BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 667	)	**Docket No. 26-0000XXX**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant.	)	

DIRECT TESTIMONY

OF

KISHOR S. AGRAWAL

November 24, 2026

NMPRC DOCKET NO. 26-0000XXX
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DIRECT TESTIMONY OF
KISHOR S. AGRAWAL
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I. INTRODUCTION AND PURPOSE

Q. Please state your name, position, and business address.

A. My name is Kishor S. Agrawal. I am Assistant Treasurer for PNMR Services Company ("Shared Services"). Shared Services provides corporate services through shared services agreements to its parent company, TXNM Energy, Inc. ("TXNM") all TXNM subsidiaries, including Public Service Company of New Mexico ("PNM" or "Company"). My business address is 414 Silver Avenue SW, Albuquerque, New Mexico 87102. I am testifying on behalf of PNM.

Q. Please describe your responsibilities as Assistant Treasurer for Shared Services.

A. As Assistant Treasurer, I am responsible for supporting the Treasurer, who has overall responsibility for providing financial support for TXNM and its subsidiaries, including PNM. My responsibilities include assisting and coordinating the execution of plans to accomplish finance objectives, including the implementation of specific financing strategies, such as completing securities issuances and financings. A copy of my educational background and experience is attached as PNM Exhibit KSA-1, which also identifies the regulatory proceeding before the New Mexico Public Regulation Commission ("Commission" or "NMPRC") in which I have submitted pre-filed testimony.

Q. What is the purpose of your Direct Testimony in this case?

A. I support the Company's capital structure and the Company's average cost of capital. I explain why maintaining PNM's financial health is necessary and in the interest of customers. I also support the rate recovery of PNM's liability insurance coverage expenses. Finally, I explain and support the proposed repurposing of certain Post-Retirement Benefits Other than Pension ("PBOP") surplus funds maintained for PNM union employees.

Q. What Rule 530 schedules are you sponsoring?

A. I am sponsoring Rule 530 Schedules G-1 through G-9, which include PNM information on PNM's capitalization, its cost of capital, and the overall rate of return.

Q. What are the key conclusions of your testimony?

A. I conclude that PNM's proposed capital structure and cost of capital are reasonable and will help ensure that PNM maintains strong financial health and investment grade credit ratings, which are needed to attract, on favorable terms, the capital required to fund PNM's investments to reliably serve customers. Accessing capital on favorable terms is vital to supporting the level of investments currently required to meet the needs of PNM customers. Specifically, PNM's capital structure in the Test Period (the twelve-month period ending September 30, 2028), and the

resulting cost of capital, is reasonable and reflects the expected costs necessary to operate and support PNM's utility business.

II. CAPITAL STRUCTURE AND COST OF CAPITAL

Q. What is a capital structure and why is a balanced capital structure important to PNM's customers?

A. Capital structure is the particular distribution of debt and equity that comprises the finances of a utility. A properly balanced utility capital structure consists of debt and equity in proportions that are balanced to minimize the long-term after-tax cost of capital for the benefit of customers. Interest paid on debt is tax deductible, contributing to a lower cost for debt than equity, so generally, a utility and its customers benefit from the use of debt. However, if the debt is too large of a component of the utility capital structure, the risk of default increases and credit metrics and ratings deteriorate. With a deterioration of credit metrics and credit ratings, investors will ascribe a higher risk associated with their investment in the company and commensurately expect a higher return on their investment. This negatively impacts customers through higher capital costs, offsetting the tax benefits of proportionately higher debt levels. Further, in tight credit markets, investors may withhold capital altogether from companies with weaker credit metrics and credit ratings, which could limit the utility's ability to fund future capital investments for the benefit of customers.

In contrast, the cost of equity is not tax deductible and is generally more expensive than debt. However, having greater amounts of equity in a company's capital structure reduces default risk for debt holders. This leads to stronger credit metrics and credit ratings, a lower overall cost of capital, and improved access to capital markets when needed. Therefore, achieving an optimal balance of debt and equity is crucial in a utility company's capital structure to minimize the long-term after-tax cost of capital.

Q. What factors are considered in planning and managing the capital structure at PNM?

A. PNM considers several factors, including:

- Credit rating evaluations that reflect rating agencies' assessments of PNM's business and financial risk;
- PNM's long-term capital investment plans;
- Capital structures of other vertically integrated, regulated utilities;
- The current macroeconomic outlook and associated risk factors affecting the utility sector and capital markets generally; and
- The Commission's authorized capital structure.

Q. What is the optimal balance of debt and equity for a utility?

A. There is no single optimal capital structure that applies to every utility. The appropriate balance of debt and equity depends on a utility's specific

circumstances, including its capital investment requirements, business and financial risks, credit quality, and ability to access the capital markets.

PNM believes that its projected Test Period capital structure provides an appropriate balance of debt and equity. This capital structure is intended to support PNM's financial strength and access to capital on reasonable terms, while providing the financial flexibility necessary to fund investments in its electric system to meet customers' needs and continue the transition to a carbon-free resource portfolio. Maintaining an appropriate balance between debt and equity also helps PNM manage its overall financing costs and support its investment-grade credit ratings, ultimately benefiting customers.

Q. Please summarize the capital structure for PNM at relevant points in time that are referenced in your testimony.

A. Please refer to PNM Table KSA-1 below, which shows the requested and approved capital structures in Case No. 24-00089-UT ("2024 Rate Case"), PNM's actual capital structure at the end of the Base Period (the twelve month period ending June 30, 2026), and PNM's projected capital structure at the end of the Test Period.

PNM Table KSA-1
PNM Capital Structures

	Requested in Case No. 24-00089-UT	Approved in Case No. 24-00089-UT	Actual Capital Structure at end of Base Period (6/30/2026)	Projected Capital Structure at end of Test Period (9/30/2028)
Debt	47.26%	48.75%	46.65%	47.81%
Pref. Stock	0.24%	0.25%	0.23%	0.19%
Equity	52.50%	51.00%	53.11%	52.00%

Q. What Test Period capital structure is PNM proposing in this case?

A. As shown in PNM Table KSA-1, PNM's projected Test Period capital structure consists of 47.81% long-term debt, 0.19% preferred stock, and 52.00% common equity. The capital structure used to determine the Test Period revenue requirement reflects PNM's projected capital structure as of September 30, 2028, including the debt issuances and refinancings expected to occur through the Test Period.

Q. Why is that target equity ratio appropriate?

A. PNM's proposed 52.00% common equity ratio is intended to support financial measures consistent with maintaining PNM's current investment-grade credit ratings from S&P Global Ratings ("S&P") and Moody's Ratings ("Moody's"). Maintaining these ratings is important to PNM's ability to access the capital markets on reasonable terms, particularly as the Company undertakes significant capital investments necessary to provide safe and reliable service to customers.

As discussed later in my testimony, PNM believes that its current authorized cost of capital does not provide sufficient support for the financial metrics necessary to

maintain its current credit quality, particularly given PNM's significant capital investment requirements. The proposed 52.00% common equity ratio would strengthen PNM's capitalization, provide additional financial flexibility, and support access to financing on reasonable terms.

Moreover, PNM's requested 52.00% common equity ratio is consistent with the capitalization of the utilities in the proxy group analyzed by PNM witness Adrien M. McKenzie. As shown on pages 1 and 2 of Exhibit AMM-4, the common equity ratios of the proxy group utilities for fiscal year 2025 range from 45.1% to 63.1%, with a mean of 52.6%. PNM's proposed 52.00% common equity ratio therefore falls within the range of the proxy group and is slightly below its mean.

Q. Is the Test Period capital structure the same as PNM's actual capital structure in the Base Period?

A. No. As shown in PNM Table KSA-1, the Base Period consists of the 12 months ended June 30, 2026. As of June 30, 2026, PNM's actual capital structure consisted of 46.65% long-term debt, 0.24% preferred stock, and 53.11% common equity. This differs from PNM's projected Test Period capital structure discussed above.

Q. Why is PNM requesting Test Period capital structure that is different from the approved regulatory capital structure in the 2024 Rate Case and the actual capital structure at the end of the Base Period?

A. PNM believes that the capital structure approved in the 2024 Rate Case does not provide sufficient financial flexibility to support PNM's significant ongoing capital investment requirements while maintaining credit metrics consistent with its current investment-grade credit ratings.

As discussed later in Section IV, Importance of Sound Financial Health and Investment Grade Credit Ratings, PNM's key credit metrics have weakened since the filing of the 2024 Rate Case. To support PNM's financial position and credit metrics, TXNM made equity contributions to PNM during 2025 and again in March 2026. These equity contributions, together with retained earnings, contributed to PNM having a higher common equity ratio at the end of the Base Period than the currently authorized regulatory capital structure.

PNM also expects to continue making significant investments in its electric system to meet customer needs, support the transition to cleaner generation resources, and improve grid reliability and resiliency. PNM invested approximately $585 million in 2025 and currently forecasts capital expenditures of approximately $725 million in 2026, $1.049 billion in 2027, and $1.010 billion in 2028.

Given the magnitude of these capital requirements, PNM believes that its proposed Test Period capital structure provides an appropriate balance of debt and equity to support its financial strength, maintain credit metrics consistent with its current

investment-grade ratings from Moody's and S&P, and preserve access to the capital necessary to fund these investments on reasonable terms.

PNM projects that it will achieve the requested Test Period capital structure, including a 52.0% common equity ratio, by September 30, 2028.

Q. How did PNM apply credit rating agency standards to determine its Test Period capital structure?

A. In evaluating a utility's creditworthiness, the rating agencies consider several financial measures, including cash flow relative to debt. This measure provides an indication of the company's ability to generate sufficient cash flow from its operations relative to the amount of debt it carries. Generally, a stronger cash flow-to-debt ratio indicates greater financial capacity to meet debt obligations and withstand adverse financial conditions.

S&P and Moody's both evaluate cash flow relative to debt, although their terminology and methodologies differ. S&P refers to its measure as Funds from Operations ("FFO") to Debt, while Moody's uses Cash Flow from Operations before changes in Working Capital ("CFO pre-W/C") to Debt.

In its June 30, 2026 credit opinion on PNM, Moody's affirmed PNM's Baa2 rating and indicated that maintaining financial metrics supportive of credit quality, including CFO pre-W/C to Debt in the mid-teens range, is important to the rating. Moody's reported PNM's three-year average CFO pre-W/C to Debt at 11.9% and the ratio for the 12 months ended March 31, 2026, at 12.4%. Moody's also forecast the ratio to improve to approximately 12% to 14% over the following 12 to 18 months. As discussed in PNM Exhibit KSA-4, Moody's identified sustained CFO pre-W/C to Debt below 16% as a factor that could lead to a downgrade.

PNM considered these rating-agency measures in developing its Test Period capital structure. PNM prepared a pro forma analysis beginning with its financial position at the end of the Base Period, June 30, 2026, and evaluated the level of debt and equity necessary to strengthen its prospective credit metrics. In particular, PNM evaluated a capital structure that would support CFO pre-W/C to Debt above Moody's 16% downgrade threshold and FFO to Debt at levels supportive of PNM's current S&P rating.

Based on this analysis, PNM determined that the proposed Test Period capital structure, including a 52.00% common equity ratio, provides an appropriate level of capitalization to strengthen PNM's credit metrics, provide reasonable financial headroom, support its existing investment-grade credit ratings, and maintain access to capital as PNM undertakes its significant capital investment program.

Q. What steps has PNM taken and will take between the Base Period and the Test Period to achieve the proposed capital structure in this case?

A. The proportion of debt and equity in PNM's capital structure changes over time as a result of normal business activities, including capital investment, debt issuance and repayment, and cash flows generated from operations. Equity contributions from TXNM, PNM's parent company, also affect PNM's capital structure and may be used, when necessary, to support PNM's targeted capitalization.

For example, TXNM contributed $123.3 million of equity to PNM in 2025 and an additional $105 million in March 2026. In addition, PNM has not paid dividends to its parent since 2022. Instead, PNM has retained its earnings and associated cash in the business to help fund capital investments and support its capital structure.

PNM will continue to monitor its capital requirements, financial position, and capital structure and make adjustments as appropriate. These actions may include retaining earnings and, when necessary, seeking additional equity contributions from TXNM. Through these measures, PNM projects that by September 30, 2028, its capital structure will consist of 47.81% long-term debt, 0.19% preferred stock, and 52.00% common equity, consistent with its proposed Test Period capital structure.

Q. Is PNM proposing that its projected capital structure in the Test Period be approved in determining PNM's cost of service in this case?

A. Yes. Consistent with PNM's approach in prior rate cases, PNM requests that its projected Test Period capital structure, which reflects the capital structure PNM expects to maintain during the Test Period, be used for ratemaking purposes rather than an imputed or hypothetical capital structure.

Q. Has PNM had its proposed Test Period capital structure independently analyzed?

A. Yes. PNM's ROE witness, Adrien M. McKenzie, independently evaluated PNM's proposed Test Period capital structure as part of his analysis in this proceeding. PNM witness McKenzie compared PNM's proposed capital structure with the capital structures of the utilities included in his Utility Proxy Group. Based on that analysis, PNM witness McKenzie concludes that PNM's proposed Test Period capital structure is consistent with the range of capital structures maintained by the Utility Proxy Group and is reasonable for ratemaking purposes.

III. ASSUMPTIONS FOR TEST PERIOD

Q. What ROE is PNM using in the development of Test Period revenue requirements?

A. PNM is requesting an ROE of 9.90% in the Test Period. PNM witness McKenzie supports the reasonable ROE range, and PNM witness Kyle T. Sanders explains the Company's selection of the requested ROE within that range.

Q. What cost of debt is PNM using in the development of test period revenue requirements?

A. PNM is using a projected cost of debt of 4.97% for the long-term debt component of its Test Period capital structure. The calculation and supporting detail for PNM's projected cost of debt are provided in Rule 530 Schedule G-3.

Q. Has PNM included any new debt issuances in the calculation of the Test Period cost of debt component of the capital structure?

A. Yes. PNM's Test Period cost of debt reflects both debt issued or remarketed during the in period between the end of the Base Period (linkage data) and anticipated debt issuances during the Test Period.

The linkage data includes the following debt transactions:

- $200 million of Senior Unsecured Notes issued on August 19, 2026, with a weighted average interest rate of 5.654%.
- $100.345 million of Pollution Control Revenue Refunding Bonds remarketed on October 1, 2026, with a weighted average interest rate of 4.125%.
- An anticipated issuance of approximately $425 million on February 15, 2027.

Because these debt issuances will be outstanding for the entire Test Period, their costs are reflected in the Test Period cost of debt without proration.

PNM also anticipates issuing an additional $375 million of debt during the Test Period through September 30, 2028, consisting of:

- $275 million on March 15, 2028; and
- $100 million on May 15, 2028.

For debt issued during the Test Period, PNM calculates the Test Period cost of debt by prorating the weighted effective cost of each issuance based on the number of months the debt is expected to be outstanding during the Test Period.

Including these transactions, PNM's projected Test Period weighted average cost of debt is 4.97%. These assumptions are reflected in Rule 530 Schedule G-3 filed with PNM's Application in this case.

Q. How were the financing and refinancing assumptions for cost of debt in the Test Period derived?

A. To estimate the interest rates applicable to future financing transactions, PNM used 20-year U.S. Treasury forward rates published on Bloomberg (Screen Name: FWCV). The estimate incorporates forward-rate data from four prior periods, generally quarterly observations, to mitigate the impact of short-term volatility in Treasury rates. PNM then applied an appropriate credit spread to the Treasury rate

to reflect the incremental yield investors would require based on PNM's current credit ratings with S&P and Moody's.

Q. Why did PNM decide to use 20-year US Treasury forward rates to estimate interest rates for future financing transactions?

A. During PNM's recent private placement debt issuances, investors demonstrated a strong preference for longer-term maturities, particularly notes with tenors of 20 to 30 years, reflecting continued uncertainty regarding the future path of interest rates. This investor demand provides PNM with an opportunity to issue longer-term debt at more favorable credit spreads over comparable U.S. Treasury rates.

In addition, PNM's existing debt maturity profile supports the issuance of longer-tenor debt. Extending the maturity of new debt helps spread PNM's debt maturities over a longer period and reduces the amount of debt that may need to be refinanced in any single year. Accordingly, PNM determined that the 20-year U.S. Treasury forward rate provides a more appropriate benchmark for estimating the interest rates on its anticipated long-term financing transactions.

Q. What criteria did PNM use in defining the long-term debt included in the regulatory capital structure?

A. For purposes of determining the long-term debt included in its regulatory capital structure, PNM classified debt with a maturity greater than eighteen months as

long-term debt. This treatment is consistent with PNM's 2024 Rate Case, NMSA 1978, Section 62-6-8 of the Public Utility Act, and the Commission's decision in PNM's 2015 Rate Case.[1]

Q. What criteria did PNM use in defining short-term debt as shown in Rule 530 Schedule G-4?

A. For purposes of Rule 530 Schedule G-4, PNM classified debt with a maturity of eighteen months or less as short-term debt. PNM also submits annually to the NMPRC its Statement with Respect to Short-Term Securities pursuant to 17.1.2.8(E) NMAC, which sets forth PNM's financing plan for the issuance, assumption, or guaranty of short-term securities.

Q. What cost of preferred stock did PNM use in the development of test period revenue requirements?

A. PNM used an actual embedded cost of 4.62% for the preferred stock component of its capital structure. This cost is reflected consistently in the Base Period, the linkage data, and Test Period. Support for the preferred stock cost is provided in Rule 530 Schedule G-5.

[1] *See Corrected Recommended Decision* at 30-31, Case No. 15-00261-UT (NMPRC Aug. 15, 2016), adopted in relevant part, *Final Order Partially Adopting Corrected Recommended Decision*, Case No. 15-00261-UT (Sept. 28, 2016).

Q. What is the weighted average cost of capital ("WACC") for the Test Period?

A. The after-tax WACC for the Test Period is 7.53% as shown in PNM Table KSA-2 below:

PNM Table KSA-2
PNM Test Period WACC

Proposed Test Year WACC			
	Ratio	**Rate**	**Weighted Avg. Cost**
Long Term Debt	47.81%	4.97%	2.38%
Preferred Stock	0.19%	4.62%	0.01%
Common Equity	52.00%	9.9%	5.15%
		Total Cost	**7.53%**
Totals may not foot due to rounding			

IV. IMPORTANCE OF SOUND FINANCIAL HEALTH AND INVESTMENT GRADE CREDIT RATINGS

A. Sound Financial Health

Q. How do you define sound financial health for a utility company such as PNM?

A. Sound financial health refers to a company's financial strength and its ability to access capital across a range of economic and market conditions at competitive rates. For a utility, maintaining sound financial health is essential to supporting the investments necessary to provide safe, reliable, and affordable service to customers. It also provides the financial flexibility needed to withstand unexpected economic and market disruptions beyond the utility's control, such as the 2008-2009 financial crisis, the COVID-19 pandemic, economic downturns, and periods of geopolitical uncertainty when access to capital may become constrained or more costly.

Q. What factors contribute to sound financial health for a utility?

A. The financial health of a regulated utility is influenced by several factors, including its capital structure, authorized ROE, cash flow, and regulatory environment. A financially healthy utility maintains strong credit metrics that support strong credit ratings and provide access to the capital markets on favorable terms. This access allows the utility to issue new debt or refinance existing debt at lower borrowing costs, which ultimately benefits customers through lower financing costs and rates.

Sound financial health also supports access to equity capital on favorable terms, either directly by the utility or through its parent company. For PNM, TXNM's access to the equity capital markets is important because it enables TXNM to provide equity capital to PNM when needed to support PNM's capital investment requirements and maintain a balanced capital structure.

Q. Does the sound financial health of PNM benefit customers?

A. Yes. PNM's sound financial health benefits customers in several important ways. It supports the Company's ability to provide clean, safe, reliable, and affordable electric service, while making the investments necessary to meet applicable legal and regulatory requirements, including New Mexico's Energy Transition Act.

Sound financial health is particularly important during periods of financial market uncertainty or distress. Strong financial health enables PNM to better navigate

challenging market conditions, maintain access to the capital markets, and obtain the financing necessary to fund investments in its electric system. Maintaining reliable access to capital on reasonable terms helps PNM continue making necessary investments while managing financing costs, which ultimately benefits customers.

Q. Can you provide recent examples of financial market distress?

A. Yes. Recent periods of financial market volatility demonstrate the importance of maintaining sound financial health and strong credit quality.

In April 2025, financial markets experienced significant volatility following the announcement of higher-than-expected U.S. tariffs and increased uncertainty regarding global trade policy. U.S. Treasury market volatility rose sharply, and liquidity conditions deteriorated as investors reassessed the potential impacts of tariffs on inflation, economic growth, and international capital flows. For example, the 10-year Treasury yield moved from approximately 4.0% to nearly 4.5% within a matter of days, illustrating the magnitude of the market repricing.

Financial markets experienced another period of significant volatility in the first quarter of 2026 following the escalation of military conflict in the Middle East and the disruption of transit through the Strait of Hormuz. Approximately 20% of global

oil supply was potentially affected by the disruption, placing significant upward pressure on energy prices and increasing concerns regarding inflation and economic growth. These developments also affected interest-rate expectations, with the 10-year Treasury yield rising from approximately 4.0% before the conflict to approximately 4.3% by the end of the first quarter as inflation concerns increased.

These recent events, as well as periods of significant market stress such as the onset of the COVID-19 pandemic, illustrate how quickly financing conditions can change. During periods of heightened market volatility, investors generally become more risk sensitive, liquidity can decline, and borrowing costs and credit spreads can increase. Under these conditions, financially strong issuers with investment-grade credit ratings are generally better positioned to maintain access to the capital markets and obtain financing on more favorable terms than issuers with weaker credit quality.

These examples demonstrate why maintaining PNM's sound financial health is important. Strong financial health and investment-grade credit ratings enhance PNM's ability to access capital through a range of market conditions and provide greater flexibility in determining when and how to finance its capital requirements. Maintaining this financial flexibility can reduce PNM's financing costs over time, ultimately benefiting customers through lower revenue requirements than would otherwise be the case.

B. Credit Ratings

Q. What is an investment grade credit rating?

A. A credit rating of at least Baa3 from Moody's or BBB- from S&P represents the lowest level of investment-grade credit quality. Investment-grade debt generally has access to a broader investor base and can be issued at more favorable interest rates because investors typically view it as presenting lower credit risk than below-investment-grade debt.

Debt rated below investment grade is sometimes referred to as high-yield or "junk" debt. Companies with below-investment-grade credit ratings generally face higher borrowing costs and may have more limited access to capital. During periods of significant financial market stress or constrained liquidity, those companies may find it particularly difficult to obtain financing or may only be able to do so on substantially less favorable terms and conditions.

Q. What are PNM's current credit ratings?

A. Moody's and S&P currently rate PNM's senior unsecured debt Baa2 and BBB, respectively, both of which are investment-grade ratings. Both rating agencies also maintain a Stable outlook for PNM. PNM's most recently published credit rating reports from S&P and Moody's are included as PNM Exhibits KSA-3 and KSA-4, respectively.

PNM Table KSA-3 below presents the credit rating scales used by Moody's and S&P, with PNM's current rating from each agency circled for reference. PNM is not currently rated by Fitch.

PNM Table KSA-3
PNM's Position in Rating Scales

Credit Rating Scales by Agency, Long-Term			
Moody's	**S&P**		
Aaa	AAA	Prime	
Aa1	AA+	High grade	
Aa2	AA+		
Aa3	AA-		
A1	A+	Upper medium grade	
A2	A		
A3	A-		
Baa1	BBB+	Lower medium grade	
Baa2	BBB		
Baa3	BBB-		
Ba1	BB+	Non-investment grade speculative	"Junk"
Ba2	BB		
Ba3	BB-		
B1	B+	Highly speculative	
B2	B		
B3	B-		
Caa1	CCC+	Substantial risk	
Caa2	CCC	Extremely speculative	
Caa3	CCC-	Default imminent with little prospect for recovery	
Ca	CC		
	C		
C	D	In default	
/			
/			

Q. What factors do the rating agencies consider when they assign credit ratings to a utility?

A. Both Moody's and S&P consider a utility's regulatory environment, ability to recover costs and earn its authorized return, business diversification, and overall financial strength in assessing credit quality. The agencies evaluate financial strength using several measures, including the FFO-to-Debt ratio discussed previously.

Moody's methodology and scorecard for regulated electric and gas utilities are reflected in Moody's most recent credit report for PNM, provided as PNM Exhibit KSA-4. As shown on page 10 of that exhibit, Moody's evaluates four principal factors, weighted as follows:

- Regulatory framework: 25%
- Ability to recover costs and earn returns: 25%
- Diversification of market, generation, and fuel: 10%
- Financial strength: 40%

S&P's rating methodology, provided in PNM Exhibit KSA-6, considers similar factors. S&P's methodology evaluates a utility's business risk profile, which includes its regulatory framework and regulatory environment, and its financial risk profile, which includes an assessment of cash flow and other financial measures.

Q. Does a utility's credit rating provide an indication of the financial health of the company?

A. Yes. A credit rating reflects a credit rating agency's independent assessment of a company's creditworthiness based on a variety of financial and business factors. Generally, companies with stronger financial health present lower credit risk and, as a result, are more likely to maintain higher credit ratings.

Q. Can you comment on how PNM's current credit ratings compare to other utilities?

A. Yes. As shown in the December 2025 S&P report provided as PNM Exhibit KSA-5, most North American utilities have credit ratings of BBB+ or higher. PNM's current S&P rating of BBB is investment grade, but is below the rating maintained by most utilities referenced in that report.

While BBB-, one notch below PNM's current S&P rating, remains investment grade, it represents the lowest investment-grade rating from S&P. As a result, a utility rated BBB- would have limited ratings cushion because an additional one-notch downgrade would result in a below-investment-grade rating. For this reason, PNM believes that maintaining sufficient credit-rating headroom is important to preserving financial flexibility and reliable access to capital, particularly during periods of financial market stress.

Q. How has PNM's ratings and FFO/Debt changed since 2021?

A. Please see PNM Exhibit KSA-3, page 4 for S&P's calculation of FFO to Debt for the years 2021 through 2025. Please see PNM Exhibit KSA-4, page 11, for Moody's calculation of CFO Pre-W/C to Debt (Moody's terminology for FFO to Debt) for the calculation of the ratio for the years 2021 through March 2026. I explained in detail the calculation of PNM's FFO to debt ratio for the base period ending June 30, 2026.

Refer to PNM Table KSA-4 below showing PNM's FFO/Debt as per Moody's and S&P calculations for the years 2022 through June 30, 2026.

PNM Table KSA-4
PNM's FFO/Debt (as per Moody's and S&P's calculation)

	Moody's			S&P		
	SUNs/Debt Rating	Issuer Rating	(CFO Pre-W/C) / Debt	SUNs/Debt Rating	Issuer Rating	FFO / Debt
2022	Baa2	Baa3	19.1%	BBB	BBB	19.5%
2023	Baa2	Baa3	10.7%	BBB	BBB	10.6%
2024	Baa2	Baa3	14.8%	BBB	BBB	17.2%
2025	Baa2	Baa3	11.7%	BBB	BBB	15.1%
2026 (Q2)	Baa2	Baa3	11.8%	BBB	BBB	14.3%

Q. Have PNM's business risks and credit ratings deteriorated in recent quarters?

A. PNM's financial measures weakened significantly during 2025 and the first quarter of 2026 due to several factors, including adverse weather conditions, increased capital expenditures, the phased implementation of new rates, capacity arrangements that reduced utility margins, and lower Funds from Operations.

Certain additional charges and write-offs also reduced equity, placing further pressure on PNM's capital structure as of December 31, 2025, and March 31, 2026, prior to equity contributions from TXNM.

To support PNM's financial position and credit metrics, TXNM contributed $123.3 million of equity to PNM in December 2025 and an additional $105 million in March 2026. These contributions strengthened PNM's equity capitalization and reduced its reliance on incremental debt financing. While the equity contributions supported the debt component of PNM's credit metrics, operating cash flow remained weak, continuing to place pressure on the numerator of the CFO pre-WC-to-Debt ratio.

As of March 31, 2026, PNM's CFO pre-WC-to-Debt ratio, as calculated by Moody's, was 12.4%, or approximately 13.9% after excluding certain one-time items and securitization-related debt. Over the preceding three years, PNM's average ratio was approximately 11.9%, significantly below the approximately 16% level associated with maintaining its current Moody's rating. Similarly, as of December 12, 2025, S&P expected PNM's FFO-to-Debt ratio to be approximately 13% to 13.5%.

Both Moody's and S&P maintained Stable outlooks for PNM, reflecting expectations that PNM's financial measures would improve to levels supportive of its current ratings. Accordingly, improvement in PNM's operating cash flows and credit metrics remains important to maintaining its existing credit quality.

PNM has not experienced a credit rating change since the Final Order in the 2024 Rate Case issued on May 15, 2025. PNM's most recent S&P rating action occurred on January 15, 2024, when S&P revised the outlooks for PNM, TXNM, formerly PNM Resources, Inc., and TNMP from Positive to Stable.

Q. Do PNM's current credit metrics support PNM's current credit ratings?

A. As discussed above, PNM's CFO pre-W/C to Debt ratio, as calculated by Moody's, was 12.4% as of March 31, 2026. This ratio is below the threshold identified in Moody's June 30, 2026 credit opinion, provided as PNM Exhibit KSA-4. Specifically, Moody's states that PNM's rating could be downgraded if its CFO pre-W/C to Debt ratio is sustained below 16%. Similarly, S&P expected PNM's FFO to Debt ratio to be in the range of 13% to 13.5%, as discussed in PNM Exhibit KSA-3.

Improving PNM's credit metrics is important not only to support its current credit ratings, but also to restore sufficient financial headroom above the applicable

downgrade thresholds. Maintaining this headroom provides PNM with greater ability to absorb unexpected credit-negative events without placing additional pressure on its credit ratings. Such events could include, for example, a significant economic downturn or global pandemic that affects customers' ability to pay their utility bills, material changes in tax laws, or other developments that adversely affect PNM's cash flows.

Strengthening PNM's financial metrics therefore provides an important financial cushion, enhances the Company's ability to withstand unforeseen events, and reduces the risk that an unexpected deterioration in financial performance could result in a credit rating downgrade.

Q. How important is it for customers that PNM maintain its investment grade credit ratings?

A. Maintaining PNM's investment-grade credit ratings is very important to customers because these ratings support the Company's ability to access the capital markets and raise the funds necessary to finance ongoing investments in its electric system. Investors consider PNM's credit ratings, along with prevailing market conditions and other factors, when determining whether to invest in PNM's debt and the return they require.

A lower credit rating generally results in higher borrowing costs and may reduce access to certain sources of capital, particularly during periods of financial market stress. Because PNM's financing costs are ultimately reflected in the cost of providing utility service, maintaining strong investment-grade credit ratings helps preserve access to capital on reasonable terms and, over time, helps mitigate financing costs borne by customers.

Q. Will PNM's credit metrics and credit ratings be impacted by the outcome of this proceeding?

A. Yes. The outcome of this case is important to PNM's credit metrics and credit ratings for several reasons. Rating agencies consider both the financial performance of a utility and the regulatory environment in which it operates when assessing credit quality. Accordingly, the rating agencies will consider the outcomes of PNM's rate proceedings in evaluating whether the regulatory framework in New Mexico supports PNM's ability to recover its prudently incurred costs, earn its authorized return, and maintain financial metrics consistent with its current credit ratings.

This is particularly relevant following the change in the structure of the Commission in 2023. As discussed by S&P in its report provided as PNM Exhibit KSA-2, S&P initially expected the transition to gubernatorial appointment of commissioners to potentially improve the regulatory

environment from a credit-quality perspective. However, S&P indicated that PNM's first rate order under the new Commission structure fell short of its initial expectations. S&P also noted that future PNM rate cases would inform its assessment of the new Commission and emphasized PNM's ability to effectively manage regulatory risk. Please refer to page 2 of the S&P report on PNM in Exhibit KSA-2.

A constructive outcome in this case, including the timely recovery of prudently incurred costs and approval of an appropriate ROE and capital structure, would support improvement in PNM's financial metrics. It would also provide important confirmation to the rating agencies in their assessment of whether New Mexico's regulatory framework provides PNM with a reasonable opportunity to recover necessary operating and capital costs on a timely basis.

This is significant under Moody's methodology because Regulatory Framework and Ability to Recover Costs and Earn Returns each represent 25% of Moody's scorecard, together accounting for 50% of the overall weighting. In addition, improvement in PNM's credit metrics would strengthen the Financial Strength component of Moody's scorecard, which represents another 40% of the weighting.

Q. For the years 2022 to the Present, please provide the dollar amount and dates of (1) all equity infusions into PNM by its parent; (2) all dividend payments paid by PNM to its parent company.

A. Refer to PNM Table KSA-5 below showing PNM's dividend payment to and equity contribution from its parent.

PNM Table KSA-5

Years (Years)	Dividend to Parent	Equity Contributions
2022	$ 153,500,000.00	$ -
2023	$ -	$ -
2024	$ -	$ 55,000,000.00
2025	$ -	$ 123,300,000.00
2026	$ -	$ 105,000,000.00
Total	**$ 153,500,000.00**	**$ 283,300,000.00**

Q. How will the Commission's resolution of PNM's requests related to improving PNM's FFO/Debt ratio impact PNM's ability to pay dividends?

A. PNM's ability to pay dividends to its parent is generally limited by its rolling four quarters of net earnings, adjusted for dividends previously paid. While stronger financial performance may increase PNM's dividend-paying capacity, the amount of dividends actually paid depends on several factors, including PNM's capital requirements, financial condition, and targeted capital structure.

In particular, during periods of significant capital investment, PNM may retain earnings and cash in the business rather than distribute those earnings to its parent. Retaining earnings provides an important source of equity capital that can be used

to fund capital investments, support PNM's capital structure, and reduce the need for additional external financing.

As noted above, PNM has not paid dividends to its parent since 2022. Instead, PNM has retained earnings and cash in the business to support its capital structure and fund its investment requirements. PNM will continue to monitor its financial position and capital structure and make adjustments as appropriate, including retaining earnings and, when necessary, seeking additional equity contributions from its parent company.

V. LIABILITY INSURANCE EXPENSE

Q. Are there any other forecasted expenses that you sponsor in this case?

A. Yes. I sponsor PNM's forecasted liability insurance expense for the Test Period. PNM has included approximately $15.2 million of liability insurance expense in the Test Period.

Q. How was PNM's Liability Insurance Expenses for the Test Period developed?

A. The Test Period liability insurance expense was specifically forecast based on the expected cost of PNM's insurance coverage during the Test Period rather than calculated by simply escalating the expense from the Base Period. The forecast reflects information developed as part of the Company's insurance planning and

budgeting process and takes into account the applicable insurance renewal periods affecting the Test Period.

Q. Why did PNM use a specific forecast rather than escalating Base Period insurance expense?

A. Liability insurance costs are established through the insurance market and can change from one renewal period to another based on factors such as market conditions, available coverage, policy limits, deductibles, and the pricing offered by insurers. Consequently, simply applying a general escalation factor to historical insurance expense may not reasonably reflect the cost PNM expects to incur during the Test Period. A specific forecast based on expected insurance costs provides a more appropriate estimate of the expense applicable to the Test Period.

Q. Does the forecast account for insurance renewals occurring during the forecast period?

A. Yes. The forecast was developed considering the insurance renewal periods applicable to the Test Period. This is important because PNM's insurance premiums may be repriced when coverage is renewed in June 2027 and June 2028, and the Test Period therefore reflects costs associated with more than one renewal period.

Q. Do you believe the forecasted liability insurance expense is reasonable?

A. Yes. The $15.2 million in forecasted liability insurance expense is based on the Company's expected insurance costs during the Test Period rather than a mechanical escalation of historical expense. In my opinion, this approach provides a reasonable basis for determining the liability insurance expense included in the Test Period.

VI. REPURPOSING PBOP TRUST ASSETS

Q. What is PNM asking the Commission to approve regarding the PBOP Trust Assets?

A. The Company requests approval to evaluate and implement an efficient use for the surplus assets held in the Union VEBA by repurposing these assets to allow for expanded use beyond funding only the union retiree obligation. This use would only be pursued if determined through Company evaluation to be legally permissible, prudent, and consistent with Commission policy, applicable tax requirements, and customer benefit. The Company further requests authorization to utilize a limited portion of the PBOP surplus to cover prudent and necessary repurposing implementation costs, such as tax advisory services, legal support, and transaction-related insurance. These expenditures are required to effectuate the proposed repurposing and support a transaction that has the potential to ultimately benefit customers.

Q. How would repurposed surplus Union VEBA assets be used?

A. As addressed by PNM witness Brian Arnell, any option for repurposing the retiree Union VEBA will require thorough evaluation by the Company to understand all legal, tax, regulatory, and administrative implications. One approach the Company intends to evaluate is to repurpose the surplus retiree Union VEBA assets to fund union active medical costs. Other companies have taken this approach and it may also be a viable solution for PNM but will need to go through a full review process prior to finalizing the approach. Should the Company determine that is not a viable option in this case, other avenues would be explored.

Q. If repurposing a portion of the Union VEBA assets to fund benefits other than union retiree medical benefits, for example active union medical benefits, is found to be viable, how will repurposed surplus assets be tracked and applied?

A. The Company proposes that repurposed amounts be applied in the following order, which are consistent with the original intent of these assets, funding source, previously approved recovery, and Commission policy. Each of these are described in greater detail later in my testimony.

1. First, offset costs for non-union retiree medical benefits for which no trust assets are available and are therefore paid from corporate assets. The amount applied for this purpose would result in no change to the rate request for other benefits, such as active union medical benefits, funded using VEBA assets;

2. Second, refund Company contributions in excess of historical recovery, including costs incurred to evaluate and implement the repurposing of trust assets; and

3. Finally, apply all remaining surplus to the benefit of customers through reduced future costs.

Based on the plan obligations and trust assets as of December 31, 2025, before adjustment for potential tax implications, the surplus assets could potentially result in the following allocation as shown in PNM Table KSA-6:

PNM Table KSA-6
Potential Surplus Allocation

	Illustrative Allocation of Surplus
Offset costs for non-union retiree medical benefits	$27.2 million
Refund Company excess contributions	$14.6 million
Benefit customers through reduced costs	$19.8 million

Q. Why is the proposed allocation framework reasonable?

A. The proposed allocation framework is reasonable because it achieves the following outcomes:

(1) avoids unnecessary loss of retiree medical asset value through federal excise taxation,

(2) maximizes the use of those assets for (or as an offset against) retiree medical obligations as they were originally intended,

(3) recognizes Company-funded amounts contributed in excess of historical customer recovery, and which have previously been authorized for recovery, and

(4) ensures that the remaining surplus benefits customers through reduced future costs.

Q. How will repurposed assets be applied as an offset against the costs for non-union retiree medical benefits?

A. To the extent other benefits are funded through repurposed VEBA assets (e.g., active union medical benefits) every dollar paid from the repurposed VEBA assets results in one less dollar paid towards the other benefits from Company resources. The Company would track the repurposed VEBA payments as an offset to the non-union retiree medical costs paid from Company assets (i.e., a dollar paid from VEBA for active benefits would net against a dollar paid from Company assets for retiree benefits). If the amounts paid from VEBA assets for benefits other than retiree medical is equal to the amounts paid from Company assets for retiree medical benefits, the net result is that an amount equal to retiree medical benefits has been paid from the VEBA assets which were historically set aside to pay for retiree medical benefits with no impact on customer cost. This effectively resolves the structural issues with the trust described by PNM witness Arnell.

Q. How will repurposed assets be used to refund Company excess contributions?

A. To the extent the funds paid from the repurposed VEBA assets exceed the non-union retiree medical costs paid from Company assets, the excess amounts would first be tracked as a refund of the Company excess contributions. This is consistent

with the framework described previously and aligned with historical approved recovery. Once again, there would be no impact on customer costs while Company excess contributions are refunded.

Q. How will the repurposed assets benefit customers?

A. Once Company excess contributions are fully refunded, any funds paid from the repurposed VEBA assets in excess of the non-union retiree medical costs paid from Company assets would reduce the amount included in cost of service for benefits funded by the VEBA (e.g., union active medical benefits), passing on the benefit to customers.

Q. What will the Company do if the Commission provides the authorization requested in this case to pursue repurposing?

A. The Company will evaluate alternative uses for the surplus assets including legal and tax analysis, insurance considerations and potential IRS review to identify viable alternatives. The Company will then implement the alternative that best achieves the framework described above. The Company will track the costs of the evaluation and implementation process to be included in the calculation of Company excess retiree medical contributions to be recovered as outlined above. In the rate case following implementation of a solution, the Company will provide a report to the Commission outlining the solution which has been implemented,

how allocation of surplus dollars is being tracked in accordance with the framework described previously and the resulting benefit provided to customers.

VII. CONCLUSION

Q. Do you have any concluding remarks?

A. PNM's proposed capital structure is reasonable and necessary and will help PNM improve its credit metrics and maintain its current credit ratings, which will facilitate PNM's access to capital at reasonable costs to serve customers. For these reasons, PNM's proposed capital structure and WACC should be approved.

Regarding PBOP trust assets, the Company's proposal to implement an alternative use for surplus union retiree medical assets under the framework outlined above is aligned with historical approved recovery and passes all additional benefit on to customers through reduction in ongoing costs. The proposal should be approved by the Commission.

Q. Does this conclude your Direct Testimony?

A. Yes.

GCG#536201

PNM Exhibit KSA – 1

Statement of Qualifications

Is contained in the following 1 page.

Kishor S. Agrawal
Education and Professional Resume

Name: Kishor S. Agrawal

Address: PNMR Services Company
MS 0905
414 Silver Ave. SW
Albuquerque, NM 87102

Telephone: 505-241-4609

Position: Assistant Treasurer

Education: Master of Business Administration – University of Chicago, 2006
Certified Financial Analyst (CFA), 2010
Certified Treasury Professional (CTP), 2021

Employment: 2025 – Present – Assistant Treasurer, PNMR Services Company
2022 – 2024 – Senior Manager, Howmet Aerospace Inc.
2021 - 2022 – Consultant, Northwest Natural Holding Company
2018 – 2021 – Capital Markets Analyst, CNH Industrial Inc.
2013 – 2018 – Portfolio Manager, State of Wisconsin Investment Board
2007 – 2013 – Equity Analyst, State of Wisconsin Investment Board
2006 – 2007 – Spin-off Advisors LLC

Prior Testimony:

- Docket No. 26-0000011-UT: In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to Issuance of up to $250 Million of Senior Unsecured Notes

PNM Exhibit KSA – 2

S&P Article 01-15-2024 TXNM and Subsidiaries Outlook Revised to Stable

Is contained in the following 8 pages.

S&P Global
Ratings

Research

Research Update:

PNM Resources Inc. And Subsidiaries Outlook Revised To Stable From Positive On Termination Of Merger With Avangrid Inc.

January 15, 2024

Rating Action Overview

- In January 2024, Avangrid Inc. announced that it terminated its merger agreement with PNM Resources Inc. (PNMR) due to the merger not receiving all of the required regulatory approvals.
- As such, we revised our rating outlook for PNMR and its subsidiaries to stable from positive. We also affirmed our issuer credit rating on PNMR and its subsidiaries.
- We assigned a new Management & Governance (M&G) assessment of neutral to PNMR and its subsidiaries. This assignment follows the Jan. 7 publication of S&P Global Ratings' revised criteria for evaluating the credit risks presented by an entity's M&G framework. The assessment does not affect our credit ratings on PNMR and its subsidiaries.
- The stable outlook reflects our expectation that PNMR's financial measures will improve such that funds from operations (FFO) to debt will be consistently greater than 14%.

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Rating Action Rationale

The stable rating outlook on PNMR reflects the termination of PNMR's merger with Avangrid. Under our previous base case, we assumed that higher-rated Avangrid would merge with PNMR, possibly leading to an upgrade for PNMR and its subsidiaries. Given the recent merger termination, our stable outlook for PNMR and its subsidiaries is consistent with our stand-alone view of PNMR.

We view PSNM's recent rate case order as less than credit supportive. On Jan. 3, 2024, the New Mexico Public Regulation Commission (NMPRC) issued an order in subsidiary Public Service Co. of New Mexico's (PSNM) rate case, increasing base rates by about $15 million. The company initially filed for a $64 million rate increase. The order also directs the utility to refund to customers about $19 million annually in 2024 and 2025, for leased capacity of the Palo Verde nuclear plant that was previously collected from ratepayers. As such, we expect that on a net basis, customer rates

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will decrease in 2024 and 2025. We also assess the NMPRC's decision to lower the authorized return on equity to 9.26% from 9.58% as less than credit supportive.

In January 2023, the NMPRC transitioned to the gubernatorial appointment of commissioners. While we expected that this change could improve New Mexico's support of credit quality, PSNM's first rate order under this new construct has at least initially fallen short of our expectations.

At the same time, we believe there were unique factors in this rate case that make it difficult to determine a long-term view of New Mexico's regulatory environment. These include the participation of only two out of three commissioners and the resolution of legacy issues concerning PSNM's generation. We expect that PSNM will be filing more frequent rate cases in the future, which will form our view of the new NMPRC. Central to our base case is PSNM's ability to effectively manage regulatory risk.

PNMR's financial measures are weak for the current rating. PNMR's FFO to debt for the 12 months ended September 2023 was 10.7%, significantly below our downgrade threshold of 14%. However, this weakness reflects a one-time regulatory charge for refunds of the San Juan Generating Station. Furthermore, we expect that financial measures will remain pressured, incorporating the company's robust capital spending program. Recently, the company increased its three-year capital spending plan to about $3.5 billion from about $2.8 billion. This reflects rising capital spending in Texas, and transmission and distribution spending necessary to support the company's energy transition. Accordingly, we expect that the company will consistently operate with cash flow deficits, requiring consistent access to capital markets. We expect PNMR to maintain credit quality, and to take steps to fund its cash flow deficits in a credit supportive manner.

We continue to monitor wildfire developments in New Mexico. We believe that PSNM's exposure to wildfire risks has increased recently. PSNM is alleged to be the cause of the McBride wildfire in Ruidoso, N.M., which damaged about 200 structures and resulted in two deaths. Currently, there are lawsuits against PSNM claiming faulty vegetation management. We will continue to monitor these developments, and PNMR's credit quality would likely be pressured if it is found to be the cause of the wildfire.

We continue to assess PNMR's business risk profile as strong. Our assessment of PNMR's business risk profile reflects its lower-risk, vertically integrated, fully rate-regulated utility business. However, our business risk assessment is constrained by what we believe to be one of the most challenging regulatory jurisdictions in the U.S. This is based on the history of the NMPRC's regulatory decisions, including disallowances, that have challenged the consistency of the regulatory construct in New Mexico and resulted in volatile profit measures for PSNM in recent years despite its stable customer base. We believe that PNMR's Texas and FERC regulations partially offset regulatory risks present in New Mexico. Texas regulation provides several mechanisms that allow utilities to place investments into rates between rate cases, such as the transmission cost of service and distribution cost recovery factor. The FERC also regulates PSNM's transmission business (about 15% of PNMR's rate base). Under the FERC's regulation, the company benefits from forward-looking formula rates and annual true-ups to recover prudently incurred costs.

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Outlook

The stable outlook reflects our expectation that PNMR's financial measures will improve such that FFO to debt will be consistently greater than 14%. The stable outlook also reflects our expectation that PNMR will manage regulatory risk effectively in New Mexico without being the cause of a catastrophic wildfire.

Downside scenario

We could lower our ratings on PNMR and its subsidiaries if its financial measures were consistently below our downgrade threshold of FFO to debt of 14%. This could happen if the company does not fund its cash flow deficits in a credit-supportive manner or receives unfavorable rate outcomes in the future. We could also lower our ratings if PNMR were not able to manage regulatory risk effectively. We could also lower our ratings if PNMR were the cause of a catastrophic wildfire.

Upside scenario

Although unlikely, we could raise our ratings on PNMR and its subsidiaries if consolidated financial measures materially improved, such that FFO to debt were consistently greater than 21%.

Company Description

PNMR is a publicly traded utility holding company that wholly owns subsidiaries PSNM and TNMP. On a consolidated basis, it serves about 822,000 customers in New Mexico and Texas. PNMR owns, contracts, and leases generation capacity of about 2,775 megawatts.

Our Base-Case Scenario

- Continued use of existing regulatory mechanisms and infrastructure riders in Texas and frequent rate case filings in New Mexico.
- Capital spending of about $3.5 billion in 2024 through 2026.
- The company received securitization proceeds of about $340 million in 2023.
- The company issued about $200 million in equity in 2023.
- Consistent negative discretionary cash flow that will be funded in a balanced manner.
- All debt maturities are assumed to be refinanced.

Liquidity

As of September 2023, we assess PNMR's liquidity as adequate, with sources covering uses by 1.1x over the coming 12 months, and believe its sources would cover uses even if forecast consolidated EBITDA declines 10%. We believe the predictable regulatory framework for PNMR provides a manageable level of cash flow stability for the company even in times of economic

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stress, supporting our use of slightly lower thresholds to assess liquidity. In addition, PNMR, has the ability to absorb high-impact, low-probability events, reflecting that the company maintains about $840 million in committed credit facilities (including its subsidiaries PSNM and TNMP). In addition, we believe the company can lower its high capital spending during stressful periods, indicative of a limited need for refinancing under such conditions. Furthermore, our assessment reflects the company's generally prudent risk management and sound relationships with its banking group. Overall, we believe the company could withstand adverse market circumstances over the next 12 months with sufficient liquidity to meet its obligations. We expect the company to proactively address its debt maturities well in advance of their scheduled due dates.

Primary liquidity sources:

- Cash FFO of about $570 million,
- Credit facilities of about $440 million,
- Equity issuances of about $200 million,
- Securitization proceeds of about $340 million, and
- Cash balance of about $7 million.

Primary liquidity uses:

- Debt maturities of about $500 million,
- Assumed maintenance capital expenditure of about $750 million, and
- Dividends of about $135 million.

Ratings Score Snapshot

PNM resources Inc.

Issuer credit rating: BBB/Stable/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)

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- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: bbb

Public Service Co. of New Mexico

Issuer credit rating: BBB/Stable/--

Business risk: Strong

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: bbb

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: bbb

- Group credit profile: bbb
- Entity status within the group: Core (no impact on SACP)

Texas-New Mexico Power

Issuer credit rating: BBB+/Stable/--

Business risk: Excellent

- Country risk: Very low
- Industry risk: Very low
- Competitive position: Strong

Financial risk: Significant

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- Cash flow/Leverage: Significant

Anchor: a-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: a-

- Group credit profile: bbb
- Entity status within the group: Insulated (-1 notch from SACP)

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019

Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019

- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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Ratings List

Ratings Affirmed; Outlook Action		
	To	**From**
PNM Resources Inc.		
Public Service Co. of New Mexico		
Issuer Credit Rating	BBB/Stable/--	BBB/Positive/--
Texas-New Mexico Power Co.		
Issuer Credit Rating	BBB+/Stable/--	BBB+/Positive/--
Issue-Level Ratings Affirmed; Recovery Ratings Unchanged		
Texas-New Mexico Power Co.		
Senior Secured	A	
Recovery Rating	1+	
Issue-Level Ratings Affirmed		
Public Service Co. of New Mexico		
Senior Unsecured	BBB	
Preferred Stock	BB+	

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PNM Exhibit KSA – 3

S&P Credit Opinion 12-12-2025 PNM

Is contained in the following 9 pages.

S&P Global
Ratings

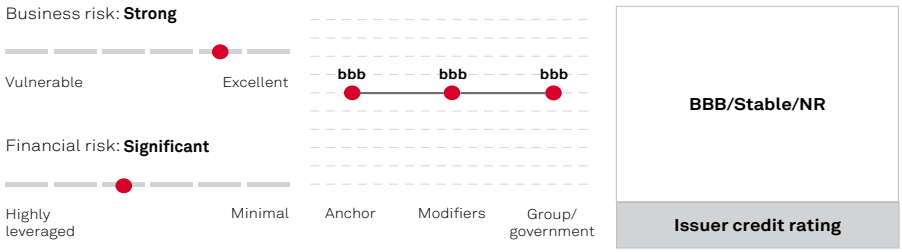
Research

Public Service Co. Of New Mexico

December 12, 2025

This report does not constitute a rating action.

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Low-risk, rate-regulated, and vertically integrated electric utility with a diverse fuel mix.	Historically challenging regulatory environment in New Mexico.
Steady revenue from residential customer base supports credit quality.	Robust capital spending and continued negative discretionary cash flow indicate external funding needs.
	Elevated physical risks due to wildfire-prone service territory.

We continue to monitor the announced acquisition of the company's parent by Blackstone Infrastructure (BI). Earlier this year, TXNM Energy Inc.--the parent of Public Service Co. of New Mexico (PNM)--entered into a definitive agreement to be acquired by BI through an all-equity transaction. We view the acquisition favorably because we believe BI's experience in the sector and financial strength will support TXNM's expansion. Specifically, we believe the parent's funds from operations (FFO) to debt will increase above 14% following the close of the transaction,

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which is a level we view as supportive of our 'BBB' issuer credit rating. We expect the transaction, which remains subject to regulatory approvals, will close in 2026.

The transaction does not affect our ratings on TXNM's subsidiary PNM, which we continue to view as core to its parent. Therefore, we continue to align our rating on PNM with our rating on its parent.

We assess PNM's business risk as strong. This reflects the company's vertically integrated and fully rate-regulated utility business, which is partially offset by the challenging, albeit improving, regulatory environment in New Mexico. Our assessment of PNM's business risk also incorporates its role as an essential service provider in its service territory. Given the material barriers to entry, PNM--and the regulated utility industry as a whole--are effectively insulated from competitive market challenges. This underlines our view of regulated utilities' very low industry risk. Furthermore, our assessment incorporates the company's about 4,268 megawatts (MW) of owned and contracted generation capacity, which it derives from a diverse fuel mix, including about 50% from renewables, about 23% from natural gas, 15% from energy storage, 7% from nuclear, and about 5% from coal.

However, our assessment is constrained by PNM's operation in what we view as one of the most challenging regulatory jurisdictions in the U.S. This reflects the New Mexico Public Regulation Commission's (NMPRC) historical regulatory decisions, including disallowances, which have challenged the consistency of the regulatory construct in New Mexico and led to volatile profit measures for PNM in recent years, despite its stable customer base. That said, we believe recent developments, including the transition to the gubernatorial-appointed commissioners in 2023, PNM's recent credit-supportive rate-case order, and the approval of its 2028 resource plan, are indicative of a potentially improving regulatory environment. That said, the NMPRC will need to demonstrate a longer track record of supportive regulatory decisions before we revise our view of its regulatory construct. PNM's transmission business (about 25% of its rate base) is regulated by the Federal Energy Regulatory Commission (FERC), under which it benefits from the use of forward-looking formula rates.

Our ratings also incorporate the company's exposure to wildfire risks in its service territory. PNM continues to invest in vegetation management and wildfire prevention plans, including its implementation of a Public Safety Power Shutoff (PSPS) in 2024. We view the PSPS as a critical means for utilities to reduce their wildfire risk.

We expect PNM's funds from operations (FFO) to debt will be in the 13%-14% range through 2027. We expect elevated capital spending of roughly $2.1 billion from 2025-2027, reflecting the company's investments in grid modernization and new resources to support demand. PNM's 2028 resource stipulation filing was approved earlier this year--which allows for the addition of system resources, including battery storage, power purchase agreements, and solar projects--to meet its customers' needs. In addition, the company has filed an update to its first grid modernization plan, under which it requested an approximately $23 million increase in its investments (to $367 million over the first six years). PNM will also continue providing service to Meta for a data center, though it will pass the costs for these resources through to Meta under a rate rider, proposed revisions to which are pending approval from the NMPRC. While the company is increasing its capital spending, we believe the recent rate-case order and periodic rate increases for its FERC-regulated assets will support its credit quality. In May 2025, PNM received authorization to increase its revenue by about $105.0 million based on a 9.45% return on equity and a 51% equity ratio.

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We forecast that the company will consistently generate negative discretionary cash flow, which we anticipate it will fund with a combination of debt and capital contributions from its parent. Furthermore, we expect PNM's financial measures will remain at the lower end of our expected range for its financial risk profile category, primarily due to its robust capital spending. Our base-case forecast assumes the company's S&P Global Ratings-adjusted FFO to debt remains in the 13%-14% range through 2027.

We assess PNM's financial risk profile using our medial volatility financial benchmarks, which reflects its steady cash flow and rate-regulated utility operations. These benchmarks are more relaxed than those we use for typical corporate issuers.

Outlook

The stable outlook on PNM reflects our stable outlook on its parent, TXNM. The stable outlook on TXNM reflects our expectation it will improve its financial measures such that it maintains FFO to debt of more than 14%, albeit with a minimal downside cushion. This assumes BI successfully acquires TXNM in 2026, maintains a prudent financial policy, and that TXNM continues to manage its regulatory risk in a constructive manner.

Downside scenario

We could lower our rating on PNM if we lower our rating on TXNM. We could lower our ratings on TXNM in the next 24 months if its FFO to debt remains consistently below 14%. This could occur if the transaction does not close and the company is unable to fund its cash flow deficits in a credit-supportive manner or it receives unfavorable rate outcomes. We could also lower our ratings if BI pursues aggressive financial policies or the company is the cause of a catastrophic wildfire.

Upside scenario

We could raise our ratings on PNM if we raise our ratings on TXNM. Although unlikely, we could raise our ratings on TXNM over the next 24 months if it materially improves its consolidated financial measures, including FFO to debt of consistently above 21%.

Our Base-Case Scenario

Assumptions

- The continued use of regulatory mechanisms, including general rate case fillings, to manage its regulatory risk;
- Capital spending of about $2.1 billion through 2027;
- Consistent negative discretionary cash flow generation; and
- All debt maturities are refinanced.

Key metrics

Public Service Co. of New Mexico--Forecast summary

Period ending	Dec-31-2021	Dec-31-2022	Dec-31-2023	Dec-31-2024	Dec-31-2025	Dec-31-2026	Dec-31-2027

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Public Service Co. of New Mexico--Forecast summary

	2021a	2022a	2023a	2024a	2025e	2026f	2027f
Adjusted ratios							
Debt/EBITDA (x)	4.3	4.4	6.9	4.8	5.0-6.0	5.0-6.0	5.0-6.0
FFO/debt (%)	21.6	19.5	10.6	17.2	13.0-13.5	13.0-13.5	13.5-14.5
FFO cash interest coverage (x)	8.4	7.9	3.6	5.8	3.5-4.0	3.5-4.0	3.5-4.0

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. FFO--Funds from operations.

Company Description

PNM is a vertically integrated utility company that generates, transmits, and distributes electricity to about 550,000 customers in New Mexico. The company is a wholly owned subsidiary of TXNM and accounts for about 60% of its parent's EBITDA.

Peer Comparison

Public Service Co. of New Mexico--Peer Comparisons

	Public Service Co. of New Mexico	Arizona Public Service Co.	Tucson Electric Power Co.	Nevada Power Co.	Entergy Texas Inc.
Foreign currency issuer credit rating	BBB/Stable/NR	BBB+/Stable/A-2	A-/Stable/NR	A-/Stable/NR	BBB+/Stable/--
Local currency issuer credit rating	BBB/Stable/NR	BBB+/Stable/A-2	A-/Stable/NR	A-/Stable/NR	BBB+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2024-12-31	2024-12-31	2024-12-31	2024-12-31	2024-12-31
Mil.	$	$	$	$	$
Revenue	1,357	5,125	1,805	2,873	2,024
EBITDA	547	2,222	663	930	768
Funds from operations (FFO)	456	1,624	565	533	582
Interest	123	488	111	237	145
Cash interest paid	96	419	98	220	152
Operating cash flow (OCF)	310	1,660	650	973	801
Capital expenditure	670	2,249	783	1,086	1,276
Free operating cash flow (FOCF)	(360)	(589)	(133)	(112)	(475)
Discretionary cash flow (DCF)	(411)	(1,012)	(218)	(187)	(546)
Cash and short-term investments	3	4	14	23	185
Gross available cash	3	4	14	23	185
Debt	2,653	8,292	2,738	4,300	3,483
Equity	2,190	8,376	3,103	4,448	3,341
EBITDA margin (%)	40.3	43.4	36.7	32.4	38.0
Return on capital (%)	7.1	7.3	7.7	7.6	7.1
EBITDA interest coverage (x)	4.4	4.6	6.0	3.9	5.3
FFO cash interest coverage (x)	5.8	4.9	6.8	3.4	4.8
Debt/EBITDA (x)	4.8	3.7	4.1	4.6	4.5

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Public Service Co. of New Mexico--Peer Comparisons

FFO/debt (%)	17.2	19.6	20.6	12.4	16.7
OCF/debt (%)	11.7	20.0	23.7	22.6	23.0
FOCF/debt (%)	(13.6)	(7.1)	(4.9)	(2.6)	(13.6)
DCF/debt (%)	(15.5)	(12.2)	(8.0)	(4.4)	(15.7)

Liquidity

As of September 2025, we assess PNM's liquidity as adequate. We expect the company's sources of cash will be more than 1.1x its uses over the coming 12 months and anticipate that its net sources will remain positive even if its forecast consolidated EBITDA declines by 10%. We believe PNM's predictable regulatory framework provides it with a manageable level of cash flow stability, even in times of economic stress, which supports our use of slightly lower thresholds to assess its liquidity. In addition, we believe the company is able to absorb high-impact, low-probability events, which reflects its about $400 million of committed credit facilities through March 2029. PNM also has a $40 million New Mexico facility available through May 2030. Additionally, we believe the company can reduce its high capital spending, if needed, to support its credit measures. Furthermore, our assessment reflects PNM's generally prudent risk management and sound relationships with its banking group. Overall, we believe the company could withstand adverse market circumstances over the next 12 months while maintaining sufficient liquidity to meet its obligations. We expect PNM will proactively address its debt maturities well in advance of their scheduled due dates.

Principal liquidity sources	Principal liquidity uses
• Credit facility availability of about $282 million as of Sept. 30,2025; • Cash FFO of about $440 million; • New $120 million term loan; and • Ongoing group support.	• Debt maturities of about $560 million, including long term and short-term debt; and • Maintenance capital spending of about $325 million.

Covenant Analysis

Requirements

The company is subject to a debt to capitalization ratio of less than 65%.

Compliance expectations

We expect the company will maintain a sufficient cushion under this covenant over our forecast period.

Environmental, Social, And Governance

Environmental and social factors are a negative consideration in our credit rating analysis of PNM, given that it derives about 5% of its generation capacity from coal, 23% from natural gas,

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7% from nuclear, 15% from energy storage, and 50% from renewables. The company's environmental risks include the ongoing cost of operating fossil units and the potential for changing environmental regulations, which could require significant capital investments. The company's nuclear power generation also exposes it to potential waste, health, and safety risks. In addition, our assessment considers PNM's exposure to wildfire risk in New Mexico. We are monitoring the lawsuits against the company related to the McBride wildfire in Ruidoso, N.M., which the plaintiffs allege was caused by the utility. The company continues to invest in vegetation management and implemented its PSPS plan in New Mexico in May 2024.

Group Influence

PNM is a wholly owned subsidiary of TXNM. We consider the company to be core to its parent, which reflects our view that it is highly unlikely to be sold, operates in a line of business integral to the group's overall strategy, benefits from a strong long-term commitment from TXNM's senior management, and is closely linked to its parent's name and reputation. Therefore, our issuer credit rating on PNM reflects our 'bbb' group credit profile on TXNM.

Issue Ratings--Subordination Risk Analysis

Capital structure

- As of September 2025, PNM's capital structure compromised about $3.1 billion of long- and short-term debt, the majority of which was senior unsecured.

Analytical conclusions

- We rate PNM's senior unsecured debt 'BBB', the same level as our issuer credit rating, because we view this instrument to be the unsecured debt of a qualifying investment-grade utility.
- We rate PNM's preferred stock 'BB+', two notches below our issuer credit rating, to reflect the deferability and subordination of the hybrid security.

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Rating Component Scores	
Foreign currency issuer credit rating	**BBB/Stable/NR**
Local currency issuer credit rating	**BBB/Stable/NR**
Business risk	**Strong**
Country risk	Very Low
Industry risk	Very Low
Competitive position	Satisfactory
Financial risk	**Significant**
Cash flow/leverage	Significant
Anchor	**bbb**
Modifiers	
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Neutral (no impact)
Stand-alone credit profile	**bbb**
Group credit profile	**bbb**
Entity status within group	**Core**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, Feb. 10, 2025
- Criteria | Corporates | General: Sector-Specific Corporate Methodology, April 4, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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Related Research

- TXNM Energy Inc. 'BBB' Rating Affirmed On Acquisition By Blackstone Infrastructure, Outlook Stable, May 19, 2025

Ratings Detail (as of December 12, 2025)*	
Public Service Co. of New Mexico	
Issuer Credit Rating	BBB/Stable/NR
Preferred Stock	BB+
Issuer Credit Ratings History	
15-Jan-2024	BBB/Stable/NR
21-Sep-2021	BBB/Positive/NR
21-Oct-2020	BBB/Positive/A-2
Related Entities	
Texas-New Mexico Power Co.	
Issuer Credit Rating	BBB+/Stable/--
Senior Secured	A
TXNM Energy Inc	
Issuer Credit Rating	BBB/Stable/NR
Junior Subordinated	BB+

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PNM Exhibit KSA – 4

Moody's Credit Opinion 06-30-2026 PNM

Is contained in the following 15 pages.

MOODY'S RATINGS

CREDIT OPINION
30 June 2026

Update

Send Your Feedback

RATINGS

Public Service Company of New Mexico

Domicile	Albuquerque, New Mexico, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Public Service Company of New Mexico

Update to credit analysis

Summary

Public Service Company of New Mexico's (PNM, Baa2 stable) credit profile reflects its business risk as a regulated, vertically integrated electric utility operating in the New Mexico regulatory environment, which we continue to view as more challenging than most US jurisdictions. While recent actions provide evidence of improvement, including more constructive rate case outcomes, regulatory approval of energy transition related investments, and greater use of targeted cost recovery mechanisms, whether this more constructive regulatory trajectory is sustained over time remains a key consideration, particularly as the scale of PNM's capital program increases.

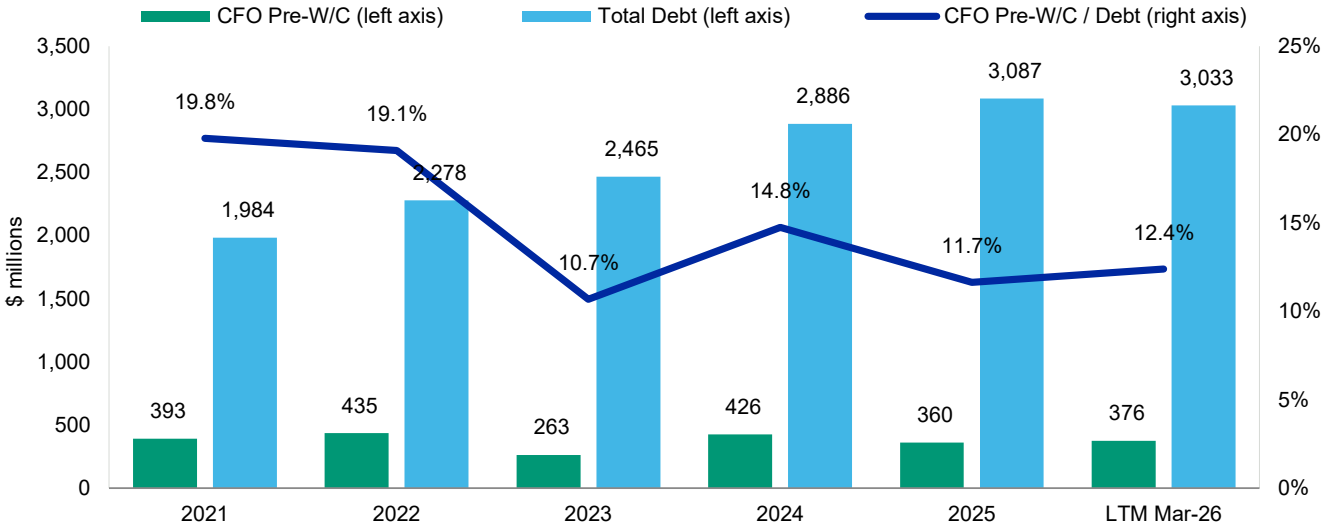
PNM's credit profile also incorporates its financial performance, which has historically supported the current rating level but softened in 2025. This resulted from adverse weather impacts, timing effects related to regulatory lag, and the initial phase of a higher capital investment cycle. As of 31 March 2026, PNM's ratio of CFO pre WC to debt was 12.4%, or approximately 13.9% on an adjusted basis excluding one time items and securitization related debt. Looking ahead, PNM is expected to account for a significant portion of TXNM's incremental capital spending as investment remains elevated to support the energy transition and load growth. As a result, credit metrics are expected to remain somewhat weaker during the current investment cycle, with CFO pre working capital to debt in the mid-teens, subject to variation depending on the pace of project approvals, execution, and recovery.

Recent Developments

In June 2026, New Mexico Public Regulation Commission (NMPRC) hearing examiners issued a recommendation in the show cause proceeding related to the proposed Blackstone acquisition, finding that a prior equity investment required Commission approval. TXNM is responding and awaiting a final order, which may affect the timing and structure of the transaction. More information can be found below.

On May 1st, 2026, Moody's assigned a Prime-2 (P-2) short-term rating to PNM's new $400 million commercial paper (CP) program. The program will be used to fund working capital and growing capital expenditure needs in the service territory. The CP program is back-stopped by PNM's existing $400 million revolving credit facility which expires in March 2030 (not rated).

Exhibit 1
Historical CFO pre-W/C, Total Debt and ratio of CFO pre-W/C to Debt



All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.
Source: Moody's Financial Metrics™

Credit strengths

» Financial profile expected to continue to support credit quality

» Complete overhaul of the regulatory commission has the potential to lead to a more stable and predictable regulatory regime over time

» New Mexico's Energy Transition Act (NM ETA) should provide construct for PNM to transition its generation portfolio toward clean energy

» Cost recovery mechanisms like securitization are available through legislation to recover stranded costs, although regulatory approval has not always been straightforward

Credit challenges

» Regulatory environment in New Mexico has historically been more challenging than most US jurisdictions mainly due to inconsistent and unpredictable regulatory decisions

» Approval to abandon Four Corners coal-fired power plant and cost recovery through securitization had been denied, although PNM has the option to request again

» Capital investments increasingly elevated which will require additional debt financing

Rating outlook

PNM's stable outlook reflects our expectation the company is able to maintain financial metrics that support credit quality including a ratio of CFO pre-W/C to debt in the mid-teens range. The stable outlook incorporates our expectation that the regulatory environment will remain generally supportive and the company's elevated capital expenditures will be financed in a balanced manner that is consistent with PNM's targeted capital structure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on https://ratings.moodys.com for the most updated credit rating action information and rating history.

Factors that could lead to an upgrade

PNM could be upgraded if the New Mexico regulatory environment was to exhibit a sustained improvement through credit supportive regulatory decisions that reduce the utility's business and financial risks, and enhance PNM's ability to consistently recover prudently incurred costs and investments and earn its allowed return. Moreover, if financial metrics improve such that PNM's ratio of CFO pre-W/C to debt is sustained above 20%, the rating could be upgraded.

Factors that could lead to a downgrade

PNM could be downgraded if the New Mexico regulatory environment becomes more contentious such that the company's ability to earn its allowed return becomes more challenging or its business risk profile becomes elevated because of material cost recovery disallowances. Moreover, if financial metrics decline such that PNM's ratio of CFO pre-W/C to debt is sustained below 16% on an adjusted basis, the rating could be downgraded.

Key indicators

Exhibit 2

Public Service Company of New Mexico

	2021	2022	2023	2024	2025	LTM Mar-26
CFO Pre-W/C + Interest / Interest	7.8x	7.4x	3.6x	4.5x	3.5x	3.5x
CFO Pre-W/C / Debt	19.8%	19.1%	10.7%	14.8%	11.7%	12.4%
CFO Pre-W/C – Dividends / Debt	16.7%	12.3%	10.7%	13.0%	11.6%	12.4%
Debt / Capitalization	42.8%	46.2%	47.8%	49.5%	48.7%	47.5%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.
Source: Moody's Financial Metrics™

Profile

PNM is the principal operating subsidiary of TXNM Energy, Inc. (TXNM, Baa3 stable), a regulated utility holding company that also owns Texas-New Mexico Power Company (Baa1 stable). PNM is a regulated vertically integrated electric utility with over 550,000 electricity customers in north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. PNM also provides electricity to wholesale customers in New Mexico and has approximately 4,700 MWs of generation capacity.

Exhibit 3
PNM's service territory



Source: Company website

Detailed credit considerations

New Mexico's regulatory framework has shown greater consistency amid rising investment needs

PNM's most recent general rate case provides a clearer indication of the commission's current posture. In May 2025, the commission approved a settlement that resulted in an authorized return on equity (ROE) of 9.45% and a 51% equity layer, with rate implementation phased over 2025 and 2026. This compares with a 9.26% authorized ROE and 50% equity approved previously. At the same time, certain settlement provisions reflect continued customer affordability sensitivity, including the recovery of energy storage costs through base rates rather than a dedicated rider and the extension of depreciation lives for legacy assets. As a result, while the outcome represents incremental improvement, it continues to embed timing risk in cost recovery.

Beyond base rates, the commission has shown a greater willingness to rely on targeted mechanisms to support rising investment needs. These include approval of PNM's grid modernization plan and associated recovery rider in 2023, as well as accounting authorization to defer costs related to participation in organized western power markets. Together, these mechanisms support earnings stability as investment increases, although they generally do not provide immediate cash recovery, leaving interim cash flow metrics sensitive during construction and before assets are placed into service.

The commission has also demonstrated alignment with PNM's long term decarbonization strategy. It accepted PNM's 2023 integrated resource plan, which outlines a pathway to a fully carbon free portfolio by 2040 and has approved multiple near term solar and battery storage additions consistent with that plan. These approvals, together with enhanced regulatory oversight of procurement activity, indicate acceptance of the need for sustained investment in generation, storage, and supporting transmission infrastructure as legacy resources retire and operational flexibility requirements increase.

Proposed acquisition remains subject to New Mexico regulatory approval

TXNM Energy has agreed to be acquired by an entity affiliated with Blackstone Infrastructure in an all cash transaction valued at $61.25 per share, implying a total enterprise value of approximately $11.5 billion, including the assumption of existing debt (excluding securitization debt) and preferred stock. The transaction is structured to be funded with no incremental debt solely related to the acquisition. In connection with the proposed acquisition, Blackstone made a $400 million equity investment in TXNM in June 2025, and the company has since issued additional equity prior to the acquisition closing. The acquisition has received TXNM shareholder approval and all required regulatory approvals outside the Nuclear Regulatory Commission (NRC) and New Mexico, leaving approval by the NRC and NMPRC as the principal remaining conditions to closing.

The NMPRC review has become more protracted than initially anticipated and remains subject to additional procedural and regulatory uncertainty. In June 2026, hearing examiners issued a recommendation in the show cause proceeding related to the proposed Blackstone acquisition, concluding that the $400 million equity investment by a Blackstone affiliate required prior Commission approval. The examiners recommended remedial actions, including unwinding or curing the transaction, and indicated that the applicants may need to withdraw and refile the merger application. TXNM and the other joint applicants have filed responses and are awaiting a final Commission order. While the core evidentiary hearing for the acquisition remains scheduled for August 2026, the outcome of the show cause proceeding could delay or alter the review process. As a result, timing for regulatory approval and closing, which had been targeted for the second half of 2026, is increasingly uncertain, and approval is not assured given New Mexico's historical skepticism toward utility mergers. A previous attempt by TXNM to be acquired by Avangrid (Baa2 positive) in 2021 was not approved by New Mexico regulators, underscoring execution risk for the current transaction.

The proposed transaction is neutral to modestly supportive if completed as planned. The all equity financing plan, together with Blackstone's prior equity investment and the expectation of additional equity issuance, limits incremental leverage and supports funding of TXNM's elevated capital spending program. Until the NMPRC review is concluded, however, uncertainty around the timing and outcome of the transaction remains, and TXNM will need to manage group funding, dividend policy, and capital program on a standalone basis.

Ongoing energy transition and load growth continue to drive elevated capital investment

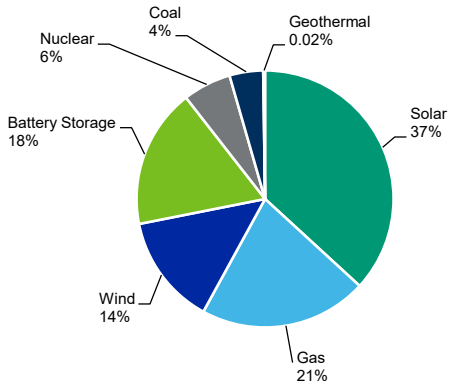
TXNM is undertaking a materially expanded capital program reflecting the combined demands of the clean energy transition and accelerating load growth across its regulated utilities. The company's updated 2026–2030 capital investment plan totals approximately $10.2 billion, up from approximately $7.8 billion prior. PNM accounts for approximately 48% of the consolidated plan, with annual

capital spending ranging from approximately $655 million to $1.5 billion over the period, weighted toward the later years as generation replacements, transmission buildout, and large-load infrastructure development accelerate.

PNM continues to execute a multiyear transition of its generation portfolio toward carbon free resources in line with New Mexico's Energy Transition Act, which targets 100% carbon free electricity by 2045. As of 2026, the company's installed and contracted capacity is already majority carbon free, with renewables and energy storage representing roughly two thirds of total capacity, supplemented by nuclear generation and a declining share of natural gas. Achieving the remaining transition requires continued investment in utility owned and contracted renewables, battery storage, and supporting transmission infrastructure, as well as incremental dispatchable resources to maintain system reliability as legacy thermal generation retires.

PNM's transition strategy has advanced through a series of Integrated Resource Plans (IRP) and resource specific filings with the NMPRC. The company's approved 2023 IRP established a long term pathway for decarbonization while accounting for reliability, cost, and system flexibility. More recently, PNM has obtained NMPRC approval for multiple near term resource additions, including solar generation and battery storage under its 2026 and 2028 resource plans, as well as approval of utility owned distribution level batteries. In addition, PNM has filed for renewable and storage resources selected through its 2029–2032 request for proposals, alongside related transmission projects intended to integrate new wind and solar resources into the system. The resource filings are intended to address a forecasted increase in demand of approximately 40% by 2032. Further, PNM is looking to exit its 13% ownership interest or 200 MWs in the Four Corners coal-fired power plant by no later than its 2031 ownership agreement expiration date. The IRP incorporates replacing the power from San Juan and Four Corners with a combination of carbon-free resources such as renewables and energy storage. The next IRP is scheduled to be filed in September 2026.

Exhibit 4
Generation capacity by fuel type, owned, leased and PPAs as of 31 December 2025



Source: Company filings

At the same time, expansion of existing data center demand and the entry of new large commercial and industrial customers are necessitating additional investment in substations, transmission lines, and, in some cases, incremental generation and storage capacity. These growth related investments often must be undertaken in advance of load taking service, adding to the overlap between policy driven transition spending and customer driven system expansion.

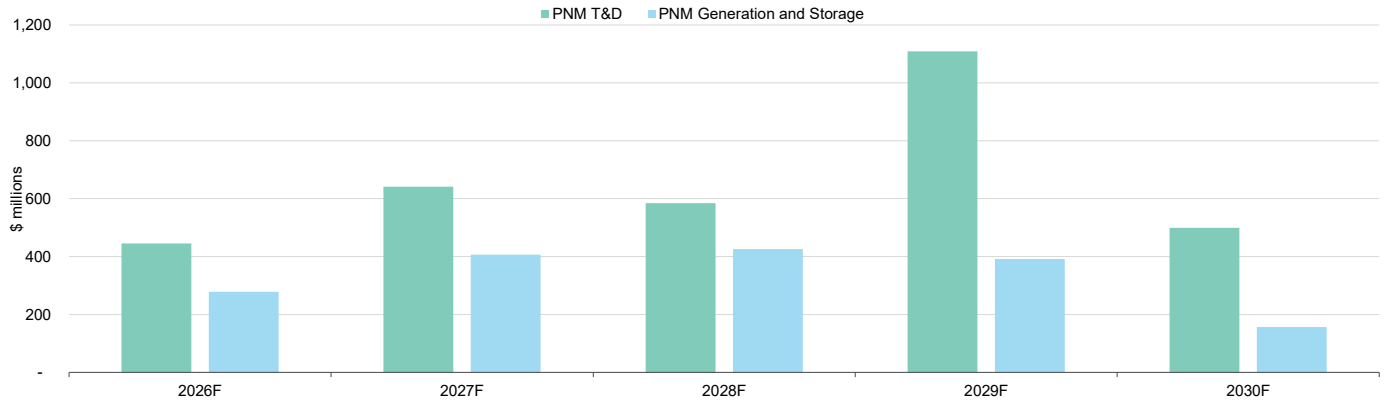
Recent New Mexico legislation (SB 169 and SB 170) establishes a framework for accelerated site-readiness and approval intended to facilitate large load development. SB 169 identifies and funds strategic development sites, while SB 170 allows utilities to seek expedited regulatory approval and defer recovery of prudently incurred costs associated with investments made ahead of load. However, SB 170 does not provide immediate cash recovery, and capital expenditures tied to both clean energy transition and large load growth continue to be funded in advance of rate recognition. As a result, PNM's sustained investment in renewables, storage, transmission, and growth related infrastructure could result in interim pressure on cash flow metrics, until assets are placed in service and recovery mechanisms are reflected in customer rates.

Financial profile expected to remain stable and continue to support credit quality

PNM has generally maintained a financial profile consistent with its current rating level. Recent financial metrics have weakened relative to historical averages, largely reflecting adverse weather conditions in the service territory, incremental capital spend, phased rate implementation, and other non recurring items. As of 31 March 2026, PNM's ratio of CFO pre WC to debt was 12.4%, or approximately 13.9% when excluding the impact of securitization debt.

Looking forward, PNM's capital investment program remains elevated as the utility continues to invest in T&D infrastructure, renewable generation, energy storage, and grid modernization to support the clean energy transition and accommodate incremental load growth. The degree to which credit metrics will be affected over the investment cycle remains uncertain, as it will depend on the pace and timing of project approvals, execution, regulatory recovery, and the extent to which rate mechanisms keep pace with capital deployment. A meaningful portion of planned capital spending remains subject to additional approvals from the NMPRC, which could influence the ultimate pacing of expenditures.

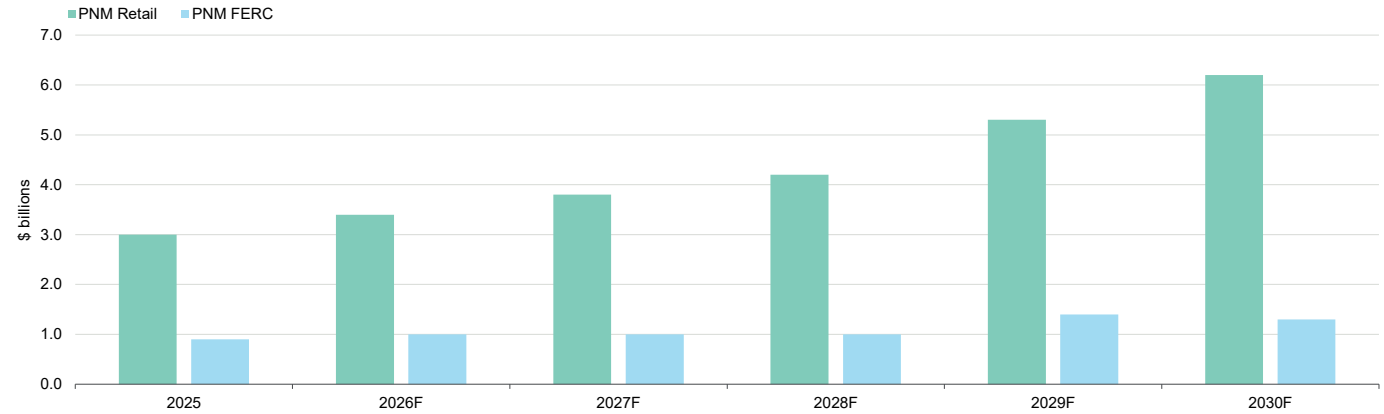
Exhibit 5
PNM projected capital investments



Source: Company filings

We expect PNM's credit metrics to face pressure in the short to medium term as capital spending accelerates, with CFO pre WC to debt expected in the mid-teens percent with potential for further compression during peak investment years. Over time, the placement of new assets into service and associated cost recovery should alleviate some of this pressure, although the timing and magnitude of improvement are difficult to predict given the scope and duration of the current investment cycle.

Exhibit 6
PNM's current and projected rate base

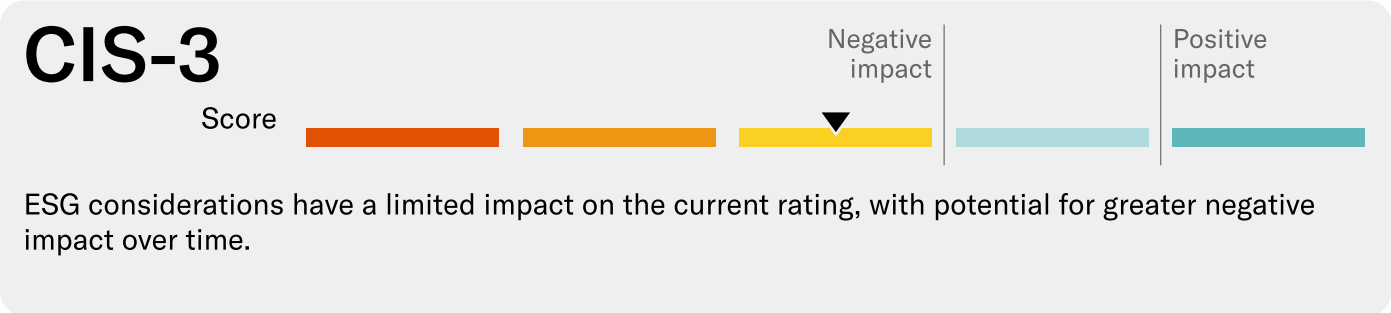


Includes FERC Rate Base
Source: Company filings

ESG considerations

Public Service Company of New Mexico's ESG credit impact score is CIS-3

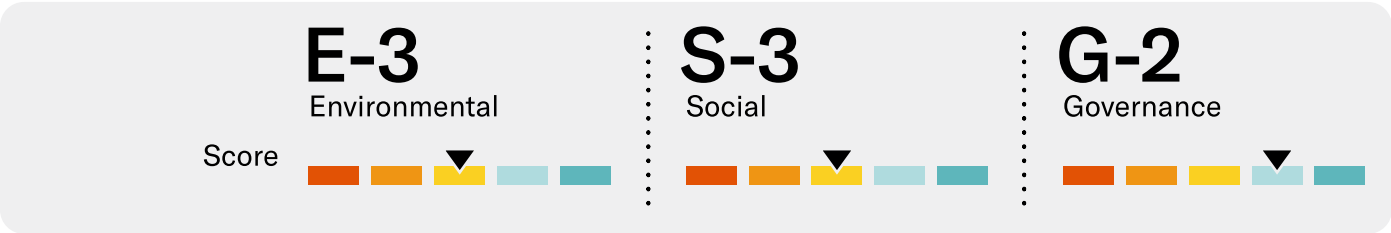
Exhibit 7
ESG credit impact score



Source: Moody's Ratings

PNM's **CIS-3** indicates that ESG considerations have a limited impact on the current rating with potential for greater negative impact over time. Physical climate risks and increased exposure to demographic and social trends, such as a less supportive regulatory environment and customer affordability concerns, could weaken credit quality over the long-term.

Exhibit 8
ESG issuer profile scores



Source: Moody's Ratings

Environmental

PNM's **E-3** issuer profile score is driven primarily by its exposure to physical climate risks, mostly in the form of extreme weather patterns including excessive heat. The company is managing its carbon transition risk as it evaluates its ability to exit its only remaining coal plant prior to its 2031 ownership expiration and continues to add renewable energy to its generation portfolio. Operating nuclear generation also exposes the company to waste and pollution risks.

Social

PNM's **S-3** issuer profile score primarily reflects customer relations and demographic and societal trends that may increase public concern over environmental, reputational, or affordability issues and lead to adverse regulatory or political intervention, particularly in a New Mexico regulatory environment that has historically been inconsistent and unpredictable.

Governance

PNM's **G-2** issuer profile is driven by that of its parent, TXNM, which is broadly in line with other utilities and does not pose a particular risk. It reflects the company's financial policy to maintain the capital structure authorized by regulators with any dividends distributed to TXNM, offset by sufficient equity injections to maintain the target capital structure.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Liquidity analysis

PNM has an adequate liquidity profile driven by relatively stable cash flow generation, availability on external credit facilities and typically minimal cash on hand.

For last twelve months ending 31 March 2026, PNM generated cash flow from operations of $389 million, had capital expenditures of $616 million and paid $1 million in dividends, resulting in negative free cash flow of $227 million. The shortfall was largely supplemented with long-term debt issuance. Going forward, we expect the company will use short and long-term debt borrowings, as well as parent capital contributions, to help finance its elevated capital investment program and dividend distributions. We expect any financings will be made in a balanced manner that will maintain its regulated capital structure of around 50% debt and equity.

PNM has a $400 million revolving credit facility. The facility was recently extended to March 2030; however, one lender did not consent to the extension, resulting in available facility capacity reducing to $354.1 million effective March 30, 2029. A second one year extension option, if exercised and approved by a majority of lenders, would extend the maturity to March 2031. Under the terms of the CP program, PNM is required to always maintain unused revolving credit facility capacity in an amount not less than CP borrowings outstanding. As a result, PNM's effective CP borrowing capacity will be limited to $354.1 million following the step down, unless the departing lender is replaced or the facility is otherwise amended. PNM also has an additional $40 million facility with local New Mexico banks, which expires in May 2030. As of 31 March 2026, PNM had $88.1 million of borrowings outstanding under the $400 million revolving credit facility and $40 million of borrowings outstanding on the $40 million local bank credit facility. The credit facilities do not contain a material adverse change clause for new borrowings and have only one financial maintenance covenant limiting debt to total capitalization to 65%. As of 31 March 2026, PNM was well in compliance with this debt covenant.

PNM can also borrow up to $100 million from its parent as part of an intercompany borrowing arrangement. As of 31 March 2026, PNM had no intercompany borrowings from TXNM.

PNM's next near-term debt maturity is a $195 million unsecured term loan due in July 2026.

Methodology and scorecard

We use our global Regulated Electric and Gas Utilities rating methodology as the primary methodology for Public Service Company of New Mexico.

Exhibit 9

Rating factors

Public Service Company of New Mexico

Regulated Electric and Gas Utilities Industry	Current LTM 3/31/2026		Moody's 12-18 Month Forward View	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	A	A	A	A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	3.7x	Baa	3.5x - 4.5x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	11.9%	Ba	12% - 14%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	11.3%	Baa	11% - 13%	Baa
d) Debt / Capitalization (3 Year Avg)	48.7%	Baa	45% - 50%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa2		Baa2
HoldCo Structural Subordination Notching		0		0
a) Scorecard-Indicated Outcome		Baa2		Baa2
b) Actual Rating Assigned				(P)Baa2

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.
Moody's forecasts are Moody's opinion and do not represent the views of the issuer.
Sources: Moody's Financial Metrics™ and Moody's Ratings forecasts

Appendix

Exhibit 10

Peer comparison

Public Service Company of New Mexico

	Public Service Company of New Mexico (P)Baa2 Stable			Tucson Electric Power Company A3 Stable			Evergy Metro, Inc. Baa1 Stable			El Paso Electric Company Baa2 Stable			Southwestern Public Service Company Baa2 Stable		
(In $ millions)	FY Dec-24	FY Dec-25	LTM Mar-26	FY Dec-24	FY Dec-25	LTM Mar-26	FY Dec-24	FY Dec-25	LTM Mar-26	FY Dec-24	FY Dec-25	LTM Mar-26	FY Dec-24	FY Dec-25	LTM Mar-26
Revenue	1,379	1,484	1,481	1,805	1,689	1,661	1,894	1,916	1,934	1,121	1,139	1,121	1939	2180	2189
CFO Pre-W/C	426	360	376	592	634	606	724	739	742	333	310	297	914	833	892
Total Debt	2,886	3,087	3,033	2,599	2,824	2,899	3,702	3,802	3,883	2,245	2,451	2,684	3751	4369	4143
CFO Pre-W/C + Interest / Interest	4.5x	3.5x	3.5x	6.5x	6.2x	6.0x	5.3x	5.7x	5.7x	3.3x	3.1x	3.0x	6.6x	5.2x	5.5x
CFO Pre-W/C / Debt	14.8%	11.7%	12.4%	22.8%	22.5%	20.9%	19.6%	19.4%	19.1%	14.8%	12.6%	11.1%	24.4%	19.1%	21.5%
CFO Pre-W/C – Dividends / Debt	13.0%	11.6%	12.4%	19.5%	22.5%	15.7%	15.7%	13.1%	14.2%	8.2%	6.7%	6.0%	13.0%	10.6%	12.7%
Debt / Capitalization	49.5%	48.7%	47.5%	40.7%	40.6%	41.4%	47.3%	47.6%	47.9%	47.3%	45.8%	47.9%	42.9%	43.7%	40.3%

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology. LTM = Last 12 months.
Source: Moody's Financial Metrics™

Exhibit 11

Moody's-adjusted cash flow reconciliation

Public Service Company of New Mexico

(in $ millions)	2021	2022	2023	2024	2025	LTM Mar-26
FFO	**399.2**	**454.9**	**209.0**	**457.5**	**401.9**	**396.8**
+/- Other	(6.5)	(19.7)	54.4	(31.7)	(42.2)	(21.2)
CFO Pre-WC	**392.7**	**435.2**	**263.4**	**425.8**	**359.7**	**375.6**
+/- ΔWC	19.1	(60.2)	79.4	(111.5)	(11.6)	5.8
CFO	**411.8**	**375.0**	**342.8**	**314.3**	**348.1**	**381.4**
- Div	60.5	154.0	0.5	51.5	0.5	0.5
- Capex	622.4	454.7	565.7	676.9	578.9	609.5
FCF	**(271.1)**	**(233.7)**	**(223.4)**	**(414.1)**	**(231.4)**	**(228.6)**
(CFO Pre-W/C) / Debt	19.8%	19.1%	10.7%	14.8%	11.7%	12.4%
(CFO Pre-W/C - Dividends) / Debt	16.7%	12.3%	10.7%	13.0%	11.6%	12.4%
Debt / Capitalization	42.8%	46.2%	47.8%	49.5%	48.7%	47.5%
(FFO + Interest) / Interest	7.9x	7.7x	3.1x	4.8x	3.8x	3.7x
Revenue	1,362.0	1,766.8	1,403.9	1,379.1	1,484.3	1,480.9
Interest Expense	57.9	67.7	99.5	121.5	145.5	148.4
Net Income	158.1	103.7	31.8	182.6	125.9	109.0
Total Assets	6,056.7	6,268.5	6,803.6	7,394.4	7,674.2	7,674.1
Total Liabilities	4,088.3	4,352.8	4,848.7	5,255.7	5,276.0	5,186.2
Total Equity	1,968.5	1,915.7	1,954.8	2,138.6	2,398.2	2,487.9

All data based on adjusted financial data, which follow our Financial Statement Adjustments in the Analysis of Nonfinancial Corporations methodology.
Source: Moody's Financial Metrics™

Ratings

Exhibit 12

Category	Moody's Rating
PUBLIC SERVICE COMPANY OF NEW MEXICO	
Outlook	Stable
Issuer Rating	Baa2
LT IRB/PC	Baa2
Commercial Paper	P-2
PARENT: TXNM ENERGY, INC.	
Outlook	Stable
Issuer Rating	Baa3
Jr Subordinate	Ba1
Commercial Paper	P-3

Source: Moody's Ratings

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S&P Article 01-2026 North American Regulated Utilities

Is contained in the following 17 pages.

North America Regulated Utilities

Data center growth will support credit quality in 2026

January 14, 2026

This report does not constitute a rating action.



What's changed?

Electricity sales growth. After nearly two decades of stagnant growth, sales growth has returned, powered by data center expansion.

Rising capital spending. Capital spending broke a new record in 2025 for the fourth consecutive year, reflecting about $250 billion.

Hybrid issuance. Hybrid security issuance also exceeded prior levels at about $30 billion.

What are the key assumptions for 2026?

Credit-supportive funding of cash flow deficits. The industry's cash flow deficits at about $100 billion requires balanced equity and debt funding to maintain credit quality.

Managing regulatory risk. The industry's rate case filing revenue requirements are materially increasing, requiring consistently fair rate case orders to maintain credit quality.

Managing the customer bill. The electric bill represents about 2% of household income, and significant bill increases could challenge a utility's ability to manage regulatory risk.

What are the key risks around the baseline?

Physical risks. Climate change is increasing the frequency of extreme and devastating hurricanes, storms, and wildfires, which is heightening credit risks for North America's investor-owned utilities (IOUs).

Common equity issuance. Common equity issuance at about $16 billion in 2025, or 40% higher than 2024, must be sustained given the industry's robust cash flow deficits.

Minimal financial cushion from downgrade threshold. About 40% of the industry is operating with limited ability to absorb unexpected events beyond their base case.

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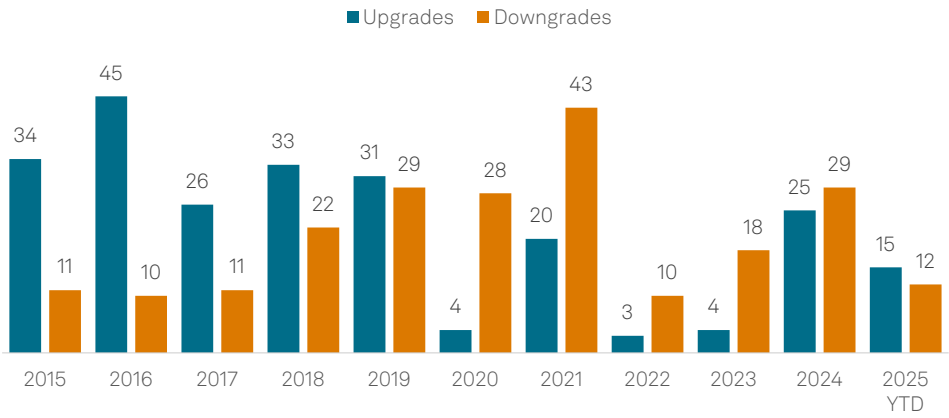
Industry Outlook

Ratings trends and outlook

After five years of downgrades consistently outpacing upgrades, 2025 upgrades have finally outpaced downgrades. Furthermore, the percentage of companies with a negative outlook has decreased to about 10% compared to the more recent historical average of about 20%. This all points to a potentially more stable environment for credit quality in 2026.

Chart 1

Upgrades and downgrades



Source: YTD—Year to date as of Nov. 30, 2025. Source: S&P Global Ratings.

Main assumptions about 2026 and beyond

1. Electricity sales growth

For nearly the past two decades electricity sales have been flat, reflecting conservation efforts that have offset new customer growth. However, with data center growth, we expect the industry's electricity sales will increase by 1%-2%. This transformation represents an opportunity but still brings considerable risks to credit quality.

2. Phase out of tax credits

Under the 2025 U.S. budget bill, solar or wind projects started by June 2026 should qualify for tax credits. As such, the industry should benefit from tax credit transferability through 2030, which we assess as supportive of credit quality. Furthermore, we believe the transition period allows for ample adjustment time.

3. Legislative enactments to reduce regulatory lag and wildfire risks

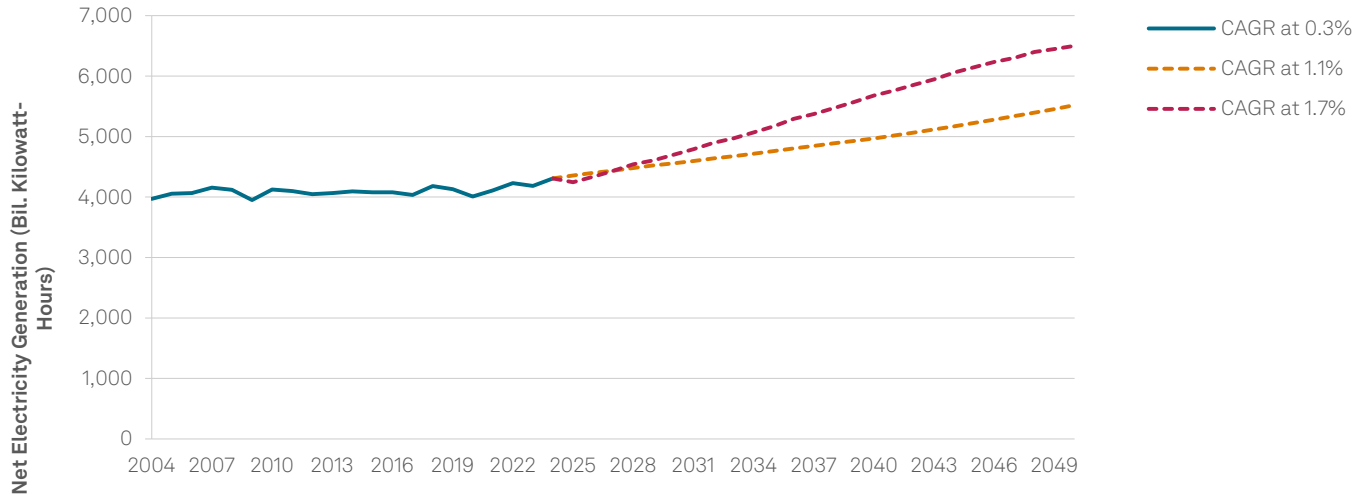
Given the increasing opportunities for the utility industry, no less than 14 states enacted legislation in 2025 that either reduces regulatory lag (the timing difference between when a utility incurs costs and when it's recovered from ratepayers) or reduces wildfire risks. We assess these developments as supportive of credit quality and expect this trend will persist, reducing the industry's risks and improving the industry's profitability.

A transformative industry shift. During the past two decades of stagnant electricity sales growth, the industry concentrated on managing regulatory risk and reducing regulatory lag, as there was no sales growth that could offset regulatory delays. This was a particularly challenging period for the industry, especially considering it also had to manage other concurrent risks, including declining interest rates, inflation, supply-chain issues, and commodity price spikes.

Given our expectations for rising electricity sales from data center growth at 1%-2% annually, the new growth should bolster the industry's financial measures, even given some regulatory lag.

Chart 2

U.S. electricity demand



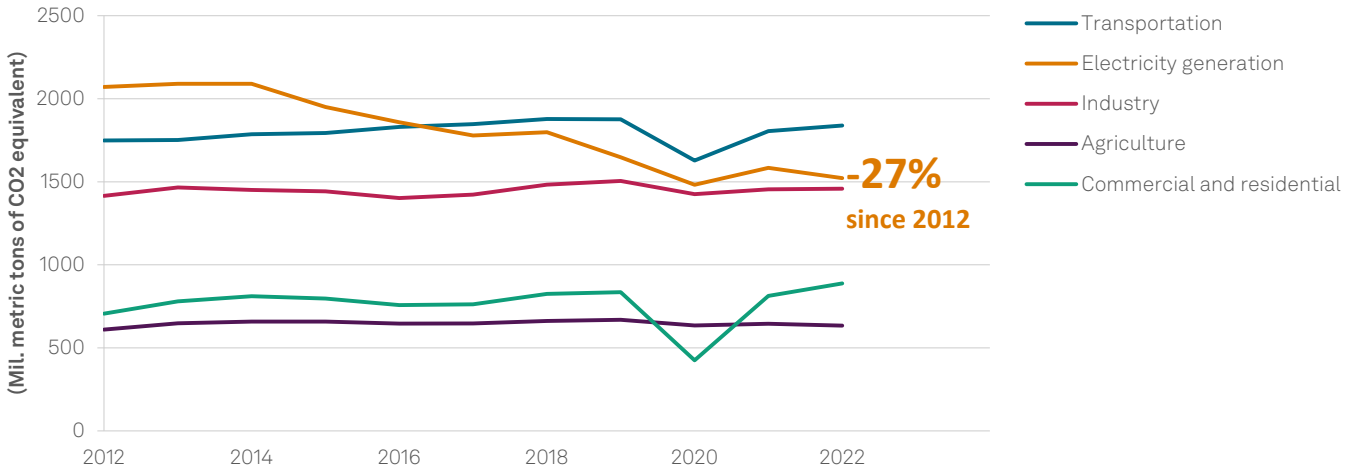
Source: CAGR--Compound annual growth rate. Data as of Nov. 30, 2025. Sources: U.S. Energy Information Administration (historical and 1.1% CAGR) and S&P Global Commodity Insights (1.7% CAGR).

In addition, customer bills are likely to benefit from this data center expansion, as the industry can distribute its fixed costs over a larger customer base. We view these developments as positive for the industry's credit quality but sustaining credit quality hinges on effectively managing the risks associated with this growth. These risks include: construction risks, data center service agreement risks, the expiration of the data center service agreements, the risk of bill increases for existing customers, and concentration risk. Managing these risks is central for the industry to maintain credit quality.

Capital spending is exploding. The industry's capital spending over the past decade has been growing at a compound annual growth rate at about 6%. The industry's spending was mostly focused on safety, reliability, and energy transition, successfully reducing its greenhouse gas emissions by about 27%.

Chart 3

GHG emission | Economic sector (2010-2022)

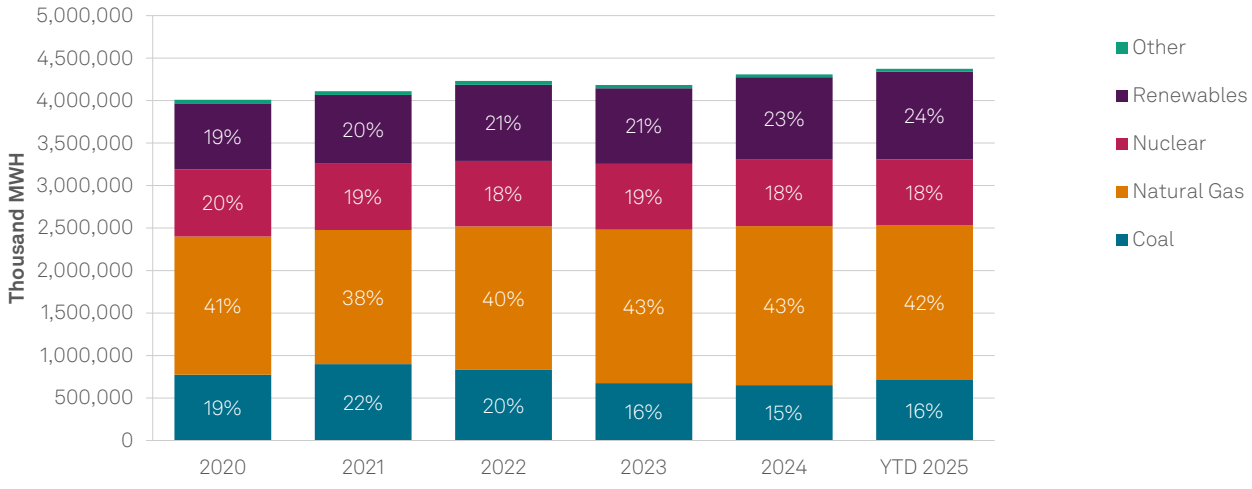


Data as of Oct. 31, 2025. Source: U.S. Environmental Protection Agency.

To accomplish its goals, the industry has transformed its generation, increasing its reliance on renewables (about 25% of total generation) and decreasing its reliance on coal fired generation (about 15% of total generation).

Chart 4

U.S. generation mix

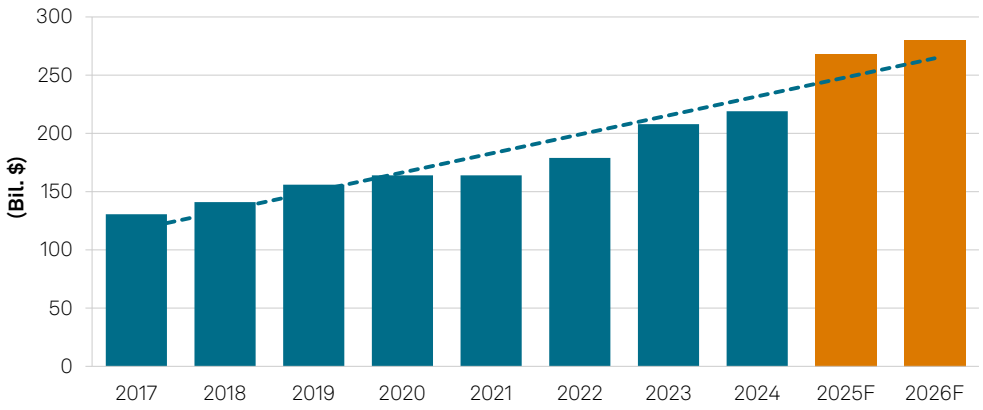


Data as of Oct. 31, 2025. Source: U.S. Energy Information Administration.

However, because of data center growth, we expect IOU capital spending will grow at unprecedented levels during the next decade. To maintain credit quality over this timeframe, the industry must fund these projects in a credit-supportive manner.

Chart 5

Rising capital spending

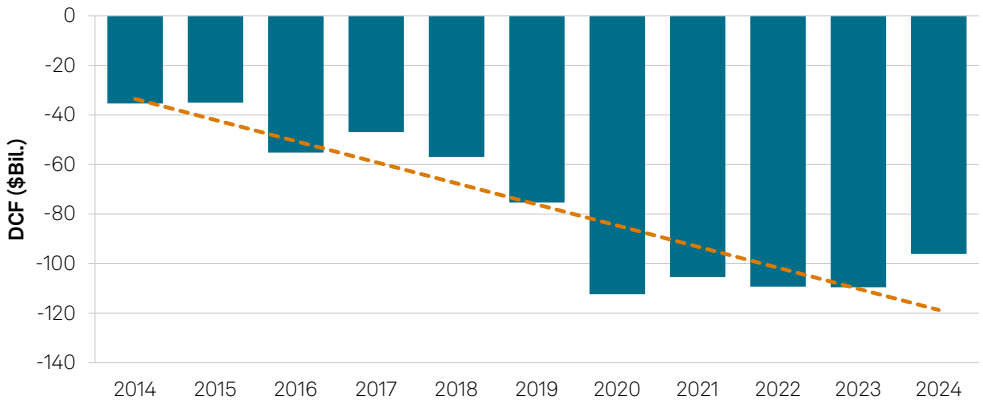


F--Forecast. Data as of Oct. 31, 2025. Sources: S&P Global Ratings and S&P Market Intelligence.

Robust cash flow deficits. The IOU industry consistently operates with high cash flow deficits at about $100 billion annually. The modest improvement is 2024 is mostly attributable to the transferability of tax credit that we expect will continue to increase through 2030.

Chart 6

High cash flow deficits

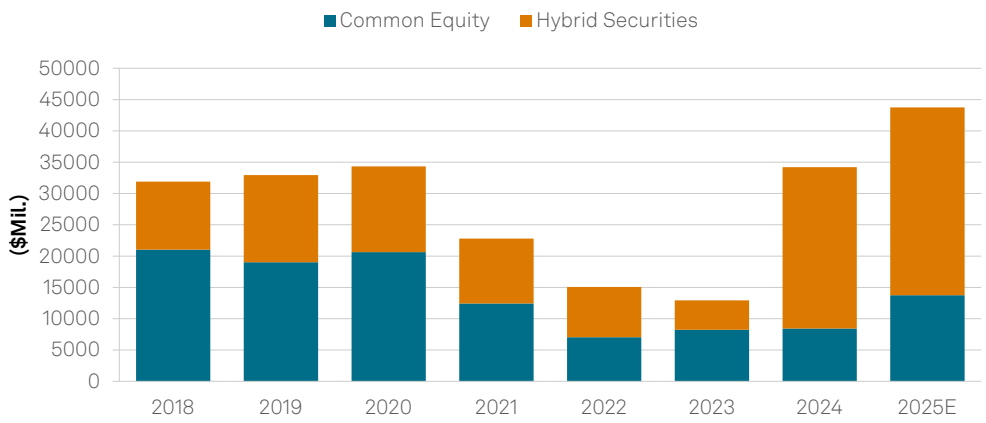


DCF – Discretionary cash flows. Data as of Oct. 31, 2025. Sources: S&P Global Ratings and S&P Market Intelligence.

Since 2020, the industry's funds from operations to debt has weakened by more than 150 basis points primarily because the industry's robust cash flow deficits that were not sufficiently funded in a credit-supportive manner. However, the industry's financial performance began stabilizing in 2024, reflecting record level of hybrid security issuance. In 2025 both the issuance of hybrid securities and common equity were materially higher than in 2024, increasing by about 16% and 90%, respectively.

Chart 7

Hybrids and common equity issuance

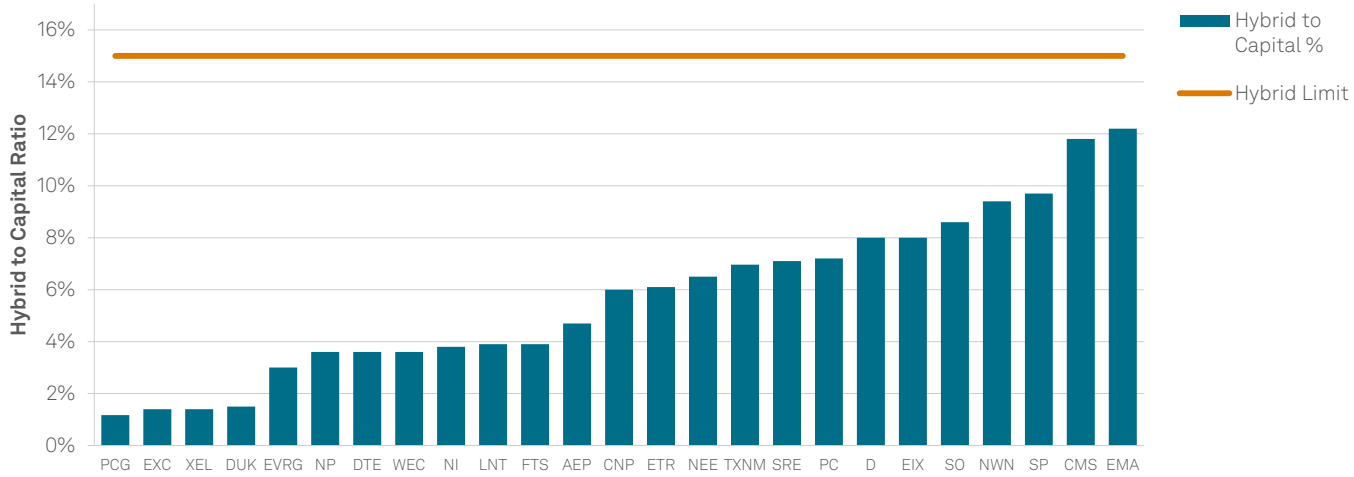


Data as of November 30, 2025. Source: S&P Market Intelligence.

Under our base case, we expect hybrid securities will remain key component for funding the industry's cash flow deficits over the next three years. S&P Global Ratings assesses equity content for hybrid securities so far as the securities account for less than 15% of total capitalization. Currently, most of the industry has considerable capacity, and as such we expect hybrid securities will continue to be heavily used over the near-term

Chart 8

Hybrid to total capital



Data as of Oct. 31, 2025. Source: S&P Global Ratings.
PCG—PG&E Corp. EXC—Exelon Corp. XEL—Xcel Energy Inc. DUK—Duke Energy Corp. EVRG—Evergy Inc. NP—Nevada Power Co. DTE—DTE Energy Co. WEC—WEC Energy Group Inc. LNT—Alliant Energy Corp. FTS—Fortis Inc. NI—NiSource Inc. AEP—American Electric Power Co. Inc. CNP—CenterPoint Energy. ETR—Entergy Corp. Inc. NEE—NextEra Energy Capital Holdings Inc. TXNM—TXNM Energy Inc. SRE—Sempra. PC—PacifiCorp. D—Dominion Energy Inc. EIX—Edison International. SO—The Southern Co. NWN—Northwest Natural Holding Co. SP—Sierra Pacific Power Co. CMS—CMS Energy Corp. EMA—EUSHI Finance Inc.

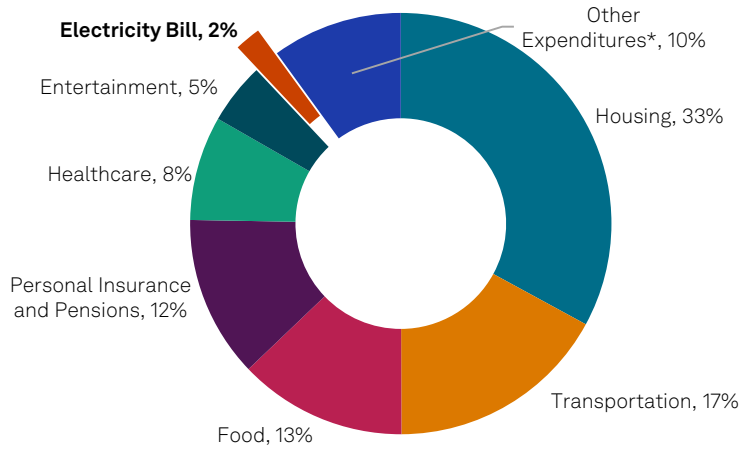
Managing the customer bill. One of the key credit risks for the IOU industry is to ensure that data centers are responsible for their share of electricity consumption. If existing customers subsidize the new data center customers, the existing customer bill will increase, which could strain a

utility's ability to manage regulatory risk. While the electricity bill for existing customers will nevertheless rise because of rising costs, the bill must not rise solely due to data center growth.

We assess the customer electric bill based on its relative size compared to total household income and based on the annual increase of the electric bill. Currently, on average, the U.S. electric bill only represents about 2% of household income.

Chart 9

2023 U.S. customer expenditures

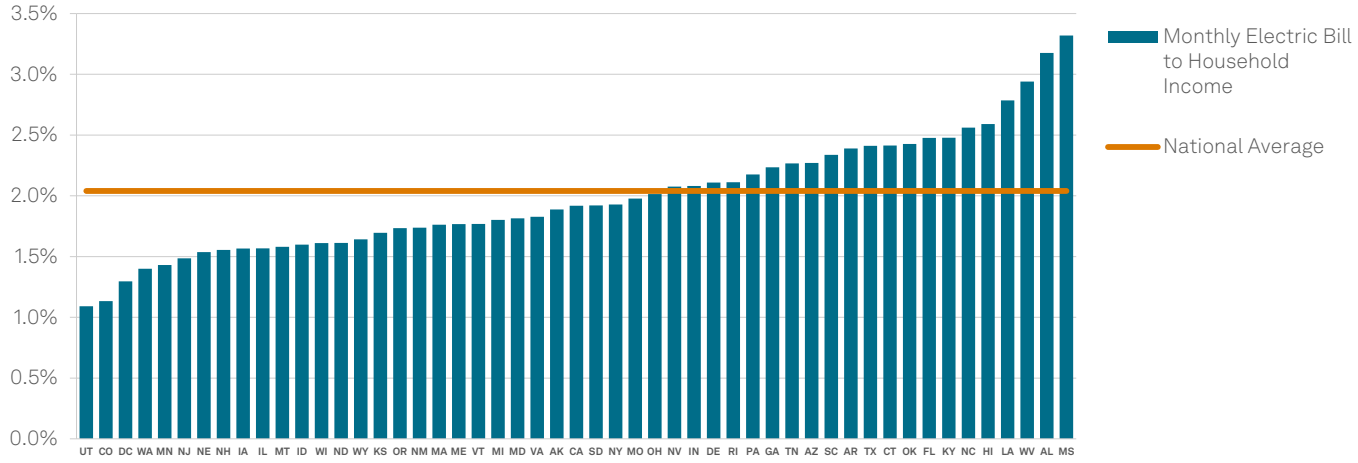


Sources: U.S. Energy Information Administration and U.S. Bureau of Labor Statistics.
*Other expenditures include alcoholic beverages, apparel and services, personal care products and services, reading, education, tobacco products and smoking supplies, cash contributions, and miscellaneous.

While the U.S. average is an important indicator, we assess each individual utility on a more granular basis, such as the electric bill's percentage of household income in each city, state, or regulatory jurisdiction.

Chart 10

Electric customer bill affordability by state



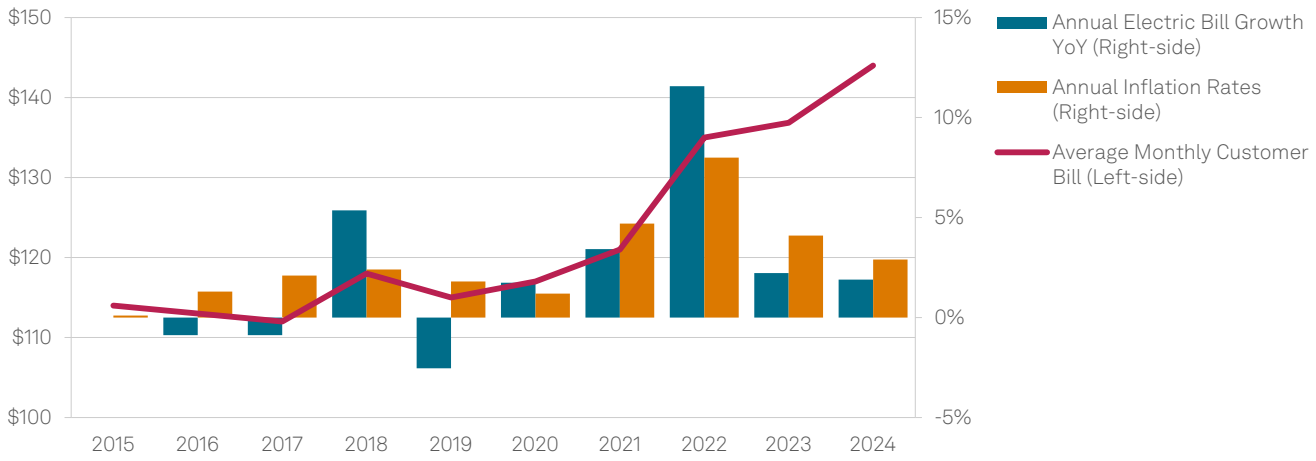
Data as of Oct. 31, 2025. Sources: Federal Reserve Bank of St. Louis and Energy Information Administration.

While states such as Utah, Colorado, Washington, Minnesota, and New Jersey, may have a relative lower electric bill, it is equally important for utilities, even in these states, to manage the

annual electric bill increases at or below inflation. For example, in 2022 electric bills increased by nearly 12%, driven by high commodity costs. Had these higher costs persisted, it likely would have resulted in higher risk for the entire IOU industry.

Chart 11

Inflation outpaces electric bill growth

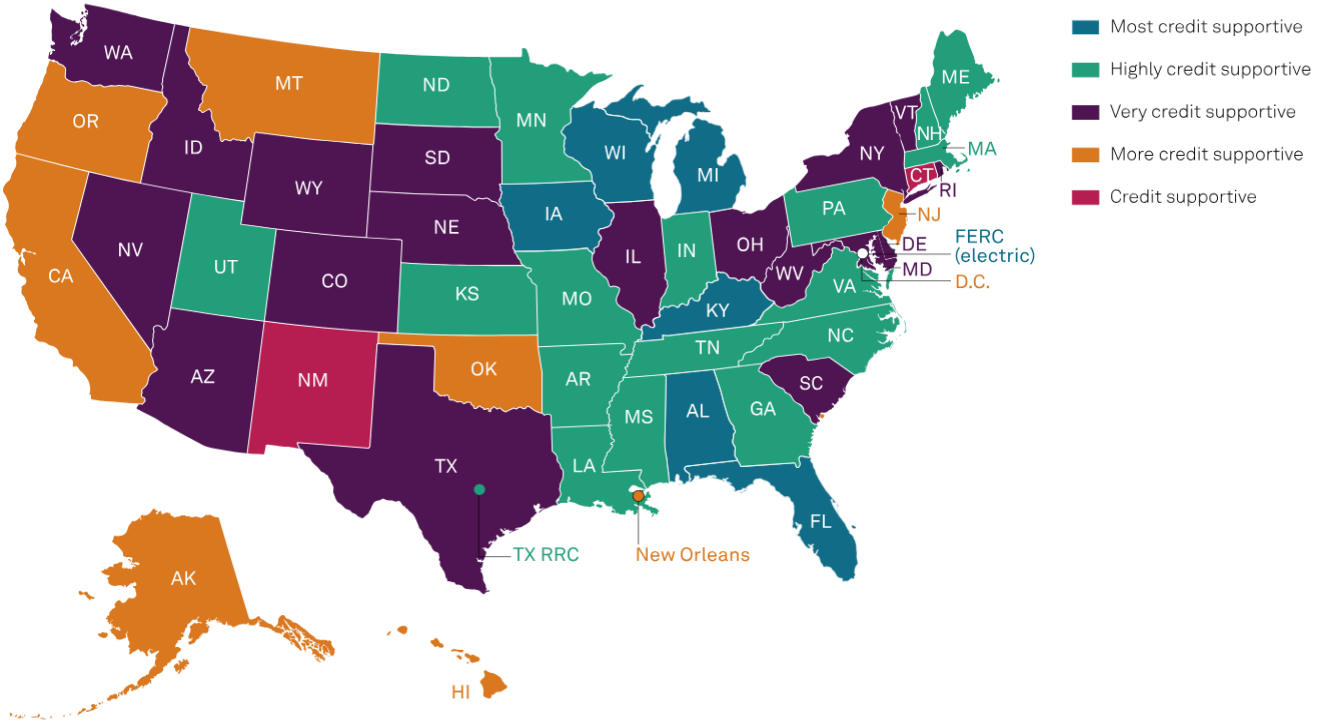


Data as of Oct. 31, 2025. Sources: U.S. Energy Information Administration and U.S. Bureau of Labor Statistics.
For 2015 to 2024, annual residential electric bills have increased at a 2.5% CAGR compared to a 2.8% CAGR for inflation.

Effective management of regulatory risk is critical for maintaining credit quality. We assess all of North America's regulatory jurisdictions as credit supportive or better, reflecting the industry's generally stable and predictable cash flows. Over the past decade much of the industry has implemented regulatory mechanisms such as decoupling, interim rates, capital trackers, formula rate plans, forward test years, muti-year rate case filings, and regulatory riders to significantly improve cash flow stability while minimizing regulatory lag.

Chart 12

U.S. regulatory jurisdiction assessments



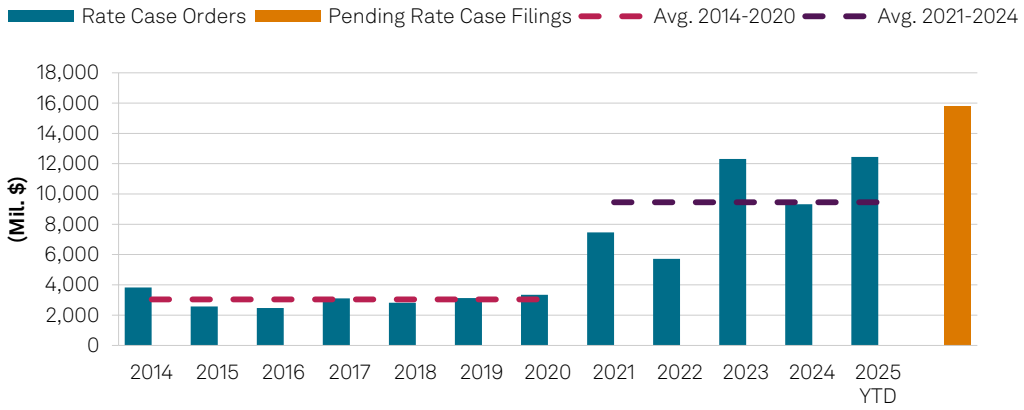
Data as of Nov. 4, 2025. Source: S&P Global Ratings.

Recently we revised upward our assessments for South Carolina, Missouri, and Arizona. Our improved assessment of South Carolina reflects the May 2025 House Bill 3309 that was signed into law, allowing electric utilities to request annual rate adjustments. In Missouri, the improvement reflected the April 2025 Senate Bill 4 that was signed into law, allowing natural gas, water, and sewer utilities to file rate cases using a future test period, which we expect will reduce regulatory lag. In Arizona, the improvement reflected constructive rate case orders and the approval of alternative regulation that may lead to formula rate plans that we believe would meaningfully reduce the regulatory lag.

Because of the industry's robust capital spending, its revenue requirement authorized in its rate case orders have more than doubled over the past decade, increasing the importance for the IOU industry to maintain and effectively manage regulatory risk.

Chart 13

Rate case orders reflect higher ROEs, inflation, and robust capital spending



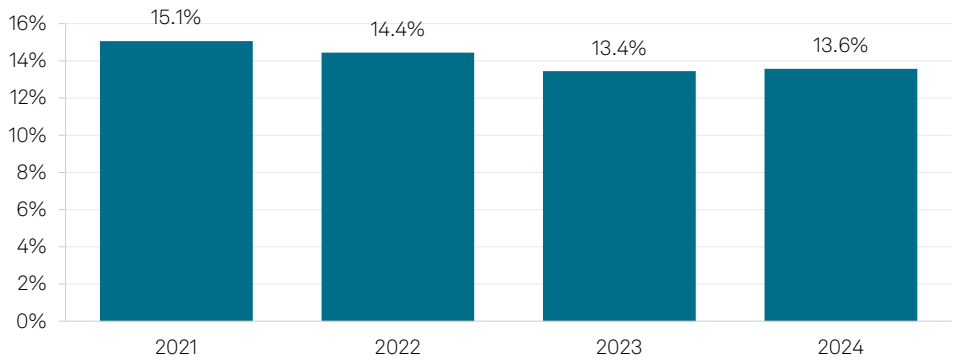
Source: Regulatory Research Associates, a group within S&P Global Commodity Insights. YTD – Year to date and as of Nov. 30, 2025.

Credit metrics and financial policy

The industry's funds from operations (FFO) to debt was about 15% in 2021 and has gradually fallen to about 13.5%, primarily reflecting rising leverage. However, given the robust hybrid securities issued in 2024 and 2025 and the rising common equity issued in 2025, we believe financial measures have stabilized, despite the industry's year-over-year record capital spending.

Chart 14

Industry average FFO to debt

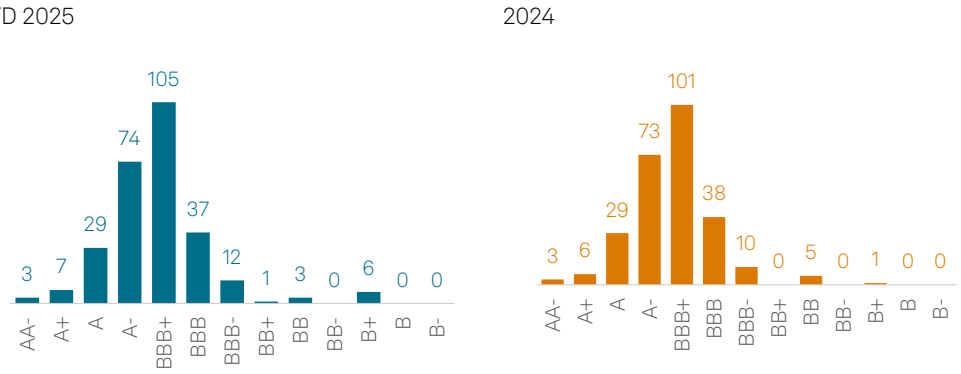


FFO– Funds from operations. Data as of Oct. 31, 2025. Sources: S&P Global Ratings and S&P Market Intelligence.

We also expect that the industry will continue to rely heavily on the transferability of tax credits and receive credit-supportive rate case orders that will allow the industry to generally maintain its credit quality despite rising capital spending. The industry's median rating is at 'BBB+' and we expect it will be maintained over the next several years.

Chart 15

Ratings distribution



Data as of November 30, 2025. Source: S&P Global Ratings.

Key risks or opportunities around the baseline

1. Wildfire risk.

Climate change is contributing to more frequent and severe weather events, including making conditions drier for longer periods. When high winds bring dry trees and other combustible materials into contact with power lines it raises the probability of a wildfire, raising the IOUs' wildfire risks and putting downward pressure on credit quality. Just in 2025 we downgraded four IOUs because of insufficient action to address wildfire risks.

2. Managing transmission and distribution (T&D)-only utilities could become more challenging.

Rising capacity costs are increasing the customer bill, raising the number of customer complaints, and potentially increasing the difficulties for T&D utilities to manage regulatory risk. We see this issue as a growing risk for the T&D utilities over the next several years.

3. Work order stoppages.

We assess the recent offshore wind work stoppages as negative for credit quality. In general, businesses expect consistent practices and steady implementation of rules. When work stoppages are suddenly announced, businesses lose confidence, putting future projects at risk. The industry is spending hundreds of billions of dollars in all type of generation including renewables, gas, and nuclear. The industry needs the confidence that regardless of the generation that is being built, after the project is fully approved, work stoppages will not be issued. These events could significantly increase a project's costs and even potentially derail the entire project.

Wildfire risks were never intended to be to be borne by the IOU industry. While the IOU industry continues to implement mitigation efforts, including system hardening and improving situational awareness, perfection is still not possible. Even if a utility proactively implements public safety power shutoff (PSPS) protocols--the deenergizing of power lines in advance of elevated wildfire conditions--a single severe wildfire could still devastate a utility's credit quality.

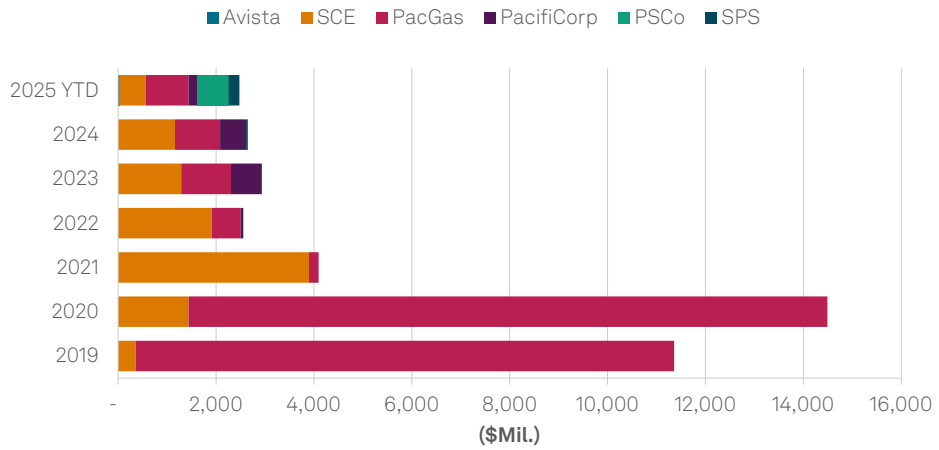
Reducing utility-related wildfire risk to zero is not feasible, due to resource constraints (both human and financial) and uncertainty associated with precisely where and when wildfire hazards may occur. Furthermore, IOUs were never designed to serve as the financial backstop for wildfire

risk. The industry was established about a century ago to ensure reliable service within a regulated monopoly construct. As such, a utility is typically authorized modest returns on equity, generally between 9% and 11%, at a leverage ratio that approximates 50%. At these levels the IOU industry lacks the financial flexibility to absorb large liabilities from increasingly frequent and severe wildfires, and was never equipped to handle such heightened risks. Other industries, such as insurance companies, which are generally characterized by lower financial leverage, are better positioned to take on these risks, having greater capacity to absorb high potential losses from extreme weather.

Wildfire risks remain high for many utilities. About 5% of the industry has already been named in wildfire lawsuits and wildfire related utility settlements continues to grow for the industry.

Chart 16

Lawsuit settlements attributable to wildfires



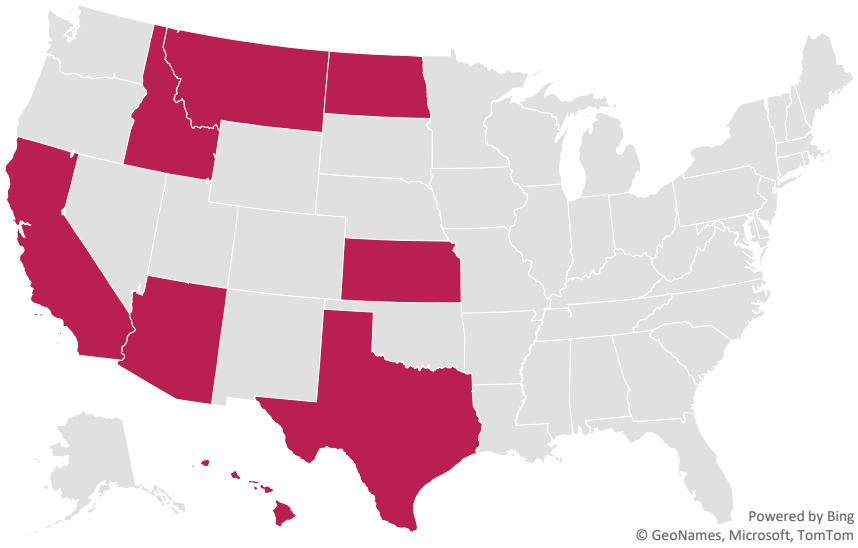
Sources: S&P Global Market Intelligence and issuer company documents, including 10-Ks and 10-Qs.

SCE—Southern California Edison Co. PacGas—Pacific Gas & Electric Co. PSCo—Public Service Co. of Colorado. Avista—Avista Utilities Inc. SPS—Southwestern Public Service Co. YTD—Year to date as of Oct. 31, 2025.

To reduce wildfire exposure many states enacted legislation in 2025. These enactments include approving and expanding a utility's wildfire mitigation plan, establishing a liability cap, authorizing securitization, increasing the funding of a wildfire fund, and allowing for self-insurance.

Chart 17

States that have recently enacted wildfire legislation to reduce risk

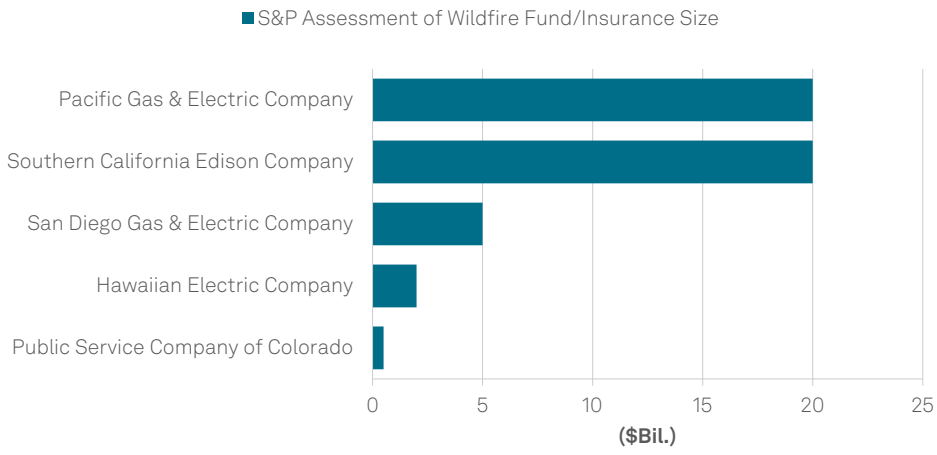


Data as of Oct. 31, 2025. Source: S&P Global Market Intelligence.

However, despite these improvements and much of industry implementing wildfire mitigation plans that include system hardening and investing in situational awareness, there are utilities with higher wildfire exposure than peers. In our view, these utilities based on their geography and topography, the effectiveness of its wildfire mitigation plan, the historical frequency and severity of wildfires within its service territory and projected future changes in wildfire conditions, the financial impact of past events, available insurance coverage, and existing legislative support require a minimum level of insurance and/or the size of a wildfire fund necessary for maintaining credit quality. Accordingly, the level of insurance or the size of a wildfire fund that is necessary for maintaining credit quality will greatly vary based on each utility's unique risk profile.

Chart 18

S&P assessment of wildfire fund/insurance size

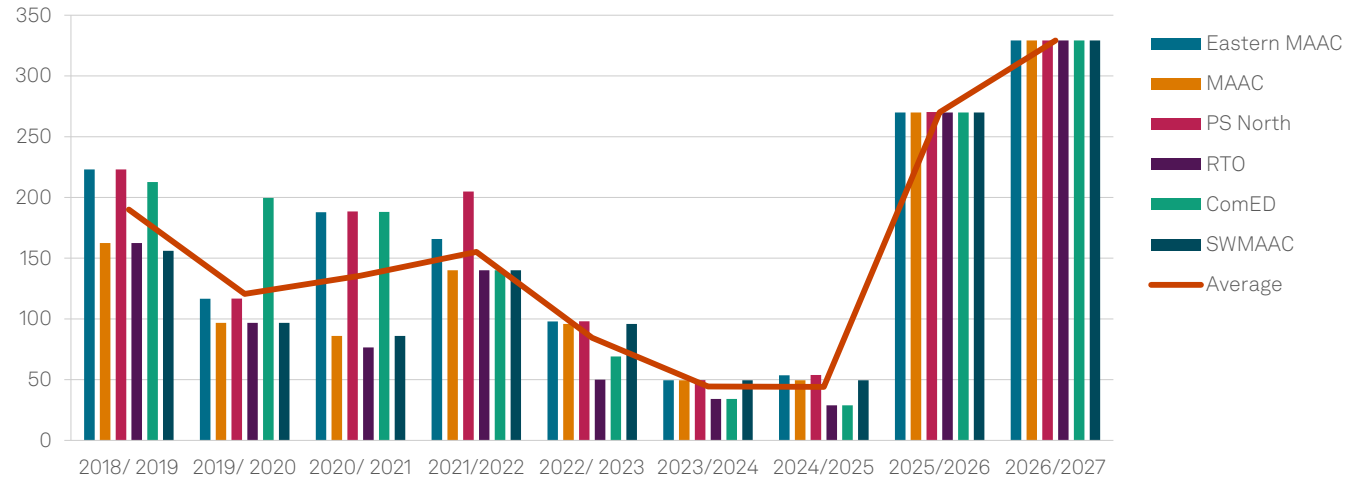


Data as of Oct. 31, 2025. Source: S&P Global Market Intelligence.

T&D rising risks. For T&D utilities, energy and capacity costs are a passed through to the customer bill. The T&D utility has no influence over these costs, but as these costs rise, customer complaints increase, usually affecting a utilities ability to effectively manage regulatory risk.

Chart 19

PJM Interconnection | Capacity Prices Higher For Longer



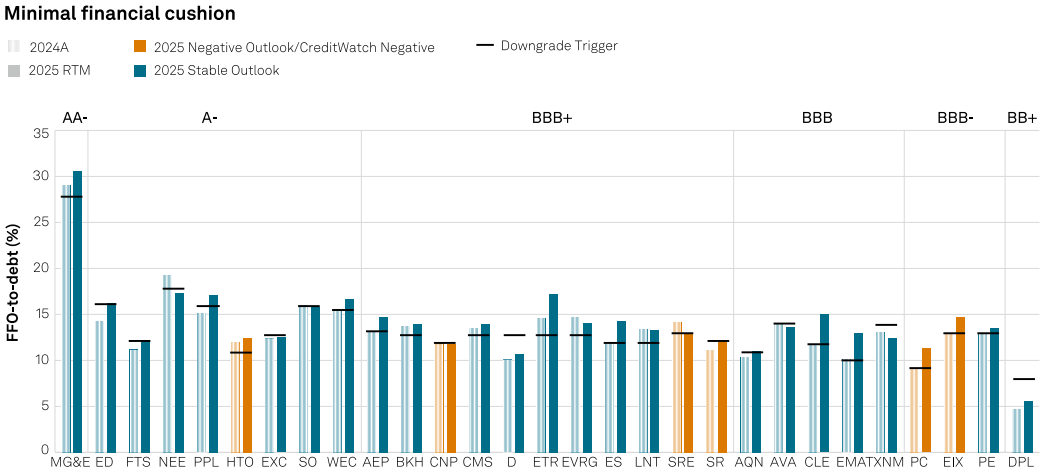
Data as of Oct. 31, 2025. Source: S&P Global Ratings.

The competitive process for electricity worked well over the past two decades when there was little growth because of conservation. However, as demand for electricity is now increasing and prices are rising, insufficient new generation is being built to lower the cost of electricity. As such, most T&D utilities are experiencing higher capacity and energy costs that are passed to their customers, increasing the overall electric bill. Unfortunately, there does not appear to be any near-term solution to this rising problem and T&D utility customers are likely to be paying an ever-increasing amount for electricity over the next several years. Some states are attempting to solve this problem by trying to pass legislation such that their utilities are allowed to build new regulated generation. However, this potential solution still has considerable challenges and even if enacted would likely take years to fully implement. As such, we expect that rising capacity costs will likely be a growing credit risk for the T&D utilities.

Minimal financial cushion from downgrade threshold. Because about 40% of the IOU industry is actively operating with minimal credit cushion, an unexpected event outside of the base case could result in a negative outlook or even a possible downgrade for many IOU utilities if financial levers are not quickly implemented to restore credit quality. While the industry's cash flows are highly predictable and stable, unexpected events beyond the base case still occur. Utilities with financial cushion from their downgrade threshold are more able to absorb these unexpected events while maintaining credit quality. However, utilities who strategically operate with minimal financial cushion must have financial levers that they can quickly implement, when necessary, to maintain credit quality.

Chart 20

Minimal financial cushion



Data as of Dec. 15, 2025. FFO--Funds from operations. A – Actual. RTM – Rolling Twelve Months. MG&E—Madison Gas & Electric. LNT--Alliant Energy Corp. ED--Consolidated Edison Inc. FTS--Fortis Inc. NEE--NextEra Energy Inc. PPL--PPL Corp. HTO—H2O America. EXC – Exelon Corporation. SO—The Southern Co. SR--Spire Inc. WEC--WEC Energy Group, Inc. AEP--American Electric Power Co, Inc. BKH--Black Hills Corp. CNP--CenterPoint Energy Inc. CMS--CMS Energy Corp. D--Dominion Energy Inc. ETR--Entergy Corp. EVRG--Evergy Inc. PC — PacifiCorp. ES – Eversource Energy. SRE--Sempra. AQN--Algonquin Power & Utilities Corp. AVA--Avista Corp. CLE—Cleco Corporate Holdings LLC. EIX--Edison International. EMA--Emera Inc. TXNM—TXNM Energy Inc. PE--Puget Energy, Inc. DPL--DPL LLC. Source: S&P Global Ratings.
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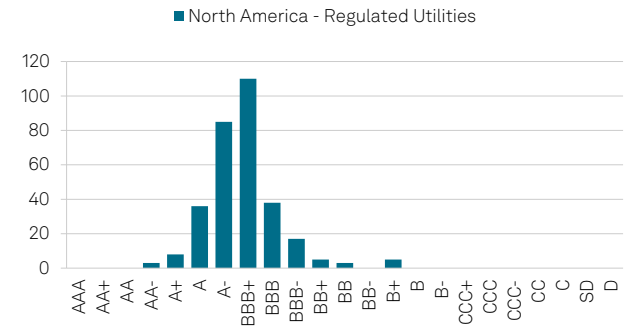
Related Research

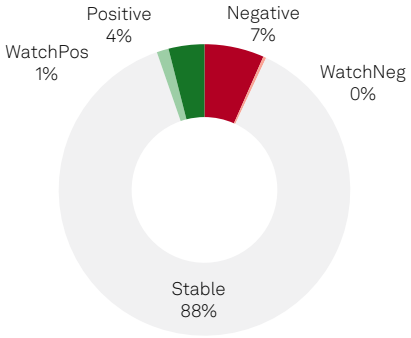
- The Data Center Boom Is Bringing Both Growth And Risks For U.S. Investor-Owned Utilities, Nov. 06, 2025
- The Credit Impact: When North American Regulated Utilities Go Private, Nov. 06, 2025
- North American Utilities Regulatory Jurisdictions Update: South Carolina Assessment Revised; Other Notable Developments, Nov. 04, 2025
- The Burning Questions: North America's Investor-Owned Utility Wildfire Risks, Nov. 04, 2025
- The Phase-Out Of Renewable Energy Tax Credits Is Expected To Have A Neutral Impact On The Credit Quality Of Investor-Owned Utilities, Jul. 07, 2025

Ratings Trends

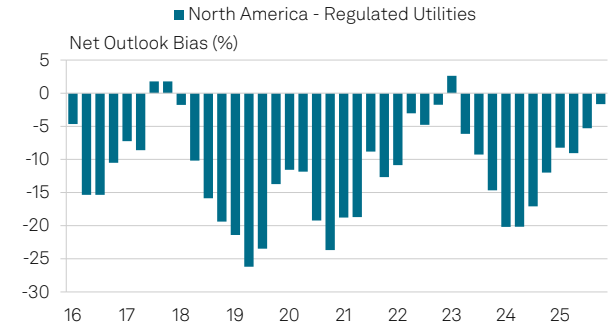
Ratings distribution



Ratings outlooks



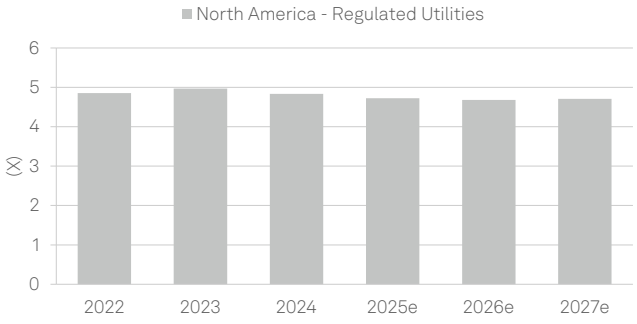
Ratings outlook net bias



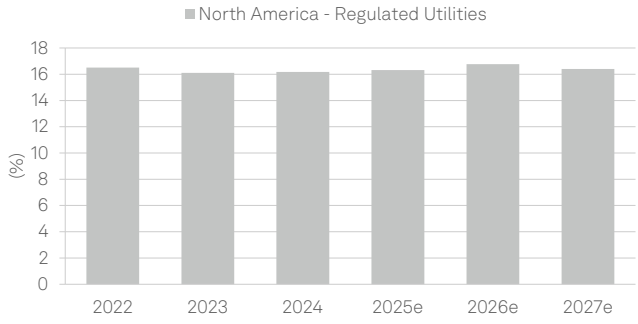
Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Forecasts (Medians)

Debt/EBITDA (adjusted)



FFO/Debt (adjusted)



Source: S&P Global Ratings. e--estimate. FFO—Funds from operations. Data as of Dec. 31, 2025.

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PNM Exhibit KSA – 6

S&P Global Ratings Methodology

Is contained in the following 8 pages.

S&P Global
Ratings

Criteria | Corporates | General

Sector-Specific Corporate Methodology

April 4, 2024

(Editor's note: This criteria article is no longer current. It has been superseded by "Sector-Specific Corporate Methodology," published July 7, 2025.)

This criteria article describes the credit factors and assumptions S&P Global Ratings uses in its analysis of each of the sectors covered by "Corporate Methodology," published Jan. 7, 2024. For information about key changes, the impact on ratings, and superseded criteria, see our media release announcing the publication of these criteria, titled "Sector-Specific Corporate Methodology Published," published in conjunction with this article.

This criteria article should be read in conjunction with our corporate methodology, which provides the general framework. This framework is applied using:

- Sector-specific provisions contained in this methodology;
- Management and governance considerations, as contained in "Management And Governance Credit Factors For Corporate Entities," published Jan. 7, 2024;
- Adjustments to financial metrics and ratio calculations, as described in "Corporate Methodology: Ratios And Adjustments," published April 1, 2019; and
- Liquidity considerations, as described in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," published Dec. 16, 2014.

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Section 29 | Regulated Utilities

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Business Risk Profile

Regulatory advantage

Market forces are not typically the main driver of competitive position for regulated utilities, and therefore we do not measure competitive advantage in the same way as we do for competitive firms. Instead, we assess regulatory advantage because the influence of the regulatory framework and regime is of critical importance. It defines the environment in which a utility operates and has a significant bearing on a utility's financial performance.

Regulations vary across different regulatory jurisdictions, that is, the area over which a regulator has oversight. Each regulatory jurisdiction can include one or more subsectors (water, gas, and power). A geographic region may have several regulatory jurisdictions.

We determine the regulatory advantage assessment by combining:

- Our preliminary regulatory advantage assessment, resulting from our review of the four subfactors that we believe are key for a utility to recover all its costs--on time and in full-- and to earn a return on the capital it deploys; and
- Our view of the utility's business strategy--in particular, its regulatory strategy and its ability to manage the tariff-setting process.

We assess the preliminary regulatory advantage assessment for each regulatory jurisdiction based on:

- Regulatory stability,
- Tariff-setting procedures and design,
- Financial stability, and
- Regulatory independence and insulation.

Regulatory stability: Our view is based on how transparent the key components of the rate-setting process are, and how they are assessed. We also monitor the predictability and consistency of the regulatory framework over time. Greater consistency reduces uncertainty for the utility and its stakeholders.

Tariff-setting procedures and design: Our view is based on whether all operating and capital costs can be recovered in full, and how the rate scheme balances the interests and concerns of all stakeholders. We look for incentives that are achievable, contained, and symmetrical (that is, mostly indexed to overperformance and underperformance).

Financial stability: If costs are recovered in a timely manner, cash flow volatility can be avoided. We see greater flexibility as favorable, because it allows for the recovery of unexpected costs. Financial stability also depends on the framework's ability to attract long-term capital, and the availability of capital support during construction, to alleviate funding and cash flow pressure when heavy investment is needed.

Sector description

Companies that provide an essential or near-essential infrastructure product, commodity, or service that has few or no substitutes and are shielded from competition, while also being subject to comprehensive regulation by a regulatory body or oversight by a public body.

Subsectors	Typical CPGP
Electricity	National industry and utilities
Gas	National industry and utilities
Multi-utilities	National industry and utilities
Water	National industry and utilities

Other adjustments

To calculate a company's financial metrics, please refer to the sector-specific adjustments in "Corporate Methodology: Ratios And Adjustments."

Our sector-specific liquidity considerations are described in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers."

Regulatory independence and insulation: We consider this to be stronger where the market framework and energy policies support the long-term financial stability of the utilities, are clearly enshrined in law, and protect the regulator's independence. Where there is limited risk of political intervention, the regulator is more able to efficiently protect the utility's credit profile, even during a stressful event.

Preliminary regulatory advantage: typical characteristics

Strong or strong/adequate	Adequate/weak or weak
From a credit perspective, the utility operates in a regulatory climate that is transparent, predictable, and consistent.	The utility operates in an opaque regulatory climate that lacks transparency, predictability, and consistency.
The utility can fully and timely recover all its fixed and variable operating costs, investments, and capital costs (depreciation and a reasonable return on the asset base).	The utility cannot recover its fixed and variable operating costs, investments, and capital costs (depreciation and a reasonable return on the asset base) fully and/or in a timely fashion.
Any regulatory incentives are limited and mainly symmetrical. The tariff setting includes mechanisms allowing for an adjustment for the timely recovery of volatile or unexpected operating and capital costs.	The utility must make significant capital commitments with no solid legal basis for the full recovery of capital costs.
The tariff setting may include a pass-through mechanism for major expenses--such as commodity costs--or a higher return on new assets, effectively shielding the utility from volume and input cost risks.	Ratemaking practices actively harm credit quality.
There is a record of earning a stable, compensatory rate of return in cash through various economic and political cycles and a projected ability to maintain that record.	There is a record of earning minimal or negative rates of return in cash through various economic and political cycles and a projected inability to improve that record sustainably.
The utility operates under a regulatory system that is sufficiently insulated from political intervention to protect the utility's credit risk profile, even during stressful periods. There is support for cash flow during construction of large projects, and preapproval of capital investment programs and large projects lowers the risk of subsequent disallowances of capital costs.	The utility is regularly subject to overt political influence.

Natural monopolies: Where a utility has a natural monopoly and its tariffs are controlled, but it is not subject to a detailed regulatory framework or oversight by a regulatory body, we may still assess regulatory advantage, rather than competitive advantage. We would assess it using the same four subfactors, as follows:

- For regulatory stability, we evaluate the stability of the setup, and give more emphasis to the historical record and our expectations regarding future changes.
- For tariff-setting procedures and design, we examine the utility's ability to fully recover operating costs, its investment requirements, and its debt-service obligations.
- For financial stability, we consider tariff flexibility, and whether this is sufficient to counter volume risk or commodity risk. In addition, we consider indirect competition, for example, while Nordic district heating companies operate under a natural monopoly, their tariff flexibility is partly restricted by customers' option to change to a different heating source if tariffs are increased significantly.
- For regulatory independence and insulation, we evaluate the risk that political intervention could change the setup, and in turn, affect the utility's credit profile. Although political intervention tends to be mostly negative, state ownership might positively influence tariff determination.

Because these four subfactors effectively capture the benefit of the close relationship with the state as owner, we do not typically modify our regulatory advantage assessment for natural monopolies based on business strategy.

Business strategy: After determining the preliminary regulatory advantage assessment, we assess the utility's business strategy as positive, neutral, negative, or very negative, and may modify the preliminary regulatory advantage assessment as a result. This factor chiefly addresses the effectiveness of a utility's regulatory risk management in the jurisdictions where it operates. In certain jurisdictions, a utility can create a sustainable competitive advantage through its regulatory strategy and ability to manage the tariff-setting process effectively. Ensuring that revenue changes with costs is a key regulatory risk factor, especially if the risk of political intervention is high. Our assessment of the utility's business strategy is informed by historical performance and business objectives in the context of industry dynamics and the regulatory climate.

We assess the utility's business strategy as positive and modify the preliminary regulatory advantage assessment upward if we consider the business strategy effectively bolsters the utility's regulatory advantage through favorable commission rulings, beyond what is typical for a utility in that jurisdiction. Where business strategy has limited effect relative to peers, our assessment is neutral. Where the business strategy leads to worse regulatory outcomes than peers, such as failing to achieve recovery of typical costs, we may see the implications as negative or very negative, and would apply the downward modifications as shown in the table below.

Regulated utilities: determining the final regulatory advantage assessment

	--Business strategy modifier--			
Preliminary regulatory advantage score	**Positive**	**Neutral**	**Negative**	**Very negative**
Strong	Strong	Strong	Strong/adequate	Adequate
Strong/adequate	Strong	Strong/adequate	Adequate	Adequate/weak
Adequate	Strong/adequate	Adequate	Adequate/weak	Weak
Adequate/weak	Adequate	Adequate/weak	Weak	Weak
Weak	Adequate/weak	Weak	Weak	Weak

Scale, scope, and diversity

We assess scale, scope, and diversity in the regulated utilities sector based on:

- Operational scale; and
- The geographic, economic, and regulatory diversity of a utility's markets and service territories.

These characteristics can contribute to cash flow stability while dampening the effect of economic and market threats. We generally believe a larger service territory--with a diverse customer base and average to above-average economic growth prospects--provides a utility with cushion and flexibility in the recovery of operating costs and ongoing investments (including replacement and growth capital spending). It also lessens the effect of external shocks (such as extreme local weather) because the incremental effect on each customer declines as the scale increases.

We consider that residential and small commercial customers have more stable usage patterns and are less exposed to periodic economic weakness, even after accounting for some weather-driven usage variability. Significant industrial exposure--combined with a local economy that largely depends on one or few cyclical industries--could contribute to the cyclicality of a utility's load and financial performance, magnifying the effect of an economic downturn.

A utility's cash flow generation and stability can benefit from operating in multiple geographic regions that exhibit average to better-than-average levels of wealth, and where employment and growth levels underpin the local economy and support long-term growth. Operating in a single geographic region carries a risk that can be ameliorated if the region is sufficiently large, demonstrates economic diversity, and has at least average demographic characteristics. In addition, if a utility operates in a single large geographic area and has a strong regulatory assessment, the benefit of diversity can be incremental.

Scale, scope, and diversity: typical characteristics

Strong or strong/adequate	Adequate/weak or weak
Stability of its revenue and profits limits its vulnerability to most combinations of adverse factors, events, or trends.	Revenue and profits are unstable and unsustainable, so that the utility is vulnerable to economic, competitive, or technological threats.
Customer base is large and diverse, with no meaningful customer concentration risk; that is, residential and small and midsize commercial customers typically provide most of the operating income.	Customer base is small and demonstrates customer or industry concentrations, combined with little economic diversity and average to below-average economic prospects.
Exposed to a wider range of service territories than others in the sector.	Exposed to a single service territory.
Operates in multiple regulatory jurisdictions where we assess the final regulatory advantage as adequate or stronger; or operates in a single regulatory jurisdiction where we assess final regulatory advantage as strong or strong/adequate.	Operates in a single regulatory jurisdiction where we assess the final regulatory advantage as adequate or adequate/weak.
No meaningful concentrations by asset or supplier that could weigh on operations; or assets and suppliers can easily be replaced.	Dependence on a single supplier or asset that cannot easily be replaced and that could damage the utility's operations.

Operating efficiency

We assess operating efficiency in the regulated utilities sector based on:

- A utility's compliance with the terms of its operating license--including safety, reliability, and environmental standards;
- Its cost management; and
- The scale, scope, and management of its capital spending.

We analyze management's record in these three key areas, relative to peers, and the resulting cash flow stability. In addition, we consider how management reduces the prospect of penalties for noncompliance; operating costs being greater than allowed; or capital projects running over budget and time--all of which could impair the company's ability to recover its full costs.

The relative importance of the above three factors, particularly cost and capital spending management, is determined by the type of regulation under which the utility operates. Utilities operating under robust cost-plus regimes tend to be more insulated given the high degree of confidence that costs will invariably be passed through to customers. Utilities operating under incentive-based regimes are likely to be more sensitive to achieving regulatory standards. This is particularly so where regulatory regimes involve active consultation between regulator and utility, and market testing, as opposed to just handing down an outcome on a more-arbitrary basis. In some jurisdictions, absolute performance standards are less relevant than how the utility

performs against the regulator's performance benchmarks. This performance will drive any penalties or incentive payments and can determine the utility's credibility on operating and asset management plans with its regulator.

Therefore, we believe that well-managed utilities are more likely to maximize the likelihood of cost recovery and full inclusion of capital spending in their asset bases. When regulatory resets are more at the discretion of the utility, effective cost management--including of labor--may allow for more control over the timing and magnitude of rate filings. This would maximize the chances of a constructive outcome--such as full operational and capital cost recovery--while protecting against reputational risks.

Operating efficiency: typical characteristics

Strong or strong/adequate	Adequate/weak or weak
Cost structure is better than that of peers and volatility is limited. Generates revenue and profits by minimizing costs, increasing efficiencies, and asset utilization.	Cost structure is worse than that of peers; its cost position and efficiency factors do not support profit sustainability; and volatility is above-average.
Asset profile (including age and technology) is such that we have confidence that it could sustain favorable performance against targets.	The capital spending program is so large and complex that overall operating efficiency is compromised.
Strong safety record.	Poor safety performance
Strong service reliability, with a record of meeting the operating performance requirements of stakeholders (including regulators).	Service reliability has been sporadic or nonexistent, with a track record of not meeting operating performance requirements of stakeholders (including regulators); we do not believe the utility can consistently meet performance targets without additional capital spending.
Where applicable, well-placed to meet current and potential future environmental standards.	Where applicable, the utility is challenged to comply with current environmental standards and is highly vulnerable to more onerous standards.
Management maintains very good control over both fixed and variable costs, in line with regulatory expectations (including labor and working capital management being in line with regulator's allowed collection cycles).	Management typically exceeds operating costs authorized by regulators.
Strong record of projects managed almost invariably within regulatory allowances for timing and budget.	Inconsistent project management skills, as demonstrated by cost overruns and delays, including for maintenance capital spending.

Profitability

A utility with above-average profitability would, relative to its peers, generally earn a rate of return at or above what regulators authorize and has minimal exposure to earnings volatility from affiliated unregulated business activities or market-sensitive regulated operations. Conversely, a utility with below-average profitability would generally earn rates of return well below the authorized return relative to its peers or have significant exposure to earnings volatility from affiliated unregulated business activities or market-sensitive regulated operations.

We typically use the EBITDA margin as key indicator of profitability, unless it is distorted--for example, by pass-through costs like congestion revenue or collection of third-party revenue, or by accelerated asset depreciation that we do not view as sustainable in the long run. In such cases, we would use ROC or ROE to benchmark the company against peers.

For regulated utilities subject to full cost-of-service regulation and return-on-investment requirements, we normally measure profitability using ROE, the ratio of net income available for common stockholders to average common equity. When setting rates, the regulator ultimately bases its decision on an authorized ROE. However, different factors--such as variances in costs and usage--may influence the return a utility is actually able to earn. Consequently, our analysis

of profitability for cost-of-service-based utilities centers on the utility's ability to consistently earn the authorized ROE.

Volatility of profitability: We may observe a clear difference between the volatility of actual reported profitability and the volatility of underlying regulatory profitability. In these cases, we could use the regulatory accounts as a proxy to judge earnings stability.

Financial Risk Profile

Accounting characteristics

Important accounting practices for utilities include:

- For integrated electric utilities that meet native load obligations partly by using third-party power contracts, we use our purchased power methodology to adjust measures for such contracts' debt-like obligations.
- Where substantial seasonal working capital requirements--for example, at natural gas distribution utilities--distort leverage measures, we adjust inventory and debt balances by netting the value of inventory against outstanding short-term borrowings. This adjustment informs balance sheet analysis by reducing seasonal debt balances when we are very confident of near-term cost recovery.
- We deconsolidate securitized debt (and associated revenue and expense) that has been accorded specialized recovery provisions.

In the U.S. and certain other regions, utilities employ "regulatory accounting," which permits a rate-regulated company to defer some revenue and expense to match the timing of the recognition of those items in rates, as determined by regulators. A utility subject to regulatory accounting therefore records assets and liabilities that an unregulated corporation--or even regulated utilities in other global regions--cannot record. We do not adjust GAAP earnings or balance-sheet figures to remove the effects of regulatory accounting. While IFRS does not currently provide for any recognition of the effects of rate-setting for financial reporting purposes, our financial analysis focuses on the economics and actual cash flow generation.

Volatility tables

We apply the low volatility benchmark table to regulated utilities where:

- They derive about two-thirds or more of their operating cash flows or profits from regulated operations that are predominantly at the low end of the utility risk spectrum (such as a network or distribution/transmission business unexposed to commodity risk and with very low operating risk);
- Their regulated operations have a regulatory advantage assessment of strong;
- They are expected to maintain their established record of achieving stable credit measures and low funding costs; and
- No other activities contribute significantly to the group's overall risk profile and are viewed as high-risk or volatile.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 667	)	**Docket No. 26-0000XXX**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant.	)	

AFFIRMATION

I, Kishor S. Agrawal, submit this unsworn affirmation pursuant to Rule 1.2.2.35(A)(3) and state, upon penalty of perjury under the laws of the State of New Mexico, that I have read the foregoing Direct Testimony and that the statements contained therein are true and correct based on my personal knowledge, information and belief.

Dated: November 24, 2026.

/s/ *Kishor S. Agrawal*
KISHOR S. AGRAWAL

GCG#536038