliver a sufficient number of shares of PNMR common stock to satisfy its obligation to the forward purchasers. The number of shares to be delivered to the forward purchasers would be based on the increase in the PNMR's common stock price relative to the then applicable forward sales price per share. The forward sale agreements meet the derivative scope exception requirements for contracts involving an entity's own equity. Until settlement of the forward sale agreements, PNMR's EPS dilution resulting from the agreements, if any, will be determined using the treasury stock method, which will result in dilution during periods when the average market price of PNMR stock during the reporting period is higher than the applicable forward sales price as of the end of that period. See Note 4.

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 of the TNMP 2020 Bond Purchase Agreement. The terms of the TNMP 2020 Bond Purchase Agreement include customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, a cross-default provision, and a change-of-control provision. TNMP will have the right to redeem any or all of the TNMP 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 as follows:

Funding Date	Maturity Date	Principal Amount	Interest Rate
		(In millions)	
April 24, 2020	April 24, 2030	$ 85.0	2.73 %
April 24, 2020	April 24, 2050	25.0	3.36
		110.0	
July 15, 2020	July 15, 2035	25.0	2.93
July 15, 2020	July 15, 2050	50.0	3.36
		$ 185.0	

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. The PNM 2020 Term Loan bears interest at a variable rate, which was 2.70% at September 30, 2020, and matures on June 15, 2021. 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 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 SUNs 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. 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 September 30, 2020, this rate was 0.32%. 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. In accordance with GAAP, 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, the PNM Floating Rate PCRBs, aggregating $100.3 million, are reflected as long-term debt in the Condensed Consolidated Balance Sheets at September 30, 2020.

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 as follows:

Funding Date	Mandatory Tender Date	Principal Amount	Interest Rate
		(In millions)	
July 22, 2020	June 1, 2022	$ 36.0	1.05 %
July 22, 2020	June 1, 2022	11.5	1.20
July 22, 2020	June 1, 2023	130.0	1.10
July 22, 2020	June 1, 2024	125.0	1.15
		$ 302.5	

On October 20, 2020, in connection with the execution of the Merger Agreement (Note 18), 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") is 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). The Merger Backstop Term Loan matures on the earliest of the closing of the Merger or October 19, 2021 and bears interest at a variable rate based on a pricing grid. PNMR must pay interest on its borrowings under the Merger Backstop Term Loan from time to time following funding and must repay all amounts on or before the maturity date. The Merger Backstop Term Loan, consistent with PNMR’s current credit facilities, contains “ratings triggers” for pricing purposes only. If PNMR is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost.

Borrowings under the Merger Backstop Term Loan are conditioned on the ability of PNMR to make certain representations. The Merger Backstop Term Loan includes customary covenants, including requirements to maintain a maximum consolidated debt-to-consolidated capitalization ratio of less than or equal to 70%. The Merger Backstop Term Loan includes customary events of default and has cross default provisions and change of control provisions. If an event of default occurs, the administrative agent may, or upon the request and direction of lenders holding a specified percentage of the commitments shall, terminate the obligations of the lenders to make loans under the Merger Backstop Term Loan, and/or declare the obligations outstanding under the Merger Backstop Term Loan to be due and payable. Such termination and acceleration will occur automatically in the event of an insolvency or bankruptcy default.

As discussed in PNMR's Current Report on Form 8-K filed with the SEC 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. As discussed in PNMR's Current Report on Form 8-K filed with the SEC on October 28, 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 documents governing TNMP's aggregate $750.0 million of outstanding First Mortgage Bonds ("TNMP FMBs") obligate 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. However, based on the Company's assessment of the likelihood of the holders of the TNMP FMBs to accept the offer, the Company believes that it has adequate liquidity to satisfy its obligations to purchase the bonds. 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 Quarterly Report on Form 10-Q 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. The offer to prepay the TNMP FMBs will be made only pursuant to an offer to prepay, which set forth the terms and conditions of the offer to prepay.

At September 30, 2020, variable interest rates were 0.95% on the $50.0 million PNMR 2018 Two-Year Term Loan that matures in December 2020, 1.11% on the PNMR 2019 Term Loan that matures in June 2021, 2.70% on the PNM 2020 Term Loan that matures in June 2021, 0.80% on the PNM 2019 $40.0 million Term Loan that matures in June 2021, and 0.95% on the $90.0 million PNMR Development Term Loan that matures in November 2020.

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 12.

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 that 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 expires on February 23, 2021. PNMR Development has the option 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	September 30, 2020	December 31, 2019
	(In thousands)	
PNM:		
PNM Revolving Credit Facility	$ 1,700	$ 48,000
PNM 2017 New Mexico Credit Facility	20,000	10,000
	21,700	58,000
TNMP:		
TNMP Revolving Credit Facility	—	15,000
TNMP Electricity Relief ERCOT loan (Note 12)	494	—
	494	15,000
PNMR Revolving Credit Facility	162,100	112,100
	$ 184,294	$ 185,100

At September 30, 2020, the weighted average interest rate was 1.66% for the PNMR Revolving Credit Facility, 1.40% for the PNM Revolving Credit Facility, and 1.41% for the PNM 2017 New Mexico Credit Facility. There were no borrowings outstanding under the TNMP Revolving Credit Facility at September 30, 2020.

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of $4.7 million, $2.2 million, and $0.1 million at September 30, 2020 that reduce the available capacity under their respective revolving credit facilities. The above table excludes intercompany debt. As of September 30, 2020, and December 31, 2019, each of PNM, TNMP, and PNMR Development had zero intercompany borrowings from PNMR.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR 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 $1.5 million and $0.4 million at September 30, 2020 and December 31, 2019 that are included in other current liabilities on the Condensed Consolidated Balance Sheets. As discussed in Note 3, changes in the fair value of the cash flow hedges are deferred in AOCI and amounts reclassified to the Condensed Consolidated Statement of Earnings are recorded in interest charges. The fair values were determined using Level 2 inputs under GAAP, including using forward LIBOR curves under the mid-market convention to discount cash flows over the remaining term of the agreement.

At October 27, 2020, PNMR, PNM, TNMP, and PNMR Development had availability of $129.7 million, $397.8 million, $74.9 million, and $40.0 million under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit. PNM had $30.0 million of availability under the PNM 2017 New Mexico Credit Facility. In addition, PNMR has $50.0 million of available credit under the Merger Backstop Term Loan that has not been drawn upon. Total availability at October 27, 2020, on a consolidated basis, was $722.4 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. As of October 27, 2020, PNM, TNMP, and PNMR Development had no borrowings from PNMR under their intercompany loan agreements. At October 27, 2020, PNMR, PNM, and TNMP had invested cash of $0.9 million, $13.8 million, and $22.8 million.

The Company’s debt arrangements have various maturities and expiration dates. The $90.0 million PNMR Development Term Loan matures in November 2020, the $50.0 million PNMR 2018 Two-Year Term Loan matures in December 2020, and the $300.0 million PNMR 2018 SUNs mature on March 9, 2021. The $150.0 million PNMR 2019 Term Loan, the PNM 2019 $40.0 million Term Loan, and the PNM 2020 Term Loan that currently has $150.0 million outstanding all mature in June 2021. In addition, PNM has $146.0 million of 1.875% PCRBs that must be repriced by October 2021 and $160.0 million aggregate principal of its 5.35% Senior Unsecured Notes that mature in October 2021. Additional information on debt maturities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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(10) Pension and Other Postretirement Benefit Plans

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. In accordance with GAAP, the Company presents the service cost component of its net periodic benefit costs in administrative and general expenses and the non-service costs components in other income (deductions), net of amounts capitalized or deferred to regulatory assets and liabilities, on the Condensed Consolidated Statements of Earnings. PNM and TNMP receive a regulated return on the amounts funded for pension and OPEB plans in excess of accumulated periodic cost or income to the extent included in retail rates (a “prepaid pension asset”).

Additional information concerning pension and OPEB plans is contained in Note 11 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. Annual net periodic benefit cost for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year. Differences between TNMP's annual net periodic costs (income) and amounts included in its regulated rates are deferred to regulatory assets or liabilities, for recovery or refund in future rate proceedings.

PNM Plans

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

	Three Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 9	$ 13	$ —	$ —
Interest cost	4,985	6,294	613	829	123	163
Expected return on plan assets	(7,363)	(8,527)	(1,387)	(1,320)	—	—
Amortization of net loss	4,465	3,880	87	169	101	79
Amortization of prior service cost	(138)	(241)	—	(99)	—	—
Net Periodic Benefit Cost (Income)	$ 1,949	$ 1,406	$ (678)	$ (408)	$ 224	$ 242

	Nine Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 29	$ 39	$ —	$ —
Interest cost	14,956	18,881	1,840	2,487	367	487
Expected return on plan assets	(22,089)	(25,577)	(4,161)	(3,956)	—	—
Amortization of net loss	13,395	11,639	261	507	302	237
Amortization of prior service cost	(415)	(724)	—	(297)	—	—
Net Periodic Benefit Cost (Income)	$ 5,847	$ 4,219	$ (2,031)	$ (1,220)	$ 669	$ 724

PNM did not make any contributions to its pension plan trust in the nine months ended September 30, 2020 and 2019 and does not anticipate making any contributions to the pension plan in 2020 or 2021, but expects to contribute $4.6 million in 2022 and $19.1 million in 2023, and $19.0 million in 2024 based on current law, funding requirements, and estimates of

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portfolio performance. Funding assumptions were developed using discount rates of 3.4% to 3.5%. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM did not make any cash contributions to the OPEB trust in the nine months ended September 30, 2020 and 2019, however, a portion of the disbursements attributable to the OPEB trust are paid by PNM and are therefore considered to be contributions to the OPEB plan. Payments by PNM on behalf of the PNM OPEB plan were $1.0 million and $3.1 million in the three and nine months ended September 30, 2020 and $0.9 million and $2.4 million in the three and nine months ended September 30, 2019. These payments are expected to total $3.7 million in 2020 and $13.5 million for 2021-2024. Disbursements under the executive retirement program, which are funded by PNM and considered to be contributions to the plan, were $0.3 million and $1.1 million in the three and nine months ended September 30, 2020 and $0.4 million and $1.1 million in the three and nine months ended September 30, 2019 and are expected to total $1.5 million during 2020 and $5.4 million for 2021-2024.

TNMP Plans

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

	Three Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 12	$ 12	$ —	$ —
Interest cost	545	672	93	113	6	7
Expected return on plan assets	(821)	(967)	(136)	(129)	—	—
Amortization of net (gain) loss	315	235	(81)	(111)	6	4
Amortization of prior service cost	—	—	—	—	—	—
Net Periodic Benefit Cost (Income)	$ 39	$ (60)	$ (112)	$ (115)	$ 12	$ 11

	Nine Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 35	$ 39	$ —	$ —
Interest cost	1,633	2,015	280	338	17	24
Expected return on plan assets	(2,463)	(2,901)	(404)	(387)	—	—
Amortization of net (gain) loss	944	706	(243)	(332)	18	11
Amortization of prior service cost	—	—	—	—	—	—
Net Periodic Benefit Cost (Income)	$ 114	$ (180)	$ (332)	$ (342)	$ 35	$ 35

TNMP did not make any contributions to its pension plan trust in the nine months ended September 30, 2020 and 2019 and does not anticipate making any contributions to the pension plan in 2020 - 2022, but expects to contribute $1.1 million in 2023 and $2.8 million in 2024, based on current law, funding requirements, and estimates of portfolio performance. Funding assumptions were developed using discount rates of 3.4% to 3.5%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP did not make any contributions to the OPEB trust in the three and nine months ended September 30, 2020 and 2019 and does not expect to make contributions to the OPEB trust during the period 2020-2024. Disbursements under the executive retirement program, which are funded by TNMP and considered to be contributions to the plan, were zero in the three and nine months ended September 30, 2020 and 2019 and are expected to total $0.1 million during 2020 and $0.3 million in 2021-2024.

(11) 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 12. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

With respect to some of the items listed below, the Company has determined that a loss is not probable or that, to the extent probable, cannot be reasonably estimated. In some cases, the Company is not able to predict with any degree of certainty the range of possible loss that could be incurred. The Company assesses legal and regulatory matters based on current information and makes judgments concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of any damages sought, and the probability of success. Such judgments are made with the understanding that the outcome of any litigation, investigation, or other legal proceeding is inherently uncertain. In accordance with GAAP, the Company records liabilities for matters where it is probable a loss has been incurred and the amount of loss is reasonably estimable. The actual outcomes of the items listed below could ultimately differ from the judgments made and the differences could be material. The Company cannot make any assurances that the amount of reserves or potential insurance coverage will be sufficient to cover the cash obligations that might be incurred as a result of litigation or regulatory proceedings. Except as otherwise disclosed, the Company does not expect that any known lawsuits, environmental costs, and commitments will have a material effect on its financial condition, results of operations, or cash flows.

Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Commitments and Contingencies Related to the Environment

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 September 30, 2020 and December 31, 2019, PNM had a liability for interim storage costs of $13.1 million and $12.7 million, which is included in other deferred credits.

PVNGS has sufficient capacity at its on-site Independent Spent Fuel Storage Installation (“ISFSI”) to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027. Additionally, PVNGS has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047. If uncertainties regarding the U.S. government’s obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation.

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The Clean Air Act

Regional Haze

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

On January 10, 2017, EPA published in the Federal Register revisions to the regional haze rule. EPA also provided a companion draft guidance document for public comment. The new rule delayed the due date for the next cycle of SIPs from 2019 to 2021, altered the planning process that states must employ in determining whether to impose “reasonable progress” emission reduction measures, and gave new authority to federal land managers to seek additional emission reduction measures outside of 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. For example, the final guidance recognizes that sources already subject to BART may not need to be re-evaluated under the full four-factor analysis whereas the draft guidance encouraged states to evaluate all sources regardless of whether they were previously subject to BART. In addition, the final guidance recognizes that states may consider both visibility benefits and the cost of different control options when applying the four-factor analysis whereas the draft guidance recommended states require any control measures identified to be reasonable after considering the four-factor analysis alone. SIPs for the second compliance period are due in July 2021. NMED is currently preparing its SIP for the second compliance period and has notified PNM that it will not 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.

Four Corners

Four Corners Federal Agency Lawsuit – On April 20, 2016, several environmental groups filed a lawsuit against OSM and other federal agencies in the U.S. District Court for the District of Arizona in connection with their issuance of the approvals that extended the life of Four Corners and the adjacent mine. The lawsuit alleges that these federal agencies violated both the ESA and NEPA in providing the federal approvals necessary to extend operations at Four Corners and the adjacent mine past July 6, 2016. The court granted an APS motion to intervene in the litigation. 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 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 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 CO_2 emissions from power plants. EPA took three separate but related actions in which it: (1) established the Carbon Pollution Standards for new, modified, and reconstructed power plants; (2) established the Clean Power Plan to set standards for carbon emission reductions from existing power plants; and (3) released a proposed federal plan associated with the final Clean Power Plan. The Clean Power Plan was published on October 23, 2015.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. On January 21, 2016, the DC Circuit denied petitions to stay the Clean Power Plan, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. The decision meant that the Clean Power Plan was not in effect and neither states nor sources were obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a ten judge *en banc* panel. However, before the DC Circuit could issue an opinion, the Trump Administration asked that the case be held in abeyance while the rule was being re-evaluated, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss cases challenging the Clean Power Plan as moot due to EPA's issuance of the Affordable Clean Energy rule, which repealed the Clean Power Plan.

On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order put forth two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order directed the EPA Administrator to review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Clean Power Plan, (2) the NSPS for GHG from new, reconstructed, or modified electric generating units, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response to the Executive Order, EPA filed a petition with the DC Circuit requesting the cases challenging the Clean Power Plan be held in abeyance until after the conclusion of EPA’s review and any subsequent rulemaking, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss the cases challenging the Clean Power Plan as moot due to EPA’s issuance of the Affordable Clean Energy rule.

EPA’s efforts to replace the Clean Power Plan with the Affordable Clean Energy rule began on October 10, 2017, when EPA issued a NOPR proposing to repeal the Clean Power Plan and filed its status report with the court requesting the case be held in abeyance until the completion of the rulemaking on the proposed repeal. The NOPR proposed a legal interpretation concluding that the Clean Power Plan exceeded EPA’s statutory authority. On August 31, 2018, EPA published a proposed rule, known as the Affordable Clean Energy rule, to replace the Clean Power Plan. On June 19, 2019, EPA released the final version of the Affordable Clean Energy rule. EPA takes three actions in the final rule: (1) repealing of the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under Clean Air Act Section 111(d), which, among other things, extends the deadline for state plans and the timing for EPA's approval process. The final rule is very similar to the August 2018 proposed rule. EPA set the Best System of Emissions Reduction (“BSER”) for existing coal-fired power plants as heat rate efficiency improvements based on a range of “candidate technologies” that can be applied inside the fence-line. Rather than setting a specific numerical standard of performance, EPA’s rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSER. The final rule requires states to submit a plan to EPA by July 8, 2022 and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The Affordable Clean Energy rule is not expected to impact SJGS since EPA’s final approval of a state SIP would occur after PNM retires its share of SJGS in 2022.

Since the Navajo Nation does not have primacy over its air quality program, EPA would be the regulatory authority responsible for implementing the Affordable Clean Energy rule on the Navajo Nation. PNM is unable to predict the potential financial or operational impacts on Four Corners.

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

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon capture and sequestration. As a result, the proposed rule contains less stringent CO_2 emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines.

PNM's review of the GHG emission reductions standards under the Affordable Clean Energy rule and the revised proposed Carbon Pollution Standards rule is ongoing. The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. PNM cannot predict the impact these standards may have on its operations or a range of the potential costs of compliance, if any.

National Ambient Air Quality Standards ("NAAQS")

The CAA requires EPA to set NAAQS for pollutants reasonably anticipated to endanger public health or welfare. EPA has set NAAQS for certain pollutants, including NOx, SO_2, ozone, and particulate matter. In 2010, EPA updated the primary NOx and SO_2 NAAQS to include a 1-hour standard while retaining the annual standards for NOx and SO_2 and the 24-hour SO_2 standard. EPA also updated the final particulate matter standard in 2012 and updated the ozone standard in 2015.

NOx Standard – On April 18, 2018, EPA published the final rule to retain the current primary health-based NOx standards of which NO_2 is the constituent of greatest concern and is the indicator for the primary NAAQS. EPA concluded that the current 1-hour and annual primary NO_2 standards are requisite to protect public health with an adequate margin of safety. The rule became effective on May 18, 2018.

SO_2 Standard – On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO_2 NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO_2 sources to identify maximum 1-hour SO_2 concentrations. This characterization requires areas be designated as attainment, nonattainment, or unclassifiable for compliance with the 1-hour SO_2 NAAQS.

On August 11, 2015, EPA released the Data Requirements Rule for SO_2, telling states how to model or monitor to determine attainment or nonattainment with the new 1-hour SO_2 NAAQS. On June 3, 2016, NMED notified PNM that air quality modeling results indicated that SJGS was in compliance with the standard. In January 2017, NMED submitted its formal modeling report regarding attainment status to EPA. The modeling indicated that no area in New Mexico exceeds the 1-hour SO_2 standard. NMED submitted the first annual report for SJGS as required by the Data Requirements Rule in June 2018. That report recommended that no further modeling was warranted due to decreased SO_2 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 SO_2. Specifically, EPA will retain the current 1-hour standard for SO_2, which is 75 parts per billion, based on the 3-year average of the 99th percentile of daily maximum 1-hour SO_2 concentrations.

On May 14, 2015, PNM received an amendment to its NSR air permit for SJGS, which reflects the revised state implementation plan for regional haze BART and required the installation of SNCRs. The revised permit also required the reduction of SO_2 emissions to 0.10 pound per MMBTU on SJGS Units 1 and 4 and the installation of BDT equipment modifications for the purpose of reducing fugitive emissions, including NOx, SO_2, and particulate matter. These reductions help SJGS meet the NAAQS for these constituents. The BDT equipment modifications were installed at the same time as the SNCRs, in order to most efficiently and cost effectively conduct construction activities at SJGS. See a discussion of the regulatory treatment of BDT in Note 12.

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 NOx 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. The proposed rule was published in the Federal Register, on August 14, 2020. EPA anticipates a final rule in 2021.

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 final rule also establishes the timing of attainment dates for each non-attainment area classification, which are marginal, moderate, serious, severe, or extreme. The rule became effective May 8, 2018. Attainment plans for nonattainment areas are due in August 2021.

NMED has responsibility for bringing the small area in Doña Ana County designated as marginal/non-attainment for ozone into compliance and will look at all sources of NOx 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 NOx 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.

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 National Ambient Air Quality Standards 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 recommend lowering the primary annual PM2.5 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. EPA anticipates issuing a final rulemaking in late 2020. PNM cannot predict the outcome of this matter or whether it will have a material impact on its financial position, results of operations, or cash flows.

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 concerning the reissued permit. The environmental groups alleged that the permit was reissued in contravention of several requirements under the Clean Water Act and did not contain required provisions concerning certain revised effluent limitation guidelines, existing-source regulations governing cooling-water intake structures, and effluent limits for surface seepage and subsurface discharges from coal-ash disposal facilities. On December 19, 2018, EPA withdrew the Four Corners NPDES permit in order to examine issues raised by the environmental groups. Withdrawal of the permit moots the appeal pending before the Environmental Appeals Board ("EAB"). EPA's 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 EPA's EAB. Oral argument was heard on September 3, 2020. The EAB issued an order denying the 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's proposal offered numerous options that target metals and other pollutants in wastewater streams originating from fly ash and bottom ash handling activities, scrubber activities, and non-chemical metal cleaning waste operations. All proposed alternatives establish a "zero discharge" effluent limit for all pollutants in fly ash transport water. Requirements governing bottom ash transport water differ depending on which alternative EPA ultimately chooses and could range from effluent limits based on Best Available Technology Economically Achievable to "zero discharge" effluent limits.

EPA signed the final Steam Electric Effluent Guidelines rule on September 30, 2015. The final rule, which became effective on January 4, 2016, 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 Effluent Limitations Guidelines rule was challenged in the U.S. Court of Appeals for the Fifth Circuit by numerous parties. On April 12, 2017, EPA signed a notice indicating its intent to reconsider portions of the rule, and on August 22, 2017, the Fifth Circuit issued an order severing the issues under reconsideration and holding the case in abeyance as to those issues. However, the court allowed challenges to other portions of the rule to proceed. On April 12, 2019, the Fifth Circuit granted those challenges and issued an opinion vacating several portions of the rule, specifically those related to legacy wastewater and leachate, for which the court deemed the standards selected by EPA arbitrary and capricious.

On September 18, 2017, EPA published a final rule for postponement of certain compliance dates. The rule postponed the earliest date on which compliance with the effluent limitation guidelines for these waste streams would be required from November 1, 2018 until November 1, 2020. Although the new deadlines were challenged in court, the Fifth Circuit rejected those challenges on August 28, 2019. On November 22, 2019, EPA published a proposed rule revising the original Effluent Limitation Guidelines while maintaining the compliance dates. Comments were due January 21, 2020. On October 13, 2020, EPA published in the Federal Register the final Effluent Limitations 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, a PNM-owned gas-fired generating station, discharges cooling tower blowdown to a publicly owned treatment plant and holds an NPDES permit. It is expected that minimal to no requirements will be imposed at Reeves Station.

EPA reissued an NPDES permit for Four Corners on June 12, 2018. Since that time, the NPDES permit at Four Corners has been subject to various challenges by environmental groups. See Cooling Water Intake Structures above for additional discussion of Four 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.

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. To date, one report has been released, and the second report is expected to be available before the end of 2020. The reports’ conclusions support PNM’s contention that off-site sources have impacted, and are continuing to impact, the local groundwater in the vicinity of 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. The rule was promulgated under Subtitle D of RCRA and sets minimum criteria for existing and new CCR landfills and surface impoundments. On December 16, 2016, the Water Infrastructure Improvements for the Nation Act (the "WIIN Act") was signed into law to address critical water infrastructure needs in the U.S. and contains a number of provisions related to the CCR rules. Among other things, the WIIN Act allows, but does not require, states to develop and submit CCR permit programs for EPA approval, provides flexibility for states to incorporate EPA's final rule for CCRs or develop other criteria that are at least as protective as EPA's final rule, and requires EPA to approve state permit programs within 180 days of submission by the state. Because states are not required to implement their own CCR permit programs, EPA will implement the permit program in states that choose not to implement a program, subject to Congressional funding. Until permit programs are in effect, EPA has authority to directly enforce the CCR rule. For facilities located within the boundaries of Native American reservations, such as the Navajo Nation where Four Corners is located, EPA is required to develop a federal permit program regardless of appropriated funds. There is no timeline for establishing either state or federal permitting programs.

On July 30, 2018, EPA published a rule that constitutes "Phase One, Part One" of its ongoing reconsideration and revision of the April 17, 2015 coal ash rule. The final rule includes two types of revisions. The first revision extended the deadline to allow EGUs with unlined impoundments or that fail to meet the uppermost aquifer requirement to continue to receive coal ash until October 31, 2020. The rule also authorized a "Participating State Director" or EPA to approve suspension of groundwater monitoring and to issue certifications related to the location restrictions, design criteria, groundwater monitoring, remedy selection and implementation. The revisions also modify groundwater protection standards for certain constituents, which include cobalt, molybdenum, lithium, and lead without a maximum contamination level.

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 2020 deadline, to cease receipt of waste at these units and begin the closure process. Additional time may be granted to operators who demonstrate that it would be technically infeasible to provide alternative disposal capacity by the April 2021 deadline. Such demonstrations must be submitted to EPA no later than November 30, 2020. 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.

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 2020. PNM cannot predict the outcome of EPA's rule making activity or the outcome of any related litigation, and whether or how such a ruling would affect operations at Four Corners.

The CCR rule does not cover mine placement of coal ash. OSM is expected to publish a proposed rule covering mine placement in the future and will likely be influenced by EPA's rule and the determination by EPA that CCRs are non-hazardous. PNM cannot predict the outcome of OSM's proposed rulemaking regarding CCR regulation, including mine placement of CCRs, or whether OSM's actions will have a material impact on PNM's operations, financial position, or cash flows. Based upon the requirements of the final rule, PNM conducted a CCR assessment at SJGS and made minor modifications at the plant to ensure that there are no facilities that would be considered impoundments or landfills under the rule. PNM would seek recovery from its ratepayers of all CCR costs for retail jurisdictional assets that are ultimately incurred. PNM does not expect the rule to have a material impact on operations, financial position, or cash flows.

As indicated above, CCRs at Four Corners are currently disposed of in ash ponds and dry storage areas. The CCR rule requires ongoing, phased groundwater monitoring. Utilities that own or operate CCR disposal units, such as those at Four Corners were required to collect sufficient groundwater sampling data to initiate a detection monitoring program. Four Corners completed the analysis for its CCR disposal units, which identified several units that will need corrective action or will need to cease operations and initiate closure by 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. WSJ LLC holds certain federal, state, and private coal leases. 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 September 30, 2020 and December 31, 2019, prepayments for coal, which are included in other current assets, amounted to $26.3 million. Additional information concerning the coal supply for SJGS is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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 6, 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.

PNM had the option to extend the SJGS CSA, subject to negotiation of the term of the extension and compensation to the miner. In 2018, PNM, Los Alamos, UAMPS, and Tucson provided notice of their intent to exit SJGS in 2022 and Farmington gave notice that it wishes to continue SJGS operations and to extend the terms of both agreements. On November 30, 2018, PNM provided notice to Westmoreland that PNM does not intend to extend the term of the SJGS CSA or to negotiate a new coal supply agreement for SJGS, which will result in the current agreement expiring on its own terms on June 30, 2022. See additional discussion of PNM's SJGS Abandonment Application in Note 12.

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. In May 2020, JPMorgan Chase Bank N.A. gave notice that it would not extend the letters of credit, which expire on October 21, 2020. In August 2020, PNMR entered into 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. As discussed in Note 6, on March 15, 2019, the assets owned by 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 a coal supply contract (the "Four Corners CSA") that expires in 2031. The coal comes from reserves located within the Navajo Nation. NTEC has contracted with Bisti Fuels Company, LLC, a subsidiary of The North American Coal Corporation, for management and operation of the mine. The contract provides for pricing adjustments over its term based on economic indices. PNM's share of the coal costs is being recovered through the FPPAC. See additional discussion of the Four Corners CSA in Note 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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. As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, in conjunction with the proposed shutdown of SJGS Units 2 and 3 to comply with the BART requirements of the CAA, periodic updates to the coal mine reclamation study were requested by the SJGS participants. These updates have generally increased PNM's share of the estimated cost of mine reclamation and have included adjustments to reflect the December 2017 shutdown of SJGS Units 2 and 3, the terms of the reclamation services agreement with WSJ LLC, and changes to reflect the requirements of the 2015 San Juan mine permit plan.

In December 2018, PNM 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 $100.0 million. As a result, PNM recorded $9.4 million of the increase in the liability related to the underground mine in regulatory assets on the Condensed Consolidated Balance Sheets and received recovery for such costs in its SJGS Abandonment Application. See Note 12. 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 draft coal mine reclamation study for the mine that serves Four Corners was issued in July 2019. The study reflected operation of the mine through 2031, the term of the Four Corners CSA. In June 2019, the draft study resulted in a net decrease in PNM's share of the coal mine reclamation obligation of $0.3 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. In September 2019, the study was finalized and included the same assumptions used in the draft study with limited modifications. PNM updated its liability using the final study and to reflect the appropriate discount rates, which had decreased since PNM's prior measurement. These updates resulted in an increase to PNM's share of the coal mine reclamation obligation for the mine that serves Four Corners of $1.1 million during the three months ended September 30, 2019.

Based on the most recent estimates and PNM's ownership share of SJGS, PNM's remaining payments as of September 30, 2020 for mine reclamation, in future dollars, are estimated to be $89.5 million for the surface mines at both SJGS and Four Corners and $40.0 million for the underground mine at SJGS. At September 30, 2020 and December 31, 2019, liabilities, in current dollars, of $69.5 million and $70.3 million for surface mine reclamation and $26.9 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 discussed in Note 16 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, as part of the restructuring of SJGS ownership the SJGS owners negotiated the terms of an amended agreement to fund post-term reclamation obligations under the CSA. The trust funds agreement requires each owner to enter into an individual trust agreement with a financial institution as trustee, create an irrevocable reclamation trust, and periodically deposit funds into the reclamation trust for the owner's share of the mine reclamation obligation. Deposits, which are based on funding curves, must be made on an annual basis. As part of the restructuring of SJGS ownership discussed above, the SJGS participants agreed to adjusted interim trust funding levels. PNM funded $5.5 million in December 2019. Based on PNM's reclamation trust fund balance at September 30, 2020, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be $8.1 million in 2020, $10.9 million in 2021, and $11.7 million in 2022.

Under the Four Corners CSA, which became effective on July 7, 2016, PNM is required to fund its ownership share of estimated final reclamation costs in annual installments into an irrevocable escrow account solely dedicated to the final reclamation cost of the surface mine at Four Corners. PNM contributed $2.1 million in July 2019 and anticipates providing additional funding of $1.9 million in each of the years from 2020 through 2024.

If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. The impacts of changes in New Mexico state law as a result of the enactment of the ETA and regulatory determinations made by the NMPRC may also affect PNM's financial position, results of operations, and cash flows. See additional discussion regarding PNM's SJGS Abandonment Application in Note 12. 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 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 Decommissioning Liability

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 records its share of the PVNGS decommissioning obligation as an ARO on its Condensed Consolidated Balances Sheet. Studies on the decommissioning costs of PVNGS are performed periodically and revisions to the ARO liability are recorded. In May 2020, a new decommissioning cost study was completed, which required PNM to remeasure its PVNGS decommissioning ARO. The new study resulted in an estimated decrease to PNM's share of the nuclear decommissioning obligation of $6.4 million, which was recorded in June 2020. PNM refined its estimate in September 2020 and recorded an additional $2.8 million reduction to the nuclear decommissioning obligation, totaling a $9.2 million reduction as of September 30, 2020. Additional information concerning the Company's PVNGS ARO is contained in Note 15 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Water Supply

Because of New Mexico's arid climate and periodic drought conditions, there is concern in New Mexico about the use of water, including that used for power generation. Although PNM does not believe that its operations will be materially affected by drought conditions at this time, it cannot forecast long-term weather patterns. Public policy, local, state and federal regulations, and litigation regarding water could also impact PNM operations. To help mitigate these risks, PNM has secured permanent groundwater rights for the existing plants at Reeves Station, Rio Bravo, Afton, Luna, Lordsburg, and La Luz. Water availability is not an issue for these plants at this time. However, prolonged drought, ESA activities, and a federal lawsuit by the State of Texas (suing the State of New Mexico over water deliveries) could pose a threat of reduced water availability for these plants.

For SJGS and Four Corners, PNM and APS have negotiated an agreement with senior water rights holders (tribes, municipalities, and agricultural interests) in the San Juan basin to mutually share the impacts of water shortages through 2021.

In April 2010, APS signed an agreement on behalf of the PVNGS participants with five cities to provide cooling water essential to power production at PVNGS for 40 years.

PVNGS Water Supply Litigation

In 1986, an action commenced regarding the rights of APS and the other PVNGS participants to the use of groundwater and effluent at PVNGS. APS filed claims that dispute the court's jurisdiction over PVNGS' groundwater rights and their contractual rights to effluent relating to PVNGS and, alternatively, seek confirmation of those rights. In 1999, the Arizona Supreme Court issued a decision finding that certain groundwater rights may be available to the federal government and Native American tribes. In addition, the Arizona Supreme Court issued a decision in 2000 affirming the lower court's criteria for resolving groundwater claims. Litigation on these issues has continued in the trial court. No trial dates have been set in these matters. PNM does not expect that this litigation will have a material impact on its results of operation, financial position, or cash flows.

San Juan River Adjudication

In 1975, the State of New Mexico filed an action in NM District Court to adjudicate all water rights in the San Juan River Stream System, including water used at Four Corners and SJGS. PNM was made a defendant in the litigation in 1976. In March 2009, then President Obama signed legislation confirming a 2005 settlement with the Navajo Nation. Under the terms of the settlement agreement, the Navajo Nation's water rights would be settled and finally determined by entry by the court of two proposed adjudication decrees. The court issued an order in August 2013 finding that no evidentiary hearing was warranted in the Navajo Nation proceeding and, on November 1, 2013, issued a Partial Final Judgment and Decree of the Water Rights of the Navajo Nation approving the proposed settlement with the Navajo Nation. A number of parties subsequently appealed to the New Mexico Court of Appeals. PNM entered its appearance in the appellate case and supported the settlement agreement in the NM District Court. On April 3, 2018, the New Mexico Court of Appeals issued an order affirming the decision of the NM District Court. Several parties filed motions requesting a rehearing with the New Mexico Court of Appeals seeking clarification of the order, which were denied. The State of New Mexico and various other appellants filed a *writ of certiorari* with the NM Supreme Court. The NM Supreme Court granted the State of New Mexico's petition and denied the other parties' requests. The issues regarding the Navajo Nation settlement have been briefed and are awaiting a decision by the NM Supreme Court. Adjudication of non-Indian water rights is ongoing.

PNM is participating in this proceeding since PNM's water rights in the San Juan Basin may be affected by the rights recognized in the settlement agreement and adjudicated to the Navajo Nation, which comprise a significant portion of water available from sources on the San Juan River and in the San Juan Basin and which have priority in times of shortages. PNM is unable to predict the ultimate outcome of this matter or estimate the amount or range of potential loss and cannot determine the effect, if any, of any water rights adjudication on the present arrangements for water at SJGS and Four Corners. Final resolution of the case cannot be expected for several years. An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for an agreed upon cost, sufficient water from its allocation to offset the loss.

Rights-of-Way Matter

On January 28, 2014, the County Commission of Bernalillo County, New Mexico passed an ordinance requiring utilities to enter into a use agreement and pay a yet-to-be-determined fee as a condition to installing, maintaining, and operating facilities on county rights-of-way. The fee is purported to compensate the county for costs of administering and maintaining the rights-of-way, as well as for capital improvements. After extensive challenges to the validity of the ordinance, the utilities filed a *writ of certiorari* with the NM Supreme Court, which was denied. The utilities and Bernalillo County had reached a standstill agreement whereby the county would not take any enforcement action against the utilities pursuant to the ordinance during the pendency of then pending litigation, but not including any period for appeal of a judgment, or upon 30 days written notice by either the county or the utilities of their intention to terminate the agreement. After court-ordered settlement discussions, PNM and Bernalillo County executed a franchise fee agreement with a term of 15 years. Under the agreement, PNM will pay franchise fees to the county at an amount similar to those paid by PNM in other jurisdictions. PNM will recover the cost of the franchise fees as a direct pass-through to customers located in Bernalillo County. On October 15, 2020, the New Mexico Second District Court in Bernalillo County approved the executed franchise fee agreement, effective immediately. This matter is now concluded.

Navajo Nation Allottee Matters

In September 2012, 43 landowners filed a notice of appeal with the Bureau of Indian Affairs ("BIA") appealing a March 2011 decision of the BIA Regional Director regarding renewal of a right-of-way for a PNM transmission line. The landowners claim to be allottees, members of the Navajo Nation, who pursuant to the Dawes Act of 1887, were allotted ownership in land carved out of the Navajo Nation and allege that PNM is a rights-of-way grantee with rights-of-way across the allotted lands and are either in trespass or have paid insufficient fees for the grant of rights-of-way or both. The allottees generally allege that they were not paid fair market value for the right-of-way, that they were denied the opportunity to make a showing as to their view of fair market value, and thus denied due process. The allottees filed a motion to dismiss their appeal with prejudice, which was granted in April 2014. Subsequent to the dismissal, PNM received a letter from counsel on behalf of what appears to be a subset 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.

(12) 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 11. Additional information concerning regulatory and rate matters is contained in Note 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

PNM

New Mexico General Rate Cases

New Mexico 2015 General Rate Case ("NM 2015 Rate Case")

On August 27, 2015, PNM filed an application with the NMPRC for a general increase in retail electric rates. The application proposed a revenue increase of $123.5 million, including base non-fuel revenues of $121.7 million, and proposed that new rates become effective beginning in July 2016. 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 aggregating 114.6 MW of capacity that were extended through January 2023 and 2024 (Note 13), and recovery of the costs of converting SJGS Units 1 and 4 to BDT.

On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in non-fuel rates of $61.2 million, effective for bills sent to customers after September 30, 2016. The order generally approved the August 2016 RD, but with certain significant modifications. The modifications to the August 2016 RD included:

- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, aggregating 64.1 MW, of PVNGS Unit 2 at an initial rate base value of $83.7 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which aggregated $43.8 million when the order was issued
- Recovery of annual rent expenses associated with the 114.6 MW of capacity under the extended leases
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity purchased in January 2016 and the 114.6 MW of capacity under the extended leases

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

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

In accordance with GAAP, PNM periodically updated its estimate of the amount of time necessary for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. As a result of those evaluations, through March 31, 2019, PNM had recorded accumulated pre-tax impairments of its capital investments subject to the appeal in the amount of $19.7 million.

On May 16, 2019, the NM Supreme Court issued its decision on the matters that had been appealed in the NM 2015 Rate Case. The NM Supreme Court rejected the matters appealed by the cross-appellants and 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 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, as of June 30, 2019, PNM recorded pre-tax impairments of $150.6 million, which included $1.3 million recorded in the three months ended March 31, 2019, and is reflected as regulatory disallowances and restructuring costs on the Condensed Consolidated Statements of Earnings. The impairment 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. The impairment was offset by tax impacts of $45.7 million.

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

On December 7, 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates. PNM did not include any of the costs disallowed in the NM 2015 Rate Case that were at issue in its then pending appeal to the NM Supreme Court. PNM’s original application used a FTY beginning January 1, 2018 and requested an increase in base non-fuel revenues of $99.2 million based on a ROE of 10.125%. The primary drivers of PNM’s revenue deficiency included implementation of modifications to PNM’s resource portfolio, which were approved by the NMPRC in December 2015 as part of the SJGS regional haze compliance plan, infrastructure investments, including environmental upgrades at Four Corners, declines in forecasted energy sales due to successful energy efficiency programs and other economic factors, and updates to FERC/retail jurisdictional allocations.

After extensive settlement negotiations and public proceedings, the NMPRC issued a Revised Order Partially Adopting Certification of Stipulation dated January 10, 2018 (the “Revised Order”). The key terms of the Revised Order include:

- An increase in base non-fuel revenues totaling $10.3 million, which includes a reduction to reflect the impact of the decrease in the federal corporate income tax rate and updates to PNM’s cost of debt (aggregating an estimated $47.6 million annually)
- A ROE of 9.575%
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM’s retail operations (Note 14)
- 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 prudency 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.

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Renewable Portfolio Standard

As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, the ETA was enacted in June 2019. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also removes diversity requirements and certain customer caps and exemptions relating to the application of the RPS under the REA.

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

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

- 157 MW of PNM-owned solar-PV facilities
- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 204 MW, and a PPA through 2035 for the output of Red Mesa Wind, having an aggregate capacity of 102 MW
- A PPA through 2040 for 140 MW of output from La Joya Wind, which is expected to be operational by December 31, 2020
- A PPA through 2042 for the output of the Lightning Dock Geothermal facility with a current capacity of 15 MW
- Solar distributed generation, aggregating 145.0 MW at September 30, 2020, owned by customers or third parties from whom PNM purchases any net excess output and RECs

Renewable Energy Rider

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. In its 2019 renewable energy procurement plan case, which was approved by the NMPRC on November 28, 2018, PNM proposed to collect $49.6 million for the year. The 2019 renewable energy procurement plan became effective on January 1, 2019. In its 2020 renewable energy procurement plan case, PNM proposed to collect $58.9 million through a revised rate rider beginning in 2020. In addition, PNM proposed that its FPPAC be reset from a July 1 through June 30 fiscal year to a calendar year. The NMPRC approved PNM's 2020 renewable energy procurement plan on January 29, 2020, and the revised rate rider became effective on February 1, 2020. PNM recorded revenues from the rider of $12.0 million and $42.3 million in the three and nine months ended September 30, 2020 and $11.9 million and $37.4 million in the three and nine months ended September 30, 2019. On June 1, 2020, PNM filed its renewable energy procurement plan for 2021 which proposes to collect $67.8 million, including recovery of a regulatory asset for $2.3 million for unrecovered costs of PNM's Sky Blue voluntary renewable energy program. The Sky Blue regulatory asset of $2.3 million includes carrying charges at 8.64% totaling $0.7 million. PNM is not proposing any new procurements in the plan. The NMPRC assigned this matter to a hearing examiner who held a hearing on the matter on September 24 and 25, 2020. On October 14, 2020, the Hearing Examiner issued a recommended decision recommending that the NMPRC reject PNM's request to recover the Sky Blue regulatory asset in the case because PNM had not complied with the requirements of the NMPRC's order authorizing creation of the regulatory asset, including the requirement that PNM separately identify the portion of the regulatory asset that is made up of the costs of the voluntary renewable energy resources that source the Sky Blue program. The Hearing Examiner recommends that PNM be permitted to seek recovery of the regulatory asset in a future proceeding but that the carrying charge associated with the regulatory asset be reduced from 8.64% to 4%. In addition, the Hearing examiner recommends that the NMPRC require PNM to file an application requesting termination of the Sky Blue program within 30 days of a final order based on PNM's projection that the program will not have sufficient participants to allow PNM to recover program costs solely from participants. PNM cannot predict the outcome of this matter.

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.

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.

In 2019, PNM submitted a filing to address incentives to be earned in 2020. PNM's proposed incentive mechanism is similar to that approved for 2018 and 2019 with minor modifications to reflect input from interested parties. The proposed incentive mechanism includes a base incentive of 7.1% of program costs, or approximately $1.8 million, based on savings of 59 GWh in 2020 with a sliding scale that provides for additional incentive if savings exceed 68 GWh. On May 28, 2020, PNM began collecting $0.5 million of additional incentive resulting from PNM's 2019 energy efficiency reconciliation. 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. This matter is now concluded.

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. The 2017 IRP addresses the 20-year planning period from 2017 through 2036 and includes an action plan describing PNM's plan to implement the 2017 IRP in the four-year period following its filing. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP included, among other things, that retiring PNM's share of SJGS in 2022 and existing ownership in Four Corners in 2031 would provide long-term cost savings for PNM's customers and that the best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity as well as energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available. The 2017 IRP also indicated that PNM should retain the currently leased capacity in PVNGS. See additional discussion of PNM's leased capacity in PVNGS below and in Note 13. 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.

As discussed below, on July 1, 2019, PNM submitted its SJGS Abandonment Application with the NMPRC requesting approval to retire SJGS in 2022, for replacement resources, and for issuance of Securitized Bonds under the ETA. Many of the assumptions and findings included in PNM's July 1, 2019 filing were consistent with those identified in PNM's 2017 IRP. The SJGS Abandonment Application and the 2017 IRP are not final determinations of PNM's future generation portfolio. PNM will also be required to obtain NMPRC approval of an exit from Four Corners, which PNM will seek at an appropriate time in the future. Likewise, NMPRC approval of new generation resources through CCNs, PPAs, or other applicable filings will be required.

2020 IRP

In the third quarter of 2019, PNM initiated its 2020 IRP process which will cover the 20-year planning period from 2019 through 2039. Consistent with historical practice, PNM has provided notice to various interested parties and has hosted a series of public advisory presentations. PNM will continue to seek input from interested parties as a part of this process. NMPRC rules require 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 July 29, 2020 the NMPRC issued a final order for a replacement resource portfolio in the SJGS proceedings, thereby setting the deadline for filing PNM's 2020 IRP as January 29, 2021.

SJGS Abandonment Application

As discussed in Note 16 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, on March 22, 2019, the Governor signed into New Mexico state law Senate Bill 489, known as the Energy Transition Act ("ETA"). The ETA became effective as of June 14, 2019 and sets a statewide standard that requires investor-owned electric utilities to have specified percentages of their electric-generating portfolios be from renewable and zero-carbon generating resources. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring utilities to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also 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.

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," as provided by the ETA. 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 September 30, 2020, an estimated $28.6 million for plant decommissioning and coal mine reclamation costs, approximately $9.6 million in upfront financing costs, and approximately $20.0 million for job training and severance costs for affected employees. Proceeds from the Securitization Bonds would also be used to fund approximately $19.8 million for economic development in the four corners area.

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.

After several requests for clarification and legal challenges and following oral argument on January 29, 2020, the NM Supreme Court issued a ruling requiring the NMPRC to apply the ETA to all aspects of PNM's SJGS Abandonment Application, indicating any previous NMPRC orders inconsistent with the ruling should be vacated, and denying parties' request for 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. 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 under GAAP. 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. PNM believes these obligations can be reasonably estimated as of March 31, 2020 and, pursuant to the NMPRC's April 1, 2020 orders and the requirements of the ETA, are recoverable from New Mexico retail customers. 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 Condensed Consolidated Balance Sheets as of September 30, 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. PNM cannot predict the outcome of this matter.

The financial impact of an early retirement of SJGS and the NMPRC approval process are influenced by many factors outside of PNM’s control, including the economic impact of the SJGS abandonment on the area surrounding the plant and the related mine, as well as the overall political and economic conditions of New Mexico. See additional discussion of the ETA and SJGS Abandonment Application in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. PNM cannot predict the outcome of these matters.

Joint Petition to Investigate PNM’s Option to Purchase Assets Underlying Certain Leases in PVNGS

On April 22, 2019, NEE and other parties, which consist primarily of environmental not-for-profit organizations, filed a joint petition for expedited investigation with the NMPRC. The joint petition requested the NMPRC open an investigation regarding PNM’s option to purchase the assets underlying the PVNGS Unit 1 and 2 leases that will expire in January 2023 and 2024. Various parties filed to participate in the request. On May 8, 2019, the NMPRC issued an order requiring a response from both PNM and NMPRC staff. PNM filed responses indicating, among other things, that the joint petition should be denied, and that PNM has not yet made a decision to purchase or return the assets underlying the leases that expire in January 2023 and 2024. On September 16, 2019, NEE and the other parties filed a motion reiterating their initial petition and seeking the appointment of a hearing examiner to preside over the requested proceeding. On September 30, 2019, PNM filed its response in opposition stating that PNM had previously refuted NEE’s arguments and that there is no need for a hearing examiner to be assigned to this matter. The NMPRC subsequently issued an order denying the petition for investigation. 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 April 10, 2020, PNM filed additional notices of waivers indicating the deadline for PNM to provide irrevocable notice of its intent to purchase or return the PVNGS Unit 1 lease interests was June 15, 2020. 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 approval of replacement resources for of its share of PVNGS leased capacity with the NMPRC in early 2021. PNM cannot predict the outcome of this matter.

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 June 2021. This matter is now concluded.

Application for a New 345-kV Transmission Line

As discussed in Note 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, 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 requirements, particularly increased strength requirements for the steel structures as the reason for the cost increase. The filing further states that the in-service date of the project is December 2020.

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 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 a result, PNM deferred incremental costs related to COVID-19 of $3.6 million as a regulatory asset on the Condensed Consolidated Balance Sheet at September 30, 2020. 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.

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. PNM proposes 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 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. The NMPRC assigned this matter to a hearing examiner, who scheduled a hearing on PNM's petition for October 13, 2020. 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. Additionally, the order states that PNM has agreed to an unspecified but appropriate extension of the statutory period for NMPRC action. 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. PNM cannot predict the outcome of this matter.

Audit of PNM’s Compliance with OATT and Financial Reporting

On December 8, 2017, FERC informed PNM it was commencing an audit of PNM’s compliance with several requirements, including compliance with FERC’s Uniform System of Accounts for the annual reporting periods ending December 31, 2015 through December 31, 2019. On July 7, 2020, FERC audit staff issued their final audit report and provided their findings and recommendations. The severity of the findings and recommendations was low as no overall market or customer harm was found. One finding disallowed inclusion of certain costs in the computation of AFUDC and required PNM to reduce previously capitalized AFUDC. As a result, PNM recorded $1.9 million pre-tax increase to interest charges for debt AFUDC and a decrease of less than $0.1 million to other income for equity AFUDC in the nine months ended September 30, 2020. In addition, FERC also recommended PNM revise its procedures to record upfront and quarterly commitment fees, previously recorded as interest expense, to administrative and general expense. PNM has agreed to the findings and recommendations for corrective action in the report and submitted its implementation plan to comply with the recommendations on August 5, 2020.

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. As part of the application, TNMP proposed to return the regulatory liability related to federal tax reform to customers and to reduce the federal corporate income tax rate to 21%. 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%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. As stated by the settlement agreement, the PUCT’s final order excludes certain items from rate base that were requested in TNMP’s original filing, including approximately $10.6 million of transmission investments that TNMP included in its January 2019 transmission cost of service filing, which was approved by the PUCT in March 2019. In addition, the PUCT’s final order requires TNMP to 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 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 Note 14. 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.

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 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 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

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 first application for a distribution cost recovery factor (the "2020 DCOS"). The 2020 DCOS application requests an increase in TNMP's annual distribution revenue requirement of $14.7 million based on net capital incremental distribution investments of $149.2 million. TNMP requested a procedural schedule that would result in rates being effective in September 2020. 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 remanded the case to the PUCT for approval. On August 13, 2020, the PUCT approved the unanimous settlement.

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 and over collected costs from prior years, rate case expenses, and performance bonuses (if programs exceed mandated savings goals). TNMP’s 2019 EECRF filing requested recovery of $5.9 million, including a performance bonus of $0.8 million, and became effective on March 1, 2020. 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 includes a performance bonus of $1.0 million based on TNMP’s energy efficiency achievements in the 2019 plan year. A procedural schedule was issued setting a hearing on merits for August 21, 2020. On July 2, 2020, the parties filed a joint motion to abate the procedural schedule in order to pursue settlement and 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.

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 allows providers to implement a rider to collect unpaid residential retail customer bills and to ensure these customers continue to have electric service. In addition, the program provides transmission and distribution providers access to zero-interest loans from ERCOT. Collectively, ERCOT's loans may not exceed $15 million. The program has 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 may include but are 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 September 30, 2020, unpaid residential retail customer bills exceeded collections under the rider and are presented net as a regulatory asset of $0.5 million on the Condensed Consolidated Balance Sheet. Other COVID-19 related costs of $0.5 million were also recorded as a regulatory asset on the Condensed Consolidated Balance Sheet as of September 30. 2020. On April 14, 2020, TNMP executed an interest-free loan agreement to borrow $0.5 million from ERCOT.

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. In addition, the PUCT has determined that November 30, 2020 is the appropriate date by which REPs must submit a request for reimbursement under the program. Furthermore, as allowed in the loan agreements between ERCOT and electric utilities, the PUCT has extended the date by which each electric utility must reimburse ERCOT for its initial contribution from September 26, 2020 to December 15, 2020. On October 30, 2020, TNMP repaid the balance of the loan.

Competition Transition Charge Final Reconciliation

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 including a carrying charge. On July 10, 2020, TNMP filed to reconcile and stop the CTC surcharge beginning on September 1, 2020, as TNMP will have collected substantially all of 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 PUCT approved the recommended decision with rates effective for one month in November 2020.

Advanced Meter System Deployment

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. TNMP will seek recovery of the investment associated with the upgrade in a future general rate proceeding or distribution cost recovery factor filing.

(13) Lease Commitments

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 are classified as leases. All of the Company's leases with terms in excess of one year are recorded on the balance sheet 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 Condensed Consolidated Statements of Earnings.

See additional discussion of the Company's leasing activities in Note 8 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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. In the proceeding addressing PNM's 2017 IRP, PNM agreed to promptly notify the NMPRC of a decision to extend the Unit 1 or 2 leases, or to exercise its option to purchase the leased assets at fair market value upon the expiration of leases. See Note 12. On June 11, 2020, PNM provided notice to the lessors and the NMPRC of its intent to return the assets underlying 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 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 September 30, 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 Condensed Consolidated Balance Sheets and recognizes amortization expense associated with these agreements in the Condensed Consolidated Statement of Earnings over their term. As of September 30, 2020 and December 31, 2019, the unamortized balance of these rights-of-ways was $58.0 million and $60.2 million. PNM recognized amortization expense associated with these agreements of $0.9 million and $2.8 million in the three and nine months ended September 30, 2020, and $0.9 million and $2.8 million in the three and nine months ended September 30, 2019.

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 September 30, 2020, residual value guarantees on fleet vehicle and equipment leases are $0.8 million, $1.3 million, and $2.1 million for PNM, TNMP, and PNMR Consolidated.

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

	September 30, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating leases:						
Operating lease assets, net of amortization	$ 103,251	$ 7,876	$ 111,638	$ 120,585	$ 9,954	$ 131,212
Current portion of operating lease liabilities	24,282	2,341	26,826	25,927	2,753	29,068
Long-term portion of operating lease liabilities	76,252	5,311	81,933	97,992	7,039	105,512

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 Condensed Consolidated Balance Sheets is presented below:

	September 30, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Financing leases:						
Non-utility property	$ 10,491	$ 11,047	$ 21,841	$ 4,857	$ 4,910	$ 10,028
Accumulated depreciation	(1,503)	(1,576)	(3,159)	(482)	(466)	(973)
Non-utility property, net	8,988	9,471	18,682	4,375	4,444	9,055
Other current liabilities	1,804	1,946	3,829	722	850	1,637
Other deferred credits	6,924	7,532	14,603	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 as of September 30, 2020 is presented below:

	PNM	TNMP	PNMR Consolidated
Weighted average remaining lease term (years):			
Operating leases	6.17	3.69	5.99
Financing leases	5.07	5.12	5.07
Weighted average discount rate:			
Operating leases	3.93 %	4.03 %	3.93 %
Financing leases	2.85 %	3.05 %	2.95 %

Information for the components of lease expense is as follows:

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating lease cost:	$ 6,798	$ 685	$ 7,545	$ 20,538	$ 2,205	$ 22,938
Amounts capitalized	(248)	(577)	(825)	(786)	(1,812)	(2,599)
Total operating lease expense	$ 6,550	$ 108	$ 6,720	$ 19,752	$ 393	$ 20,339
Financing lease cost:						
Amortization of right-of-use assets	435	439	893	1,022	1,110	2,187
Interest on lease liabilities	58	74	134	156	198	358
Amounts capitalized	(281)	(452)	(733)	(682)	(1,105)	(1,787)
Total financing lease expense	212	61	294	496	203	758
Variable lease expense	63	—	63	158	—	158
Short-term lease expense	16	4	22	176	5	183
Total lease expense for the period	$ 6,841	$ 173	$ 7,099	$ 20,582	$ 601	$ 21,438

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Operating lease cost:	$ 6,873	$ 726	$ 7,725	$ 21,260	$ 2,439	$ 24,051
Amounts capitalized	(319)	(630)	(949)	(1,015)	(1,949)	(2,964)
Total operating lease expense	$ 6,554	$ 96	$ 6,776	$ 20,245	$ 490	$ 21,087
Financing lease cost:						
Amortization of right-of-use assets	143	125	274	286	264	556
Interest on lease liabilities	26	27	54	56	61	117
Amounts capitalized	(81)	(114)	(195)	(158)	(233)	(391)
Total financing lease expense	88	38	133	184	92	282
Variable lease expense	32	—	32	64	—	64
Short-term lease expense	63	5	68	212	10	263
Total lease expense for the period	$ 6,737	$ 139	$ 7,009	$ 20,705	$ 592	$ 21,696

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

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 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	$ 25,804	$ 483	$ 26,708	$ 26,092	$ 757	$ 27,225
Operating cash flows from financing leases	58	32	94	28	17	45
Finance cash flows from financing leases	378	215	646	113	72	189
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	5,635	6,309	11,985	3,645	3,678	7,402

Capitalized costs excluded from the operating and financing cash paid for leases above for the nine months ended September 30, 2020, are $0.8 million and $0.7 million at PNM, $1.8 million and $1.1 million at TNMP, and $2.6 million and $1.8 million at PNMR. For the nine months ended September 30, 2019, capitalized costs excluded are $1.0 million and $0.2 million at PNM, $1.9 million and $0.2 million at TNMP, and $3.0 million and $0.4 million at PNMR. These capitalized costs are reflected as investing activities on the Company’s Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019.

Future expected lease payments are shown below:

	As of September 30, 2020					
	PNM		TNMP		PNMR Consolidated	
	Financing	Operating	Financing	Operating	Financing	Operating
	(In thousands)					
Remainder of 2020	$ 511	$ 438	$ 565	$ 682	$ 1,097	$ 1,253
2021	2,011	26,576	2,210	2,426	4,304	29,294
2022	1,959	26,266	2,115	1,975	4,155	28,452
2023	1,899	17,735	1,926	1,481	3,869	19,395
2024	1,277	7,908	1,583	877	2,863	8,833
Later years	1,739	34,467	1,977	765	3,717	35,489
Total minimum lease payments	9,396	113,390	10,376	8,206	20,005	122,716
Less: Imputed interest	668	12,856	898	554	1,573	13,957
Lease liabilities as of September 30, 2020	$ 8,728	$ 100,534	$ 9,478	$ 7,652	$ 18,432	$ 108,759

The above table includes $11.3 million, $16.0 million, and $27.3 million for PNM, TNMP, and PNMR at September 30, 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.

(14) Income Taxes

In December 2017, comprehensive changes in United States federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act made many significant modifications to the tax laws, including reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminated federal bonus depreciation for utilities, limited interest deductibility for non-utility businesses and limited the deductibility of officer compensation. During 2019, the IRS issued proposed regulations related to certain officer compensation and, in July 2020, issued final and proposed regulations and other guidance 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 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. See additional discussion of the impacts of the Tax Act in Note 18 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted. Among other things, the CARES Act includes tax provisions that generally loosen restrictions on NOL utilization and business interest deductions, and accelerate refunds of previously generated alternative minimum tax credits. In addition, the CARES Act includes a temporary provision allowing businesses to defer payments to the government for some payroll taxes. The CARES Act provisions related to NOL utilization and business interest deductions are not applicable for the Company however, in June 2020, the Company applied for $5.2 million of accelerated refunds of previously generated alternative minimum tax credits and is deferring payments of certain payroll taxes.

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. PNMR, PNM, and TNMP will amortize federal and state excess deferred income taxes of $30.7 million, $21.6 million, and $9.1 million in 2020. See additional discussion of PNM's NM 2016 Rate Case and TNMP's 2018 Rate Case in Note 12.

As required under GAAP, 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 income taxes. GAAP also provides that certain unusual or infrequently occurring items, including excess tax benefits related to stock awards, be excluded from the estimated annual effective tax rate calculation. At September 30, 2020, PNMR, PNM, and TNMP estimated their effective income tax rates for the year ended December 31, 2020 would be 8.44%, 11.29%, and 8.83%. The primary difference between the statutory income tax rates and the effective tax rates is the effect of the reduction in income tax expense resulting from the amortization of excess deferred federal and state income taxes ordered by the NMPRC in PNM's NM 2016 Rate Case and the amortization of excess deferred federal income taxes as ordered by the PUCT in TNMP's 2018 Rate Case. During the three and nine months ended September 30, 2020, income tax expense calculated by applying the expected annual effective income tax rate to earnings before income taxes was further reduced by excess tax benefits related to stock awards of zero and $0.4 million for PNMR, of which zero and $0.3 million was allocated to PNM and zero and $0.1 million was allocated to TNMP.

(15) Related Party Transactions

PNMR, PNM, TNMP, and NMRD are considered related parties as defined under GAAP, as is PNMR Services Company, a wholly-owned subsidiary of PNMR that provides corporate services to PNMR and its subsidiaries in accordance with shared services agreements. These services are billed at cost on a monthly basis to the business units. In addition, PNMR provides construction and operations and maintenance services to NMRD, a 50% owned subsidiary of PNMR Development. 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 and NMRD. See Note 16 for additional discussion of NMRD.

The table below summarizes the nature and amount of related party transactions of PNMR, PNM, TNMP, and NMRD:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Services billings:				
PNMR to PNM	$ 24,204	$ 22,853	$ 70,848	$ 72,604
PNMR to TNMP	9,645	8,639	28,075	27,082
PNM to TNMP	106	97	295	286
TNMP to PNMR	35	35	106	106
PNMR to NMRD	74	68	199	163
Renewable energy purchases:				
PNM from NMRD	3,723	757	7,646	2,331
Interconnection billings:				
PNM to NMRD	—	—	350	—
PNM to PNMR	—	—	—	—
Interest billings:				
PNMR to PNM	—	1,004	6	2,909
PNM to PNMR	60	75	218	224
PNMR to TNMP	—	—	2	42
Income tax sharing payments:				
PNMR to PNM	—	—	—	—
TNMP to PNMR	—	—	—	—

(16) Equity Method Investment

As discussed in Note 1 of the Company's 2019 Annual Reports on Form 10-K, PNMR Development and AEP OnSite Partners created NMRD in September 2017 to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. As of September 30, 2020, NMRD’s renewable energy capacity in operation was 135.1 MW. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. The investment in NMRD is accounted for using the equity method of accounting because PNMR’s ownership interest results in significant influence, but not control, over NMRD and its operations.

In the nine months ended September 30, 2020 and 2019, PNMR Development made cash contributions of $23.3 million and $29.3 million to NMRD to be used primarily for its construction activities.

PNMR presents its share of net earnings from NMRD in other income on the Condensed Consolidated Statements of Earnings. Summarized financial information for NMRD is as follows:

	Results of Operations			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
	(In thousands)			
Operating revenues	$ 3,462	$ 892	$ 7,769	$ 2,720
Operating expenses	2,100	730	5,152	2,181
Net earnings	$ 1,362	$ 162	$ 2,617	$ 539

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Financial Position	
	September 30, 2020	December 31, 2019
	(In thousands)	
Current assets	$ 6,527	$ 7,187
Net property, plant, and equipment	173,952	132,772
Non-current assets	1,969	—
Total assets	182,448	139,959
Current liabilities	1,059	9,640
Non-current liabilities	351	—
Owners' equity	$ 181,038	$ 130,319

(17) Goodwill

The excess purchase price over the fair value of the assets acquired and the liabilities assumed by PNMR for its 2005 acquisition of TNP was recorded as goodwill and was pushed down to the businesses acquired. In 2007, the TNMP assets that were included in its New Mexico operations, including goodwill, were transferred to PNM. PNMR's reporting units that currently have goodwill are PNM and TNMP.

GAAP requires the Company to evaluate its goodwill for impairment annually at the reporting unit level or more frequently if circumstances indicate that the goodwill may be impaired. Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, and determination of the fair value of each reporting unit.

GAAP provides that in certain circumstances an entity may perform a qualitative analysis to conclude that the goodwill of a reporting unit is not impaired. Under a qualitative assessment an entity considers macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, other relevant entity-specific events affecting a reporting unit, as well as whether a sustained decrease (both absolute and relative to its peers) in share price has occurred. An entity considers the extent to which each of the adverse events and circumstances identified could affect the comparison of a reporting unit's fair value with its carrying amount. An entity places more weight on the events and circumstances that most affect a reporting unit's fair value or the carrying amount of its net assets. An entity also considers positive and mitigating events and circumstances that may affect its determination of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. An entity evaluates, on the basis of the weight of evidence, the significance of all identified events and circumstances in the context of determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. A quantitative analysis is not required if, after assessing events and circumstances, an entity determines that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount.

In other circumstances, an entity may perform a quantitative analysis to reach the conclusion regarding impairment with respect to a reporting unit. An entity may choose to perform a quantitative analysis without performing a qualitative analysis and may perform a qualitative analysis for certain reporting units, but a quantitative analysis for others. The first step of the quantitative impairment test requires an entity to compare the fair value of the reporting unit with its carrying value, including goodwill. If as a result of this analysis, the entity concludes there is an indication of impairment in a reporting unit having goodwill, GAAP currently requires the entity to perform the second step of the impairment analysis, determining the amount of goodwill impairment to be recorded. The amount is calculated by comparing the implied fair value of the goodwill to its carrying amount. This exercise would require the entity to allocate the fair value determined in step one to the individual assets and liabilities of the reporting unit. Any remaining fair value would be the implied fair value of goodwill on the testing date. To the extent the recorded amount of goodwill of a reporting unit exceeds the implied fair value determined in step two, an impairment loss would be reflected in results of operations.

PNMR periodically updates its quantitative analysis for both PNM and TNMP. The use of a quantitative approach in a given period is not necessarily an indication that a potential impairment has been identified under a qualitative approach.

When PNMR performs a quantitative analysis for PNM or TNMP, a discounted cash flow methodology is primarily used to estimate the fair value of the reporting unit. This analysis requires significant judgments, including estimations of future cash flows, which is dependent on internal forecasts, estimations of long-term growth rates for the business, and determination of appropriate weighted average cost of capital for the reporting unit. Changes in these estimates and assumptions could materially affect the determination of fair value and the conclusion of impairment.

When PNMR performs a qualitative or quantitative analysis for PNM or TNMP, PNMR considers market and macroeconomic factors including changes in growth rates, changes in the WACC, and changes in discount rates. 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 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 11 and Note 12, 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, PNMR 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 performed for PNM, as well as the previous qualitative analyses through April 1, 2019. 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%. 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 exceed 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.

(18) Subsequent Event

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. Consummation of the Merger is subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the approval of the Merger Agreement by the holders of at least a majority of the outstanding shares of PNMR common stock entitled to vote thereon, the absence of any material adverse effect on PNMR, the receipt of required regulatory approvals (including the PUCT, the NMPRC, FERC, the FCC, the CFIUS, the NRC and under the HSR), the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made, as well as holders of no more than 15% of the outstanding shares of PNMR common stock validly exercising their dissenters' rights. The Merger is currently expected to close in the fourth quarter 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 S.A. 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 of directors of PNMR 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 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).

ITEM 2. 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. The MD&A for PNM and TNMP is presented as permitted by Form 10-Q General Instruction H(2). This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. A reference to a "Note" in this Item 2 refers to the accompanying Notes to Condensed Consolidated Financial Statements (Unaudited) included in Item 1, 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 796,000 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

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. Consummation of the Merger is subject to the satisfaction or waiver of certain customary closing conditions, including, without limitation, the approval of the Merger Agreement by the holders of at least a majority of the outstanding shares of PNMR common stock entitled to vote thereon, the absence of any material adverse effect on PNMR, the receipt of required regulatory approvals (including the PUCT, the NMPRC, FERC, FCC, CFIUS, the NRC and under HSR), the agreements relating to the divestiture of Four Corners being in full force and effect and all applicable regulatory filings associated therewith being made, as well as holders of no more than 15% of the outstanding shares of PNMR common stock validly exercising their dissenters' rights. The Merger is currently expected to close in the fourth quarter of 2021.

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, interim cost of service filings, and various rate riders.

Fair and timely rate treatment from regulators is crucial to PNM and TNMP in earning their allowed returns and critical for PNMR to achieve its 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 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K and in Note 12.

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 $149.3 million as of June 30, 2019 which is reflected as regulatory disallowances and restructuring costs in the Condensed Consolidated Statements of Earnings. This amount reflects capital costs not previously impaired during the pendency of the appeal related to PNM's purchase of 64.1 MW, in PVNGS Unit 1, undepreciated capital improvements made 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 Condensed 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 14)
- 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 prudency of PNM's decision to continue its participation in Four Corners in PNM's next general rate case filing

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

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 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. See Note 12. PNM cannot predict the outcome of this matter.

TNMP 2018 Rate Case – On December 20, 2018, the PUCT approved a settlement stipulation allowing TNMP to increase annual base rates by $10.0 million based on a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. In addition, the approved settlement stipulation allows TNMP to refund the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers and reflects the reduction in the federal corporate income tax rate to 21%. New rates under the TNMP 2018 Rate Case became effective January 1, 2019.

Advanced Metering – TNMP completed its mass deployment of advanced meters across its service territory in 2016 and has installed more than 242,000 advanced meters. 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. 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 first application for a periodic distribution rate adjustment (the "2020 DCOS"). TNMP's 2020 DCOS application requests 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 12.

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.

PNM has no full-requirements wholesale generation customers.

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.

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

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

Maintaining Investment Grade Credit Ratings

The Company is committed to maintaining investment grade credit ratings in order to reduce the cost of debt financing and to help ensure access to credit markets, when required. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. 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. It is a key performance indicator of the overall success of PNMR. 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 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 12, both PNM and TNMP have suspended disconnecting certain customers for past due bills and 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. 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 allows providers to implement a rider to collect unpaid residential retail customer bills and to ensure these customers continue to have electric service. In a separate order, the PUCT authorized electric utilities to establish a regulatory asset for costs related to COVID-19 which includes but is not limited to costs related to unpaid accounts. On June 24, 2020, the NMPRC authorized the creation of a regulatory asset to defer incremental costs related to COVID-19, including increases to bad debt expense and the creation of a regulatory liability for all offsetting cost savings resulting from COVID-19. The NMPRC Order allows the Company to request recovery in future ratemaking proceedings and imposes additional reporting requirements related to COVID-19 on changes to customer usage, increased costs and savings recorded to regulatory assets and liabilities and impacts to delinquent accounts.

Utility Plant and Strategic Investments

Utility Plant Investments – During the 2017 to 2019 period, PNM and TNMP together invested $1.5 billion in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. During 2018 and 2019, PNM constructed an additional 50 MW of PNM-owned solar-PV facilities, which were approved by the NMPRC in PNM's 2018 renewable energy procurement plan. 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 program, 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 3rd in the Nation for energy potential from solar power according to the Nebraska Department of Energy & Energy Sun Index and ranks 3rd 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 September 30, 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.

PNM filed its 2017 IRP on July 3, 2017. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP included, among other things, that retiring PNM's share of SJGS in 2022 and exiting ownership in Four Corners in 2031 would provide long-term cost savings for PNM's customers and that the best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity as well as energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available. The 2017 IRP also indicated that PNM should retain the currently leased capacity in PVNGS. On June 11, 2020, PNM provided notice to the lessors and the NMPRC that PNM will return the leased assets for both PVNGS Unit 1 and 2 upon expiration of the leases in January 2023 and 2024. PNM issued an RFP for replacement power resources on June 25, 2020 and intends to file for abandonment and approval of replacement resources with the NMPRC in early 2021. See additional discussion regarding PNM's leased capacity in PVNGS in Note 13 as well as PNM's 2017 IRP and the SJGS Abandonment Application in Note 12.

In the third quarter of 2019, PNM initiated its 2020 IRP process which will cover the 20-year planning period from 2019 through 2039. Consistent with historical practice, PNM has provided notice to various interested parties and has hosted a series of public advisory presentations. NMPRC rules require PNM to file its 2020 IRP in July 2020. 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. In July 2020, the NMPRC issued a final order for a replacement resource portfolio in the SJGS proceedings, thereby setting the deadline for filing PNM's 2020 IRP as January 29, 2021. PNM will continue to seek input from interested parties as a part of this process. PNM cannot predict the outcome of this matter.

Environmentally Responsible Power

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

- Developing strategies to provide reliable and affordable power while transitioning to a 100% emissions-free generating portfolio by 2040
- Preparing PNM's system to meet New Mexico's increasing renewable energy requirements as cost-effectively as possible
- Increasing energy efficiency participation

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 demonstrating the Company's commitment to ESG principles. This information highlights plans for PNM to be coal-free by 2031 (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 an ESG principles based strategy on projects supporting 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. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring utilities to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also amends sections of the REA to allow for the recovery of undepreciated investments and decommissioning costs related to qualifying EGUs that the NMPRC has required be removed from retail jurisdictional rates, provided replacement resources to be included in retail rates have lower or zero-carbon emissions. The ETA provides for a transition from fossil-fueled generating resources to renewable and other carbon-free resources by allowing utilities to issue securitized bonds, or "energy transition bonds," related to the retirement of certain coal-fired generating facilities to qualified investors. See additional discussion of the ETA in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K and below in PNM's SJGS Abandonment Application.

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

SJGS

SJGS Abandonment Application – As discussed in Note 12, 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 energy transition 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. 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. 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. The NM Supreme Court issued a subsequent opinion, on July 23, 2020, more fully explaining the legal rationale for the January 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.

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 March 27, 2020, the Hearing Examiners issued a partial recommended decision related to PNM's requested replacement resources. The Hearing Examiners recommended the NMPRC approve PNM's requested PPA replacement resources related to 350 MW of solar-PV facilities and 60 MW of battery storage facilities. On April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the Securitized Bonds. 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. 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 and would include PPA's for 650 MW of solar and 300 MW of battery storage. 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. 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. PNM had 60 days from the date of the order to file an application in a separate case seeking approval of the proposed final, executed contracts, for any replacement resources that were not 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 with proposed alternatives that would result in customer savings without materially changing the resource selection criteria relied on by the NMPRC in approving the replacement resources. PNM asked the NMPRC to issue a final order in the proceeding no later than December 4, 2020 to allow for the replacement resources to be in service to meet peak summer demand in 2022.

Pursuant to the NMPRC's April 1, 2020 order approving the abandonment of SJGS and the related issuance of Securitized Bonds, PNMR recorded obligations totaling $38.1 million for estimated severances and other costs resulting from the planned retirement of SJGS in 2022, and for expected funding to state agencies for economic development and workforce training upon the issuance of the Securitized Bonds. This obligation is reflected in other deferred credits and as a corresponding deferred regulatory asset on PNMR's Condensed Consolidated Balance Sheets as of September 30, 2020. These estimates may be adjusted in future periods as the Company refines its expectations. See additional discussion of PNM's SJGS Abandonment Application and the related challenges filed with the NM Supreme Court in Note 12.

Other Environmental Matters – In addition to the regional haze rule and the ETA, SJGS and Four Corners may be required to comply with other rules that affect coal-fired generating units. In March 2017, President Trump issued an Executive Order on Energy Independence. The order sets out two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. On June 19, 2019, EPA released the final Affordable Clean Energy rule. EPA is taking three separate actions in the final rule: (1) repealing the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under Clean Air Act Section 111(d) which, among other things, extends the deadline for state plans and the timing of EPA's approval process. EPA set the Best System of Emissions Reduction (“BSER”) for existing coal-fired power plants as heat rate efficiency improvements based on a range of “candidate technologies” that can be applied inside the fence-line. Rather than setting a specific numerical standard of performance, EPA’s rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSER. The final rule requires states to submit a plan to EPA by July 8, 2022 and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The rule is not expected to impact SJGS since EPA’s final approval of a state SIP would occur after the planned shutdown of SJGS in 2022. The Company is reviewing the rule with respect to impacts to Four Corners. See Note 11.

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

PNM’s review of the GHG emission reductions standards under the Affordable Clean Energy rule and the revised proposed Carbon Pollution Standards rule is ongoing. The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. As discussed above, SJGS may also be required to comply with additional CO_2 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 energy 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.

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 September 30, 2020, PNM has 157 MW of utility-owned solar capacity in operation. In addition, PNM purchases power from a customer-owned distributed solar generation program that had an installed capacity of 145.0 MW at September 30, 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 204 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 beginning in 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 operation in November 2019 and the second 50 MW facility began commercial operation 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 to be operational in December 2020, and a 50 MW solar-PV project to be operational in December 2021.

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 June 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 2019, incremental energy saved as a result of new participation in PNM's portfolio of energy efficiency programs is estimated to be approximately 65 GWh. This is equivalent to the annual consumption of approximately 9,500 homes in PNM's service territory. PNM's load management and annual energy efficiency programs also help lower peak demand requirements. In 2019, TNMP's incremental energy saved as a result of new participation in TNMP's energy efficiency programs is estimated to be approximately 16 GWh. This is equivalent to the annual consumption of approximately 1,285 homes in TNMP's service territory. In April 2018, TNMP received the "Partner of the Year Energy Efficiency Delivery Award" for its High-Performance Homes Program. 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%. Focusing on responsible stewardship of New Mexico's scarce water resources improves PNM's water-resilience in the face of persistent drought and ever-increasing demands for water to spur the growth of New Mexico's economy.

In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. In 2019, 16 of the Company's 23 facilities met the solid waste diversion goal of a 65% diversion rate. The Company expects to continue to do well in this area in the future.

Customer, Stakeholder, and Community Engagement

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 Study^{SM} 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, PNMR'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 ESG principles is the Company’s tradition of supporting the communities it serves in New Mexico and Texas. This support extends beyond financial donations from the PNM Resources Foundation and corporate giving 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.

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, $0.2 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.

During the three years ending December 2019, corporate giving contributed approximately $6.2 million to civic, educational, environmental, low income, and economic development organizations. PNMR recognizes its responsibility to support programs and organizations that enrich the quality of life for the people in its service territories and communities and seeks opportunities to further demonstrate its commitment in these areas as needs arise. In 2020, PNM has partnered with key local organizations to initiate funding for programs focused on diversity, equity and inclusion. In response to COVID-19 community needs, PNMR 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. 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 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.

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, approximately 1,000 families in need have received emergency assistance through the PNM Good Neighbor Fund during the third quarter of this year.

Additionally, 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 2019, PNM and TNMP employees and retirees contributed over 13,300 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.

Economic Factors

PNM – In the three and nine months ended September 30, 2020, PNM experienced an increase in weather normalized residential load of 3.3% and 4.7%, partially offset by a decrease in weather normalized commercial load of 8.6% and 8.6% 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 the three and nine months ended September 30, 2020, TNMP experienced an increase in volumetric weather normalized retail load of 7.1% and 3.8% compared to 2019. Weather normalized demand-based load, excluding retail transmission customers, decreased 2.0% and 0.7% in the three and nine months ended September 30, 2020 compared to 2019. TNMP has experienced increased volumetric usage related to residential consumers offset by decreases in its demand based commercial consumer class 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 $164.0 million, or $2.05 per diluted share in the nine months ended September 30, 2020 compared to $45.6 million, or $0.57 per diluted share, in 2019. Among other things, earnings in the nine months ended September 30, 2020 benefited from 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, 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. 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 and outside service expense at TNMP, increased depreciation at PNM and TNMP and higher property taxes at TNMP due to increased plant in service, a donation to COVID Customer Relief Programs, and losses 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 to further increase the capacity up to $50.0 million upon 15-days advance notice, that expires in February 2021. The PNMR Development Revolving Credit Facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. In addition, PNMR has $50.0 million of available credit under the Merger Backstop Term Loan that has not been drawn upon. Total availability for PNMR on a consolidated basis was $722.4 million at October 27, 2020. 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, capital contributions for PNMR Development's 50% ownership interest in NMRD, and dividends, will total $4.6 billion for 2020 - 2024, including amounts expended through September 30, 2020. 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 program.

In January 2020, PNMR entered into agreements to sell approximately 6.2 million shares of PNMR common stock under forward purchase arrangements (the "PNMR 2020 Forward Equity Sale Agreements"). Under the PNMR 2020 Forward Equity Sale Agreements, PNMR has the option to physically deliver, cash settle, or net share settle all or a portion of PNMR common stock on or before a date that is 12 months from their effective dates. PNMR did not initially receive any proceeds upon execution of these agreements. The initial forward sales price of $47.21 per share is subject to adjustments based on net interest rate factor and by expected future dividends on PNMR's common stock. PNMR expects to physically settle all shares under the agreements on or before January 7, 2021. See Note 9.

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 and the PNM 2020 Note Purchase Agreement. For further discussion on these financing arrangements see Liquidity and Capital Resources discussion below as well as Note 9.

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 12.

After considering the effects of these financings and the Company's short-term liquidity position as of October 27, 2020, the Company has consolidated maturities of long-term and short-term debt aggregating approximately $1,262.1 million through October 2021. In addition to internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing in the form of debt refinancing, new debt issuances, and/or new equity in order to fund its capital requirements during the 2020-2024 period. The Company currently believes that its internal cash generation, existing credit arrangements, and access to public and private capital markets will provide sufficient resources to meet the Company's capital requirements for at least the next twelve months. The Company is in compliance with its debt covenants.

RESULTS OF OPERATIONS

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

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	(In millions, except per share amounts)					
Net earnings attributable to PNMR	$ 121.8	$ 102.8	$ 19.0	$ 164.0	$ 45.6	$ 118.4
Average diluted common and common equivalent shares	79.9	80.0	(0.1)	80.0	80.0	—
Net earnings attributable to PNMR per diluted share	$ 1.52	$ 1.28	$ 0.24	$ 2.05	$ 0.57	$ 1.48

The components of the change in net earnings attributable to PNMR are:

	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
	(In millions)	
PNM	$ 18.6	$ 116.0
TNMP	(1.2)	2.7
Corporate and Other	1.5	(0.3)
Net change	$ 19.0	$ 118.4

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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)					
Electric operating revenues	$ 364.5	$ 331.1	$ 33.4	$ 873.4	$ 838.6	$ 34.8
Cost of energy	108.3	84.9	23.4	250.7	243.1	7.6
Utility margin	256.2	246.2	10.0	622.7	595.5	27.2
Operating expenses	99.2	97.2	2.0	299.3	459.2	(159.9)
Depreciation and amortization	40.5	40.5	—	123.7	119.6	4.1
Operating income	116.5	108.5	8.0	199.7	16.8	182.9
Other income (deductions)	14.8	4.3	10.5	8.4	30.0	(21.6)
Interest charges	(14.7)	(18.5)	3.8	(51.6)	(55.4)	3.8
Segment earnings (loss) before income taxes	116.6	94.2	22.4	156.5	(8.6)	165.1
Income (taxes) benefit	(13.6)	(9.5)	(4.1)	(16.1)	32.0	(48.1)
Valencia non-controlling interest	(3.6)	(3.9)	0.3	(11.2)	(10.2)	(1.0)
Preferred stock dividend requirements	(0.1)	(0.1)	—	(0.4)	(0.4)	—
Segment earnings	$ 99.3	$ 80.7	$ 18.6	$ 128.8	$ 12.8	$ 116.0

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Percentage Change	2020	2019	Percentage Change
	(Gigawatt hours, except customers)					
Residential	1,050.8	1,023.9	2.6 %	2,628.1	2,480.1	6.0 %
Commercial	987.8	1,079.7	(8.5)	2,640.0	2,841.6	(7.1)
Industrial	370.4	313.8	18.0	1,042.0	830.1	25.5
Public authority	74.5	69.1	7.8	182.7	172.8	5.7
Economy energy service [(1)]	93.1	169.5	(45.1)	354.4	490.3	(27.7)
Other sales for resale	734.5	856.2	(14.2)	1,994.7	2,215.3	(10.0)
	3,311.1	3,512.2	(5.7) %	8,841.9	9,030.2	(2.1) %
Average retail customers (thousands)	535.8	530.6	1.0 %	534.4	529.7	0.9 %

[(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 – Three Months Ended September 30, 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

	Three Months Ended September 30, 2020 Change
Utility margin:	(In millions)
Retail customer usage/load – Weather normalized KWh sales increased 3.3% for residential customers partially offset by decreased sales to commercial customers of 8.6%	$ 4.4
Weather – Milder weather in 2020; cooling degree days were 1.9% lower in 2020	(0.5)
Transmission – Higher revenues under formula transmission rates and higher volumes	2.2
Rate riders – Includes renewable energy, fuel clause, and energy efficiency riders	1.7
Coal mine decommissioning – Decrease primarily due to 2019 remeasurement of PNM's obligation for Four Corners coal mine reclamation (Note 11)	1.5
Other	0.7
Net Change	$ 10.0

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

	Three Months Ended September 30, 2020 Change
Operating expenses:	(In millions)
Lower plant maintenance and administrative costs at SJGS, PVNGS, and Four Corners, partially offset by higher costs for gas fired plants	$ (1.0)
Lower property taxes due to a favorable settlement of property values, partially offset by increases in utility plant in service	(0.9)
Higher employee related and outside service expenses	2.0
Higher vegetation management expenses	0.4
Reclassification of upfront and quarterly commitment fees, offset in interest charges	0.3
Other	1.2
Net Change	$ 2.0

Depreciation and amortization:	
Increased utility plant in service, including solar facilities under the renewable rider	$ 1.5
Lower accretion expense for PVNGS plant decommissioning ARO resulting from new 2020 study (Note 11)	(1.0)
Other	(0.5)
Net Change	$ —

Other income (deductions):	Three Months Ended September 30, 2020 Change (In millions)
Higher gains on investment securities in the NDT and coal mine reclamation trusts	$ 12.7
Higher equity AFUDC	0.4
Lower interest income and trust expenses related to investment securities in the NDT and coal mine reclamation trusts	(0.4)
COVID Customer Relief Programs donation	(2.0)
Other	(0.2)
Net Change	$ 10.5

Interest charges:

Lower interest on term loans	$ 0.7
Interest on deposit by PNMR Development for transmission interconnections in 2019, which is offset in Corporate and Other	1.0
Issuance of $200.0 million of SUNs in April 2020	(1.7)
Lower interest on PCRBs remarketed in 2020	3.4
Reclassification of upfront and quarterly commitment fees, offset in operating expenses	0.3
Other	0.1
Net Change	$ 3.8

Income (taxes) benefits:

Higher segment earnings before income taxes	$ (5.8)
Changes in the anticipated effective tax rate, including amortization of excess deferred income taxes (Note 14)	1.7
Net Change	$ (4.1)

Operating Results – Nine Months Ended September 30, 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

Utility margin:	Nine Months Ended September 30, 2020 Change (In millions)
Retail customer usage/load – Weather normalized KWh sales increased by 4.7% for residential customers partially offset by decreased sales to commercial customers of 8.6%	$ 2.9
Weather – Warmer weather in 2020; cooling degree days were 15.3% higher in 2020	5.7
Leap Year – Increase in revenue due an additional day in 2020	1.8
Transmission – Increase primarily due to higher revenues under formula transmission rates, the addition of new customers, and higher volumes	5.1
Rate riders – Includes renewable energy, fuel clause, and energy efficiency riders	11.0
Other	0.7
Net Change	$ 27.2

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

	Nine Months Ended September 30, 2020 Change
Operating expenses:	(In millions)
Lower plant maintenance and administrative costs at SJGS, PVNGS, and gas-fired plants, partially offset by higher costs at Four Corners	$ (10.9)
Regulatory disallowance resulting from the NM Supreme Court's May 2019 decision in PNM's appeal of the NM 2015 Rate Case (Note 12)	(150.6)
Lower employee related and outside service expenses	(1.4)
Higher vegetation management expenses	0.4
Reclassification of upfront and quarterly commitment fees, offset in interest charges	0.9
Other	1.7
Net Change	$ (159.9)

Depreciation and amortization:	
Increased utility plant in service, including solar facilities under the renewable rider	$ 4.9
Lower accretion expense for PVNGS plant decommissioning ARO resulting from new 2020 study (Note 11)	(0.5)
Other	(0.3)
Net Change	$ 4.1

Other income (deductions):	
Lower gains on investment securities in the NDT and coal mine reclamation trusts	$ (17.1)
Lower equity AFUDC	(0.7)
Lower interest income and trust expenses related to investment securities in the NDT and coal mine reclamation trusts	(0.8)
COVID Customer Relief Programs donation	(2.0)
Other	(1.0)
Net Change	$ (21.6)

Interest charges:	
Lower interest on term loans	$ 1.6
Interest on deposit by PNMR Development for potential transmission interconnections in 2019, which is offset in Corporate and Other	2.9
Issuance of $200.0 million of SUNs in April 2020	(2.8)
Lower debt AFUDC resulting from FERC audit (Note 12)	(1.9)
Lower interest on PCRBs remarketed in 2020	3.7
Reclassification of upfront and quarterly commitment fees, offset in operating expenses	0.9
Other	(0.6)
Net Change	$ 3.8

Income (taxes) benefits:		Nine Months Ended September 30, 2020 Change
		(In millions)
Higher segment earnings before income taxes	$	(41.7)
Changes in the anticipated effective tax rate, including amortization of excess deferred income taxes (Note 14)		1.1
Reversal of excess deferred income taxes resulting from 2019 regulatory disallowances in the NM 2015 Rate Case (Note 12)		(7.5)
Net Change	$	(48.1)

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 consumers 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:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)					
Electric operating revenues	$ 108.0	$ 102.5	$ 5.5	$ 290.3	$ 274.8	$ 15.5
Cost of energy	25.7	23.8	1.9	75.9	71.0	4.9
Utility margin	82.3	78.7	3.6	214.4	203.8	10.6
Operating expenses	28.0	24.1	3.9	78.4	73.3	5.1
Depreciation and amortization	22.5	22.0	0.5	66.7	62.7	4.0
Operating income	31.8	32.6	(0.8)	69.3	67.8	1.5
Other income (deductions)	2.3	1.8	0.5	4.8	3.1	1.7
Interest charges	(7.9)	(7.0)	(0.9)	(22.5)	(22.4)	(0.1)
Segment earnings before income taxes	26.1	27.3	(1.2)	51.6	48.4	3.2
Income (taxes)	(2.2)	(2.2)	—	(4.4)	(4.0)	(0.4)
Segment earnings	$ 23.9	$ 25.1	$ (1.2)	$ 47.2	$ 44.5	$ 2.7

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Percentage Change	2020	2019	Percentage Change
Volumetric load [(1)] (GWh)	1,077.7	1,059.2	1.7 %	2,473.4	2,429.7	1.8 %
Demand-based load [(2)] (MW)	5,126.0	5,003.2	2.5 %	14,905.3	14,312.7	4.1 %
Average retail consumers (thousands) [(3)]	259.3	255.7	1.4 %	258.3	254.8	1.4 %

[(1)] Volumetric load consumers are billed on KWh usage.
[(2)] Demand-based load includes consumers billed on monthly KW peak and also includes retail transmission customers that are primarily billed under TNMP's rate riders.
[(3)] TNMP provides transmission and distribution services to REPs that provide electric service to their 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 – Three Months Ended September 30, 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

		Three Months Ended September 30, 2020 Change
Utility margin:		(In millions)
Transmission rate relief/load – Transmission cost of service rate increases in September 2019, and March 2020	$	2.4
Distribution rate relief – Distribution cost of service rate established in September 2020		2.2
Volumetric-based customer usage/load – Weather normalized KWh sales increased 7.1%, the average number of retail consumers increased 1.4%		2.1
Demand-based customer usage/load – Lower demand-based revenues for large commercial and industrial customers; weather normalized billed demand excluding retail transmission customers decreased 2.0%		(0.1)
Weather – Milder weather in 2020; cooling degree days were 7.6% lower in 2020		(1.6)
Rate Riders and other – Impacts of rate riders, including the CTC surcharge, energy efficiency rider, rate case expense rider, and transmission cost recovery factor		(1.4)
Net Change	$	3.6

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

		Three Months Ended September 30, 2020 Change
Operating expenses:		(In millions)
Higher employee related and outside service expenses	$	1.8
Higher vegetation management expenses		0.4
Lower capitalization of administrative and general and other expenses due to lower construction expenditures		0.9
Higher property taxes due to increased utility plant in service		0.4
Other		0.4
Net Change	$	3.9
Depreciation and amortization:		
Increased utility plant in service	$	1.6
Decreased amortization of CTC		(1.1)
Net Change	$	0.5
Other income (deductions):		
Higher equity AFUDC	$	0.3
Higher CIAC		0.2
Net Change	$	0.5
Interest charges:		
Repayment of $35.0 million term loan in December 2019	$	0.3
Issuance of $185.0 million first mortgage bonds in 2020		(1.3)
Higher AFUDC debt		0.1
Net Change	$	(0.9)

Income (taxes) benefits:		Three Months Ended September 30, 2020 Change
		(In millions)
Lower segment earnings before income taxes	$	0.2
Amortization of excess deferred federal income taxes (Note 14)		(0.5)
Other		0.3
Net Change	$	—

Operating Results – Nine Months Ended September 30, 2020 compared to 2019

The following table summarizes the significant changes to utility margin:

Utility margin:		Nine Months Ended September 30, 2020 Change
		(In millions)
Transmission rate relief/load – Transmission cost of service rate increases in March 2019, September 2019, and March 2020	$	9.0
Distribution rate relief – Distribution cost of service rate established in September 2020		2.2
Volumetric-based customer usage/load – Weather normalized KWh sales increased 3.8% in addition to the leap-year impact; the average number of retail consumers increased 1.4%		2.7
Demand-based customer usage/load – Demand-based revenues for large commercial and industrial customers excluding retail transmission customers decreased 0.7%		(0.2)
Weather – Milder weather in 2020; heating degree days were 21.1% lower in 2020		(1.7)
Rate Riders and other – Impacts of rate riders, including the CTC surcharge, energy efficiency rider, rate case expense rider, and transmission cost recovery factor		(1.4)
Net Change	$	10.6

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

Operating expenses:		Nine Months Ended September 30, 2020 Change
		(In millions)
Higher employee related and outside service expenses	$	2.2
Higher vegetation management expenses		0.4
Lower capitalization of administrative and general and other expenses due to lower construction expenditures		0.7
Higher property taxes due to increased utility plant in service		1.1
Other		0.7
Net Change	$	5.1

	Nine Months Ended September 30, 2020 Change
Depreciation and amortization:	(In millions)
Increased utility plant in service	$ 5.0
Decreased amortization of CTC	(1.0)
Net Change	$ 4.0

Other income (deductions):	
Higher equity AFUDC	$ 0.7
Higher CIAC	0.9
Other	0.1
Net Change	$ 1.7

Interest charges:	
Repayment of $172.3 million 9.50% 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	0.8
Issuance of $185.0 million first mortgage bonds in 2020	(1.9)
Other	0.3
Net Change	$ (0.1)

Income (taxes) benefits:	
Higher segment earnings before income taxes	$ (0.7)
Other	0.3
Net Change	$ (0.4)

Corporate and Other

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2020	2019	Change	2020	2019	Change
	(In millions)					
Electric operating revenues	$ —	$ —	$ —	$ —	$ —	$ —
Cost of energy	—	—	—	—	—	—
Utility margin	—	—	—	—	—	—
Operating expenses	(4.9)	(5.3)	0.4	(14.6)	(16.6)	2.0
Depreciation and amortization	5.4	5.8	(0.4)	17.0	17.5	(0.5)
Operating income (loss)	(0.5)	(0.5)	—	(2.3)	(0.9)	(1.4)
Other income (deductions)	0.2	(0.3)	0.5	(0.8)	(1.2)	0.4
Interest charges	(4.6)	(4.8)	0.2	(14.8)	(14.0)	(0.8)
Segment earnings (loss) before income taxes	(4.9)	(5.6)	0.7	(17.8)	(16.1)	(1.7)
Income (taxes) benefit	3.5	2.6	0.9	5.8	4.4	1.4
Segment earnings (loss)	$ (1.5)	$ (3.0)	$ 1.5	$ (12.0)	$ (11.7)	$ (0.3)

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP under shared services agreements. The changes in operating expense for the three and nine months ended September 30, 2020 include an increase for the reclassification of $0.2 million and $0.6 million in upfront and quarterly commitment fees, previously recorded as interest charges, and an increase of $0.1 million and $1.1 million in legal and consulting costs that were not allocated to

PNM or TNMP. Substantially all depreciation and amortization expense and other income (deductions) are offset in operating expenses as a result of allocation of these costs to other business segments.

Operating Results – Three Months Ended September 30, 2020 compared to 2019

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

	Three Months Ended September 30, 2020 Change
Other income (deductions):	(In millions)
Higher equity method investment income from NMRD	$ 0.6
Increase in donations and other contributions	(0.2)
Other	0.1
Net Change	$ 0.5
Interest charges:	
Lower interest on term loans	$ 0.7
Lower interest on short-term borrowings	0.3
Reclassification of upfront and quarterly commitment fees, offset in operating expense	0.2
Elimination of intercompany interest	(1.0)
Net Change	$ 0.2
Income (taxes) benefits:	
Impact of difference in effective tax rates used by PNMR and its subsidiaries in the calculation of income taxes in interim periods	$ 1.1
Lower segment loss before income taxes	(0.2)
Net Change	$ 0.9

Operating Results – Nine Months Ended September 30, 2020 compared to 2019

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

	Nine Months Ended September 30, 2020 Change
Other income (deductions):	(In millions)
Higher equity method investment income from NMRD	$ 1.0
Increase in donations and other contributions	(0.8)
Other	0.2
Net Change	$ 0.4
Interest charges:	
Lower interest on term loans	$ 1.5
Higher short-term borrowings	(0.1)
Reclassification of upfront and quarterly commitment fees, offset in operating expenses	0.6
Elimination of intercompany interest	(2.9)
Other	0.1
Net Change	$ (0.8)

	Nine Months Ended September 30, 2020 Change
Income (taxes) benefits:	(In millions)
Impact of difference in effective tax rates used by PNMR and its subsidiaries in the calculation of income taxes in interim periods	$ 1.0
Higher segment loss before income taxes	0.4
Net Change	$ 1.4

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows

The changes in PNMR's cash flows for the nine months ended September 30, 2020 compared to September 30, 2019 are summarized as follows:

	Nine Months Ended September 30,		
	2020	2019	Change
Net cash flows from:	(In millions)		
Operating activities	$ 368.0	$ 351.3	$ 16.7
Investing activities	(527.4)	(484.3)	(43.1)
Financing activities	186.5	151.0	35.5
Net change in cash and cash equivalents	$ 27.1	$ 18.0	$ 9.1

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 include purchases and sales of investment securities in the NDT and coal mine reclamation trusts as well as activity related to NMRD.

Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

	Nine Months Ended September 30,		
	2020	2019	Change
Cash (Outflows) for Utility Plant Additions	(In millions)		
PNM:			
Generation	$ (40.4)	$ (50.3)	$ 9.9
Renewables	—	(49.6)	49.6
Transmission and distribution	(194.4)	(117.0)	(77.4)
Nuclear fuel	(17.1)	(17.9)	0.8
	(251.9)	(234.8)	(17.1)
TNMP:			
Transmission	(90.1)	(65.5)	(24.6)
Distribution	(138.9)	(129.6)	(9.3)
	(229.0)	(195.1)	(33.9)
Corporate and Other:			
Computer hardware and software	(14.4)	(15.0)	0.6
Total cash (outflows) for additions to utility plant	$ (495.3)	$ (444.9)	$ (50.4)
Other Cash Flows from Investing Activities			
Proceeds from sales of investment securities	$ 489.2	$ 375.3	$ 113.9
Purchases of investment securities	(498.2)	(385.3)	(112.9)
Investments in NMRD	(23.3)	(29.3)	6.0
Other, net	0.2	(0.1)	0.3
Total cash (outflows) from investing activities	$ (527.4)	$ (484.3)	$ (43.1)

Cash Flow from Financing Activities

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

- Short-term borrowings decreased $0.8 million in 2020 compared to an increase of $53.7 million in 2019, resulting in a net increase in cash flows from financing activities of $52.9 million
- In 2020, PNM borrowed $250.0 million under the PNM 2020 Term Loan and used the proceeds to prepay 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 repay $100.0 million of the PNM 2020 Term Loan. The remaining $100.0 million of the PNM 2020 SUNs was used to repay borrowings on the PNM Revolving Credit Facility and for other corporate purposes
- 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, PNM purchased and held three series of PCRBs totaling $100.3 million that were subject to mandatory tender on June 1, 2020. PNM purchased these bonds utilizing borrowings under the PNM Revolving Credit Facility and held the bonds until July 1, 2020, on which date they were remarketed in weekly mode, whereby interest rates will reset weekly.
- In 2020, PNM notified bondholders that it was calling PCRBs aggregating $302.5 million. On July 22, 2020 PNM purchased the bonds in lieu of redemption and remarketed them to new investors.
- In 2019, PNM borrowed $250.0 million under the PNM 2019 Term Loan and used the proceeds to repay the $200.0 million PNM 2017 Term Loan
- In 2019, TNMP issued $305.0 million of TNMP 2019 Bonds and used the proceeds to repay the $172.3 million 9.50% First Mortgage Bonds

Financing Activities

See Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K and Note 9 for additional information concerning the Company's financing activities. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. The Company's ability to access the credit and capital markets at a reasonable cost is largely dependent upon its:

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

The Company is closely monitoring developments and is taking steps to mitigate the potential risks related to COVID-19. The Company currently believes it has adequate liquidity but cannot predict the extent or duration of the outbreak, its effects on the global, national or local economy, including the Company's ability to access capital in the financial markets, or on the Company's financial position, results of operations, and cash flows.

Each of the Company’s revolving credit facilities and term loans contain a single financial covenant that requires the maintenance of a debt-to-capitalization ratio. For the PNMR and PNMR Development agreements, this ratio must be maintained at less than or equal to 70%, and for the PNM and TNMP agreements this ratio must be maintained at less than or equal to 65%. 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.

On October 21, 2016, PNMR entered into the JPM LOC Facility under which letters of credit aggregating $30.3 million were issued to facilitate the posting of reclamation bonds, which WSJ LLC is required to post in connection with permits relating to the operation of the San Juan mine. See Note 11. 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 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 9, in January 2020, PNMR entered into forward sale agreements to sell approximately 6.2 million shares of PNMR common stock. The initial forward sale price of $47.21 per share is subject to adjustments based on a net interest rate factor and by expected future dividends paid on PNMR common stock as specified in the forward sale agreements. PNMR did not initially receive any proceeds upon the execution of these agreements and, except in certain specified circumstances, has the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates. PNMR expects to physically settle all shares under the agreements on or before January 7, 2021.

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 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 of the TNMP 2020 Bond Purchase Agreement. The terms of the TNMP 2020 Bond Purchase Agreement include customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, a cross-default provision, and a change-of-control provision. TNMP will have the right to redeem any or all of the TNMP 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 the PNM 2020 SUNs was 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. 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 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 9.

On October 20, 2020, in connection with the execution of the Merger Agreement (Note 18), PNMR entered into backstop credit facilities between PNMR, the lenders party thereto, and MUFG Bank, Ltd., as administrative agent. The Merger Backstop Revolving Facility was available to provide liquidity to refinance the PNMR Revolving Credit Facility, if needed, and the Merger Backstop Term Loan is 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 on the execution of the necessary waiver amendments (discussed in Note 9). The Merger Backstop Term Loan matures on the earliest of the closing of the Merger and October 19, 2021 and bears interest at a variable rate based on a pricing grid. PNMR must pay interest on its borrowings under the Merger Backstop Term Loan from time to time following funding and must repay all amounts on or before the maturity date. The Merger Backstop Term Loan, consistent with PNMR’s current credit facilities, contain “ratings triggers” for pricing purposes only. If PNMR is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost.

Borrowings under the Merger Backstop Term Loan are conditioned on the ability of PNMR to make certain representations. The Merger Backstop Term Loan includes customary covenants, including requirements to maintain a maximum consolidated debt-to-consolidated capitalization ratio of less than or equal to 70%. The Merger Backstop Term Loan includes customary events of default and have cross default provisions and change of control provisions. If an event of default occurs, the administrative agent may, or upon the request and direction of lenders holding a specified percentage of the commitments shall, terminate the obligations of the lenders to make loans under the Merger Backstop Term Loan, and/or declare the obligations outstanding under the Merger Backstop Term Loan to be due and payable. Such termination and acceleration will occur automatically in the event of an insolvency or bankruptcy default.

As discussed in PNMR's Current Report on Form 8-K filed with the SEC 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. As discussed in PNMR's Current Report on Form 8-K filed with the SEC on October 28, 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.

It is anticipated that if PNMR must draw upon the Merger Backstop Term Loan then some or all of the Merger Backstop Term Loan will be replaced or repaid by PNMR through one or a combination of the following: issuance of debt securities, common or preferred equity, other securities or borrowings under one or more credit facilities. PNMR has paid certain customary fees and expenses in connection with obtaining the Merger Backstop Revolving Facility and the Merger Backstop Term Loan.

The documents governing TNMP's aggregate $750.0 million of outstanding First Mortgage Bonds obligate 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. However, based on the Company's assessment of the likelihood of the holders of the TNMP FMBs to accept the offer, the Company believes that it has adequate liquidity to satisfy its obligations to purchase the bonds. TNMP will make such offer to prepay the TNMP FMBs in accordance with the terms, however holders of the bonds are not required to tender their TNMP FMBs and may accept or reject such offer to prepay.

The information in this Quarterly Report on Form 10-Q 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. The offer to prepay the TNMP FMBs will be made only pursuant to an offer to prepay, which set forth the terms and conditions of the offer to prepay.

See discussion of the NMPRC's April 1, 2020 approval of PNM's request to issue up to $361 million of Securitized Bonds in the SJGS Abandonment Application, and the related appeal to the NM Supreme Court in Note 12.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates on three separate tranches, each of $50.0 million, of its variable rate debt. The hedging agreements effectively fix interest rates on the aggregate $150.0 million of short-term debt at rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, and are subject to changes if there is a change in PNMR's credit rating.

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:

- Investments in transmission and distribution infrastructure
- Upgrading generation resources and delivering clean energy
- Purchasing nuclear fuel

Projected capital requirements, including amounts expended through September 30, 2020, are:

	2020	2021-2024	Total
		(In millions)	
Construction expenditures	$ 778.9	$ 3,256.0	$ 4,034.9
Capital contributions to NMRD	27.0	—	27.0
Dividends on PNMR common stock	98.0	422.3	520.3
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	$ 904.4	$ 3,680.4	$ 4,584.8

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 $115.5 million in 2020-2021 for anticipated expansions of PNM's transmission system and a net investment of approximately $285 million 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 approximately $485 million in expenditures for PNM's Wired for the Future capital program 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 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 pay dividends to PNMR and the Merger (See Note 18). Note 6 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K describes regulatory and contractual restrictions on the payment of dividends by PNM and TNMP.

During the nine months ended September 30, 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 $90.0 million PNMR Development Term Loan matures in November 2020, the $50.0 million PNMR 2018 Two-Year Term Loan matures in December 2020, and the $300.0 million PNMR 2018 SUNs mature in March 2021. The $150.0 million PNMR 2019 Term Loan, the PNM 2019 $40.0 million Term Loan, and the PNM 2020 Term Loan that currently has $150.0 million outstanding all mature in June 2021. In addition, PNM has $146.0 million of long-term debt that must be repriced by October 2021 and $160.0 million aggregate principal of its 5.35% Senior Unsecured Notes that mature in October 2021. Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K contains additional information about the maturities of long-term debt. The Company anticipates that funds to repay long-term debt maturities and term loans will come from entering into new arrangements similar to the existing agreements, borrowing under the revolving credit facilities, issuance of 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. PNM had $36.0 million of PCRBs that became callable at 101% of par on January 1, 2020 and an additional $266.5 million of PCRBs that became callable at par on June 1, 2020. On July 22, 2020, PNM purchased the bonds in lieu of redemption and remarketed them to new investors.

Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility, the PNM Revolving Credit Facility, and the 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 $75.0 million 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 the $40.0 million PNM 2017 New Mexico Credit Facility that expires in December 2022. PNMR Development has a $40.0 million revolving credit facility that expires on February 23, 2021. PNMR Development has the option to further increase the capacity of this facility to $50.0 million upon 15-days advanced 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. See Note 16. In addition, PNMR has $50.0 million of available credit under the Merger Backstop Term Loan that has not been drawn upon. 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:

	Three Months Ended September 30, 2020		Nine Months Ended September 30, 2020	
Range of Borrowings	**Low**	**High**	**Low**	**High**
	(In millions)			
PNM:				
PNM Revolving Credit Facility	$ —	$ 140.0	$ —	$ 147.9
PNM 2017 New Mexico Credit Facility	20.0	40.0	10.0	40.0
TNMP Revolving Credit Facility	—	16.5	—	74.9
PNMR Revolving Credit Facility	140.3	178.4	110.5	188.6

At September 30, 2020, the weighted average interest rates were 1.66% for the PNMR Revolving Credit Facility, 1.40% for the PNM Revolving Credit Facility, and 1.41% for the PNM 2017 New Mexico Credit Facility. There were no borrowings outstanding under the TNMP Revolving Credit Facility at September 30, 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 9. The Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements and to balance its capital structure during the 2020-2024 period. This could include new debt and/or equity issuances, including instruments such as mandatory convertible securities beginning in 2021. To cover the difference in the amounts and timing of internal cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements or other short-term loans. However, if market conditions worsen, the Company may not be able to access the capital markets or renew credit facilities when they expire or the cost of these facilities and debt issuances may increase. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives.

As of October 27, 2020, 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

Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. 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. In August 2019, Moody's affirmed the credit rating and stable outlook for PNMR, PNM and TNMP. 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. 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 October 27, 2020 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
Merger Backstop Term Loan	—	—	50.0	—	50.0
Total financing capacity	$ 440.0	$ 75.0	$ 350.0	$ 40.0	$ 905.0
Amounts outstanding as of October 27, 2020:					
Revolving credit facility	$ —	$ —	$ 165.6	$ —	$ 165.6
PNM 2017 New Mexico Credit Facility	10.0	—	—	—	10.0
Merger Backstop Term Loan	—	—	—	—	—
Letters of credit	2.2	0.1	4.7	—	7.0
Total short-term debt and letters of credit	12.2	0.1	170.3	—	182.6
Remaining availability as of October 27, 2020[(1)]	$ 427.8	$ 74.9	$ 179.7	$ 40.0	$ 722.4
Invested cash as of October 27, 2020	$ 13.8	$ 22.8	$ 0.9	$ —	$ 37.5

(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 issued under the WFB LOC Facility. See Note 9. The above table excludes intercompany debt. As of October 27, 2020, neither PNM, TNMP, nor PNMR Development had any 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 our 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

PNMR, PNM, and TNMP have contractual obligations for long-term debt, leases, construction expenditures, purchase obligations, and certain other long-term obligations. See MD&A – Commitments and Contractual Obligations in the 2019 Annual Reports on Form 10-K. See Note 13 for further details regarding the PVNGS leases.

Contingent Provisions of Certain Obligations

As discussed in the 2019 Annual Reports on Form 10-K, 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 contingent provisions also include contractual increases in the interest rate charged on certain of the Company's short-term debt obligations in the event of a downgrade in credit ratings. The Company believes its financing arrangements are sufficient to meet the requirements of the contingent provisions. 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.

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 lease obligations as debt.

	September 30, 2020	December 31, 2019
PNMR		
PNMR common equity	35.0 %	35.8 %
Preferred stock of subsidiary	0.2	0.2
Long-term debt	64.8	64.0
Total capitalization	100.0 %	100.0 %
PNM		
PNM common equity	45.5 %	45.2 %
Preferred stock	0.3	0.4
Long-term debt	54.2	54.4
Total capitalization	100.0 %	100.0 %
TNMP		
Common equity	47.3 %	52.9 %
Long-term debt	52.7	47.1
Total capitalization	100.0 %	100.0 %

OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

For the past several years, management has identified multiple risks and opportunities related to climate change, including potential environmental regulation, technological innovation, and availability of fuel and water for operations, as among the most significant risks facing the Company. Accordingly, these risks are overseen by the Board in order to facilitate more integrated risk and strategy oversight and planning. Board oversight includes understanding the various challenges and opportunities presented by these risks, including the financial consequences that might result from enacted and potential federal and/or state regulation of GHG; plans to mitigate these risks; and the impacts these risks may have on the Company's strategy. In addition, the Board approves certain procurements of environmental equipment, grid modernization technologies, and replacement generation resources.

Management is also responsible for assessing significant risks, developing and executing appropriate responses, and reporting to the Board on the status of risk activities. For example, management periodically updates the Board on the implementation of corporate environmental policy, and the Company's environmental management systems, including the promotion of energy efficiency programs, and the use of renewable resources. The Board is also informed of the Company's practices and procedures to assess the impacts of operations on the environment. The Board considers issues associated with climate change, the Company's GHG exposures, and the financial consequences that might result from enacted 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 CO_2, which comprises the vast majority of PNM's GHG.

As of December 31, 2019, approximately 63% of PNM's generating capacity, including resources owned, leased, and under PPAs, all of which is located within the U.S., consisted of coal or gas-fired generation that produces GHG. This reflects the retirement of SJGS Units 2 and 3 that occurred in December 2017 and the restructuring of ownership in SJGS Unit 4. These events reduced PNM's entitlement in SJGS from 783 MW to 562 MW and caused the Company's output of GHG to decrease when compared to 2017. Many factors affect the amount of GHG emitted, including total electricity sales, plant performance, economic dispatch, and the availability of renewable resources. For example, between 2007 and 2018, production from PNM's largest single renewable energy resource, New Mexico Wind, has varied from a high of 580 GWh in 2011 to a low of 405 GWh in 2015. Variations are primarily due to how much and how often the wind blows. In addition, if PVNGS experienced prolonged outages or if PNM's entitlement from PVNGS were reduced, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG.

PNM has several programs underway to reduce or offset GHG from its generation resource portfolio, thereby reducing its exposure to climate change regulation. As described in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, PNM received approval for the December 31, 2017 shutdown of SJGS Units 2 and 3 as part of its strategy to address the regional haze requirements of the CAA. The shutdown of SJGS Units 2 and 3 resulted in a reduction of GHG for the entire station of approximately 54% for 2018, reflecting a reduction of 32% of GHG from the Company's owned interests in SJGS, below 2005 levels. PNM's 2017 IRP indicates that retiring PNM's share of SJGS in 2022 and exiting ownership in Four Corners in 2031 would provide long-term cost savings to its customers. See additional discussion of PNM's 2017 IRP and the SJGS Abandonment Application in Note 12. If approved by the NMPRC, retiring PNM's share of SJGS and exiting participation in Four Corners would further reduce PNM's GHG.

As of September 30, 2020, PNM owns or procures power under PPAs from 658 MW of capacity from renewable generation resources, which include solar-PV, wind, and geothermal facilities including 157 MW of PNM-owned solar-PV capacity to serve retail customers and 100 MW of new solar-PV capacity to serve a data center located in PNM's service territory. In addition, the NMPRC has granted PNM authority to procure an aggregate of 266 MW of additional renewable energy and RECs from solar-PV and wind facilities to serve a data center and other large customers located in PNM's service territory. 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 to serve retail customers beginning in 2021. 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 2,014 MW and capacity from emissions-free resources totaling 2,416 MW.

PNM also has a customer distributed solar generation program that represented 145.0 MW at September 30, 2020. PNM's distributed solar programs will generate an estimated 290.1 GWh of emission-free solar energy this year available 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 4,504 GWh of electricity through 2019. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 8,756 GWh of electricity, which will avoid at least 4.7 million metric tons of CO_2 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 (CO_2, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final Prevention of Significant Deterioration ("PSD") and Title V Greenhouse Gas Tailoring Rule to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, the PSD construction permit and Title V operating permit programs, to avoid impacting millions of small GHG emitters. On June 23, 2014, the US Supreme Court found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year, and thus held EPA may not require a source to obtain a PSD permit solely on the basis of its potential GHG. However, the court upheld EPA's authority to apply the PSD program for GHG to "anyway" sources - those sources that have to comply with the PSD program for other non-GHG pollutants.

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

On August 3, 2015, EPA responded to the Climate Action Plan by issuing three separate but related actions, which were published in October 2015: (1) the Carbon Pollution Standards for new, modified, and reconstructed power plants (under Section 111(b)); (2) the Clean Power Plan for existing power plants (under Section 111(d)); and (3) a proposed federal plan associated with the Clean Power Plan.

EPA's Carbon Pollution Standards for new sources (those constructed after January 8, 2014) established separate standards for gas and coal-fired units. The standards reflect the degree of emission limitation achievable through the application of what EPA determined to be the BSER demonstrated for each type of unit. For newly constructed and reconstructed base load natural gas-fired stationary combustion turbines, EPA finalized a standard based on efficient natural gas combined cycle technology. The final standards for coal-fired power plants vary depending on whether the unit is new, modified, or reconstructed, but the new unit standards were based on EPA's determination that the BSER for new units was partial carbon capture and sequestration. The Clean Power Plan established numeric "emission standards" for existing electric generating units - one for "fossil-steam" units (coal and oil-fired units) and one for natural gas-fired units (combined cycle only). The emission standards were based on emission reduction opportunities that EPA deemed achievable using technical assumptions for three "building blocks": efficiency improvements at coal-fired EGUs, displacement of affected EGUs with renewable energy, and displacement of coal-fired generation with natural gas-fired generation.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. The DC Circuit refused to stay the rule, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016, thus halting implementation of the Clean Power Plan. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a 10-judge *en banc* panel. However, before the DC Circuit could issue an opinion, President Trump took office and his administration asked the court to hold the case in abeyance while the rule was re-evaluated, which the court granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss the cases challenging the Clean Power Plan as moot due to EPA's issuance of the Affordable Clean Energy rule, which repeals the Clean Power Plan.

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

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

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon capture and sequestration. As a result, the proposed rule contains less stringent CO_2 emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines. The 2018 proposed Carbon Pollution Standards rule could also impact PNM's generation fleet to the extent any EGUs qualify as new, reconstructed, or modified, although that rule remains under review by EPA. Comments on the proposal were due on March 18, 2019.

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

Federal Legislation

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

State and Regional Activity

Pursuant to New Mexico law, each utility must submit an IRP to the NMPRC every three years to evaluate renewable energy, energy efficiency, load management, distributed generation, and conventional supply-side resources on a consistent and comparable basis. The IRP is required to take into consideration risk and uncertainty of fuel supply, price volatility, and costs of anticipated environmental regulations when evaluating resource options to meet supply needs of the utility's customers. The NMPRC requires that New Mexico utilities factor a standardized cost of carbon emissions into their IRPs using prices ranging between $8 and $40 per metric ton of CO_2 emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the evolving nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. In its 2017 IRP, PNM analyzed resource portfolio plans for scenarios that assumed SJGS will operate beyond the end of the current coal supply agreement that runs through June 30, 2022 and for scenarios that assumed SJGS will cease operations by the end of 2022 as discussed in Note 12. The key findings of the 2017 IRP include that exiting SJGS in 2022 would provide long-term economic benefits to PNM's customers and that PNM exiting its ownership interest in Four Corners in 2031 would also save customers money. The materials presented in the IRP process are available at www.pnm.com\irp.

Senate Bill 489, known as the Energy Transition Act ("ETA") was signed into New Mexico state law and became effective on June 14, 2019. The ETA, among other things, requires that investor-owned utilities obtain specified percentages of their energy from renewable and carbon-free resources. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring utilities to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA provides for a transition from coal-fired generating resources to carbon-free resources by allowing investor-owned utilities to issue securitized bonds, or “energy transition bonds,” related to the retirement of coal-fired generating facilities to qualified investors. Proceeds from the energy transition bonds must be used only for purposes related to providing utility service to customers and to pay “financing costs” (as defined by the ETA). These costs may include coal mine decommissioning, plant decommissioning, and other costs that have not yet been charged to customers or disallowed by the NMPRC or by a court order. Proceeds provided by energy transition bonds may also be used to pay for severances for employees of the retired coal-fired generating facility and related coal mine, as well as to pay for job training, education, and economic development. Energy transition bonds must be issued under 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. PNM expects the ETA will have a significant impact on PNM’s future generation portfolio, including PNM’s planned retirement of SJGS in 2022. The NMPRC had not definitively indicated its intent to apply the requirements of the ETA to PNM’s SJGS Abandonment Application and several parties to that case questioned whether the ETA violated the New Mexico State constitution. In December 2019, the Governor of the State of New Mexico, the President of the Navajo Nation and other parties filed a *writ of mandamus* requesting the NM Supreme Court require the NMPRC to apply the ETA to PNM’s application. On January 29, 2020, the NM Supreme Court ruled that the NMPRC is required to apply the ETA to all of PNM’s SJGS Abandonment Application and denied petitions for a stay. 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 issuances of Securitized Bonds. See additional discussion of PNM’s SJGS Abandonment Application in Note 12. 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. In his public statement, he indicated that the U.S. would “begin negotiations to reenter either the Paris Accord or a new transaction on terms that are fair to the U.S., its businesses, its workers, its people, its taxpayers.” On November 4, 2019, President Trump announced that the U.S. has officially notified the United Nations that the U.S. will withdraw from the Paris Agreement. The rules of the Paris Agreement impose a one-year waiting period after official notice of withdrawal. As a result of the President’s notice to the United Nations, the U.S. will officially be able to withdraw from the Paris Agreement on November 4, 2020. A future administration would have an opportunity to rejoin the Agreement. It is uncertain if the U.S. will ultimately choose to pursue a transition to a low-carbon economy using a pathway that aligns with the Paris Agreement to keep global temperature rise to below two degrees Celsius (the “2 Degree Scenario”) above pre-industrial levels or in connection with other regulation or legislation. PNM has calculated GHG reductions that would result from implementation of the 2017 IRP scenarios that assume PNM would retire its share of the SJGS in 2022 and would exit from Four Corners in 2031 and PNM has set a goal to have a 100% emissions-free generating portfolio by 2040. While 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. As discussed in Note 12, on April 1, 2020, the NMPRC approved PNM's application to retire its share of SJGS in 2022. PNM will file for abandonment of Four Corners at an appropriate time in the future.

PNM will continue to monitor the United States' and other parties' involvement in international accords, but the potential impact that such accords may have on the Company cannot be determined at this time.

Assessment of Legislative/Regulatory Impacts

The Company has assessed, and continues to assess, the impacts of climate change legislation and regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding specific GHG limits; the timing of implementation of these limits; the possibility of a market-based trading program, including the associated costs and the availability of emission credits or allowances; the development of emission reduction and/or renewable energy technologies; and provisions for cost containment. Moreover, the assessment assumes various market reactions such as the price of coal and gas and regional plant economics. These assumptions are, at best, preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation or regulation could, among other things, result in significant compliance costs, including large capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Notes 11 and 12. 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.

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 11 and 12 herein and Notes 16 and 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K 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 Company management to select and apply accounting policies that best provide the framework to report the results of operations and financial position for PNMR, PNM, and TNMP. The selection and application of those policies requires management to make difficult, subjective, and/or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

As of September 30, 2020, there have been no significant changes with regard to the critical accounting policies disclosed in PNMR's, PNM's, and TNMP's 2019 Annual Reports on Forms 10-K. The policies disclosed included regulatory accounting, impairments, decommissioning and reclamation costs, pension and other postretirement benefits, accounting for contingencies, and income taxes.

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.

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 possibility that PNMR's shareholders may not approve 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
- Risks related to disruption of management time from ongoing business operations due to the proposed Merger
- The risk that the proposed transaction and its announcement 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 impacts of the NMPRC orders in PNM's NM 2015 Rate Case, the NM Supreme Court's decisions in the appeal of that order, the NM 2016 Rate Case and related deferral of the issue of the prudence of PNM's decision to continue participation in Four Corners to PNM's next general rate case and recovery of PNM's investments and other costs associated with that plant, and any actions resulting from the pending appeal of the NMPRC's approval of PNM' request to issue Securitized Bonds and the NMPRC's approval of replacement resources 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 our 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 results of PNM's 2017 IRP filing,

which indicates that PNM's customers would benefit from PNM's exit from Four Corners in 2031, including regulatory recovery of undepreciated investments and other costs in the event the NMPRC orders generating facilities be retired, and the impacts of the ETA
- Uncertainty regarding the requirements and related costs of decommissioning power plants and reclamation of coal mines supplying certain power plants, as well as the ability to recover those costs from customers, including the potential impacts of the ultimate outcomes of the Regulatory Proceedings
- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies, energy efficiency measures, weather, seasonality, alternative sources of power, advances in technology, 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

Any material changes to risk factors occurring after the filing of PNMR's, PNM's, and TNMP's 2019 Annual Reports on Form 10-K are disclosed in Item 1A, Risk Factors, in Part II of this Form 10-Q.

For information about the risks associated with the use of derivative financial instruments, see Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

SECURITIES ACT DISCLAIMER

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

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 internet addresses 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 demonstrating the Company's commitment to ESG principles. This information highlights plans for PNM to be coal-free by 2031 (subject to regulatory approval) and to have an emissions-free generating portfolio by 2040.

The contents of these websites are not a part of this Form 10-Q. 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 http://www.pnmresources.com/corporate-governance.aspx and in print upon request from any shareholder are PNMR's:

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

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

ITEM 3. 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 Risk Management Committee ("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 7, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Condensed

Consolidated Balance Sheets. During the nine months ended September 30, 2020 and the year ended December 31, 2019, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts that meet the definition of a derivative under GAAP, are recorded at fair value on the Condensed 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 three and nine months ended September 30, 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

September 30, 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	$ 5,135	2	$ 1,796
Non-investment grade	—	—	—
Split ratings	—	—	—
Internal ratings:			
Investment grade	1,950	1	807
Non-investment grade	—	—	—
Total	$ 7,085		$ 2,603

(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 September 30, 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 September 30, 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 PNMR’s consolidated long-term debt instruments would increase by 9.1%, or $303.4 million if interest rates were to decline by 50 basis points from their levels at September 30, 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 9, 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 October 27, 2020, variable rate debt balances and weighted average interest rates were as follows:

Variable Rate Debt	Weighted Average Interest Rate		Balance Outstanding		Capacity
			(In thousands)		
Short-term Debt:					
PNMR Revolving Credit Facility	1.65 %	$	165,600	$	300,000
PNM Revolving Credit Facility	0.00		—		400,000
PNM 2017 New Mexico Credit Facility	1.40		10,000		40,000
TNMP Revolving Credit Facility	—		—		75,000
PNMR-D Revolving Credit Facility	—		—		40,000
		$	175,600	$	855,000
Long-term Debt:					
PNMR 2018 Two-Year Term Loan	0.94 %	$	50,000		
PNMR 2019 Term Loan	1.10		150,000		
PNM 2019 $40.0 Million Term Loan	0.80		40,000		
PNM 2020 Term Loan	2.70		150,000		
PNMR Development Term Loan	0.95		90,000		
		$	480,000		

The investments held by PNM in trusts for decommissioning and reclamation had an estimated fair value of $408.6 million at September 30, 2020, of which 65.4% 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 September 30, 2020, the decrease in the fair value of the fixed-rate securities would be 2.5%, or $6.7 million.

PNM does not directly recover or return through rates any losses or gains on the securities, including equity investments discussed below, in the trusts for decommissioning and reclamation. 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 12. PNM is at risk for shortfalls in funding of obligations due to investment losses, including those from the equity market 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 include certain equity securities at September 30, 2020. These equity securities expose PNM to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 32.6% of the securities held by the trusts as of September 30, 2020. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $13.3 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of the end of the period covered by this quarterly report, each of PNMR, PNM, and TNMP conducted an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and 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 of each of PNMR, PNM, and TNMP concluded that the disclosure controls and procedures are effective.

Changes in internal controls over financial reporting

There have been no changes in each of PNMR's, PNM's, and 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 September 30, 2020 that have materially affected, or are reasonably likely to materially affect, each of PNMR's, PNM's, and TNMP's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Notes 11 and 12 for information related to the following matters, for PNMR, PNM, and TNMP, incorporated in this item by reference.

Note 11

- 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 Nations Allottee Matters

Note 12

- PNM - New Mexico General Rate Cases
- PNM - Renewable Energy Rider
- PNM – Energy Efficiency and Load Management
- PNM – SJGS Abandonment Application
- PNM – COVID-19 Regulatory Matters
- PNM – Integrated Resource Plans
- PNM – 2020 Decoupling Petition
- TNMP – Periodic Distribution Rate Adjustment

ITEM 1A. RISK FACTORS

While we attempt to identify, manage and mitigate risks and uncertainties associated with our business to the extent practical, under the circumstances, some level of risk and uncertainty will always be present. Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2019, includes a detailed discussion of our risk factors. Those risks and uncertainties have the potential to materially affect our financial condition and results of operations. In addition to the risk factors disclosed in Part I, Item 1A, of our 2019 Annual Report on Form 10-K, the following are additional risk factors that have evolved and become material to our business.

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 PNMR's common stock and the Company's debt securities.

The scale and scope of the recent 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 electricity and electric service 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 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;
- causing other risks to impact us, such as the risks described in the "Risk Factors" section of the Company's Annual Reports on Form 10-K filed on March 2, 2020; and
- causing other unpredictable events.

This continues to be a rapidly evolving situation and the Company cannot predict the extent or duration of the outbreak, the effects of it on the global, national or local economy, including the impacts on the Company's ability to access capital, or its effects on the Company's financial position, results of operations, cash flows, ability to access the capital markets, and value of the Company's stock and debt securities.

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 and PNMR shareholder approvals 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 and thereby approved the Merger and the other transactions contemplated by 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 is conditioned upon the receipt of various state and U.S. federal regulatory approvals, including, but not limited to, expiration or termination of the applicable waiting period under HSR and approval by NMPRC, PUCT, CFIUS, FERC, NRC and the FCC. Avangrid and PNMR will make 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 attention of PNMR's management may be directed towards the completion of the Merger including obtaining regulatory approvals and other transaction-related considerations and may be diverted from the day-to-day business operations of PNMR and matters related to the Merger may require commitments of time and resources that could otherwise have been devoted to other opportunities that might have been beneficial to PNMR. 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 PNMR board of directors 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 may be instituted against PNMR and members of the PNMR board of directors 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 PNMR board of directors may be named as defendants in putative class action lawsuits or other proceedings that may be brought by PNMR shareholders 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 potential 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.

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 PNMR board of directors may withdraw or change its recommendation regarding the Merger Agreement in response to an unsolicited third-party proposal to acquire PNMR that the PNMR 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.

Our offer to prepay the TNMP FMBs may have a negative impact on our liquidity position.

The entry into the Merger Agreement triggers an obligation of TNMP to offer, within 30 business days following the signing of the Merger Agreement, to prepay the TNMP FMBs at 100% of the principal amount of the TNMP FMBs, plus all accrued and unpaid interest thereon, but without any make-whole amount or other premium. TNMP will make such offer to prepay the TNMP FMBs in accordance with the terms of the TNMP FMBs. Holders of such TNMP FMBs are not required to tender their TNMP FMBs and may accept or reject such offer to prepay.

If a majority of the holders of TNMP FMBs accept the offer, TNMP may not be able to satisfy its obligations to purchase the bonds and the payment of such purchase price may adversely impact its liquidity position. However, based on the Company's assessment of the likelihood of the holders of the TNMP FMBs to accept the offer, the Company believes that it has adequate liquidity to satisfy its obligations to purchase the bonds. TNMP’s failure to prepay the TNMP FMBs would cause an event of default under the governing documents for the TNMP FMBs and a cross default under the TNMP Revolving Credit Facility.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

3.1	PNMR	Articles of Incorporation of PNMR, as amended to date (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed November 21, 2008)
3.2	PNM	Restated Articles of Incorporation of PNM, as amended through May 31, 2002 (incorporated by reference to Exhibit 3.1.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)
3.3	TNMP	Articles of Incorporation of TNMP, as amended through July 7, 2005 (incorporated by reference to Exhibit 3.1.2 to TNMP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005)
3.4	PNMR	Bylaws of PNMR, with all amendments to and including October 24, 2017 (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed October 25, 2017)
3.5	PNM	Bylaws of PNM, with all amendments to and including May 31, 2002 (incorporated by reference to Exhibit 3.1.2 to PNM's Report on Form 10-Q for the fiscal quarter ended June 30, 2002)
3.6	TNMP	Bylaws of TNMP, with all amendments to and including June 18, 2013 (incorporated by reference to Exhibit 3.6 to TNMP's Current Report on Form 8-K filed June 20, 2013)
4.1	TNMP	Thirteenth Supplemental Indenture, dated as of July 15, 2020 between Texas-New Mexico Power Company and MUFG Union Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to TNMP's Current Report on Form 8-K filed July 15, 2020)
10.1	PNM	First Amendment to Build Transfer Agreement dated August 31, 2020 among New Mexico Renewable Energy Transmission Authority, Western Spirit Transmission, LLC, and Public Service Company of New Mexico (Western Spirit Line)
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)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

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

(Registrants)

Date: October 30, 2020

/s/ Henry E. Monroy

Henry E. Monroy
Vice President and Corporate Controller
(Officer duly authorized to sign this report)

FIRST AMENDMENT TO BUILD TRANSFER AGREEMENT

This First Amendment to Build Transfer Agreement (this "Amendment"), dated as of August 31, 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 (the "Agreement");

WHEREAS, the Parties desire to amend the Agreement as set forth herein; and

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 Section 1.4(h) of the Agreement. Section 1.4(h) of the Agreement is hereby deleted in its entirety and replaced with the following:

"(h) Private Letter Ruling; EPC Contracts.

(i) WST Seller shall, or shall cause the applicable EPC Contractor(s) to, apply for the Private Letter Ruling on or before August 15, 2020; provided, however, that WST Seller may, or may cause any such applicable EPC Contractor(s), to withdraw the Private Letter Ruling if, after submitting the proposed Private Letter Ruling to, and discussing the proposal with, NMTRD, the NMTRD indicates that it is unlikely to issue the Private Letter Ruling. WST Seller shall, or shall cause the applicable EPC Contractor(s) to, (x) permit Buyer to have reasonable time and opportunity (and in no event less than seven (7) Business Days) to review and comment on the application for the Private Letter Ruling and will consider in good faith the incorporation of any comments reasonably requested by Buyer and (y) provide Buyer the opportunity to participate in any in person meetings and teleconferences that WST Seller and/or such applicable EPC Contractor(s) has with NMTRD in connection with the Private Letter Ruling.

(ii) In the event that WST Seller or the applicable EPC Contractor(s) receive the Private Letter Ruling, WST Seller shall contract with (A) a single EPC Contractor that will act as construction manager for the Abo Station and as the single point of contact for Buyer relating to all other EPC Contracts for the Abo Station following the Closing and

(B) a single EPC Contractor that will act as construction manager for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from Baoding Tianwei Baobian Electric Co., Ltd. ("BTW")), as contracting agent for other EPC Contractors for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW), and as the single point of contact for Buyer relating to all other EPC Contracts for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) following the Closing. In each case, WST Seller shall require that such EPC Contractor coordinate the administration of all such applicable EPC Contracts (including the administration of warranty claims thereunder) and take full responsibility for the design of the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) or the Abo Station, as applicable, all warranties related to the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) or the Abo Station, as applicable, and all schedule obligations under all such applicable EPC Contracts. WST Seller shall also use commercially reasonable efforts to maximize the transfer of any other risks to such applicable EPC Contractor.

(iii) In the event that WST Seller or the applicable EPC Contractor(s), as applicable, do not receive the Private Letter Ruling (including if it or they withdraw the Private Letter Ruling in accordance with Section 1.4(h)(i)), WST Seller may, subject to the definition of "EPC Contract", contract directly with an unlimited number of EPC Contractors; provided, however, that WST Seller shall contract with (A) a single EPC Contractor that will act as construction manager for the Abo Station, with the obligation to coordinate the administration of all other EPC Contracts for the Abo Station (including the administration of warranty claims thereunder) and (B) a single EPC Contractor that will act as construction manager for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW), with the obligation to coordinate the administration of all other EPC Contracts for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) (including the administration of warranty claims thereunder). Furthermore, (x) such construction manager for the Abo Station shall take full responsibility for the design of the Abo Station, all warranties related to the Abo Station and all schedule obligations under all other EPC Contracts for the Abo Station and (y) such construction manager for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) shall take full responsibility for the design of the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW), all warranties related to the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW) and all schedule obligations under all other EPC Contracts for the Project (excluding the Abo Station and the Western Spirit Switchyard reactor purchased from BTW). WST Seller shall also use commercially reasonable efforts to maximize the transfer of any other risks to such EPC Contractors."

4. Amendment to Section 7.1 of the Agreement. New Section 7.1(q) is added to the Agreement as follows:

(q) On or before Closing, WST Seller shall, subject to the remainder of this Section 7.1(q), obtain and deliver to Buyer a certificate of no tax due (a "No Tax Due

Certificate") with respect to WST Seller issued by NMTRD. Buyer shall cooperate in good faith with WST Seller in the preparation of the Request for Tax Clearance (the "Request"), providing such information that is required by the Request form and timely reviewing and approving the Request prior to its submission to the NMTRD, and which submission shall occur no event later than forty five (45) days prior to Closing. WST Seller shall provide to Buyer a complete copy of the Request (including all attachments) simultaneously with the submission to NMTRD. If, within 30 days of submission by Buyer of a Request, NMTRD notifies WST Seller of an amount of tax that must be paid as a condition to the issuance of the No Tax Due Certificate, WST Seller shall not be required to deliver a No Tax Due Certificate to Buyer if it directs Buyer to put into a trust account for the benefit of NMTRD sufficient money from the Purchase Price to cover the amount of tax claimed to be due by NMTRD. If such a direction is given by WST Seller, such amount shall reduce the Closing Payment, and Buyer shall not release any amount from such trust account to NMTRD until WST Seller has exhausted its administrative remedy and judicial appeals or until directed to do so by WST Seller. Upon the issuance by NMTRD of a No Tax Due Certificate, any amount remaining in such trust account shall be released to WST Seller. If within thirty (30) days of the submission of the Request to NMTRD, NMTRD has not either (i) notified WST Seller of an amount of tax that must be paid as a condition to the issuance of the No Tax Due Certificate or (ii) issued the No Tax Due Certificate, then WST Seller shall not be required to deliver a No Tax Due Certificate to Buyer; provided, however, that Buyer may, in its sole and absolute discretion, and at any time up to ninety (90) days after Closing, resubmit the Request and WST Seller shall cooperate in good faith with Buyer and provide any and all information requested by NMTRD with respect to and in connection with the resubmission that is relevant to WST Seller's tax liabilities arising from its operation of the Project.

5. Amendments to Annex 1 to the Agreement. Annex 1 to the Agreement is hereby amended by:

a. Adding the following defined term in appropriate alphabetical order:

"Abo Station" has the meaning set forth in Annex 2.

"BTW" has the meaning set forth in Section 1.4(h)(ii)."

b. Deleting the defined term "Private Letter Ruling" in its entirety and replacing it with the following defined term:

"Private Letter Ruling" means a letter ruling by the NMTRD finding that where (a) WST Seller contracts with a single EPC Contractor that acts as construction manager, as contracting agent for other applicable EPC Contractors, and as the single point of contact for Buyer relating to all other applicable EPC Contracts following the Closing, (b) in such contracting agent role, such EPC Contractor enters into contracts with WST Seller on behalf of the other applicable EPC Contractors as a true disclosed agent, (c) in such construction manager role, such EPC Contractor coordinates the administration of all other applicable EPC Contracts (including the administration of warranty claims thereunder), and (d) such EPC Contractor takes full responsibility for the design of the

Project, all warranties related to the Project, and all schedule obligations under all other applicable EPC Contracts, the receipts derived from the sale of services or equipment by such other applicable EPC Contractors to WST Seller are deductible from gross receipts taxes pursuant to NMSA §§7-9-101 and 7-9-103 and the value of equipment purchased by WST Seller from such other applicable EPC Contractors is deductible from compensating taxes pursuant to NMSA §7-9-102 (provided that the requirements of those sections are otherwise met)."

6. Amendment to Annex 2 to the Agreement. Annex 2 to the Agreement is hereby amended by deleting the sixth paragraph thereof in its entirety and replacing it with the following:

"In addition to Buyer's work described in the preceding paragraph, WST Seller will construct two stations. The generation 345kV point of interconnect ("POI") will be built by WST Seller. WST Seller will build a new 345kV 4-breaker ring bus station (the "Western Spirit Switchyard") as part of the Project. This station will be built with the ability to be converted to breaker-and-a-half configuration and will include installation of one shunt reactor, on the line to Pajarito."

7. Amendments to Annex 11 to the Agreement.

a. Section 1.4.1 of Annex 11 to the Agreement is hereby deleted in its entirety and replaced with the following:

"1.4.1 Contractor warrants and guarantees (a) the Equipment (excluding any Equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW[1]) and Work are free from Defects (including defects in material, workmanship, installation services and design and including with respect to all warranties and guarantees provided by Subcontractors), are new, unused and undamaged when installed, and are in compliance with applicable Law, Applicable Standards, Applicable Permits, Project Documents, Prudent Utility Practices, and the requirements of this Agreement, including all Contractor's drawings, the Specifications and all requirements of the design documentation, warranty documentation and other technical documentation governing such Equipment and the Work provided by Contractor or Subcontractors (including vendors); (b) the Equipment (excluding any Equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW) and Work are suitable for Owner's use as a transmission system for forty (40) years (provided that the stated useful life is not intended to extend the Warranty Period beyond the period stipulated herein); (c) the completed Work shall perform as required by this Agreement; (d) the completed Work shall be

[1] Exclusion regarding Western Spirit Switchyard reactor to be included in EPC Contract with EC Source. For the avoidance of doubt, this exclusion does not modify the obligation of WST Seller to assign the warranty obtained from BTW with respect to the the Western Spirit Switchyard reactor at the Closing under the BTA.

free from all Liens[2]; and (e) none of the Work, the Equipment (excluding any Equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW), Contractor's drawings, Specifications, final plans and the design, engineering and other services rendered by Contractor hereunder, nor the use or ownership thereof by Owner in accordance with the licenses granted hereunder, infringes, violates or constitutes a misappropriation of any trade secrets, proprietary rights, intellectual property rights, patents, copyrights, designs or trademarks. *[Adjustments to be made in certain EPC Contracts only to the extent portions of this section are not applicable to the Contractor's scope of work.]*

b. Section 1.7.1 of Annex 11 to the Agreement is hereby amended by deleting the penultimate sentence thereof and replacing it with the following:

"Equipment (excluding any Equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW) and Subcontractor warranties must be transferrable if/when the Project changes ownership."

c. Section 1.7.4 of Annex 11 to the Agreement is hereby deleted in its entirety and replaced with the following:

"Contractor shall be solely responsible for paying each Subcontractor for services, equipment, material or supplies in connection with the Work (excluding any Equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW) and Owner shall not be deemed by virtue of this Agreement to have any contractual obligation to or relationship with any Subcontractor. Contractor shall notify Owner when Subcontractor has been paid in full."

d. Section 1.8.1.7 of Annex 11 to the Agreement is hereby deleted in its entirety and replaced with the following:

"1.8.1.7 any third-party claims caused by a failure of Contractor, any Subcontractor or the Work, including Equipment (excluding any equipment procured by PNM and the the Western Spirit Switchyard reactor procured directly by Owner from BTW), as designed, constructed and completed by Contractor, to comply with, or be capable of operating in compliance with, Applicable Laws or the conditions or provisions of Applicable Permits; and"

8. <u>Amendments to the Sellers' Disclosure Letter</u>. Section A1-EPC of the Sellers'

[2] The term "Lien" within the EPC Contracts shall be defined as any lien, security interest, mortgage, hypothecation, encumbrance or other restriction on title or property interest, regardless of whether valid or enforceable.

Disclosure Letter is hereby amended by:

a. Adding the following under “EPC Contractors”:

“12. GE (solely with respect to the Abo Station)

13. BTW (solely with respect to the Western Spirit Switchyard reactor)”

b. Deleting the asterisk after “TAPP” in all cases.

c. Adding the following under “Suppliers” under “1. Mono-Pole Structures”:

“f. Sabre Industries”

d. Adding the following under “Suppliers” under “2. H Frames”:

“i. Sabre Industries”

e. Deleting the following under “Suppliers” under “10. Shunt Reactors”:

“b. HICO (South Korea)”

f. Adding the following under “Suppliers” under “25. Cable Trough”:

“b. Concast”

9. Agreement Regarding the Western Spirit Switchyard Reactor.

a. Notwithstanding anything to the contrary in the Agreement, including Section 1.4(h) thereof and Annex 11 thereto, the Parties acknowledge and agree that WST Seller shall directly order the Western Spirit Switchyard reactor from Baoding Tianwei Baobian Electric Co., Ltd. (BTW).

b. Buyer and Seller agree and acknowledge that the cost of purchasing the Western Spirit Switchyard reactor from BTW shall be included as a Project Cost paid by Buyer pursuant to the Agreement.[3]

10. 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.

11. 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.

12. 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/ Cary Kottler
Name:	Cary Kottler
Title:	Authorized Signatory

NEW MEXICO RENEWABLE ENERGY TRANSMISSION AUTHORITY

By:	/s/ Robert E. Busch
Name:	Robert E. Busch
Title:	Chairman, RETA

PUBLIC SERVICE COMPANY OF NEW MEXICO

By:	/s/ Todd Fridley
Name:	Todd Fridley
Title:	VP, New Mexico Operations

PNM Resources
414 Silver Ave. SW
Albuquerque, NM 87102-3289

EXHIBIT 31.1
CERTIFICATION

I, Patricia K. Collawn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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; and

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: October 30, 2020

By: /s/ Patricia K. Collawn
Patricia K. Collawn
Chairman, President and Chief Executive Officer
PNM Resources, Inc.

PNM Resources
414 Silver Ave. SW
Albuquerque, NM 87102-3289

EXHIBIT 31.2
CERTIFICATION

I, Joseph D. Tarry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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; and

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: October 30, 2020

By: /s/ Joseph D. Tarry
Joseph D. Tarry
Senior Vice President and
Chief Financial Officer
PNM Resources, Inc.

Public Service Company of New Mexico
414 Silver Ave. SW
Albuquerque, NM 87102-3289

EXHIBIT 31.3
CERTIFICATION

I, Patricia K. Collawn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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; and

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: October 30, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn
President and Chief Executive Officer
Public Service Company of New Mexico

Public Service Company of New Mexico
414 Silver Ave. SW
Albuquerque, NM 87102-3289

EXHIBIT 31.4
CERTIFICATION

I, Joseph D. Tarry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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; and

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: October 30, 2020

By: /s/ Joseph D. Tarry
Joseph D. Tarry
Senior Vice President and
Chief Financial Officer

Public Service Company of New Mexico

Texas-New Mexico Power Company
577 N. Garden Ridge Blvd.
Lewisville, Texas 75067

EXHIBIT 31.5
CERTIFICATION

I, Patricia K. Collawn, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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; and

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: October 30, 2020

By: /s/ Patricia K. Collawn

Patricia K. Collawn
Chief Executive Officer
Texas-New Mexico Power Company

Texas-New Mexico Power Company
577 N. Garden Ridge Blvd.
Lewisville, Texas 75067

EXHIBIT 31.6
CERTIFICATION

I, Joseph D. Tarry, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 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; and

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: October 30, 2020

By: /s/ Joseph D. Tarry
Joseph D. Tarry
Senior Vice President and
Chief Financial Officer
Texas-New Mexico Power Company

PNM Resources
414 Silver Ave. SW
Albuquerque, NM 87102-3289
www.pnmresources.com

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 Quarterly Report on Form 10-Q for the period ended September 30, 2020, for PNM Resources, Inc. ("Company"), as filed with the Securities and Exchange Commission on October 30, 2020 ("Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2020

By: /s/ Patricia K. Collawn
Patricia K. Collawn
Chairman, 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.

Public Service Company of New Mexico
414 Silver Ave. SW
Albuquerque, NM 87102-3289

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 Quarterly Report on Form 10-Q for the period ended September 30, 2020, for Public Service Company of New Mexico ("Company"), as filed with the Securities and Exchange Commission on October 30, 2020 ("Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2020

By: /s/ Patricia K. Collawn
Patricia K. Collawn
President and Chief Executive Officer
Public Service Company of New Mexico

By: /s/ Joseph D. Tarry
Joseph D. Tarry
Senior Vice President and
Chief Financial Officer
Public Service Company of New Mexico

Texas-New Mexico Power Company
577 N. Garden Ridge Blvd.
Lewisville, Texas 75067

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 Quarterly Report on Form 10-Q for the period ended September 30, 2020, for Texas-New Mexico Power Company ("Company"), as filed with the Securities and Exchange Commission on October 30, 2020 ("Report"), each of the undersigned officers of the Company certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of § 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 30, 2020

By: /s/ Patricia K. Collawn
Patricia K. Collawn
Chief Executive Officer
Texas-New Mexico Power Company

By: /s/ Joseph D. Tarry
Joseph D. Tarry
Senior Vice President and
Chief Financial Officer
Texas-New Mexico Power Company