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

BRIAN ARNELL

November 24, 2026

NMPRC DOCKET NO. 26-0000XXX
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PUBLIC SERVICE COMPANY OF NEW MEXICO

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Affirmation

DIRECT TESTIMONY OF
BRIAN ARNELL
NMPRC DOCKET NO. 26-0000XXX

I. INTRODUCTION AND PURPOSE

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

A. My name is Brian Arnell. I am employed by WTW as a Retirement Senior Director and Pension Actuary and serve as the Utility Industry Network Co-Leader for WTW's Retirement business. My business address is 1144 West Washington Street, Tempe, Arizona 85288.

Q. On whose behalf are you testifying in this matter?

A. I am testifying on behalf of the Applicant, Public Service Company of New Mexico ("PNM" or "Company").

Q. Please describe WTW and your qualifications.

A. WTW is a leading provider of actuarial and retirement consulting services. WTW serves as the actuary for over half of the U.S. Fortune 1000 utilities and has provided rate case support and/or testimony in most U.S. jurisdictions. We have provided support and testified in several of PNM's rate cases, including direct testimony by my colleague, Yannick Gagne, in PNM's 2016 Rate Case (Case No. 16-00276-UT) and PNM's 2022 Rate Case (Case No. 22-00270-UT). Personally, I have provided actuarial and consulting services for more than 19 years, working with regulated utilities in Texas, New Mexico, and Arizona. I have provided rate case testimony and/or support for filings in each of these states. A statement of my qualifications is included as PNM Exhibit BA-1.

Q. What is the purpose of your direct testimony in this case?

A. The purpose of my testimony is to provide background and support related to PNM's cost of service requests related to pension benefits ("Pension") and retiree medical benefits (also referred to as Post-employment Benefits Other than Pensions or "PBOP"). I describe the plans covered by my testimony, the basis for determining the projected net periodic benefit costs for the Test Period (October 1, 2027 – September 30, 2028), and the reasonableness of including these costs in PNM's cost of service. I also provide support for adjustments to be made to the PBOP costs to be included in the cost of service and for continued rate base treatment of the prepaid pension asset.

Further, I describe PNM's retiree medical trust structure, including the current surplus in assets set aside in a union trust account and the current limitations on using the existing assets for non-union retiree medical obligations.

II. BACKGROUND

Q. What Pension and PBOP plans are covered in your testimony?

A. My testimony covers three plans sponsored by TXNM Energy, Inc. and applicable to PNM:

1. The PNM Resources, Inc. Employees' Retirement Plan ("Qualified Pension Plan"), a qualified defined benefit plan under the Employee Retirement Income Security Act ("ERISA");

2. The PNM Resources, Inc. Non-Qualified Retirement Plan ("Non-qualified Retirement Plan"), a non-qualified defined benefit plan; and
3. The PNM Resources, Inc. Post-Retirement Healthcare Plan ("PBOP plan" or "Retiree Medical plan"), which provides for medical and dental coverage for certain retirees.

Q. Has the Company been allowed to recover costs associated with its Pension and PBOP plans in prior proceedings?

A. Yes. In prior proceedings, PNM has been allowed to recover amounts associated with its Pension and PBOP plans, with recovered amounts comprised of two components:

1. An amount equal to the net periodic benefit cost calculated under applicable accounting standards for the Test Period, plus
2. Return on amounts contributed by the Company to the Qualified Pension Plan in excess of cumulative annual pension expenses previously included in cost of service via inclusion of the prepaid pension asset in rate base.

Q. Please describe the accounting treatment for PNM's Pension and PBOP plans.

A. PNM accounts for its Pension and PBOP plans in accordance with Accounting Standards Codification Topic 715 ("ASC 715"). ASC 715 requires the unfunded projected benefit obligation (or unfunded accumulated postretirement benefit obligation in the case of PBOP plans), which is the difference between the value of

plan assets and the plan obligations, to be recognized on the balance sheet. Prior service costs and unrealized actuarial gains or losses are recognized over time through net periodic benefit cost. For ratemaking purposes, PNM's recovery is based on the projected net periodic benefit cost for the applicable Test Period.

Q. How are the net periodic benefit costs calculated?

A. Under ASC 715, periodic benefit costs are made of several components including: (1) the value of benefits that employees will earn during the current year (Service Cost), (2) increases in the present value of the benefits that plan participants have earned in previous years due to the passage of time (Interest Cost), (3) a reduction for investment earnings on plan assets that are expected to be earned during the year (Expected Return on Assets), (4) recognition of costs (or credit) from experience that differs from the assumptions, such as demographic experience and investment earnings different than assumed (amortization of Unrecognized Gains and Losses), and (5) recognition of the cost of benefit changes the plan sponsor provides for service the employees have already performed (amortization of Unrecognized Prior Service Cost).

Q. What is the basis for determining the amount of net periodic benefit costs to be included in the revenue requirements related to the Pension and PBOP plans in this rate case?

A. The amounts included in revenue requirements for Pension and PBOP are based on projected net periodic benefit costs for the Test Period. WTW prepared the projected Test Period net periodic benefit costs by first projecting assets, liabilities, benefit payments, and PNM contributions for each of the three plans. We then used this information to calculate the projected net periodic benefit cost for the Test Period.

Projections were based on the following:

- Most recent completed actuarial valuations (as of January 1, 2026)
- Census data as of January 1, 2026
- Asset values as of July 31, 2026 (the most recent month-end at the time projections were prepared)
- Discount rate based on current economic environment at July 31, 2026 (point in time consistent with asset values)
- Expected return on assets based on current economic environment and asset allocations at July 31, 2026 (point in time consistent with asset values)

Please see PNM Exhibits BA-2 and BA-3 for the results of this analysis.

III. QUALIFIED PENSION PLAN

Q. Were any adjustments made to reflect that, in Case No. 15-00261-UT, the New Mexico Public Regulation Commission ("Commission") allowed PNM to pursue annuitization of 42% of the pension obligation, which was the liability associated with the divested gas operations?

A. Yes. In the 2015 Rate Case, the Commission allowed PNM to pursue annuitization of the liability associated with the divested gas operations. Following this approval, PNM separated the electric and gas components of the qualified pension plan for accounting and tracking purposes effective January 1, 2018. The electric portion of the plan is now tracked separately, and unless otherwise noted, references in my testimony to the qualified pension plan refer to the electric portion of the plan.

The Test Period pension projection presented in PNM Exhibits BA-2 and BA-3 reflects the separately tracked assets, obligations, amortization balances, and benefit payments of the electric portion of the plan.

Q. What is the projected net periodic benefit cost for the qualified pension plan for the Test Period?

A. The projected net periodic benefit cost for the qualified pension plan for the Test Period is $4,590,654. Additional detail is provided in PNM Exhibits BA-2 and BA-3.

Q. Are these costs necessary and reasonable for providing pension benefits to employees?

A. Yes. In a defined benefit plan, the Company promises to make pension payments for the employees' lifetime. Therefore, the actual cost for providing those benefits will not be known until all promised payments have been made. The net periodic benefit cost provides an objective and systematic way to recognize those costs over time. These costs are therefore necessary and reasonable to fulfill the benefits promised to current and former employees.

Q. How are cash contributions to the pension plan determined?

A. The funding of a pension plan is determined based upon prudent business practices within the following legal constraints of ERISA, as modified by the Pension Protection Act, and the Internal Revenue Code ("IRC"):

- The minimum required annual contribution,
- The maximum contribution which can be deducted for tax purposes, and
- The fiduciary responsibility to prudently protect the interests of the plan participants and beneficiaries.

The minimum and maximum funding rules set forth under ERISA, the Pension Protection Act, and the IRC use accrual methodologies, but they are different from the methodology used under ASC 715, which is an accounting standard. Over the long run, the cumulative employer cash contributions made to a plan and the

cumulative annual pension cost amounts should be equal. But in the short and intermediate term, there can be significant differences.

The minimum required contribution as determined under the Pension Protection Act is the minimum amount plan sponsors are required by law to contribute. However, this minimum contribution does not necessarily represent an appropriate or prudent funding policy. In fact, many plan sponsors contribute amounts beyond the minimum required contribution to ensure benefits are well-funded and secure.

Q. Are any Company cash contributions forecasted between June 30, 2026, and October 1, 2027?

A. The Company is not expected to be required to make any cash contributions during this period. This expectation is based on current funding rules, projected plan assets, projected benefit payments, and the applicable funding balances available to satisfy minimum funding requirements. However, the Company is expected to fully settle all remaining obligations related to the gas portion of the Qualified Pension Plan during 2026 and anticipates that surplus gas assets will remain following the final settlement. The Company intends to contribute any remaining gas assets to the electric portion of the plan at the end of 2026. This Company contribution is projected to be $3,493,975.

PNM Exhibit BA-3 displays the projected transfer in the contribution line of the projected electric portion of the plan for 2026. The transaction does not represent an additional cash payment by PNM.

Q. Is PNM also seeking to include in rate base an amount related to its prepaid pension asset?

A. Yes. As addressed by PNM witness Reina N. Gutierrez, PNM seeks to include an amount in rate base to reflect the prepaid pension asset. The prepaid pension asset represents amounts contributed by the Company to the pension trust in excess of cumulative pension expense recovered from customers. In its Final Order in Case No. 15-00261-UT, the Commission reaffirmed that PNM is allowed to receive a return on the prepaid pension asset. This decision was also upheld by the New Mexico Supreme Court upon appeal.[1] Both decisions also confirmed that sufficient evidence was provided to support that the prepaid pension asset in that case (as of December 31, 2015) did indeed result from Company contributions in excess of historical recovery.

Q. Please explain how additional contributions affect pension expense?

A. Additional contributions increase plan assets. Because net periodic benefit cost is reduced by the expected return on plan assets, each additional dollar contributed reduces future pension expense by the expected return on that dollar. Projected

[1] *Pub. Serv. Co. of New Mexico v. New Mexico Pub. Regulation Comm'n*, 2019-NMSC-012, ¶¶ 105-112, 444 P.3d 460, 487-488.

assets as of September 30, 2028 (the projected assets at the end of the Test Period) include adjusted prepaid pension assets (or additional contributions) of $140.5 million. PNM witness Gutierrez presents the development of the $140.5 million in Exhibits RNG-4 WP-ORB-8 and WP-ORB-9. If the additional contributions had not been made, the pension cost for the Test Period would be approximately $11.4 million higher using the 8.10% expected return on assets assumption ($140.5 million x 8.10%). PNM witness Gutierrez, in PNM Exhibit RNG-4 WP-ORB-10, separately compares the resulting pension expense and rate base treatment to demonstrate the net customer benefit.

Q. Are there benefits to accelerated funding?

A. Yes. Once contributions are made to the pension trust, the assets are invested and can earn returns that reduce future contributions and future pension cost. Additional funding can also reduce variable premiums paid to the Pension Benefit Guaranty Corporation ("PBGC").

Q. What is the PBGC?

A. The PBGC is a federal agency established under ERISA to protect benefits in private-sector defined benefit pension plans. If a covered pension plan terminates without sufficient assets to pay all promised benefits, the PBGC provides benefits up to limits established by law.

Q. What types of premiums does the PBGC charge?

A. The PBGC charges two primary types of premiums for single-employer, defined-benefit pension plans: 1) a per-participant premium, and 2) a variable premium based on unfunded vested benefits measured under PBGC rules.

Q. How much is the PBGC variable premium?

A. Since 2023, the PBGC variable premium has been 5.2% of unfunded vested benefits, subject to applicable per-participant caps. Because additional pension contributions reduce unfunded vested benefits, they can reduce PBGC variable premiums and therefore reduce plan costs. Any dollar that reduces the PBGC unfunded vested benefits effectively provides a return of 5.2%, subject to the per-participant caps, in addition to any investment earnings.

Q. Is it your understanding that the Commission has allowed utilities to recover and earn a return on their prepaid pension assets?

A. Yes. Including the prepaid pension asset in rate base is consistent with past treatment approved by the Commission in previous cases, including the 2007, 2008, 2010, 2015, 2016, 2022, and 2024 PNM rate cases. In addition, this issue has been litigated before the New Mexico Supreme Court in Southwestern Public Service Company's 2012 Rate Case (Case No. 12-00250-UT), and in PNM's 2015 Rate

Case (Case No. 15-00261-UT). In both instances, the Court upheld the decision to include prepaid pension asset in rate base.[2]

IV. NON-QUALIFIED RETIREMENT PLAN

Q. What is the PNM Non-qualified Retirement Plan?

A. The PNM Non-qualified Retirement Plan is an unfunded retirement arrangement that provides benefits to certain executives. It provides benefits that cannot be provided under the qualified pension plan because of limitations under the Internal Revenue Code.

Q. How are contributions to the Non-qualified Retirement Plan determined?

A. Because the Non-qualified Retirement Plan is unfunded, the Company does not contribute assets to a trust in advance. Instead, PNM pays benefits directly as they become due.

Q. What is the projected net periodic benefit cost for the Non-qualified Retirement Plan for the Test Period?

A. The projected net periodic benefit cost for the Non-qualified Retirement Plan for the Test Period is $485,899. Additional detail, including amounts expected to be

[2] *See New Mexico Atty. Gen. v. N.M. Public Regulation Comm'n*, 2015-NMSC-032, 359 P.3d 133; *Public Service Co. of N.M. v. N.M. Public Regulation Comm'n*, 2019-NMSC-012 ¶¶ 105-112, 444 P.3d 460.

contributed in each year from 2026-2028 is included in PNM Exhibits BA-2 and BA-3.

Q. Are these costs necessary and reasonable costs for providing Non-qualified Pension benefits?

A. Yes. Like the qualified pension plan, the Non-qualified Retirement Plan provides promised retirement benefits. The actual cost of providing those benefits is recognized over time using an objective accounting framework. These costs are necessary and reasonable costs of providing promised retirement benefits to eligible former employees.

Q. PNM is proposing a rate base adjustment for the Non-qualified Retirement Plan. Please explain.

A. Because the Non-qualified Retirement Plan is unfunded, PNM cannot contribute amounts to a trust beyond the benefit payments made to participants. To maintain consistent treatment with the Qualified Pension Plan, any cumulative difference between amounts recovered and benefit payments made should be reflected through an appropriate rate base adjustment. This is the opposite of the prepaid pension asset for the Qualified Pension Plan.

PNM witness Gutierrez presents the balance included in the Test Period revenue requirement in PNM Exhibit RNG-4 WP-ORB-6.

V. PBOP (RETIREE MEDICAL) PLAN

Q. What is the projected net periodic benefit cost for the PBOP plan for the test period?

A. The projected net periodic benefit cost/(income) for the PBOP plan for the Test Period is ($3,527,980). Additional detail is included in PNM Exhibits BA-2 and BA-3.

Q. Are these costs necessary and reasonable costs for providing PBOP benefits?

A. Yes. As with the pensions, the Company promises to provide these benefits over the employees' lifetimes. The actual cost for providing these benefits will not be known until all promised payments have been made. The net periodic benefit cost provides an objective and systematic way to recognize those costs over time. These costs are therefore necessary to fulfill the benefits promised to employees and former employees.

Q. What adjustment should be made to the amount included in cost of service for PBOP?

A. The actuarially projected PBOP amount for the Test Period is income of $3,527,980. PNM proposes to adjust that amount to zero for cost-of-service purposes, consistent with the Final Orders in the 2022 Rate Case and 2024 Rate Case. PNM witness Gutierrez presents the adjustment in PNM Exhibit RNG-4 WP OM-5.

VI. REPURPOSING PBOP TRUST ASSETS

Q. Please summarize the current state of the PBOP trusts?

A. PNM's PBOP trusts are in an overall surplus position, meaning the total assets exceed plan obligations as measured by the Accumulated Postretirement Benefit Obligation (APBO). However, structural limitations prevent the existing assets from being used to fund all retiree medical obligations.

Q. What are these structural limitations and what issues does this create?

A. All plan assets are currently in a Union voluntary employees' beneficiary association (Union VEBA), a trust specifically designed to fund employee benefits for union employees and retirees. This trust is currently structured in such a way that it may only be used to fund union retiree benefits. All other trusts which previously funded non-union obligations have been fully depleted. This creates a mismatch between the accounts in which the trust assets are held and the retiree medical obligations they could otherwise fund. As a result, non-union retiree medical costs are currently funded from Company resources despite the plan's overall surplus position.

Q. How was the Union VEBA funded?

A. Prior to 1993, PBOP benefits were paid directly from Company assets on a pay-as-you-go basis. Beginning in 1993, as required by Commission policy, to protect employee benefits, achieve tax benefits on earnings and ensure the funds are

utilized for approved benefits, the Company began funding PBOP benefits through trusts set aside for retiree medical benefits. The Union VEBA was one of these trusts. Company funds were initially used to seed the trusts with subsequent contributions being funded by both customers and the Company.

Q. What would the current level of Union VEBA assets be absent Company funding in excess of historical recovery?

A. Without Company funding in excess of historical recovery, the Union VEBA assets would have been fully depleted, bringing the trust value to zero. PNM Exhibit BA-4 compares PNM's actual historical funding with a modeled scenario based on the prescribed rate-case funding pattern. Under that modeled scenario, PBOP trust assets would have been depleted by the end of 2021. The current trust balance therefore would not exist absent PNM's additional funding and the associated investment returns.

Q. Has PNM been authorized to recover the contributions made by the Company in excess of historical recovery?

A. Yes. Effective with the 2016 Rate Case, PBOP recovery was first allocated toward refunding Company contributions in excess of recovery.

Q. What is the current balance of Company contributions in excess of recovery which has not yet been refunded?

A. As shown in Table 2 of PNM Exhibit BA-4, as of December 31, 2025, the balance of excess contributions pending refund was $14.6 million.

Q. Have customers benefited from the Company's excess contributions?

A. Yes. Customers have received the benefit of the excess contributions through a reduction in net periodic benefit cost equal to the expected return on those assets. As shown in PNM Exhibit BA-4, the sum of the difference in benefit cost for all years since 1993 due to the additional contributions is $102.2 million.

Q. How do current trust assets compare to PBOP obligations and annual claims?

A. PNM Table BA-1 below summarizes the obligations and assets of the plan as of year-end 2025 and the estimated annual claims associated with the plan for 2026, split by union and non-union populations. All values are in millions of U.S. dollars. Totals may not sum due to rounding. See Exhibit BA-5 for details.

PNM Table BA-1
PBOP Assets/Obligations

	Obligation (APBO)	Trust Assets	Surplus/ (Shortfall)	Estimated 2026 Claims
Union	14.3	75.9	61.6	1.6
Non-Union	27.2	-	(27.2)	3.2
Total PNM Medical	41.5	75.9	34.4	4.7

Q. How does the current trust structure limit PNM's ability to use the PBOP trust assets?

A. As noted previously, and as shown in PNM Table BA-1 above, total assets are more than sufficient to fund all retiree obligations, but due to the structural issues previously discussed, there is a shortfall in the funding of non-union obligations and a large surplus in the funding of union obligations. Because non-union retiree obligations cannot be funded directly from the Union VEBA, and the assets in all non-union trusts have been depleted, the Company must use Company resources to fund non-union retiree medical costs despite the overall PBOP surplus position.

Q. How did union assets become overfunded and non-union assets become underfunded?

A. Union VEBAs have greater tax advantages than non-union trusts, which has resulted in greater after-tax returns in the Union VEBA compared to non-union accounts. Additionally, the Union VEBA was funded during the working career of employees but can only be used to fund benefits for retirees who were in the union at the time of retirement. Because of this, employees who worked a portion of their career in a union role may have had their benefits partially funded through contributions to the union VEBA but cannot have their benefits paid from that VEBA if they did not retire from a union role.

Q. What other long-term issues do the current trust structural limitations create?

A. Under current tax legislation, 100% of unused Union VEBA assets could ultimately revert to the IRS in the form of excise taxes unless repurposed for a different use that meets IRS requirements. Based on the Plan's funded status as of December 31, 2025, this could potentially equate to approximately $61.6 million of plan assets and the earnings on these assets being forfeited and going unused if not repurposed.

Q. Can the Union VEBA assets be repurposed to cover any Company cost?

A. No. IRS regulations impose strict limitations on how VEBA trust assets may be used. These assets may only be used to fund certain employee and retirement benefits. Repurposing VEBA funds for any other use would result in the 100% excise tax described earlier. Determining which benefits are viable options for repurposing the retiree Union VEBA will require thorough evaluation by the Company to understand all legal, tax, regulatory, and administrative implications.

Q. Why is action needed now with respect to the Union VEBA surplus?

A. Action is needed to resolve the current mismatch between the purpose of the accounts in which retiree medical trust assets are held and the retiree medical obligations those assets could otherwise offset and to allow for surplus assets to be used to offset future customer costs without delay. Without repurposing surplus assets toward a prudent alternative use, surplus Union VEBA assets will remain unavailable to fund non-union retiree medical costs, will not reduce customer costs

and could ultimately be lost through excise taxation. Please refer to the testimony of PNM witness Kishor S. Agrawal for details regarding the Company's proposed approach to address this issue.

VII. CONCLUSION

Q. Do you have any concluding remarks?

A. Yes. As outlined in this testimony, PNM's cost of service requests related to Pension and PBOP are necessary and reasonable. Further, rate base treatment of the prepaid pension asset is appropriate based on historical Company contributions, the benefit they provide to customers, and historical precedent.

Regarding PBOP trust assets, surplus assets exist today due to the Company's excess contributions which have previously been approved for recovery. Action is required to identify and implement an alternative use for the surplus to avoid the potential for unused Union VEBA assets to be lost to excise tax and to allow for any surplus in excess of previously approved recovery of retiree medical costs to be used to reduce ongoing costs to customers.

Q. Does this conclude your direct testimony?

A. Yes.

GCG#536196

PNM Exhibit BA–1

Statement of Qualifications

Is contained in the following 1 pages.

PNM Exhibit BA-1
Statement of Qualifications for
Brian Arnell

Current Responsibilities and Experience:

I have over 19 years of experience consulting with organizations on the design and financial considerations of their pension programs. I am currently employed by WTW as a Retirement Senior Director and Actuary.

Education:

Bachelor of Science – Actuarial Science
Brigham Young University

Employment:

WTW (formerly Willis Towers Watson)
Senior Director, Retirement and Actuary
Retirement Business Utility Industry Network Co-Leader

Professional Organization:

Fellow of the Society of Actuaries
Enrolled Actuary under the Employee Retirement Income Security Act of 1974 ("ERISA")

Retirement Consulting and Utility Experience:

During my more than 19 years of retirement consulting experience, I have helped company leaders understand the financial and people implications of their retirement programs and assisted them in making decisions to design and manage these plans in a way that best meet the needs of their company.

In particular, I have provided services to a number of regulated utilities including testimony support in rate case proceedings, as well as retirement program design and financial management support. Specifically regarding rate cases, I have supported both electric and gas rate case filings in New Mexico, Arizona, and Texas.

PNM Exhibit BA–2

Estimated Pension and Retiree Medical Expenses For the October 1, 2027 through September 30, 2028 Period ("Test Period") Memo

Is contained in the following 5 pages.

wtw

Memo

Date: August 28, 2026

To: EJ Lopez, *TXNM Energy, Inc.*

From: Brian Arnell, FSA & Robyn Hamilton, FSA, *Willis Towers Watson*

Subject: **Estimated October 2027 – September 2028 Pension and Retiree Medical Expense**

TXNM Energy, Inc. (PNM) has requested that WTW provide estimated pension and retiree medical expense for the PNM Resources, Inc. Employees' Retirement Plan (PNM Pension), PNM Resources, Inc. Post-Retirement Healthcare Plan (PNM Retiree Medical), and PNM Resources, Inc. Non-Qualified Retirement Plan (PNM Non-Qualified) for October 2027 – September 2028, the "Test Year". The results of our analysis are below. For comparison, we are also showing estimated July 2025 – June 2026 expenses which were included in the prior rate case. The October 2027 – September 2028 "Test Year" expenses assume 3 months of FY2027 expenses and 9 months of FY2028 expenses.

Plan	Estimated July 2025 – June 2026 Expense "Test Year"	Estimated October 2027 – September 2028 Expense "Test Year"
PNM Pension (Electric)	$3,377,123	$4,590,654
PNM Retiree Medical	($2,992,841)[1]	($3,527,980)[1]
PNM Non-Qualified	$627,881	$485,899

The tables on the next pages reflect the key components of these expense figures, explanation of the major factors for any changes since the prior test year, as well as the underlying data and assumptions for each plan.

[1] Negative expense is an income due to expected asset returns in excess of other costs. Note, however, that these funds 1) are attributable to historical shareholder contributions and 2) cannot be legally accessed other than to pay for eligible benefits.

PNM Pension (Electric)

	Estimated July 2025 – June 2026 Expense "Test Year"[1]	Estimated October 2027 – September 2028 Expense "Test Year"[2]	Comments
Service Cost	$0	$0	
Interest Cost	$12,304,289	$12,078,087	Decrease due to smaller obligation (see below)
Expected Return on Assets	($16,648,754)	($16,549,367)	Higher assumed return on assets offset by lower asset values (see below)
Prior Service Cost Amortization	$0	$0	
Gain/Loss Amortization	$7,721,588	$9,061,933	Increase primarily due to recognition of 2022 asset losses which were partially deferred in prior test year
Total Expense	**$3,377,123**	**$4,590,654**	
Projected Benefit Obligation	$231,672,101	$208,115,105	Reduction due to benefits paid out
Fair Value of Assets	$218,201,714	$214,585,268	Reduction due to benefits paid out offset by better than assumed returns
Market Related Value of Assets	$234,854,328	$213,159,671	Below Fair Value of Assets due to deferral of asset gains
Assumptions and Data			
Discount Rate	5.45%	6.05%	
Expected Return on Assets	7.00%	8.10%	
Census Date	1/1/2023	1/1/2026	

[1] Projected Benefit Obligation, Fair Value of Assets and Market Related Value of Assets reflect projected amounts as of January 1, 2026
[2] Projected Benefit Obligation, Fair Value of Assets and Market Related Value of Assets reflect projected amounts as of January 1, 2028

PNM Retiree Medical

	Estimated July 2025 – June 2026 Expense "Test Year"[1]	Estimated October 2027 – September 2028 Expense "Test Year"[2]	Comments
Service Cost	$0	$0	
Interest Cost	$2,166,231	$1,993,873	Decrease due to smaller obligation (see below)
Expected Return on Assets	($5,159,072)	($5,552,101)	Increase due to higher assumed return on assets and asset values (see below)
Prior Service Cost Amortization	$0	$0	
Gain/Loss Amortization	$0	$30,249	
Total Expense	**($2,992,841)**	**($3,527,980)**	
Accumulated Projected Benefit Obligation	$40,549,749	$34,474,995	Reduction due to benefits paid out
Fair Value of Assets	$73,139,149	$78,573,924	Increase due to asset returns offset by benefits paid out
Market Related Value of Assets	$77,498,796	$79,160,466	Above Fair Value of Assets due to deferral of asset losses
Assumptions and Data			
Discount Rate	5.48%	6.05%	
Expected Return on Assets	6.60%	7.15%	
Census Date	1/1/2023	1/1/2026	

[1] Projected Benefit Obligation, Fair Value of Assets and Market Related Value of Assets reflect projected amounts as of January 1, 2026
[2] Projected Benefit Obligation, Fair Value of Assets and Market Related Value of Assets reflect projected amounts as of January 1, 2028

PNM Non-Qualified

	Estimated July 2025 – June 2026 Expense "Test Year"[1]	Estimated October 2027 – September 2028 Expense "Test Year"[2]	Comments
Service Cost	$0	$0	
Interest Cost	$436,977	$376,434	Decrease due to smaller obligation (see below)
Expected Return on Assets	$0	$0	
Prior Service Cost Amortization	$0	$0	
Gain/Loss Amortization	$190,904	$109,465	Decrease due to amounts previously recognized offset by shrinking amortization period
Total Expense	**$627,881**	**$485,899**	
Projected Benefit Obligation	$8,222,175	$6,552,860	Reduction due to benefits paid out
Fair Value of Assets	$0	$0	
Market Related Value of Assets	$0	$0	
Assumptions and Data			
Discount Rate	5.45%	6.05%	
Expected Return on Assets	N/A	N/A	
Census Date	1/1/2023	1/1/2026	

[1] Projected Benefit Obligation reflects projected amount as of January 1, 2026
[2] Projected Benefit Obligation reflects projected amount as of January 1, 2028

Additional Calculation Details

Assets were projected from asset values as of July 31, 2026 assuming actual returns of 7.15% for PNM Pension and 6.25% for PNM Retiree Medical, the 20-year geometric means from the July 2026 WTW return estimator reflecting the current plan asset allocations. No contributions were assumed for the PNM Electric pension plan other than surplus assets of ~$3.5 million expected to remain after the final gas annuitization assuming annuitization at 105% of PBO. Retiree medical benefits for retirees who were Key Employees (~4% of total claims) and non-union benefits (~60% of total claims) are assumed to be paid from corporate assets.

Except as otherwise provided herein, the July 2025 – June 2026 "Test Year" results presented above are based on the data, assumptions, methods, models, plan provisions and other information, outlined in the Estimated July 2025 – June 2026 Pension and Retiree Medical Expense memo dated March 20, 2024.

Except as otherwise provided herein, the October 2027 – September 2028 "Test Year" results presented above are based on the data, assumptions, methods, models, plan provisions and other information, outlined in the August 2026 Forecasting Letter and Appendix dated August 21, 2026.

Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this exhibit. The consulting actuaries above are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension and postretirement welfare plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Willis Towers Watson.

PNM Exhibit BA–3

PNM Pension and PBOP Expense Projection

Is contained in the following 3 pages.

PNM Pension (Electric) - Expense Projection

	2026	2027	2028
Service Cost	-	-	-
Interest Cost	12,384,391	12,541,197	11,923,717
Expected Return on Assets	(18,616,590)	(17,066,668)	(16,376,933)
Prior Service Cost Amortization	-	-	-
Gain/Loss Amortization	8,067,791	9,107,783	9,046,650
Total Expense	**1,835,592**	**4,582,312**	**4,593,434**

Projected Benefit Obligation (as of beginning of year)	236,696,978	218,606,793	208,115,105
Fair Value of Assets (as of beginning of year)	231,814,391	224,060,517	214,585,268
Market Related Value of Assets	245,697,168	221,958,939	213,159,671

Benefit Payments	21,429,802	22,965,792	22,386,468
Contributions	3,493,975	-	-

Assumptions

Discount Rate	5.50%	6.05%	6.05%
Expected Return on Assets	7.95%	8.10%	8.10%

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the Estimated October 2027 – September 2028 Pension and Retiree Medical Expense memo dated August 28, 2026. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this exhibit.

PNM Retiree Medical - Expense Projection

	2026	2027	2028
Service Cost	-	-	-
Interest Cost	2,147,870	2,094,452	1,960,346
Expected Return on Assets	(5,397,836)	(5,379,245)	(5,609,720)
Prior Service Cost Amortization	-	-	-
Gain/Loss Amortization	-	8,966	37,343
Total Expense	**(3,249,966)**	**(3,275,827)**	**(3,612,031)**

Accumulated Projected Benefit Obligation (as of beginning of year)	41,487,089	36,779,385	34,474,995
Fair Value of Assets (as of beginning of year)	75,928,431	75,402,215	78,573,924
Market Related Value of Assets	80,158,713	75,966,790	79,160,466

Benefit Payments (Net of Retiree Contributions)	4,544,718	4,385,074	4,206,944
Contributions / Payments from Company Cash	2,999,514	2,894,146	2,776,580

Assumptions

Discount Rate	5.49%	6.05%	6.05%
Expected Return on Assets	6.80%	7.15%	7.15%

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the Estimated October 2027 – September 2028 Pension and Retiree Medical Expense memo dated August 28, 2026. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this exhibit.

PNM Non-Qualified - Expense Projection

	2026	2027	2028
Service Cost	-	-	-
Interest Cost	412,146	403,754	367,327
Expected Return on Assets	-	-	-
Prior Service Cost Amortization	-	-	-
Gain/Loss Amortization	136,700	111,038	108,941
Total Expense	**548,846**	**514,792**	**476,268**

Projected Benefit Obligation (as of beginning of year)	8,029,186	7,179,452	6,552,860
Fair Value of Assets (as of beginning of year)	-	-	-
Market Related Value of Assets	-	-	-

Benefit Payments	1,066,020	1,026,756	977,016
Contributions / Payments from Company Cash	1,066,020	1,026,756	977,016

Assumptions

Discount Rate	5.50%	6.05%	6.05%
Expected Return on Assets	N/A	N/A	N/A

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the Estimated October 2027 – September 2028 Pension and Retiree Medical Expense memo dated August 28, 2026. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this exhibit.

PNM Exhibit BA–4

Report on the Impact of the Pattern Of PNM's ASC 715 Contributions

Is contained in the following 12 pages.

PNM Resources, Inc. Post-Retirement Healthcare Plan

Report on the Impact of the Pattern of PNM's ASC 715 Contributions

August 2026

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This report is confidential and intended solely for the information and benefit of the intended recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification" section herein.

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Purpose and actuarial statement **1**
Report on the Impact of the Pattern of PNM's ASC 715 Contributions **3**

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Purpose and actuarial statement

This report documents the results of a study on the impact of PNM's ASC 715 contributions, performed by Willis Towers Watson US LLC ("Willis Towers Watson") for Public Service Company of New Mexico (PNM) as originally required in the Final Order under Case No. 07-00077-UT.

The information contained in this report was prepared for the internal use of TXNM Energy, Inc. and its auditors. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. TXNM Energy, Inc. may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require TXNM Energy, Inc. to provide them this report, in which case TXNM Energy, Inc. will use best efforts to notify Willis Towers Watson in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Willis Towers Watson's prior written consent. Willis Towers Watson accepts no responsibility for any consequences arising from any other party relying on this report or any advice relating to its contents.

This report is provided subject to the terms set out herein and in our engagement letter dated December 7, 2023 and any accompanying or referenced terms and conditions. This report is provided solely for TXNM Energy, Inc.'s use and for the specific purposes indicated above. It may not be suitable for use in any other context or for any other purpose.

In preparing these results, we have relied upon information and data provided to us orally and in writing by TXNM Energy, Inc. and other persons or organizations designated by TXNM Energy, Inc. We have relied on all the data and information provided, including plan provisions, membership data and asset information, as being complete and accurate. We have not independently verified the accuracy or completeness of the data or information provided, but we have performed limited checks for consistency.

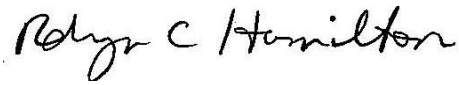
The results summarized in this report involve actuarial calculations that require assumptions about future events. TXNM Energy, Inc. is responsible for the selection of the assumptions. We believe that the assumptions used in this report are reasonable for the purposes for which they have been used.

In our opinion, all calculations are in accordance with FASB Accounting Standards Codification Topic 715-60 (formerly known as FAS 106) and the procedures followed and the results presented are in conformity with applicable actuarial standards of practice. References in this report to specific financial accounting standards such as those named in this paragraph are intended to encompass standards that supersede the referenced statements under the FASB Accounting Standards Codification.

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension plans. Our objectivity is not impaired by any relationship between PNM Resources, Inc. and our employer, Willis Towers Watson US LLC.



Brian Arnell, FSA
Senior Director, Retirement
August 26, 2026



Robyn Hamilton, FSA
Senior Director, Retirement
August 26, 2026

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Report on the Impact of the Pattern of PNM's ASC 715 Contributions

Beginning with Case No. 2567, PNM was required to make quarterly contributions to build trust assets to cover its liabilities under ASC 715 according to the following annual pattern:

Table 1 ($ thousands)	
Year	Annual Amount
1995	$4,122
1996	4,122
1997	5,645
1998	6,152
1999	6,152
2000	6,152
2001	6,152
2002	5,487
2003	5,265
2004	5,265
2005	5,265
2006	5,265
2007	5,581
2008	4,748
2009	2,547
2010	2,547
2011	2,841
2012	3,253
2013	3,253
2014	3,253
2015	3,253
2016	2,440
2017	0
2018[1]	0
2019	0
2020	0
2021	0
2022	0
2023	0
2024	0
2025	0

[1] Beginning in February 2018, the amount recovered is first used to offset prior excess contributions.

The Orders also required that PNM make the contributions on a tax effective basis. To maximize the tax effective funding of its ASC 715 liabilities PNM took two critical steps: it began funding earlier than 1995 (funding began in 1993), and in some years it paid part of its contributions directly to participants as benefits payments instead of making the contributions to a trust and immediately taking them back out of the trusts to make the benefit payments.

Using these steps, PNM's actual funding has been as follows:

Table 2
($ thousands)

Year	Funding Pattern under Rate Cases	Actual PNM ASC715 Funding	Cumulative Excess Funding
1993	$0	$2,096	$2,096
1994	0	6,516	8,612
1995	4,122	5,533	10,023
1996	4,122	5,527	11,428
1997	5,645	8,706	14,489
1998	6,152	2,698	11,035
1999	6,152	597	5,480
2000	6,152	1,635	963
2001	6,152	6,260	1,071
2002	5,487	6,321	1,905
2003	5,265	6,353	2,993
2004	5,265	6,402	4,130
2005	5,265	6,410	5,275
2006	5,265	6,945	6,955
2007	5,581	6,444	7,818
2008	4,748	5,203	8,273
2009	2,547	2,947	8,673
2010	2,547	2,451	8,577
2011	2,841	2,873	8,609
2012	3,253	3,529	8,885
2013	3,253	3,575	9,207
2014	3,253	3,532	9,486
2015	3,253	3,623	9,856
2016	2,440	2,863	10,279
2017	0	332	10,611
2018	1,919	2,924	11,616
2019	2,093	3,580	13,103
2020	2,093	3,256	14,266
2021	2,093	2,709	14,882
2022	2,093	2,617	15,406
2023	2,093	157	13,470
2024	0	193	13,663
2025	0	933	14,596

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Under PNM's actual funding pattern, the trust assets have grown as follows:

Table 3 ($ thousands)	
Year	Trust Assets at End of Year
1993	$2,118
1994	8,559
1995	15,600
1996	20,930
1997	33,159
1998	37,602
1999	41,825
2000	44,693
2001	42,132
2002	38,925
2003	50,957
2004	56,689
2005	58,484
2006	66,790
2007	71,567
2008	49,480
2009	57,126
2010	61,749
2011	58,776
2012	64,464
2013	73,565
2014	78,175
2015	72,952
2016	72,694
2017	80,356
2018	69,703
2019	86,400
2020	93,402
2021	95,805
2022	70,300
2023	73,391
2024	72,003
2025	75,928

If PNM had followed the exact pattern of contributions shown in Table 1, the trust assets at the end of each year would have been as follows:

Table 4 ($ thousands)	
Year	Trust Assets at End of Year
1993	$0
1994	0
1995	3,274
1996	6,307
1997	11,386
1998	16,597
1999	23,005
2000	28,926
2001	28,032
2002	26,140
2003	33,345
2004	36,099
2005	35,978
2006	39,570
2007	41,819
2008	28,070
2009	29,883
2010	29,671
2011	25,593
2012	25,569
2013	26,217
2014	25,727
2015	20,800
2016	15,680
2017	11,294
2018	6,400
2019	3,585
2020	199
2021	0
2022	0
2023	0
2024	0
2025	0

As can be seen in Table 2, PNM has contributed significantly more than has been required and by comparing the amounts in Tables 3 and 4, the actual assets in the PNM trusts at the end of each year were significantly greater than they would have been if PNM had followed the exact pattern of contributions in Table 1. In fact, trust assets would be depleted by the end of 2021 had PNM followed the exact pattern of contributions in Table 1. The actual return on the trust assets in each year was used to develop the estimated numbers in Tables 4 and 5.

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Using these steps, the savings on ASC 715 expense due to PNM's actual funding has been as follows:

Table 5
($ thousands)

Year	PNM Actual ASC 715 Expense	ASC 715 Expense Assuming Contribution Pattern in Table 1[1]	Savings
1994	$6,261	$6,446	$185
1995	8,420	9,169	749
1996	6,377	7,659	1,282
1997	5,685	6,978	1,293
1998	4,667	6,676	2,009
1999	4,866	7,361	2,495
2000	4,726	6,745	2,019
2001	9,754	11,587	1,833
2002	9,408	11,792	2,384
2003	9,682	11,804	2,122
2004	2,854	5,757	2,903
2005	4,044	6,575	2,531
2006	5,655	8,129	2,474
2007	4,541	7,404	2,863
2008	2,058	5,047	2,989
2009	1,001	3,622	2,621
2010	3,843	6,458	2,615
2011	806	3,468	2,662
2012	3,155	5,463	2,308
2013	2,229	4,931	2,702
2014	55	3,930	3,875
2015	7	4,341	4,334
2016	118	4,326	4,208
2017	910	5,516	4,606
2018	(1,202)	4,577	5,779
2019	(1,631)	3,329	4,960
2020	(2,709)	3,496	6,205
2021	(2,236)	3,478	5,714
2022	(1,591)	3,055	4,646
2023	(2,266)	2,228	4,494
2024	(3,176)	2,128	5,304
2025	(3,269)	1,810	5,079
Total			102,243

The greater assets resulting from PNM's excess contributions have resulted in much lower ASC 715 expenses as seen in the above Table 5.

[1] Once assets are depleted, it is assumed PNM would make additional contributions sufficient to satisfy benefits.

Assumptions and Methods

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation reports to determine accounting requirements for the plan for each fiscal year included in the analysis through 2025. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this report.

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PNM Exhibit BA–5

PBOP Details by Group

Is contained in the following 1 pages.

PBOP Details by Group
Results as of December 31, 2025

	APBO	Trust Assets	Estimated 2026 Claims
Union	14,313,874	75,928,431	1,557,941
Non-Union	27,173,215	-	3,169,600
Total	41,487,089	75,928,431	4,727,541

Except as otherwise provided herein, the results presented above are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation report to determine accounting requirements for the fiscal year 2026 dated February 2026. Therefore, such information, and the reliances and limitations of the valuation report and its use, should be considered part of this exhibit.

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, Brian Arnell, 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/ *Brian Arnell*
BRIAN ARNELL

GCG#536046