

PUC DOCKET NO. 58964

BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS

**APPLICATION OF
TEXAS-NEW MEXICO POWER COMPANY
FOR AUTHORITY TO CHANGE RATES**

**DIRECT TESTIMONY AND EXHIBITS
OF
EARL M. SIMPKINS**

**ON BEHALF OF
TEXAS-NEW MEXICO POWER COMPANY**

NOVEMBER 14TH, 2025

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BY WHOM YOU ARE EMPLOYED.**

3 A. My name is Earl M. Simpkins, and I am a Principal at Strategy&, part of the PwC network,
4 where I focus on the power and utilities sector. My business address is 2121 N. Pearl St.,
5 Suite 2000, Dallas, Texas 75201.

6 **Q. WOULD YOU BRIEFLY SUMMARIZE YOUR ACADEMIC AND PROFESSIONAL
7 BACKGROUND?**

8 A. I graduated from the Harvard Business School with a Masters in Business Administration
9 and graduated summa cum laude from Florida A&M University with a B.S. degree in
10 Accounting. Upon completing my undergraduate degree, I immediately joined Deloitte &
11 Touche Management Consulting, where I began my career as a management consultant
12 before obtaining my MBA. After my MBA, I worked for Deloitte Consulting for 10 years
13 until joining Booz Allen Hamilton.

14 In 2008, a corporate level transaction was announced with Booz Allen Hamilton being
15 acquired by the Carlyle Group and Booz & Company being created as an independent
16 entity with a focus on commercial sector clients. I was a Vice President (Partner) with Booz
17 & Company until it was acquired by PricewaterhouseCoopers LLP (PwC) in 2015 when it
18 was rebranded as Strategy&. As a Booz & Company Partner, I was moved into the PwC
19 Partnership as part of the acquisition and have been serving as a Principal to my clients
20 at both Booz & Company and Strategy& since 2010.

21 Over my 32-year consulting career, I have specialized in the public utility industry,
22 contributing to a wide range of strategic and operational projects. I have supported the
23 development of witness testimony concerning affiliate costs and conducted functional
24 reviews of customer operations and call center expenses across multiple engagements.
25 Additionally, my experience includes advising utilities on corporate and business unit
26 strategy, performance and operations improvement, mergers and acquisitions, and cost-
27 reduction initiatives (involving, but not limited to corporate function / affiliate costs).

28 **Q. HAVE YOU REVIEWED SERVICE COMPANY COSTS IN CONJUNCTION WITH ANY
29 OTHER TYPES OF REGULATORY PROCEEDINGS?**

30 A. Yes. I have reviewed service company costs in conjunction with numerous regulatory
31 consulting engagements for utilities, including proceedings focused on affiliate
32 transactions, affiliate costs, and broader enterprise cost and performance assessments.
33 My experience includes supporting and providing testimony, leading analyses of cost

1 structures and allocations, and advising on shared services, organizational design, and
2 performance improvement initiatives.

3 In the regulatory context, I served as the project lead for the 2008, 2010 and 2018 Texas-
4 New Mexico Power Company (“TNMP”) cases, where I was responsible for developing
5 company and expert witness testimony related to affiliate costs, including analyses of
6 service company activity necessity and benefits, the respective roles of service companies
7 and operating companies, budgeting and cost management, cost comparability, and cost
8 allocation processes. In addition to this work, I served as the witness providing testimony
9 on the assessment of call center costs and performance in the 2018 case. Beyond the
10 TNMP proceedings, I supported witnesses in cases for Commonwealth Edison (ComEd),
11 AEP, Entergy, and Spire Energy.

12 My work has also addressed the broader total cost pool for utilities and service companies.
13 I have conducted assessments of shared services organization structures and costs, and
14 I have led projects to design shared services structures and processes, including activity
15 and service scoping, activity costs, cost allocation methodologies, organizational design,
16 and performance reporting. These engagements required extensive analysis of holding
17 company and service company structures, as well as cost management and cost
18 allocation approaches, and were conducted mostly within the energy, energy services,
19 and utility sectors.

20 Beyond affiliate and shared services work, I have participated in numerous enterprise-
21 wide performance improvement and business transformation engagements, as well as
22 mergers, acquisitions, and divestitures. I have managed merger-related analyses in
23 several regulatory cases and supported other expert witnesses. I have reviewed cost
24 structures and prepared findings for the Duke-Cinergy merger before the North Carolina
25 Utilities Commission, analyzed synergies in the PECO-Unicom merger for filings with the
26 Illinois Commerce Commission and the Federal Energy Regulatory Commission, and
27 supported merger-related regulatory work for Boston Edison and Commonwealth Energy,
28 among others.

29 **Q. HAVE YOU PROVIDED TESTIMONY IN REGULATORY PROCEEDINGS PRIOR TO**
30 **THIS CASE?**

31 A. Through my regulatory consulting assignments with major utilities across the country, I
32 have supported expert witnesses in numerous company and expert testimonies,
33 assessing cost structures, cost management practices, and cost allocation methodologies

1 to provide evidence for cost reasonableness. This experience includes my direct
2 involvement in developing and supporting regulatory filings for mergers and acquisitions,
3 affiliate transactions, as well as supporting the witnesses in responses to specific directed
4 questions from state commissions related to those filings (including rebuttal testimony and
5 responding to data requests).

6 **II. PURPOSE AND SUMMARY OF TESTIMONY**

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. The purpose of my testimony is to address whether billings distributed from PNMR
9 Services Company, Inc (“PNMR” or “PNMR Services” or “Service Company”) to Texas-
10 New Mexico Power are reasonable when measured against a standard assessment. I also
11 address the Service Company costs and their direct assignment or allocation to TNMP,
12 as those costs relate to services performed on behalf of TNMP and are subject to review
13 in TNMP’s current rate filing. In addition, I assess the costs TNMP incurs from Public
14 Service Company of New Mexico (“PNM”) for customer support services, primary call
15 center operations, including a high-level estimate of the likely costs that would be incurred
16 if TNMP were to develop its own stand-alone customer support operations and compare
17 those likely costs to what TNMP will be incurring as a recipient of services from PNM. For
18 context, TNMP and PNM are both subsidiaries within the TXNM Energy (“TXNM”) group,
19 with PNMR providing centralized support services across the organization.

20 This testimony, including the accompanying exhibits, has been prepared to support
21 TNMP’s 2025 rate case filing with the Public Utilities Commission of Texas (“PUC”). Our
22 services were performed in accordance with Standards for Consulting Services
23 established by the AICPA. Accordingly, we are providing no attestation or other form of
24 assurance with respect to our work, and we did not audit any information provided. Our
25 work was limited to the specific procedures and analyses described herein and was based
26 only on the financial information made available through November 3rd, 2025. Accordingly,
27 changes in circumstances or information provided after this date could affect the findings
28 outlined in this report. This information has been prepared solely in connection with the
29 above-captioned rate filing and is not intended for reliance in any other context. The
30 opinions expressed in this testimony are subject to only the documents and facts that we
31 have been provided as part of this review and are not intended to be used for any other
32 actions. Strategy& disclaims any contractual or other responsibility to others based on its
33 use and, accordingly, this information may not be relied upon by anyone other than in the

1 above-captioned rate filing. In addition, the accompanying exhibits are part of our analysis
2 and should be reviewed in conjunction with this report.

3 **Q. WHAT WAS STRATEGY&'S ROLE IN EVALUATING TNMP AND PNMR COST**
4 **REASONABLENESS?**

5 A. Strategy& was retained to provide an objective assessment of the reasonableness of
6 TNMP, PNMR, and PNM call center costs as they relate to the charges specifically billed
7 to TNMP. My team and I began our review by obtaining data from TNMP, PNMR, and
8 PNM related to the activities and costs, including cost levels and cost types. We also
9 reviewed additional internal information, such as service agreements and processes, to
10 develop a baseline of activities and costs, which became the basis for our analyses.

11 Once we assessed this data in terms of composition and trends, we conducted more than
12 20 interviews and follow up discussions with TNMP, PNMR, and PNM executives and
13 managers related to the nature of the activities performed, the organizational construct of
14 the service company and PNM call center, and the manner in which costs were planned,
15 budgeted, and managed, among other topics. These interviews were complemented by
16 follow-up discussions to obtain additional clarity on roles, processes, and cost drivers. This
17 additional information provided insight into the operations of TNMP, PNMR and PNM's
18 call center and enabled our subsequent analysis related to comparative cost
19 benchmarking and identification of costs required to self-perform these activities.

20 **Q. HOW HAVE YOU STRUCTURED YOUR TESTIMONY?**

21 A. I begin by describing the criteria that I used in assessing the reasonableness of TNMP
22 and the Service Company' costs, and why I used these criteria. I then discuss the PNMR
23 Services operating model and how the service company (i.e., shared services)
24 organizational model is common across large, multi-state utilities. I explain that the service
25 company model allows large organizations to reduce their costs by capturing economies
26 of scale across their different businesses. Next, I present the trends in costs from TNMP,
27 PNMR and PNM call center and explain the nature and amount of change to these costs
28 from the Trailing Twelve Months ("TTM") ending June 2022 to the TTM ending June 2025.
29 Outlined below are the three assessments we conducted to evaluate the reasonableness
30 of costs – the structural, process, and market analyses:

31 **Structural Assessments (to evaluate whether TNMP costs are reasonably incurred):**

32 These assessments compare the scope of the activities performed by PNMR to those of

1 other similar utility service companies. I evaluate TNMP's need for the activities performed
2 by PNMR and the benefits derived from them, including the activity related to call center
3 operations provided by PNM. I also compare the activities performed by TNMP, PNMR,
4 and PNM's call center and assess the extent to which there is any evidence of overlapping
5 service performance.

6 **Process Assessments (to assess whether TNMP costs are effectively managed):**

7 These assessments review the planning, budgeting, and control processes in place at
8 TNMP, PNMR and PNM and how they are used to plan, budget, and control costs. I also
9 evaluate PNMR and PNM Call center billings to TNMP from TTM June 2022 to TTM June
10 2025 and discuss the parameters of PNMR cost allocation process and how it is used to
11 align and distribute costs to the various TXNM companies, particularly TNMP.

12 **Market Assessments (to evaluate whether TNMP costs are comparable to peers):**

13 These assessments evaluate how PNMR costs compare to various views of external costs
14 (the benchmarking analysis) or to other options available to TNMP (the self-performance
15 analysis). We conducted these analyses specifically to assess cost comparability and to
16 determine whether more cost-efficient or beneficial alternatives might exist for TNMP.

17 Finally, after completing all of the analyses supporting those assessments, I present my
18 overall conclusion that based on Strategy&'s multiple evaluations and tests, the Service
19 Company costs that are ultimately directly charged or allocated to TNMP, including PNM's
20 call center costs, are reasonable and lower than those that it could generally attain
21 elsewhere on its own.

22 **Q. COULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

23 A. Based on the multiple analyses that I have conducted, I believe the PNMR and PNM
24 charges distributed to TNMP are reasonable in both nature and level, and that TNMP
25 receives demonstrable benefits from this arrangement. I believe that the multiple tests my
26 team and I have conducted confirm from a variety of perspectives that there is a clear
27 economic advantage to TNMP continuing to employ the service company model.

28 My study assesses whether TNMP's incurred billings from the Services Company and
29 PNM call center operations, are reasonable — i.e., whether they have been incurred
30 legitimately, managed effectively, and are comparable to costs incurred by other peer
31 companies or otherwise available within the market. These three factors define the
32 standards we employed for the assessment and measurement of reasonableness.

1 I conducted my analysis using the same methodology from previous related analyses,
2 including, but not limited to TNMP's 2010 and 2018 filings, which is designed to provide
3 a comprehensive framework to evaluate cost reasonableness. My analysis focuses on
4 three principal assessments: (1) the structure for activity performance; (2) the processes
5 for cost management and (3) the market comparability of costs incurred.

6 First, I reviewed the organizational structure to identify where TNMP incurs costs, and how
7 these costs have changed over time. I next evaluated the need for the various costs, the
8 nature of any benefits derived from performance of the activity, and the existence of any
9 overlap of performance within the business.

10 Second, I assessed TNMP's cost management, including review of the planning,
11 budgeting, and control mechanisms, and how the Service Company assessed its costs.
12 These processes provide a view into how these costs are managed and incurred, including
13 the cost trends observed over recent periods; how TNMP's interests are preserved
14 through its involvement in these processes; and the use of cost causation principles to
15 drive cost distribution among TXNM operating companies.

16 Third, I completed a market comparability assessment that analyzes A&G costs against
17 relevant peer groups and then evaluates the current costs of performance against self-
18 performing the activities, an option available to management. This assessment provides
19 quantitative insight into how TNMP's costs compare and enables an economic test to be
20 developed.

21 **Q. WHAT ARE THE CONCLUSIONS OF YOUR TESTIMONY?**

22 A. Based on these assessments and the evidence from the supporting analysis, I conclude
23 that TNMP billings from PNMR Services and PNM Call Center, are reasonable and
24 compare favorably against other options available in the market. In my view, TNMP's
25 incurred costs are: (1) reasonably incurred, in that they are necessary and provide
26 benefits, with no overlap within the business; (2) effectively managed, through execution
27 of key planning, budgeting, and control processes, with costs allocated in a manner
28 consistent with cost causation principles; (3) comparable to peers, as they are reasonable
29 compared to those incurred by similar entities performing similar activities at a similar level
30 of service, and lower than the costs that would be incurred if performed on a stand-alone
31 basis. My conclusion that TNMP's costs are reasonably incurred follows from the
32 combination of a defined standard and explicit criteria for evaluating performance, along
33 with multiple analytical approaches for assessing the underlying data.

1 **Q. HAVE YOU INCLUDED ANY ATTACHMENTS TO YOUR TESTIMONY?**

2 A. Yes. I have attached Exhibits EMS-1 through EMS-8 to my testimony. There are also
3 tables and graphs embedded in my testimony which I support.

4 **Q. WAS THE WORK PERFORMED, ANALYSES CONDUCTED, AND EXHIBITS
5 PREPARED BY YOU OR UNDER YOUR SUPERVISION?**

6 A. Yes, they were.

7 **III. ANALYTICAL APPROACH**

8 **Q. HOW CAN YOU DETERMINE THE REASONABLENESS OF TNMP'S AND PNMR
9 COSTS?**

10 A. Regulators expect that utilities within their purview assure customers of the
11 reasonableness of operating costs. However, in my experience, there is no commonly
12 defined standard for measuring the reasonableness of costs. Counsel also advises that
13 the PUCT has no such standard. Consequently, one of my first tasks was to establish
14 principled standards for assessing reasonableness. These standards, which I will describe
15 in detail below, have been the basis for previous cost reasonableness analyses I or other
16 Strategy& members have utilized in previous TNMP and other rate case filings.

17 **Q. WHAT STANDARD DID YOU EMPLOY IN CONNECTION WITH YOUR ASSESSMENT
18 IN THIS CASE?**

19 A. In assessing reasonableness, I evaluated whether TNMP provided evidence that its
20 PNMR and PNM call center costs (1) have been legitimately incurred, (2) are effectively
21 managed, and (3) are comparable to costs incurred by other peer companies or to what
22 is otherwise available within the market.

23

1 **Q. WHAT ANALYSES DID YOU CONDUCT TO EVALUATE WHETHER TNMP SATISFIED**
2 **THIS STANDARD?**

3 A. I conducted three primary analyses to assess reasonableness: (1) the structure for activity
4 performance; (2) the processes for cost management; and (3) the market comparability of
5 costs incurred. Each of these analyses is comprised of specific tests and sub analysis
6 designed to review the key aspects of each point. Collectively, they provide a broad, multi-
7 factor, and comprehensive basis for my evaluation, as they address the principal elements
8 of cost incurrence, cost management, and performance. These analyses are summarized
9 further in this testimony.

10 **Q. IS THE EVALUATIVE FRAMEWORK YOU EMPLOYED IN THIS PROCEEDING**
11 **CONSISTENT WITH WHAT YOU HAVE PREVIOUSLY UTILIZED IN OTHER**
12 **JURISDICTIONS TO ASSESS THE REASONABLENESS OF SERVICE COMPANY**
13 **COSTS?**

14 A. Yes. I used the same analytical framework (that extends beyond what is necessary to
15 meet similar evidentiary tests) to perform my analyses in this matter as I have used in
16 TNMP's 2010 and 2018 cases and in addressing similar issues in other proceedings in
17 Texas and in other jurisdictions. The specific attributes I utilized in each area of analysis
18 provide an explicit identification of the relevant characteristics to be evaluated to reach
19 specific conclusions.

20 **IV. ORGANIZATIONAL BACKGROUND**

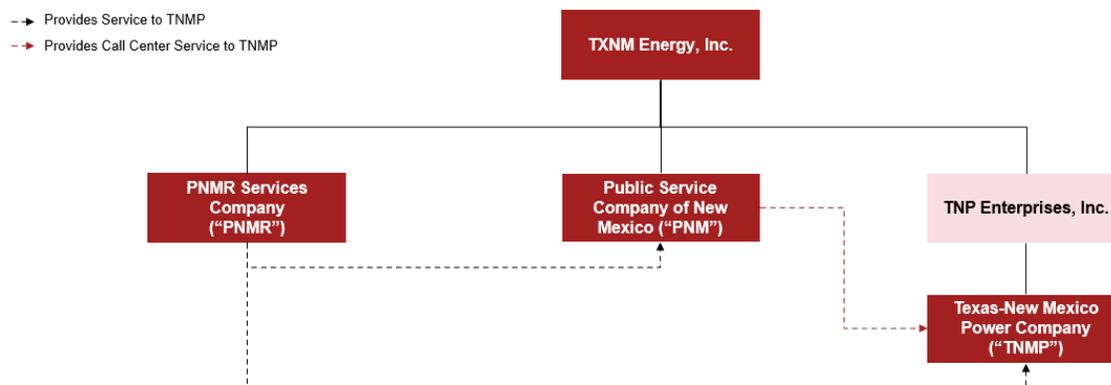
21 **Q. WHAT ARE THE RELEVANT ENTITIES WITHIN THE TXNM ENERGY SYSTEM?**

22 A. TXNM Energy is comprised of two electric utility operating companies: Texas-New Mexico
23 Power and Public Service Company of New Mexico. Texas-New Mexico Power Company
24 is a regulated transmission and distribution electric utility and is a direct subsidiary of TNP
25 Enterprises, Inc. Public Service Company of New Mexico and PNMR Services Company
26 are also part of the TXNM Energy group. PNMR Services Company serves as the
27 centralized service company providing support to TNMP, PNM, and other affiliates. **Figure**
28 **1** below summarizes TXNM Energy operating structure:

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Figure 1
Simplified Organizational Framework

Not Exhaustive



3

4 **Q. WHAT IS THE BUSINESS PURPOSE AND ROLE FULFILLED BY PNMR SERVICES**
5 **COMPANY?**

6 A. PNMR is the service company within TXNM that provides services to regulated
7 companies, including TNMP. PNMR Services Company has formal service agreements in
8 place through which it provides services to TNMP, PNM, and the other entities. In many
9 cases PNMR directly serves a specific entity and directly charges it for the cost of those
10 services. However, in some cases, where PNMR services more than one entity, it
11 allocates the costs of those services among the entities based on allocation factors
12 defined in the cost allocation manual. The most recent amendment to the PNMR Services'
13 agreement with TNMP was made in 2018 and filed with the Annual Report to the PUCT
14 for 2019. The PNM services agreement with TNMP last amendment was effective in 2006
15 and was filed with the Annual Report to the PUCT for 2019.

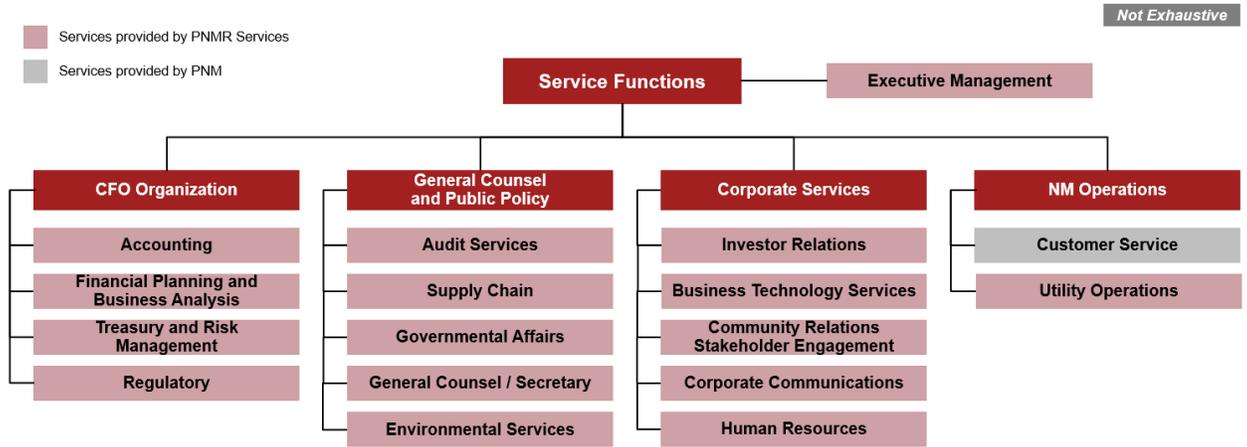
16 **Q. WHAT CURRENT ACTIVITIES ARE PERFORMED AT PNMR SERVICES AND PNM?**

17 A. PNMR Services is organized into the following 15 specific functions of services, while PNM
18 provides Customer Service support to TNMP as a function. **Figure 2** below summarizes
19 PNMR and PNM service functions:

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Figure 2

Functions Represented in PNMR Services (includes PNM Customer Service)



These 16 functions (PNMR Services plus PNM Call Center support) report to four key areas: CFO Organization, General Counsel and Public Policy, Corporate Services, and NM Operations and perform the following 80 activities:

CFO Organization Functions

- Accounting (Controller)
 1. Accounts Payable
 2. GAAP Analysis
 3. General / Corporate Accounting
 4. Managerial Accounting
 5. Payroll
 6. SEC Reporting
 7. Tax Compliance, and Tax Services
 8. Utility accounting
- Financial Planning and Business Analysis
 9. Utility Margin
 10. Corporate budgeting
 11. Financial Planning and Risk Management

- 1 12. Internal Reporting
- 2 • Treasury and Risk Management
- 3 13. Cash Management
- 4 14. Letters of Credit (LoC)
- 5 15. Liability Management
- 6 16. Treasury Services
- 7 17. Trust and Corporate Investments
- 8 18. Insurance and Claims
- 9 • Regulatory Services
- 10 19. Cost of Service
- 11 20. Pricing
- 12 **General Counsel**
- 13 • Audit Services
- 14 21. Audit
- 15 22. SOX Compliance
- 16 • Supply Chain
- 17 23. Sourcing
- 18 24. Materials Management
- 19 25. General Services / Facility Management
- 20 26. General Services / Graphics and Office Services
- 21 • Government Affairs
- 22 27. Government Relations / Federal
- 23 28. Government Relations / State and Local
- 24 • General Counsel / Secretary
- 25 29. Corporate Governance
- 26 30. Ethics
- 27 31. Legal Support

- 1 • Environmental Services
- 2 32. Environmental Policy and Strategy
- 3 33. Environmental Services
- 4 **Corporate Services**
- 5 • Investor Relations
- 6 34. Investor Relationship Management
- 7 35. News Releases and Presentations
- 8 • Business Technology Services
- 9 36. Resource and Organizational Change Management
- 10 37. Portfolio and Program Management
- 11 38. Applications Management
- 12 39. Enterprise Architecture Management
- 13 40. Change and Configuration Management
- 14 41. Corporate “Physical” Security
- 15 42. Enterprise Applications
- 16 43. Data Network Access and System Architecture
- 17 44. Database Management
- 18 45. Desktop Services
- 19 46. Disaster Recovery
- 20 47. Hardware and Software Licensing
- 21 48. Information Security
- 22 49. Operations Technology
- 23 50. IT Project Management
- 24 51. IT Quality Compliance Management
- 25 52. QA Testing
- 26 53. Service Desk (Help Desk)
- 27 54. Enterprise Storage

- 1 55. Telecommunications / Data
- 2 56. Telecommunications / Voice
- 3 57. Regulatory Compliance / NERC
- 4 58. Records and Information Management System (RIMS)
- 5 59. Data Center Services
- 6 60. Crisis Management and Resilience
- 7 • Community Relations
- 8 61. Community Outreach
- 9 62. Corporate Contributions
- 10 63. Employee Engagement
- 11 64. Low-Income Outreach
- 12 • Corporate Communications
- 13 65. Internal and External Communications
- 14 66. Research
- 15 67. Web Business
- 16 • Human Resources
- 17 68. Benefits
- 18 69. Compensation
- 19 70. Compliance and Policies
- 20 71. Learning and Development
- 21 72. Employee Relations
- 22 73. HR Talent Acquisition and Workforce Planning
- 23 74. Human Resource Information System (HRIS)
- 24 75. Labor Relations
- 25 76. Safety

NM Operations

- 27 • Utility Operations

1 77. Strategic Energy Planning & Development

2 78. Wildfire and Vegetation Management

3 • Customer Operations (Performed by PNM)

4 79. Customer Service

5 **Executive Management**

6 80. Executive Operations

7 **Q. WHAT IS THE RATIONALE FOR PROVIDING THESE SERVICES FROM A SERVICE**
8 **COMPANY?**

9 A. Service companies typically fulfill “common” roles that are required as part of an
10 organization’s ongoing operations and that are relevant to more than one entity. Common
11 activities vary with the size of the organization but can include transactional functions like
12 payroll processing and accounts payable, and other fixed activities, such as shareholder
13 services and investor relations. Until it was repealed in 2005, the Public Utility Holding
14 Company Act of 1935 required any employee serving multiple operating companies to be
15 an employee of a service company, and for costs to be allocated based on approved
16 allocation factors.

17 The service company model avoids overlap through distributed performance within the
18 business and maximizes utilization of the employees dedicated to providing these
19 services. It also improves service by enabling the centralized group to focus on developing
20 the capability, building expertise, and efficiently providing that service – all while
21 maximizing productivity.

22 More specifically for TNMP, providing these services on a centralized basis creates clear
23 economies of scale and scope, since it is more efficient to have a single group perform
24 these roles than to disperse them throughout all of TXNM Energy’s businesses.

25 **Q. WHAT IS THE RATIONALE FOR PNM PROVIDING CALL CENTER OPERATIONS**
26 **SERVICES FOR TNMP?**

27 A. Operating a call center involves certain fixed costs, primarily related to technology systems
28 and personnel management, that benefit from economies of scale, particularly given the
29 lower call volume of TNMP due to the nature of operating in a deregulated energy market
30 and providing only transmission and distribution services.

1 Several benefits are apparent as a result of utilizing PNM's call center operations. First, it
2 is cost-competitive, as will be demonstrated in this testimony. TNMP improves its ability
3 to serve its customers and address their inquiries at competitive cost levels. Second,
4 PNM's scale allows TNMP to benefit from the operational performance and
5 standardization of a more mature call center operation. PNM provides TNMP and its
6 customers with a larger pool of Customer Experience Agents ("CEAs") trained and
7 coached to answer calls. Third, and finally, in addition to onboarding training, TNMP-
8 dedicated CEAs also have access to continuous education, compliance training, and other
9 employee engagement initiatives that contribute to enhancing their skillsets and ability to
10 improve customers' experience.

11 **Q. WHAT ACTIVITIES DOES THE PNM CUSTOMER OPERATIONS FUNCTION**
12 **PROVIDES FOR TNMP SPECIFICALLY?**

13 A. The PNM Customer Operations function provides customer services to TNMP, limited to
14 call center support. The call center serves as a two-way communication channel, enabling
15 the exchange of time-sensitive information between TNMP and its customers. The
16 services delivered by the PNM call center to TNMP include:

- 17 • Handle incoming customer inquiries, specifically reports of service outages or
18 equipment failures;
- 19 • Provide customers with timely information related to outage repair progress,
20 anticipated construction, and other service issues potentially impacting customers;
21 and,
- 22 • Communicate timely information with dispatch operations, including reports of
23 outages and progress of repairs.

24 **Q. COULD YOU SUMMARIZE YOUR REVIEW OF THE CALL CENTER**
25 **ORGANIZATIONAL STRUCTURE?**

26 A. The call center operation managed by PNM is a streamlined organization (see Figure 3
27 below). The organization, as of June 2025, consists of approximately 57 customer
28 experience agents, one manager, four supervisors, eight supporting staff, including lead
29 representatives, analysts, and trainers.

30 The CEAs provide call center services to TNMP, including receiving and processing
31 incoming customer inquiries, recording customer-reported service outages, and providing

1 relevant information to dispatch operations. CEAs are organized into teams of 13-17
2 representatives, each led by a team supervisor.

3 Supervisors manage their teams while also handling escalated customer inquiries,
4 overseeing quality assurance, managing administrative requests, and addressing
5 employee issues. Each team also includes a call center lead, who supports supervisors
6 by coaching and monitoring CEAs and performing back-office tasks.

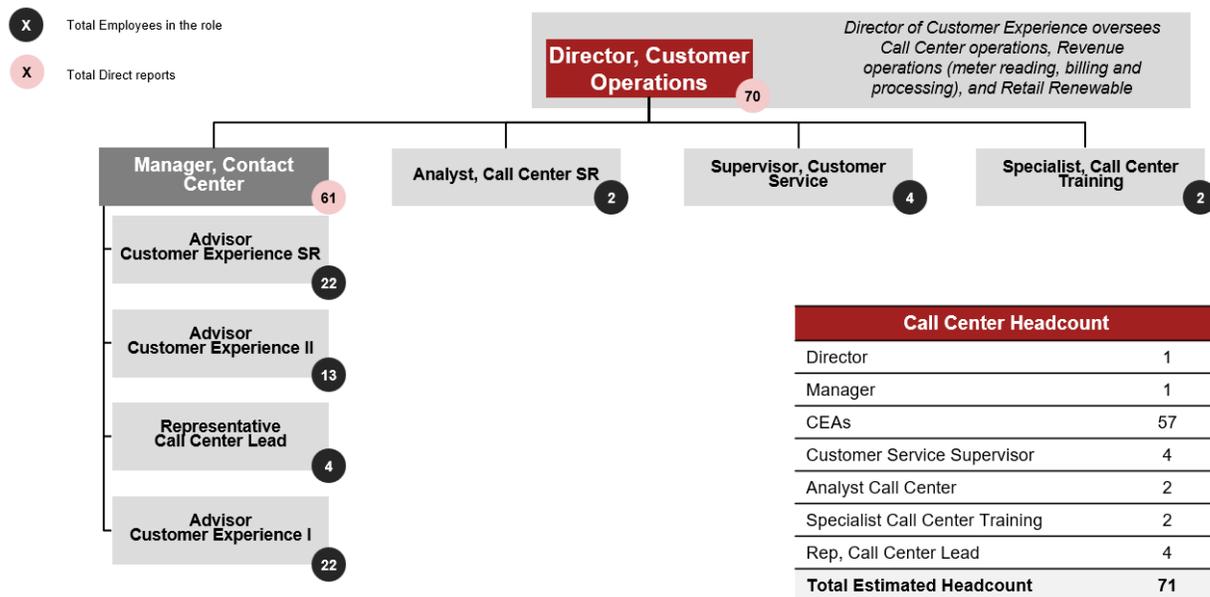
7 Supervisors report to the Call Center Manager, who in turn reports to the Director of
8 Customer Operations. The Director of Customer Operations reports to the Vice President
9 of NM Operations. The Call Center Manager, with extensive experience in call center
10 management, is responsible for planning and executing strategies across customer-facing
11 channels, driving process and system improvements, and overseeing staff performance.

12 The Director of Customer Operations provides oversight across multiple functions,
13 including the call center, meter reading, collections, and enterprise transformation
14 initiatives.

15 Analysts report to the Director of Customer Operations, and support daily operations by
16 managing the IVR system, setting up access for new hires, maintaining real-time
17 dashboards and reports, and making necessary system adjustments.

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Figure 3
Call Center Organizational Structure



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V. TNMP'S COSTS ARE REASONABLY INCURRED

A. ACTIVITY PERFORMANCE

Q. WHAT IS THE ACTIVITY PERFORMANCE ASSESSMENT AND HOW IS IT RELEVANT TO DETERMINING COST REASONABLENESS?

A. The purpose of the activity performance assessment is to identify the types of activities performed within the service company (structural assessment), assess the need for those activities, and identify the benefits of those activities. If those activities are found necessary and beneficial, it is then appropriate to evaluate the processes in place to control and allocate those costs to the regulated entity (process assessment) and the relative costs of performing those activities compared to other alternatives (market assessment). In other words, the structural assessment provides the activity baseline from which further quantitative and qualitative analyses of reasonableness are performed.

Q. HOW DID YOU DETERMINE WHETHER THE ACTIVITIES PERFORMED WITHIN THESE SERVICE COMPANIES WERE REASONABLE?

A. Service companies typically perform various types of activities because of the specific requirements of their clients or the availability of economies of scale and scope. These activities are necessary to support the ongoing operation of the business and / or are

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1 required for compliance with legal or regulatory mandates. For example, corporate
2 governance activities are required to satisfy management's fiduciary responsibilities as a
3 publicly traded business and to meet established reporting protocols. More specifically for
4 TNMP, there is an ongoing collaboration with PNMR to develop and monitor the budget
5 through the execution of the long-range and annual operating plans, serving as an
6 example of Strategic Planning

7 I have reviewed PNMR and PNM (Customer Service) against specific criteria and an
8 established set of activity performance categories. These activities have been aligned into
9 the following relevant categories:

10 **Corporate Governance** – activities that are necessary to verify that corporate and
11 portfolio fiduciary responsibilities and enterprise-wide management and operation are
12 effectively executed. Examples include performing shareholder activities, managing
13 cross-business issues, performing risk management activities, and developing the
14 management model.

15 • **Regulatory Mandates** – activities that are required to fulfill statutory, regulatory,
16 and other commitments or mandates. Examples include submitting SEC filings,
17 filing IRS documents, and complying with PUCT requirements.

18 • **Legal Compliance** – costs incurred and activities performed as a direct result of
19 legal proceedings, avoidance of legal proceedings, or compliance with legal
20 requirements. Examples include litigation activities and responding to discovery
21 requests.

22 • **Management Control** – activities performed specifically to provide analysis,
23 decision support data, and results to management personnel. Examples include
24 managing projects, reporting results, and developing management reports.

25 • **Operational Execution** – includes fundamental daily functions. Examples include
26 maintenance activities, general accounting, and tracking employee information.

27 • **Strategic Planning** – activities that encompass business unit planning and
28 activities directed at defining enterprise-wide direction. Examples include
29 monitoring marketplace activities, performing strategic planning, and providing
30 business planning assistance.

31 These attributes encompass the traditional views of why activities are undertaken and are
32 consistent with my prior assessments evaluating service company activity items.

1 **Q. WHAT WAS THE RESULT OF YOUR ASSESSMENT OF PNMR AND PNM ACTIVITIES**
2 **AGAINST YOUR CRITERIA AND ATTRIBUTES?**

3 A. I evaluated 80 PNMR and PNM activities against the classifications described above to
4 determine whether each of the activities were necessary. The assessment demonstrated
5 that PNMR and PNM (customer service) activities are typical, required, and necessary
6 components of meeting the needs of companies like TNMP.

7 **Q. HOW DID YOU EVALUATE THE BENEFITS OF PNMR'S AND PNM'S ACTIVITY**
8 **PERFORMANCE?**

9 A. After I determined that the activities were typical, required, and necessary, I assessed the
10 benefits attributed to their performance using the following categories:

- 11 • **Reduce Risk** – actions designed to reduce liability and mitigate exposure to
12 financial, operational, fiduciary, and other types of risk. Examples include
13 implementing safety programs; performing internal audits; training employees; and
14 developing policies, procedures, and manuals.
- 15 • **Increase Employee Productivity** – programs that enhance employees' abilities
16 to perform their jobs more productively. Examples include automating certain
17 systems; providing training; implementing and administering employee health
18 awareness programs; developing procedures, policies, and practice manuals;
19 developing employee communications; and implementing / administering quality
20 programs.
- 21 • **Provide Management Information** – activities conducted primarily to provide
22 decision support data and analysis to management personnel. Examples include
23 developing budgets; monitoring operational and financial performance; performing
24 corporate development; conducting strategic assessments; and developing
25 integrated information systems.
- 26 • **Enhance Corporate Performance** – activities performed to enhance
27 management's abilities and effectiveness with respect to the business. Examples
28 include developing strategic plans; managing the performance review process;
29 maintaining the inter/intranet; and conducting benchmarking studies.
- 30 • **Reduce or Avoid Costs** – activities performed to improve the cost effectiveness
31 of operations. Examples include automating certain systems; pursuing outsourcing

1 arrangements; negotiating discounts with outside vendors; and performing certain
2 credit and collections activities.

- 3 • **Increase Reliability** – activities performed to increase the performance of the
4 overall system infrastructure. Examples include adequate maintenance of the
5 delivery system, preservation of asset integrity, and security of electric supply.

6 **Q. WHAT WAS THE RESULT OF THE ACTIVITY BENEFITS ANALYSIS?**

7 A. I evaluated each of the activities against the benefit attributes and determined that each
8 activity supported one or more benefit attributes. In my opinion, these activities provide
9 direct and indirect benefits that enhance the effective management, effectiveness, and
10 efficiency of the TXNM operating companies, including TNMP.

11 **Q. ARE THE ACTIVITIES ANALYZED CONSISTENT WITH THOSE PERFORMED BY
12 OTHER UTILITY SERVICE COMPANIES?**

13 A. Yes. As part of my analysis, I compared PNMR Services activities to other utility service
14 companies, to the extent they are publicly disclosed. As noted above, a service company
15 model is commonly used within the utility industry. From my review, PNMR performs
16 similar functions to those performed by other service companies, such as finance,
17 customer service, human resources, information technology, communications, investor
18 relations, among others, as shown in **Figure 4** below. PNMR's structure and operating
19 model are also generally consistent with how other utility holding companies provide
20 services to their operating companies.

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Figure 4
Services Provided by Service Companies

2024 Services Provided by Service Company as Reported in 2024 FERC Form 60s

Services	PNMR Services	AEP	AES	Alliant	Ameren	ATC Mgmt.	Black Hills	Centerspoint Energy	Dominion Energy	Duke Energy	Energy	Exelon	FirstEnergy	Eversource Energy	LG&E and KU	NISource	PHI Services	PPL Corp.	Southern Company	Xcel Energy	WEC Energy	Unitil	
Accounting																							
Audit Services																							
Aviation/Travel																							
Business & Admin																							
Commercial Operations																							
Communications																							
Customer Operations																							
Distribution																							
Engineering																							
Environmental																							
Executive																							
External Affairs																							
Finance																							
Fuel Supply																							
HR																							
Investor Relations																							
IT																							
Legal																							
Planning/Budgeting																							
Real Estate/Facilities																							
Regulatory Relations																							
Risk Management																							
Safety / Security																							
Supply Chain, Procurement & Fleet																							
Transmission / RTO																							
Treasury																							
Others																							
Number of Services Provided	22	25	22	23	22	15	20	15	25	24	24	18	26	24	25	21	19	23	22	25	23	17	

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Q. DO YOU CONSIDER PNM’S CUSTOMER SERVICE ACTIVITIES NECESSARY AND BENEFICIAL TO TNMP? IF SO, HOW?

4

A. Yes. Customer Service is integral to TNMP’s duty to provide safe and reliable electricity, and the PNM Call Center is critical in fulfilling that obligation. The call center supports regulatory compliance, management oversight, operational execution, and customer reliability by processing inquiries, routing calls, and capturing key data through the cloud-based InContact system. While the Interactive Voice Response (“IVR”) system handles routine calls, the call center addresses complex issues and provides direct customer support, reducing outage risks and improving service quality. Additionally, PNM’s Call Center organization and its data analytics resources further equip TNMP leadership with insights needed to enhance the customer experience.

5

Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE ACTIVITY PERFORMANCE ASSESSMENT?

6

A. The range of activities performed by PNMR are necessary and consistent with those at similar service companies serving large corporations, particularly utilities. The activity performance assessment illustrates the need for these activities to be performed within the Service Companies and demonstrates that they create benefits for TNMP.

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1 **B. ROLE CLARITY**

2 **Q. WHAT IS THE PURPOSE OF THE ROLE CLARITY ASSESSMENT IN ASSESSING**
3 **THE REASONABLENESS OF COSTS?**

4 A. The purpose of the role clarity assessment is to identify whether evaluated activities
5 performed within PNMR and PNM overlap with activities performed by TNMP. While some
6 degree of relatedness may not create overlap, it is necessary to identify any potential
7 overlap, evaluate the nature of activities performed, and determine whether the costs
8 incurred are reasonable.

9 **Q. WHAT APPROACH DID YOU UTILIZE?**

10 A. As noted within the activity performance analysis, we analyzed 80 activities. First, we
11 assessed role clarity by reviewing the organizational roles performed at these entities to
12 identify areas for closer review. My team and I then interviewed TNMP, PNMR and PNM
13 executives and managers, with a focus on those areas with a similar activity or
14 performance scope (e.g., financial planning and budget analysis) to determine whether
15 there were differences in purpose, scope / focus, content, and / or beneficiary of the
16 activities. To the extent we identified potential overlap, we engaged in more focused
17 inquiries, document reviews, and follow-up discussions to determine the nature and extent
18 of the potential overlap. We then developed a detailed description of the purpose and roles
19 of TNMP, PNMR and PNM for each area of potential overlap, as described in detail in
20 Exhibit EMS-3-1.

21 **Q. DO RELATED ACTIVITIES NECESSARILY INDICATE OVERLAP OR**
22 **INAPPROPRIATE COST INCURRENCE?**

23 A. No, which is why it is important to understand the purpose and roles of each activity within
24 each organization. Many activities, such as budget development and monitoring, will be
25 performed reasonably as a matter of course in each company or department across the
26 business. These activities may appear similar, but they are performed for different
27 purposes or to meet specific departmental operations. In some cases, such as budgeting,
28 there is a direct link between the input of one entity (e.g., the request for information), and
29 the output of another (e.g., providing information). In other cases, there is a clear
30 distinction in scale or complexity. Thus, it does not follow that similar activities necessarily
31 result in overlap.

1 **Q. WHAT WERE THE RESULTS OF THIS ANALYSIS?**

2 A. As presented on Exhibit EMS-3-1, We identified eight functional areas where potential
3 overlap required more detailed evaluation: Financial Planning and Business Analysis,
4 Supply Chain, Executive Management, Business Technology Services (“BTS”),
5 Regulatory Services, Corporate Communications, and Customer Operations. Following a
6 detailed review (as described above), no duplication was identified among the evaluated
7 activities performed by PNMR, PNM, and TNMP. In these cases, certain activity and
8 organizational descriptions suggested the potential for overlap, but on closer review, we
9 identified differences in the purpose, focus, content, or beneficiaries of the activities, which
10 make them complementary and not duplicative.

11 **Q. WHAT DO YOU CONCLUDE WITH RESPECT TO ROLE CLARITY?**

12 A. Based on this analysis, I conclude that TNMP’s shared services organizational model
13 provides effective centralization of services without duplication or overlap.

14 **VI. TNMP’S COSTS ARE EFFECTIVELY MANAGED**

15 **A. PLANNING, BUDGETING, AND COST CONTROL**

16 **Q. WHAT IS THE ROLE OF THE PLANNING, BUDGETING, AND COST CONTROL**
17 **ASSESSMENT IN ASSESSING THE REASONABLENESS OF COSTS?**

18 A. Having established that the evaluated activities are necessary and beneficial, similar to
19 other service companies, and not overlapping, I then evaluated the underlying processes
20 in place to plan, budget, and control the level of costs directly incurred and the cost
21 allocations to TNMP. This analysis included the TXNM planning and budgeting processes,
22 controls, and interfaces with stakeholders, including TNMP, PNMR and PNM. We
23 completed this analysis to help the PUCT better understand the overall planning and
24 budgeting processes for TNMP, PNMR and PNM, and to show what steps they take to
25 control budgets and costs.

26 More specifically, there are three purposes of this assessment: First, to evaluate the
27 structure, execution, and effectiveness of the planning and budget process as a means of
28 limiting PNMR Services and PNM call center expenditures. Second, to review how TNMP,
29 PNMR, and PNM exercise influence or control over the absolute level of budgeted dollars.
30 And third, to understand TNMP’s methods for participating in the budget development
31 process to identify and prioritize work activities.

1 **Q. WHY IS IT IMPORTANT TO REVIEW PNMR SERVICES BUDGETING AND CONTROL**
2 **PROCESSES?**

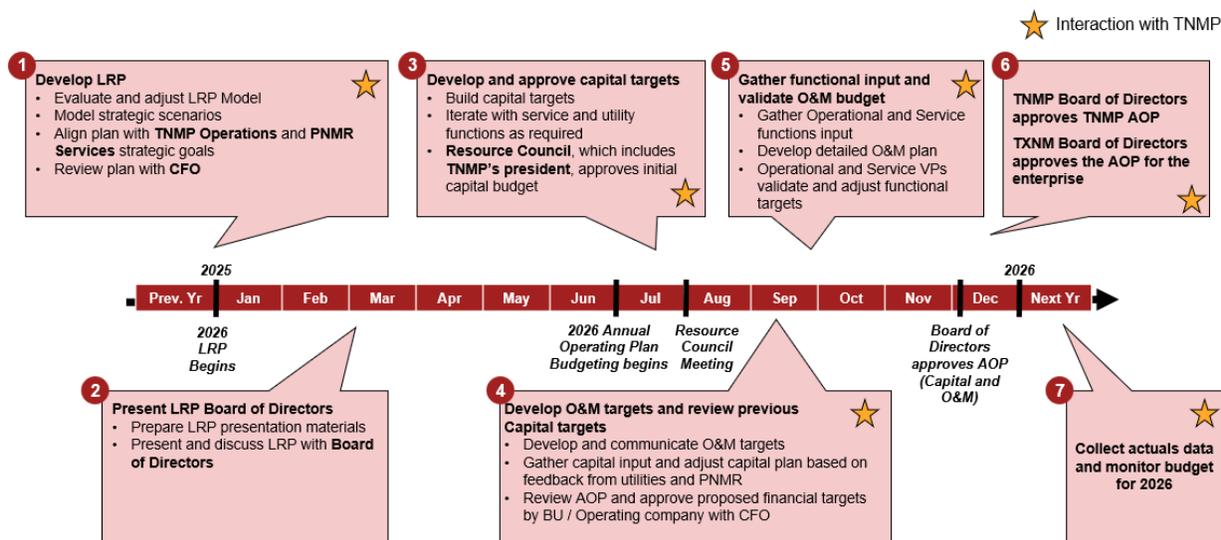
3 A. The nature of these budgeting and control processes provides insight into the philosophy,
4 approach, and methods that TNMP, PNM and PNMR take to minimize and control PNMR
5 and PNM call center budgets, and therefore, costs to TNMP customers. These processes
6 provide the fundamental elements of effective cost management and indicate how
7 rigorously TNMP and PNMR Services control costs.

8 **Q. WOULD YOU DESCRIBE THE OVERALL TXNM PLANNING AND BUDGETING**
9 **PROCESS?**

10 A. The TXNM planning and budget process, shown in **Figure 5**, begins at the end of the prior
11 year with development of the Long-Range Plan (“LRP”), a five-year outlook that defines
12 strategic and financial direction, including capital needs, O&M requirements, and credit
13 considerations. The Financial Planning and Corporate Budget (“FPCB”) group
14 collaborates with PNMR Services and the operating companies to model scenarios and
15 align assumptions with strategic objectives. In the first quarter, the LRP is refined in
16 coordination with the operating companies, top-down targets are set, reviewed by the
17 CFO, and presented to the Board of Directors in February.

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Figure 5
2026 Planning and Budgeting Cycle



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Building on the LRP, the Annual Operating Plan (“AOP”) process begins mid-year. In June and July, the budget team develops capital targets, collaborates with the operating companies and PNMR, and then presents the plan to the Resource Council, which includes the TNMP President, for approval of the capital budget. The plan is then reviewed one more time with the Operating Companies and PNMR Services functions to incorporate any necessary adjustments.

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Once capital targets are set, the budget team develops top-down O&M targets with input from the utilities, including TNMP, and PNMR. The proposed O&M plan is reviewed and approved by the CFO and provided to the Operating Companies and PNMR Services. A detailed bottoms-up O&M plan for the next year is then prepared, and reviewed and validated by Operating Companies and Services Vice Presidents, including TNMP leadership to ensure alignment across the organization. In December, the Board of Directors approves the Annual Operating Plan, establishing the official capital and operational plan for the upcoming year.

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The process continues through quarterly reforecasts, in which business units update projections and FPCB consolidates results to maintain alignment with targets. This rolling process provides flexibility to address new business needs while maintaining financial discipline and oversight of both capital and O&M performance.

1 In total, the budget cycle integrates long-term planning, annual target-setting, and
2 quarterly adjustments, balancing strategic investment with financial discipline and cost
3 control.

4 **Q. DOES THE PNMR BUDGETING PROCESS ALLOW THE OPERATING COMPANIES,**
5 **SUCH AS TNMP, TO UNDERSTAND NEEDS AND COST DRIVERS AND HAVE**
6 **FORMAL AND ADEQUATE INPUT INTO BUDGET DEVELOPMENT?**

7 A. Yes. The PNMR budgeting process is structured to ensure that operating companies,
8 including TNMP, both understand the drivers of costs and have adequate input into budget
9 development.

10 The process incorporates multiple levels of interaction between PNMR Services and the
11 operating companies. These include formal mechanisms (such as councils and structured
12 budget meetings as shown in Exhibits EMS-4-1 and EMS-4-2), periodically targeted
13 reviews with business partners, and ad-hoc discussions that provide flexibility in
14 addressing emerging needs. This framework ensures that operating companies can
15 provide input on the scope, quantity, price of services, and planned allocations well before
16 budgets are finalized. The following examples illustrate how functions engage with TNMP
17 during the budget development process:

18 Procurement and General Services aligned with TNMP to recently add resources based
19 in Texas, with new hires to support TNMP's materials management and sourcing needs.
20 Budget discussions with TNMP occur iteratively, beginning in August, with multiple rounds
21 of planning, forecasts, and discussions with TNMP to refine needs at the functional level
22 before consolidation

23 • BTS collaborates with operating companies, including TNMP, to understand their
24 technology roadmaps, assesses whether initiatives are utility-specific or shared,
25 and prioritizes IT programs using a structured matrix. Costs are closely monitored
26 through monthly tracking and CFO-level reviews, ensuring TNMP has a direct role
27 in capital and O&M planning

28 • Tax, Legal, Audit, and Human Resources follow structured budget target-setting,
29 quarterly reforecasting, and monthly monitoring practices, while maintaining active
30 dialogue with operating companies to manage cost drivers and tradeoffs

31 The budgeting process is iterative and transparent. It features annual planning cycles,
32 quarterly reforecasts, and monthly variance reviews, all of which involve TNMP

1 representatives. Cost controls (such as O&M targets, risk prioritization, and capital
2 allocation tradeoffs) are developed collaboratively, ensuring that TNMP's needs and
3 drivers are considered while maintaining overall financial discipline.

4 These practices demonstrate that PNMR Services has implemented a budgeting process
5 that allows TNMP to understand its needs and cost drivers but also ensures charges
6 incurred are reasonable.

7 **Q. WHAT CONTROLS EXIST TO MANAGE SERVICE COMPANY COSTS AFTER THEY**
8 **ARE ESTABLISHED?**

9 A. Once the budget has been established, PNMR Services and TNMP employ recurring
10 reviews to ensure costs are actively managed throughout the year. At the TXNM level,
11 costs are subject to quarterly reviews. These reviews compare actual performance to the
12 budget, incorporate operating companies' input, and result in formal reforecasts when
13 necessary to address changing business needs or timing differences.

14 In addition to these quarterly reviews, costs are closely monitored through detailed
15 monthly budget-to-actual variance reporting. These reports are prepared for each
16 functional area, providing transparency into budget compliance and enabling timely
17 corrective action.

18 Functional groups supplement these two processes with their own internal controls. For
19 example, BTS performs daily project-level tracking, with variances over 10% escalated for
20 leadership review. Legal reviews and approves invoices monthly, rejecting bills that fall
21 outside of budgeted expectations. The Tax function conducts quarterly reviews of external
22 service costs. Human Resources and Safety conduct monthly monitoring of
23 compensation, benefits, and compliance-related costs, and recently carried out a
24 functional staffing benchmark to determine the appropriate size of the recruiting team.
25 Procurement continuously tests the value of outsourcing arrangements and bundled
26 sourcing strategies to control costs. The call center leadership meets monthly with TNMP
27 leadership to conduct reviews of call volumes, performance metrics, billing reports,
28 training levels, and budget variances, creating a formal platform for dialogue and enabling
29 TNMP to directly influence future cost decisions and the scope of call center services.

30 Collectively, the quarterly enterprise reviews, monthly variance monitoring, and functional-
31 level reviews establish a robust framework for managing costs after the budget has been
32 set. These processes provide recurring opportunities to identify and address variances,

1 manage costs, and maintain accountability at both at enterprise and functional levels, and
2 ensure that PNMR Services and TNMP's costs remain aligned with approved targets.

3 **Q. DO PNMR, TNMP, AND PNM CAPTURE ACTIVITY COSTS IN A MANNER IN WHICH**
4 **THEY CAN BE REVIEWED AND CHALLENGED?**

5 A. Yes. PNMR, TNMP, and PNM record cost data at a granular level that enables each to
6 perform detailed analyses of actual costs against budget costs. With this data, the
7 companies can produce detailed monthly reports for use in the monthly performance
8 reporting process to establish that charges from PNMR and PNM are consistent with
9 agreed budgets. The structure and method in which costs are planned, budgeted,
10 captured, reported, and analyzed provide visibility into the nature of the costs, thereby
11 providing the operating companies, including TNMP, with adequate insight into the nature
12 of the service company costs billed to them.

13 **Q. WHAT OTHER EVIDENCE SUPPORTS YOUR ASSESSMENT OF THE OVERALL**
14 **COST-CONTROL MECHANISMS IN PLACE AT PNMR, TNMP, AND PNM?**

15 A. PNMR and the operating companies utilize several additional cost control mechanisms,
16 including industry benchmarking, outsourcing and insourcing decisions / assessments,
17 intra-company benchmarking, and periodic event-driven (e.g., contract renewal) cost
18 reviews.

19 **Industry Benchmarking**

20 Several PNMR functional leads benchmark both staffing and costs against industry
21 standards to ensure efficiency. Audit Services has conducted informal benchmarking of
22 audit staffing levels, while Human Resources benchmarks compensation, benefits, and
23 compliance staffing ratios against the market. BTS has engaged with Gartner to review
24 technology costs and identify areas for improvement. These efforts provide external
25 reference points to validate that PNMR's cost structures remain reasonable.

26 **Outsourcing Reviews**

27 PNMR regularly evaluates whether outsourcing or insourcing services provides the best
28 value. For example, BTS has also reevaluated outsourcing arrangements in recent years,
29 and has outsourced the maintenance and support of several applications, software Test
30 Center of Excellence ("TCOE"), and portions of the technology infrastructure and client
31 services. These reviews demonstrate that PNMR actively pursues cost optimization
32 strategies across its functions.

1 **Operational Metrics and Scorecards**

2 TXNM entities also employ operational metrics and scorecards that reinforce cost
3 discipline. At the company level, a monthly review scorecard category includes “Managing
4 Costs - Actual O&M” as a weighted metric, with a 20 percent weight in evaluating overall
5 performance. In addition, PNMR and the operating companies operate under an Annual
6 Incentive Plan scorecard, in which O&M performance is a key KPI that directly influences
7 overall executive compensation. These mechanisms create strong financial incentives for
8 leadership to uphold cost discipline and remain accountable for meeting business cost
9 performance objectives.

10 Together, these benchmarking efforts, outsourcing reviews, and scorecard-based
11 performance metrics provide clear evidence that PNMR, PNM, and TNMP apply a
12 disciplined, multi-layered approach to controlling costs across the service company
13 functions.

14 **Q. DO YOU BELIEVE THE PLANNING, BUDGETING AND COST CONTROL**
15 **PROCESSES ARE AN EFFECTIVE MEANS FOR CONTROLLING TNMP, PNMR, AND**
16 **PNM COSTS?**

17 A. Yes, I do. PNMR’s planning, budgeting, and cost control processes are effective in
18 managing costs for TNMP, PNMR, and PNM Call Center costs. The process combines
19 top-down target setting with refined budget development, allowing operating companies
20 to align business needs with corporate objectives while exercising reasonable influence
21 over shared service costs. Quarterly reforecasts and formal interactions, such as BTS’s
22 governance councils and Human Resources’ business partner model, provide additional
23 opportunities to adjust budgets and challenge assumptions. Further, cost control is
24 reinforced through industry benchmarking, regular outsourcing and insourcing reviews,
25 and company-wide scorecards that tie O&M performance to management accountability
26 and executive compensation.

27 In summary, TNMP’s, PNMR’s, and PNM’s budgeted costs are the result of a well-defined,
28 understood, and executed processes that contribute to effective control and
29 reasonableness of costs incurred.

1 **B. COST TRENDS**

2 **Q. WHAT IS YOUR PURPOSE IN EVALUATING TNMP BILLING TRENDS FROM**
3 **TRAILING TWELVE MONTHS ENDED JUNE 30, 2022 TO THE TRAILING TWELVE**
4 **MONTHS ENDED JUNE 30, 2025?**

5 A. My analysis serves to provide the PUCT with a frame of reference from which to assess
6 the level and nature of recent and future cost changes through the TNMP 2025 rate case
7 test year, the Trailing Twelve Months ending June 30, 2025. To do so, I have conducted
8 several related analyses.

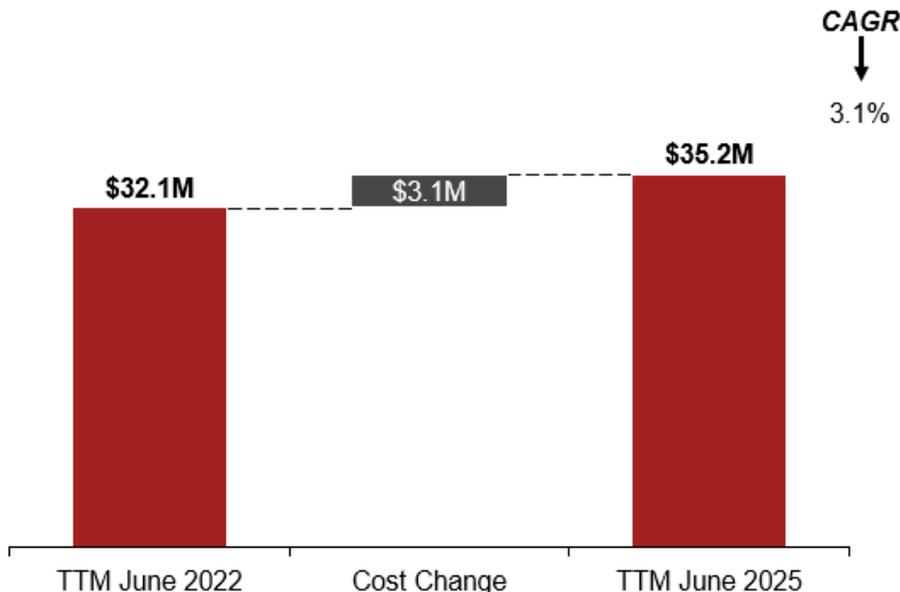
9 I first analyzed the changes in PNMR's billings to TNMP from the Trailing Twelve Months
10 ending June 30, 2022 ("TTM June 2022"), to the Trailing Twelve Months ending June 30,
11 2025 ("TTM June 2025"). In addition, I reviewed call center costs from the same period. I
12 also evaluated the trend in total A&G cost levels using annually available FERC Form data
13 from 2021 through 2024. Finally, I compared the growth in PNMR's billings to TNMP
14 against other TNMP business drivers (e.g., utility plant, electricity sales, etc.) to
15 contextualize overall system growth relative to the change in PNMR billings to TNMP.

16 **Q. WHAT HISTORICAL BILLINGS TO TNMP HAVE YOU EVALUATED AND HOW HAVE**
17 **THEY CHANGED IN THE TIME PERIOD ANALYZED?**

18 A. I've assessed the adjusted PNMR billings to TNMP to develop relevant cost baselines for
19 analysis. For the adjustment components please refer to the schedule WP II-D-2 5. In the
20 aggregate, PNMR Services adjusted billings to TNMP in TTM June 2022 were \$32.1
21 million. Comparable aggregate TTM June 2025 billings to TNMP were \$35.2 million. The
22 figure below shows the change in PNMR billings to TNMP throughout the period.

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Figure 6
Adjusted PNMR Billings to TNMP
Nominal \$M, TTM June 2022 – TTM June 2025



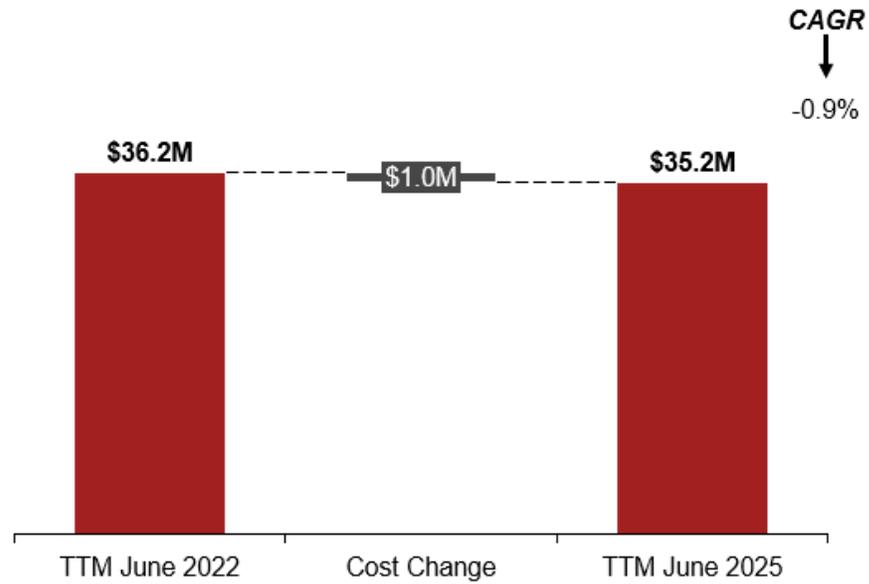
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Q. HOW DO YOU EXPLAIN THE COST INCREASE?

A. From my review, a key driver of these cost increases was inflation. Inflation escalated annual costs, including wages, salaries, and employee benefits. To draw a fair comparison, I adjusted TNMP’s incurred costs from PNMR using the Consumer Price Index for All Urban Consumers from the U.S. Bureau of Labor Statistics (BLS) to develop an escalated or “real dollar” basis for comparison. With my adjusted calculation, using “real” TTM June 2022 dollars, TNMP’s incurred costs from PNMR would decrease from \$36.2 million in TTM June 2022 to \$35.2 million for the TTM June 2025. This would effectively result in a “real” decrease of \$1.0 million (negative 0.9% CAGR over the period). **Figure 7** summarizes the resulting trend.

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Figure 7
Adjusted PNMR Billings to TNMP
Real \$M, TTM June 2022 – TTM June 2025



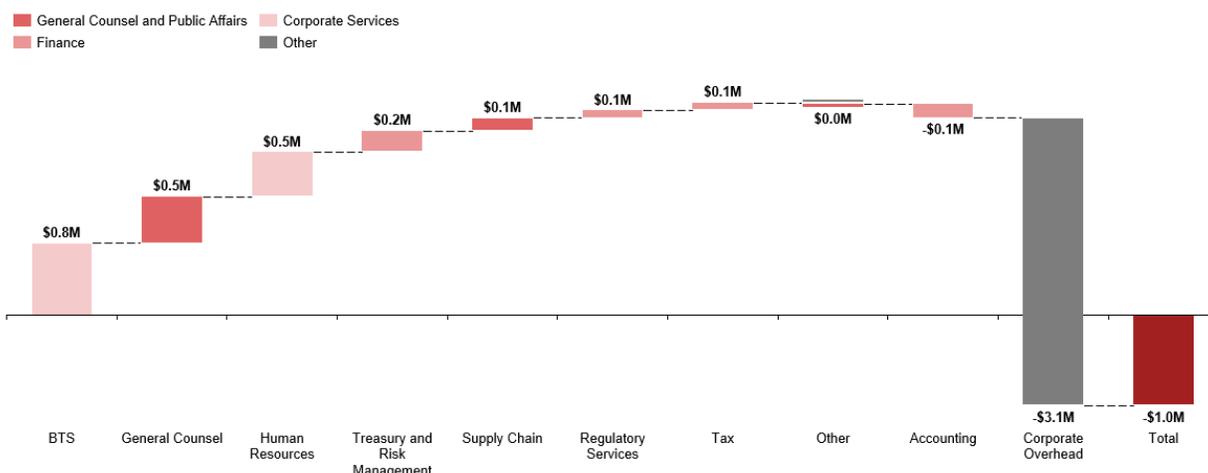
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Q. WHAT ADDITIONAL ANALYSIS DID YOU PERFORM TO UNDERSTAND THE UNDERLYING CHANGES AT THE FUNCTIONAL LEVEL?

A. I evaluated four underlying functions with the largest real cost increase from TTM June 2022 to TTM June 2025, as well as the one with the largest decrease, as shown in **Figure 8**.

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Figure 8
Adjusted PNMR Billings to TNMP
Real \$M, TTM June 2022 – TTM June 2025



My findings regarding each of these functions are noted **below**:

- BTS:** BTS billings increased by \$0.8 million (real) between TTM June 2022 and TTM June 2025, primarily reflecting higher costs across IT/OT applications, security, and telecom. IT/OT application costs rose due to additional outside services for Cognizant application maintenance (covering Corporate Maximo, Robotic Process Automation, document management, web applications, Banner TX, and EDI) as well as labor from team expansion. Security spending increased mainly from outside services for physical security staffing, break-fix support, and systems operations center services. Telecom costs grew largely from higher telecom line and ISP expenses, along with labor costs tied to four newly hired FTEs. Collectively, these increases represent investments in sustaining operations, strengthening technical support, and enhancing service reliability.
- General Counsel:** General Counsel billings increased \$0.5 million (real) from TTM June 2022 to TTM June 2025, primarily due to Board search fees for director recruitment, and higher average Board of Directors compensation raised based on external benchmarking.
- Human Resources:** Human Resources billings increased by \$0.5 million (real) between TTM June 2022 and TTM June 2025, primarily due to added headcount

1 in response to additional organizational needs. Key drivers included the addition
2 of a Manager for Talent Acquisition to address heightened turnover during the
3 2022 “great resignation,” a period when many employees across industries left
4 their jobs in search of new opportunities as well as enhance the recruiting
5 processes for the TXNM subsidiary companies’ growth in hiring. Other increases
6 came from hiring a new HR consultant supervisor, as well as adding roles to
7 manage the employee accommodation process and to provide temporary support
8 for administering apprenticeship programs in both Texas and New Mexico. These
9 staffing additions reflect targeted investments to strengthen Human Resources
10 capacity, enhance employee support, and expand program administration to meet
11 the shifting needs of the business units.

- 12 • **Treasury and Risk Management:** Treasury & Risk Management billings
13 increased \$0.2 million (real) from TTM June 2022 to TTM June 2025 primarily due
14 to higher corporate insurance premiums to protect against operational, financial,
15 and emerging risks.
- 16 • **Corporate Overhead:** Corporate Overhead billings declined by \$3.1 million (real)
17 between TTM June 2022 and TTM June 2025, influenced by lower performance-
18 based incentive payments and a reduction in indirect effect costs. The decrease in
19 incentive payments reflects lower achievement against established performance
20 targets in TTM June 2025 compared to stronger performance during TTM June
21 2022 (please refer to the testimony of Rebecca R. Teague for additional details).
22 The reduction in indirect effect costs relates to decreases in items such as time-off
23 allowances, corporate donations, certain nonrecurring expenses, and an expense
24 offset to payroll loads applied to capital projects. For more information on indirect
25 effects, please refer to the testimony of Emmanuel J. Lopez.

26 I have analyzed the cost change within each of these functions and conclude that they are
27 reasonable and within the context of TNMP and PNMR operating models.

28 **Q. WHAT IS THE NATURE OF PNM'S CALL CENTER COSTS?**

29 A. The PNM call center handles customer calls on behalf of PNM and TNMP. For TTM June
30 2025, there are two primary components to the costs TNMP are billed. First, there is the
31 cost per call (for inbound and dispatch calls). Second, there is a monthly fee for quality
32 assurance and training.

1 The cost per call was billed at \$4.23 per call. At the end of each month, this rate is applied
2 to the number of TNMP calls answered by the PNM call center to calculate TNMP's total
3 call center billings for the month. Normal call center hours are weekdays from 7:30 AM to
4 6 PM. PNM dispatchers handle TNMP outage calls after these hours and are occasionally
5 supported by home-based call center representatives if the call volume is high. These
6 after-hours calls answered by dispatchers are billed to TNMP at a rate of \$4.19 per call.
7 When home-based agents support the dispatchers after-hours, calls are billed to TNMP
8 at the standard \$4.23 rate per call. Customer-based call center metrics exclude after-hours
9 calls, which totaled about \$74,000 in TTM June 2025, or 18% of PNM's call center billings
10 to TNMP during the period. These calls, including both dispatch and home-based
11 handling, are primarily for outage reporting and the associated metrics are not easily
12 comparable. Lastly, TNMP is also billed a monthly rate of \$891 for quality assurance and
13 training, activities needed to ensure good customer experience.

14 **Q. WHAT ARE THE COSTS FOR PNM'S CALL CENTER AND WHAT PORTION OF**
15 **THOSE COSTS IS FOR TNMP CALLS?**

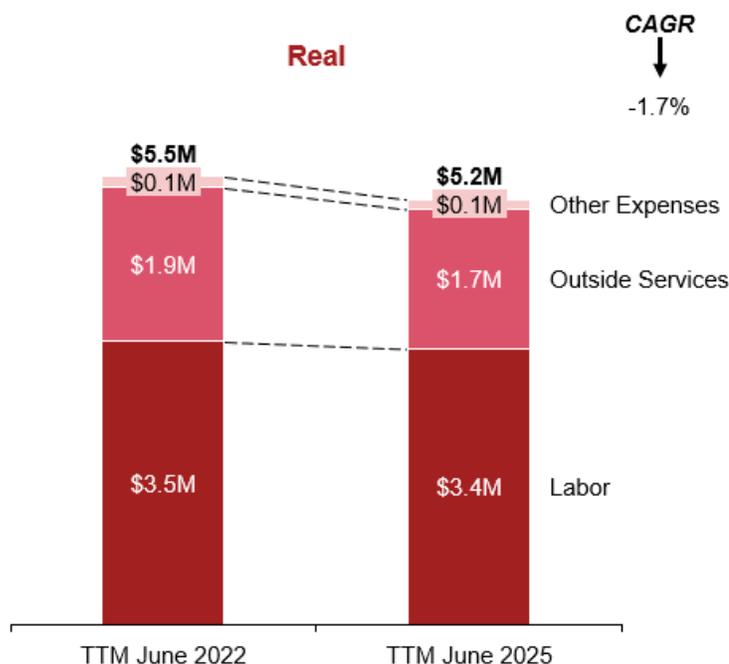
16 A. Total costs for the call center in the TTM June 2025 were \$5.2 million, with 65% of that
17 cost consisting of labor charges. Calls for TNMP make up a relatively small portion of the
18 total call volume. In the TTM ending June 2025, ~95,000 out of ~572,000 calls, or ~17%,
19 of total calls were for TNMP. Costs are billed on a cost per call basis to TNMP based on
20 TNMP total calls, which results in total billings of ~\$412,000 in TTM June 2025.

21 **Q. WHAT ARE THE RECENT COST TRENDS FOR PNM'S CALL CENTER?**

22 A. Overall real call center costs declined by 1.7% annually between TTM June 2022 and TTM
23 June 2025, after adjusting for inflation. As shown in **Figure 9**, the decrease was mostly
24 due to reduction in labor and outside services costs.

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Figure 9
Call Center O&M Cost Type Breakdown
Real \$M, TTM June 2022 – TTM June 2025

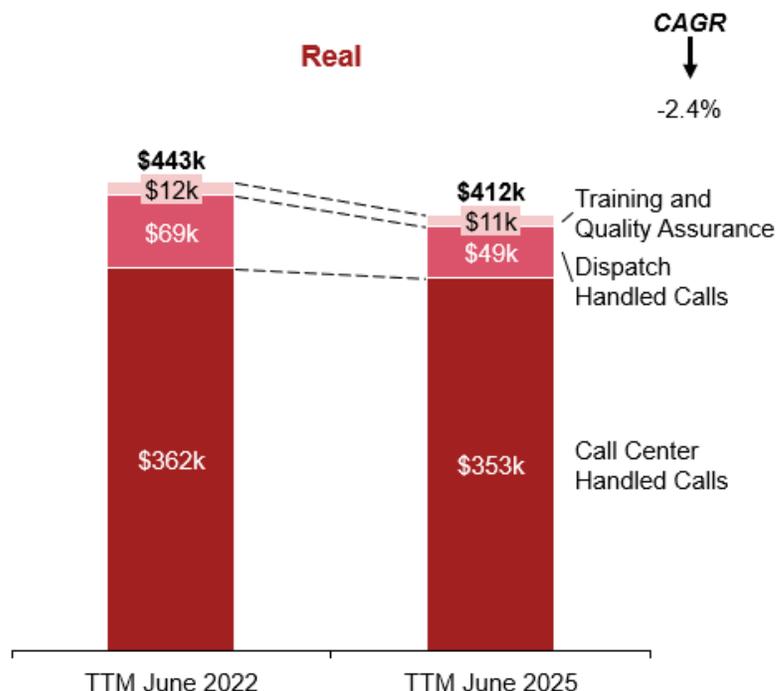


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However, costs charged to TNMP are specifically calculated based on services provided to TNMP customers and the total number of TNMP calls. As a result, the average costs charged to TNMP (including quality assurance and training) remained steady at \$4.34 per call during the analysis period, inclusive of both the per-call charge and the training and quality assurance fees. In addition, during that time period, the average cost per minute for TNMP calls has declined from \$0.93 to \$0.83, reflecting positive operational performance. As shown in **Figure 10**, when adjusted for inflation, PNM call center billings to TNMP have decreased 2.4% annually from TTM June 2022 to TTM June 2025. TTM June 2025 includes call center costs incurred during Hurricane Beryl in 2024, which were subsequently moved to regulatory assets for recovery. For additional information, please refer to the testimony of Emmanuel J. Lopez.

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Figure 10
Call Center Billings to TNMP
Real \$M, TTM June 2022 – TTM June 2025



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6 **Q. DID YOU CONDUCT ANY OTHER COST TREND ANALYSES AT TNMP? HOW DID**
7 **YOU ANALYZE THE TOTAL A&G LEVELS AT TNMP?**

8 A. Yes, to provide perspective on total A&G expense at TNMP, I conducted an analysis of
9 costs specific to A&G functions. To achieve a holistic picture of A&G cost trend levels, I
10 considered both the A&G costs billed to TNMP (e.g., from PNMR) and the A&G costs
11 incurred directly within TNMP from 2021 to 2024.

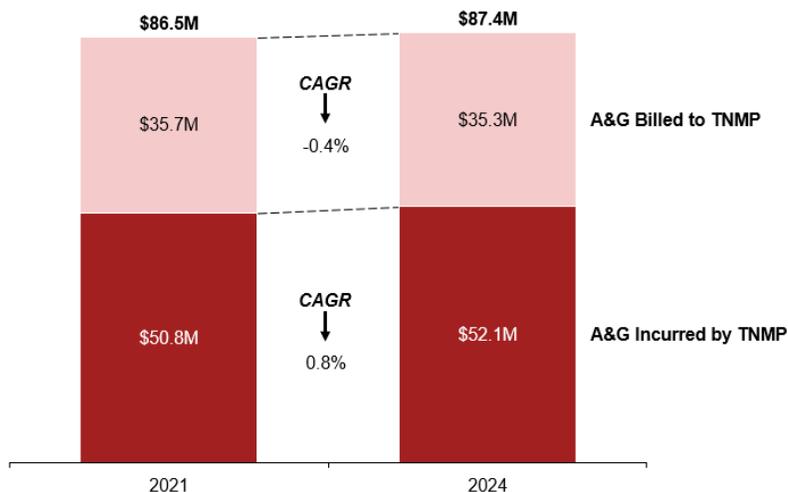
12 **Q. HOW HAVE THE TOTAL A&G COST LEVELS AT TNMP CHANGED DURING THE**
13 **PERIOD ANALYZED?**

14 A. I used the most recently available FERC Form 1 data, which is available on an annual
15 basis, and found that on a nominal dollar basis, the total A&G costs at TNMP grew by \$8.1
16 million (5.9% CAGR) between 2021 and 2024. At TNMP, total A&G expenses increased
17 in real terms by \$1.3 million (approximately CAGR 0.8%), whereas PNMR A&G Billings to
18 TNMP decreased in real terms by \$0.4M (negative 0.4% CAGR) over the same period.
19 These results are illustrated in **Figure 11** below.

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Figure 11
A&G Billed and Incurred by TNMP

Real \$M, 2021 – 2024



Q. HOW DOES THE GROWTH OF SERVICE COMPANY BILLINGS TO TNMP FROM 2021 TO 2024 COMPARE TO THE GROWTH IN OTHER BUSINESS DRIVERS?

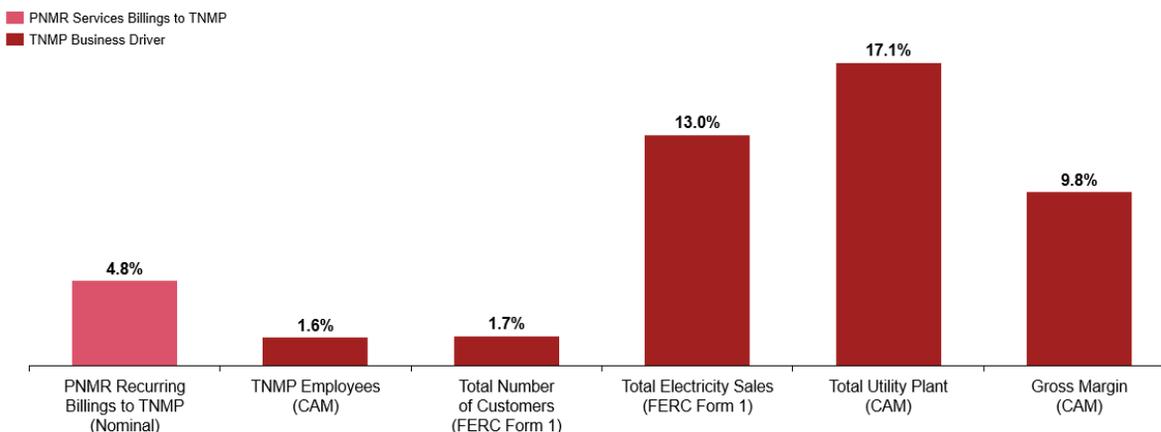
A. To evaluate PNMR Service billings more holistically across 2021 to 2024, I compared PNMR’s billings growth to the growth in number of customers, total utility plant, electricity sales, and gross margin which are all available on an annual basis. My goal was to understand the growth of Service Company billings against the growth of the TNMP system over the period.

As shown in **Figure 12** below, Service Company billings increased at 4.8% CAGR (nominal) between 2021 and 2024, which is below the growth in TNMP’s electricity sales (13.0%), and total utility plant (17.1%) over the same period. Electricity sales growth reflected higher commercial and industrial consumption, while total customer growth remained modest at 1.7%.

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Figure 12
TNMP Business Drivers and PNMR Billings Growth

Nominal \$M, 2021 - 2024



Q. HOW DOES THE GROWTH IN OTHER BUSINESS DRIVERS AFFECT PNMR BILLINGS TO TNMP?

A. Growth in TNMP’s business drivers has a direct effect on increasing PNMR allocations to TNMP. Significant investment in the system raised total utility plant, while rising electricity sales expanded gross margin, both factors that impact the Modified Massachusetts Formula (“MMF”), PNMR’s General Allocation factor. Even though employee headcount grew more modestly at 1.6%, it still rose relative to PNM, reinforcing higher allocations through general and transaction-based factors that will be detailed in the next chapter, Cost Allocation.

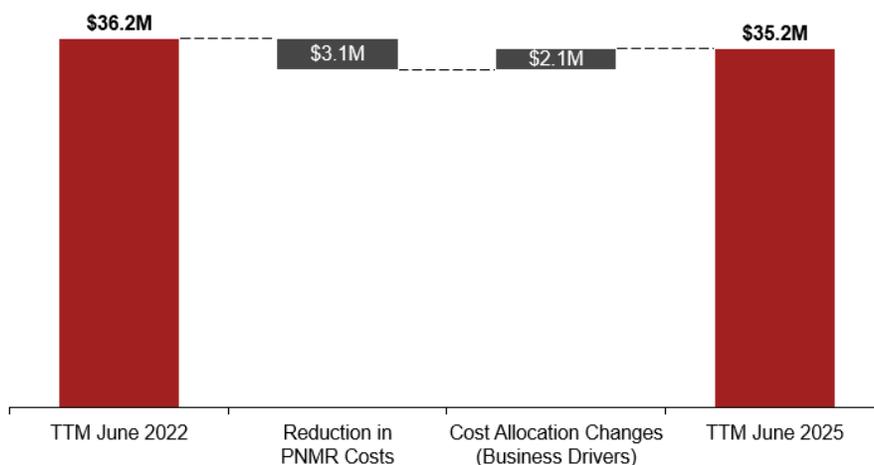
To estimate the impact of changes in the allocation drivers, we applied the TTM June 2022 allocation percentages to PNMR Services’ TTM June 2025 cost base of \$121.6 million, while keeping PNMR direct cost allocations to TNMP fixed at \$11.8 million from the TTM June 2025 period. This calculation resulted in an estimated allocation of \$33.1 million (real) for the TTM June 2025 period. Compared to the \$36.2 million (real) allocated in TTM June 2022, this represents a \$3.1 million real reduction attributable to the decrease in PNMR Services total real costs during the period. The difference between the \$33.1 million estimate and the actual \$35.2 million (real) allocated in TTM June 2025 reflects a \$2.1 million real increase driven by business growth that raised TNMP’s transaction-based and general allocation factors.

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Figure 13

PNMR Billings to TNMP Growth Drivers

Real \$M, TTM June 2022 – TTM June 2025



As shown in **Figure 13**, business driven changes were estimated to be the second largest contributor to the increase in PNMR billings to TNMP after inflation (previously discussed in this testimony). This analysis shows that the higher billings from PNMR to TNMP during the period are a natural outcome of TNMP’s business expansion and are consistent with the overall scale of system growth.

Q. WHAT ARE YOUR CONCLUSIONS AS THEY RELATE TO THE CHANGES IN COST LEVELS AT PNMR BILLINGS AND PNM CALL CENTER COSTS FROM TTM JUNE 2022 THROUGH TTM JUNE 2025?

A. The trends in affiliate billings from TTM June 2022 to TTM June 2025 indicate that there are legitimate business drivers resulting in cost changes. On a real basis, historical adjusted billings to TNMP have decreased 0.9% annually. Functional level cost increases were driven by business growth, and primarily a function of increases across four functions: BTS, General Counsel, Human Resources, and Treasury & Risk Management. Increases in billed costs across these functions reflect strategic investments in technology, governance, workforce capacity, and risk protection, aimed at sustaining operations, strengthening support, and enhancing organizational resilience.

On a real basis, trends in call center billings to TNMP demonstrate cost stability and efficiency improvements. Specifically, the average cost per call charged to TNMP

1 remained constant at \$4.34 from TTM June 2022 through TTM June 2025, and when
2 adjusted for inflation, total PNM call center billings to TNMP declined by 2.4% during the
3 period.

4 Furthermore, total A&G levels at TNMP (including costs incurred within TNMP) increased
5 0.8% on a real basis from 2021 to 2024. A&G billed to TNMP have decreased during the
6 same period (negative 0.4% CAGR). The PNMR Service company billings growth rate
7 from 2021 to 2024 (4.8%) is below the growth of TNMP's system as measured by total
8 utility plant (13%), and total electricity sales (17.1%) during the same period.

9 In conclusion, I reviewed the billings from PNMR Services and the PNM Call Center to
10 TNMP in detail for the period from TTM June 2022 through TTM June 2025, as well as
11 A&G expenses in total and those incurred by TNMP. I also evaluated the business drivers
12 behind these charges in comparison to cost increases at TNMP from 2021 to 2024. My
13 analysis indicated that the billings to TNMP are reasonable.

14 **C. COST ALLOCATION**

15 **Q. WHAT IS THE PURPOSE OF ANALYZING PNMR COST ALLOCATION PROCESSES?**

16 A. The method for distributing PNMR costs to TNMP is fundamental to the fairness and equity
17 of the service company model. In this section of my testimony, I analyze PNMR process
18 and methodology under the applicable services agreements for allocating costs to TNMP.
19 I assess the reasonableness of this approach, with a focus on whether it results in
20 reasonable direct charges and allocations of costs to TNMP. To do so, I review the
21 allocation methodology and allocation factors and compare PNMR Service approach to
22 the methodologies commonly utilized by utilities in its peer group.

23 **Q. WHAT IS PNMR'S COST DISTRIBUTION FRAMEWORK?**

24 A. Under the applicable services agreements and its internal procedures, PNMR either
25 directly assigns or allocates costs to the operating companies. Whenever possible, PNMR
26 Services charges costs directly to the entity that caused the cost to be incurred. If costs
27 cannot be directly charged, PNMR allocates costs utilizing typical industry methodologies
28 intended to distribute costs in a manner closely related to cost causation. The allocation
29 formula employed depends upon the nature of the activity, and the ratio utilized may be
30 labor-based (e.g., employee headcount) or unit-based (e.g., customer count, call volume,
31 number of general ledger transactions, etc.). In those instances where it is not feasible for
32 a category of costs to be linked to factors directly related to the nature of the service

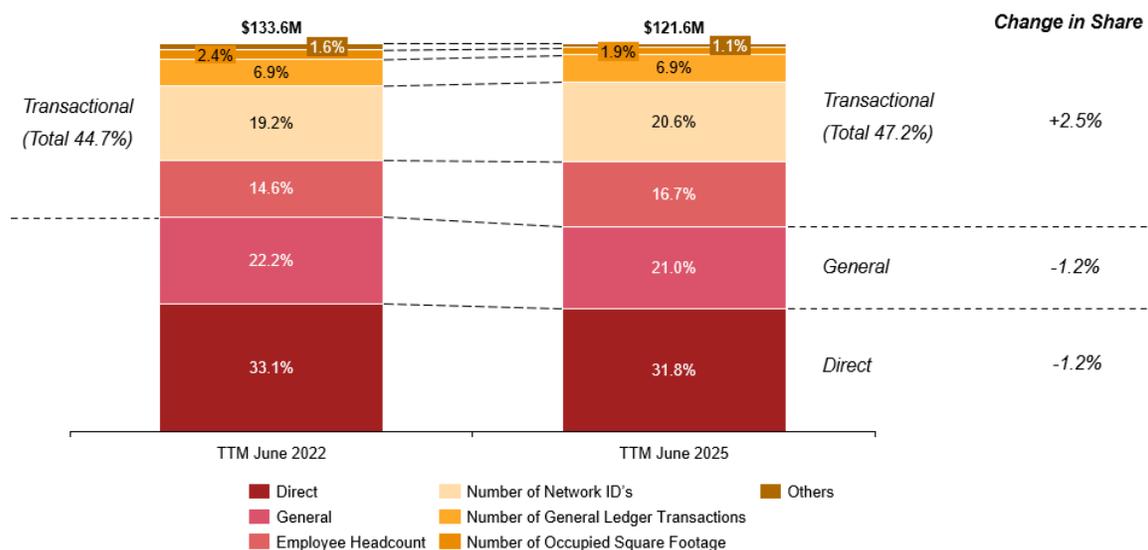
1 provided, a general allocation rate is used. The general rate averages various elements
 2 of each of the operating companies so that a reasonable distribution of costs is allocated
 3 to each entity.

4 The general rate allocation percentage is based on the Massachusetts Method, which
 5 allocates cost based on the general rate comprised of employee headcount, gross margin,
 6 and net utility plant for each company. Both transactional and general allocation factors
 7 are recalculated annually to allocate each month's incurred costs.

8 **Figure 14**

9 **PNMR Billings to Affiliates by Allocation Method**

10 *Real \$M, TTM June 2022 – TTM June 2025*



11 **Figure 14** displays PNMR's total allocations to affiliates. The 1.2% shift from direct to
 12 transactional allocations is primarily driven by a reduction in direct charges in TTM June
 13 2025, largely due to lower performance-based incentive payments, along with increases
 14 in costs within the BTS and Human Resources functions at PNMR. As a result, these
 15 functions represented a higher share of total PNMR costs in TTM June 2025. Because
 16 BTS and Human Resources are primarily allocated through transactional methods, their
 17 increased cost share led to a greater proportion of total costs being allocated
 18 transactionally. Most importantly, the underlying allocation methodology remained
 19 unchanged between the two periods.
 20

1 **Q. IS PNMR FRAMEWORK CONSISTENT WITH THOSE IN PLACE AT OTHER UTILITY**
 2 **SERVICE COMPANIES?**

3 A. Yes. Regulators have long required utility service companies to establish detailed
 4 processes for assigning and allocating costs among their client operating companies or
 5 business units. To comply, these companies typically design methodologies that rely on
 6 allocation factors closely aligned with the nature of their activities. Consequently, utility
 7 service companies use a variety of allocation factors to ensure costs are distributed
 8 appropriately across their client operating companies. As shown in **Figure 15**, PNMR
 9 Services applies allocation factors consistent with those commonly used by other utility
 10 service companies, reinforcing its adherence to industry practice.

11 **Figure 15**

12 **Service Company Allocation Factors**

13 **2024**

Allocation Type	Primary Factors	PNMR	AEP	AES	Alliant	Ameren	ATC Mgmt.	Bleck Hills	Centerpoint Energy	Dominion Energy	Duke Energy	Entergy	Exelon	FirstEnergy	Eversource Energy	LG&E and KU	NiSource	PHJ Services	PPL Corp.	Southern Company	Xcel Energy	WEC Energy	Unitil
General	Direct																						
	Customers																						
Financial	Number of General Ledger Transactions																						
	Number of Invoices processed																						
Employees	Employee Headcount																						
Assets Related	Number of Depreciable Assets																						
	Number of Occupied Square Footage																						
	IT Assets																						
	Number of Phones																						
Composite Ratios	MMF/Weighted Average factor / Composite factor																						
Others	Other Allocation Factors	3	19	5	8	16	2	5	5	11	12	18	9	9	5	19	5	5	20	14	14	8	11
TOTAL NUMBER OF ALLOCATION FACTORS REPORTED ON FORM 60 (2024)		13	26	10	13	24	4	11	9	19	19	28	15	14	10	25	11	10	26	18	22	14	14

14
 15 At the same time, there is considerable variability in how individual companies approach
 16 cost allocation. Differences often stem from management judgment, organizational
 17 structures, and the specific requirements of the regulatory environment. Consequently,
 18 service companies may apply multiple and varying factors depending on the
 19 circumstances, whether driven by regulation, organizational design, the type of activity, or
 20 management discretion.

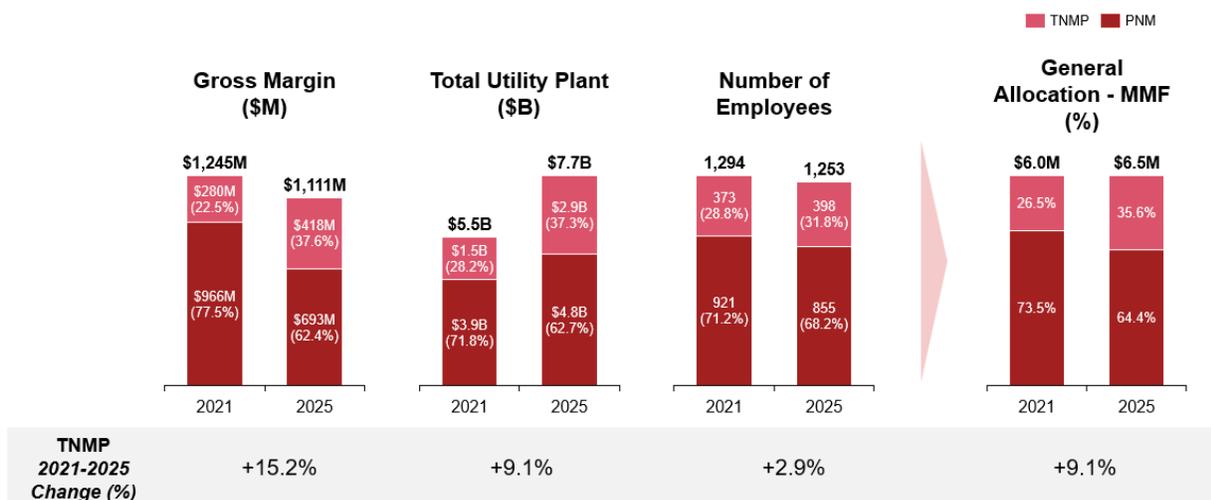
1 **Q. HAS PNMR SERVICES MEANINGFULLY CHANGED HOW IT ALLOCATES COSTS IN**
 2 **RECENT YEARS?**

3 A. No. PNMR’s respective approaches to cost allocations have remained consistent in recent
 4 years. Although the calculation of allocation factors has shifted somewhat, as shown in
 5 **Figure 16**, the change reflects TNMP’s system expansion, which has affected its gross
 6 margin, total utility plant, and employee base when compared to PNM’s. These changes
 7 increased TNMP’s overall share of allocations, particularly in general allocations, without
 8 changing the underlying methodologies and their reasonableness.

9 **Figure 16**

10 **Organizational Metrics and Cost Allocation Trends**

11 **2021 - 2025**



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14 **Q. ARE THE COST ALLOCATION FACTORS ADOPTED BY PNMR REASONABLE?**

15 A. Yes. The cost allocation factors utilized by PNMR Services are designed to link the causes
 16 of expenditures with their allocations. In my experience, while there is no universally
 17 accepted methodology for cost allocation, there is consensus on the criteria to be followed
 18 when creating and implementing an allocation system. These criteria include direct
 19 charging where possible, utilization of allocation factors linked to cost causation, simplicity
 20 in administration, and equity in achieved outcomes. I believe that PNMR Services’ system
 21 incorporates these factors and result in a reasonable outcome regarding cost distribution.

22 **Q. WHAT ARE YOUR CONCLUSIONS RELATED TO PNMR ALLOCATION**
 23 **FRAMEWORK?**

1 A. PNMR's cost assignment and allocation processes are well structured and result in a
2 reasonable level of costs being allocated where they cannot be directly charged. The
3 processes are consistent with other allocation processes used within the industry and are
4 based on the use of similar allocation factors to those in use at other companies. In my
5 opinion, PNMR direct charging and cost allocation processes are reasonable processes
6 and provide for the reasonable assignment or allocation of costs among TXNM operating
7 companies.

8 **VII. TNMP'S COSTS ARE COMPARABLE TO PEERS AND MARKET OPTIONS**

9 **Q. WHAT IS THE PURPOSE OF THIS COST COMPARABILITY SECTION?**

10 A. As demonstrated above, TNMP, PNMR, and PNM call center activities are reasonable,
11 and they have effective processes in place to plan, control, and manage both cost
12 incurrence and distribution. My next series of analyses evaluates the efficiency of the cost
13 levels incurred by performing those activities. I believe that cost efficiency, and thus cost
14 reasonableness, can be assessed by evaluating whether the costs incurred are
15 comparable to other similar peer companies and whether the costs incurred within PNMR
16 are comparable to other options available to management.

17 We performed two analyses to assess whether TNMP costs are comparable to peers or
18 market options. The first analysis is the relative cost performance assessment described
19 immediately below. The second analysis considers if TNMP is presently obtaining services
20 at a cost comparable to that which might be available by establishing a stand-alone entity
21 to perform the service company activities or engaging third parties. I describe these
22 analyses and our conclusions further below.

23 **A. RELATIVE COST PERFORMANCE**

24 **Q. WHAT IS THE PURPOSE OF YOUR RELATIVE COST PERFORMANCE**
25 **ASSESSMENT?**

26 A. The relative cost performance assessment is a benchmarking analysis that the cost levels
27 among a group of peer companies to understand relative performance. In conducting this
28 analysis, it is important to use consistent data and reasonable peer group companies to
29 analyze and understand variances in performance data. Context is particularly crucial, as
30 below-average results may be explainable and / or uncontrollable. For this reason, the
31 assessment may yield incorrect conclusions without a more holistic perspective.

1 **Q. WHAT BENCHMARKING ANALYSIS DID YOU PERFORM TO ASSESS TNMP AND**
2 **PNMR RELATIVE COST PERFORMANCE?**

3 A. We performed three primary analyses:

- 4 1. Cost performance benchmarking of TNMP and PNMR based on 2021, 2022, 2023,
5 and 2024 FERC Form 1 filings for A&G expenses (normalizing metrics used were Net
6 Utility Plant (excluding Nuclear Fuel), Total Sales Electricity Volume, and Total Retail
7 Customers), supplemented by information from the Energy Information Administration
8 (“EIA”),
- 9 2. Cost performance benchmarking of PNMR Services based on 2021 and 2024 FERC
10 Form 60 and SEC 10K filings.
- 11 3. Cost and performance benchmarking of PNM Call center services based on reliable
12 utility industry metrics used across customer service to measure cost and quality of
13 service.

14 We used these data sources because they provide the most consistently reported publicly
15 available information and are widely recognized as relevant data sources. For the call
16 center benchmarking, since no public data is available, we relied on established industry
17 sources that have been used in prior rate cases to assess call center cost and service
18 quality.

19 Using these data sources, we conducted the cost benchmarking analysis for TNMP,
20 PNMR Services, and the PNM Call Center using multiple commonly adopted metrics that
21 compare relative cost and performance levels with their respective peer groups.

22 **Q. DID YOU MAKE ANY ADJUSTMENTS TO THESE NUMBERS?**

23 A. Yes. We adjusted the A&G costs of peers and TNMP to remove pension and benefit costs,
24 as well as franchise fees, as they are company specific or reflect differently on the
25 controllable costs.

1 **Q. HOW DID YOU DETERMINE COMPARABLE PEER GROUPS?**

2 A. We developed multiple peer groups to be more inclusive and to provide alternative views
3 of peer costs at the TNMP and PNMR Services levels. To benchmark TNMP A&G costs,
4 we developed three peer groups – a customer count peer group, a regionally adjacent
5 peer group, and a T&D peer group, as shown on Exhibits EMS-7-1. In parallel, to
6 benchmark PNMR Services O&M costs using FERC Form 60 data, we developed a peer
7 group of service companies based on customer counts, as shown in Exhibit EMS-7-9. We
8 have benchmarked the PNM Call Center using a proprietary database with a peer group
9 with North American utility contact centers.

10 **Q. WHY ARE THESE PEER GROUPS RELEVANT TO BENCHMARK TNMP, PNMR**
11 **SERVICES, AND PNM CALL CENTER?**

12 A. When data is available, it is reasonable to examine multiple peer groups for several
13 reasons. First, evaluating multiple peer groups avoids selectively skewing the
14 benchmarking towards more favorable views. Second, it is important to understand the
15 differing factors that may affect cost performance. For example, differences between the
16 customer size peer group and regional peer group help illuminate the factors affecting
17 costs. Finally, each peer group has a common characteristic (size, location, business mix)
18 that, when viewed in the aggregate, tends to normalize individual differences among peer
19 companies.

20 **Q. HOW SHOULD RELATIVE PERFORMANCE TO THE PEER GROUPS BE VIEWED?**

21 A. Generally, performance near or better than the average cost of the peer set can be viewed
22 as an indication that a company is providing services in a cost-effective manner.

23 **Q. IS IT APPROPRIATE TO USE FAVORABLE (LOWER RELATIVE COST)**
24 **PERFORMANCE AS THE TARGET LEVEL OF PERFORMANCE?**

25 A. No. There may be factors that affect a company's costs like topography, customer density,
26 customer mix, system age, or collective bargaining agreements — that contribute to
27 increased expenses and are not practically surmountable or controllable. These factors,
28 as well as a company's starting position in the peer group, must be considered in
29 measuring a company's relative performance.

30 In addition, while it is admirable to aim for lower-than-average costs across business
31 functions, it is difficult to consistently expect such results. There are many competing
32 factors within a business that cause different functions to be dynamic in their operations
33 or that require trade-offs that may preclude consistent cost performance better than the

1 peer group average. For example, a company may focus on improving its reliability
2 performance along metrics such as system reliability. In such a case, it may spend more
3 than its peers to obtain improved performance in operating metrics. Thus, blind adherence
4 to artificial targets may ignore legitimate business purposes underlying costs and the
5 overall cost level.

6 **Q. WHAT WERE THE RESULTS OF THE BENCHMARKING ANALYSIS YOU**
7 **PERFORMED?**

8 A. Based on my review, I conducted three benchmarking analyses to assess the relative
9 performance of TNMP, PNMR Services, and the PNM Call Center. These included: (1) an
10 A&G benchmarking analysis, (2) a FERC Form 60 benchmarking analysis, and (3) a call
11 center benchmarking analysis. The results of these analyses are summarized below.

12 **1. TNMP A&G Benchmarking Analysis**

13 Based on my analysis, as shown in **Figure 17**, TNMP and PNMR Service costs, in the
14 aggregate, compare favorably to their respective peer groups. For 2024, TNMP costs
15 performed favorably or at average when compared to peers in 8 of the 9 metrics evaluated.
16 For the comparable peer groups during 2021, TNMP costs performed at average or
17 favorable in 6 of the 9 metrics, which indicates relative performance improvement in 2024
18 relative to 2021.

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Figure 17
Summary of A&G Benchmarking Analysis

2021 – 2024, by Peer Group

		2021	2022	2023	2024
Regional Peer Group	Adj. A&G / Customer	Average	Average	Average	Favorable
	Adj. A&G / MWh Sold	Favorable	Favorable	Favorable	Favorable
	Adj. A&G / Net Utility Plant ¹	Unfavorable	Unfavorable	Unfavorable	Average
		2021	2022	2023	2024
T&D Peer Group	Adj. A&G / Customer	Unfavorable	Average	Unfavorable	Unfavorable
	Adj. A&G / MWh Sold	Favorable	Favorable	Favorable	Favorable
	Adj. A&G / Net Utility Plant ¹	Average	Average	Favorable	Favorable
		2021	2022	2023	2024
Customer Peer Group	Adj. A&G / Customer	Favorable	Average	Average	Average
	Adj. A&G / MWh Sold	Favorable	Favorable	Favorable	Favorable
	Adj. A&G / Net Utility Plant ¹	Unfavorable	Unfavorable	Average	Average

Note: Adj. A&G = Total A&G expense less employee pensions and benefits, and franchise requirements
 Average is defined as peer group mean +/- 10%
¹Net Utility Plant excluding Nuclear Fuel
 Source: FERC Form 1s, Company Websites, Strategy& Analysis

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2. Service Company FERC Form 60 Benchmarking Analysis

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In the second set of benchmarking analyses using the FERC Form 60 data, PNMR Services compared favorably to its peer group. For five of the six benchmarks, PNMR Services performed favorably or at average when compared to peers. The results of the FERC Form 60 analysis are presented on Exhibit EMS-7-10.

3. Call Center Benchmarking Analysis

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The PNM call center was evaluated against industry benchmarks for both cost and service metrics. For both cost metrics assessed, average cost per call and average cost per minute, PNM’s call center performs at or better than industry benchmarks. In 2025, its cost per call is \$4.34 compared with the industry average of \$9.20, and its cost per minute (\$0.83) is also lower than the industry average of \$1.07. For three of the four service metrics reviewed, including average speed of answer, percentage of calls answered within 60 seconds, and call abandonment rate, the call center’s performance is favorable relative to benchmarks. Overall, call center performance has remained relatively stable despite

1 increased call volumes from TTM June 2022 to TTM June 2025. The results of the Call
2 Center Benchmarking analysis are presented on Exhibit EMS-7-17.

3 **Q. ARE COSTS ABOVE AVERAGE LEVEL OF PEER SET INHERENTLY**
4 **UNREASONABLE?**

5 A. No. As discussed earlier in my testimony, costs may on the surface be higher than peer
6 group averages but may be explainable and justifiable. Conversely, below-average
7 (favorable) cost positions cannot be fully understood without addressing factors such as
8 labor costs or relative service levels.

9 **Q. WHAT CONCLUSIONS HAVE YOU REACHED REGARDING THE BENCHMARKING**
10 **ANALYSES YOU PERFORMED?**

11 A. The results of the benchmarking analysis indicate that TNMP, PNMR Services, and PNM
12 Call Center costs have been favorable when compared to the multiple peer groups. The
13 varied nature of the peer groups used across the analysis areas and the factors developed
14 to compare costs on a per-unit basis provide a sound basis from which to assess relative
15 cost performance across multiple related peers and performance drivers.

16 **B. SELF-PERFORMANCE**

17 **Q. WHAT IS THE SELF-PERFORMANCE ASSESSMENT AND WHAT IS ITS PURPOSE**
18 **IN EVALUATING COST REASONABLENESS?**

19 A. The self-performance assessment compares costs being charged or allocated by a
20 service company against the costs a client entity would incur for the same activities to be
21 performed internally. This analysis tests the extent to which economies of scale from
22 centralized service are realized and whether stand-alone, internal performance could
23 generate benefits to an entity. This analysis establishes the “value” that is either created
24 or lost through activity performance at the service company.

25 In this assessment, we create an alternative corporate organizational construct whereby
26 TNMP is a stand-alone entity that must perform its own fiduciary, compliance, and
27 business support activities without the benefit of a centralized service company. This
28 analysis assumes that TNMP would “replicate” the current service levels provided by
29 PNMR Services and PNM. Accordingly, this analysis requires a different way of thinking
30 about TNMP’s current organizational structure and how to replicate the performance of
31 activities. It requires a “build-out” of the requisite functions and organizational structure to
32 enable TNMP to be a stand-alone entity.

1 **Q. HOW DID YOU PERFORM THIS ANALYSIS?**

2 A. To provide a basis to assess the cost of performing the activities currently performed by
3 PNMR Services and PNM on behalf of TNMP, we developed an overall analytical
4 framework. We then completed the following steps to perform the analysis:

- 5 • **Disaggregated the TNMP, PNMR, and PNM Call Center labor baseline:** We
6 disaggregated each labor resource supporting TNMP into standardized functional
7 categories. Our analysis of resource levels was based on June 2025 human
8 resources informational system (HRIS) data. To create a resource baseline for
9 TNMP, we mapped every resource within TNMP and PNMR, and the PNM call
10 center resources to a function and sub-function.

11 A. **Developed a FTE estimate of labor resources:** We estimated the current A&G staffing
12 levels supporting TNMP by reviewing our TNMP, PNMR Services, and PNM Call Center
13 resources baseline. For each function, we identified resources that were centralized
14 (performed by PNMR and or PNM) and local (performed by TNMP). For centralized
15 resources, we reviewed PNMR allocated costs on a function-by-function basis to
16 determine the proportion of labor costs ultimately allocated to TNMP. We applied the final
17 proportions for each sub-function to their respective total resource levels in PNMR to
18 assign headcounts to TNMP. For the PNM call center representatives, we applied the
19 proportion of the total costs billed to TNMP against the total PNM Call Center Costs. This
20 approach allowed us to arrive at an FTE estimate for overall PNMR and PNM support to
21 TNMP, as well as levels of support within TNMP itself.

- 22 • **Compared the current staffing baseline to the estimated TNMP staffing**
23 **levels:** If the total estimated TNMP staffing levels required to replicate current
24 services at similar service levels were higher than the sum of current TNMP,
25 PNMR, and PNM FTEs supporting the Company, then TNMP would incur
26 incremental labor costs to replicate those services on a stand-alone basis. If the
27 converse were true, then TNMP would benefit from performing these new activities
28 totally internally without reliance on PNMR or PNM.

- 29 • **Developed a “bottom up” estimate of non-labor costs:** We estimated certain
30 discrete non-labor-based activities TNMP would need to perform as a stand-alone
31 entity. For those functions with more transparent detailed cost structures, we built
32 up the cost from component elements (e.g., facilities costs = \$32.0/sq. ft. office
33 space in Lewisville, Texas x 150 sq. ft. per FTE (including common areas) x 66

1 incremental FTEs). For activities with less transparent cost components, we
2 developed estimates from these costs at peer utilities.

- 3 • **Estimated one-time costs required for TNMP to perform the required**
4 **activities:** Certain stand-alone activities require infrastructure to perform those
5 activities. For example, companies need a financial reporting system to record
6 financial transactions, maintain financial statements, and prepare financial reports.
7 Much of this infrastructure is deeply integrated within TNMP and PNM, and TNMP
8 would need to replicate it as a stand-alone entity. We estimated the principal one-
9 time costs by discrete element to identify the cost impacts of preparation for self-
10 performance.

11 **Q. WHAT WERE THE RESULTS OF THESE ANALYSES?**

12 A. We determined that aggregating the incremental labor and non-labor costs required to
13 operate as a stand-alone entity, TNMP would require approximately \$13.3 million of
14 additional annual labor and non-labor costs. These incremental costs reflect adding
15 approximately 66 FTEs to the 536 FTEs currently supporting TNMP (403 TNMP
16 employees, and 127 PNMR and six PNM employees allocated to TNMP), as well as non-
17 labor business support costs.

18 TNMP's alternative performance of these activities as a stand-alone entity results in
19 greater than 5.5% increase in total operating expense over the current baseline, which
20 reflects the value of lost economies to TNMP. Additionally, TNMP would incur
21 approximately \$122.6 million in one-time implementation and transition costs necessary
22 to transition from PNMR and PNM to TNMP performance. The one-time costs included IT
23 startup costs, bankers' fees for equity and debt issuance, communications, public
24 company fees (excluding bankers' fees), recruiting, advisory fees, branding, and facilities
25 costs. **Figure 18** illustrates the summary of this analysis.

1
2

Figure 18

Self-Performance Summary

Category	Annual Impact
Incremental FTEs	66
Incremental Labor Costs	\$7.7M
% Capitalized Labor	18.2%
% Non-capitalized Labor	81.8%
Incremental Labor O&M Costs	\$6.3M
Incremental Non-Labor Costs	\$7.0M
Total Incremental Costs	\$13.3M
Baseline Total O&M Expense (FERC 2024)	\$241.7M
Total Incremental Cost Increase	5.5%
Total One-Time Costs	\$122.6M

3
4
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The absolute and relative level of the incremental costs that would result from TNMP performing the services currently provided by the service companies on a stand-alone basis create diseconomies compared to the current cost distributed to TNMP. Thus, as compared to the alternative of internal self-performance, PNMR and PNM call center costs are reasonable and TNMP is economically advantaged through these relationships.

9 **VIII. CONCLUSION**

10 **Q. MR. SIMPKINS, CAN YOU PLEASE SUMMARIZE YOUR EVALUATION OF THE REASONABLENESS OF TNMP, PNMR, AND PNM CALL CENTER COSTS?**

11
12 **A.** My analyses establish that TNMP’s A&G costs, including the Service Company and PNM call center costs charged or allocated to TNMP are reasonable. These costs relate to necessary activities that provide identifiable benefits and do not overlap elsewhere in the enterprise within the organization. TNMP maintains an active influence over annual cost levels, the priorities for performance, the standards of performance, and how costs are controlled. The interaction between TNMP, PNMR and PNM call center occurs both at the highest levels of these organizations and at operating levels where performance levels are directly relevant. The Service Company costs are direct charged or allocated based

1 upon typical methods used within the utilities industry and are based upon the use of cost
2 causative allocation factors.

3 PNMR Services costs compare favorably to those of the respective industry service
4 company peer groups, and call centers. PNM Call Center costs compare favorably to call
5 center peers across the utility industry. In 2024, TNMP generally benchmarked favorably
6 when compared to peers across the relevant metrics. When compared to a market
7 alternative for performance, the TNMP, PNMR, and PNM Call Center costs generally
8 compare reasonably and provide direct economic advantage to TNMP measured against
9 self-performance.

10 The combination of the outcomes of these relevant tests, i.e., the necessity of activity
11 performance, the availability of benefits from activity performance, the absence of overlap
12 and duplication in activity performance, the effectiveness of the planning, budgeting and
13 control processes, the execution of the cost allocation process, the comparability of costs
14 with peers, the economic advantage over self-performance, and the relative consistency
15 of current costs with third-party options provide an abundance of evidence with respect to
16 the reasonableness of costs. I believe that the TNMP A&G costs, including the Service
17 Company costs and PNM Call center costs distributed to it satisfy the elements of the
18 reasonableness standard that I initially defined. They are legitimately incurred, they are
19 effectively managed, and they compare favorably against industry peers and other market
20 options available. For these reasons, I believe that these costs are reasonable and should
21 be recognized as part of the TNMP cost-of-service.

22 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

23 Yes, it does.

AFFIDAVIT

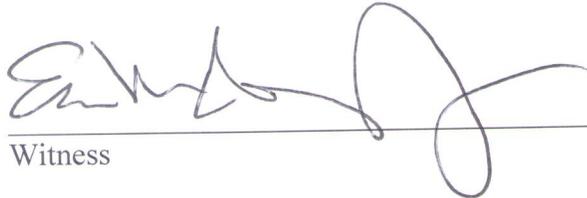
STATE OF TEXAS

§
§
§

COUNTY OF COLLIN

BEFORE ME, the undersigned authority, on this day personally appeared Earl M. Simpkins, who, upon proving his identity to me and by me being duly sworn, deposes and states the following:

“My name is Earl M. Simpkins. I am of legal age, a resident of the State of Texas, and have never been convicted of a felony. I certify that the foregoing testimony, offered by me on behalf of Texas-New Mexico Power Company, is true and correct and based upon my personal knowledge and experience.”


Witness

* * * * *

SWORN TO AND SUBSCRIBED before me, Notary Public, on this 31st day of October, 2025, to certify which witness my hand and seal of office.

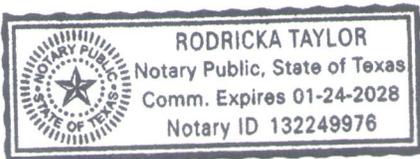

NOTARY PUBLIC in and for the
State of Texas

Printed Name: Rodricka Taylor

My Commission expires: 01-24-2028

Notary ID# 132249976

SEAL:

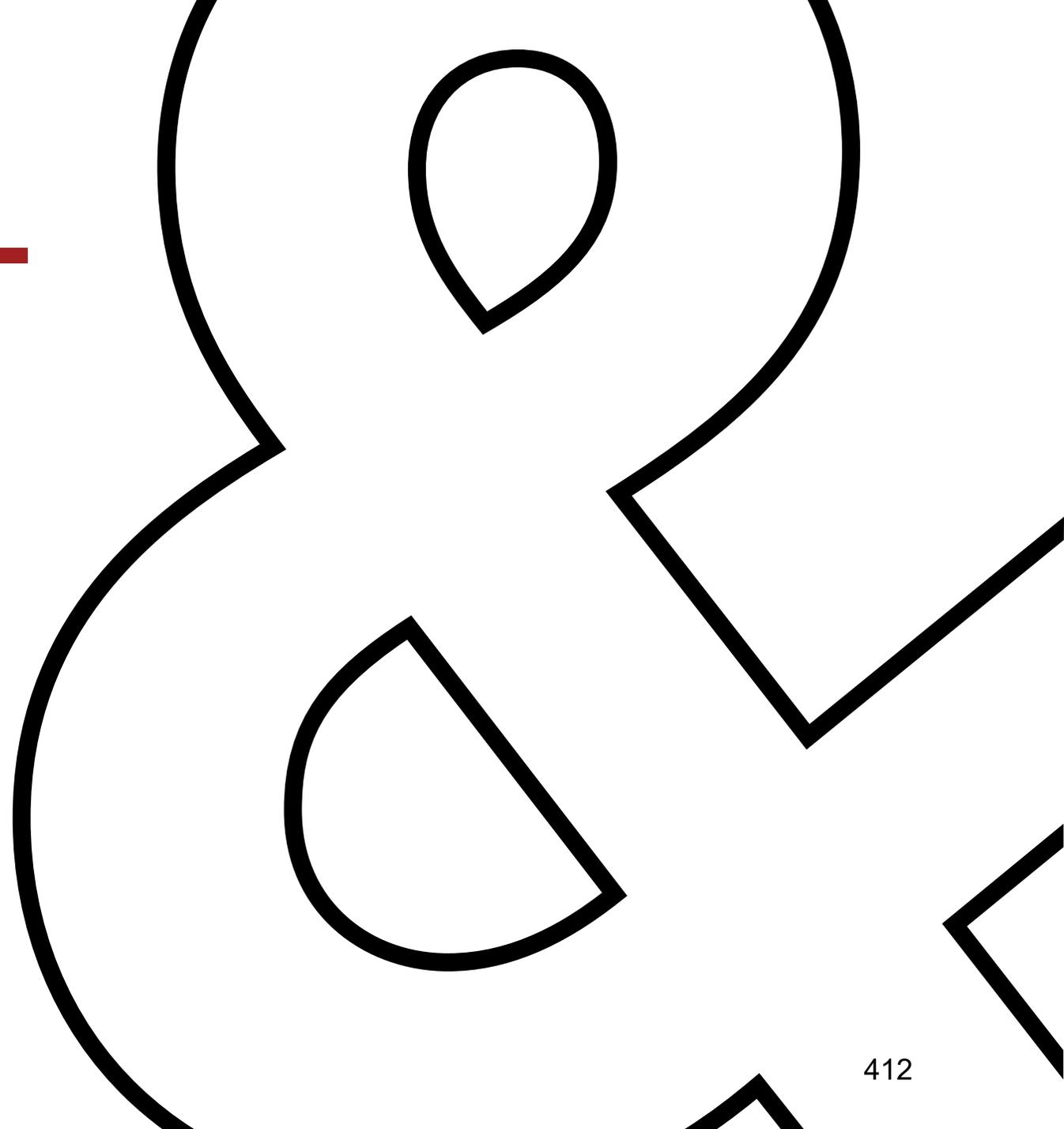


Cost Reasonableness Assessment

Exhibit EMS-1

Organization Overview

November 2025



Use of Exhibits

These exhibits have been prepared to support TNMP's 2025 rate case filing with the Public Utilities Commission of Texas ("PUCT"). Our services were performed and this report was prepared solely in connection with TNMP's 2025 rate case filing. Strategy& performed the services and developed the report for the use and benefit of its client and disclaims any contractual or other responsibility to others based on their access to or use of this report and the information contained herein.

Exhibit 1-1 – 2025 TXNM Energy Organizational Framework

Not Exhaustive

--> Provides Service to TNMP

- -> Provides Call Center Service to TNMP

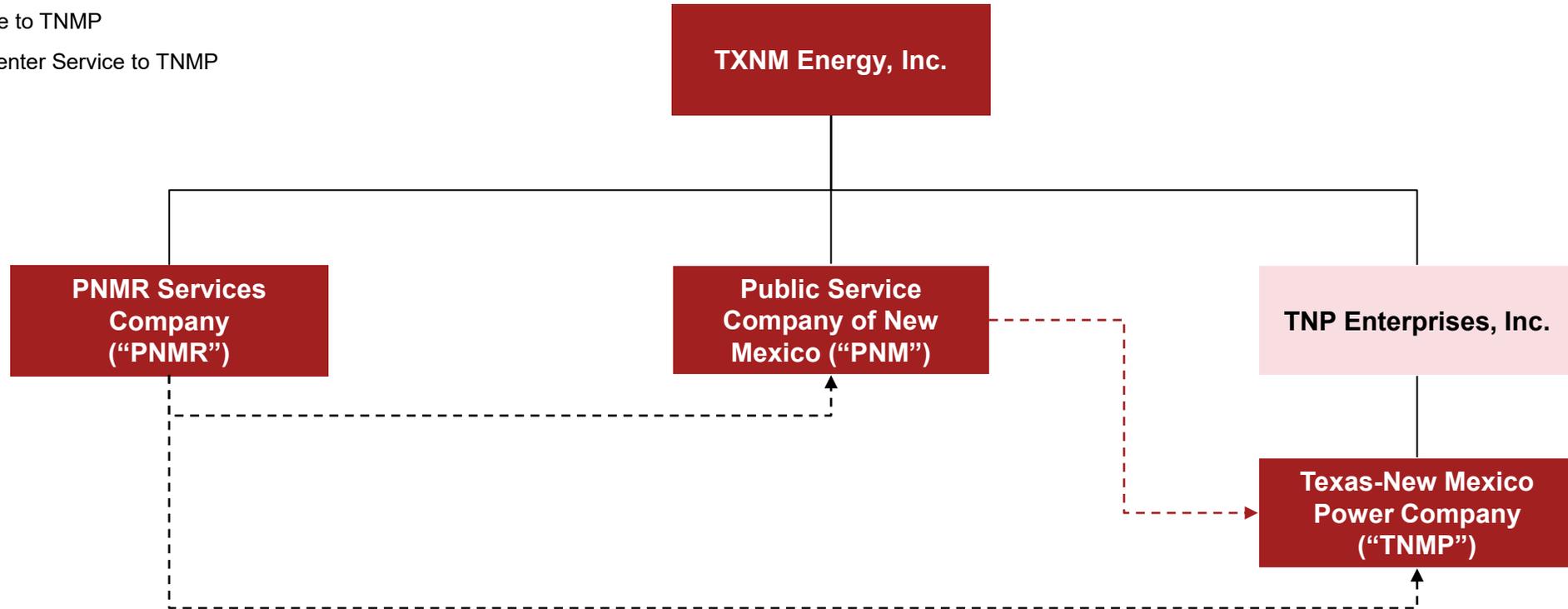


Exhibit 1-2 – Simplified TXNM Energy Organizational Structure

Not Exhaustive

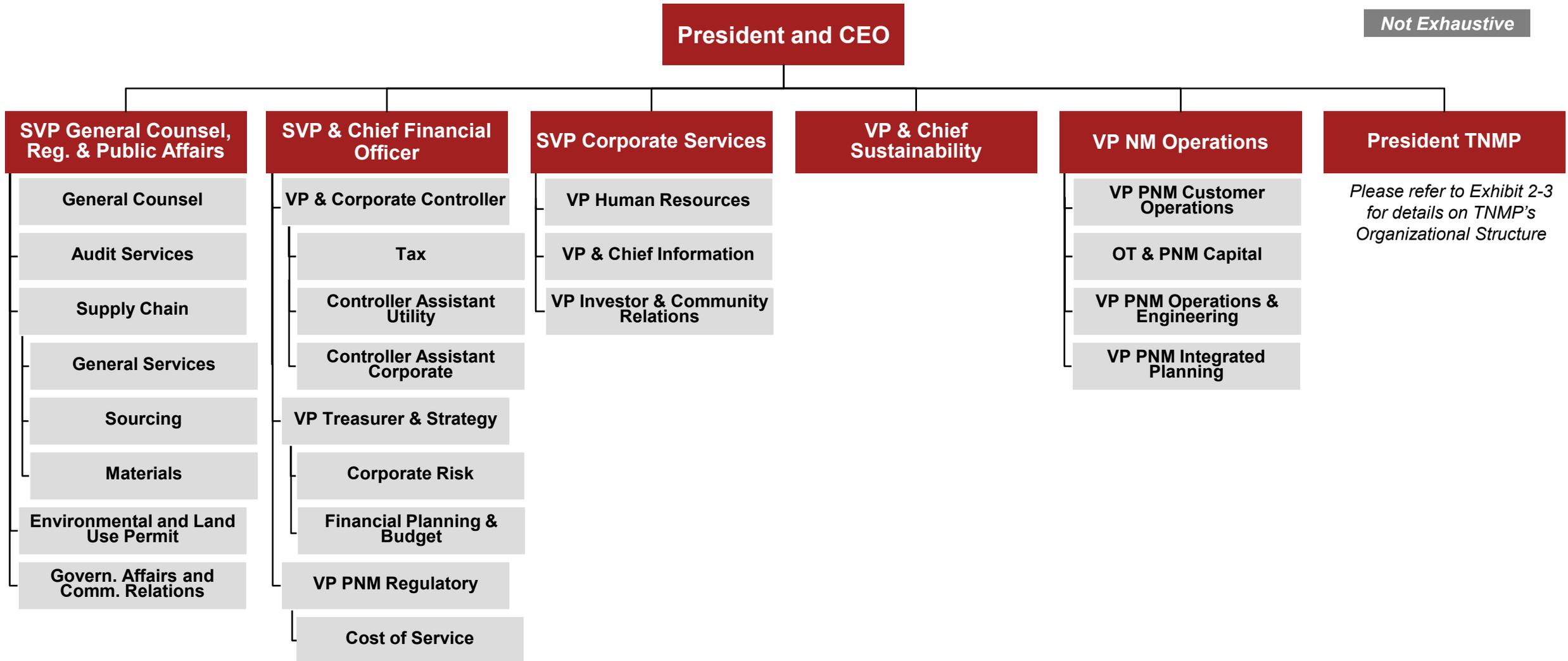


Exhibit 1-3 – Simplified TNMP Organizational Structure

Not Exhaustive

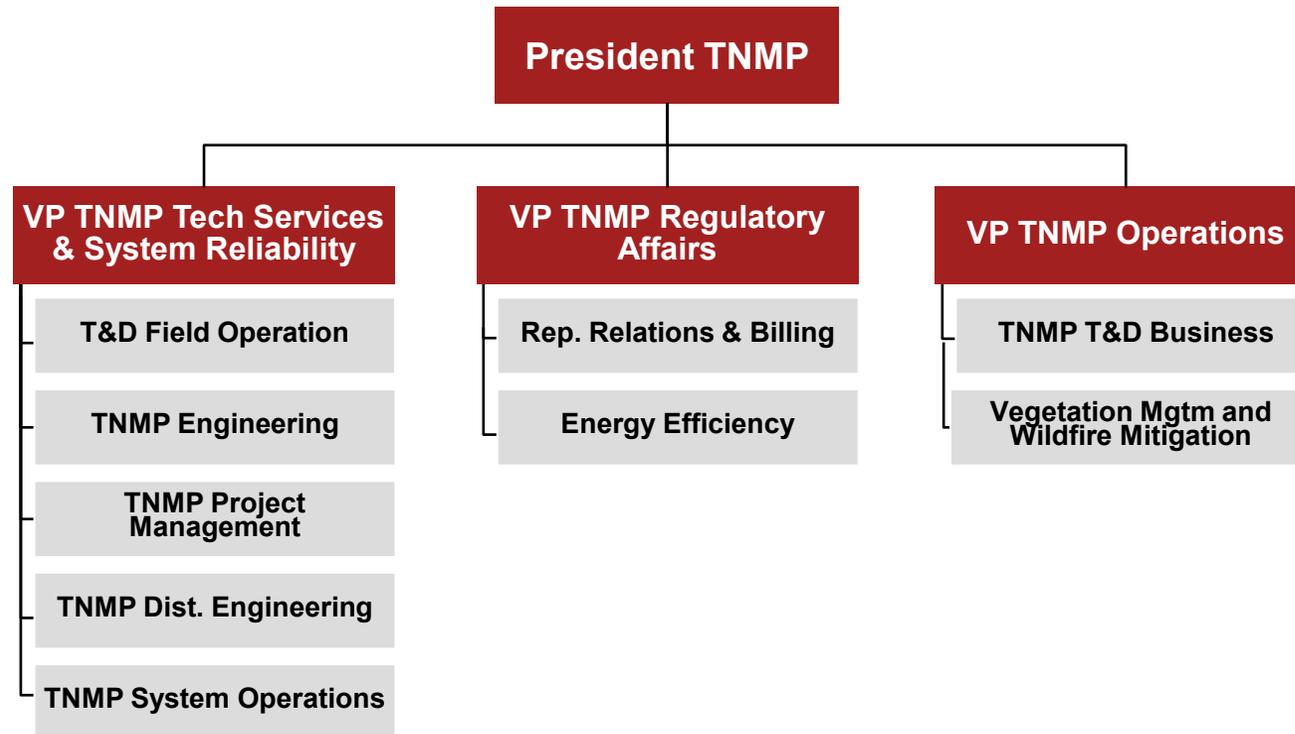


Exhibit 1-4 – Functions Represented in PNMR Services and PNM Organizations

Not Exhaustive

- Services provided by PNMR Services
- Services provided by PNM

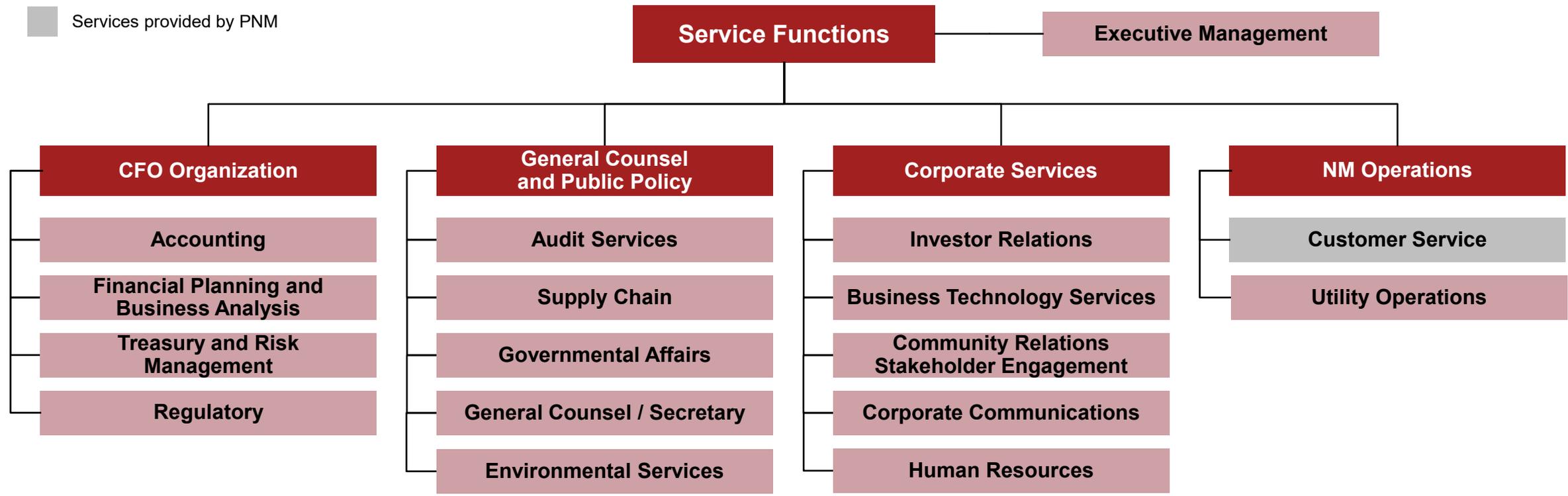
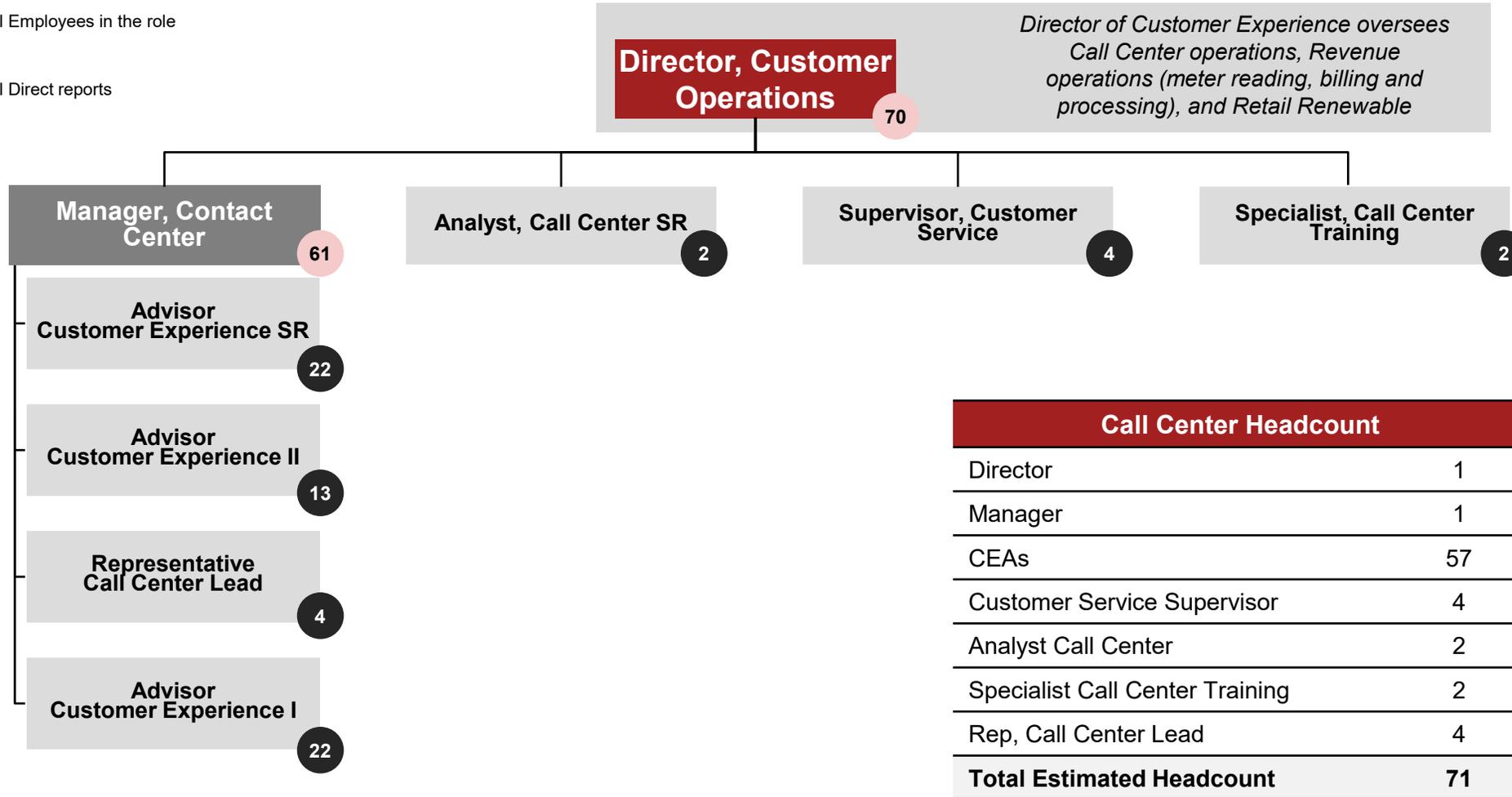


Exhibit 1-5 – PNM Call Center Organizational Structure

- X Total Employees in the role
- X Total Direct reports



Call Center Headcount	
Director	1
Manager	1
CEAs	57
Customer Service Supervisor	4
Analyst Call Center	2
Specialist Call Center Training	2
Rep, Call Center Lead	4
Total Estimated Headcount	71

Exhibit 1-6: Service Company Services Provided

2024 Services Provided by Service Company as Reported in 2024 FERC Form 60s

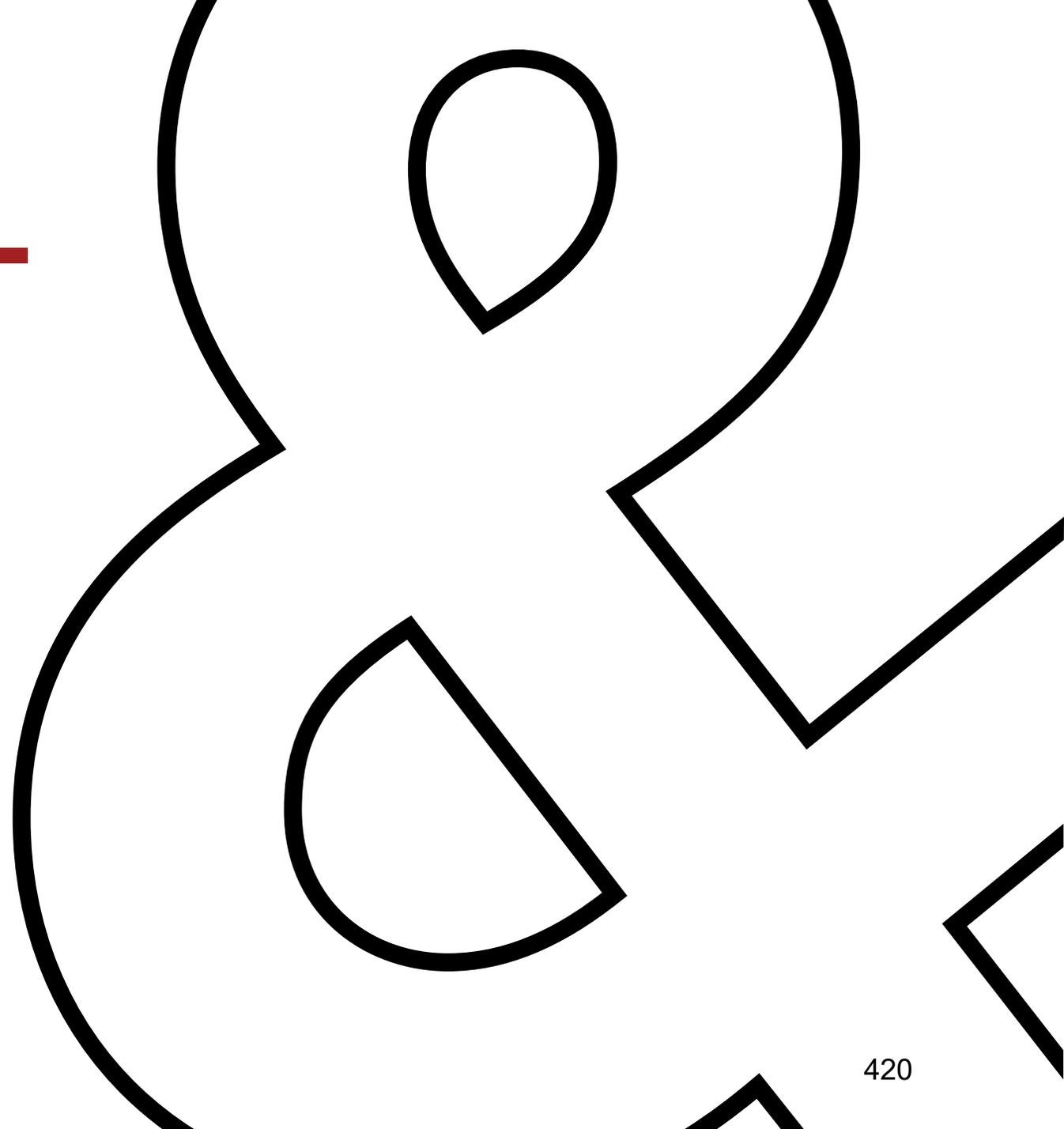
Services	PNMR Services	AEP	AES	Alliant	Ameren	ATC Mgmt.	Black Hills	Centerpoint Energy	Dominion Energy	Duke Energy	Entergy	Exelon	FirstEnergy	Eversource Energy	LG&E and KU	NiSource	PHI Services	PPL Corp.	Southern Company	Xcel Energy	WEC Energy	Unifil	
Accounting																							
Audit Services																							
Aviation/Travel																							
Business & Admin																							
Commercial Operations																							
Communications																							
Customer Operations																							
Distribution																							
Engineering																							
Environmental																							
Executive																							
External Affairs																							
Finance																							
Fuel Supply																							
HR																							
Investor Relations																							
IT																							
Legal																							
Planning/Budgeting																							
Real Estate/Facilities																							
Regulatory Relations																							
Risk Management																							
Safety / Security																							
Supply Chain, Procurement & Fleet																							
Transmission / RTO																							
Treasury																							
Others																							
Number of Services Provided	22	25	22	23	22	15	20	15	25	24	24	18	26	24	25	21	19	23	22	25	23	17	

Cost Reasonableness Assessment

Exhibit EMS-2

Activity Performance

November 2025



Use of Exhibits

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Exhibit 2-1 – PNMR Functions & Activities (1 of 13)

CFO Organization

Function	Activity	Definition
Accounting – Controller	Accounts Payable	Activities support vendor payment obligations, including processing invoices and expense reports, issuing checks and electronic payments, managing vendor setup and inquiries, and ensuring compliance through reconciliation and reporting.
	GAAP Analysis	Activities provide accounting guidance, interpretation for decision making, analyze accounting treatment of proposed transactions and new accounting standards, coordinate annual impairment analysis, and ensure overall compliance with GAAP.
	General / Corporate Accounting	Activities provide transaction analysis, accounting entries, and variance reporting for entity wide transactions including consolidations, leases, debt and equity, employee benefits, and fair value related transactions.
	Managerial Accounting	Activities include coordination of monthly close, cost allocation methodologies and calculations, financial systems support.
	Payroll	Activities ensure timely and accurate payroll processing, payroll tax reporting, and benefits payments.
	SEC Reporting	Activities involve preparing and distributing financial reports for internal and external stakeholders, including SEC filings, FERC reports, and management summaries.
	Tax Compliance, and Tax Services	Activities include ensuring compliance with tax and SOX guidelines; tax accounting, reporting, and returns; handling audits and settlements; maintaining tax records; supporting financial statements and M&A activity; preparing management reports; overseeing regulatory filings and testimony; and reviewing contracts and legislation for tax impacts.
	Utility Accounting	Activities provide transaction analysis, accounting entries, and variance reporting for regulated utility companies including rate order accounting, revenue accounting, fuels and energy accounting, and fixed asset accounting.

Exhibit 2-1 – PNMR Functions & Activities (2 of 13)

CFO Organization

Function	Activity	Definition
Financial Planning and Business Analysis	Utility Margin	Activities include forecasting and reforecasting for the Annual Operating Plan (AOP), Long-Range Plan (LRP), and quarterly updates for all utilities; analyzes costs and revenues; leads development and filing of Fuel Clause resets; and provides expert testimony on fuel-related issues for PNM.
	Corporate Budgeting	Activities involve leading long-term and annual budgeting, analyzing financial outlooks, and supporting capital and operating expense planning. Activities also include preparing cost-of-service schedules, regulatory filings, and rate case materials, as well as managing capital allocation processes and variance analysis.
	Financial Planning and Risk Management	Provide utilities with focused business and economic modeling, lead and prepare long-range financial plans; participate in budget to actual variance analysis; prepare cash flow and balance sheet forecasts; maintain planning and forecasting systems and provide user support.
	Internal Reporting	Activities include timely analysis and reporting of monthly earnings and scorecard metrics to Board of Directors, Engineering, Procurement, and Construction, Officers and other stakeholders; timely production of monthly utility gross margin and O&M reports to accounting personnel; timely production of monthly organizational O&M reports to finance / budget personnel; corporate governance, management control and strategic planning.

Exhibit 2-1 – PNMR Functions & Activities (3 of 13)

CFO Organization

Function	Activity	Definition
Treasury and Risk Management	Cash Management	Manage day-to-day cash needs by maintaining a credit line that allows borrowing of funds as necessary to meet operational requirements and managing cash receipts and deposits.
	Letters of Credit (LoC)	Provide administration of credit facility; manage contracts for LOC issuance, manage new issuances, renewals, and modifications to LOCs; ensure compliance of indenture/debt agreements; manage amendments, report outstanding LOCs and approvals of credit agreements.
	Liability Management	Manage debt through issuance, redemption and financing of long-term debt, administration of credit policy; oversee compliance of indenture / debt agreements; manage dividend payments and lease payments; manage bank and credit agency relations; manage equity issuance programs; implement derivatives strategies.
	Treasury Services	Oversee capital provision, established capital structures, liquidity for operating units, and transactional activities required for cash management, investment activities and risk management; provide information for SEC and FERC filings (10-K, 10-Q, Rule 24, FERC form 1); support budget preparation and forecast of annual operating budget and variance analysis; monitor and make interest payments.
	Trust and Corporate Investments	Oversee all corporate, trust and foundation investments; advise on new investment strategies; prepare investment policies engaging with investment consultant, money managers and custody bank(s); oversee pension and OPEB accounting, SOX controls and procedures and development of actuarial valuation reports; serve on investment committee and act as primary witness on investment related matters.
	Insurance and Claims	Ensure adequate insurance coverage for critical factors and manage investigations of third-party injury and property loss claims; procure insurance policies for major insurable risks and negotiate claims on an enterprise-wide basis; manage and provide data for regulatory proceedings and internal, external and policy audits; evaluate and manage litigation settlements with 3 rd parties.

Exhibit 2-1 – PNMR Functions & Activities (4 of 13)

CFO Organization

Function	Activity	Definition
Regulatory Services	Cost of Service	Provide analysis for historical and forecasted revenue requirements for the regulatory jurisdictions of PNM Resources; support the development and filing of cost of service schedules for the jurisdictions of PNM Resources; provide financial support for all regulatory filings.
	Pricing	Support PNM's retail jurisdiction by conducting in-depth analysis of historical and forecasted revenue requirements, pricing structures, and customer tariffs; work includes load research, cost-of-service studies, and customer impact assessments, as well as providing regulatory support and pricing strategies for both existing and prospective customers, including those using alternative energy sources.

Exhibit 2-1 – PNMR Functions & Activities (5 of 13)

General Counsel

Function	Activity	Definition
Audit Services	Audit	Provides independent, objective assurance to evaluate the efficiency and effectiveness of the Company's internal control structure, identify opportunities for process and control improvement, monitor compliance with laws and regulations, and investigate reported allegations; develops and executes the annual audit plan outlining Company entities to be reviewed during the duration of the Plan.
	SOX Compliance	Coordinates SOX testing and compliance, working with process owners and external auditors; prepares materiality assessments; supports FERC internal control reporting; and monitors regulatory changes (SEC, PCAOB, FASB, GAAP, FERC and NERC) to assess impacts on PNMR's compliance.
Supply Chain	Sourcing	Provide support with locating sources of supply, placing purchase orders, expediting material; resolve quality, delivery, pricing or related issues with suppliers; administer requests for information, quote, and proposals, negotiate contracts and pricing; issue authorization for work against a master contract; drive contract standardization and review.
	Materials Management	Provide support for min/max management, asset management, cost containment, vendor management service, forecasting and capacity Planning, variance analysis, quality control, warehouse optimization, kitting/ staging/ delivery, SOX compliance, performance reporting, and metric reporting.
	General Services / Facility Management	Provide support with leasing and operating properties including lease management; space planning and design, parking management, move planning and support; provide janitorial services and security force management.
	General Services / Graphics and Office Services	Develop and provide inserts/mass mail applications, corporate-wide mail delivery, copy center services, recycle support, signage, art services, USPS compliance, centralized computer print production, decentralized computer print production, and other office equipment.
Governmental Affairs	Government Relations / Federal	Provide strategy development and advocacy at the federal level for PNM, monitoring and analyzing of emerging legislative and regulatory issues; drive relationship building with elected officials and officers in governmental agencies; analyze legislation and outline business implications.
	Government Relations / State and Local	Provide strategy development and advocacy at the local and state levels for PNM, monitoring and analyzing of emerging legislative and regulatory issues; foster relationship building with state and local elected officials; analyze legislation and outline business implications.

Exhibit 2-1 – PNMR Functions & Activities (6 of 13)

General Counsel

Function	Activity	Definition
General Counsel / Secretary	Corporate Governance	Ensure compliance with federal, state and local laws and regulations; recommend governance policy and practice to BODs; administer Board of Directors compensation and stock administration module; manage the process for disclosure and resolution of any conflicts of interest; coordinate annual shareholder meetings and Board of Director meetings.
	Ethics	Develop, implement and monitor the corporate ethics program including all internal efforts to ensure ethical behavior of employees, such as ethics compliance training and the ethics hotline service.
	Legal Support	Provide legal support to business units with regards to litigation, labor & employment, commercial contracting, corporate governance, regulatory proceedings, and all other operational legal matters; monitor compliance with federal, state and / or local laws, regulations and ordinances; develop, review and negotiate all related agreements.
Environmental Services	Environmental Policy and Strategy	Develop and implement environmental policies and strategy, develop reporting for environmental sustainability performance and maintain membership in trade groups that inform and support regulatory strategy and compliance..
	Environmental Services	Activities include implementation and oversight of the Environmental Management System and Environmental Management Information System; development and implementation of environmental initiatives; air, water, and waste compliance monitoring, verification and regulatory reporting; spill and environment-related incident response; regulatory and legislative tracking, analysis and interpretation; planning and permitting for construction and maintenance projects; natural and cultural resource compliance and impact avoidance/minimization; and reporting on company performance/liabilities to internal and external stakeholders.

Exhibit 2-1 – PNMR Functions & Activities (7 of 13)

Corporate Services

Function	Activity	Definition
Investor Relations	Investor Relationship Management	Provide investor communications pertaining to TXNM's market issuances and investor inquiries, and handle associated costs incurred (e.g., transfer agent fees, NYSE listing fees, annual meeting, mailing expenses etc.); manage relationship with stock exchanges, specialists, analysts and institutional investors.
	News Releases and Presentations	Supports market intelligence and communication strategy, coordinates investor and analyst meetings, oversees annual report and earnings release materials, prepares presentations and news releases, and manages media relations on financial topics.
Business Technology Services	Resource and Organizational Change Management	Lead resource and organizational change management for IT and business project or process initiatives, ensuring employee adoption and minimizing resistance. Support project teams with communication, training, and stakeholder engagement. Manages resource planning, vendor coordination, and workforce strategy to align talent with project demand and optimize value delivery.
	Portfolio and Program Management	Manage the technology projects pipeline in collaboration with business units, manage project scheduling, develop business requirements for initiatives/requests and manage through service levels and constraints, monitor and track technology capital budget and owns technology project risk management.
	Applications Management	Provide technical support to all applications including installation, maintenance and compliance, system reports set-up and application security administration, application and platform retirement, application performance monitoring and application documentation compliance.
	Enterprise Architecture Management	Define the technology roadmap, standards, and planning from platform selection to interfacing techniques to maintain value to and support of the business.
	Change and Configuration Management	Ensure that changes are managed and controlled systematically to minimize disruptions and/or declines in the quality of IT services; design and implement software configuration procedures and quality assurance test planning & execution; and monitor infrastructure backup procedures.
	Corporate "Physical" Security	Support development, implementation and monitoring of policies and procedures to protect the company's human and physical security, manage security and safety risk assessment program and implement corrective solutions. Participate in the definition of effective business continuity and disaster recovery policies, as well as the implementation of key compliance standards (e.g., NERC).
	Enterprise Applications	Manage application integration and analytics for the enterprise and provide support for energy trading and risk management.

Exhibit 2-1 – PNMR Functions & Activities (8 of 13)

Corporate Services

Function	Activity	Definition
Business Technology Services (cont'd)	Data Network Access and System Architecture	Ensure the daily provision of administrative services to support the organization's IT system, manage and provide network accounts and resources, and provide basic system monitoring and control.
	Database Management	Organize and manage the design and monitoring of database architecture, manage data within the enterprise and help provide managers information for decision-making (used in HRIS, Safety and Health Records, Finance, Supply Chain, etc.).
	Desktop Services	Ensure workstations updates with regards to virus scanning or spyware, provide client hardware adds / moves and client system administration and support, own maintenance performance and hardware documentation.
	Disaster Recovery	Ensure the organization's ability to respond to a disaster or an interruption in services and define requirements around resources, processes, tasks, and data required to stabilize and restore company's critical functions.
	Hardware and Software Licensing	Manage hardware / software inventories and negotiate licensing agreements, order and coordinate distribution, installation and documentation of equipment to customers and corporate.
	Information Security	Ensure assets are protected from information breach through anti-virus and other protection software, manage information security through access control, assess third-party vulnerability and potential fixes, develop training and awareness of critical security issues, and maintain governance of security policies and compliance.
	Operations Technology	Provide and maintains necessary technology assets to help business units manage their operations and achieve business goals.
	IT Project Management	Provide support for all stages of project life-cycle (initiation, planning, execution, control and closeout), collect and report on performance metrics, and perform support / services invoice processing for BTS.
	IT Quality Compliance Management	Provide compliance management related to SOX related applications, manage software quality assurance program, support test validation and defect tracking, conduct test planning and execution.

Exhibit 2-1 – PNMR Functions & Activities (9 of 13)

Corporate Services

Function	Activity	Definition
Business Technology Services (cont'd)	QA Testing	QA activities are an important part of the release management function and include: building and configure releases; conducting a quality review; developing standards for release acceptance, developing and reporting on test performance metrics; and supporting implementation plan with training and communication.
	Service Desk (Help Desk)	Provide round the clock IT support for critical applications, provide support for non-critical applications and necessary end-user platforms, set up and support migrations, moves and org changes.
	Enterprise Storage	Work in coordination with enterprise Disaster Recovery and Database Management to provide enduring data on- and off-site for redundancy.
	Telecommunications / Data	Manage equipment to support basic and system-wide data communication capabilities, including wired, wireless, fixed, and remote over the LAN and WAN.
	Telecommunications / Voice	Manage equipment to support inter- and intra-company voice communication, including office and field telephone services, Remote Terminal Units (RTUs), cellular / wireless and video conferencing.
	Regulatory Compliance / NERC	Provide governance and audit approach for maintaining compliance with NERC reliability standards across the enterprise, oversee the identification and correction of potential non-compliance, and perform all external reporting.
	Records and Information Management System (RIMS)	Develop, implement, and enforce policies on records and information management; ensure procedures are in place for appropriate document control and compliance, develop record management programs to optimize approaches in safe and secure record keeping while cutting costs and reducing storage space.
	Data Center Services	Provide data center facilities management, data center network services, disaster recovery services, data center supplies, server hardware and software administration, storage administration, capacity management and project support.
	Crisis Management and Resilience	Oversees enterprise-wide crisis management, business continuity, and emergency response across New Mexico and Texas. Leads threat response and recovery efforts, conducts training exercises, analyzes threat intelligence, and coordinates with internal teams and external agencies to enhance organizational resilience.

Exhibit 2-1 – PNMR Functions & Activities (10 of 13)

Corporate Services

Function	Activity	Definition
Community Relations Stakeholder Engagement	Community Outreach	Provide information on company mission, vision and involvement and engage with communities to enable social service organizations to achieve positive local impact through coordinated efforts.
	Corporate Contributions	Advance company goodwill by investing in non-profit organizations and local communities through corporate donations, foundation and other charitable giving.
	Employee Engagement	Promote goodwill of the enterprise and increase employee satisfaction through community engagement opportunities with non-profit organizations and other contributions.
	Low-Income Outreach	Develop relationships with community partners to serve the needs of low-income customers, promote internal awareness when serving low-income customers, increase company goodwill and community perception of the company's outreach to low-income customers.
Corporate Communications	Internal and External Communications	Manage all employee communications across the enterprise to ensure employees are informed; monitor the external media landscape to develop appropriate organizational and operational responses to any changes.
	Research	Provide market research analysis and support to Marketing & Customer Service area and other company units as appropriate; support survey design, development, implementation and analysis for purposes of service improvement, increased customer satisfaction, market feasibility of potential new programs and services.
	Web Business	Design and implement improvements to customer web-experience such as website rebuild, web automation for customer applications or user-testing.

Exhibit 2-1 – PNMR Functions & Activities (11 of 13)

Corporate Services

Function	Activity	Definition
Human Resources	Benefits	Manage design, development and administration of all benefits programs, including health and welfare benefits, work/life balance and wellness programs; oversee preparation and distribution of annual benefits statements; manage relationships with benefit providers; manage legally required or company required employee communications regarding benefits.
	Compensation	Manages design, development and administration of all compensation programs; oversees the development of a "total rewards" package to attract and retain outstanding employees; conduct job analysis and market research for existing job classifications; develop and maintain job descriptions; conduct compensation related due diligence for M&A activity.
	Compliance and Policies	Monitors HR compliance and affirmative action plans; manages terminations, disciplinary actions, and responses to agency claims; oversees investigations into policy violations and integrity line reports; represents the company in legal proceedings; and leads diversity program initiatives.
	Learning and Development	Drive employee and organizational improvement; learning and development; support technical, regulatory and compliance training; provide performance management and development system, educational assistance plan, intern programs new employee orientation, succession and workforce planning.
	Employee Relations	Provide support in areas such as employee counseling and conflict resolution, disciplinary actions, flexible work arrangements, diversity activities, communications, community service, outplacement and severance, compliance and reporting.
	HR Talent Acquisition and Workforce Planning	Provide recruitment and talent acquisition services, full background check for new hires, coordination for new hire on-boarding processes (pre-employment), coordination for contingent worker acquisition (temporary worker services); oversee relocation policy and services as well as all staffing and employment policies.
	Human Resource Information System (HRIS)	Provide processes to support employee actions and other HR programs and employee data as needed to meet managerial and regulatory requirements; configure and maintain the Human Resource application setup to meet business needs; provide version control, quality assurance, data integrity, training, analysis and reporting of the HRIS system.
	Labor Relations	Develop employee relations strategy for represented and non-represented employees; provide expertise on integration and technical issues; prepare and conduct labor contract negotiations; advise on contract administration, grievance handling and arbitration cases; provide guidance on union issues; represent the organization with National Labor Relations Board and Department of Labor Wage-Hour Division.
	Safety	Develop and manage safety program, develop safety training, develop safety awareness and branding campaigns, manage safety recordkeeping for internal and OSHA, provide an E-1 injury reporting process, facilitate incident investigation and root cause analysis.

Exhibit 2-1 – PNMR Functions & Activities (12 of 13)

Executive Organization

Function	Activity	Definition
Executive Management	Executive Operations	Provides leadership and strategic guidance for corporate functions within PNMR.

Exhibit 2-1 – PNMR Functions & Activities (13 of 13)

NM Operations Organization

Function	Activity	Definition
Utility Operations	Strategic Energy Planning & Development	Oversees operations and maintenance of renewable facilities, handle renewable PPAs, and support economic modeling and compliance, while coordinating across key corporate functions; supports the regulatory and financial process for PNM.
	Wildfire and Vegetation Management	Leads wildfire risk assessment and mitigation, including risk scoring, investment planning, and vegetation management. Coordinates with internal teams and external partners, supports regulatory and audit activities, and oversees reporting, analytics, and team operations to drive wildfire safety initiatives.

Exhibit 2-2 – PNM Functions & Activities

NM Operations Organization

Function	Activity	Definition
Customer Operations	Customer Service	Activities oversee customer service operations, including meter reading, billing, credit, collections, contact centers, and payment centers. Management of solar application processing and support of operational efficiency through oversight of customer-facing management systems.

Exhibit 2-3 – Corporate Activity Justification, Necessity Attributes

Necessity Attributes	Definitions
Corporate Governance	Activities that are necessary to ensure that corporate and portfolio fiduciary responsibilities and enterprise-wide management and operation are effectively executed. Examples include performing shareholder activities, managing cross-business issues, performing risk management activities and developing the management model.
Regulatory Mandate	Activities that are required to fulfill statutory, regulatory and other commitments or mandates. Examples include submitting SEC filings, filing IRS documents, fulfilling state regulatory requisites, and complying with FERC requirements.
Legal Compliance	Costs incurred and activities performed as a direct result of legal proceedings, avoidance of legal proceedings, or compliance with legal requirements. Examples include performing litigation activities and responding to discovery requests.
Management Control	Activities performed specifically to provide analysis, decision support data and results to management personnel. Examples include managing projects and reporting results and developing management reports.
Operational Execution	Includes fundamental functions performed on a daily basis. Examples include performing maintenance activities, performing general accounting, and tracking employee information.
Strategic Planning	Activities that encompass business unit planning and activities directed at defining enterprise-wide direction. Examples include monitoring marketplace activities, performing strategic planning, and providing business planning assistance.

Exhibit 2-3 – Corporate Cost Justification, Benefit Attributes

Benefits Attributes	Definitions
Reduce Risk	Actions designed to reduce liability and mitigate exposure to financial, operational, fiduciary and other types of risk through activities. Examples include implementing safety programs, performing internal audit, training employees, and developing policies, procedures and manuals.
Increase Employee Productivity	Programs that enhance employees' abilities to perform their jobs more productively. Examples include implementing certain automated systems, providing certain types of training, implementing and administering employee health awareness programs, developing procedures, policies and practice manuals, developing employee communications and implementing and administering quality programs.
Provide Management Information	Activities conducted primarily to provide decision support data and analysis to management personnel. Examples include developing budgets, monitoring operational and financial performance, performing corporate development, conducting strategic assessments and developing integrated information systems.
Enhance Corporate Performance	Activities performed to enhance the abilities and effectiveness of management with respect to the business. Examples include developing strategic plans, managing the performance review process, maintaining the inter/intranet and conducting benchmarking studies.
Reduce or Avoid Costs	Activities performed to improve the cost effectiveness of operations. Examples include implementing certain automated systems, pursuing outsourcing arrangements, negotiating discounts with outside vendors and performing certain credit and collections activities.
Increase Reliability	Activities performed to increase the performance of the overall system infrastructure. Examples include adequate maintenance of the delivery system, preservation of asset integrity and security of gas supply.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Introduction

Utilizing the process described in the report, we identified 79 activities performed by PNMR Services and 1 activity performed by PNM. For each distinct activity, Strategy& through its understanding of the nature of the activity being performed, interviews with TMNP, PNMR, and PNM personnel, and review of previously described documentation, evaluated the activity in light of the necessity and benefit attributes described in the report.

A summary of the necessity and benefit attributes associated with all 80 PNM and PNMR Services activities is provided in the subsequent pages.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Accounting

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-1 – Accounting - Necessity Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Accounting						
Accounts Payable						
GAAP Analysis						
General / Corporate Accounting						
Managerial Accounting						
Payroll						
SEC Reporting						
Tax Compliance and Tax Services						
Utility Accounting						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Accounting

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

Corporate Governance

Accounting functions like GAAP analysis, SEC reporting, and Managerial Accounting support corporate governance by ensuring compliance with internal controls, SOX requirements, and corporate disclosure standards. These functions help maintain shareholder confidence and informed oversight by regulators and stakeholders.

Regulatory Mandates

Many of the function's activities are driven directly by statutory or regulatory requirements. SEC filings, tax returns, and rate case cost support are required of all regulated utilities and are essential to TNMP's continued authorization to operate.

Legal Compliance

Tax compliance, payroll tax processing, and SEC/NERC reporting ensure TNMP adheres to federal and state regulatory filing obligations. Failure to perform these tasks would result in regulatory penalties and reputational damage.

Management Control

Managerial accounting and general accounting provide the financial insights and data TNMP management needs to monitor budgets, evaluate performance, and support strategic planning. These activities facilitate informed decision-making and financial discipline.

Operational Execution

Accounting executes essential transactional functions that support ongoing business continuity. Accounts Payable processes ensure timely payments to vendors and suppliers, safeguarding supply chain relationships. Payroll functions ensure employee compensation is accurately processed, taxes are withheld and remitted, and benefits are properly administered. These core processes are mission-critical for delivering utility service without interruption and for maintaining employee satisfaction and operational credibility.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Accounting

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-2 – Accounting - Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Accounting						
Accounts Payable						
GAAP Analysis						
General / Corporate Accounting						
Managerial Accounting						
Payroll						
SEC Reporting						
Tax, Compliance, and Tax Services						
Utility Accounting						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Accounting

These activities fulfill the following attributes: Reduce Risk, Provide Management Information, Enhance Corporate Performance, and Reduce or Avoid Costs.

Reduce Risk

Internal control processes and tax compliance activities help mitigate a range of financial, operational, and regulatory risks. These services reduce the likelihood of fraud, misstatements, and regulatory penalties. Additionally, accurate SEC protect TNMP's reputation and facilitate effective engagement with external stakeholders, including investors, regulators, and credit rating agencies.

Provide Management Information

The Accounting function delivers actionable data and insights that enable effective management oversight and resource allocation. Financial planning, service company billing, and cost analysis equip TNMP leaders with the tools to understand cost drivers, assess performance against budget, and make informed decisions. These services allow TNMP to manage its operations efficiently and to communicate financial performance both internally and externally.

Enhance Corporate Performance

The data produced and managed by the Accounting team contributes to corporate performance indicators such as return on equity, cost management, and regulatory compliance. Managerial Accounting supports informed pricing and budgeting, which in turn drives effective rate recovery and cost containment. By ensuring timely and accurate financial reporting, the function supports TNMP's creditworthiness and its ability to attract capital for system investments.

Reduce or Avoid Costs

Centralizing activities such as payroll, accounts payable, tax compliance, and financial reporting through PNMR Services helps TNMP avoid the duplication of resources and systems. By leveraging scale and common systems, TNMP achieves greater efficiency in transaction processing, audit preparation, and regulatory filings.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Financial Planning and Business Analysis

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-3 – Financial Planning and Business Analysis Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Financial Planning and Business Analysis						
Utility Margin						
Corporate Budget						
Financial Planning and Risk Management						
Internal Reporting						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Financial Planning and Business Analysis

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

This function plays a central role in supporting corporate governance through its responsibility for enterprise-wide budgeting, variance analysis, and internal reporting. By delivering timely and accurate reports on utility earnings, gross margin, and O&M, the function enables TNMP leadership to monitor financial performance and ensure alignment with strategic objectives.

Management Control

The FP&BA team delivers financial tools that allow TNMP to plan, monitor, and manage financial performance. Real-time variance analysis flags issues early, enabling course corrections and improving cost discipline across the enterprise.

Operational Execution

Financial Planning and Business Analysis ensures that day-to-day financial operations are both robust and compliant. Timely updates to sales and demand forecasts and margin analytics directly influence the organization's ability to meet service obligations, recover costs, and remain financially sustainable.

Strategic Planning

Activities within the team provide forward-looking insight that directly informs TNMP's strategic planning process. This includes scenario modeling, goodwill impairment testing, capital prioritization, and long-term financial planning.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Financial Planning and Business Analysis

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-4– Financial Planning and Business Analysis Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Financial Planning and Business Analysis						
Utility Margin	■				■	
Corporate Budget			■	■		
Financial Planning and Risk Management	■			■	■	
Internal Reporting			■	■		

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Financial Planning and Business Analysis

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs.

Reduce Risk

FP&BA mitigates a broad range of financial and operational risks by conducting regular risk assessments, testing for goodwill and asset impairments, and managing insurance procurement and claims resolution. These activities help TNMP avoid regulatory disallowances, litigation exposure, and unanticipated cost impacts.

Provide Management Information

FP&BA provides TNMP leadership with timely, detailed financial data and insights that support decision-making. Monthly earnings reports, scorecard metrics, capital planning dashboards, and budget performance reports enable department heads, finance personnel, and executives to monitor performance, adjust plans, and maintain fiscal discipline. These reports also help shape capital investment and resource allocation strategies.

Enhance Corporate Performance

FP&BA supports enterprise performance improvement by tying financial plans to operational strategies and regulatory outcomes. By producing accurate forecasts and monitoring capital efficiency, the function helps improve earnings stability and long-term rate base growth. It also enables TNMP to respond swiftly to emerging challenges like cost inflation, weather variability, or regulatory changes, preserving stakeholder value.

Reduce or Avoid Costs

The budgeting and forecasting processes managed by FP&BA identify cost trends and optimization opportunities across the business. Effective capital allocation helps ensure investments are prioritized for maximum rate recovery and reliability impact. By managing enterprise-wide insurance coverage and overseeing claims and settlements, the function helps avoid costly litigation, minimize exposure to uninsured losses, and maintain cost-effective risk coverage.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Treasury and Risk Management

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-5 – Treasury and Risk Management Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Treasury and Risk Management						
Cash Management						
Letters of Credit (LoC)						
Liability Management						
Treasury Services						
Trust and Corporate Investments						
Insurance and Claims						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Treasury and Risk Management

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

Treasury and Risk Management plays a key role in supporting corporate governance by managing TNMP's financial structure and ensuring compliance with debt covenants, indentures, and investment policies. The function coordinates enterprise-wide capital planning and manages liquidity to support reliable operations and long-term investment.

Regulatory Mandates

The function supports the development of financial reports required by regulators (e.g., SEC) and manages data for regulatory audits and testimony. It ensures adherence to credit agreements that are often part of utility financing packages subject to review.

Legal Compliance

Activities ensure TNMP's full compliance with financial, regulatory, and fiduciary obligations across debt management, liquidity, and investments. This includes adhering to indenture agreements, securities laws, SOX controls, and pension regulations, as well as maintaining accurate disclosures for financial filings and regulatory proceedings.

Management Control

Cash Management and Treasury Services provide the financial tools needed for TNMP to manage working capital, forecast interest payments, and monitor cash positions. Liability Management ensures that debt maturities, interest rates, and dividend schedules are aligned with strategic goals and financial constraints.

Operational Execution

Treasury ensures TNMP can meet daily cash needs by managing credit facilities, bank transactions, deposits, and interest payments. These are routine, essential activities that enable TNMP to pay suppliers, process payroll, and fund operations.

Strategic Planning

Treasury leaders provide key input into capital forecasts, help develop risk mitigation strategies (e.g., derivatives), and advise senior management on optimal financing approaches.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Treasury and Risk Management

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-6 – Treasury – Risk Management Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Treasury – Risk Management						
Cash Management						
Letters of Credit (LOC)						
Liability Management						
Treasury Services						
Trust and Corporate Investments						
Insurance and Claims						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Treasury and Risk Management

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs.

Reduce Risk

Treasury reduces the risk of cash shortfalls, credit downgrades, or breaches of financial covenants. It also proactively manages pension and OPEB investment risks and supports litigation settlements and insurance claims, thereby protecting TNMP from potentially costly financial exposures.

Provide Management Information

Cash Management provides financial data and scenario analysis that inform capital planning, liquidity strategy, and interest expense forecasts. These insights are essential for budget planning, financial reporting, and investment decision-making. Treasury also supports earnings projections, budget variance analysis, and rate case materials with up-to-date debt and equity cost information.

Enhance Corporate Performance

Strategic management of capital structure supports a favorable credit rating, reduces capital costs, and expands TNMP's ability to fund grid modernization and reliability investments. The trust and investment team ensures adequate funding of pension and OPEB liabilities, reducing future exposure and enhancing the company's long-term financial health.

Reduce or Avoid Costs

Liability Management activities ensure that TNMP accesses financing at the lowest possible cost while avoiding penalties or unfavorable terms from missed debt obligations or covenant violations. Effective cash management reduces the need for costly short-term borrowing and ensures efficient use of idle capital.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Regulatory Services

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-7 – Regulatory Services Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Regulatory Services						
Cost of Service						
Pricing						

These activities fulfill the following necessity attributes: Legal Compliance and Operational Execution.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Regulatory Services

These activities fulfill the following attributes: These activities fulfill the following necessity attributes: Legal Compliance and Operational Execution.

Legal Compliance

activities ensure that all cost and pricing structures are grounded in applicable regulatory frameworks and withstand legal and evidentiary scrutiny in rate proceedings, minimizing exposure to disallowances, penalties, or legal challenges.

Operational Execution

Accurate cost allocation and tariff design are essential to day-to-day utility operation. These activities ensure that the utility recovers appropriate costs across customer classes, maintains compliance with approved rates, and properly reflects usage patterns, including for new or evolving technologies (e.g., distributed generation, electric vehicles).

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Regulatory Services

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-8– Regulatory Services Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Regulatory Services						
Cost of Service						
Pricing						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Regulatory Services

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Reduce Risk

This function plays a central role in managing regulatory and financial risk. Accurate cost-of-service and pricing analyses protect against regulatory disallowances and ensure that tariffs remain aligned with market and policy shifts, such as those related to renewable energy integration or grid modernization.

Provide Management Information

Cost-of-service and pricing teams produce detailed analytical models, customer impact assessments, and revenue forecasts. These tools guide internal planning and provide essential inputs to rate case strategies, infrastructure planning, and stakeholder communications.

Enhance Corporate Performance

Regulatory Services ensures revenue adequacy, aligns pricing with strategic goals, and supports positive outcomes in rate cases. By maintaining robust data and well-reasoned justifications, the function enhances the company's credibility with regulators and its ability to achieve fair and timely cost recovery.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Audit Services

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-9 – Audit Services Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Audit Services						
Audit						
SOX Compliance						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

 Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Audit Services

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

Corporate Governance

The Audit function plays a key governance role by evaluating internal controls, identifying areas of non-compliance or operational risk, and reporting findings directly to senior leadership and the Audit and Ethics Committee of the Board of Directors. These oversight activities support the company's duty to maintain transparency, integrity, and accountability.

Regulatory Mandates

The Audit Services team supports PCAOB, FERC, and NERC-required internal control assessments and other compliance filings, contributing directly to the utility's regulatory reporting obligations. It also ensures the accuracy and integrity of disclosures in SEC filings, which are required of the utility as part of a publicly traded enterprise. These functions must be performed to maintain compliance and avoid enforcement action.

Legal Compliance

The SOX Compliance program ensures that TNMP meets its obligations controls related to financial reporting and disclosures. Failure to execute these responsibilities could expose TNMP to legal or financial penalties and erode stakeholder confidence.

Management Control

Through audits, risk assessments, and SOX testing, the function equips TNMP's management with information about the health of its control environment and helps prioritize mitigation of high-risk areas. This enhances leadership's ability to manage financial, operational, and compliance risks before they materialize.

Operational Execution

Audit Services supports operational execution by testing and validating the internal systems that underpin core financial and operational activities. By identifying breakdowns in controls or inefficient practices, the function helps safeguard TNMP's ability to operate effectively and respond to issues in a compliant manner.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Audit Services

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-10– Audit Services Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Audit Services						
Audit						
SOX Compliance						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Audit Services

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

Reduce Risk

Audit function identifies, assesses, and helps mitigate financial, regulatory, and operational risks across TNMP. SOX compliance helps guard against material misstatements in financial reporting, protecting TNMP from reputational damage, regulatory sanctions, and shareholder litigation.

Provide Management Information

Through SOX testing and risk assessments, the Audit Services function delivers critical feedback to management on internal control performance, regulatory risks, and policy compliance. Reporting to executive leadership and the Board ensures that insights are visible and acted upon at the highest levels.

Enhance Corporate Performance

Audit and compliance functions support TNMP's financial health by ensuring that internal control systems are aligned with financial reporting requirements and risk tolerance. The resulting assurance helps sustain TNMP's ability to access capital at competitive rates, maintain regulatory credibility, and operate with confidence. Insights from audits can also lead to improved business practices and long-term cost savings.

Reduce or Avoid Costs

Audit Services helps TNMP identify and correct inefficiencies, control breakdowns, and compliance risks before they result in costly outcomes such as regulatory fines, litigation, fraud losses, or failed audits. By proactively addressing issues, the function prevents small problems from escalating and supports continuous process improvement.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Supply Chain

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-11 – Supply Chain Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Supply Chain						
Sourcing						
Materials Management						
General Services / Facilities Management						
General Services / Graphics and Office Services						

These activities fulfill the following necessity attributes: Management Control and Operational Execution.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Supply Chain

These activities fulfill the following attributes: Management Control and Operational Execution.

Management Control

Sourcing and Materials Management activities within Supply Chain support TNMP's ability to monitor spending, assess vendor performance, and manage operational costs. Forecasting, capacity planning, variance analysis, and metric reporting provide leaders with data to make informed decisions about inventory levels, sourcing strategies, and facility utilization. These insights are critical to maintaining operational efficiency and controlling expenses.

Operational Execution

Sourcing ensures timely procurement of goods and services. Warehouse operations manage critical spare parts and materials required for maintenance and field activities. Facility management keeps workspaces safe, clean, and operational. Graphics and Office Services support internal communications and provide core logistical services like mail delivery and document production. Without these services, core field and administrative operations would be disrupted.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Supply Chain

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-12 – Supply Chain Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Supply Chain						
Sourcing	■		■	■	■	■
Materials Management				■	■	■
General Services / Facilities Management	■	■			■	
General Services / Graphics and Office Services		■			■	

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Supply Chain

These activities fulfill the following attributes: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

Reduce Risk

Supply Chain mitigates risks associated with supply shortages, price volatility, audit non-compliance, and operational inefficiencies. Facility and mailroom management reduce safety, security, and legal liabilities through proper maintenance and procedural controls.

Increase Employee Productivity

By centralizing administrative and operational support functions, Supply Chain allows TNMP's field and support staff to focus on core responsibilities. Mail delivery, printing, staging, and warehouse kitting all eliminate the need for front-line teams to perform time-consuming logistical tasks.

Provide Management Information

Supply Chain produces key operational and financial insights across all sub-functions. Examples include vendor performance metrics, warehouse inventory turnover rates, and lease cost reporting.

Enhance Corporate Performance

Effective sourcing, logistics, and facilities services improve TNMP's overall operational agility and reduce the risk of delays in capital project execution. By minimizing procurement cycle times, ensuring material availability, and maintaining facility readiness, this function ensures that TNMP can respond quickly to operational demands, outages, or weather events.

Reduce or Avoid Costs

Sourcing negotiates pricing and standardizes contracts to capture volume discounts and reduce cost variability. Warehouse optimization, min/max management, and kitting reduce excess inventory and minimize holding costs. Facility and mailroom operations consolidate services that would otherwise be duplicated across departments. These coordinated efforts lead to significant O&M savings.

Increase Reliability

Materials Management directly support system reliability by ensuring that parts, tools, and materials are available when and where they are needed. Sourcing ensures continuity of supply and vendor reliability.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Government Affairs

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-13 – Government Affairs Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Government Affairs						
Government Relations – Federal						
Government Relations – State and Local						

These activities fulfill the following necessity attributes: Corporate Governance, Operational Execution, and Strategic Planning.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Government Affairs

These activities fulfill the following attributes: Corporate Governance, Operational Execution, and Strategic Planning.

Corporate Governance

Government Affairs supports corporate governance by ensuring that PNM remains aware of and compliant with emerging legislative and regulatory frameworks. Through consistent engagement with policymakers and regulatory bodies, the function ensures PNM's strategies are informed by legislative realities.

Operational Execution

Government Affairs directly supports operational execution by working to influence or prepare for laws and regulations that govern PNM's ability to construct infrastructure, recover costs, manage workforce matters, or implement environmental and safety protocols. Engagement at the local level facilitates smoother permitting, project approvals, and municipal coordination.

Strategic Planning

Government Affairs provides early insight into evolving energy policy, infrastructure funding, tax reform, and other macro-level developments that may shape PNM's long-term strategy. This includes legislative analysis for issues like interconnection reform, wildfire liability, permitting streamlining, or federal investment programs (e.g., grants, tax credits). As a result, this function plays an important role in identifying risks and opportunities for the business.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Government Affairs

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-14 – Government Affairs Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Government Affairs						
Government Relations – Federal						
Government Relations – State and Local						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Government Affairs

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Reduce Risk

This function plays a critical role in identifying, mitigating, and helping PNM respond to political, regulatory, and reputational risks. By staying ahead of changes in policy and law, Government Affairs reduces the likelihood of non-compliance, unfavorable legislation, or sudden regulatory shifts. The function also reduces risk by establishing constructive relationships with regulators and policymakers, making it easier to navigate complex or contentious issues when they arise.

Provide Management Information

By analyzing proposed legislation and communicating its potential business impacts, Government Affairs enables executive leadership to understand how political and regulatory changes could affect PNM's finances, operations, and reputation. This foresight is integrated into enterprise risk assessments and strategic plans, shaping key decisions related to investments, operations, and stakeholder engagement.

Enhance Corporate Performance

PNM's ability to effectively shape and respond to policy changes contributes directly to its long-term financial and operational success. For example, supporting legislation that enables timely cost recovery or promotes capital investment in grid modernization enhances the company's return on investment and ability to serve customers more reliably. Strong external relationships protect corporate reputation and promote trust with public officials and stakeholders.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – General Counsel / Secretary

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-15 – General Counsel / Secretary Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
General Counsel / Secretary						
Corporate Governance						
Ethics						
Legal Support						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – General Counsel / Secretary

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, and Operational Execution.

Corporate Governance

General Counsel advises the Board on policies and regulatory responsibilities, coordinates board and shareholder meetings, manages director compensation and disclosures, and ensures resolution of conflicts of interest. These responsibilities support transparent, ethical oversight of TNMP and enable its Board to fulfill fiduciary obligations in alignment with legal and industry standards.

Regulatory Mandates

General Counsel supports regulatory filings, litigation related to NERC proceedings, and ensures adherence to statutes such as the Public Utility Holding Company Act, Sarbanes-Oxley Act (SOX), and Securities Exchange Act. These legal and governance practices are required for TNMP to operate as a regulated transmission and distribution utility under state and federal jurisdiction.

Legal Compliance

This function ensures that the utility complies with a wide range of federal, state, and local laws and regulations. It supports regulatory reporting, maintains compliance with corporate governance statutes, and advises on new or evolving legal requirements.

Management Control

Through legal review of business operations, regulatory filings, and contract negotiations, the General Counsel team equips management with legal frameworks and guidance. This includes interpreting laws, assessing legal risks, and helping management proactively navigate complex regulatory environments.

Operational Execution

Legal Support is a key enabler of TNMP's day-to-day operations. It ensures that contracts, transactions, vendor agreements, employment practices, and litigation responses are appropriately managed.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – General Counsel / Secretary

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-16 – General Counsel / Secretary Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
General Counsel / Secretary						
Corporate Governance	■		■	■		
Ethics	■		■	■	■	
Legal Support	■			■		

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – General Counsel / Secretary

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs.

Reduce Risk

The function plays a direct role in identifying and managing legal and compliance risks across the organization. This includes litigation exposure, contract disputes, labor issues, regulatory compliance gaps, and governance deficiencies. The ethics program also reduces reputational and operational risks by detecting and addressing misconduct or ethical lapses early.

Provide Management Information

General Counsel provides executive leadership and business units with guidance and risk analysis that inform decisions about contracts, regulatory compliance, employment law, and operational policy. This guidance is essential for leaders seeking to understand the consequences of operational and strategic initiatives, and for ensuring alignment with the company's risk tolerance.

Enhance Corporate Performance

Strong governance and legal oversight help maintain TNMP's credibility with regulators, investors, and community stakeholders. They enable TNMP to operate efficiently within a clear legal framework, avoid reputational harm, and secure favorable regulatory outcomes. In addition, proactive risk management supports smoother execution of capital projects and business initiatives.

Reduce or Avoid Costs

By proactively managing legal risk, General Counsel helps TNMP avoid lawsuits, regulatory fines, contract disputes, and compliance-related financial penalties. Early legal review of contracts and initiatives also prevents costly renegotiations or disallowances in rate proceedings. The ethics program further helps detect and mitigate potential issues before they escalate into financial liabilities.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Environmental Services

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-17 – Environmental Services Necessity Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Environmental Services						
Environmental Policy and Strategy						
Environmental Services						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Management Control, and Strategic Planning.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Environmental Services

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Management Control, and Strategic Planning.

Corporate Governance

These policies define standards for compliance and guide the company's actions in areas scrutinized by regulators, shareholders, and communities. Sustainability reporting and membership in environmental trade groups further ensure alignment with corporate responsibility standards.

Legal Compliance

Activities ensure adherence to environmental laws and mitigation of legal exposure related to environmental risks. Proactive assessments, documentation, and permitting help the utility avoid enforcement actions, fines, or reputational damage.

Regulatory Mandates

TNMP's ability to assess and mitigate risk is key to meeting audit expectations and remaining in compliance with management rules. OSHA recordkeeping, environmental reporting, and field monitoring support required regulatory filings and audits tied to safety and multi-media environmental compliance.

Strategic Planning

Environmental policy development contributes to TNMP's long-term strategy. Initiatives such as sustainability reporting and avian protection plans and standards planning align with broader goals related to system hardening and regulatory reputation.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Environmental Services

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-18 – Environmental Services Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Environmental Services						
Environmental Policy and Strategy						
Environmental Services						

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Environmental Services

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, Reduce or Avoid Costs, and Increase Reliability.

Reduce Risk

Environmental Services mitigates a broad range of operational, regulatory, and reputational risks. Activities like incident investigation and investigation, and facility compliance visits reduce both the frequency and severity of risk events, protecting TNMP from fines, outages, and public scrutiny.

Provide Management Information

Through its tracking and reporting systems, the Environmental Services function delivers insight to leadership on environmental compliance, and field risk. Sustainability performance tracking helps leadership understand TNMP's environmental footprint and identify improvement areas.

Reduce or Avoid Costs

Proactive risk identification and compliance reduce the likelihood of regulatory penalties, litigation, environmental remediation costs, and work stoppages.

Increase Reliability

Activities within Environmental Services contribute to the utility's ability to restore and maintain reliable service to customers by enabling environmental clearance for infrastructure projects and supporting rapid environmental assessment following wildlife disturbances.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Investor Relations

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-19 – Investor Relations Necessity Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Investor Relations						
Investor Relationship Management	■	■	■			
News Releases / Presentations	■	■		■		

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, and Management Control.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Investor Relations

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, and Management Control.

Corporate Governance

Investor Relations ensures that market-facing communications are timely, accurate, and compliant with SEC regulations and NYSE listing standards. The function administers shareholder communications, coordinates the annual meeting, and supports the delivery of transparent financial messaging to both existing and prospective investors.

Regulatory Mandates

The IR function ensures these mandates are met, including earnings guidance, annual report publication, and investor meeting coordination. Transfer agent services, shareholder vote logistics, and stock exchange listings all require active administration. Failure to meet these obligations could jeopardize TXNM's standing with regulators and the capital markets, directly impacting TNMP's cost of capital and regulatory credibility.

Legal Compliance

IR ensures compliance with SEC disclosure requirements, Regulation FD (Fair Disclosure), and NYSE listing obligations. The team is responsible for the accurate preparation and timely release of earnings materials, investor presentations, and financial press releases. These activities reduce legal exposure and protect TXNM Energy and TNMP from regulatory enforcement, market manipulation accusations, or shareholder litigation stemming from inadequate or misleading disclosures.

Management Control

IR supports executive leadership and the Board with insights into investor sentiment, market expectations, and analyst forecasts. This feedback loop helps management understand how strategic decisions are received by the market and adjust messaging or tactics accordingly.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Investor Relations

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-20 – Investor Relations Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Investor Relations						
Investor Relationship Management						
News Releases / Presentations						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Investor Relations

These activities fulfill the following attributes: Reduce Risk, Provide Management Info, and Enhance Corporate Performance.

Reduce Risk

Investor Relations mitigates reputational, regulatory, and financial risks through proactive transparency and robust communication practices. Regular earnings updates, clear messaging, and adherence to disclosure regulations help prevent issues like stock price shocks, regulatory sanctions, or class-action lawsuits. Effective IR also plays a defensive role during crises by helping manage messaging and stakeholder expectations.

Provide Management Information

IR collects, synthesizes, and communicates market intelligence from investors, analysts, and financial media back to TXNM's executive team and board. This information includes buy-side and sell-side sentiment, valuation trends, and peer benchmarking. These insights inform investor messaging, risk disclosures, and capital market strategy, helping management better align its communications with investor expectations.

Enhance Corporate Performance

Investor Relations supports broader business performance by improving access to capital, sustaining investor confidence, and ensuring market support for long-term initiatives. Strong investor relationships also bolster PNMR's standing during strategic transactions such as rate case proceedings, refinancing, or major capital program, benefiting TNMP as a key operating entity.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services (1 of 2)

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-21-1 – Business Technology Service Necessity Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Business Technology Services						
Resource Management & OCM	■			■		■
Portfolio and Program Management				■	■	■
Applications Management	■			■	■	
Enterprise Architecture Management				■	■	■
Change and Configuration Management				■	■	
Corporate "Physical" Security		■		■	■	
Enterprise Applications		■		■	■	
Data Network Access and System Architecture				■	■	■
Database Management					■	
Desktop Services					■	
Disaster Recovery				■	■	
Hardware and Software Licensing				■		
Information Security				■	■	

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Management Control, Operational Execution, and Strategic Planning.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services (2 of 2)

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-21-2 – Business Technology Service Necessity Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Business Technology Services						
Operations Technology						
IT Project Management						
IT Quality Compliance Management						
QA Testing						
Service Desk (Help Desk)						
Enterprise Storage						
Telecommunications / Data						
Telecommunications / Voice						
Regulatory Compliance / NERC						
Records and Information Management System						
Data Center Services						
Crisis Management and Resilience						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

Business Technology Services (BTS) plays a central governance role by implementing systems that enforce security policies, regulatory controls, and compliance with internal standards. The team also supports the Board of Directors and senior management through cybersecurity risk assessments, compliance audits, and enterprise resilience strategies.

Regulatory Mandates

Regulatory Compliance / NERC activities directly ensure alignment with reliability standards. The team also supports filings, audit readiness, and risk mitigation related to cybersecurity and infrastructure integrity.

Legal Compliance

NERC CIP standards are tied to compliance standards. These requirements govern TNMP's IT systems, physical access, records retention, and critical infrastructure resilience. BTS ensures documentation, reporting, access control, and audit readiness to avoid legal or financial penalties.

Management Control

Through its IT portfolio, program management, resource planning, and risk reporting activities, BTS provides TNMP with visibility into project execution, budget adherence, and IT resource utilization. Dashboards, performance metrics, and configuration/change management processes help ensure TNMP can control cost, scope, and performance across a growing suite of digital and operational technologies.

Operational Execution

BTS directly enables day-to-day operations by maintaining mission-critical systems (e.g., SCADA, metering, outage management, GIS), ensuring data and voice communication, managing field mobile technologies, supporting user devices, and sustaining 24/7 Service Desk operations.

Strategic Planning

Portfolio management and resource planning IT investments with TNMP's long-term operational, customer, and regulatory goals. The function also advises on platform decisions and IT/OT convergence, shaping TNMP's digital future.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services (1 of 2)

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-22-1 – Business Technology Services Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Business Technology Services						
Resource Management & OCM						
Portfolio and Program Management						
Applications Management						
Enterprise Architecture Management						
Change and Configuration Management						
Corporate "Physical" Security						
Enterprise Applications						
Data Network Access and System Architecture						
Database Management						
Desktop Services						
Disaster Recovery						
Hardware and Software Licensing						
Information Security						

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services (2 of 2)

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-22-2 – Business Technology Services Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Business Technology Services						
Operations Technology	■	■		■	■	■
IT Project Management	■			■	■	
IT Quality Compliance Management	■			■		
QA Testing	■			■	■	
Service Desk (Help Desk)		■			■	
Enterprise Storage	■				■	■
Telecommunications / Data		■			■	
Telecommunications / Voice		■			■	
Regulatory Compliance / NERC	■				■	■
Records and Information Management System			■		■	
Data Center Services	■	■		■	■	■
Crisis Management and Resilience	■				■	

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Business Technology Services

These activities fulfill the following attributes: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

Reduce Risk

Information Security, Crisis Management, and Regulatory Compliance teams reduce enterprise risk by enforcing cybersecurity best practices, testing disaster recovery protocols, managing physical access, and ensuring compliance with reliability and privacy standards.

Increase Employee Productivity

BTS activities allow TNMP employees to work efficiently and securely. Change management efforts increase user adoption of new systems, while training, onboarding support, and help desk responsiveness minimize downtime and frustration.

Provide Management Information

BTS enables enterprise decision-making by managing enterprise data platforms, dashboards, and business intelligence tools. Systems like HRIS, financial systems, and SCADA rely on BTS-managed databases and infrastructure.

Enhance Corporate Performance

Technology modernization, cybersecurity, and business continuity planning improve investor confidence and regulatory standing. Through digital transformation initiatives, BTS enables operational improvements across multiple functions, including finance, accounting, and human resources.

Reduce or Avoid Costs

BTS supports cost savings by centralizing software licensing, hardware procurement, vendor management, and cloud services. Proactive maintenance and monitoring reduce unplanned outages and system failures.

Increase Reliability

Mission-critical IT and OT systems managed by BTS (e.g., SCADA, OMS, communication networks) underpin TNMP's ability to deliver reliable electric service. Enterprise Storage, Data Center Services, and Telecommunications ensure that critical data and communication remain available across geographies and during emergency events.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Community Relations Stakeholder Engagement

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-23– Community Relations Stakeholder Engagement – External Affairs Analysis

Activity	Necessity Attributes					
	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Community Relations						
Community Outreach						
Corporate Contributions						
Employee Engagement						
Low-Income Outreach						

These activities fulfill the following necessity attributes: Operational Execution.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Community Relations Stakeholder Engagement

These activities fulfill the following attributes: Operational Execution.

Operational Execution

Community Relations enables smoother execution of utility operations, particularly in times of crisis, public hearings, or large infrastructure projects, by maintaining trusted relationships with community partners and customers. Outreach efforts during outages or major capital projects reduce public resistance and improve communication effectiveness. Internal low-income awareness campaigns also improve how TNMP staff interact with and serve these customers.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Community Relations Stakeholder Engagement

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-24 – Community Relations Stakeholder Engagement – External Affairs Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Community Relations						
Community Outreach						
Corporate Contributions						
Employee Engagement						
Low-Income Outreach						

These activities provide benefits in the following categories: Increase Employee Productivity, Provide Management Info, and Enhance Corporate Performance.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Community Relations Stakeholder Engagement

These activities fulfill the following attributes: Increase Employee Productivity, Provide Management Info, and Enhance Corporate Performance.

Increase Employee Productivity

Employee engagement activities, including volunteer opportunities and partnerships with charitable organization, boost morale, reinforce a shared sense of mission, and increase employee retention. These programs help employees feel more connected to the communities they serve, which can enhance productivity, collaboration, and workplace satisfaction across the organization.

Provide Management Information

Community Relations teams offer executives and functional leaders unique insight into the concerns and priorities of customers, civic groups, and non-profits. These inputs help guide customer engagement strategies, infrastructure planning, and corporate messaging. Internal feedback mechanisms, particularly for low-income outreach, also inform training and service strategies that improve customer satisfaction.

Enhance Corporate Performance

Community relationships support TNMP's brand and reputation, which improves customer satisfaction, increases regulatory favorability, and strengthens stakeholder trust. These outcomes enhance TNMP's ability to recover costs, secure investment, and advocate for favorable policy outcomes. Corporate contributions and outreach also boost visibility and goodwill during times

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Corporate Communications and Research

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-25 – Corporate Communications and Research – External Affairs Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Corporate Communications and Research						
Internal and External Communications						
Research						
Web Business						

These activities fulfill the following necessity attributes: Corporate Governance, Management Control, Operational Execution, and Strategic Planning.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Corporate Communications and Research

These activities fulfill the following attributes: Corporate Governance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

Internal communications are essential to upholding corporate governance by ensuring employees are informed of policies, strategic direction, safety protocols, and compliance obligations. Externally, the function monitors media developments that could affect public perception, regulator sentiment, or reputational standing. The team helps executive leadership respond effectively and transparently to emerging public or stakeholder issues.

Management Control

The communications function supports management control by providing timely intelligence on employee concerns, customer satisfaction, and public sentiment. Research insights and feedback gathered from customer surveys and digital platforms allow TNMP to refine service delivery, tailor messaging, and anticipate potential problems before they escalate.

Operational Execution

These activities directly enable TNMP operations by ensuring employees receive timely, clear communication regarding safety, outages, new tools, regulatory changes, and operational protocols. On the customer side, digital improvements and user testing of the website or application portals help reduce confusion, improve self-service adoption, and lower call volumes, allowing front-line employees to focus on complex needs.

Strategic Planning

Research and communications provide foundational support for long-term strategic planning. Customer feedback helps TNMP assess the market feasibility of new programs and the effectiveness of current ones.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Corporate Communications and Research

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-26 – Corporate Communications and Research – External Affairs Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Corporate Communications and Research						
Internal and External Communications	■	■		■		
Research			■	■		
Web Business			■	■	■	

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Corporate Communications and Research

These activities fulfill the following attributes: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

Reduce Risk

Monitoring public sentiment and media activity helps TNMP detect emerging issues before they escalate. Effective communication strategies and real-time response tools reduce reputational risk, especially during high-visibility events like outages, rate cases, or emergencies.

Increase Employee Productivity

Effective internal communications keep employees informed, focused, and aligned. Strong communication prevents disruption and boosts morale when introducing operational changes, technology updates, or safety alerts.

Provide Management Information

Customer satisfaction surveys, digital usability feedback, and media monitoring reports equip TNMP leadership with valuable insight into stakeholder sentiment, communication effectiveness, and customer needs. These data sources help refine investment priorities, customer service initiatives, and employee engagement strategies.

Enhance Corporate Performance

Externally, strong corporate communications improve public trust, reinforce TNMP's brand, and help manage sensitive issues like rate increases, outages, or environmental concerns. Internally, engaged employees are more productive, safer, and more likely to serve customers effectively.

Reduce or Avoid Costs

Proactive communication reduces avoidable costs associated with customer confusion, repeat calls, negative media coverage, or low program participation. Improvements to the web experience reduce reliance on manual channels like call centers.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Customer Operations

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-27 – Customer Operations Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Customer Operations						
Customer Service						

These activities fulfill the following necessity attributes: Operational Execution.

Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Customer Operations

These activities fulfill the following attributes: Operational Execution.

Operational Execution

Call center services handle inbound customer calls, direct field resources to emergencies, and ensure rapid communication between customers, dispatch teams, and operations personnel. The function enables TNMP to respond to service interruptions, safety hazards, and urgent customer needs while also managing routine service requests and inquiries.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Customer Operations

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-28 – Customer Operations Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Customer Operations						
Customer Service						

These activities provide benefits in the following categories: Provide Management Info and Enhance Corporate Performance.

 Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Customer Operations

These activities fulfill the following attributes: Provide Management Info and Enhance Corporate Performance.

Provide Management Information

Call center data and customer complaints offer rich insight into the effectiveness of TNMP's service delivery, billing accuracy, outage management, and field performance. These insights are used to improve processes, allocate resources, and prioritize customer-facing investments.

Enhance Corporate Performance

Strong customer service enhances TNMP's brand and public standing, which can influence outcomes in rate cases, policy advocacy, and community relations. Satisfied customers are more likely to support modernization efforts, rate recovery mechanisms, or utility-sponsored programs. Complaint trends and customer feedback also drive continuous improvement in corporate performance and investment planning.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Human Resources

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-29 – Human Resources Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Human Resources						
Benefits						
Compensation						
Compliance and Policies						
Learning and Development						
Employee Relations						
HR Talent Acquisition and Workforce Planning						
Human Resource Information System (HRIS)						
Labor Relations						
Safety						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning,

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Human Resources

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

People Services and labor relations directly support corporate governance by managing employee policies, compensation frameworks, benefits communications, and compliance with labor laws and internal codes of conduct.

Regulatory Mandates

Certain HR data and programs may be required in support of PUCT filings or audits, including diversity data, training compliance, and labor cost information. HR is often involved in developing workforce-related testimony and exhibits for rate cases, especially where staffing or performance outcomes are under review.

Legal Compliance

HR functions are driven by legal and regulatory mandates, including FMLA, ADA, FLSA, OSHA, EEO, ERISA, ACA, and labor laws. Labor Relations also ensures compliance with collective bargaining agreements and federal labor laws. Non-compliance in these areas can result in penalties or operational disruption.

Management Control

HR provides critical insights into workforce productivity, performance trends, succession readiness, and workforce risks. Systems such as performance management, talent reviews, and HRIS reporting equip leaders with data to make informed decisions about organizational structure, development priorities, and staffing.

Operational Execution

Core activities such as staffing, onboarding, benefits administration, and employee relations are essential to day-to-day operations. Without these, TNMP would not be able to fill vacancies, maintain workforce stability, ensure proper training, or manage employee health and welfare. HR also directly supports safe operations through training programs, performance management, and resolution of workplace conflicts.

Strategic Planning

Workforce planning, succession management, leadership development, and organizational capability programs directly support TNMP's long-term strategic goals.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Human Resources

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-30 – Human Resources Benefits Analysis

Activity	Benefit Attributes					
	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Human Resources						
Benefits						
Compensation						
Compliance and Policies						
Learning and Development						
Employee Relations						
HR Talent Acquisition and Workforce Planning						
Human Resource Information System (HRIS)						
Labor Relations						
Safety						

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Human Resources

These activities fulfill the following attributes: Reduce Risk, Increase Employee Productivity, Provide Management Info, Enhance Corporate Performance, and Reduce or Avoid Costs

Reduce Risk

HR mitigates workplace safety, discrimination claims, and collective bargaining disputes. Labor Relations supports grievance resolution and contract compliance, while HR policies reduce the risk of harassment, misclassification, or retaliation claims.

Increase Employee Productivity

Programs such as performance management, training, wellness, and employee engagement are designed to drive productivity, reduce absenteeism, and enhance morale. Clear policies, conflict resolution, and responsive HR support help maintain a stable, focused, and motivated workforce.

Provide Management Information

HRIS reporting, workforce analytics, and employee feedback tools give leadership insight into turnover, engagement, training completion, workforce demographics, and bench strength. These data sources inform performance management, diversity initiatives, succession planning, and risk management strategies.

Enhance Corporate Performance

People Services enhances corporate performance by enabling consistent service delivery, building leadership capability, and ensuring the right people are in the right roles.

Reduce or Avoid Costs

Effective administration of benefits, compensation, and staffing reduces unnecessary labor costs, avoids overpayment risks, and minimizes legal exposure. Proactive compliance and policy management mitigate the cost of legal claims, penalties, or external investigations. Recruiting, onboarding, and retention programs help avoid productivity losses and high turnover expenses.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Utility Operations

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-31 – Utility Operations Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Utility Operations						
Strategic Energy Planning and Development	■			■		■
Wildfire and Vegetation Management	■	■		■		

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Management Control, and Strategic Planning.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Utility Operations

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Management Control, and Strategic Planning.

Corporate Governance

Strategic planning reinforces enterprise-wide alignment and supports executive oversight of long-term direction, capital prioritization, and innovation by leading cross-functional strategic initiatives and communicating corporate priorities.

Regulatory Mandates

Wildfire and vegetation management are increasingly subject to regulatory requirements. Ability to assess and mitigate risk is key to meeting audit expectations and remaining in compliance with vegetation management rules.

Management Control

Oversight of enterprise projects and execution of strategic initiatives improves internal coordination and ensures that long-term goals translate into actionable business plans, helping the utility track progress toward critical outcomes.

Strategic Planning

These activities provide financial and economic analysis of corporate initiatives, ensuring that long-term organizational strategy is data-driven, aligned with regulatory realities, and tailored to utility's evolving operational environment (e.g., load growth, wildfire risks, resilience planning).

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Utility Operations

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-32 – Utility Operations Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Utility Operations						
Strategic Energy Planning and Development						
Wildfire and Vegetation Management						

These activities provide benefits in the following categories: Reduce Risk, Provide Management Information, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Utility Operations

These activities provide benefits in the following categories: Reduce Risk, Provide Management Information, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability

Reduce Risk

Activities mitigate strategic, operational, and regulatory risk by proactively identifying market shifts, evaluating implications of legislative changes, and planning around emerging threats such as climate-related reliability issues.

Provide Management Information

Activities provide strategic insights and economic modeling that inform executive and board-level decisions regarding investment, risk tolerance, and market positioning.

Enhance Corporate Performance

Innovation leadership and forward-looking planning ensure that utilities remain resilient and responsive to external pressures such as rising demand, capital constraints, or shifting regulatory frameworks.

Reduce or Avoid Costs

Proactive risk identification and compliance reduce the likelihood of regulatory penalties, litigation, environmental remediation costs, and work stoppages. Wildfire mitigation planning helps avoid property damage and liability claims.

Increase Reliability

Wildfire and vegetation management reduce the risk of service outages, equipment damage, and catastrophic events during high-risk weather periods.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Executive Management

NECESSITY ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-33 – Executive Management Necessity Analysis

	Necessity Attributes					
Activity	Corporate Governance	Regulatory Mandates	Legal Compliance	Management Control	Operational Execution	Strategic Planning
Executive Management						
Executive Operations						

These activities fulfill the following necessity attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

 Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Executive Management

These activities fulfill the following attributes: Corporate Governance, Regulatory Mandates, Legal Compliance, Management Control, Operational Execution, and Strategic Planning.

Corporate Governance

Activities that relate to Corporate Governance under Executive Management consist of providing overall leadership and strategic direction to different operating companies and, in turn, ensure strategic coordination of operations.

Regulatory Mandates

Activities within functional VPs such as Chief Human Resources Officer and Corporate Controller manage regulatory requirements.

Legal Compliance

Activities within Corporate Controller and General Counsel and Secretary ensure compliance with legal requirements and mandates.

Management Control

Activities that relate to Management Control under Executive Management consist of providing overall leadership and strategic direction to many different business units and, in turn, guiding each units' management planning.

Operational Execution

Executive Management is responsible for leading operational planning and day-to-day field performance against established operating or maintenance.

Strategic Planning

Strategic planning relates to Executive Management through the overall leadership that executives provide – setting overarching strategic objectives, defining constraints (financial, risk, other), and defining bases for prioritizing potential strategic pursuits. This management guidance deriving from Executive-related activities helps define the wider strategy of TNMP.

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Executive Management

BENEFITS ANALYSIS

We assessed and categorized each practice area activity by the attributes previously discussed.

Exhibit 2-3-34 – Executive Management Benefits Analysis

	Benefit Attributes					
Activity	Reduce Risk	Increase Employee Productivity	Provide Mgmt. Info	Enhance Corporate Performance	Reduce or Avoid Costs	Increase Reliability
Executive Management						
Executive Operations						

These activities provide benefits in the following categories: Reduce Risk, Increase Employee Productivity, Provide Management Information, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

■ Indicates underlying activity causation

Exhibit 2-3 – Necessity and Benefits Activity Analysis – Executive Management

These activities fulfill the following attributes: Reduce Risk, Increase Employee Productivity, Provide Management Information, Enhance Corporate Performance, Reduce or Avoid Costs, and Increase Reliability.

Reduce Risk

Activities within Executive Management that reduce risk include defining management priorities around distribution operations risk (including safety) reduction and approach to ensuring overall risk avoidance and mitigation based on previous management experience.

Increase Employee Productivity

Activities within Executive Management that increase employee productivity include providing effective and motivating leadership to the distribution services team – including approval of effective training and compensation plans, guidance for employee.

Provide Management Information

Executive roles such as Corporate Controller, Treasurer, and VP Human Resources provide management oversight and information for their respective functions.

Enhance Corporate Performance

Within the Executive Management function, activities that enhance corporate performance relate to executive leadership around operations and financial target setting and investment prioritization.

Reduce or Avoid Costs

Activities within the Executive Management function that reduce or avoid costs relate to executive distribution operations-related, cost savings investment approvals and other related decision-making.

Increase Reliability

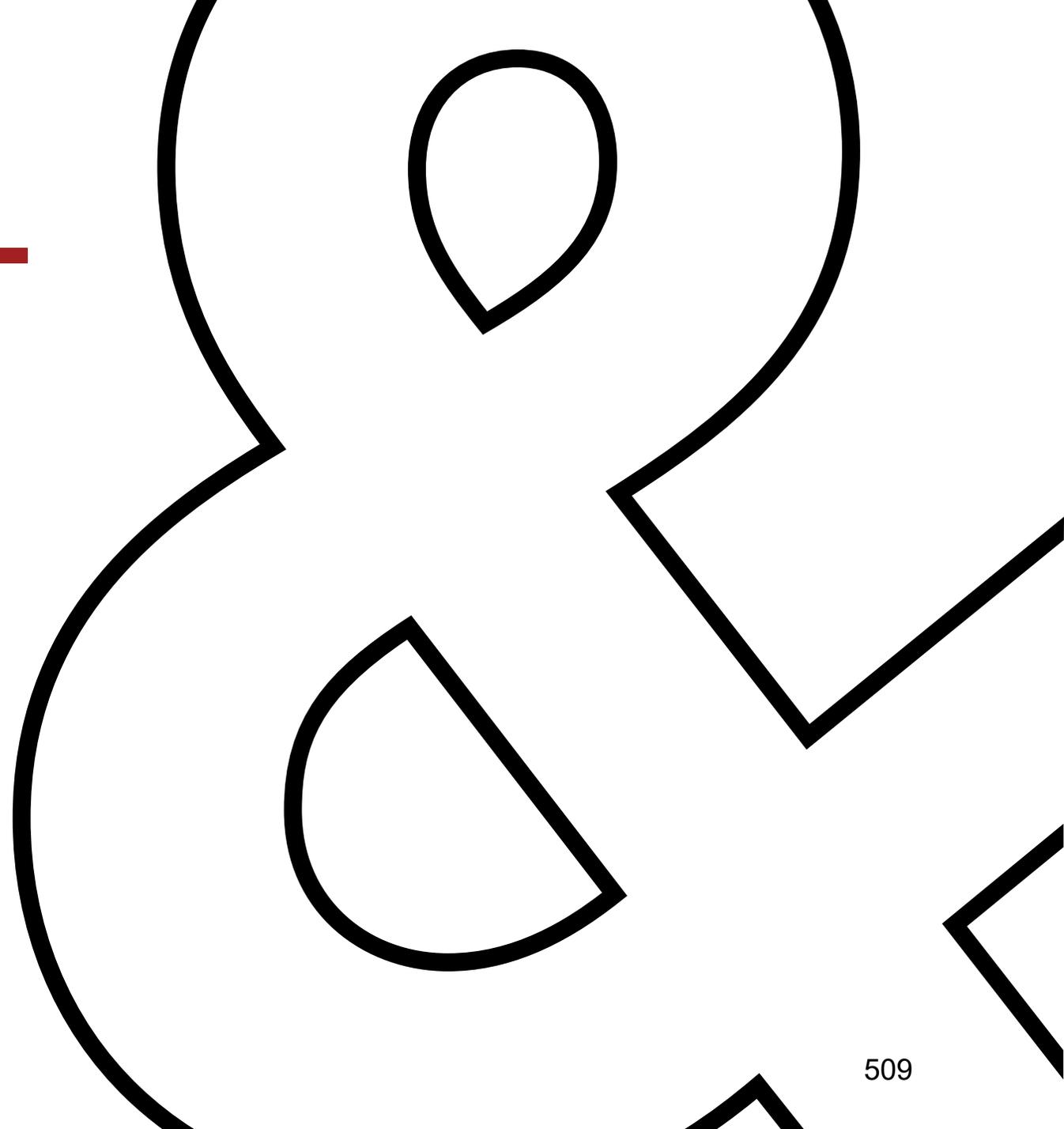
Executive Management broadly, increases the reliability of its workforce as well as PNMR itself by setting operations-related reliability targets and approval investment plans for system maintenance.

Cost Reasonableness Assessment

Exhibit EMS-3

Role Clarity

November 2025



Use of Exhibits

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Exhibit 3-1: Delineation of Roles and Responsibilities (1 of 4)

Function	PNMR Services Roles	TNMP Roles	Role Clarity Rationale
Financial Planning and Business Analysis	<ul style="list-style-type: none"> Manages the budget process for the enterprise. Provides budget guidance with strategic assumptions for all operating companies. Manages reporting and analysis of budget variances for the full enterprise. 	<ul style="list-style-type: none"> Sets detailed budget needs and long range plans for TNMP at the operating company level. Analyzes budget variances for TNMP related projects and conducts relevant budget analyses. 	<ul style="list-style-type: none"> PNMR Services sets the budget strategy and framework at an enterprise level, while TNMP executes detailed planning and analysis within that framework.
Supply Chain	<ul style="list-style-type: none"> PNMR Services sets the overall strategy for the Supply Chain organization and property management, and provides management services and oversight. Responsible for RFPs/RFQs and subsequent contracts for all materials and services purchases. Assists with contractor oversight and coordination. Responsible for facility management (includes building operations and real estate transaction support for occupied properties) and project support for O&M and Capital initiatives. 	<ul style="list-style-type: none"> TNMP owns the day-to-day management of facility management and material coordination. Responsible for contractor oversight or self-performance of maintenance, janitorial and some repair work, as well as oversight of lease management and space planning for TNMP. Manages local warehouses operations (receiving, inventory levels, materials coordination and delivery), and materials kitting / staging / delivery and distribution, which involves coordinating with corporate supply chain on sourcing and materials needs. 	<ul style="list-style-type: none"> PNMR Services focuses on enterprise-wide strategy and oversight for supply chain, while TNMP is responsible for local execution and operational management.
Executive Management	<ul style="list-style-type: none"> Responsible for the oversight of TNMP executive leadership. Provides executive oversight to business units and advises the company on matters of policy, business affairs, and overall strategy. 	<ul style="list-style-type: none"> Responsible for direct oversight of TNMP operations. 	<ul style="list-style-type: none"> PNMR Services guides TNMP from a strategic and governance perspective, while TNMP manages the tactical, operational execution.

Exhibit 3-1: Delineation of Roles and Responsibilities (2 of 4)

Function	PNMR Services Roles	TNMP Roles	Role Clarity Rationale
Business Technology Services	<ul style="list-style-type: none"> Manages the lifecycle of corporate network-connected devices, including hardware acquisition, system functionality, compliance with company standards, and application of security updates. Provides governance and audit approach for maintaining compliance with NERC reliability standards across the enterprise. Manages TNMP’s enterprise data, voice, and transport networks across all corporate sites. Tracks and manages standardized IT/OT equipment (where applicable) to support enterprise ELAs, optimize hardware negotiations, and enable cross-functional support for common systems such as servers, storage, PCs, and networking gear. Oversees network monitoring, incident response, lifecycle management, security mitigation (cyber and physical), crisis management and resilience, and telecom carrier coordination. Provides client services such as desktop engineering and support, service desk, corporate, and data center services. Centrally manages record compliance to ensure adherence to legal standards. 	<ul style="list-style-type: none"> Manages devices connected on the TNMP Operations Technology (OT) network, including all devices associated with Energy Management Systems (EMS). Responsible for the implementation of the required compliance standards. Oversees NERC related system operator training. Responsible for TNMP Utility Field Operations data and transport network for all TNMP substation, control and data center sites. Responsible for data, voice and transport network for all TNMP substations, control and data center sites for TNMP Utility Field Operations. 	<ul style="list-style-type: none"> PNMR Services focuses on enterprise-wide IT infrastructure and compliance oversight, while TNMP manages field-level OT systems and local network operations specific to TNMP utility functions.

Exhibit 3-1: Delineation of Roles and Responsibilities (3 of 4)

Function	PNMR Services Roles	TNMP Roles	Role Clarity Rationale
Regulatory Services	<ul style="list-style-type: none"> Provides cost of service analysis for historical and forecasted revenue requirements for the regulatory jurisdictions for TNMP. Supports TNMP's pricing and retail jurisdiction by conducting in-depth analysis of historical and forecasted revenue requirements, pricing structures, and customer tariffs. 	<ul style="list-style-type: none"> Responsible for defining and driving regulatory policy and engagement for Texas and interfacing with the PUC (Public Utility Commission). Manages energy efficiency programs, billing and rate setting. 	<ul style="list-style-type: none"> PNMR Services provides analytical and modeling support for regulatory and pricing needs, while TNMP drives regulatory policy, compliance, and program execution within Texas.
Corporate Communications	<ul style="list-style-type: none"> Develops formal enterprise-wide customer communications including crisis communications, as well as key strategic and / or core initiatives. Also handles outage phone call for media and workforce communications. 	<ul style="list-style-type: none"> Responsible for providing general guidance and direction to specific regional / local communications and messages to customers (e.g., system reliability, outages). 	<ul style="list-style-type: none"> PNMR Services handles centralized, strategic communications across the organization, while TNMP focuses on localized customer messaging specific to its service areas.
Community Relations Stakeholder Engagement	<ul style="list-style-type: none"> Owns responsibility for managing community outreach and employee engagement at the service company level. At the service company level, community relations personnel liaises with large non-profit organizations to drive employee engagement. 	<ul style="list-style-type: none"> Operates on the local level in Texas. TNMP Community Liaisons supports the regulatory group in building and maintaining external relationships with regulators, legislators, county officials, community leaders, consumers and other stakeholders who have an impact on TNMP activities throughout its Texas service territories. 	<ul style="list-style-type: none"> PNMR Services leads corporate-level outreach and engagement, while TNMP handles localized, stakeholder-focused relationship building in support of its operations and regulatory objectives.

Exhibit 3-1: Delineation of Roles and Responsibilities (4 of 4)

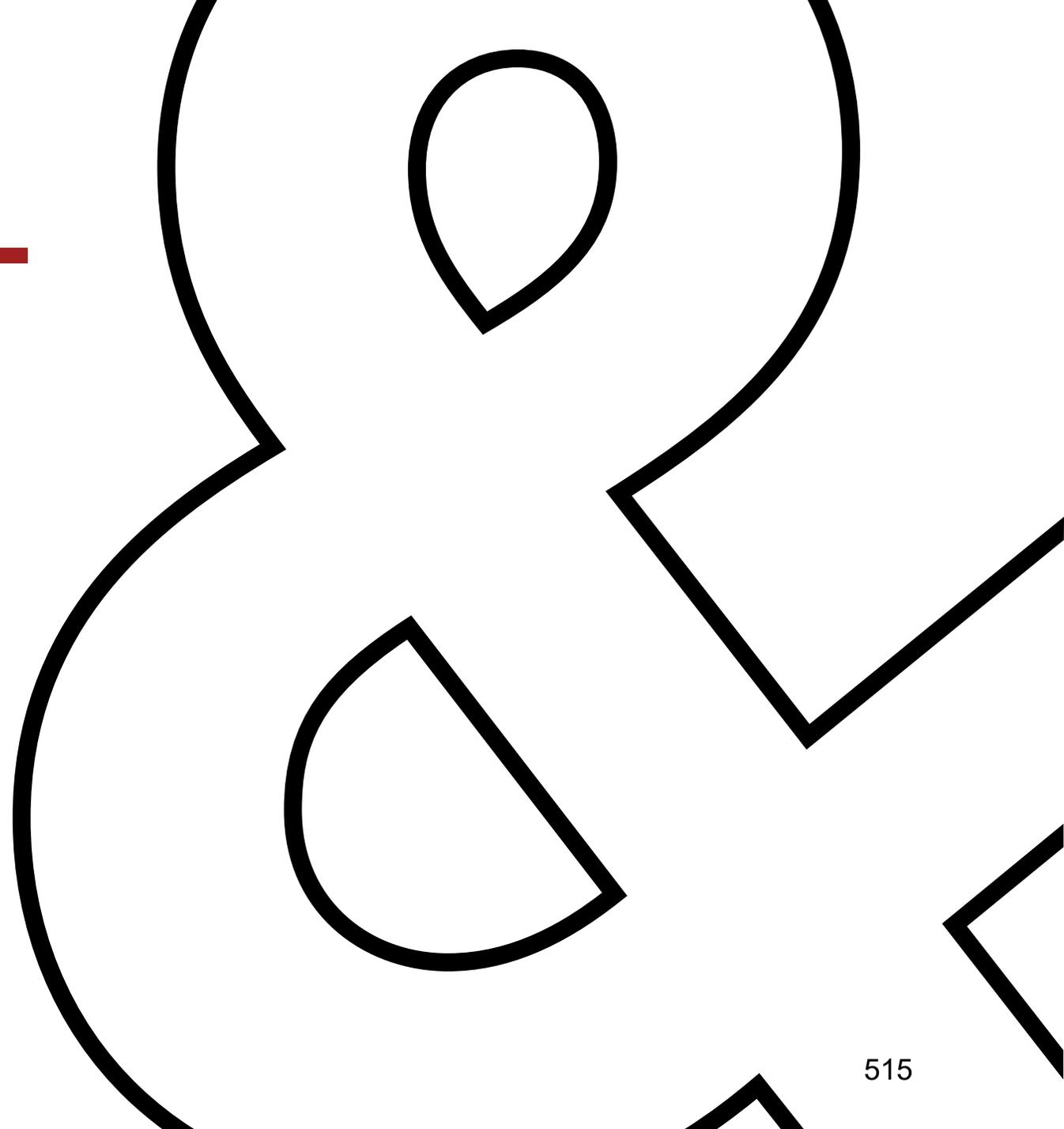
Function	PNM Roles	TNMP Roles	Role Clarity Rationale
Customer Operations	<ul style="list-style-type: none">Provides call center services to TNMP and PNM.Meets with TNMP leadership to review performance metrics, identify improvements, and align on training needs.Delivers new hire and refresher trainings, ensures content is current, and collaborates across teams to address emerging concerns.	<ul style="list-style-type: none">Responsible for gathering customer complaints and resolving issues employing relevant escalation processes, supporting engagement with the Texas regulatory commission as needed.	<ul style="list-style-type: none">PNM serves as the frontline intake for customer calls, while TNMP is responsible for resolving customer issues and managing regulatory-facing responses.

Cost Reasonableness Assessment

Exhibit EMS-4

Planning, Budgeting, and Cost Control

November 2025



Use of Exhibits

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Exhibit 4-1 – Budgeting & Cost Management Groups

Group / Term	Members
PNMR Services Functions	<ul style="list-style-type: none"> • PNMR functional leaders (Vice Presidents and Directors / Directors / Senior Managers)
TNMP Operations	<ul style="list-style-type: none"> • TNMP functional leaders (Vice Presidents and Directors / Directors / Senior Managers)
Financial Planning & Corporate Budget (FPCB)	<ul style="list-style-type: none"> • Financial Planning & Budget team leaders (Vice Presidents / Directors / Managers) • TXNM Energy and Executive Policy Committee (EPC) business area leaders
Resource Council	<ul style="list-style-type: none"> • Don Tarry, CEO, TXNM Energy • Henry Monroy, SVP & Chief Financial Officer, TXNM Energy • Neal Walker, TNMP President • Omni Warner, SVP PNM Operations • Laurie Williams, SVP PNM Integrated planning & Transmission Development
CFO	<ul style="list-style-type: none"> • Henry Monroy, SVP & Chief Financial Officer, TXNM Energy
Executive Policy Committee (EPC)	<ul style="list-style-type: none"> • Don Tarry, CEO, TXNM Energy • Henry Monroy, SVP & Chief Financial Officer, TXNM Energy • Brian Iverson, SVP & General Counsel • Monique Jacobson, SVP Corporate Services
TXNM Board of Directors (BoD)	<ul style="list-style-type: none"> • Board of Directors members

Exhibit 4-2 – Budgeting & Cost Control Overview

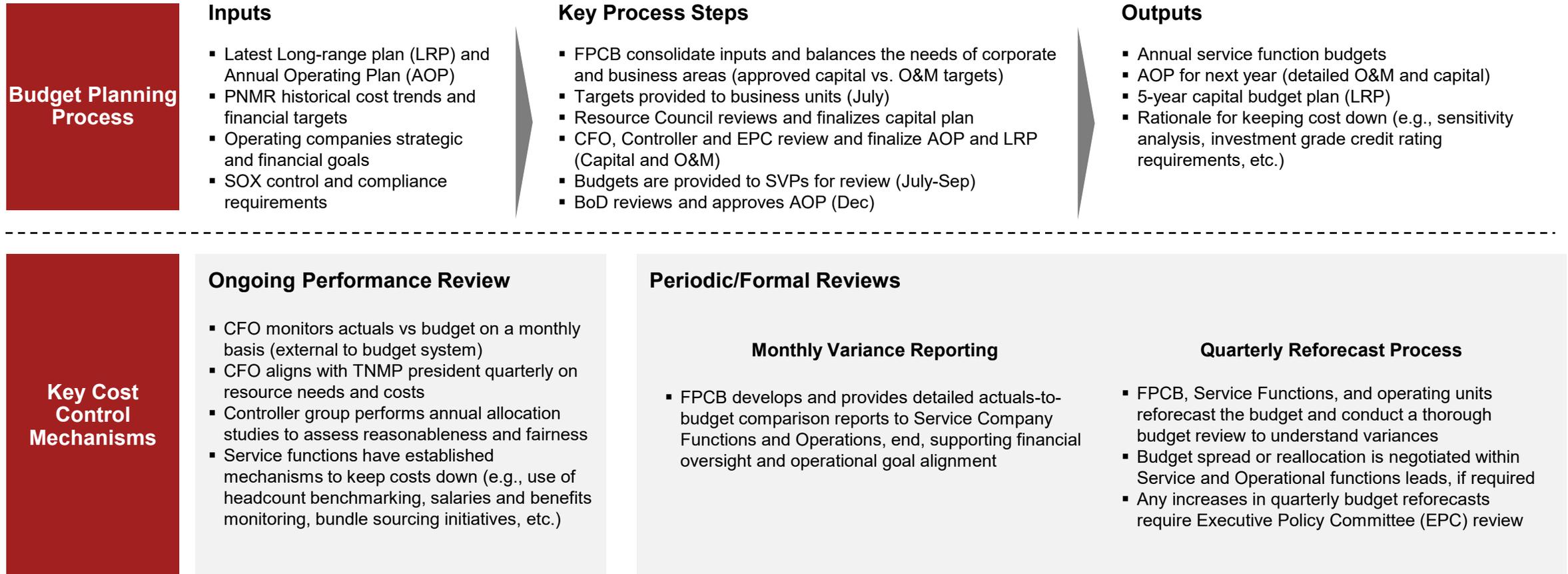


Exhibit 4-3 – Engagement and Interaction Model

Interaction Between Operating Companies and Service Functions

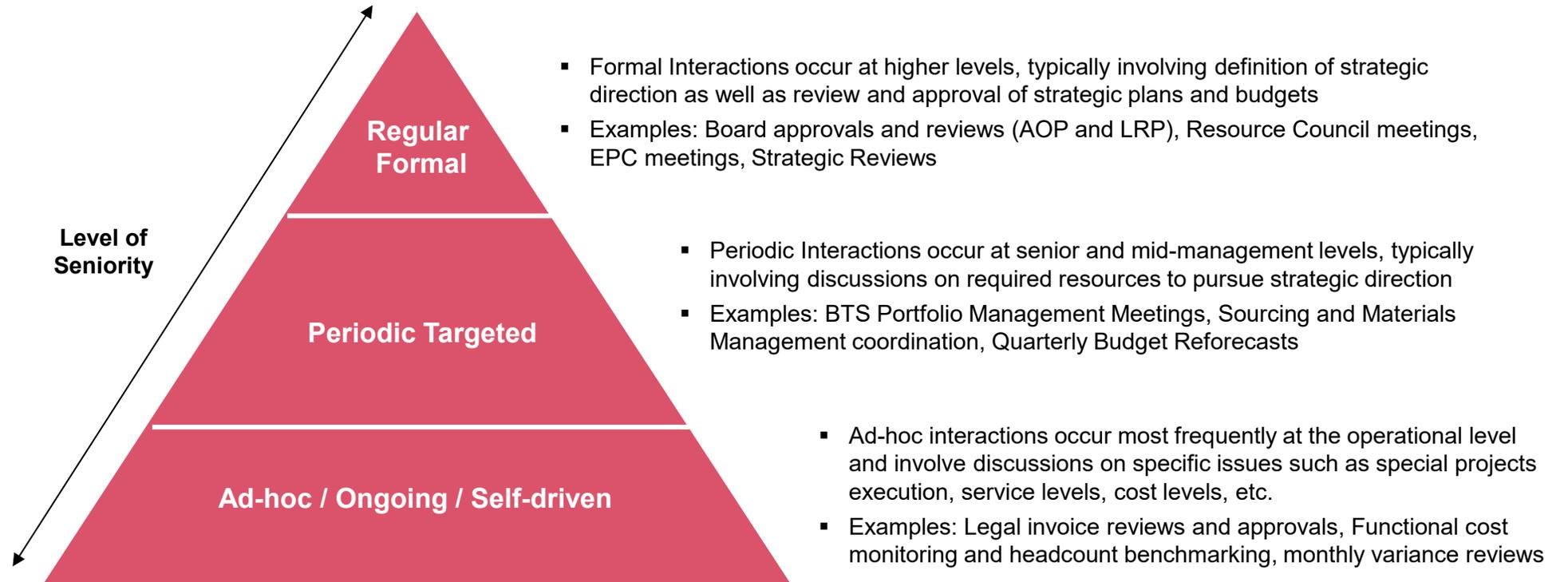


Exhibit 4-4 – Anticipated Timeline for 2026 Long-Range Plan (LRP) and Annual Operating Plan (AOP) Calendar

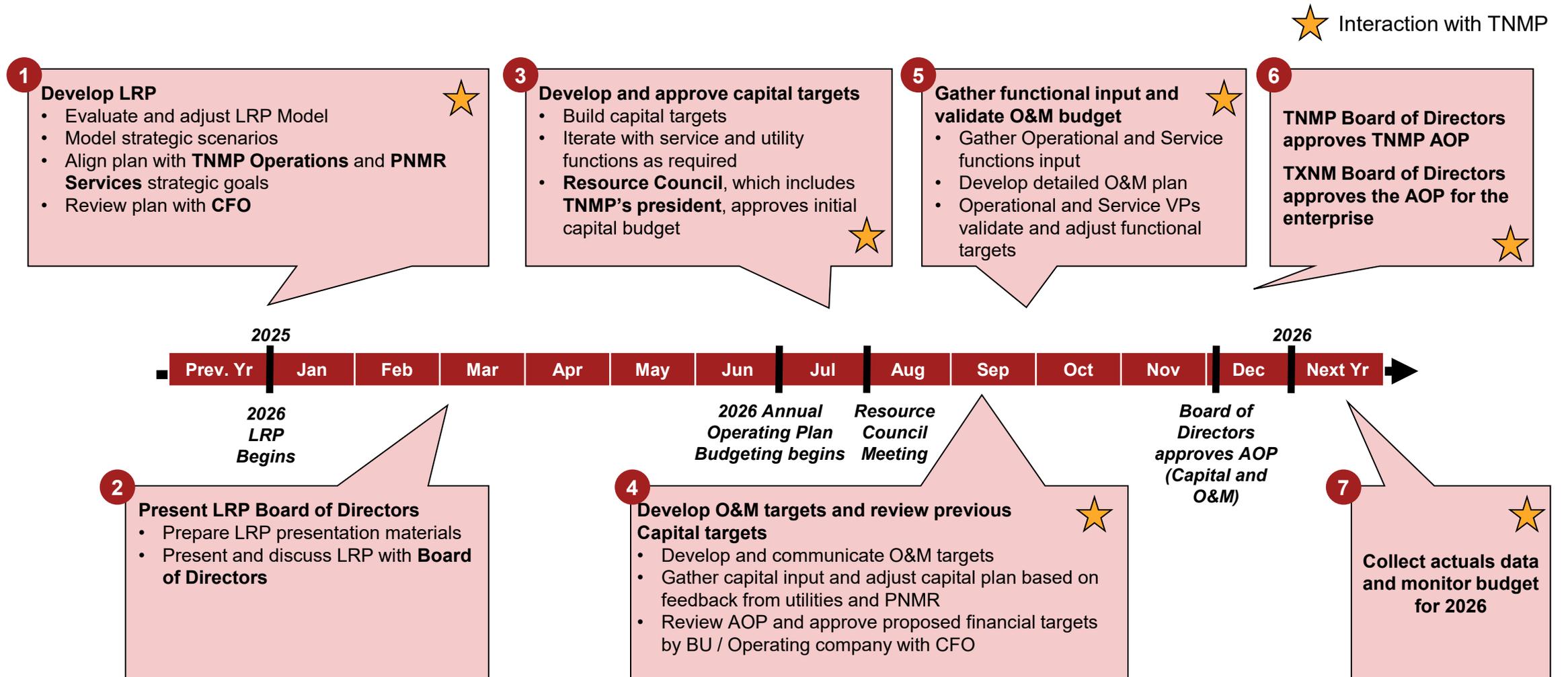
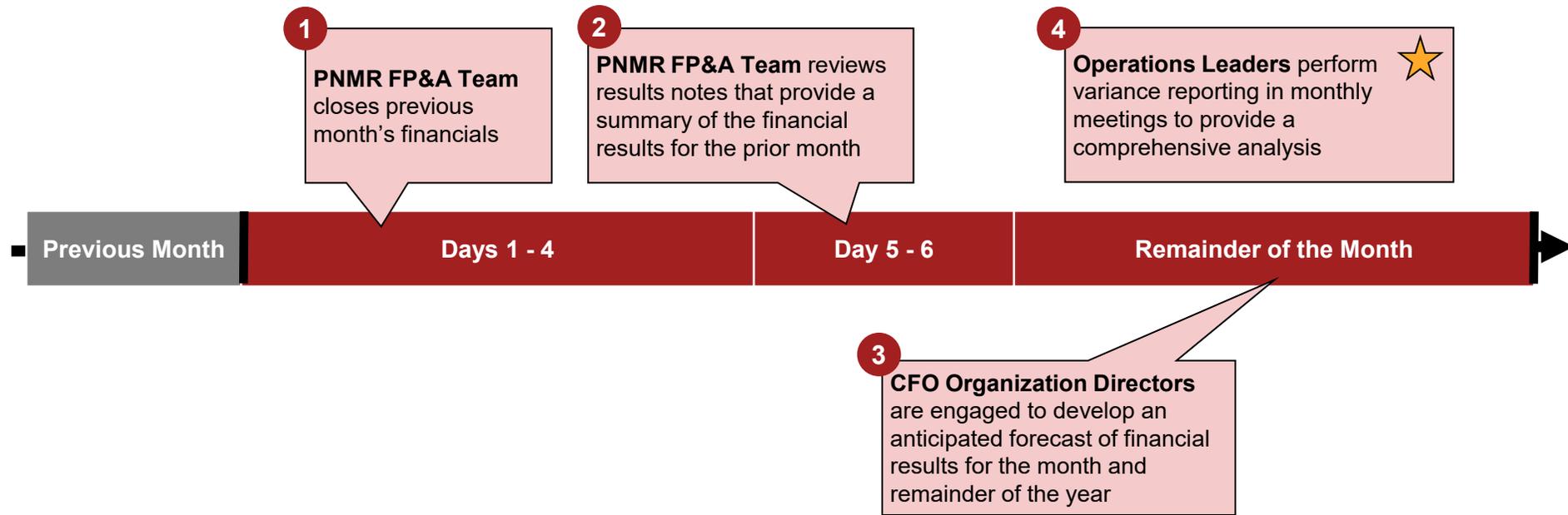


Exhibit 4-5 – Monthly Budget to Actuals Review Process

★ Interaction with TNMP

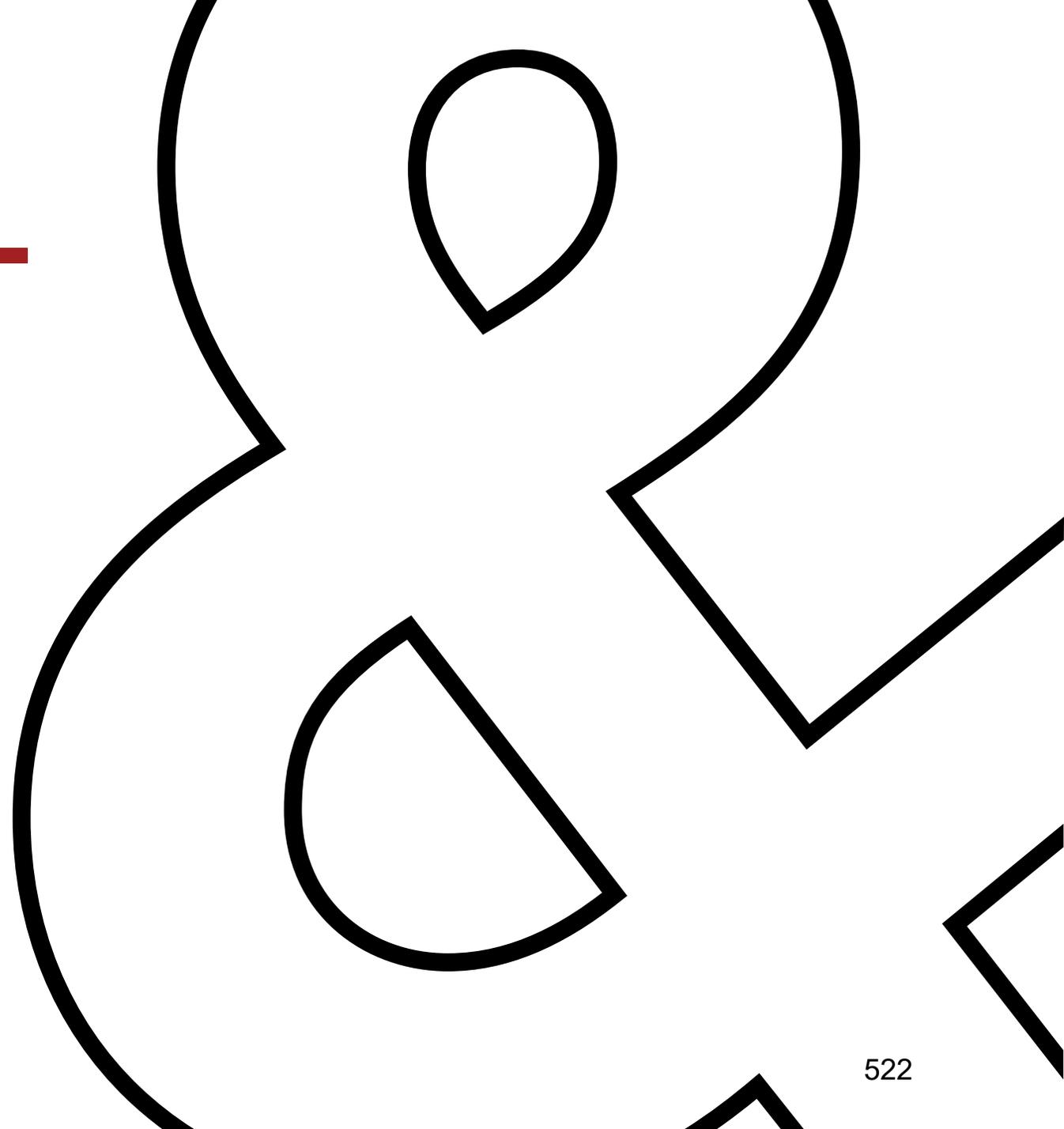


Cost Reasonableness Assessment

Exhibit EMS-5

Cost Trends

November 2025



Use of Exhibits

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Exhibit 5-1: Adjusted PNMR Services Cost Changes

TTM June 2022 – TTM June 2025, Nominal and Real \$M

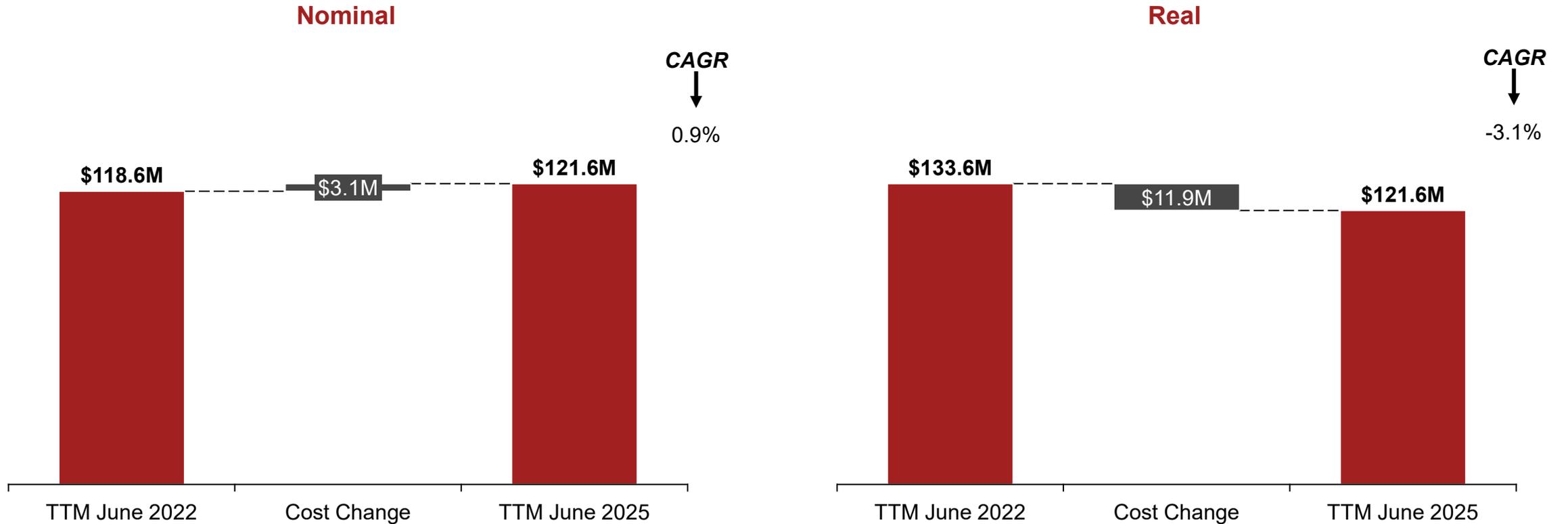


Exhibit 5-2: Adjusted PNMR Service Billings to TNMP Changes

TTM June 2022 – TTM June 2025, Nominal and Real \$M

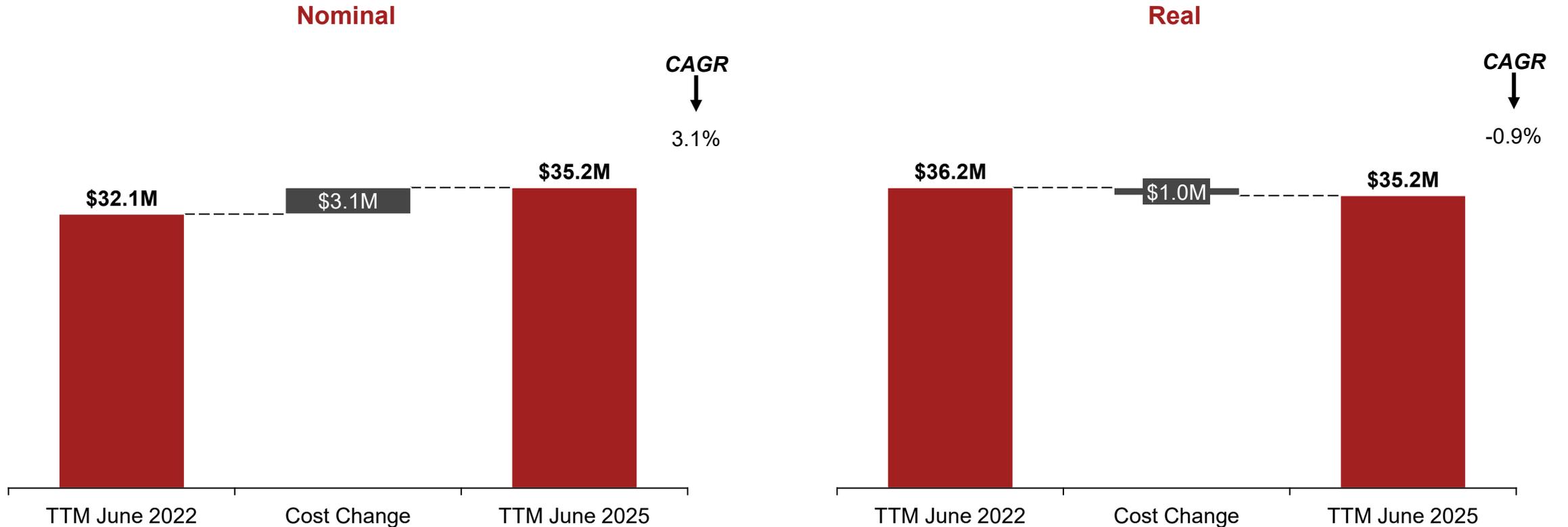


Exhibit 5-3: Change in Adjusted PNMR Billings to TNMP

TTM June 2022 – TTM June 2025, by Function, Nominal \$M

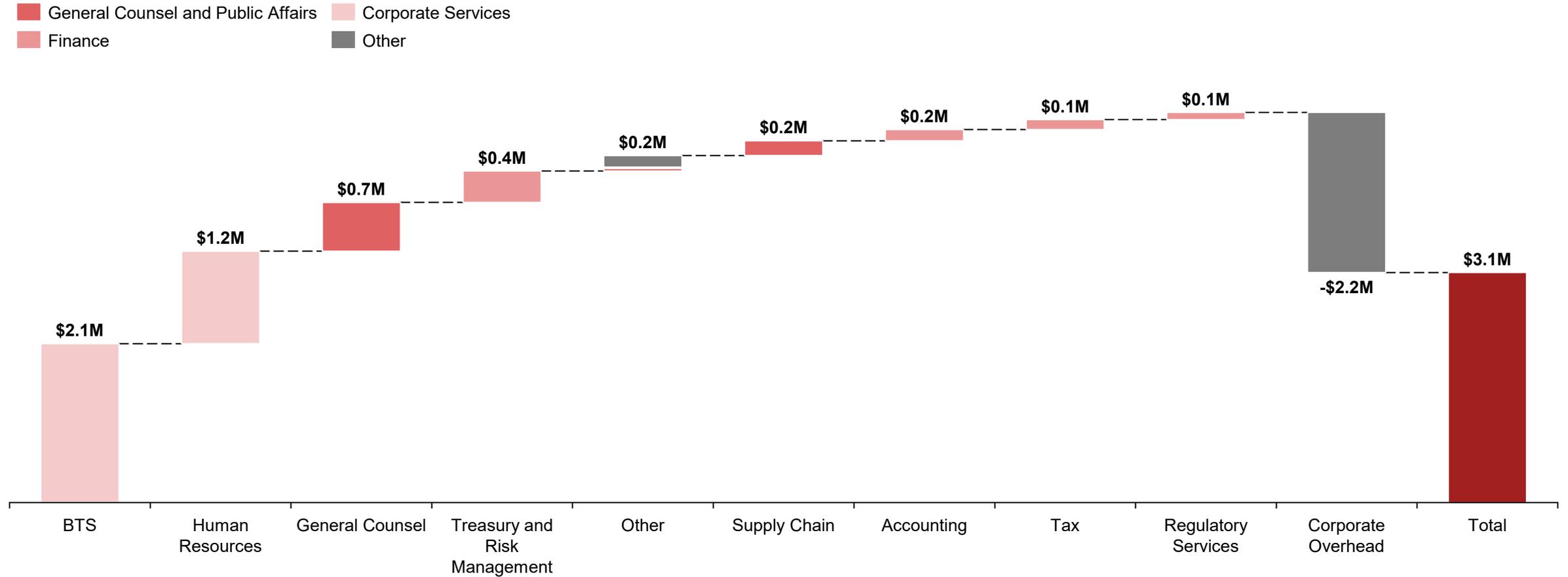


Exhibit 5-4: Change in Adjusted PNMR Billings to TNMP

TTM June 2022 – TTM June 2025, by Function, Real \$M

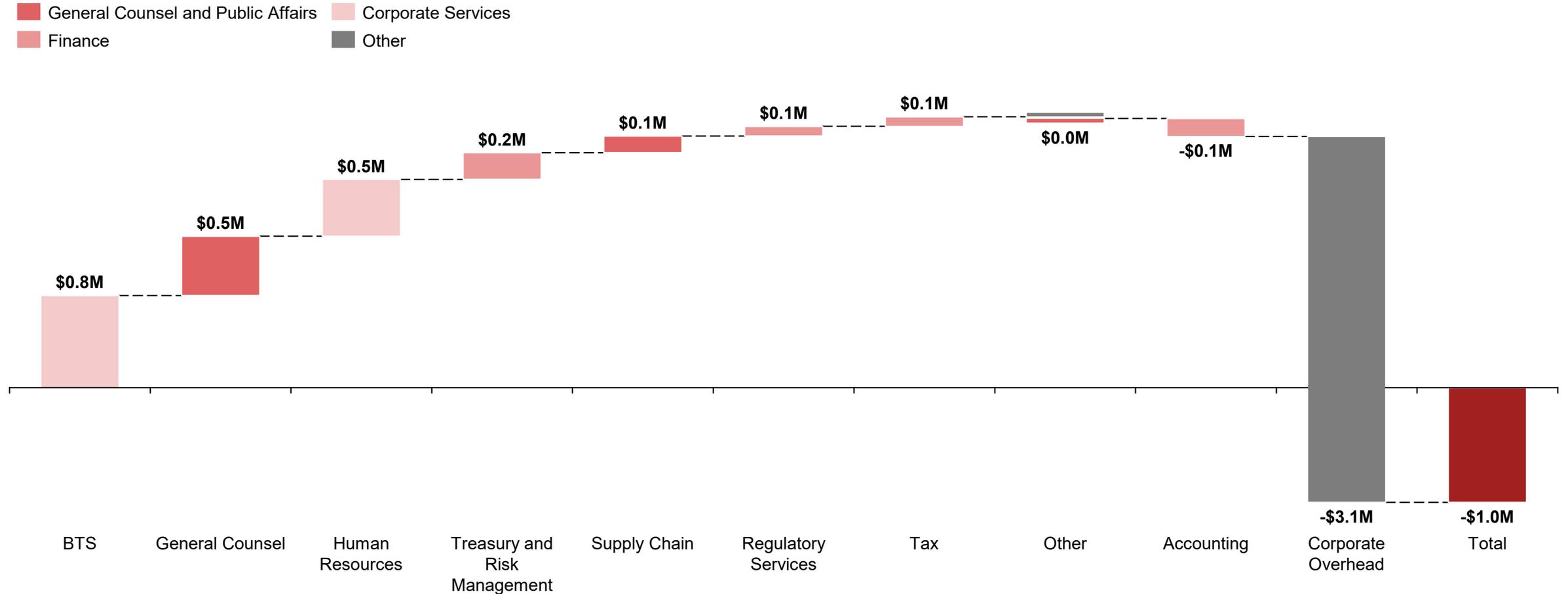


Exhibit 5-5: PNM Total O&M Call Center Costs

TTM June 2022 – TTM June 2025, by Cost Type, Nominal and Real \$M

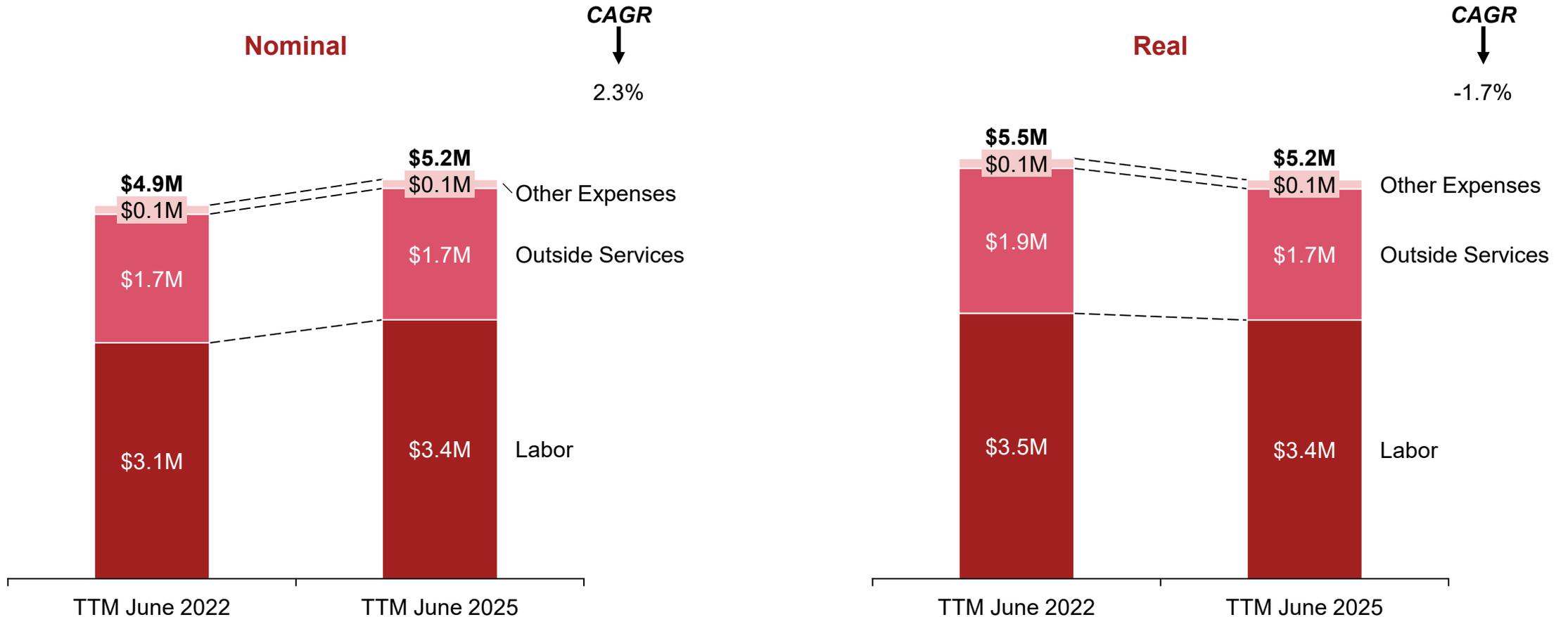


Exhibit 5-6: PNM Total Call Center Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$k

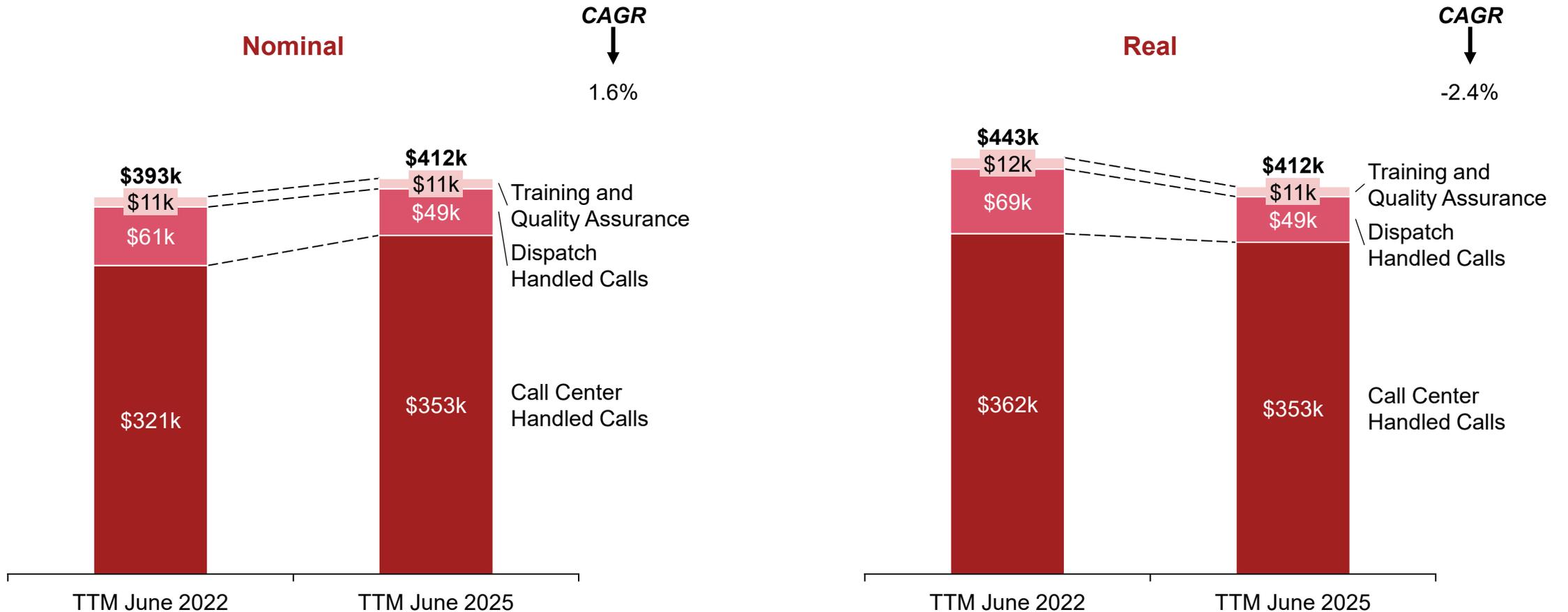


Exhibit 5-7: Adjusted PNMR Corporate Overheads Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

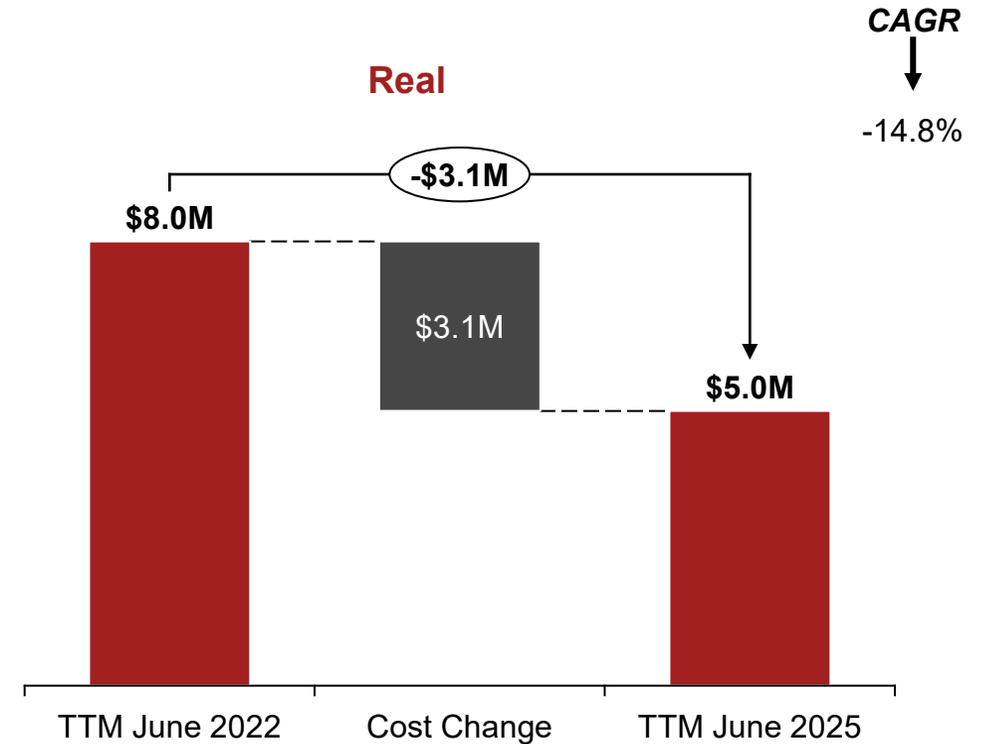
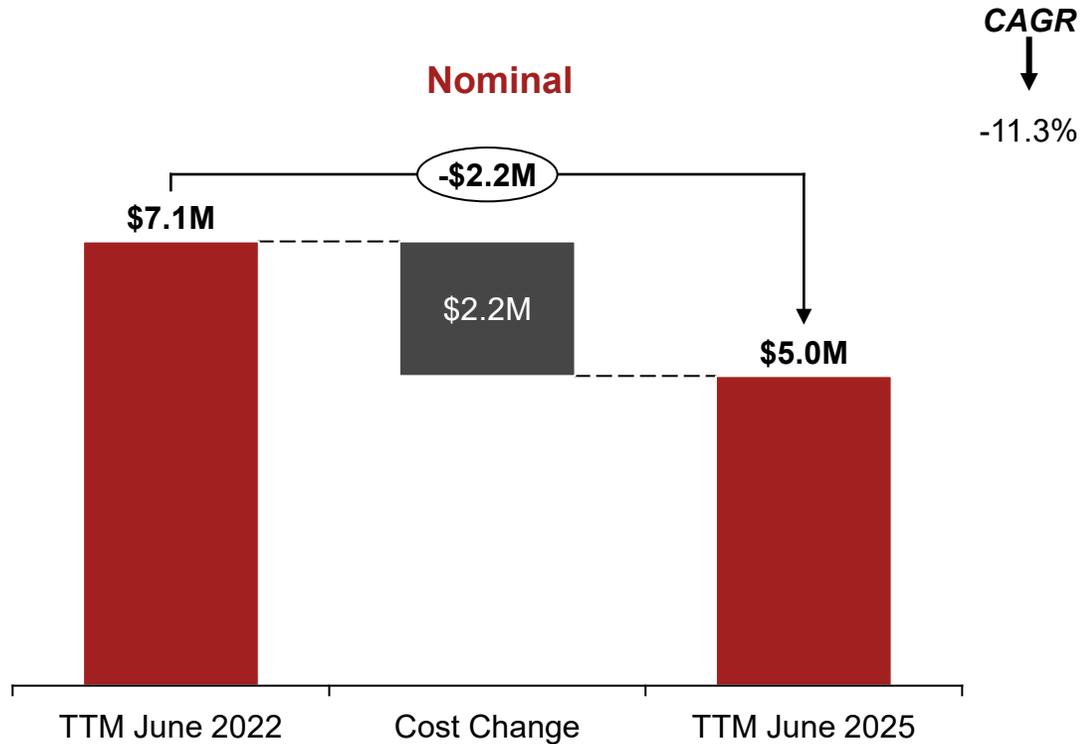


Exhibit 5-8: Adjusted PNMR Corporate Overheads Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$M

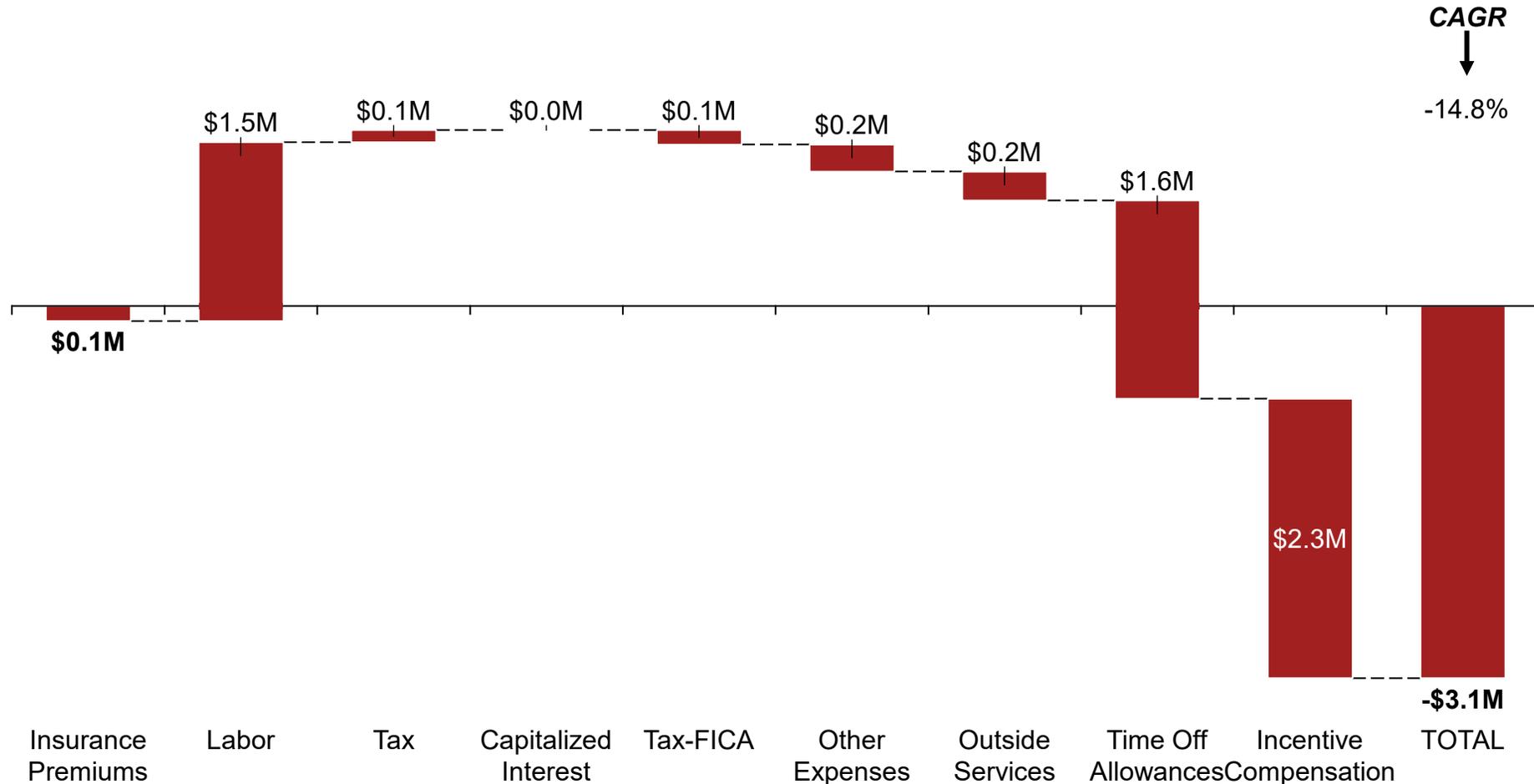


Exhibit 5-9: Adjusted PNMR BTS Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

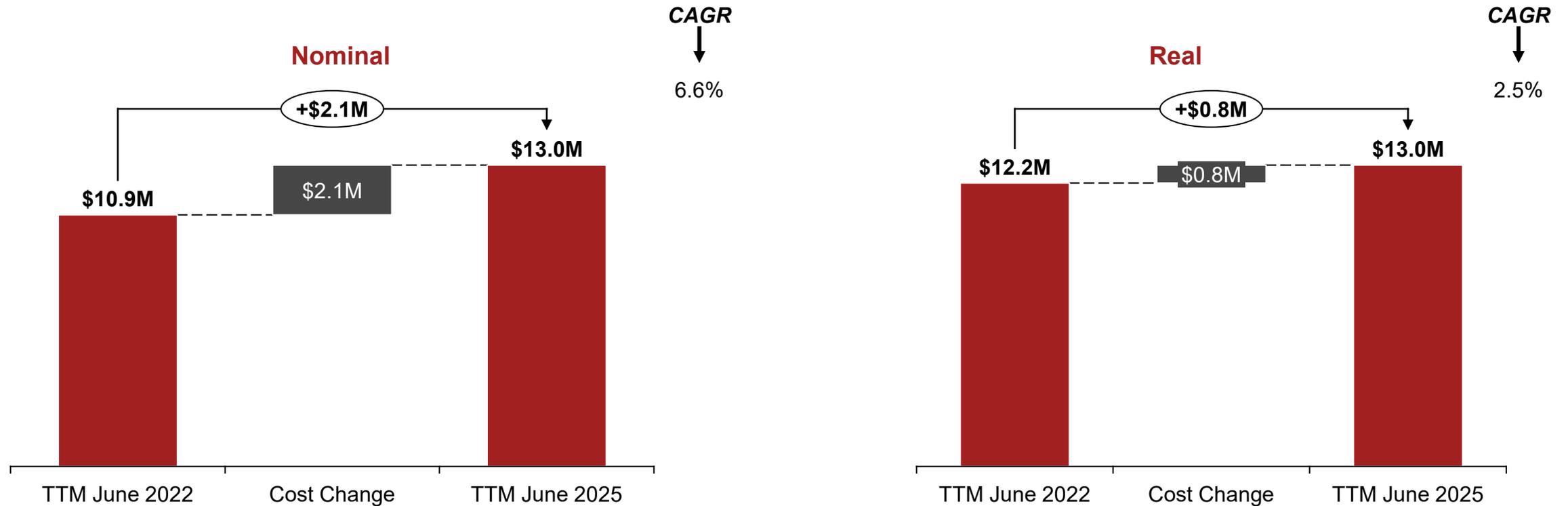


Exhibit 5-10: Adjusted PNMR BTS Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$M

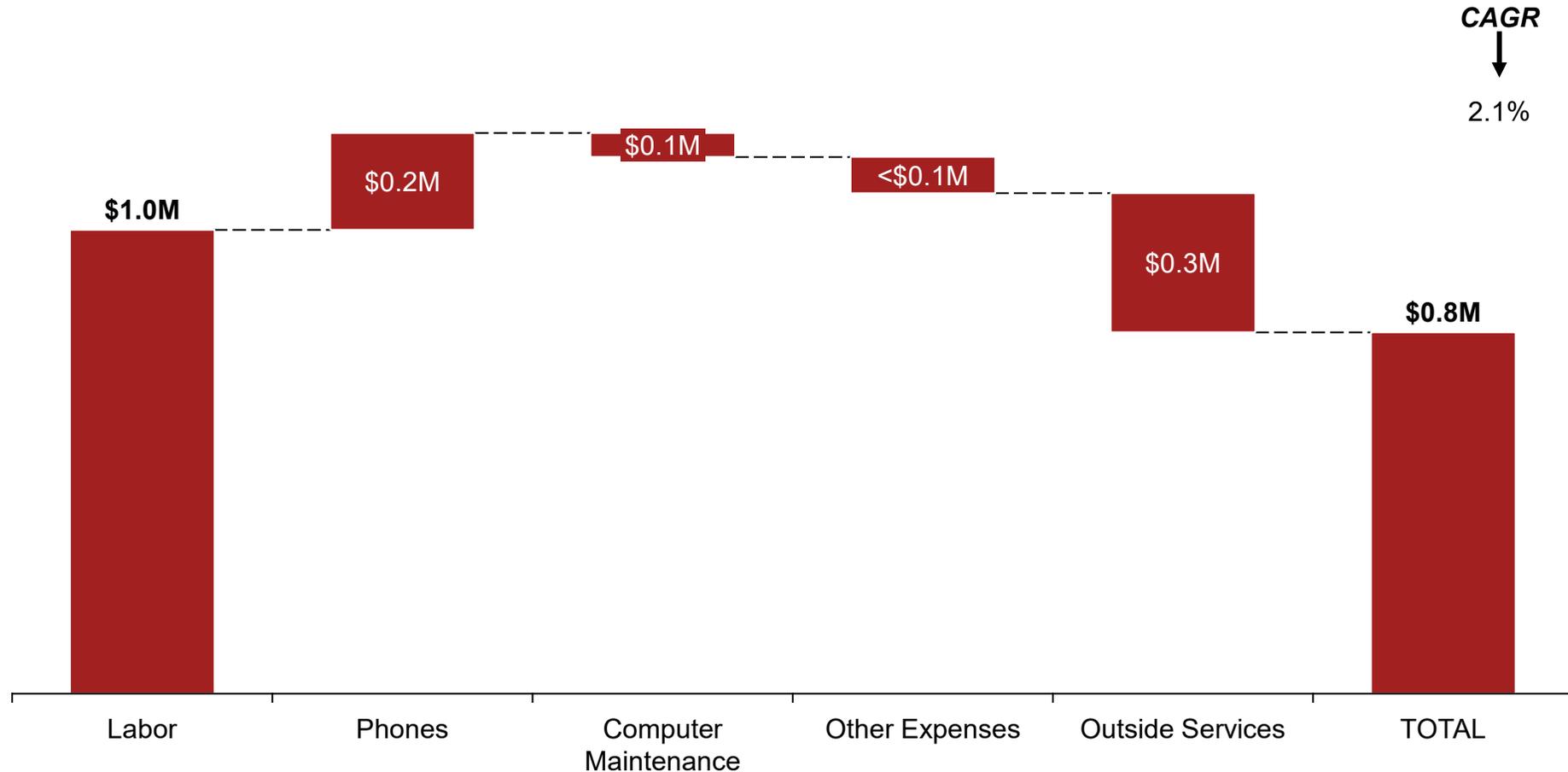


Exhibit 5-11: Adjusted PNMR Human Resources Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

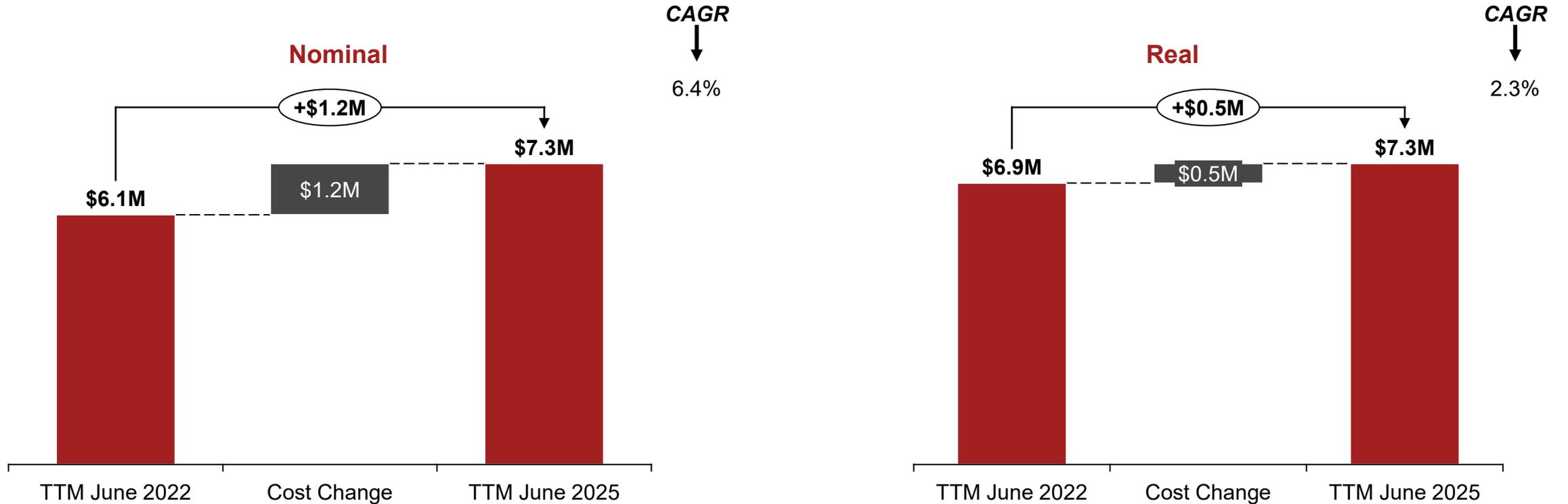


Exhibit 5-12: Adjusted PNMR Human Resources Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$M

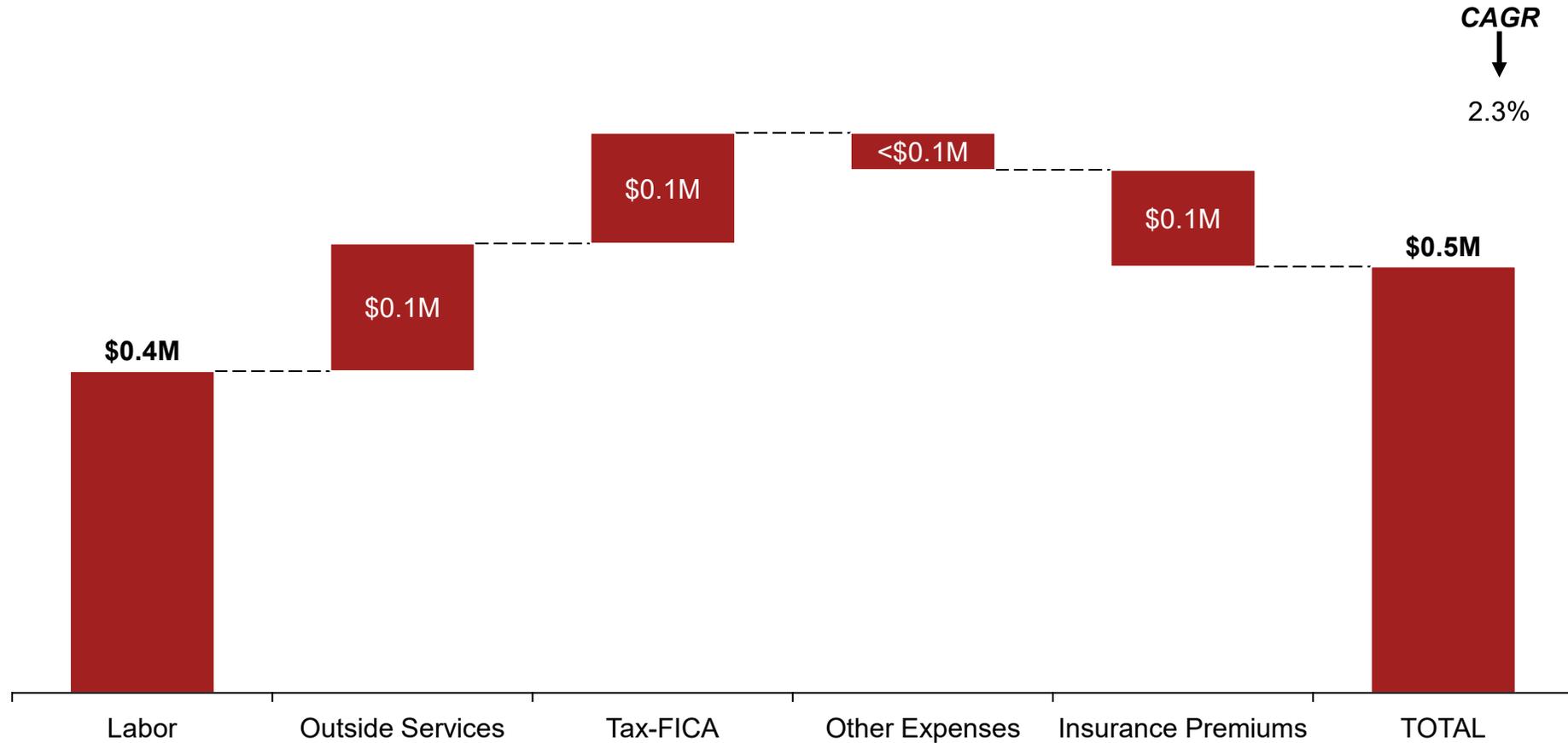


Exhibit 5-13: Adjusted PNMR Investor Relations and Community Engagement Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$K

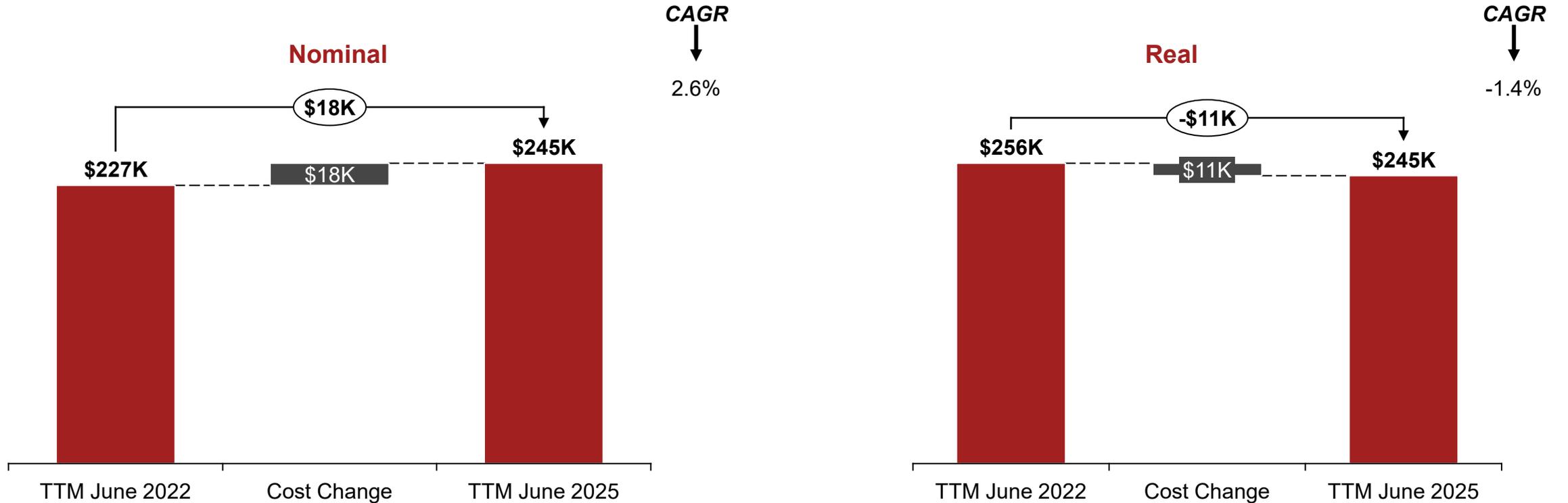


Exhibit 5-14: Adjusted PNMR Investor Relations and Community Engagement Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

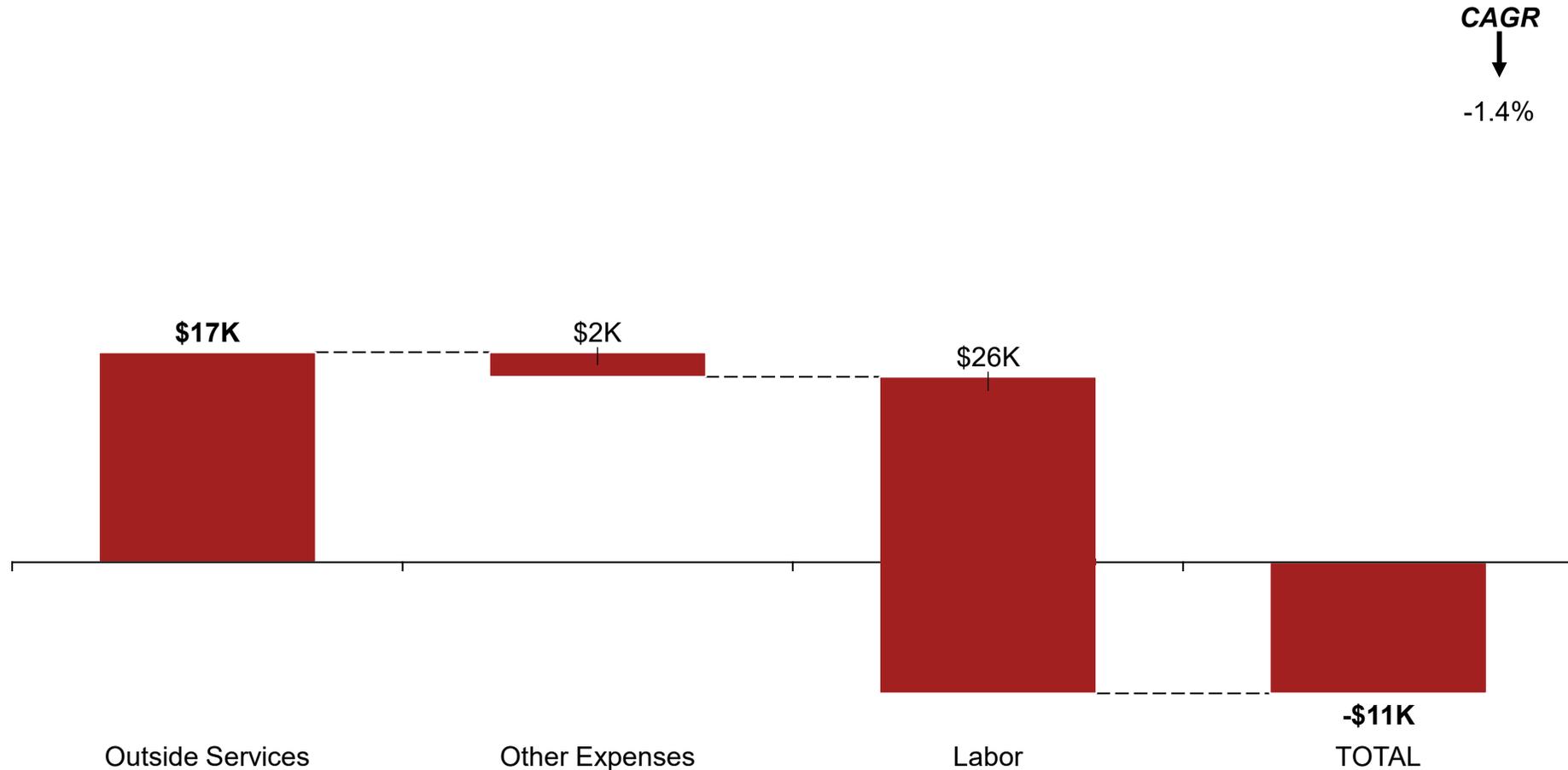


Exhibit 5-15: Adjusted PNMR Accounting Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

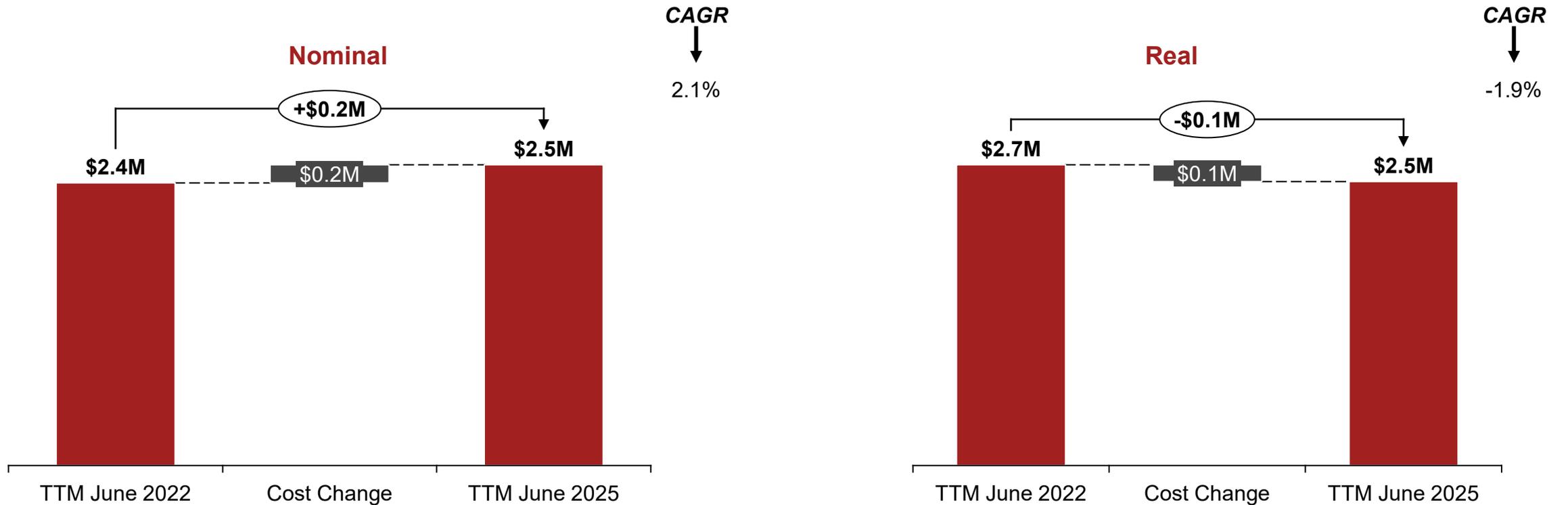


Exhibit 5-16: Adjusted PNMR Accounting Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

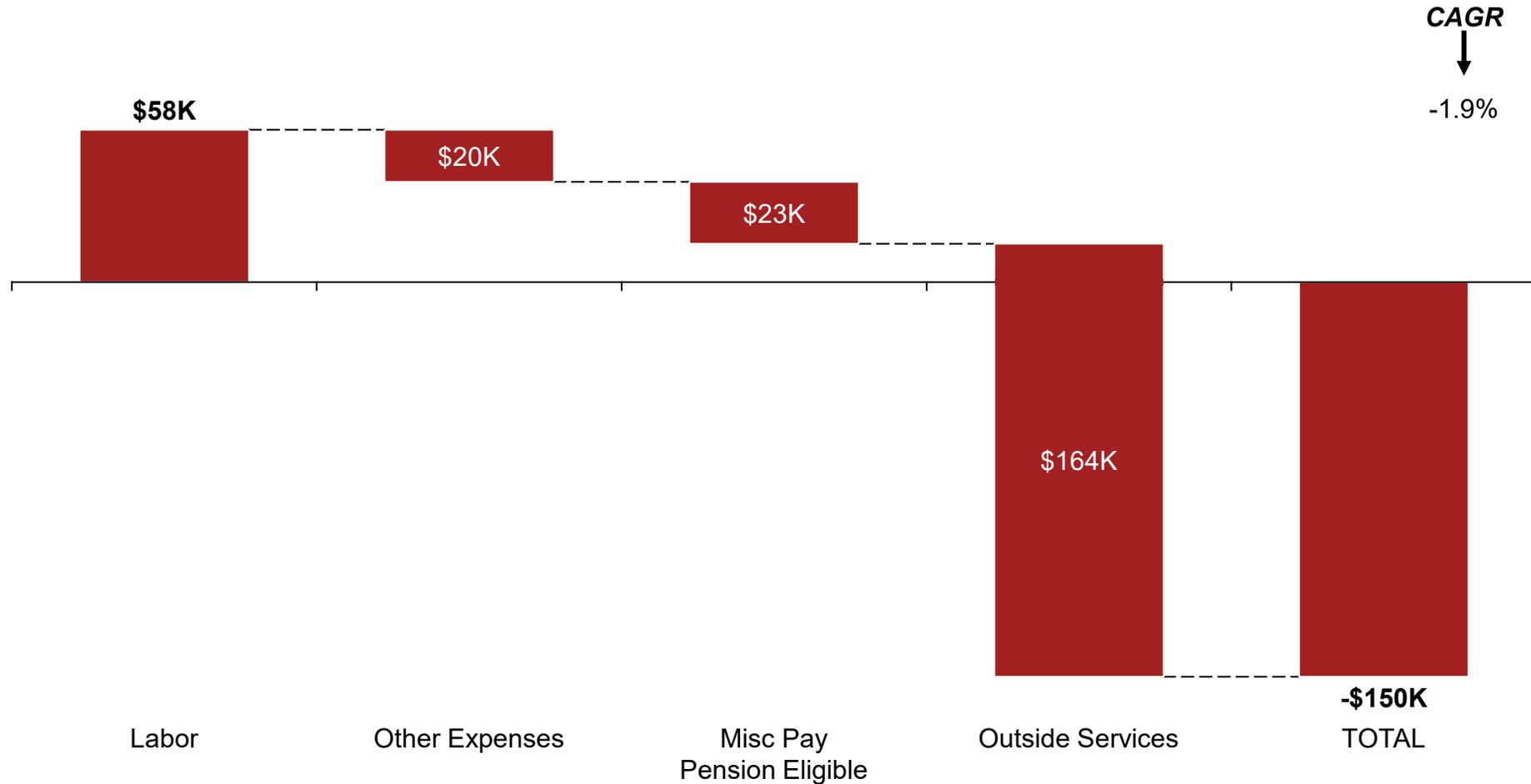


Exhibit 5-17: Adjusted PNMR Regulatory Services Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

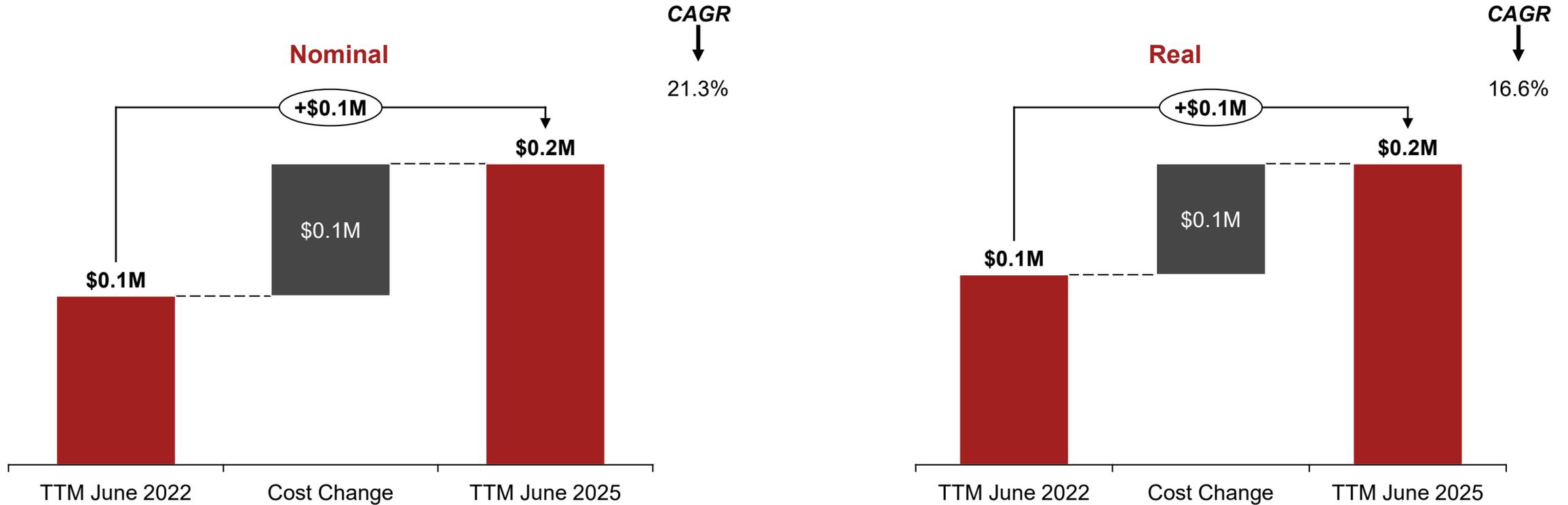


Exhibit 5-18: Adjusted PNMR Regulatory Services Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

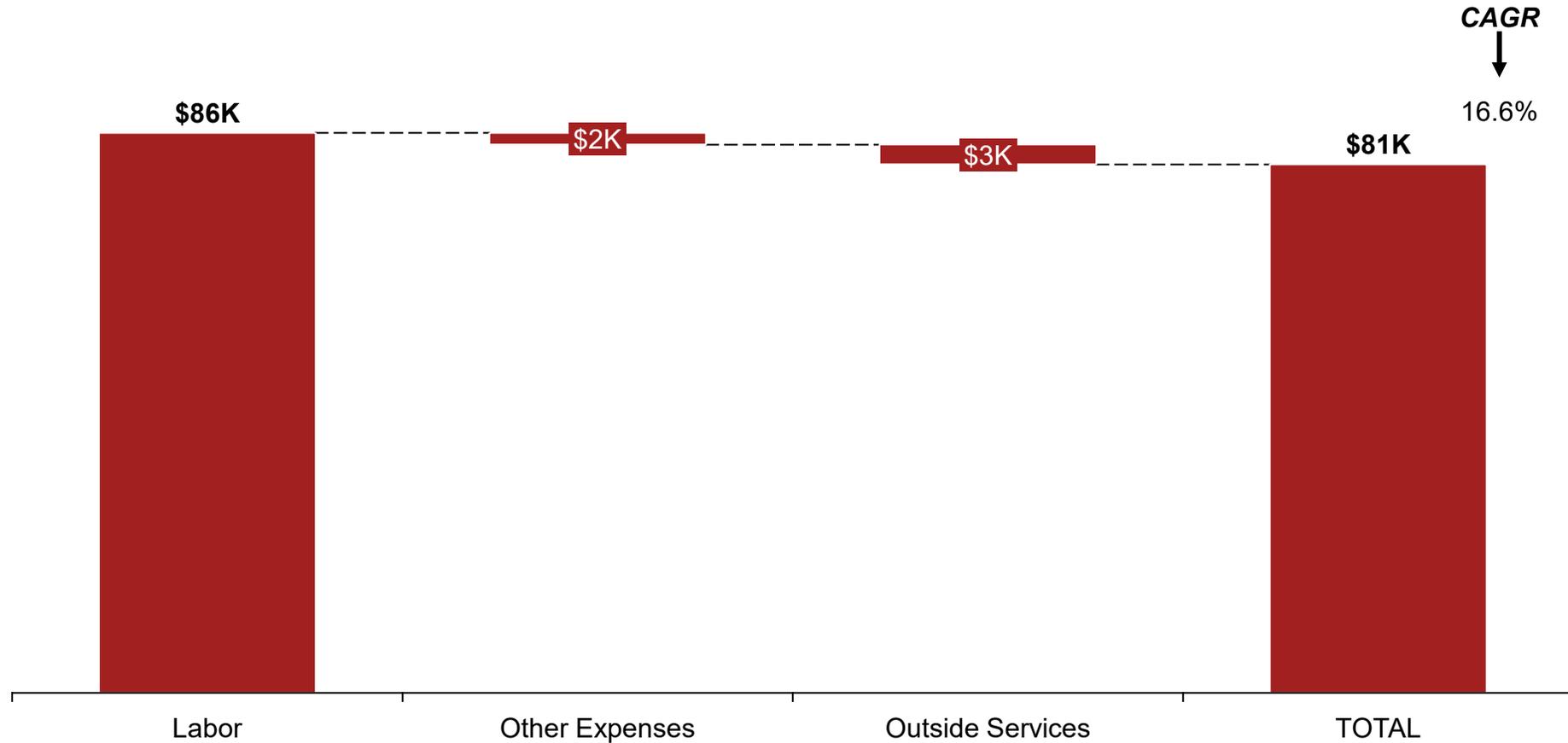


Exhibit 5-19: Adjusted PNMR Tax Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

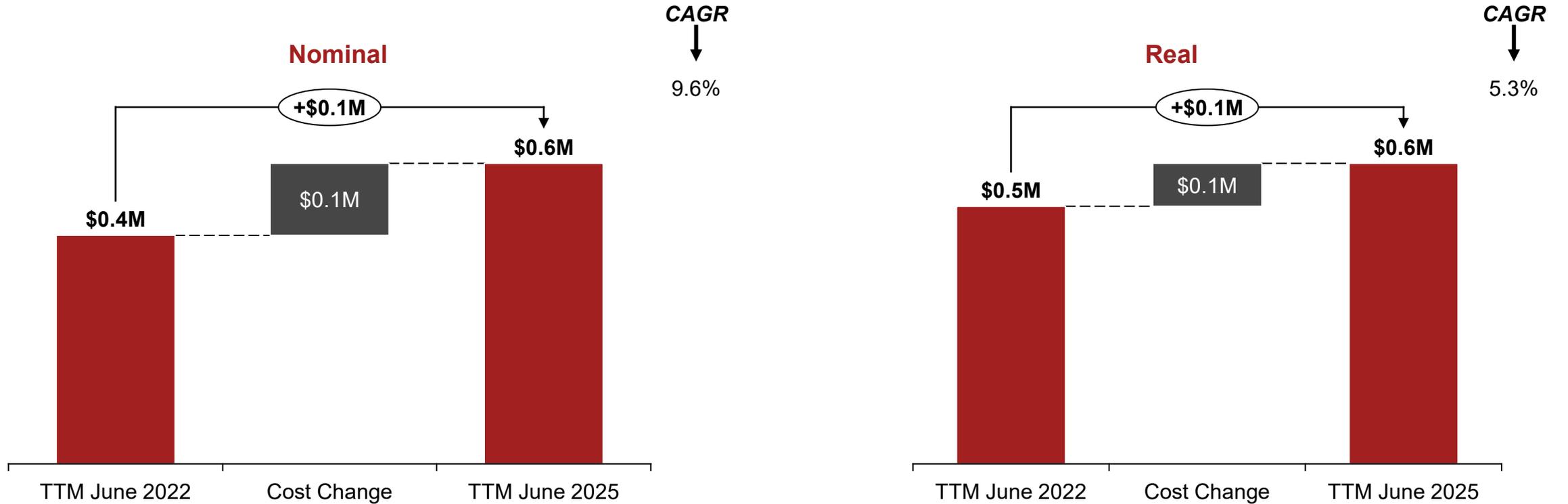


Exhibit 5-20: Adjusted PNMR Tax Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

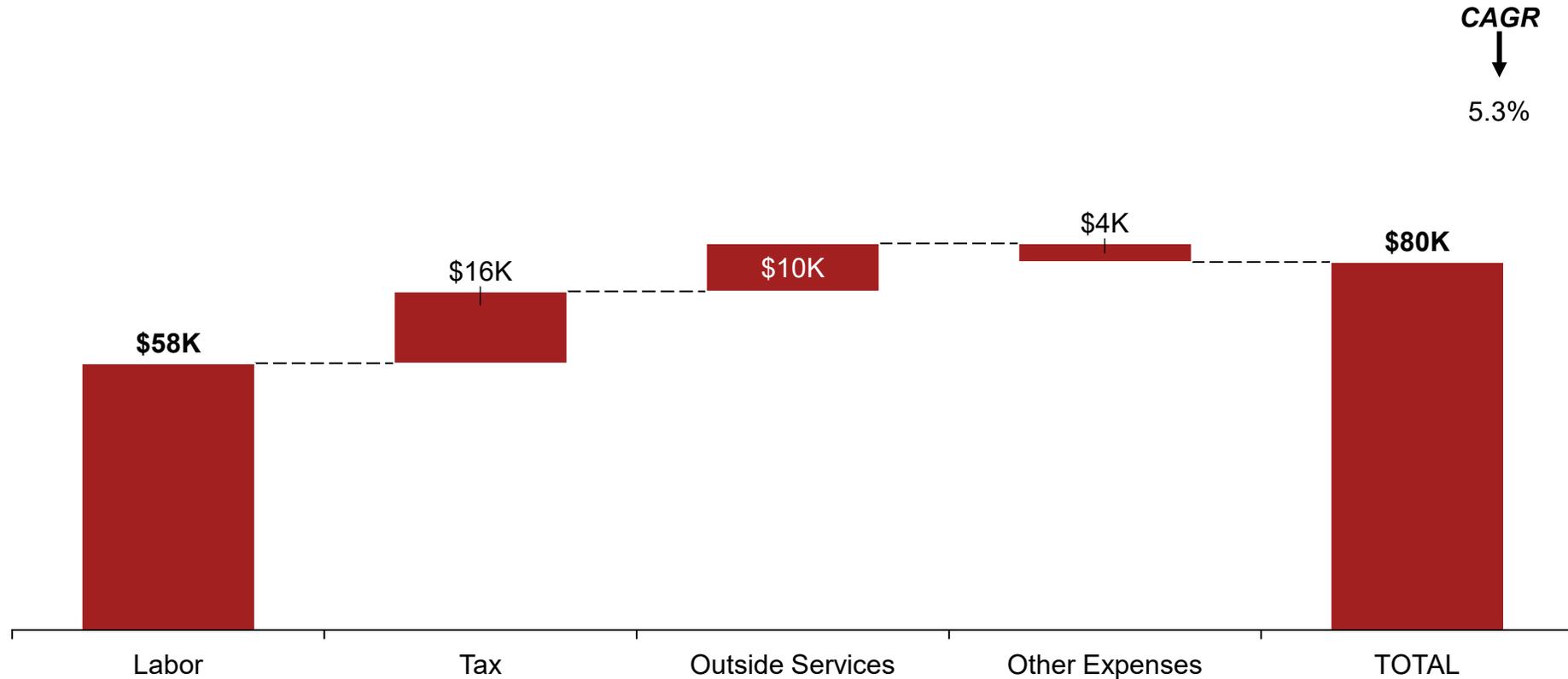


Exhibit 5-21: Adjusted PNMR Treasury and Risk Management Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

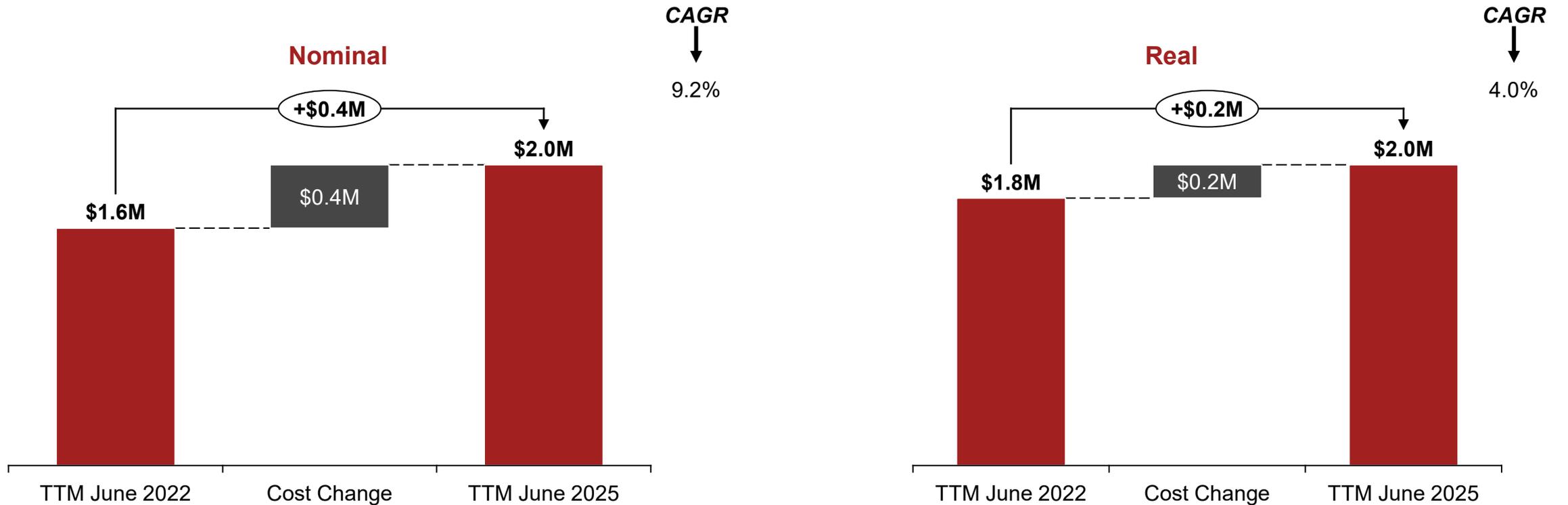


Exhibit 5-22: Adjusted PNMR Treasury and Risk Management Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

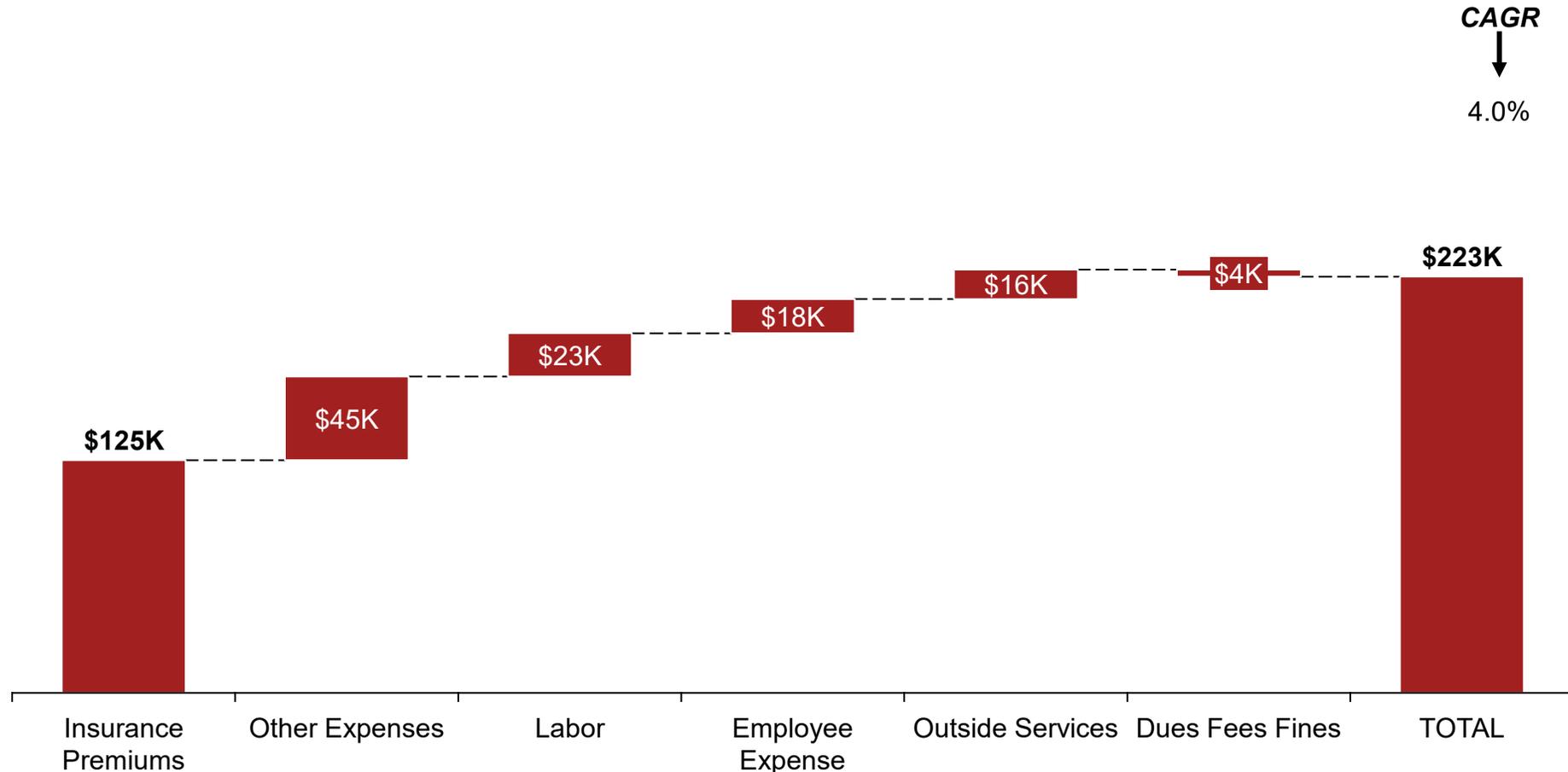


Exhibit 5-23: Adjusted PNMR Environmental Services Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$K

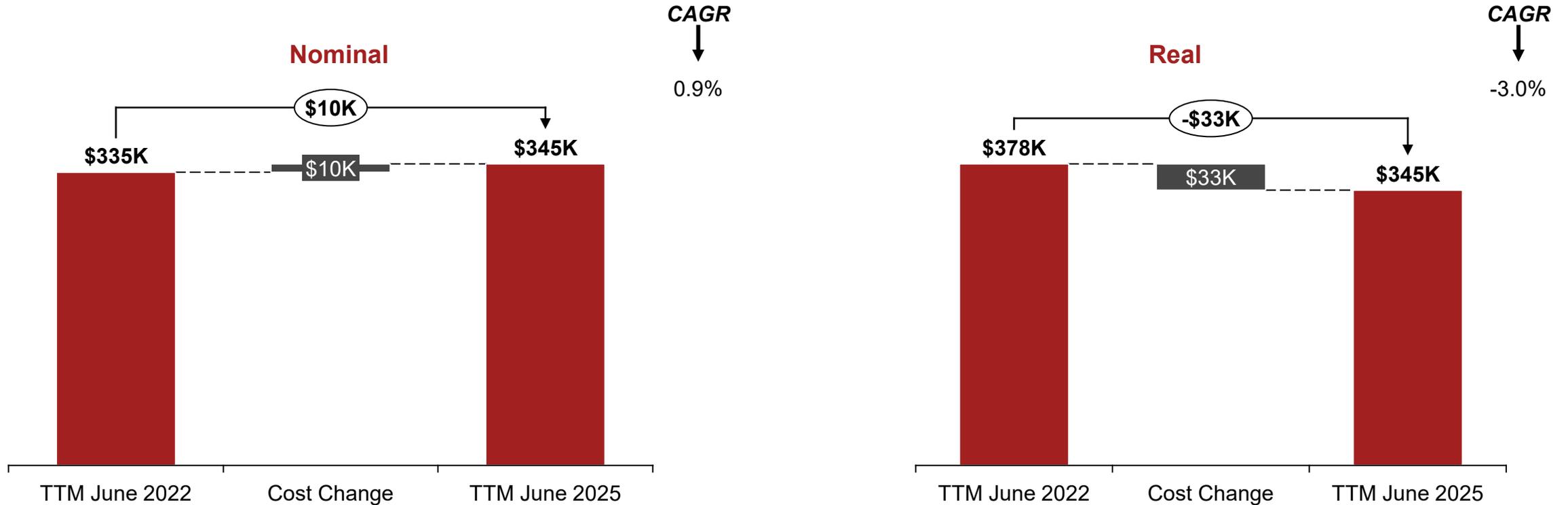


Exhibit 5-24: Adjusted PNMR Environmental Services Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

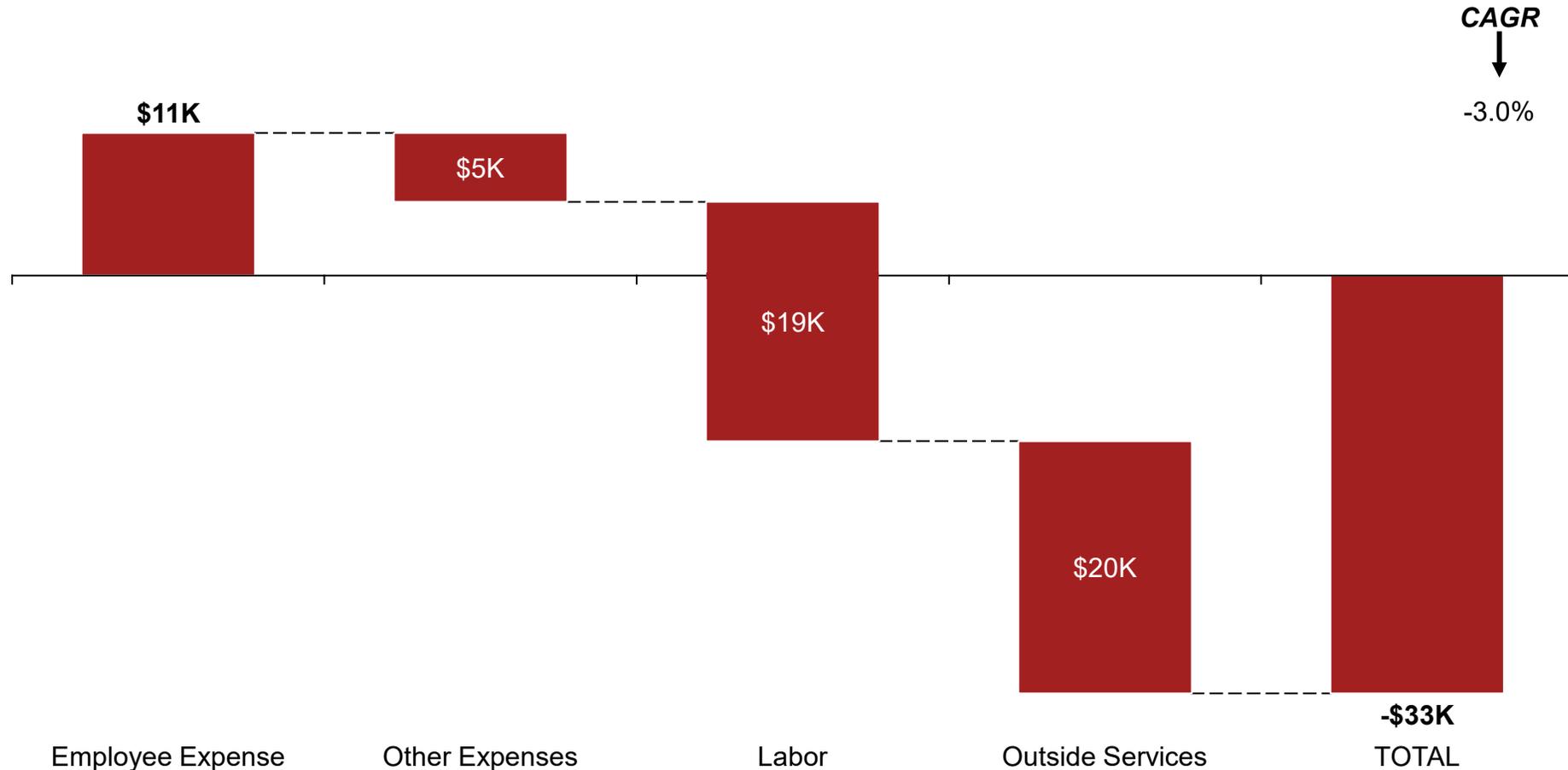


Exhibit 5-25: Adjusted PNMR General Counsel Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$M

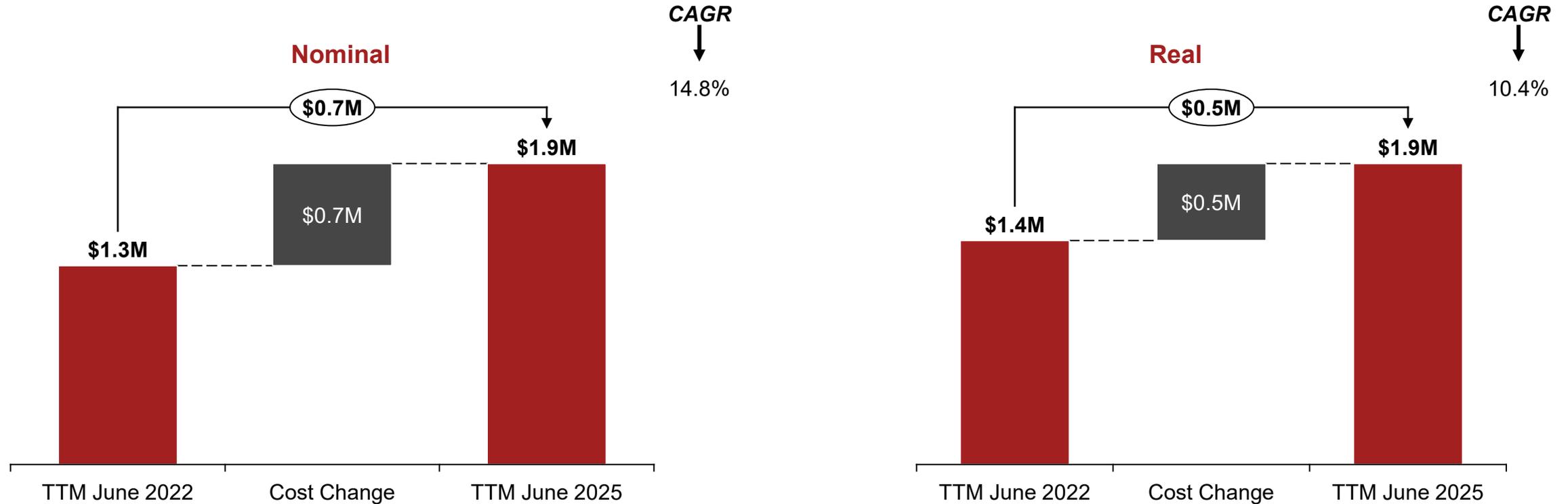


Exhibit 5-26: Adjusted PNMR General Counsel Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

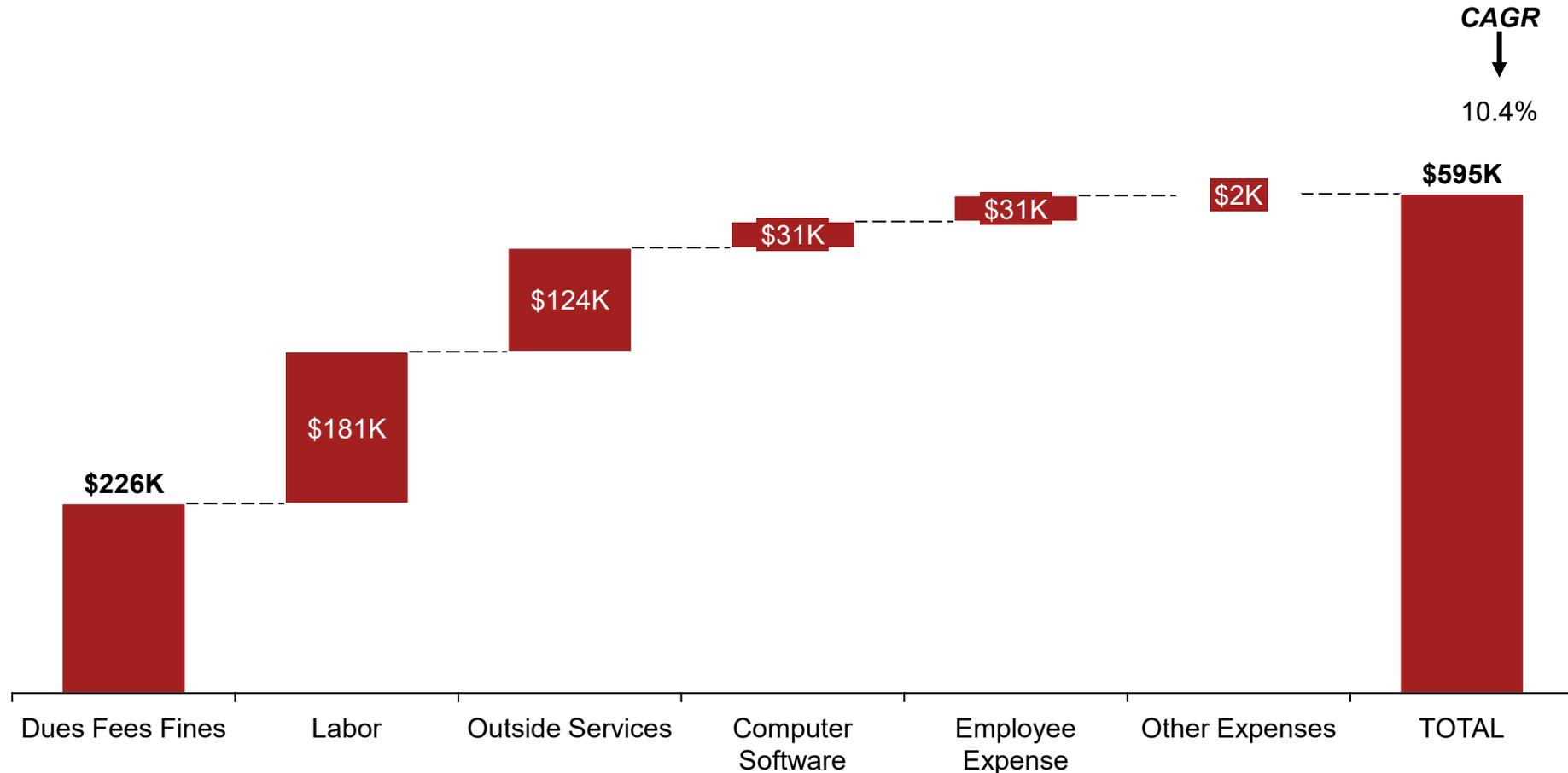


Exhibit 5-27: Adjusted PNMR Internal Audit Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$K

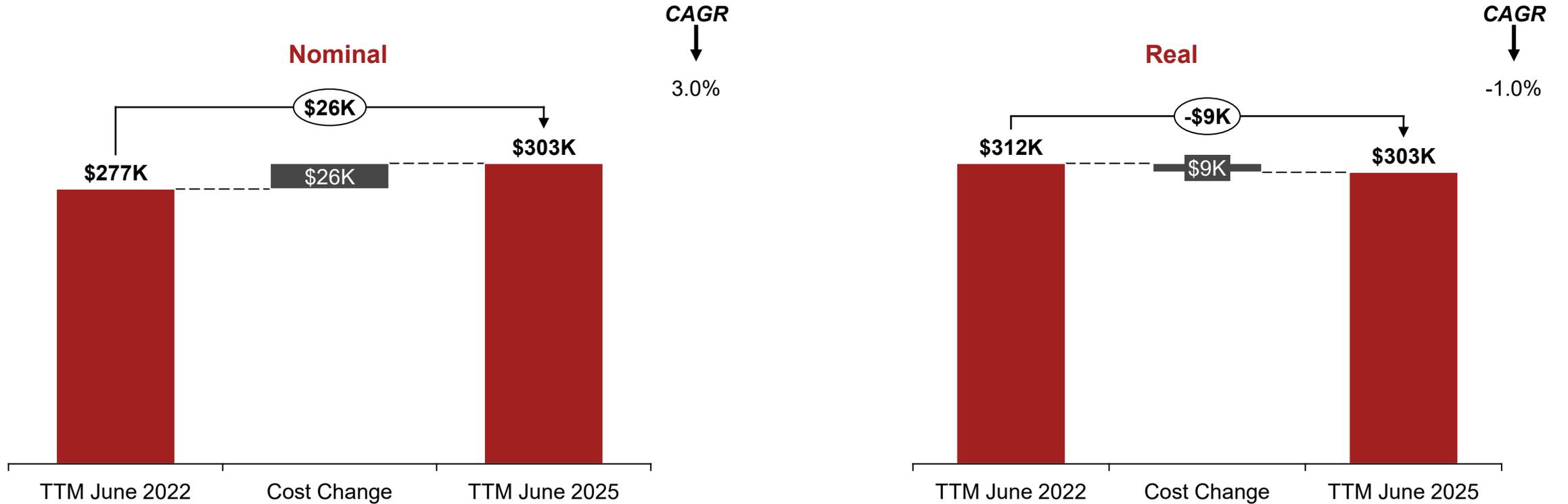


Exhibit 5-28: Adjusted PNMR Internal Audit Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

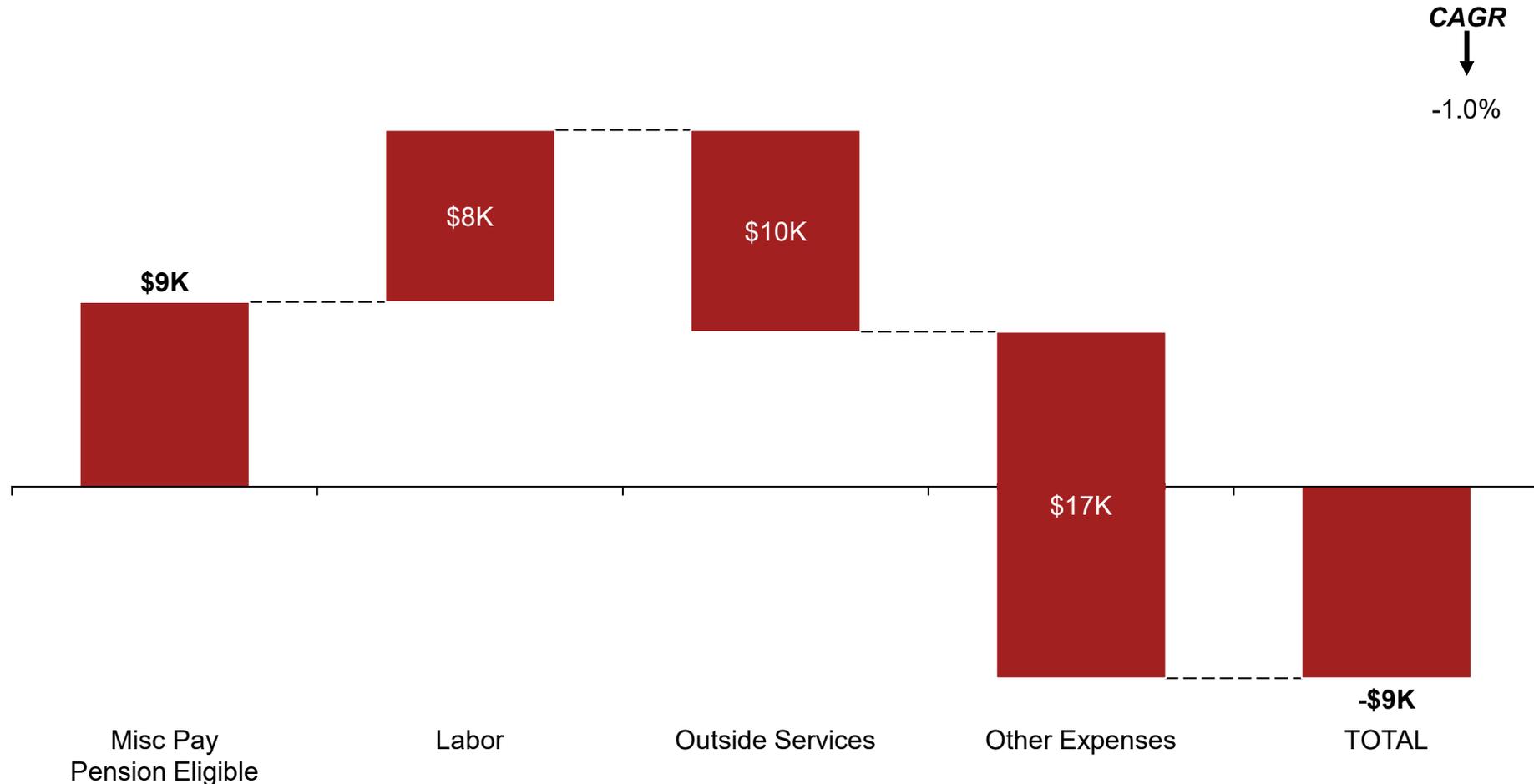


Exhibit 5-29: Adjusted PNMR Supply Chain Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$K

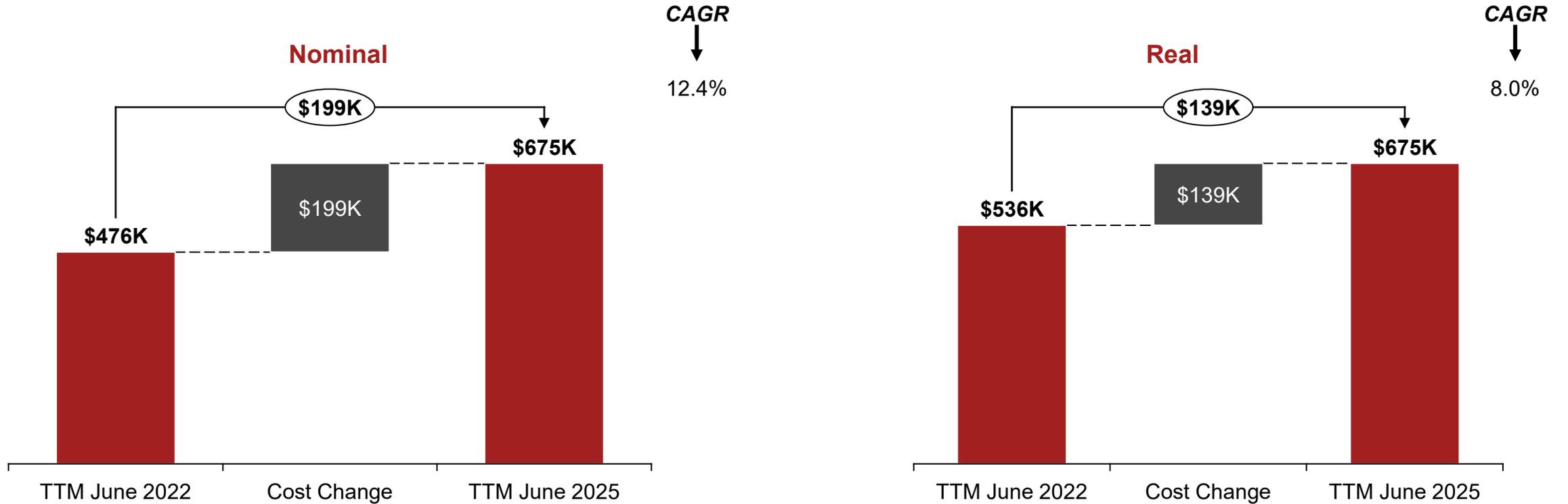


Exhibit 5-30: Adjusted PNMR Supply Chain Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

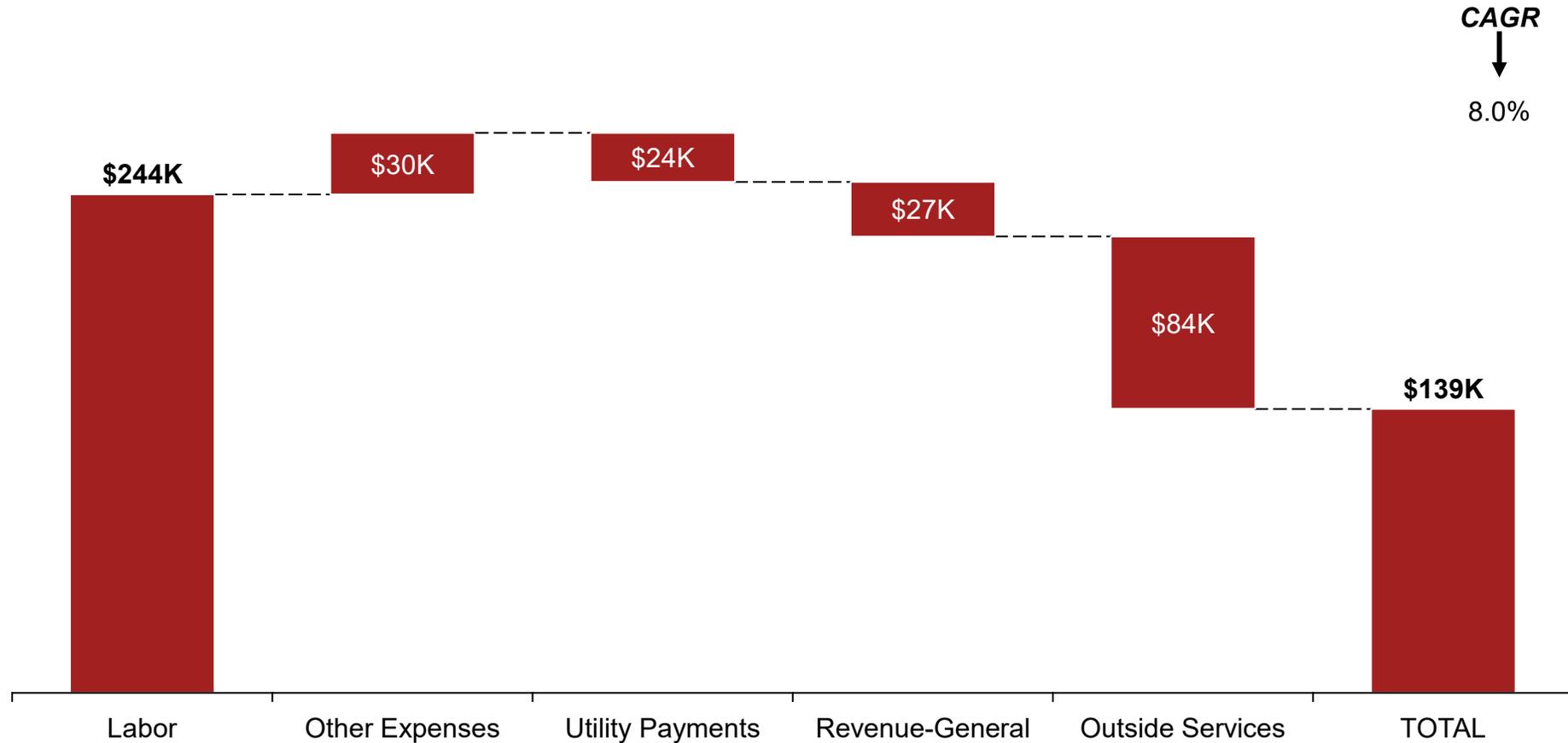


Exhibit 5-31: Adjusted PNMR Executive Management Billings to TNMP

TTM June 2022 – TTM June 2025, Nominal and Real \$K

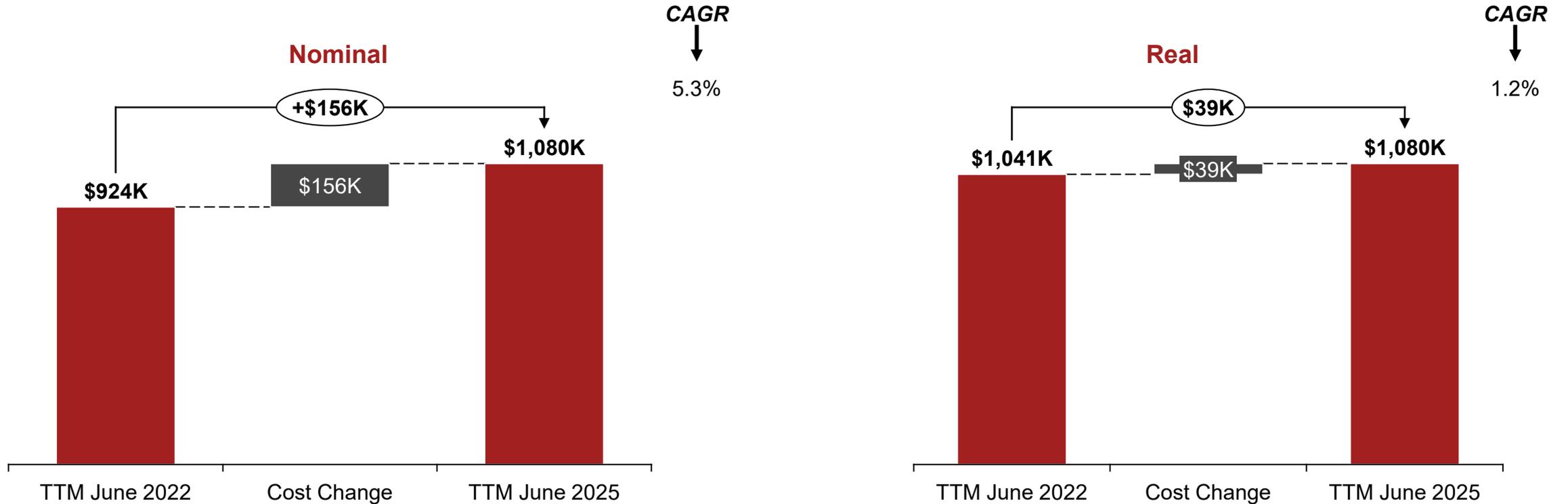


Exhibit 5-32: Adjusted PNMR Executive Management Billings to TNMP

TTM June 2022 – TTM June 2025, Variance by Cost Type, Real \$K

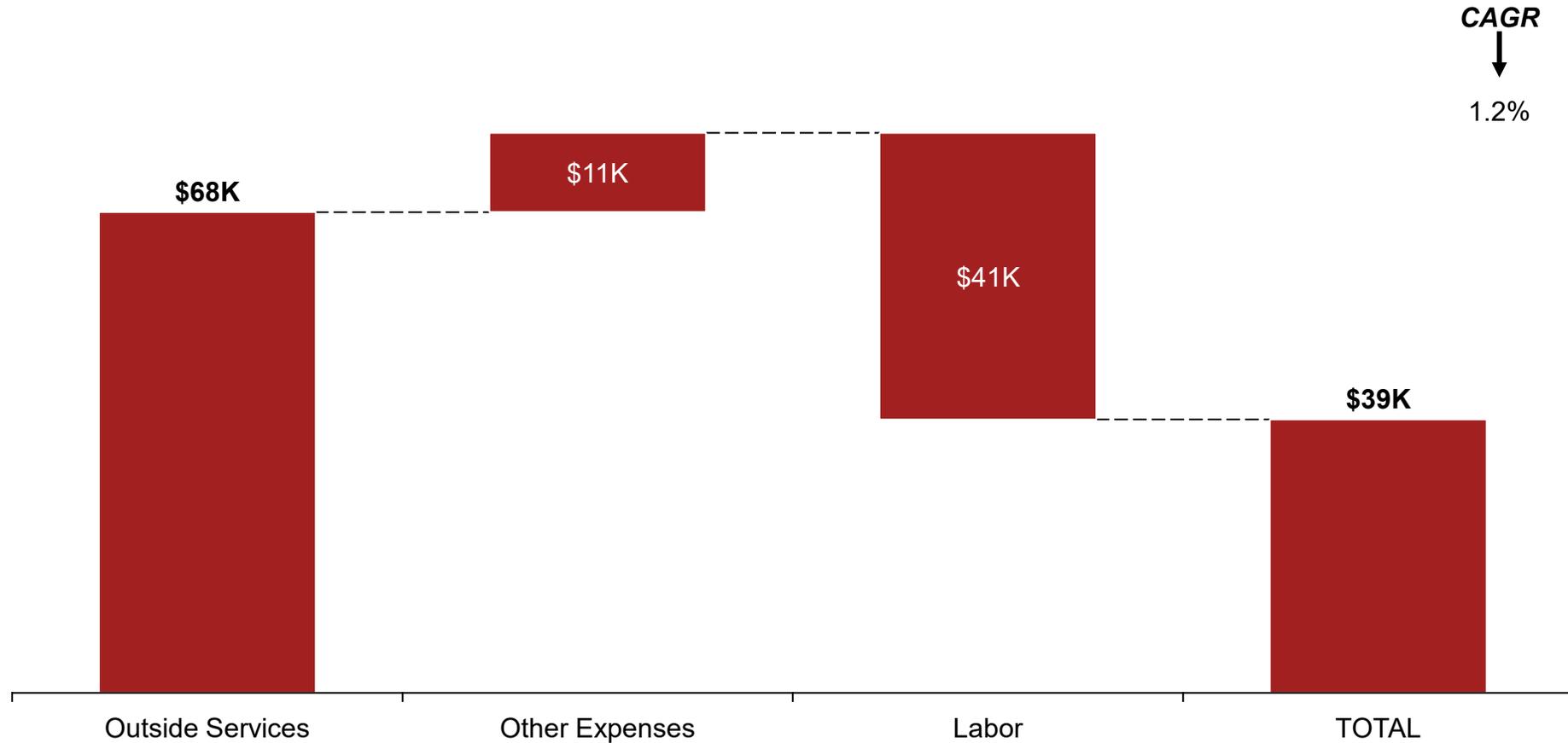


Exhibit 5-33: PNMR Services Adjusted Billings to Affiliates

TTM June 2022 – TTM June 2025, Adjusted Nominal \$M

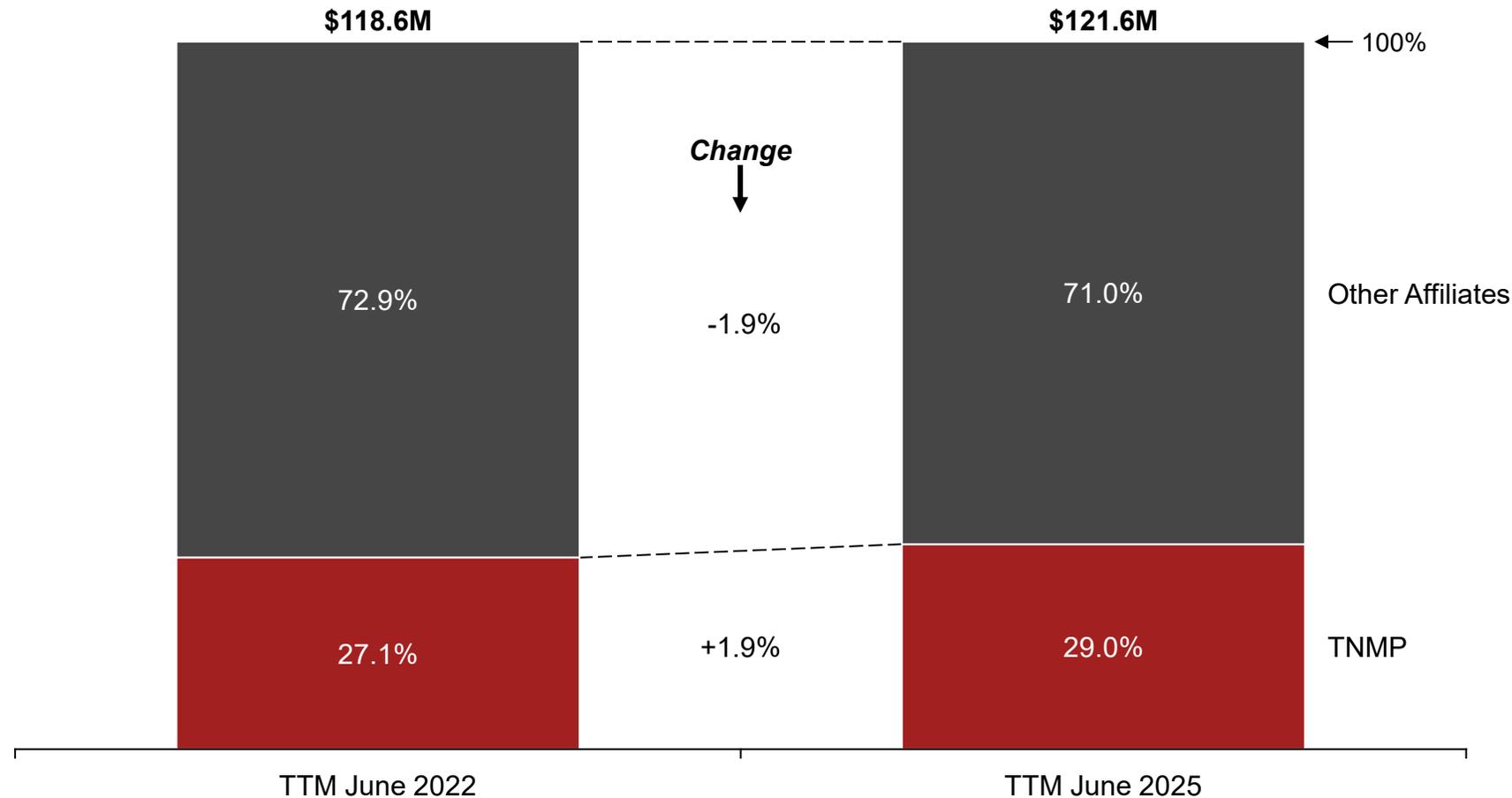
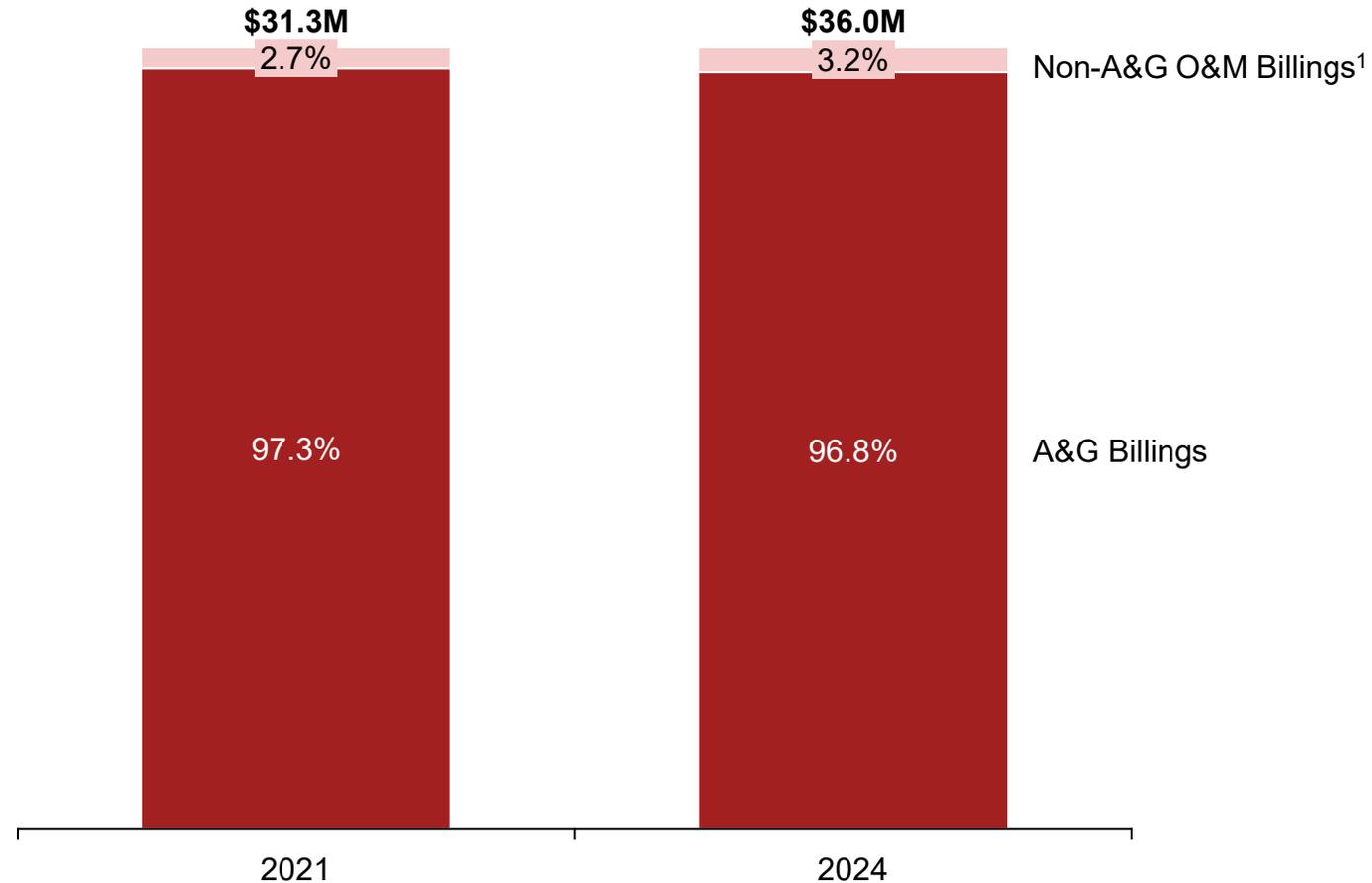


Exhibit 5-34: Adjusted PNMR Services Billings to TNMP

2021 – 2024, Nominal \$M



Note(s): 1. Non-A&G Billings includes Taxes, Other income (deductions) and Interest Expense
Source(s): PNMR Services Billings to Affiliates, Strategy& Analysis

Exhibit 5-35: TNMP Adjusted A&G Trends

2021 – 2024, Adjusted Nominal \$M, % CAGR

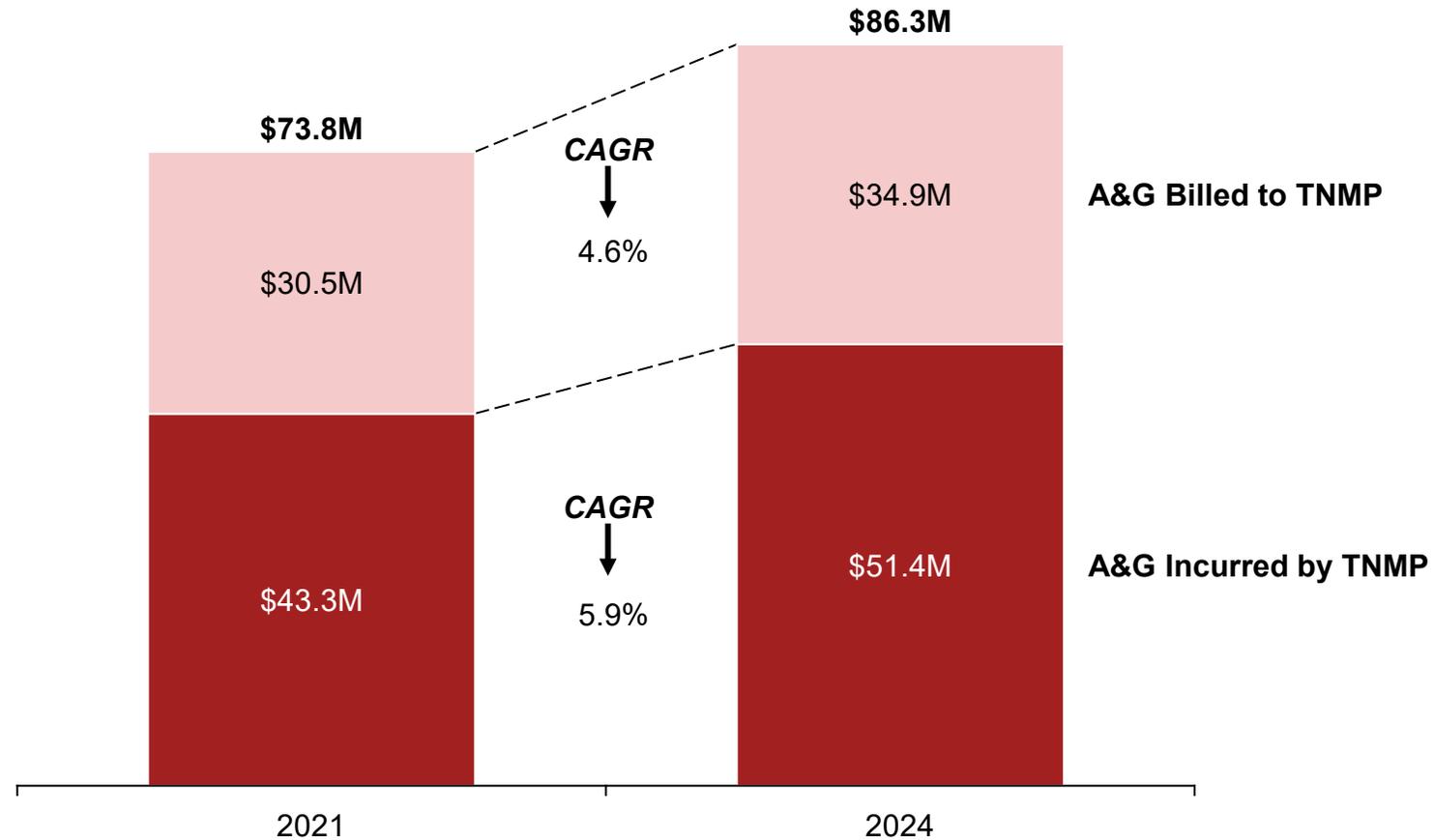


Exhibit 5-36: TNMP Adjusted A&G Trends

2021 – 2024, Adjusted Real \$M, % CAGR

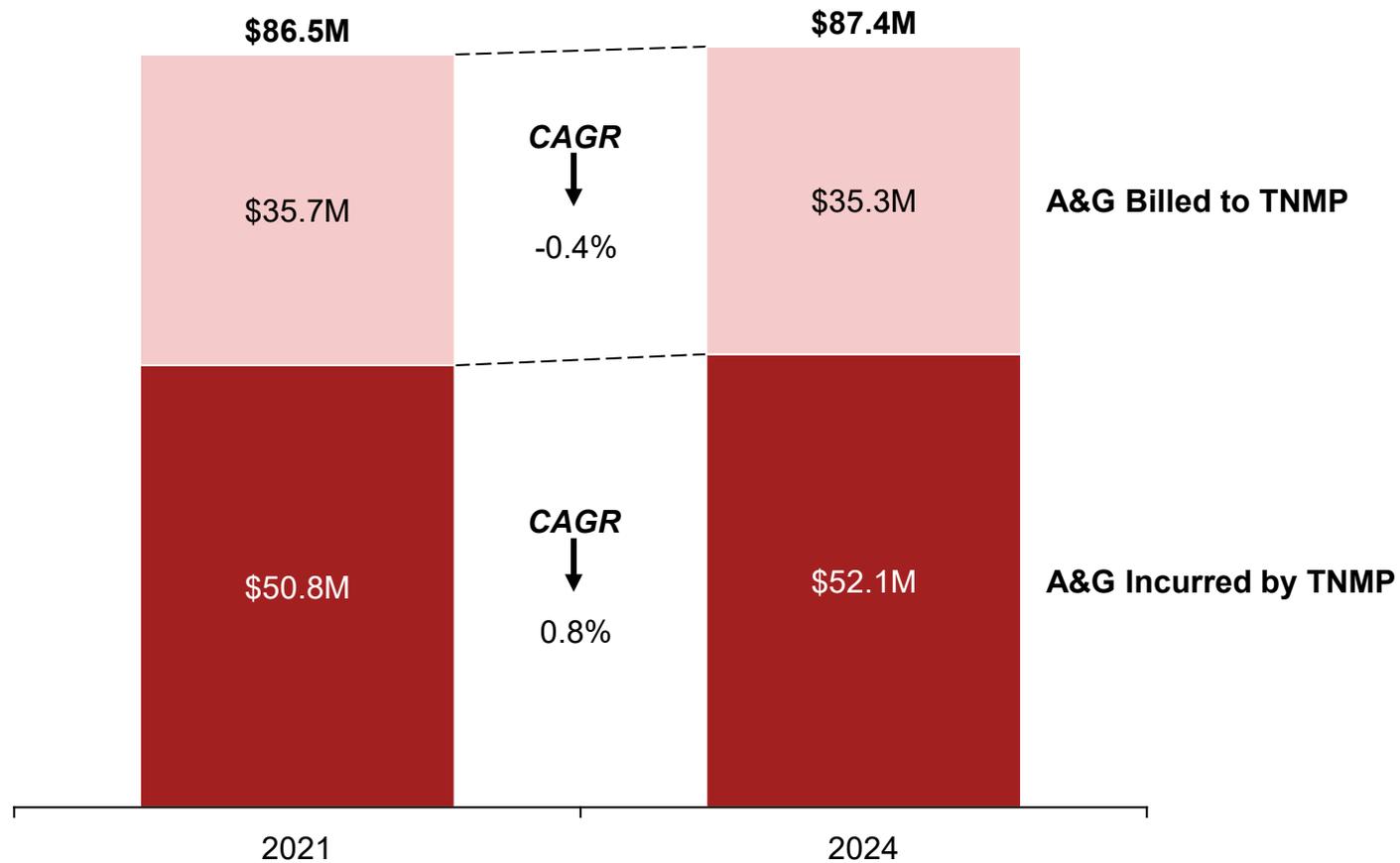


Exhibit 5-37: TNMP Business Drivers and PNMR Services Billings Growth

2021 – 2024, Nominal CAGR

■ PNMR Services Billings to TNMP
■ TNMP Business Driver

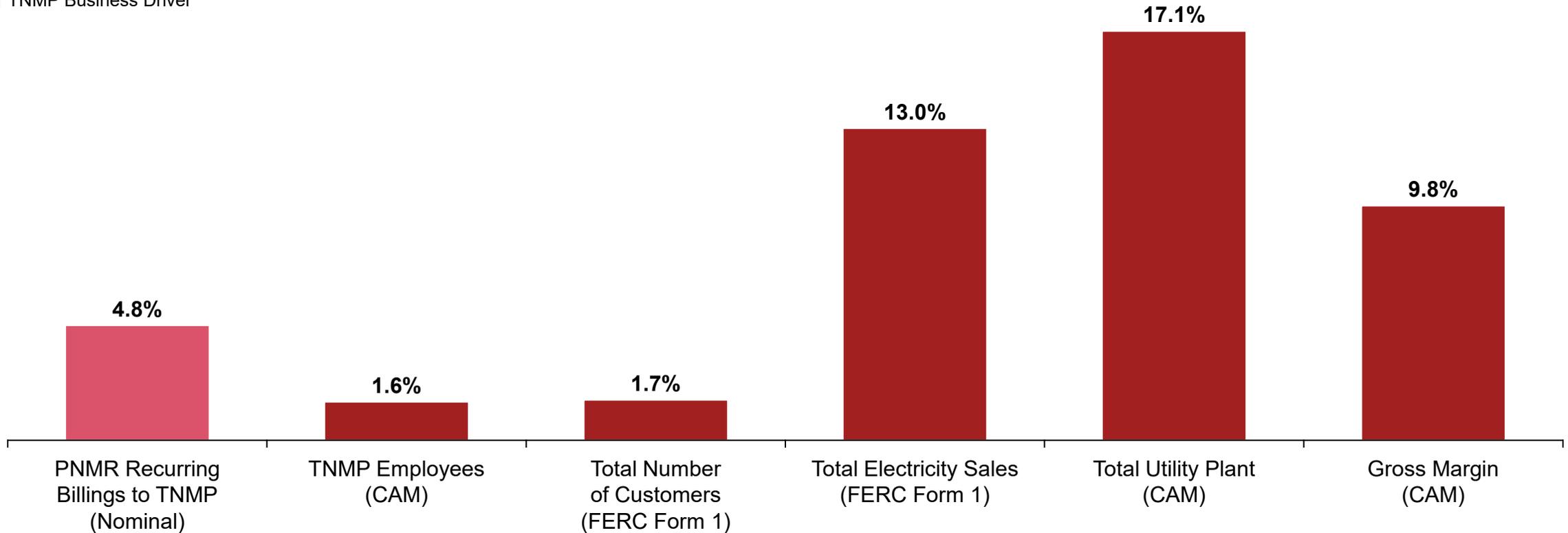
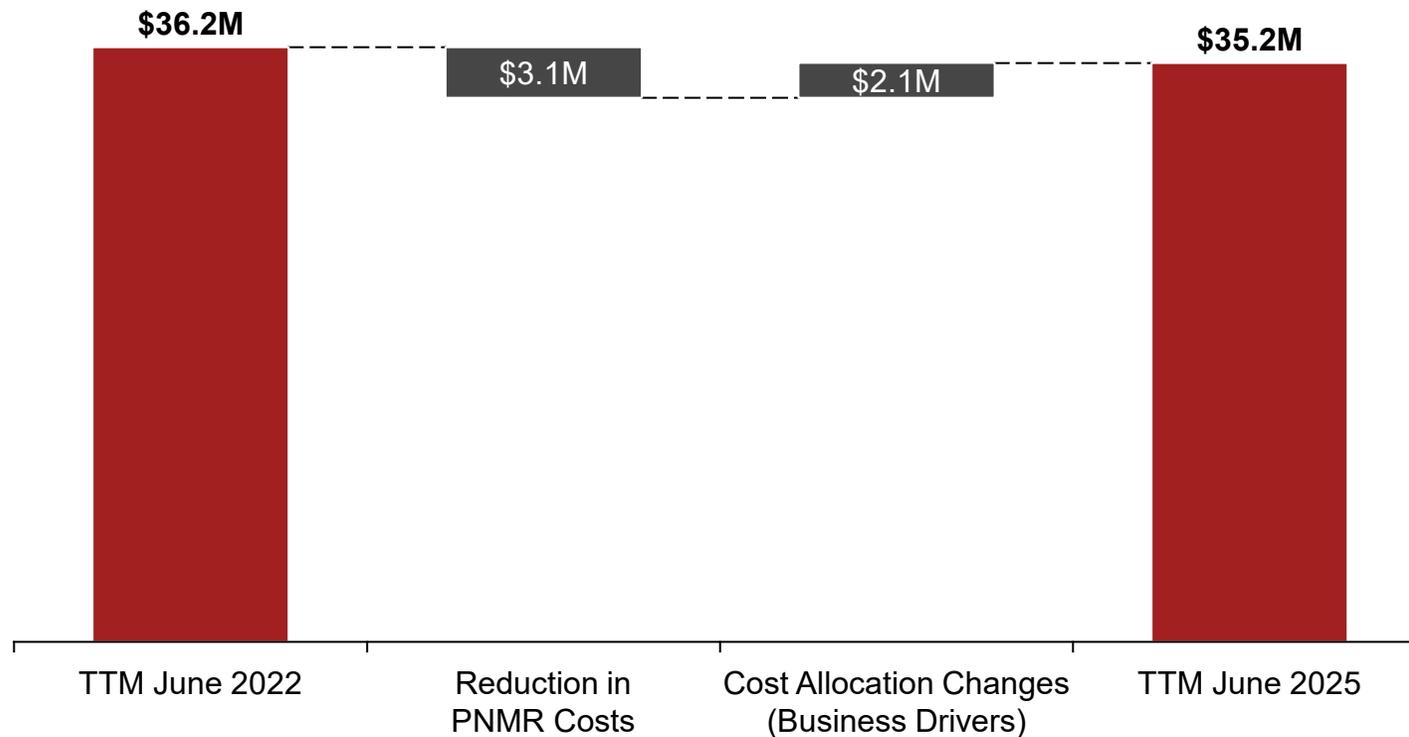


Exhibit 5-38: PNMR Services Billings to TNMP Cost Change Drivers

TTM June 2022 – TTM June 2025, Real \$M

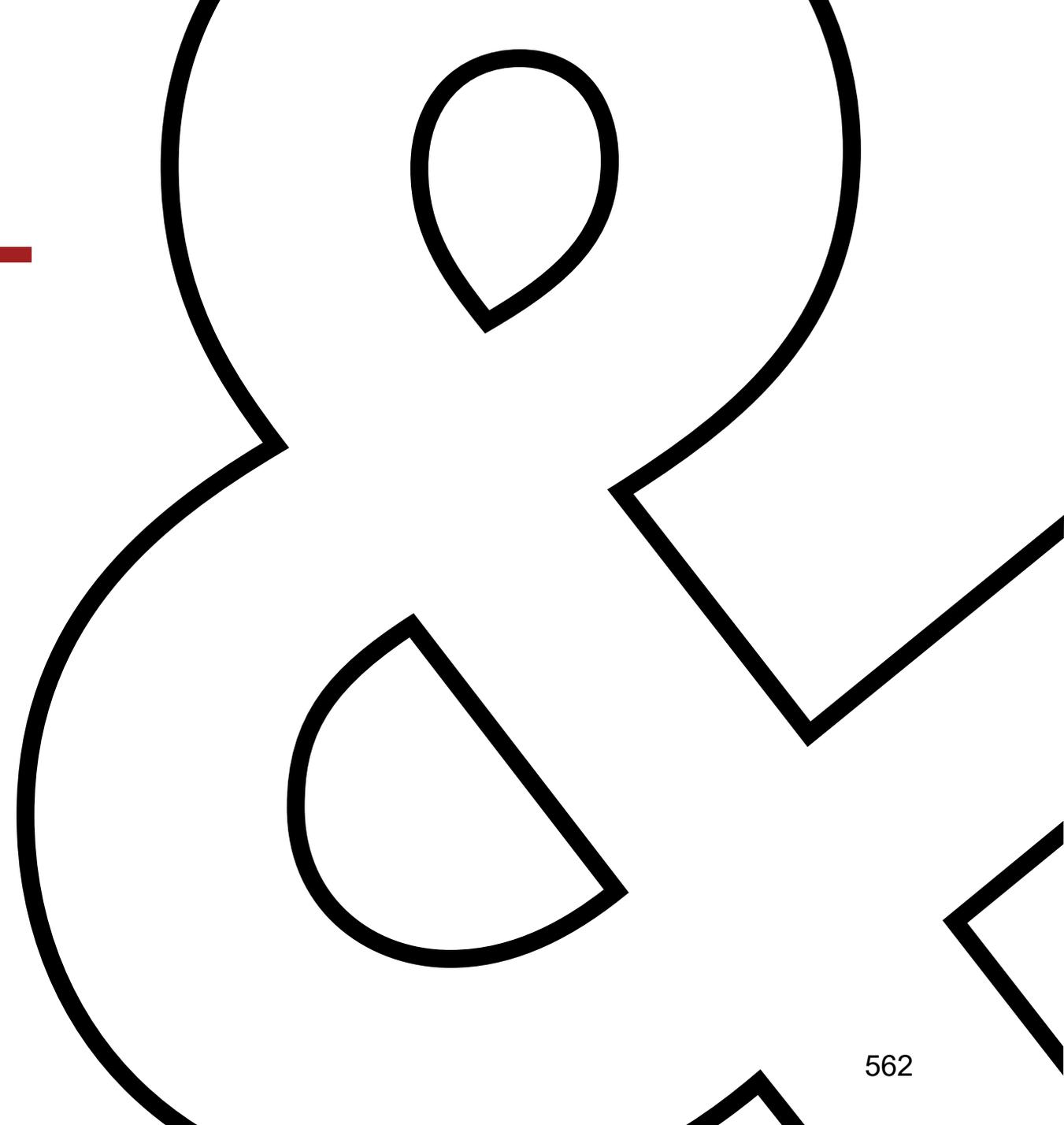


Cost Reasonableness Assessment

Exhibit EMS-6

Cost Allocations

November 2025

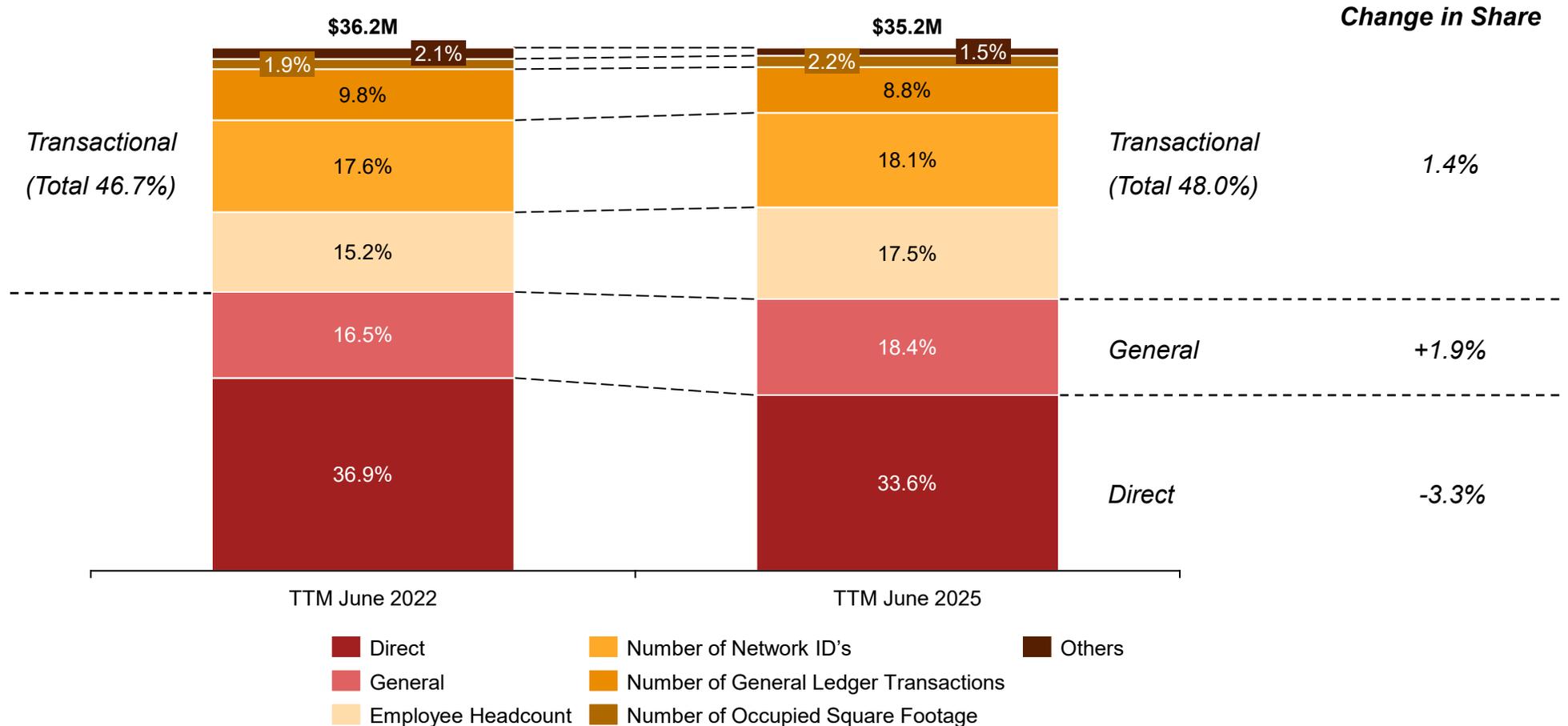


Use of Exhibits

These exhibits have been prepared to support TNMP's 2025 rate case filing with the Public Utilities Commission of Texas ("PUCT"). Our services were performed and this report was prepared solely in connection with TNMP's 2025 rate case filing. Strategy& performed the services and developed the report for the use and benefit of its client and disclaims any contractual or other responsibility to others based on their access to or use of this report and the information contained herein.

Exhibit 6-1: PNMR Services Billings to TNMP

TTM June 2022 – TTM June 2025, by Allocation Method, Real \$M



Note(s): Others include Number of Invoices Processed, Number of Depreciable Assets and Number of Maximo Transactions
 Source(s): PNMR Billings to Affiliates, BLS - Consumer Price Index for All Urban Consumers (CPI-U), Strategy& Analysis

Exhibit 6-2: PNMR Services Billings to TNMP by Allocation Method

TTM June 2025, Real \$M

■ Direct
 ■ Composite
■ General

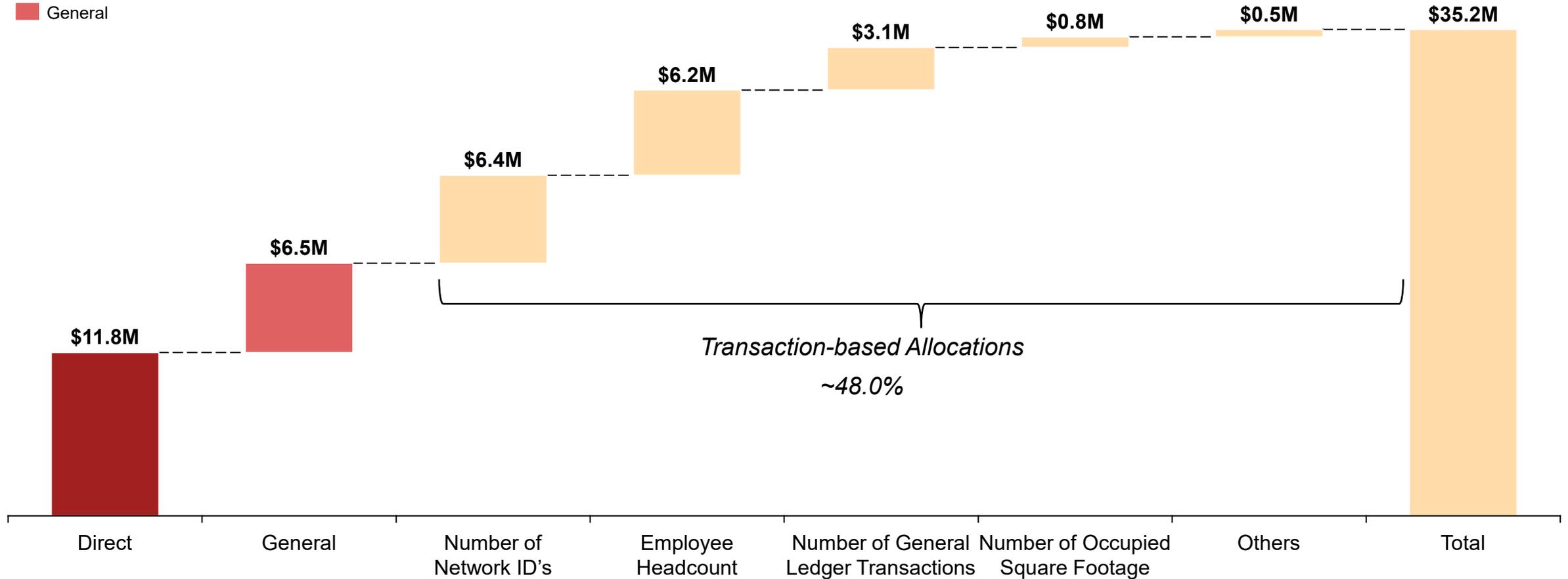


Exhibit 6-3: PNMR Services Billings to Affiliates by Allocation Method

TTM June 2022 – TTM June 2025, Real \$M

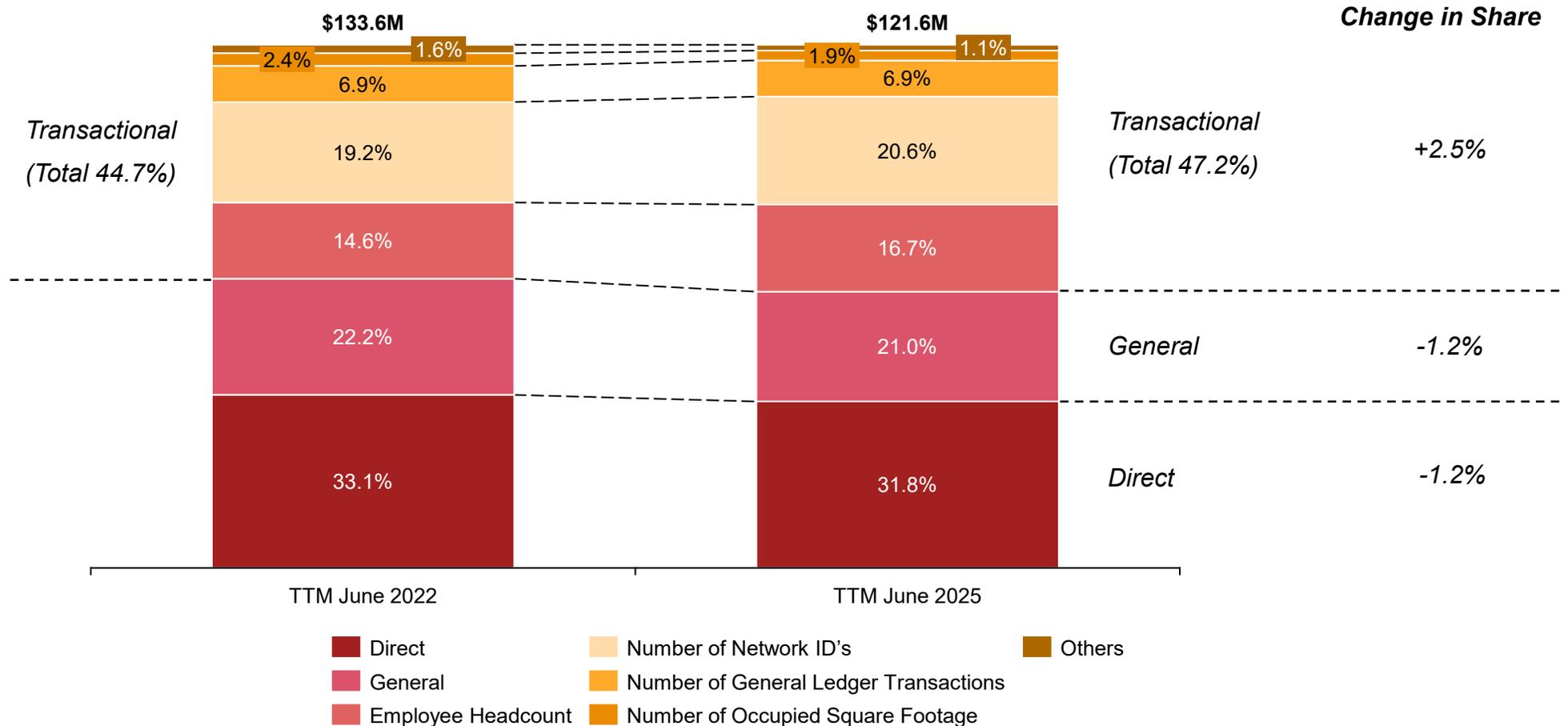


Exhibit 6-4: PNMR Billings to Affiliates by Allocation Method

TTM June 2025, Nominal \$M

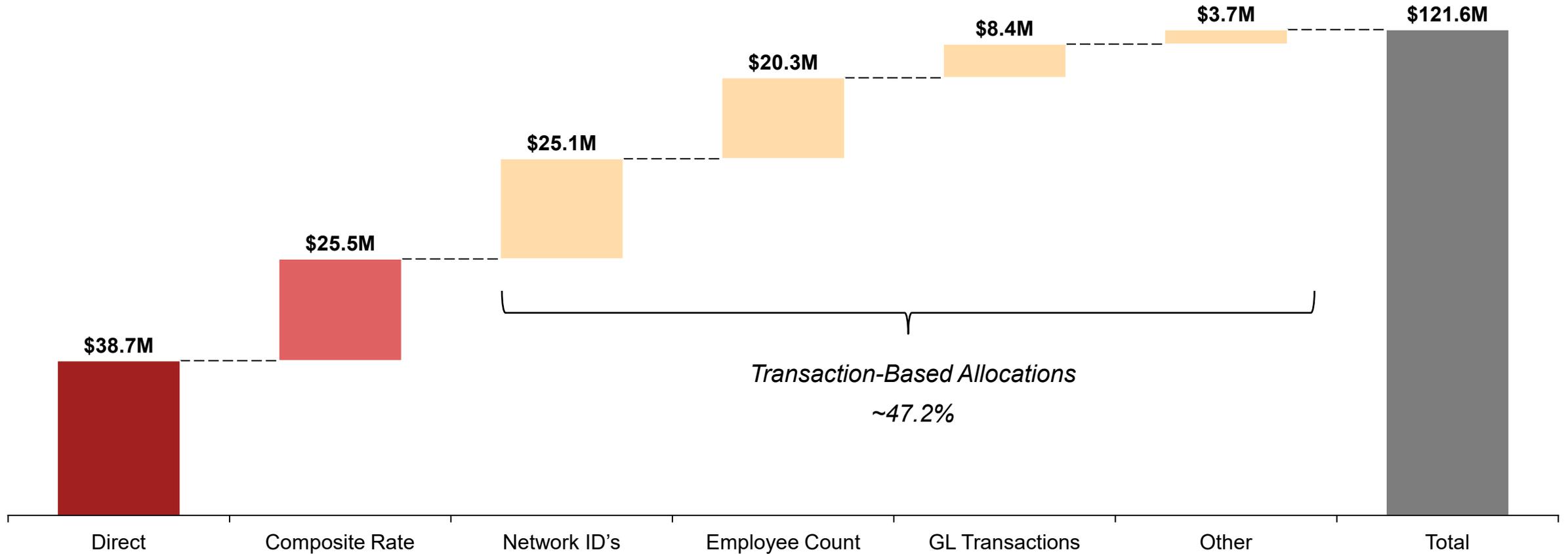


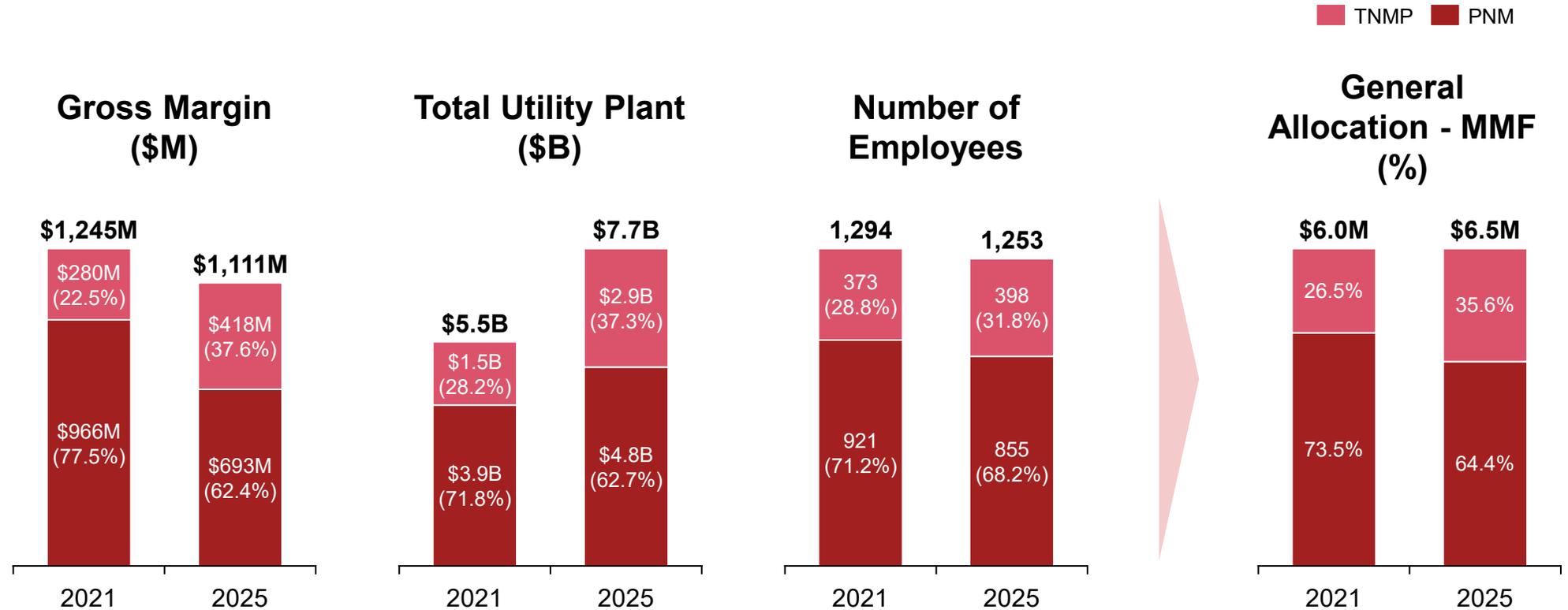
Exhibit 6-5: PNMR Allocation Factors by Function

Allocation Methods by Function, Nominal \$, TTM June 2025

Area	Function	TTM June 2025 PNMR Services (\$M)	TTM June 2025 Billings To TNMP (\$M)	Primary Allocation Method	Secondary Allocation Methods
Corporate Overhead	Corporate Overhead	17.5	5.0	Direct	General
	BIS	44.2	13.0	Transactional - Number of Network ID's	Direct
Corporate Services	Human Resources	23.8	7.3	Transactional - Employee Headcount	Direct
	Investor Relations and Community Engagement	2.0	0.2	General	Direct
	Executive Management	4.3	1.1	General	Direct
Executive	Accounting	7.6	2.5	Transactional - Number of General Ledger Transactions	General
	Regulatory Services	1.7	0.2	General	-
Finance	Treasury and Risk Management	6.0	2.0	General	Direct
	Tax	1.5	0.6	Transactional - Number of General Ledger Transactions	General
	Internal Audit	0.9	0.3	General	Transactional - Number of General Ledger Transactions
General Counsel	Environmental Services	1.4	0.3	General	Direct
	General Counsel	6.1	1.9	General	Direct
	Governmental Affairs	0.7	-	General	-
	Supply Chain	2.9	0.7	Transactional - Number of Occupied Square Footage	Direct
Utility Operations	Utility Operations	1.0	-	Direct	-
Total		\$121.6	\$35.2		

Exhibit 6-6: Organizational Metrics and Cost Allocations

2021 - 2025



Metric	2021-2025 Change (%)
TNMP	+15.2%
Total Utility Plant	+9.1%
Number of Employees	+2.9%
General Allocation - MMF	+9.1%

Exhibit 6-7: Allocation Factors of Service Companies

Select Allocation Factors per Service Company, 2024

Allocation Type	Primary Factors	PNMR	AEP	AES	Alliant	Ameren	ATC Mgmt.	Black Hills	Centerpoint Energy	Dominion Energy	Duke Energy	Entergy	Exelon	FirstEnergy	Eversource Energy	LG&E and KU	NiSource	PHI Services	PPL Corp.	Southern Company	Xcel Energy	WEC Energy	Unitil
General	<i>Direct</i>																						
	<i>Customers</i>																						
Financial	<i>Number of General Ledger Transactions</i>																						
	<i>Number of Invoices processed</i>																						
Employees	<i>Employee Headcount</i>																						
Assets Related	<i>Number of Depreciable Assets</i>																						
	<i>Number of Occupied Square Footage</i>																						
	<i>IT Assets</i>																						
	<i>Number of Phones</i>																						
Composite Ratios	<i>MMF/ Weighted Average factor / Composite factor</i>																						
Others	<i>Other Allocation Factors</i>	3	19	5	8	16	2	5	5	11	12	18	9	9	5	19	5	5	20	14	14	8	11
TOTAL NUMBER OF ALLOCATION FACTORS REPORTED ON FORM 60 (2024)		13	26	10	13	24	4	11	9	19	19	28	15	14	10	25	11	10	26	18	22	14	14

This information contains confidential material and will be made available only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

This information contains highly sensitive protected material and will be made available only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.

APPLICATION OF TEXAS-NEW MEXICO POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

WORKPAPERS FOR
THE DIRECT TESTIMONY OF
EARL M. SIMPKINS

These workpapers each contain confidential materials and will be made available only after execution of a certification to be bound by the draft protective order set forth in Section VII of this Rate Filing Package or a protective order issued in this docket.