PNM RESOURCES INC
Form 10-Q
October 31, 2014
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

Commission File Number	Name of Registrants, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
001-32462	PNM Resources, Inc. (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0468296
001-06986	Public Service Company of New Mexico (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0019030
002-97230	Texas-New Mexico Power Company (A Texas Corporation) 577 N. Garden Ridge Blvd. Lewisville, Texas 75067 (972) 420-4189	75-0204070

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

PNM Resources, Inc. (“PNMR”)	YES	ü	NO	
Public Service Company of New Mexico (“PNM”)	YES	ü	NO	
Texas-New Mexico Power Company (“TNMP”)	YES		NO	ü

(NOTE: As a voluntary filer, not subject to the filing requirements, TNMP filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PNMR	YES ü NO
PNM	YES ü NO
TNMP	YES ü NO

Table of Contents

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
PNMR	ü			
PNM			ü	
TNMP			ü	

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES NO ü

As of October 24, 2014, 79,653,624 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM outstanding as of October 24, 2014 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP outstanding as of October 24, 2014 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

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

This combined Form 10-Q is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. When this Form 10-Q is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-Q that relate to each other registrant are not incorporated by reference therein.

Table of Contents

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

INDEX

Table of Contents

GLOSSARY

Definitions:

Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, which is the operator and a co-owner of PVNGS and Four Corners
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BHP	BHP Billiton, Ltd, the parent of SJCC
Board	Board of Directors of PNMR
BTU	British Thermal Unit
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO_2	Carbon Dioxide
CTC	Competition Transition Charge
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station, now known as Rio Bravo
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIB	New Mexico Environmental Improvement Board
EIP	Eastern Interconnection Project
EIS	Environmental Impact Statement
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
FPPAC	Fuel and Purchased Power Adjustment Clause
GAAP	Generally Accepted Accounting Principles in the United States of America
Gallup	City of Gallup, New Mexico
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
KW	Kilowatt
KWh	Kilowatt Hour
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station

Luna	Luna Energy Facility

4

Table of Contents

MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody's	Moody's Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NERC	North American Electric Reliability Council
New Mexico Wind	New Mexico Wind Energy Center
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2014 Term Loan Agreement	PNM's $175.0 Million Unsecured Term Loan Facility
PNM New Mexico Credit Facility	PNM's $50.0 Million Unsecured Revolving Credit Facility
PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNM Term Loan Agreement	PNM's $75.0 Million Unsecured Term Loan Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR Development	PNMR Development and Management Corporation
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan Agreement	PNMR's $100.0 Million Unsecured Term Loan Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates

Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station, formerly known as Delta

Table of Contents

RMC	Risk Management Committee
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
SPS	Southwestern Public Service Company
S&P	Standard and Poor’s Ratings Services
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2011 Term Loan Agreement	TNMP’s $50.0 Million Secured Term Loan
TNMP Revolving Credit Facility	TNMP’s $75.0 Million Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tucson	Tucson Electric Power Company
Valencia	Valencia Energy Facility
VaR	Value at Risk
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Electric Operating Revenues	$413,951	$399,730	$1,089,008	$1,064,993
Operating Expenses:				
Cost of energy	132,499	114,674	354,532	325,039
Administrative and general	42,190	46,915	131,283	134,744
Energy production costs	43,287	41,142	136,422	131,546
Regulatory disallowances	—	1,735	—	1,735
Depreciation and amortization	44,295	42,743	128,424	125,189
Transmission and distribution costs	16,884	17,248	49,857	50,690
Taxes other than income taxes	17,997	17,534	51,641	49,739
Total operating expenses	297,152	281,991	852,159	818,682
Operating income	116,799	117,739	236,849	246,311
Other Income and Deductions:				
Interest income	2,084	2,264	6,241	7,731
Gains on available-for-sale securities	962	2,188	8,234	6,935
Other income	2,895	3,254	7,648	7,577
Other (deductions)	(2,084)	(5,970)	(7,185)	(13,516)
Net other income and deductions	3,857	1,736	14,938	8,727
Interest Charges	30,115	30,365	89,621	92,279
Earnings before Income Taxes	90,541	89,110	162,166	162,759
Income Taxes	31,055	30,296	53,368	58,600
Net Earnings	59,486	58,814	108,798	104,159
(Earnings) Attributable to Valencia Non-controlling Interest	(3,701)	(4,127)	(11,140)	(10,904)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Net Earnings Attributable to PNMR	$55,653	$54,555	$97,262	$92,859
Net Earnings Attributable to PNMR per Common Share:				
Basic	$0.70	$0.68	$1.22	$1.16
Diluted	$0.69	$0.68	$1.21	$1.15
Dividends Declared per Common Share	$0.185	$0.165	$0.555	$0.495

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net Earnings	$59,486	$58,814	$108,798	$104,159
Other Comprehensive Income:				
Unrealized Gain on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of $(137), $(4,143), $(3,946) and $(7,544)	210	6,322	6,256	11,512
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $1,059, $925, $4,547 and $3,639	(1,628)	(1,411)	(6,997)	(5,551)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of $(508), $(631), $(1,524) and $(1,893)	780	960	2,340	2,880
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $0, $128, $53 and $127	—	(238)	(100)	(236)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $3, $(19), $(58) and $(54)	(6)	35	109	99
Total Other Comprehensive Income (Loss)	(644)	5,668	1,608	8,704
Comprehensive Income	58,842	64,482	110,406	112,863
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,701)	(4,127)	(11,140)	(10,904)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Comprehensive Income Attributable to PNMR	$55,009	$60,223	$98,870	$101,563

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

Table of Contents

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

	Nine Months Ended September 30, 2014	2013
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$108,798	$104,159
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	157,687	157,856
Deferred income tax expense	55,553	57,878
Net unrealized (gains) on commodity derivatives	(67)	(5,858)
Realized (gains) on available-for-sale securities	(8,234)	(6,935)
Stock based compensation expense	4,680	4,315
Regulatory disallowances	—	1,735
Other, net	(642)	1,384
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(22,158)	(23,731)
Materials, supplies, and fuel stock	5,494	(724)
Other current assets	(19,816)	(6,667)
Other assets	30,502	21,656
Accounts payable	79	(17,786)
Accrued interest and taxes	32,488	126,218
Other current liabilities	(21,197)	(32,111)
Other liabilities	3,074	(70,379)
Net cash flows from operating activities	326,241	311,010
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(293,361)	(233,928)
Proceeds from sales of available-for-sale securities	82,222	179,336
Purchases of available-for-sale securities	(81,644)	(181,423)
Return of principal on PVNGS lessor notes	20,758	23,357
Purchase of Rio Bravo	(36,235)	—
Other, net	(3,433)	1,232
Net cash flows from investing activities	(311,693)	(211,426)

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

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	(49,200)	(46,700)
Long-term borrowings	255,000	75,000
Repayment of long-term debt	(125,000)	(26,037)
Cash paid in debt exchange	—	(13,048)
Proceeds from stock option exercise	5,495	3,500
Awards of common stock	(15,573)	(12,429)
Dividends paid	(44,600)	(38,233)
Valencia's transactions with its owner	(12,749)	(13,477)
Other, net	(2,030)	(3,706)
Net cash flows from financing activities	11,343	(75,130)
Change in Cash and Cash Equivalents	25,891	24,454
Cash and Cash Equivalents at Beginning of Period	2,533	8,985
Cash and Cash Equivalents at End of Period	$28,424	$33,439
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$60,075	$63,985
Income taxes paid (refunded), net	$(2,529)	$(95,472)
Supplemental schedule of noncash investing and financing activities:		
Changes in accrued plant additions	$(6,674)	$2,535
Premium on long-term debt incurred in connection with debt exchange	$—	$36,297

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$28,424	$2,533
Accounts receivable, net of allowance for uncollectible accounts of $1,535 and $1,423	105,516	90,251
Unbilled revenues	63,253	58,806
Other receivables	39,061	53,909
Materials, supplies, and fuel stock	63,637	67,223
Regulatory assets	41,606	24,416
Commodity derivative instruments	4,148	4,064
Income taxes receivable	6,723	7,066
Current portion of accumulated deferred income taxes	58,681	58,681
Other current assets	55,277	34,590
Total current assets	466,326	401,539
Other Property and Investments:		
Investment in PVNGS lessor notes	9,775	32,200
Available-for-sale securities	235,894	226,855
Other investments	1,667	1,835
Non-utility property	4,060	4,353
Total other property and investments	251,396	265,243
Utility Plant:		
Plant in service and plant held for future use	5,754,564	5,563,061
Less accumulated depreciation and amortization	1,913,361	1,838,832
	3,841,203	3,724,229
Construction work in progress	211,472	132,080
Nuclear fuel, net of accumulated amortization of $52,119 and $47,347	81,840	77,602
Net utility plant	4,134,515	3,933,911
Deferred Charges and Other Assets:		
Regulatory assets	479,138	523,955
Goodwill	278,297	278,297
Commodity derivative instruments	1,084	3,002
Other deferred charges	98,453	94,263
Total deferred charges and other assets	856,972	899,517
	$5,709,209	$5,500,210

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$100,000	$149,200
Current installments of long-term debt	333,066	75,000
Accounts payable	102,656	109,666
Customer deposits	12,483	13,456
Accrued interest and taxes	82,052	49,600
Regulatory liabilities	1,126	1,081
Commodity derivative instruments	1,370	2,699
Dividends declared	14,868	14,864
Other current liabilities	52,671	77,105
Total current liabilities	700,292	492,671
Long-term Debt	1,542,106	1,670,420
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	884,402	801,408
Accumulated deferred investment tax credits	24,232	25,855
Regulatory liabilities	472,054	460,649
Asset retirement obligations	102,115	96,135
Accrued pension liability and postretirement benefit cost	69,363	80,046
Commodity derivative instruments	688	1,094
Other deferred credits	104,270	109,805
Total deferred credits and other liabilities	1,657,124	1,574,992
Total liabilities	3,899,522	3,738,083
Commitments and Contingencies (See Note 11)		
Cumulative Preferred Stock of Subsidiary		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock outstanding (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,172,876	1,178,369
Accumulated other comprehensive income (loss), net of income taxes	(56,532)	(58,140)
Retained earnings	606,394	553,340
Total PNMR common stockholders' equity	1,722,738	1,673,569
Non-controlling interest in Valencia	75,420	77,029
Total equity	1,798,158	1,750,598
	$5,709,209	$5,500,210

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

Table of Contents

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

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2013	$1,178,369	$(58,140)	$553,340	$1,673,569	$77,029	$1,750,598
Proceeds from stock option exercise	5,495	—	—	5,495	—	5,495
Awards of common stock	(15,573)	—	—	(15,573)	—	(15,573)
Excess tax (shortfall) from stock-based payment arrangements	(95)	—	—	(95)	—	(95)
Stock based compensation expense	4,680	—	—	4,680	—	4,680
Valencia's transactions with its owner	—	—	—	—	(12,749)	(12,749)
Net earnings before subsidiary preferred stock dividends	—	—	97,658	97,658	11,140	108,798
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Total other comprehensive income	—	1,608	—	1,608	—	1,608
Dividends declared on common stock	—	—	(44,208)	(44,208)	—	(44,208)
Balance at September 30, 2014	$1,172,876	$(56,532)	$606,394	$1,722,738	$75,420	$1,798,158

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Electric Operating Revenues	$334,993	$326,026	$873,434	$863,609
Operating Expenses:				
Cost of energy	115,097	100,200	304,365	283,715
Administrative and general	37,519	40,679	116,731	116,058
Energy production costs	43,287	41,142	136,422	131,546
Regulatory disallowances	—	1,735	—	1,735
Depreciation and amortization	27,524	25,879	81,629	77,763
Transmission and distribution costs	10,693	11,686	32,202	33,420
Taxes other than income taxes	10,258	9,488	30,359	28,613
Total operating expenses	244,378	230,809	701,708	672,850
Operating income	90,615	95,217	171,726	190,759
Other Income and Deductions:				
Interest income	2,102	2,298	6,295	7,839
Gains on available-for-sale securities	962	2,188	8,234	6,935
Other income	1,804	2,398	5,359	5,329
Other (deductions)	(1,197)	(2,375)	(4,844)	(5,287)
Net other income and deductions	3,671	4,509	15,044	14,816
Interest Charges	20,092	20,124	59,927	59,971
Earnings before Income Taxes	74,194	79,602	126,843	145,604
Income Taxes	25,142	27,652	42,331	49,184
Net Earnings	49,052	51,950	84,512	96,420
(Earnings) Attributable to Valencia Non-controlling Interest	(3,701)	(4,127)	(11,140)	(10,904)
Net Earnings Attributable to PNM	45,351	47,823	73,372	85,516
Preferred Stock Dividends Requirements	(132)	(132)	(396)	(396)
Net Earnings Available for PNM Common Stock	$45,219	$47,691	$72,976	$85,120

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net Earnings	$49,052	$51,950	$84,512	$96,420
Other Comprehensive Income:				
Unrealized Gain on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of $(137), $(4,143), $(3,946) and $(7,544)	210	6,322	6,256	11,512
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $1,059, $925, $4,547 and $3,639	(1,628)	(1,411)	(6,997)	(5,551)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of $(508), $(631), $(1,524) and $(1,893)	780	960	2,340	2,880
Total Other Comprehensive Income (Loss)	(638)	5,871	1,599	8,841
Comprehensive Income	48,414	57,821	86,111	105,261
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,701)	(4,127)	(11,140)	(10,904)
Comprehensive Income Attributable to PNM	$44,713	$53,694	$74,971	$94,357

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

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$84,512	$96,420
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	108,069	104,161
Deferred income tax expense	45,313	49,870
Net unrealized (gains) on commodity derivatives	(67)	(5,858)
Realized (gains) on available-for-sale securities	(8,234)	(6,935)
Regulatory disallowances	—	1,735
Other, net	(355)	(1,342)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(16,782)	(14,123)
Materials, supplies, and fuel stock	5,697	(744)
Other current assets	(20,806)	(5,187)
Other assets	29,796	21,977
Accounts payable	10,100	(4,953)
Accrued interest and taxes	19,984	66,090
Other current liabilities	(21,586)	(43,935)
Other liabilities	2,841	(67,062)
Net cash flows from operating activities	238,482	190,114
Cash Flows From Investing Activities:		
Utility plant additions	(199,771)	(164,669)
Proceeds from sales of available-for-sale securities	82,222	179,336
Purchases of available-for-sale securities	(81,644)	(181,423)
Return of principal on PVNGS lessor notes	20,758	23,357
Purchase of Rio Bravo	(36,235)	—
Other, net	(3,404)	1,234
Net cash flows from investing activities	(218,074)	(142,165)

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

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	(49,200)	(21,100)
Short-term borrowings (repayments), affiliate, net	(26,000)	—
Long-term borrowings	175,000	75,000
Repayment of long-term debt	(75,000)	—
Valencia's transactions with its owner	(12,749)	(13,477)
Dividends paid	(30,659)	(68,424)
Other, net	(1,196)	(1,727)
Net cash flows from financing activities	(19,804)	(29,728)
Change in Cash and Cash Equivalents	604	18,221
Cash and Cash Equivalents at Beginning of Period	21	3,958
Cash and Cash Equivalents at End of Period	$625	$22,179
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$41,606	$42,145
Income taxes paid (refunded), net	$(215)	$(44,999)
Supplemental schedule of noncash investing activities:		
Changes in accrued plant additions	$(10,586)	$8,912

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$625	$21
Accounts receivable, net of allowance for uncollectible accounts of $1,535 and $1,423	78,811	70,126
Unbilled revenues	54,643	48,992
Other receivables	38,799	52,964
Affiliate receivables	9,572	10,054
Materials, supplies, and fuel stock	60,731	64,520
Regulatory assets	38,328	19,394
Commodity derivative instruments	4,148	4,064
Income taxes receivable	6,797	4,030
Current portion of accumulated deferred income taxes	43,826	43,827
Other current assets	49,533	30,510
Total current assets	385,813	348,502
Other Property and Investments:		
Investment in PVNGS lessor notes	9,775	32,200
Available-for-sale securities	235,894	226,855
Other investments	300	445
Non-utility property	752	976
Total other property and investments	246,721	260,476
Utility Plant:		
Plant in service and plant held for future use	4,460,035	4,314,016
Less accumulated depreciation and amortization	1,469,375	1,402,531
	2,990,660	2,911,485
Construction work in progress	167,180	107,344
Nuclear fuel, net of accumulated amortization of $52,119 and $47,347	81,840	77,602
Net utility plant	3,239,680	3,096,431
Deferred Charges and Other Assets:		
Regulatory assets	347,642	384,217
Goodwill	51,632	51,632
Commodity derivative instruments	1,084	3,002
Other deferred charges	85,902	83,356
Total deferred charges and other assets	486,260	522,207
	$4,358,474	$4,227,616

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER’S EQUITY		
Current Liabilities:		
Short-term debt	$—	$49,200
Short-term debt - affiliate	6,500	32,500
Current installments of long-term debt	214,300	75,000
Accounts payable	83,741	84,643
Affiliate payables	14,692	20,498
Customer deposits	12,483	13,456
Accrued interest and taxes	51,188	27,665
Regulatory liabilities	1,126	1,081
Commodity derivative instruments	1,370	2,699
Dividends declared	132	132
Other current liabilities	35,576	50,392
Total current liabilities	421,108	357,266
Long-term Debt	1,176,347	1,215,618
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	714,983	651,239
Accumulated deferred investment tax credits	24,232	25,855
Regulatory liabilities	425,062	414,611
Asset retirement obligations	101,147	95,225
Accrued pension liability and postretirement benefit cost	66,183	76,611
Commodity derivative instruments	688	1,094
Other deferred credits	87,264	91,340
Total deferred credits and liabilities	1,419,559	1,355,975
Total liabilities	3,017,014	2,928,859
Commitments and Contingencies (See Note 11)		
Cumulative Preferred Stock		
without mandatory redemption requirements ($100 stated value; 10,000,000 authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder’s equity:		
Common stock outstanding (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,061,776	1,061,776
Accumulated other comprehensive income (loss), net of income taxes	(56,278)	(57,877)
Retained earnings	249,013	206,300
Total PNM common stockholder’s equity	1,254,511	1,210,199
Non-controlling interest in Valencia	75,420	77,029
Total equity	1,329,931	1,287,228
	$4,358,474	$4,227,616

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

Table of Contents

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

	Attributable to PNM					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2013	$1,061,776	$(57,877)	$206,300	$1,210,199	$77,029	$1,287,228
Valencia's transactions with its owner	—	—	—	—	(12,749)	(12,749)
Net earnings	—	—	73,372	73,372	11,140	84,512
Total other comprehensive income	—	1,599	—	1,599	—	1,599
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(30,263)	(30,263)	—	(30,263)
Balance at September 30, 2014	$1,061,776	$(56,278)	$249,013	$1,254,511	$75,420	$1,329,931

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Electric Operating Revenues	$78,958	$73,704	$215,574	$201,384
Operating Expenses:				
Cost of energy	17,402	14,474	50,167	41,324
Administrative and general	9,230	10,641	27,839	32,446
Depreciation and amortization	13,432	13,850	37,276	37,810
Transmission and distribution costs	6,191	5,562	17,655	17,270
Taxes other than income taxes	6,830	6,923	18,238	17,558
Total operating expenses	53,085	51,450	151,175	146,408
Operating income	25,873	22,254	64,399	54,976
Other Income and Deductions:				
Other income	1,072	820	2,078	1,765
Other (deductions)	(279)	(104)	(583)	(356)
Net other income and deductions	793	716	1,495	1,409
Interest Charges	6,870	6,655	20,122	20,661
Earnings before Income Taxes	19,796	16,315	45,772	35,724
Income Taxes	7,441	6,209	17,081	13,554
Net Earnings	$12,355	$10,106	$28,691	$22,170

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

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Net Earnings	$12,355	$10,106	$28,691	$22,170
Other Comprehensive Income (Loss):				
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $0 $128, $53 and $127	—	(238)	(100)	(236)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $3, $(19), $(58) and $(54)	(6)	35	109	99
Total Other Comprehensive Income (Loss)	(6)	(203)	9	(137)
Comprehensive Income	$12,349	$9,903	$28,700	$22,033

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

Table of Contents

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

	Nine Months Ended September 30,	
	2014	2013
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$28,691	$22,170
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	39,577	40,946
Deferred income tax expense	4,256	3,901
Other, net	(169)	(13)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(5,376)	(9,608)
Materials and supplies	(203)	20
Other current assets	1,761	(2,420)
Other assets	(58)	36
Accounts payable	(1,302)	(291)
Accrued interest and taxes	19,054	14,669
Other current liabilities	(1,217)	(1,946)
Other liabilities	1,397	2,182
Net cash flows from operating activities	86,411	69,646
Cash Flows From Investing Activities:		
Utility plant additions	(88,940)	(67,400)
Net cash flows from investing activities	(88,940)	(67,400)
Cash Flow From Financing Activities:		
Short-term borrowings (repayments), net	—	12,000
Short-term borrowings (repayments) – affiliate, net	(10,300)	4,800
Long-term borrowings	80,000	—
Repayment of long-term debt	(50,000)	—
Cash paid in debt exchange	—	(13,048)
Dividends paid	(16,336)	(3,726)
Other, net	(835)	(2,117)
Net cash flows from financing activities	2,529	(2,091)
Change in Cash and Cash Equivalents	—	155
Cash and Cash Equivalents at Beginning of Period	1	1
Cash and Cash Equivalents at End of Period	$1	$156
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$11,778	$13,626
Income taxes paid (refunded), net	$(299)	$696
Supplemental schedule of noncash investing and financing activities:		
Changes in accrued plant additions	$1,658	$(1,443)
Premium on long-term debt incurred in connection with debt exchange	$—	$36,297

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$1	$1
Accounts receivable	26,705	20,125
Unbilled revenues	8,610	9,814
Other receivables	679	1,246
Materials and supplies	2,906	2,703
Regulatory assets	3,278	5,022
Current portion of accumulated deferred income taxes	6,501	6,501
Other current assets	1,672	980
Total current assets	50,352	46,392
Other Property and Investments:		
Other investments	245	245
Non-utility property	2,240	2,240
Total other property and investments	2,485	2,485
Utility Plant:		
Plant in service and plant held for future use	1,127,872	1,074,193
Less accumulated depreciation and amortization	369,426	352,105
	758,446	722,088
Construction work in progress	36,841	16,790
Net utility plant	795,287	738,878
Deferred Charges and Other Assets:		
Regulatory assets	131,496	139,738
Goodwill	226,665	226,665
Other deferred charges	10,260	8,273
Total deferred charges and other assets	368,421	374,676
	$1,216,545	$1,162,431

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

Table of Contents

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

	September 30, 2014	December 31, 2013
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt – affiliate	$19,100	$29,400
Accounts payable	9,584	12,543
Affiliate payables	1,758	3,181
Accrued interest and taxes	42,831	23,778
Other current liabilities	2,491	8,999
Total current liabilities	75,764	77,901
Long-term Debt	365,759	336,036
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	201,441	190,197
Regulatory liabilities	46,992	46,038
Asset retirement obligations	831	782
Accrued pension liability and postretirement benefit cost	3,180	3,435
Other deferred credits	7,283	5,111
Total deferred credits and other liabilities	259,727	245,563
Total liabilities	701,250	659,500
Commitments and Contingencies (See Note 11)		
Common Stockholder's Equity:		
Common stock outstanding ($10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	404,166	404,166
Accumulated other comprehensive income (loss), net of income taxes	(254)	(263)
Retained earnings	111,319	98,964
Total common stockholder's equity	515,295	502,931
	$1,216,545	$1,162,431

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

Table of Contents

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

	Common Stock	Paid-in Capital	AOCI	Retained Earnings	Total Common Stockholder’s Equity
	(In thousands)				
Balance at December 31, 2013	$64	$404,166	$(263)	$98,964	$502,931
Net earnings	—	—	—	28,691	28,691
Total other comprehensive income	—	—	9	—	9
Dividends declared on common stock	—	—	—	(16,336)	(16,336)
Balance at September 30, 2014	$64	$404,166	$(254)	$111,319	$515,295

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

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at September 30, 2014 and December 31, 2013, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2014 and 2013, and the consolidated cash flows for the nine months ended September 30, 2014 and 2013. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could ultimately differ from those estimated. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2013 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2014 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2013 Annual Reports on Form 10-K.

GAAP defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. Based on their nature, magnitude, and timing, certain subsequent events may be required to be reflected at the balance sheet date and/or required to be disclosed in the financial statements. The Company has evaluated subsequent events as required by GAAP.

Principles of Consolidation

The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM began consolidating Rio Bravo, formerly known as Delta, upon its acquisition on July 17, 2014. PNM also consolidates the PVNGS Capital Trust and Valencia. PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

PNMR shared services' administrative and general expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments at cost. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, as well as dividends paid on common stock. All intercompany transactions and balances have been eliminated. See Note 14.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by its Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered to be attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of $0.185 per share in July 2014 and $0.165 in July

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

2013, which are reflected as being in the second quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings. The Board declared dividends on common stock considered to be for the third quarter of $0.185 per share in September 2014 and $0.165 in September 2013, which are reflected as being in the third quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings.

PNM declared and paid cash dividends on its common stock to PNMR of $30.3 million and $68.0 million in the nine months ended September 30, 2014 and 2013. TNMP declared and paid cash dividends of $16.3 million and $3.7 million in the nine months ended September 30, 2014 and 2013.

New Accounting Pronouncements

Information concerning recently issued accounting pronouncements that have not been adopted by the Company is presented below.

Accounting Standards Update 2014-09 – Revenue from Contracts with Customers (Topic 606)

On May 28, 2014, the FASB issued ASU No. 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. The new standard is effective for the Company beginning on January 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is analyzing the impacts this new standard will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

Accounting Standards Update 2014-12 – Compensation-Stock Compensation (Topic 718) Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

On June 19, 2014, the FASB issued ASU No. 2014-12, which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and should not be reflected in estimating the grant date fair value of the award. The new standard is effective for the Company beginning on January 1, 2016. Early adoption is permitted and the standard permits the use of either the prospective or retrospective transition methods. Although the Company is in the process of analyzing the impacts this new standard will have on its consolidated financial statements, the Company currently treats the performance targets covered by the standard as performance conditions, so the Company does not expect its impact will be significant.

Accounting Standards Update 2014-15 – Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

On August 27, 2014, the FASB issued ASU No. 2014-15, which requires management to evaluate whether there is substantial doubt about a company's ability to continue as a going concern in connection with the preparation of financial statements for each annual and interim reporting period. Disclosure requirements associated with management's evaluation are also outlined in the new guidance. The new standard is effective for the Company for reporting periods ending after December 15, 2016, with early adoption permitted. The Company is in the process of analyzing the impacts of this new standard .

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(2) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	$55,653	$54,555	$97,262	$92,859
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	112	177	134	194
Average Shares – Basic	79,766	79,831	79,788	79,848
Dilutive Effect of Common Stock Equivalents [(1)]:				
Stock options and restricted stock	457	503	491	608
Average Shares – Diluted	80,223	80,334	80,279	80,456
Net Earnings Per Share of Common Stock:				
Basic	$0.70	$0.68	$1.22	$1.16
Diluted	$0.69	$0.68	$1.21	$1.15

[(1)] Excludes the effect of out-of-the-money options for 435,472 shares of common stock at September 30, 2014.

(3) Segment Information

The following segment presentation is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. A reconciliation of the segment presentation to the GAAP financial statements is provided.

PNM
PNM includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM also provides generation service to firm-requirements wholesale customers and sells electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity into the wholesale market includes the optimization of PNM’s jurisdictional capacity, as well as the capacity from PVNGS Unit 3, which currently is not included in retail rates. FERC has jurisdiction over wholesale and transmission rates.

TNMP
TNMP is an electric utility providing regulated transmission and distribution services in Texas under the TECA. TNMP’s operations are subject to traditional rate regulation by the PUCT.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company.

The following tables present summarized financial information for PNMR by segment. PNM and TNMP each operate in only one segment. Therefore, tabular segment information is not presented for PNM and TNMP.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2014				
Electric operating revenues	$334,993	$78,958	$—	$413,951
Cost of energy	115,097	17,402	—	132,499
Margin	219,896	61,556	—	281,452
Other operating expenses	101,757	22,251	(3,650)	120,358
Depreciation and amortization	27,524	13,432	3,339	44,295
Operating income	90,615	25,873	311	116,799
Interest income	2,102	—	(18)	2,084
Other income (deductions)	1,569	793	(589)	1,773
Net interest charges	(20,092)	(6,870)	(3,153)	(30,115)
Segment earnings (loss) before income taxes	74,194	19,796	(3,449)	90,541
Income taxes (benefit)	25,142	7,441	(1,528)	31,055
Segment earnings (loss)	49,052	12,355	(1,921)	59,486
Valencia non-controlling interest	(3,701)	—	—	(3,701)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$45,219	$12,355	$(1,921)	$55,653
Nine Months Ended September 30, 2014				
Electric operating revenues	$873,434	$215,574	$—	$1,089,008
Cost of energy	304,365	50,167	—	354,532
Margin	569,069	165,407	—	734,476
Other operating expenses	315,714	63,732	(10,243)	369,203
Depreciation and amortization	81,629	37,276	9,519	128,424
Operating income	171,726	64,399	724	236,849
Interest income	6,295	—	(54)	6,241
Other income (deductions)	8,749	1,495	(1,547)	8,697
Net interest charges	(59,927)	(20,122)	(9,572)	(89,621)
Segment earnings (loss) before income taxes	126,843	45,772	(10,449)	162,166
Income taxes (benefit)	42,331	17,081	(6,044)	53,368
Segment earnings (loss)	84,512	28,691	(4,405)	108,798
Valencia non-controlling interest	(11,140)	—	—	(11,140)
Subsidiary preferred stock dividends	(396)	—	—	(396)
Segment earnings (loss) attributable to PNMR	$72,976	$28,691	$(4,405)	$97,262
At September 30, 2014:				
Total Assets	$4,358,474	$1,216,545	$134,190	$5,709,209
Goodwill	$51,632	$226,665	$—	$278,297

30

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2013				
Electric operating revenues	$326,026	$73,704	$—	$399,730
Cost of energy	100,200	14,474	—	114,674
Margin	225,826	59,230	—	285,056
Other operating expenses	104,730	23,126	(3,282)	124,574
Depreciation and amortization	25,879	13,850	3,014	42,743
Operating income (loss)	95,217	22,254	268	117,739
Interest income	2,298	—	(34)	2,264
Other income (deductions)	2,211	716	(3,455)	(528)
Net interest charges	(20,124)	(6,655)	(3,586)	(30,365)
Segment earnings (loss) before income taxes	79,602	16,315	(6,807)	89,110
Income taxes (benefit)	27,652	6,209	(3,565)	30,296
Segment earnings (loss)	51,950	10,106	(3,242)	58,814
Valencia non-controlling interest	(4,127)	—	—	(4,127)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$47,691	$10,106	$(3,242)	$54,555
Nine Months Ended September 30, 2013				
Electric operating revenues	$863,609	$201,384	$—	$1,064,993
Cost of energy	283,715	41,324	—	325,039
Margin	579,894	160,060	—	739,954
Other operating expenses	311,372	67,274	(10,192)	368,454
Depreciation and amortization	77,763	37,810	9,616	125,189
Operating income	190,759	54,976	576	246,311
Interest income	7,839	—	(108)	7,731
Other income (deductions)	6,977	1,409	(7,390)	996
Net interest charges	(59,971)	(20,661)	(11,647)	(92,279)
Segment earnings (loss) before income taxes	145,604	35,724	(18,569)	162,759
Income taxes (benefit)	49,184	13,554	(4,138)	58,600
Segment earnings (loss)	96,420	22,170	(14,431)	104,159
Valencia non-controlling interest	(10,904)	—	—	(10,904)
Subsidiary preferred stock dividends	(396)	—	—	(396)
Segment earnings (loss) attributable to PNMR	$85,120	$22,170	$(14,431)	$92,859
At September 30, 2013:				
Total Assets	$4,192,470	$1,162,587	$73,757	$5,428,814
Goodwill	$51,632	$226,665	$—	$278,297

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(4) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the nine months ended September 30, 2014 and 2013 is as follows:

	Accumulated Other Comprehensive Income (Loss)			
	Unrealized Gain on Available-for-Sale Securities	Pension Liability Adjustment	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)			
PNMR				
Balance at December 31, 2013	$25,748	$(83,625)	$(263)	$(58,140)
Amounts reclassified from AOCI (pre-tax)	(11,544)	3,864	167	(7,513)
Income tax impact of amounts reclassified	4,547	(1,524)	(58)	2,965
Other OCI changes (pre-tax)	10,202	—	(153)	10,049
Income tax impact of other OCI changes	(3,946)	—	53	(3,893)
Net change after income taxes	(741)	2,340	9	1,608
Balance at September 30, 2014	$25,007	$(81,285)	$(254)	$(56,532)
PNM				
Balance at December 31, 2013	$25,748	$(83,625)	$—	$(57,877)
Amounts reclassified from AOCI (pre-tax)	(11,544)	3,864	—	(7,680)
Income tax impact of amounts reclassified	4,547	(1,524)	—	3,023
Other OCI changes (pre-tax)	10,202	—	—	10,202
Income tax impact of other OCI changes	(3,946)	—	—	(3,946)
Net change after income taxes	(741)	2,340	—	1,599
Balance at September 30, 2014	$25,007	$(81,285)	$—	$(56,278)
TNMP				
Balance at December 31, 2013	$—	$—	$(263)	$(263)
Amounts reclassified from AOCI (pre-tax)	—	—	167	167
Income tax impact of amounts reclassified	—	—	(58)	(58)
Other OCI changes (pre-tax)	—	—	(153)	(153)
Income tax impact of other OCI changes	—	—	53	53
Net change after income taxes	—	—	9	9
Balance at September 30, 2014	$—	$—	$(254)	$(254)

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

	Accumulated Other Comprehensive Income (Loss)			
	Unrealized Gain on Available-for-Sale Securities	Pension Liability Adjustment	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)			
PNMR				
Balance at December 31, 2012	$16,406	$(97,820)	$(216)	$(81,630)
Amounts reclassified from AOCI (pre-tax)	(9,190)	4,773	153	(4,264)
Income tax impact of amounts reclassified	3,639	(1,893)	(54)	1,692
Other OCI changes (pre-tax)	19,056	—	(363)	18,693
Income tax impact of other OCI changes	(7,544)	—	127	(7,417)
Net change after income taxes	5,961	2,880	(137)	8,704
Balance at September 30, 2013	$22,367	$(94,940)	$(353)	$(72,926)
PNM				
Balance at December 31, 2012	$16,406	$(97,820)	$—	$(81,414)
Amounts reclassified from AOCI (pre-tax)	(9,190)	4,773	—	(4,417)
Income tax impact of amounts reclassified	3,639	(1,893)	—	1,746
Other OCI changes (pre-tax)	19,056	—	—	19,056
Income tax impact of other OCI changes	(7,544)	—	—	(7,544)
Net change after income taxes	5,961	2,880	—	8,841
Balance at September 30, 2013	$22,367	$(94,940)	$—	$(72,573)
TNMP				
Balance at December 31, 2012	$—	$—	$(216)	$(216)
Amounts reclassified from AOCI (pre-tax)	—	—	153	153
Income tax impact of amounts reclassified	—	—	(54)	(54)
Other OCI changes (pre-tax)	—	—	(363)	(363)
Income tax impact of other OCI changes	—	—	127	127
Net change after income taxes	—	—	(137)	(137)
Balance at September 30, 2013	$—	$—	$(353)	$(353)

Pre-tax amounts reclassified from AOCI related to “Unrealized Gain on Available-for-Sale Securities” are included in “Gains on available-for-sale securities” in the Condensed Consolidated Statements of Earnings. Pre-tax amounts reclassified from AOCI related to “Pension Liability Adjustment” are reclassified to “Operating Expenses – Administrative and general” in the Condensed Consolidated Statements of Earnings. For the nine months ended September 30, 2014 and 2013, approximately 23.6% and 19.6% of the amount reclassified was capitalized into construction work in process and approximately 1.7% and 1.1% was capitalized into other accounts. Pre-tax amounts reclassified from AOCI related to “Fair Value Adjustment for Cash Flow Hedges” are reclassified to “Interest Charges” in the Condensed Consolidated Statements of Earnings. An insignificant amount was capitalized as AFUDC. The income tax impacts of all amounts reclassified from AOCI are included in “Income Taxes” in the Condensed Consolidated Statements of Earnings.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(5) Variable Interest Entities; Acquisition

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity. GAAP also requires continual reassessment of the primary beneficiary of a variable interest entity. Additional information concerning PNM's variable interest entities is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third-party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operations and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three and nine months ended September 30, 2014, PNM paid $4.8 million and $14.4 million for fixed charges and $0.3 million and $1.0 million for variable charges. For the three and nine months ended September 30, 2013, PNM paid $4.8 million and $14.1 million for fixed charges and $0.7 million and $1.0 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy obligations of Valencia and creditors of Valencia do not have any recourse against PNM's assets. PNM has concluded that the third party entity that owns Valencia is a variable interest entity and that PNM is the primary beneficiary of the entity under GAAP since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates the entity in its financial statements. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

Results of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Operating revenues	$ 5,061	$ 5,453	$ 15,300	$ 15,150
Operating expenses	(1,360)	(1,326)	(4,160)	(4,246)
Earnings attributable to non-controlling interest	$ 3,701	$ 4,127	$ 11,140	$ 10,904

Financial Position

	September 30, 2014	December 31, 2013
	(In thousands)	

Current assets	$3,435	$2,658
Net property, plant, and equipment	73,024	75,137
Total assets	76,459	77,795
Current liabilities	1,039	766
Owners' equity – non-controlling interest	$75,420	$77,029

During the term of the PPA, PNM has the option to purchase and own up to 50% of the plant or the variable interest entity. The PPA specifies that the purchase price would be the greater of (i) 50% of book value reduced by related indebtedness or (ii)

34

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

50% of fair market value. On October 8, 2013, PNM notified the owner of Valencia that PNM may exercise the option to purchase 50% of the plant. As provided in the PPA, an appraisal process was initiated since the parties failed to reach agreement on fair market value within 60 days. Under the PPA, results of the appraisal process established the purchase price, after which PNM was to determine, in its sole discretion, whether or not to exercise its option to purchase the 50% interest. The PPA also provides that the purchase price may be adjusted to reflect the period between the determination of the purchase price and the closing. The appraisal process determined the purchase price as of October 8, 2013 to be $85.0 million, prior to any adjustment to reflect the period through the closing date. Approval of the purchase by the NMPRC and FERC would be required, which process could take in excess of 15 months. On May 30, 2014, after evaluating its alternatives with respect to Valencia, PNM notified the owner of Valencia that PNM intended to purchase 50% of the plant, subject to certain conditions. PNM’s conditions include: agreeing on the purchase price, adjusted to reflect the period between October 8, 2013 and the closing; approval of the NMPRC, including specified ratemaking treatment, and FERC; approval of the Board and PNM’s board of directors; receipt of other necessary approvals and consents; and other customary closing conditions. PNM received a letter dated June 30, 2014 from the owner of Valencia suggesting that the conditions set forth in PNM’s notification raise issues under the PPA. PNM is discussing these issues with the owner of Valencia. PNM cannot predict whether or not it will reach agreement with the owner of Valencia, if required regulatory and other approvals will be received, or if the purchase will be completed.

PVNGS Leases

PNM leases interests in Units 1 and 2 of PVNGS under arrangements, which were entered into in 1985 and 1986, that are accounted for as operating leases. PNM is not the legal or tax owner of the leased assets. The leases provide PNM with an option to purchase the leased assets at appraised value at the end of the leases. PNM does not have a fixed price purchase option and does not provide residual value guarantees. The leases also provide PNM with options to renew the leases at fixed rates set forth in the leases for two years beyond the termination of the original lease terms. The option periods on certain leases may be further extended for up to an additional six years if the appraised remaining useful lives and fair value of the leased assets are greater than parameters set forth in the leases. See Note 7 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K and Note 6, for additional information regarding the leases and actions PNM has taken with respect to its renewal and purchase options. Under GAAP, these renewal options are considered to be variable interests in the trusts and result in the trusts being considered variable interest entities.

PNM is only obligated to make payments to the trusts for the scheduled semi-annual lease payments. As of September 30, 2014, these payments aggregate $20.3 million, net of amounts that will be returned to PNM through its ownership in related lessor notes and the Unit 2 beneficial trust, over the remaining original terms of the leases and $145.2 million during the renewal terms of the leases that PNM elected to renew. Under certain circumstances (for example, final shutdown of the plant, the NRC issuing specified violation orders with respect to PVNGS, or the occurrence of specified nuclear events), PNM would be required to make specified payments to the beneficial owners and take title to the leased interests. If such an event had occurred as of September 30, 2014, PNM could have been required to pay the beneficial owners up to $123.8 million, which would result in PNM taking ownership of the leased assets and termination of the leases. Other than as discussed in Note 6, PNM has no other financial obligations or commitments to the trusts or the beneficial owners. Creditors of the trusts have no recourse to PNM’s assets other than with respect to the contractual lease payments. PNM has no additional rights to the assets of the trusts other than the use of the leased assets.

PNM has evaluated the PVNGS lease arrangements, including the notices, amendments, and agreements referred to above, and concluded that it does not have the power to direct the activities that most significantly impact the economic performance of the trusts and, therefore, is not the primary beneficiary of the trusts under GAAP. PNM has recorded no assets or liabilities related to the trusts other than the accrual of lease payments between the scheduled payment dates, which were $11.8 million at September 30, 2014 and $26.0 million at December 31, 2013, that are included in other current liabilities on the Condensed Consolidated Balance Sheets.

Rio Bravo, formerly known as Delta

PNM had a 20-year PPA expiring in 2020 covering the entire output of Delta, which was a variable interest under GAAP. PNM also controlled the dispatch of the generating plant, which impacted the variable payments made under the PPA and impacted the economic performance of the entity that owned Delta. This arrangement was entered into prior to December 31, 2003 and

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

PNM was unsuccessful in obtaining the information necessary to determine if it was the primary beneficiary of the entity that owned Delta, or to consolidate that entity if it were determined that PNM was the primary beneficiary. Accordingly, PNM was unable to make those determinations and, as provided in GAAP, accounted for this PPA as an operating lease.

In December 2012, PNM entered into an agreement with the owners of Delta under which PNM would purchase the entity that owned Delta. FERC approved the purchase on February 26, 2013 and the NMPRC approved the purchase on June 26, 2013. Closing was subject to the seller remedying specified operational, NERC compliance, and environmental issues, as well as other customary closing conditions. PNM closed on the purchase on July 17, 2014 and recorded the purchase as of that date. At closing, PNM made a cash payment of $22.8 million, which reflected an adjustment for working capital compared to a targeted working capital and included amounts placed in escrow. Delta had project financing debt, which PNM retired at closing of the purchase, amounting to $14.6 million at closing. Subsequent to closing, PNM changed the name of the facility to Rio Bravo.

PNM recorded the acquisition as a business combination and reflected the requirements of the FERC Uniform System of Accounts since the purchased assets are subject to traditional rate regulation by the NMPRC and FERC. Accordingly, as of the acquisition date, PNM recorded plant in service of $58.1 million and accumulated depreciation of $23.5 million, reflecting the original cost of the facilities and the estimated economic life to PNM. PNM also recorded current assets of $3.6 million, deferred charges of $3.4 million, current liabilities of $0.3 million, and non-current regulatory liabilities of $3.4 million.

PNM made fixed and variable payments to Delta under the PPA. For the periods from July 1, 2014 through July 17, 2014 and January 1, 2014 through July 17, 2014, PNM incurred fixed capacity charges of $0.3 million and $3.5 million and variable energy charges of $0.1 million and $0.6 million under the PPA. For the three and nine months ended September 30, 2013, PNM incurred fixed capacity charges of $1.6 million and $4.8 million and variable energy charges of $0.7 million and $1.3 million. PNM recovered the variable energy charges through its FPPAC.

PNM began consolidating Rio Bravo at the date of the acquisition. Prior to the acquisition, consolidation of Delta would have been immaterial to the Condensed Consolidated Balance Sheets of PNMR and PNM. Since all of Delta’s revenues and expenses were attributable to its PPA arrangement with PNM, the primary impact of consolidating Delta to the Condensed Consolidated Statements of Earnings of PNMR and PNM would have been to reclassify Delta’s net earnings from operating expenses and reflect such amount as earnings attributable to a non-controlling interest, without any impact to net earnings attributable to PNMR and PNM.

(6) Lease Commitments

The Company leases office buildings, vehicles, and other equipment under operating leases. In addition, PNM leases interests in Units 1 and 2 of PVNGS and an interest in the EIP transmission line. Additional information concerning the Company’s lease commitments is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K.

The PVNGS leases were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. Each of the leases provides PNM with an option to purchase the leased assets at fair market value at the end of the lease. In addition, the leases provide PNM with options to renew the leases at fixed rates set forth in each of the leases for two years beyond the termination of the original lease terms. The option periods on certain leases could be further extended for up to an additional six years (the “Maximum Option Period”) if the appraised remaining useful lives and fair values of the leased assets are greater than parameters set forth in the leases. The rental payments during the renewal option periods would be 50% of the amounts during the original terms of the leases.

Following procedures set forth in the PVNGS leases, PNM notified each of the lessors under the Unit 1 leases that it would elect to renew those leases for the Maximum Option Period on the expiration date of the original leases. In addition, PNM notified the lessor under the one Unit 2 lease containing the Maximum Option Period provision that it would elect to renew that lease for the Maximum Option Period on the expiration date of the original lease. On December 11, 2013, PNM and each of the Unit 1 lessors entered into amendments to each of the Unit 1 leases setting forth the terms and conditions that will implement the extension of the term of the lease through the agreed upon Maximum Option Period expiring on January 15, 2023. Similarly, on March 18, 2014, PNM and the lessor under the one Unit 2 lease containing the Maximum Option Period provision entered into an amendment to that lease setting forth the terms and conditions that will implement the extension of the term of the lease through the agreed upon Maximum Option Period expiring on January 15, 2024.

For the three PVNGS Unit 2 leases which do not contain the Maximum Option Period provisions, PNM, following procedures set forth in the leases, notified each of the lessors that PNM would elect to purchase the assets underlying those leases on the expiration date of the original leases. On February 25, 2014, PNM and the lessor under one of the Unit 2 leases entered into a letter agreement that establishes that the purchase price, representing the fair market value, to be paid by PNM for the assets underlying that lease will be $78.1 million on January 15, 2016. This lease is for 31.25 MW of the entitlement from PVNGS Unit 2. The lease remains in existence and PNM will record the purchase at the termination of the lease on January 15, 2016.

On May 1, 2014, PNM and the trusts that are the lessors under the other two PVNGS Unit 2 leases signed a letter agreement that establishes a binding agreement regarding the purchase price, representing the fair market value, to be paid by PNM for the assets underlying those leases of $85.2 million on January 15, 2016. These leases are for 32.76 MW of the entitlement from PVNGS Unit 2. PNMR Development, a wholly-owned subsidiary of PNMR, is also a party to the letter agreement, which constitutes a letter of intent providing PNMR Development with the option, subject to approval by the Board and negotiation of definitive documents, to acquire the entities that own the leased assets at any time from June 1, 2014 through January 14, 2016. The early purchase price would be equal to the January 15, 2016 purchase price discounted to the actual purchase date. The early purchase amount was $79.9 million on June 1, 2014 and escalates to $85.2 million on January 14, 2016. The consideration paid to the lessor on an early purchase would include an additional amount equal to the discounted value of the lessors' equity return portion of the future lease payments. Such additional consideration was $5.8 million on June 1, 2014 and declines to $1.2 million on January 14, 2016. PNMR and PNM are unable to predict whether or not the early purchase will occur.

(7) Fair Value of Derivative and Other Financial Instruments

Energy Related Derivative Contracts

Overview

The primary objective for the use of derivative instruments, including energy contracts, options, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. The Company's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its retail and firm-requirements wholesale customers. PNM is exposed to market risk for its share of PVNGS Unit 3 and the needs of its firm-requirements wholesale customers not covered under a FPPAC. PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases. Additional information concerning the Company's energy related derivative contracts, including how commodity risk is managed, is contained in Note 8 of the Notes to Consolidated

Financial Statements in the 2013 Annual Reports on Form 10-K.

Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. PNM routinely enters into various derivative instruments such as forward contracts, option agreements, and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the effect of market fluctuations in wholesale portfolios. PNM monitors the market risk of its commodity contracts using VaR calculations to maintain total exposure within management-prescribed limits in accordance with approved risk and credit policies.

Accounting for Derivatives

Under derivative accounting and related rules for energy contracts, the Company accounts for its various derivative instruments for the purchase and sale of energy based on the Company’s intent. Energy contracts that meet the definition of a

Table of Contents

derivative under GAAP and do not qualify, or are not designated, for the normal purchases and normal sales exception are recorded on the balance sheet at fair value at each period end. The changes in fair value are recognized in earnings unless specific hedge accounting criteria are met and elected. Normal purchases and normal sales are not marked to market and are reflected in results of operations when the underlying transactions settle.

During the nine months ended September 30, 2014 and the year ended December 31, 2013, the Company was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. The Company has no trading transactions.

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

Commodity Derivatives

Commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges, are summarized as follows:

	Economic Hedges	
	September 30, 2014	December 31, 2013
PNMR and PNM	(In thousands)	
Current assets	$4,148	$4,064
Deferred charges	1,084	3,002
	5,232	7,066
Current liabilities	(1,370)	(2,699)
Long-term liabilities	(688)	(1,094)
	(2,058)	(3,793)
Net	$3,174	$3,273

Included in the above table are $3.0 million of current assets and $0.8 million of deferred charges at September 30, 2014 and $3.0 million of current assets and $3.0 million of deferred charges at December 31, 2013 related to contracts, which were entered into in July 2013, for the sale of energy from PVNGS Unit 3 for 2014 and 2015 at market price plus a premium. Certain of PNM's commodity derivative instruments in the above table are subject to master netting agreements whereby assets and liabilities could be offset in the settlement process. The Company does not offset fair value, cash collateral, and accrued payable or receivable amounts recognized for derivative instruments under master netting arrangements and the above table reflects the gross amounts of assets and liabilities. The amounts that could be offset under master netting agreements were immaterial at September 30, 2014 and December 31, 2013.

At September 30, 2014 and December 31, 2013, PNMR and PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at September 30, 2014 and December 31, 2013, amounts posted as cash collateral under margin

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

arrangements were $2.4 million and $2.8 million for both PNMR and PNM. PNMR and PNM had obligations to return cash collateral of $0.2 million at September 30, 2014 and $0.2 million at December 31, 2013. Cash collateral amounts are included in other current assets and other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has a NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes $0.2 million of current assets and $0.1 million of current liabilities at September 30, 2014 and $0.4 million of current assets and $0.1 million of current liabilities at December 31, 2013 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

The following table presents the effect of mark-to-market commodity derivative instruments on earnings, excluding income tax effects. Commodity derivatives had no impact on OCI for the periods presented.

	Economic Hedges			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
PNMR and PNM	(In thousands)			
Electric operating revenues	$2,352	$7,077	$(2,124)	$5,743
Cost of energy	(60)	(72)	186	421
Total gain (loss)	$2,292	$7,005	$(1,938)	$6,164

Commodity contract volume positions are presented in MMBTU for gas related contracts and in MWh for power related contracts. The table below presents PNMR's and PNM's net buy (sell) volume positions:

	Economic Hedges	
	MMBTU	MWh
September 30, 2014		
PNMR and PNM	656,000	(2,511,371)
December 31, 2013		
PNMR and PNM	905,000	(3,343,783)

In connection with managing its commodity risks, the Company enters into master agreements with certain counterparties. If the Company is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral from the Company if the Company's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that the Company will perform; and others have no provision for collateral.

The table below presents information about the Company's contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. Contractual liability represents commodity derivative contracts recorded at fair value on the balance sheet, determined on an individual contract basis without offsetting amounts for individual contracts that are in an asset position and could be offset under master netting agreements with the same counterparty. The table only reflects cash collateral that has been posted under the existing contracts and does not reflect letters of credit under the Company’s revolving credit facilities that have been issued as collateral. Net exposure is the net contractual liability for all contracts, including those designated as normal purchases and normal sales, offset by existing cash collateral and by any offsets available under master netting agreements, including both asset and liability positions.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Contingent Feature – Credit Rating Downgrade	Contractual Liability	Existing Cash Collateral	Net Exposure
	(In thousands)		
September 30, 2014			
PNMR and PNM	$1,532	$—	$1,403
December 31, 2013			
PNMR and PNM	$2,398	$—	$2,152

Sale of Power from PVNGS Unit 3

Because PNM's 134 MW share of Unit 3 at PVNGS is not included in retail rates, that unit's power is being sold in the wholesale market. Since January 1, 2011, PNM has been selling power from its interest in PVNGS Unit 3 at market prices. As of September 30, 2014, PNM had contracted to sell 100% of PVNGS Unit 3 output through 2015, at market price plus a premium. PNM has established fixed rates, which average approximately $37 per MWh, for substantially all of these sales through the end of 2014 through hedging arrangements that are accounted for as economic hedges. PNM is also partially hedged for 2015.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Available-for-sale securities are carried at fair value. Available-for-sale securities for PNMR and PNM consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and a trust for PNM's share of post-term reclamation costs related to the coal mines that serve SJGS (Note 11). The fair value of and gross unrealized gains on investments in available-for-sale securities are presented in the following table. At September 30, 2014 and December 31, 2013, the fair value of available-for-sale securities included $231.4 million and $222.5 million for the NDT and $4.5 million and $4.4 million for the mine reclamation trust.

	September 30, 2014		December 31, 2013	
	Unrealized Gains	Fair Value	Unrealized Gains	Fair Value
PNMR and PNM		(In thousands)		
Cash and cash equivalents	$—	$3,338	$—	$3,356
Equity securities:				
Domestic value	15,360	41,917	14,523	39,460
Domestic growth	18,452	74,647	25,656	76,292
International and other	1,339	16,957	1,040	16,633
Fixed income securities:				
U.S. Government	520	19,616	158	21,941
Municipals	4,970	67,595	1,018	58,568
Corporate and other	631	11,824	207	10,605
	$41,272	$235,894	$42,602	$226,855

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The proceeds and gross realized gains and losses on the disposition of available-for-sale securities for PNMR and PNM are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold and reflect impairments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(In thousands)			
Proceeds from sales	$ 29,103	$ 103,230	$ 82,222	$ 179,336
Gross realized gains	$ 3,134	$ 2,719	$ 11,616	$ 8,962
Gross realized (losses)	$ (2,172)	$ (531)	$ (3,382)	$ (2,027)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. Held-to-maturity securities consist of the investment in PVNGS lessor notes and certain items within other investments.

The Company has no available-for-sale or held-to-maturity securities for which carrying value exceeds fair value. There are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings.

At September 30, 2014, the available-for-sale and held-to-maturity debt securities had the following final maturities:

	Fair Value		
	Available-for-Sale	Held-to-Maturity	
	PNMR and PNM	PNMR	PNM
	(In thousands)		
Within 1 year	$ 3,601	$ 7,994	$ 7,994
After 1 year through 5 years	20,886	25,456	24,718
After 5 years through 10 years	11,561	—	—
After 10 years through 15 years	9,549	—	—
After 15 years through 20 years	11,313	—	—
After 20 years	42,125	—	—
	$ 99,035	$ 33,450	$ 32,712

Fair Value Disclosures

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

For available-for-sale securities, Level 2 fair values are provided by the trustee utilizing a pricing service. The pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company’s long-term debt, Level 2 fair values are provided by an external pricing service.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. For investments categorized as Level 3, primarily the PVNGS lessor notes and certain items in other investments, fair values were determined by discounted cash flow models that take into consideration discount rates that are observable for similar types of assets and liabilities. Management of the Company independently verifies the information provided by pricing services.

Items recorded at fair value on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy. There were no Level 3 fair value measurements at September 30, 2014 and December 31, 2013 for items recorded at fair value.

		GAAP Fair Value Hierarchy	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
September 30, 2014	(In thousands)		
PNMR and PNM			
Available-for-sale securities			
Cash and cash equivalents	$3,338	$3,338	$—
Equity securities:			
Domestic value	41,917	41,917	—
Domestic growth	74,647	74,647	—
International and other	16,957	16,957	—
Fixed income securities:			
U.S. Government	19,616	17,865	1,751
Municipals	67,595	—	67,595
Corporate and other	11,824	2,544	9,280
	$235,894	$157,268	$78,626
Commodity derivative assets	$5,232	$—	$5,232
Commodity derivative liabilities	(2,058)	—	(2,058)
Net	$3,174	$—	$3,174
December 31, 2013			
PNMR and PNM			
Available-for-sale securities			
Cash and cash equivalents	$3,356	$3,356	$—
Equity securities:			
Domestic value	39,460	39,460	—
Domestic growth	76,292	76,292	—
International and other	16,633	16,633	—
Fixed income securities:			
U.S. Government	21,941	20,194	1,747

Municipals	58,568	—	58,568
Corporate and other	10,605	2,245	8,360
	$226,855	$158,180	$68,675
Commodity derivative assets	$7,066	$—	$7,066
Commodity derivative liabilities	(3,793)	—	(3,793)
Net	$3,273	$—	$3,273

42

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The carrying amounts and fair values of investments in PVNGS lessor notes, other investments, and long-term debt, which are not recorded at fair value on the Condensed Consolidated Balance Sheets are presented below:

			GAAP Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
September 30, 2014	(In thousands)				
PNMR					
Long-term debt	$1,875,172	$2,072,872	$—	$2,072,872	$—
Investment in PVNGS lessor notes	$31,469	$32,712	$—	$—	$32,712
Other investments	$1,667	$2,406	$546	$—	$1,860
PNM					
Long-term debt	$1,390,647	$1,525,625	$—	$1,525,625	$—
Investment in PVNGS lessor notes	$31,469	$32,712	$—	$—	$32,712
Other investments	$300	$300	$300	$—	$—
TNMP					
Long-term debt	$365,759	$422,583	$—	$422,583	$—
Other investments	$245	$245	$245	$—	$—
December 31, 2013					
PNMR					
Long-term debt	$1,745,420	$1,905,230	$—	$1,905,230	$—
Investment in PVNGS lessor notes	$52,958	$57,279	$—	$—	$57,279
Other investments	$1,835	$3,196	$690	$—	$2,506
PNM					
Long-term debt	$1,290,618	$1,382,938	$—	$1,382,938	$—
Investment in PVNGS lessor notes	$52,958	$57,279	$—	$—	$57,279
Other investments	$445	$445	$445	$—	$—
TNMP					
Long-term debt	$336,036	$390,814	$—	$390,814	$—
Other investments	$245	$245	$245	$—	$—

The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the nine months ended September 30, 2014 and the year ended December 31, 2013.

(8) Stock-Based Compensation

PNMR has various stock-based compensation programs, including stock options, restricted stock, and performance shares granted under the Performance Equity Plan ("PEP"). In 2011, the Company changed its approach to awarding stock-based compensation. As a result, no stock options have been granted since 2010 and awards of restricted stock have increased. Certain restricted stock awards are subject to achieving performance or market targets and some of these awards also have time vesting requirements. Other awards of restricted stock are only subject to time vesting requirements. Additional information concerning stock-based compensation under the PEP is contained in Note 13 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K.

Restricted stock under the PEP refers to awards of stock subject to vesting, performance, or market conditions rather than to shares with contractual post-vesting restrictions. Generally, the awards vest ratably over three years from the grant date of the award. However, certain awards with performance or market conditions vest upon satisfaction of those conditions. In addition, plan provisions provide that upon retirement, participants become 100% vested in certain stock awards.

The stock-based compensation expense related to stock options and restricted stock awards without performance or market conditions is amortized to compensation expense over the requisite vesting period, which is generally three years. However,

Table of Contents

compensation expense for awards to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized. Compensation expense for performance-based shares is recognized ratably over the performance period and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At September 30, 2014 and December 31, 2013, PNMR had unrecognized expense related to stock awards of $7.9 million and $4.6 million.

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

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

	Nine Months Ended September 30,	
Restricted Shares and Performance Based Shares	2014	2013
Expected quarterly dividends per share	$0.185	$0.165
Risk-free interest rate	0.62 %	0.34 %
Market-Based Shares		
Dividend yield	2.82 %	2.86 %
Expected volatility	25.11 %	25.11 %
Risk-free interest rate	0.64 %	0.36 %

The following table summarizes activity in stock options and restricted stock awards, including performance-based and market-based shares, for the nine months ended September 30, 2014:

	Stock Option Shares	Weighted-Average Exercise Price	Restricted Stock	Weighted-Average Grant Date Fair Value
Outstanding at beginning of period	1,343,666	$20.63	315,305	$17.87
Granted	—	$—	242,164	$21.27
Exercised	(287,075)	$19.00	(295,423)	$16.68
Forfeited	(38,534)	$27.59	(515)	$24.74
Expired	(17,151)	$26.43	—	$—
Outstanding at end of period	1,000,906	$20.73	261,531	$22.31

Included as restricted stock granted and exercised in the table above are 112,864 shares that were based upon achieving performance or market targets for 2013. The Board approved these shares in February 2014 (based upon achieving market targets, weighted at 60%, at maximum levels, and performance targets, weighted at 40%, at below threshold levels for the 2011 through 2013 performance period).

PNMR's stock-based compensation program provides for performance or market targets through 2016. Excluded from the above table are maximums of 198,369, 179,811, and 175,735 restricted stock shares for periods ending in 2014, 2015, and 2016 that would be awarded if all performance or market criteria are achieved and all executives remain eligible.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In March 2012, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive 135,000 shares of PNMR's common stock if the Company meets specific market targets at the end of 2016 and she remains an employee of the Company. If the Company achieves specific market targets at the end of 2014 and, with certain exceptions, she remains an employee of the Company, she would receive 35,000 of the total shares at that time. The retention award was made under the PEP and was approved by the Board on February 28, 2012. The above table does not include any restricted stock shares under the retention award agreement.

At September 30, 2014, the aggregate intrinsic value of stock options outstanding, all of which are exercisable, was $6.2 million with a weighted-average remaining contract life of 2.98 years. At September 30, 2014, the exercise price of 435,472 outstanding stock options is greater than the closing price of PNMR common stock on that date; therefore, those options have no intrinsic value.

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

	Nine Months Ended September 30,	
Stock Options	2014	2013
Weighted-average grant date fair value of options granted	$—	$—
Total fair value of options that vested (in thousands)	$—	$625
Total intrinsic value of options exercised (in thousands)	$2,199	$2,466
Restricted Stock		
Weighted-average grant date fair value	$21.27	$20.03
Total fair value of restricted shares that vested (in thousands)	$4,929	$4,395

(9) Financing

Additional information concerning financing activities, including a TNMP cash-flow hedge, which terminated on June 27, 2014, that established a fixed interest rate on a variable rate loan, is contained in Note 6 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K.

Financing Activities

On January 8, 2014, PNM entered into a new $50.0 million unsecured revolving credit facility (the "PNM New Mexico Credit Facility") by and among PNM, the lenders identified therein, U.S. Bank National Association, as Administrative Agent, and BOKF, NA dba Bank of Albuquerque, as Syndication Agent. The nine participating lenders are all banks that have a significant presence in New Mexico and PNM's service territory or are headquartered in New Mexico. The PNM New Mexico Credit Facility expires on January 8, 2018 and contains covenants and conditions similar to those in the PNM Revolving Credit Facility.

On March 5, 2014, PNM entered into a new $175.0 million Term Loan Agreement (the “PNM 2014 Term Loan Agreement”) among PNM and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Lender and Administrative Agent. On March 5, 2014, PNM used a portion of the funds borrowed under the PNM 2014 Term Loan Agreement to repay all amounts outstanding under PNM’s existing $75.0 million PNM Term Loan Agreement. PNM also used the funds to repay other short-term amounts outstanding. The PNM Term Loan Agreement would otherwise have terminated on October 21, 2014. There were no prepayment penalties paid in connection with the termination of the PNM Term Loan Agreement. The PNM 2014 Term Loan Agreement bears interest at a variable rate, which was 1.10% at September 30, 2014, must be repaid on or before September 4, 2015, and is reflected in current maturities of long-term debt on the Condensed Consolidated Balance Sheets. The PNM 2014 Term Loan Agreement includes customary covenants, including requirements to not exceed a maximum consolidated debt-to-capital ratio and customary events of default. The PNM 2014 Term Loan Agreement has a cross default provision and a change of control provision.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On December 9, 2013, TNMP entered into an agreement (the "TNMP 2013 Bond Purchase Agreement"), which provided that TNMP would issue $80.0 million aggregate principal amount of 4.03% first mortgage bonds, due 2024 (the "Series 2014A Bonds") on or about June 27, 2014, subject to satisfaction of certain conditions. TNMP issued the Series 2014A Bonds on June 27, 2014. TNMP used $50.0 million of the proceeds to repay the full outstanding amount of the TNMP 2011 Term Loan Agreement and used the remaining $30.0 million of proceeds to reduce short-term debt. In accordance with GAAP, borrowings under the TNMP 2011 Term Loan Agreement were reflected as being long-term at December 31, 2013 since the TNMP 2013 Bond Purchase Agreement demonstrated TNMP's ability and intent to re-finance the TNMP 2011 Term Loan Agreement on a long-term basis.

Short-term Debt

PNMR has a revolving credit financing capacity of $300.0 million under the PNMR Revolving Credit Facility. PNM has a revolving credit financing capacity of $400.0 million under the PNM Revolving Credit Facility. Both of these facilities currently expire on October 31, 2018. TNMP has a revolving credit financing capacity of $75.0 million under the TNMP Revolving Credit Facility that is secured by $75.0 million aggregate principal amount of TNMP first mortgage bonds and matures on September 18, 2018. PNM also has the $50.0 million PNM New Mexico Credit Facility that expires on January 8, 2018. At September 30, 2014, there were no borrowings under any of these facilities. At September 30, 2014, PNM had $6.5 million and TNMP had $19.1 million in borrowings from PNMR under their intercompany loan agreements. At September 30, 2014, the weighted average interest rate was 1.01% for borrowings outstanding under the twelve-month PNMR Term Loan Agreement, which matures in December 2014. Short-term debt outstanding consisted of:

Short-term Debt	September 30, 2014	December 31, 2013
	(In thousands)	
PNM:		
Revolving credit facility	$—	$49,200
PNM New Mexico Credit Facility	—	—
TNMP – Revolving credit facility	—	—
PNMR:		
Revolving credit facility	—	—
PNMR Term Loan Agreement	100,000	100,000
	$100,000	$149,200

At October 24, 2014, PNMR, PNM, and TNMP had $292.3 million, $396.8 million, and $74.9 million of availability under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit, and PNM had $50.0 million of availability under the PNM New Mexico Credit Facility. Total availability at October 24, 2014, on a consolidated basis, was $814.0 million for PNMR. As of October 24, 2014, PNM had $7.4 million and TNMP had $25.7 million in borrowings from PNMR under their intercompany loan agreements. At October 24, 2014, PNMR, PNM and TNMP had consolidated invested cash of $23.1 million, none, and none.

(10) Pension and Other Postretirement Benefit Plans

PNMR and its subsidiaries maintain qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs (collectively, the “PNM Plans” and “TNMP Plans”). PNMR maintains the legal obligation for the benefits owed to participants under these plans.

Additional information concerning pension and OPEB plans is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K. Annual net periodic benefit cost (income) for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year. The Society of Actuaries recently issued revised mortality tables that include changes in assumptions to reflect increased life expectancy and the corresponding decrease in mortality rates. This change will have impacts on the Company’s pension plans, as the mortality assumptions are used as the basis for stating the pension obligation in financial statements, determining funding requirements,

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

and making minimum lump-sum calculations. The Company, with the assistance of its consulting actuaries, is studying the impact of the mortality table changes. This study is on-going and subject to change. Preliminary estimates indicate that the Company's pension liabilities reflecting the new mortality tables and other current assumptions could increase by approximately 7% over those previously reported. Although pension expense and funding requirements also will likely increase, these changes are not expected to be material.

PNM Plans

The following tables present the components of the PNM Plans' net periodic benefit cost:

	Three Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2014	2013	2014	2013	2014	2013
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$—	$—	$45	$65	$—	$—
Interest cost	7,541	7,035	1,159	1,029	205	180
Expected return on plan assets	(9,511)	(10,482)	(1,410)	(1,261)	—	—
Amortization of net (gain) loss	3,255	3,710	556	1,061	52	58
Amortization of prior service cost	(241)	19	(336)	(336)	—	—
Net periodic benefit cost	$1,044	$282	$14	$558	$257	$238

	Nine Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2014	2013	2014	2013	2014	2013
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$—	$—	$136	$195	$—	$—
Interest cost	22,622	21,106	3,473	3,085	616	540
Expected return on plan assets	(28,533)	(31,447)	(4,229)	(3,782)	—	—
Amortization of net (gain) loss	9,765	11,130	1,669	3,182	157	174
Amortization of prior service cost	(724)	57	(1,008)	(1,008)	—	—
Net periodic benefit cost	$3,130	$846	$41	$1,672	$773	$714

PNM does not anticipate making any contributions to its pension trust in 2014 due to the current funded status of the pension plan. PNM made contributions to its pension plan trust of zero and $60.0 million in the three and nine months ended September 30, 2013. Based on current law, including recent amendments to funding requirements, and estimates of portfolio performance, contributions to the PNM pension plan trust for 2015-2018 are estimated to total $50.0 million. These anticipated contributions were developed using current funding assumptions, with discount rates of 4.5% to 5.3%. Actual amounts required to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM made contributions to the OPEB trust of $0.8 million and $2.4 million in the three and nine months ended September 30, 2014 and $0.8 million and $2.4 million in the three and nine months ended September 30, 2013. PNM expects to make contributions to the OPEB trust totaling $3.3 million in 2014 and $14.0 million for 2015-2018. Disbursements under the executive retirement program, which are funded by PNM and considered to be contributions to the plan, were $0.4 million and $1.2 million in the three and nine months ended September 30, 2014 and $0.4 million and $1.1 million in the three and nine months ended September 30, 2013 and are expected to total $1.6 million during 2014.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

TNMP Plans

The following tables present the components of the TNMP Plans' net periodic benefit cost (income):

	Three Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2014	2013	2014	2013	2014	2013
	(In thousands)					
Components of Net Periodic Benefit Cost (Income)						
Service cost	$—	$—	$59	$75	$—	$—
Interest cost	798	772	155	141	10	9
Expected return on plan assets	(1,132)	(1,212)	(133)	(126)	—	—
Amortization of net (gain) loss	166	262	(31)	—	—	—
Amortization of prior service cost	—	—	8	14	—	—
Net Periodic Benefit Cost (Income)	$(168)	$(178)	$58	$104	$10	$9

	Nine Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2014	2013	2014	2013	2014	2013
	(In thousands)					
Components of Net Periodic Benefit Cost (Income)						
Service cost	$—	$—	$178	$225	$—	$—
Interest cost	2,395	2,315	464	424	29	27
Expected return on plan assets	(3,395)	(3,637)	(400)	(377)	—	—
Amortization of net (gain) loss	499	787	(92)	—	—	—
Amortization of prior service cost	—	—	24	43	—	—
Net Periodic Benefit Cost (Income)	$(501)	$(535)	$174	$315	$29	$27

TNMP does not anticipate making additional contributions to its pension trust in 2014 due to the current funded status of the pension plan. TNMP made contributions to its pension plan trust of zero and $1.0 million in the three and nine months ended September 30, 2013. Based on current law, including recent amendments to funding requirements, and estimates of portfolio performance, TNMP estimates there would be no contributions to its pension plan trust for 2015-2018. The anticipated contributions were developed using current funding assumptions, including discount rates of 4.5% and 5.3%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP made contributions to the OPEB trust of zero and $0.3 million in the three and nine months ended September 30, 2014 and zero and $0.3 million in the three and nine months ended September 30, 2013. TNMP expects to make contributions to the OPEB trust totaling $0.3 million in 2014 and $1.4 million for 2015-2018. Disbursements under the executive retirement program, which are funded by TNMP and considered to be contributions to the plan, were less than $0.1

million in the three and nine months ended September 30, 2014 and 2013 and are expected to total $0.1 million during 2014.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(11) Commitments and Contingencies

Overview

There are various claims and lawsuits pending against the Company. The Company also is subject to federal, state, and local environmental laws and regulations and periodically participates in the investigation and remediation of various sites. In addition, the Company occasionally enters into financial commitments in connection with its business operations. Also, the Company is involved in various legal and regulatory (Note 12) proceedings in the normal course of its business. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

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

Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2013 Annual Reports on Form 10-K.

Commitments and Contingencies Related to the Environment

Nuclear Spent Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE that require the DOE to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE announced that it would not be able to open the repository by 1998 and sought to excuse its performance of these requirements. In November 1997, the D.C. Circuit issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE’s delay, a number of utilities, including APS (on behalf of itself and the other PVNGS owners, including PNM), filed damages actions against the DOE in the Court of Federal Claims. In 2010, the court ordered an award to the PVNGS owners for their damages claim for costs incurred through December 2006. APS filed a subsequent lawsuit, on behalf of itself and the other PVNGS owners, against DOE in the Court of Federal Claims on December 19, 2012. The lawsuit alleges that from January 1, 2007 through June 30, 2011, additional damages were incurred due to DOE’s continuing failure to remove spent nuclear fuel and high level waste from PVNGS. APS and DOE entered into a settlement agreement, and on October 7, 2014, APS received a settlement payment of $57.4 million for costs paid through June 30, 2011, for DOE’s failure to accept spent nuclear fuel generated at PVNGS. PNM’s share of the settlement is $5.9 million, which was recorded in other deferred credits. The settlement agreement also establishes a process for the payment of subsequent claims through December 30, 2016. Under the settlement agreement, APS must submit claims annually for payment of allowable costs. The first claim is due no later than October 31, 2014, for costs paid between July 1, 2011, and June 30, 2014. The settlement agreement terminates upon payment of costs paid through December 31, 2016, unless extended by mutual written agreement.

PNM estimates that it will incur approximately $58.0 million (in 2013 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the fuel is consumed. At September 30, 2014 and December 31, 2013, PNM had a liability for interim storage costs of $12.2 million and $11.9 million included in other deferred credits.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

On June 8, 2012, the D.C. Circuit issued its decision on a challenge by several states and environmental groups of the NRC's rulemaking regarding temporary storage and permanent disposal of high-level nuclear waste and spent nuclear fuel. The petitioners had challenged the NRC's 2010 update to the agency's Waste Confidence Decision. The D.C. Circuit found that the agency's 2010 Waste Confidence Decision update constituted a major federal action, which requires either an EIS or a finding of no significant impact from the agency's actions. The D.C. Circuit found that the NRC's evaluation of the environmental risks from spent nuclear fuel was deficient, and therefore remanded the 2010 Waste Confidence Decision update for further action. In September 2012, the NRC issued a directive to its staff to proceed with development of a generic EIS to support an updated Waste Confidence Decision within 24 months. In September 2013, the NRC issued its draft EIS to support an updated Waste Confidence Decision. In late 2013, the NRC held a series of nationwide public meetings to receive stakeholder input on the draft EIS. In September 2014, the NRC issued its final rule codifying the results of analyses from a generic EIS regarding the continued storage of spent nuclear fuel. The rule became effective on October 20, 2014. Untimely resolution by the NRC of the remand from the D.C. Circuit could have an adverse impact on certain NRC licensing actions. Currently, PVNGS does not have any licensing actions pending with the NRC. The petitioners also sought a writ requiring the NRC to comply with the law and resume processing DOE's pending license application for a nuclear waste site at Yucca Mountain in Nevada. In August 2013, the D.C. Circuit ordered the NRC to resume reviewing the license application. PNM is unable to predict the impact of these decisions.

In 2011, the National Association of Regulatory Utility Commissioners and the Nuclear Energy Institute challenged DOE's 2010 determination of the adequacy of the one tenth of a cent per KWh fee (the "one-mill fee") paid by the nation's commercial nuclear power plant owners pursuant to their individual contracts with the DOE. In June 2012, the D.C. Circuit held that DOE failed to conduct a sufficient fee analysis in making the 2010 determination. The D.C. Circuit remanded the 2010 determination to the DOE with instructions to conduct a new fee adequacy determination within six months. In February 2013, upon completion of DOE's revised one-mill fee adequacy determination, the court reopened the proceedings. On November 19, 2013, the D.C. Circuit ordered the DOE to notify Congress of the intent to suspend collecting annual fees for nuclear waste disposal from nuclear power plant operators. On January 3, 2014, the DOE notified Congress of the intention to suspend collection of the one-mill fee, subject to Congress' disapproval. On May 16, 2014, the DOE adjusted the fee to zero. In 2013, the one-mill fee for PNM's share of the output from all three units at PVNGS amounted to $3.0 million. The fee applicable to PVNGS Units 1 and 2 is recovered by PNM in its retail rates. PNM anticipates challenges to this action and is unable to predict its ultimate outcome.

The Clean Air Act

Regional Haze

In 1999, EPA developed a regional haze program and regional haze rules under the CAA. The rule directs each of the 50 states to address regional haze. Pursuant to the CAA, states have the primary role to regulate visibility requirements by promulgating SIPs. States are required to establish goals for improving visibility in national parks and wilderness areas (also known as Class I areas) and to develop long-term strategies for reducing emissions of air pollutants that cause visibility impairment in their own states and for preventing degradation in other states. States must establish a series of interim goals to ensure continued progress. The first planning period specifies setting reasonable progress goals for improving visibility in Class I areas by the year 2018. In July 2005, EPA promulgated its final regional haze rule guidelines for states to conduct BART determinations for certain covered facilities, including utility boilers, built between 1962 and 1977 that have the potential to emit more than 250 tons per year of visibility impairing pollution. If it is demonstrated that the emissions from these sources cause or contribute to visibility impairment in any Class I area, then BART must be installed by 2018.

SJGS

BART Determination Process – SJGS is a source that is subject to the statutory obligations of the CAA to reduce visibility impacts. The State of New Mexico submitted its SIP on the regional haze and interstate transport elements of the visibility rules for review by EPA in June 2011. The SIP found that BART to reduce NOx emissions from SJGS is selective non-catalytic reduction technology (“SNCR”). Nevertheless, in August 2011, EPA published its FIP, stating that it was required to do so by virtue of a consent decree it had entered into with an environmental group in litigation concerning the interstate transport requirements of the CAA. The FIP included a regional haze BART determination for SJGS that required installation of selective catalytic reduction

Table of Contents

technology (“SCR”) on all four units by September 21, 2016. In November 2012, EPA approved all components of the SIP, except for the NOx BART determination for SJGS, which continued to be subject to the FIP.

PNM, the Governor of New Mexico, and NMED petitioned the Tenth Circuit to review EPA’s decision and requested EPA to reconsider its decision. The Tenth Circuit denied petitions to stay the effective date of the rule. These parties also formally asked EPA to stay the effective date of the rule. Several environmental groups intervened in support of EPA. The parties file periodic status reports with the Tenth Circuit, but proceedings are being held in abeyance as agreed to by the parties.

During 2012 and early 2013, PNM, as the operating agent for SJGS, engaged in discussions with NMED and EPA regarding an alternative to the FIP and SIP. Following approval by a majority of the other SJGS owners, PNM, NMED, and EPA agreed on February 15, 2013 to pursue a revised plan that could provide a new BART path to comply with federal visibility rules at SJGS. The terms of the non-binding agreement would result in the retirement of SJGS Units 2 and 3 by the end of 2017 and the installation of SNCRs on Units 1 and 4 by the later of January 31, 2016 or 15 months after EPA approval of a revised SIP.
Contemporaneously with the signing of the non-binding agreement, EPA indicated in writing that if the terms agreed to do not move forward due to circumstances outside of the control of PNM and NMED, EPA will work with the State of New Mexico and PNM to create a reasonable FIP compliance schedule to reflect the time used to develop the revised SIP.
In accordance with the revised plan, PNM submitted a new BART analysis to NMED on April 1, 2013, reflecting the terms of the non-binding agreement. NMED developed a RSIP and submitted it to the EIB for approval in May 2013. The EIB approved the RSIP in September 2013 and it was submitted to EPA for approval on October 18, 2013. EPA published its proposed approval of the RSIP in the Federal Register on May 12, 2014. Final rules approving the RSIP and withdrawing the FIP were published in the Federal Register on October 9, 2014 and will become effective on November 10, 2014. The deadline for filing petitions for review is December 8, 2014.

Implementation Activities – Due to the compliance deadline set forth in the FIP, PNM took steps to commence installation of SCRs at SJGS. In October 2012, PNM entered into a contract with an engineering, procurement, and construction contractor to install SCRs on behalf of the SJGS owners. The construction contract, which includes termination provisions in the event that SCRs are determined in the future to be unnecessary, has been suspended through December 31, 2014. At the time PNM entered into the contract, PNM estimated the total cost to install SCRs on all four units of SJGS to be between approximately $824 million and $910 million. The costs for the project to install SCRs would encompass installation of technology to comply with the NAAQS requirements described below.

Also, PNM had previously indicated it estimated the cost of SNCRs on all four units of SJGS to be between approximately $85 million and $90 million based on a conceptual design study. Along with the SNCR installation, additional equipment would be required to be installed to meet the NAAQS requirements described below, the cost of which had been estimated to total between approximately $105 million and $110 million for all four units of SJGS.

The above estimates include gross receipts taxes, AFUDC, and other PNM costs. Based upon its current SJGS ownership interest, PNM’s share under either SCRs or SNCRs as described above would be about 46.3%.

Following the February 2013 development of the alternative BART compliance plan, PNM began taking steps to prepare for the potential installation of SNCRs on Units 1 and 4 due to the long lead times on certain equipment purchases. In May 2013, PNM entered into an SNCR equipment and related services contract with an SNCR technology provider. In July 2014, PNM entered into a contract for management of the SNCR construction and in September 2014 entered into a construction and procurement contract.

NMPRC Filing – On December 20, 2013, PNM made a filing with the NMPRC requesting certain approvals necessary to effectuate the RSIP. In this filing, PNM requested:

- Permission to retire SJGS Units 2 and 3 at December 31, 2017 and to recover over 20 years their net book value at that date along with a regulated return on those costs

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

- A CCN to include PNM's ownership of PVNGS Unit 3, amounting to 134 MW, as a resource to serve New Mexico retail customers at a proposed value of $2,500 per KW, effective January 1, 2018
- An order allowing cost recovery for PNM's share of the installation of SNCR equipment and the additional equipment to comply with NAAQS requirements on SJGS Units 1 and 4, not to exceed a total cost of $82 million
- A CCN for an exchange of capacity out of SJGS Unit 3 and into SJGS Unit 4, resulting in ownership of an additional 78 MW in Unit 4 for PNM; the net impact of this exchange and the retirement of Units 2 and 3 would be a reduction of 340 MW in PNM's ownership of SJGS

The December 20, 2013 NMPRC filing identified a new 177 MW natural gas fired generation source and 40 MW of new utility-scale solar PV generation to replace a portion of PNM's share of the reduction in generating capacity due to the retirement of SJGS Units 2 and 3. PNM has included the 40 MW of solar PV facilities in its 2015 Renewable Energy Plan. A proposed stipulated settlement, which is pending approval before the NMPRC, would provide that the additional solar capacity be recovered in base rates rather than through the renewable energy rider. See Note 12. Specific approvals to acquire the gas facility and the treatment of associated costs will be made in future filings. PNM estimates the cost of these identified resources would be approximately $268.3 million. These amounts are included in PNM's current construction expenditure forecast although approval of the plan remains subject to numerous conditions. Although operating costs would be reduced due to the retirement of SJGS Units 2 and 3, the operating costs for SJGS Units 1 and 4 would increase with the installation of SNCRs. See Note 12 for additional information concerning PNM's filing for NMPRC approvals regarding these matters.

As discussed under SJGS Ownership Restructuring Matters below, the owners of SJGS are attempting to negotiate agreements concerning numerous matters, the resolution of which is necessary in order to facilitate the shutdown of SJGS Units 2 and 3 and comply with the RSIP. PNM's requests in the December 20, 2013 NMPRC filing were based on the status of the negotiations among the SJGS owners at that time. In July 2014, PNM filed a notice with the NMPRC regarding the status of the negotiations among the SJGS participants, including that the SJGS participants reached non-binding agreements in principle on the ownership restructuring of SJGS and that PNM was proposing to acquire 132 MW of SJGS Unit 4 effective December 31, 2017, rather than exchanging 78 MW of capacity in SJGS Unit 3 for 78 MW in SJGS Unit 4 as contemplated in the December 20, 2013 NMPRC filing. Those agreements are memorialized in the resolution and term sheet described below.
On October 1, 2014, PNM, the staff of the NMPRC, the NMAG, New Mexico Independent Power Producers, Western Resource Advocates, and Renewable Energy Industries Association of New Mexico filed a stipulation with the NMPRC. NMIEC subsequently joined the agreement. Statements of opposition were filed by New Energy Economy, Southwest Generation, the City of Santa Fe, Santa Fe County, and the Coalition for Clean, Affordable Energy.
Under the terms of the stipulation, PNM:

- Would be authorized to abandon SJGS Units 2 and 3 effective December 31, 2017
- Would be granted a CCN for an additional 132 MW of SJGS Unit 4 capacity as of January 1, 2018 with a rate base value of $26 million plus any reasonable and prudent investments made in Unit 4 prior to that date; PNM would reduce its carrying value of SJGS Unit 3 by this $26 million
- Would recover 50% of the estimated $231 million undepreciated value in SJGS Units 2 and 3 at December 31, 2017; recovery would be over a twenty year period and would include a return on the unrecovered amount at PNM's WACC; at September 30, 2014, PNM's net book value of its current ownership share of SJGS Units 2 and 3 was approximately $284 million

Would be granted a CCN for 134 MW of PVNGS Unit 3 at a January 1, 2018 value of $221.1 million ($1,650 per KW); PNM's ownership share of PVNGS would also be subject to a capacity factor performance threshold of 75% for a seven year period beginning January 1, 2018; subject to certain exceptions, if the capacity factor is not achieved in any year, PNM would refund the cost of replacement power through its FPPAC; at September 30, 2014, PNM's net book value of PVNGS Unit 3 was approximately $143 million

Table of Contents

- Would recover its reasonable and prudent costs of installation of the SNCRs and equipment to comply with NAAQS requirements at SJGS Units 1 and 4 up to $90.6 million
- Would not be allowed to recover a total of approximately $20 million of increased operations and maintenance costs associated with the agreement reached with the remaining SJGS participants, additional fuel handling expenses, and certain other costs incurred in efforts to comply with the CAA

The public hearing in the NMPRC case is scheduled to begin on January 5, 2015. PNM expects a decision from the NMPRC in the first quarter of 2015. PNM is unable to predict if the NMPRC will approve the stipulation. If the stipulation is approved as filed, PNM anticipates it would incur a regulatory disallowance that would include the write-off of 50% of the undepreciated investment in SJGS Units 2 and 3, an offset to the regulatory disallowance to reflect including the investment in PVNGS Unit 3 in the ratemaking process at the stipulated value, and other impacts of the stipulation. Although PNM would record the regulatory disallowance upon approval by the NMPRC, the amount of the disallowance would be dependent on the provisions of the NMPRC's final order, as well as PNM's projections of the December 31, 2017 net book values of SJGS Units 2 and 3 and PVNGS Unit 3. The amount initially recorded would be subject to adjustment to reflect changes in the projected December 31, 2017 net book values of the plants. Based on the provisions of the stipulation as filed and PNM's current projection of December 31, 2017 book values, PNM estimates the net pre-tax regulatory disallowance would be between $60 million and $70 million.

SJGS Ownership Restructuring Matters – As discussed in the 2013 Annual Report on Form 10-K, SJGS is jointly owned by PNM and eight other entities, including three participants that operate in the State of California. Furthermore, each participant does not have the same ownership interest in each unit. The SJPPA that governs the operation of SJGS expires on July 1, 2022 and the contract with SJCC to supply the coal requirements of the plant expires on December 31, 2017. The California participants have indicated that, under California law, they may be prohibited from making significant capital improvements to SJGS. The California participants have stated they would be unable to fully fund the construction of either SCRs or SNCRs at SJGS and have expressed the intent to exit their ownership in SJGS no later than the expiration of the current SJPPA. One other participant also expressed a similar intent to exit ownership in the plant. The participants intending to exit ownership in SJGS currently own 50.0% of SJGS Unit 3 and 38.8% of SJGS Unit 4. PNM currently owns 50.0% of SJGS Unit 3 and 38.5% of SJGS Unit 4.

The SJGS participants have engaged in negotiations concerning the implementation of the RSIP to address BART at SJGS. These negotiations initially included potential shifts in ownership among participants and between Units 3 and 4 that could have resulted in PNM acquiring additional ownership in Unit 4 prior to the shutdown of SJGS Units 2 and 3. The discussions among the SJGS participants regarding restructuring have also included, among other matters, the treatment of plant decommissioning obligations, mine reclamation obligations, environmental matters, and certain ongoing operating costs.

On June 26, 2014, a non-binding resolution was unanimously approved by the SJGS Coordination Committee (the "Resolution"). The Resolution identifies the participants who would be exiting active participation in SJGS effective December 31, 2017, and participants, including PNM, who would retain an interest in the ongoing operation of one or more units of SJGS. The Resolution provides the essential terms of restructured ownership of SJGS between the exiting participants and the remaining participants and addresses other related matters. The Resolution includes provisions indicating that the exiting participants would remain obligated for their proportionate shares of environmental, mine reclamation, and certain other legacy liabilities that are attributable to activities that occurred prior to their exit, as well as outlining how their shares would be determined. Also, on June 26, 2014, a non-binding term sheet was approved by all of the remaining participants that provides the essential terms of restructured ownership of SJGS among the remaining participants. As part of the non-binding terms, PNM confirmed that it would acquire an additional 132 MW in SJGS Unit 4 effective December 31, 2017. There would be no initial cost for PNM to acquire the additional 132 MW although PNM's share of capital improvements, including the costs of installing SNCRs, and operating expenses would increase to reflect the increased ownership. The acquisition of 132 MW of SJGS Unit 4 would result in PNM's ownership share of SJGS Unit 4 being 64.5% and of SJGS Units 1 and 4 aggregating approximately 59%. The Resolution and the non-binding term sheet recognize that prior to executing a binding restructuring agreement, the remaining participants will need to have greater certainty in regard to the economic cost and availability of fuel for SJGS for the period after December 31, 2017. As discussed under Coal Supply below, the remaining participants are in the process of negotiating agreements concerning future fuel supply for SJGS, the resolution of which is necessary for continued operation of SJGS after December 31, 2017. On September 2, 2014, the SJGS Coordination Committee adopted a non-binding amendment to the Resolution, which provides for allocation of future costs of decommissioning among current SJGS owners using a time-based sliding scale and outlines indemnification obligations.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

In September 2014, the SJGS participants executed a binding Fuel and Capital Funding Agreement to implement certain provisions of the Resolution, including payment by the remaining participants of capital costs for the Unit 4 SNCR project starting July 1, 2014, and acquisition by PNM of the exiting participants' coal inventory as of January 1, 2015. PNM filed the Fuel and Capital Funding Agreement with FERC on September 18, 2014, with a request for a retroactive effective date to July 1, 2014. FERC has 60 days from the date of filing to accept the filing. The Fuel and Capital Funding Agreement provides that the SJGS participants will return to the status quo if required regulatory approvals are not obtained or a binding restructuring agreement is not reached.

The participants continue to negotiate other definitive agreements that would formalize the matters contained in the Resolution, as amended. A number of regulatory approvals are required to implement the proposed ownership restructuring of SJGS. Any final binding agreements relating to the ownership restructuring are subject to the approval of each participant's board or other decision-making body and are subject to required regulatory approvals. PNM is unable to predict the outcome of the negotiations, whether definitive agreements will be reached among the owners, or whether required approvals will be obtained.

Other Developments and Current Status – The SJPPA requires PNM, as operating agent, to obtain approval of capital improvement project expenditures from participants who have an ownership interest in the relevant unit or property common to more than one unit. As provided in the SJPPA, specified percentages of both the outstanding participant shares, based on MW ownership, and the number of participants in the unit or common property must be obtained in order for a capital improvement project to be approved. PNM presented the SNCR project, including NAAQS compliance requirements described below, to the SJGS participants in Unit 1 and Unit 4 for approval in late October 2013. The project was approved for Unit 1, but the Unit 4 project, which includes some of the California participants, did not obtain the required percentage of votes for approval. In addition, other capital projects related to Unit 4 were not approved by the participants. PNM subsequently requested that the owners of Unit 4 approve the expenditure of costs critical to being able to comply with the time frame in the RSIP with respect to the Unit 4 project of $1.9 million on March 10, 2014 and $6.4 million on June 27, 2014. The Unit 4 owners did not approve either of the requests.

PNM, in its capacity as operating agent of SJGS, is authorized and obligated under the SJPPA to take reasonable and prudent actions necessary for the successful and proper operation of SJGS pending the resolution, by arbitration or otherwise, of any inability or failure to agree by the participants. PNM must evaluate its responsibilities and obligations as operating agent under the SJPPA regarding the SJGS Unit 4 capital projects that were not approved by the participants and take reasonable and prudent actions as it deems necessary. Therefore, on March 10, 2014 and July 14, 2014, PNM, as operating agent for SJGS, issued "Prudent Utility Practice" notices under the SJPPA indicating PNM was undertaking certain critical activities to keep the Unit 4 SNCR project on schedule.

As discussed above, EPA approved the RSIP and withdrew the FIP on October 9, 2014 and those approvals will become effective on November 10, 2014. PNM believes significant progress is being made towards implementation of the RSIP. However, the final implementation of the RSIP is still dependent upon PNM obtaining NMPRC approval to retire San Juan Units 2 and 3 and a final binding agreement among the SJGS owners on a revised ownership structure to facilitate the retirement of these two units. PNM can provide no assurance that these requirements will be accomplished. If the RSIP requirements ultimately are not implemented due to adverse or alternative regulatory, legislative, legal, or restructuring developments or other factors, PNM would need to pursue other alternatives to address compliance with the CAA. PNM will seek recovery from its ratepayers for costs that may be incurred as a result of the CAA requirements. PNM is unable to predict the ultimate outcome of these matters.

Although the additional equipment and other final requirements will result in additional capital and operating costs being incurred, PNM believes that its access to the capital markets is sufficient to be able to finance its share of the installation. It is possible that requirements to comply with the CAA, combined with the financial impact of possible future climate change regulation or legislation, if any, other environmental regulations, the result of litigation, and other business considerations, could jeopardize the economic viability of SJGS or the ability or willingness of individual participants to continue participation in the plant.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Four Corners

On August 6, 2012, EPA issued its final BART determination for Four Corners. The rule included two compliance alternatives. On December 30, 2013, APS notified EPA that the Four Corners participants selected the alternative that required APS to close permanently Units 1-3 by January 1, 2014 and install SCR post-combustion NOx controls on each of Units 4 and 5 by July 31, 2018. PNM owns a 13% interest in Units 4 and 5, but had no ownership interest in Units 1, 2, and 3, which were shutdown by APS on December 30, 2013. For particulate matter emissions, EPA is requiring Units 4 and 5 to meet an emission limit of 0.015 lb/MMBTU and the plant to meet a 20% opacity limit, both of which are achievable through operation of the existing baghouses. Although unrelated to BART, the final BART rule also imposes a 20% opacity limitation on certain fugitive dust emissions from Four Corners' coal and material handling operations.

APS, on behalf of the Four Corners participants, negotiated amendments to an existing facility lease with the Navajo Nation, which extends the Four Corners leasehold interest from 2016 to 2041. The Navajo Nation approved these amendments in March 2011. The effectiveness of the amendments also requires the approval of the DOI, as does a related federal rights-of-way grant, which the Four Corners participants are pursuing. A federal environmental review is underway as part of the DOI review process. In March 2014, APS received a draft of the EIS in connection with the DOI review process. On June 19, 2014, PNM submitted comments on the draft EIS as owner and operator of two electric transmission lines that are part of the connected action for the EIS. In addition, APS will require a PSD permit from EPA to install SCR control technology at Four Corners. PNM cannot predict whether these federal approvals will be granted, and if so on a timely basis, or whether any conditions that may be attached to them will be acceptable to the Four Corners participants.

The Four Corners participants' obligations to comply with EPA's final BART determinations, coupled with the financial impact of possible future climate change regulation or legislation, other environmental regulations, and other business considerations, could jeopardize the economic viability of Four Corners or the ability of individual participants to continue their participation in Four Corners.
PNM is continuing to evaluate the impacts of EPA's BART determination for Four Corners. PNM estimates its share of costs, including PNM's AFUDC, to be up to $80.3 million for post-combustion controls at Four Corners Units 4 and 5. PNM would seek recovery from its ratepayers of all costs that are ultimately incurred. PNM is unable to predict the ultimate outcome of this matter.
Four Corners BART FIP Challenge
On October 22, 2012, WEG filed a petition for review in the Ninth Circuit challenging the Four Corners BART FIP. In its petition, WEG alleges that the final BART rule results in more air pollution being emitted into the air than allowed by law and that EPA failed to follow the requirements of the ESA. APS intervened in this matter and filed a motion to dismiss this lawsuit for lack of jurisdiction or alternatively to transfer the lawsuit to the Tenth Circuit. On February 25, 2013, the Ninth Circuit denied APS' motion to dismiss, but granted the request to transfer the case to the Tenth Circuit. Oral argument was presented before the Tenth Circuit on January 23, 2014. On July 23, 2014, the Tenth Circuit issued a unanimous decision affirming EPA's action and denying WEG's petition for review. On September 15, 2014, the Tenth Circuit issued its mandate marking an official end to the case.

Regional Haze Challenges

On December 27, 2012, WEG filed a petition for review in the Tenth Circuit challenging the SO_2 and particulate matter emissions elements of EPA's approval of New Mexico's Regional Haze SIP. On February 26, 2013, HEAL Utah and other environmental groups filed petitions in the Tenth Circuit challenging EPA's final approval of the remaining elements of New Mexico's Regional Haze SIP, as well as EPA's approval of the Albuquerque/Bernalillo County Air Quality Control Board SIP. PNM was granted intervention in both matters and the Tenth Circuit consolidated the two matters based on the similarity of issues. Oral argument was heard before the Tenth Circuit on March 20, 2014. On October 21, 2014, the Tenth Circuit denied the petitions for review and affirmed EPA's actions. PNM is unable to predict whether petitions for rehearing or appeals of the decision will be filed.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

National Ambient Air Quality Standards ("NAAQS")

The CAA requires EPA to set NAAQS for pollutants considered harmful to public health and the environment. EPA has set NAAQS for certain pollutants, including NOx, SO_2, ozone, and particulate matter. In 2010, EPA updated the primary NOx and SO_2 NAAQS to include a 1-hour maximum standard while retaining the annual standards for NOx and SO_2 and the 24-hour SO_2 standard. New Mexico is in attainment for the 1-hour NOx NAAQS. On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO_2 NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO_2 sources to identify maximum 1-hour SO_2 concentrations. The proposed rule also describes the process and timetable by which air regulatory agencies would characterize air quality around large SO_2 sources through ambient monitoring or modeling. This characterization will result in these areas being designated as attainment, nonattainment, or unclassified for compliance with the 1-hour SO_2 NAAQS. Although the determination process has not been finalized, PNM believes that compliance with the 1-hour SO_2 standard may require operational changes and/or equipment modifications at SJGS. On November 8, 2013, PNM received an amendment to its air permit for SJGS, which would be required for the installation of either SCRs or SNCRs described above. In the revised permit, PNM agreed to reduce SO_2 emissions to 0.1 pound per MMBTU on SJGS Units 1 and 4 and to install equipment modifications for the purpose of reducing fugitive emissions, including NOx, SO_2, and particulate matter. These reductions will help SJGS meet the NAAQS. It is anticipated that the equipment modifications would be installed at the same time as the installation of regional haze BART controls, in order to most efficiently and cost effectively conduct construction activities at SJGS. The cost of this technology is dependent upon the type of control technology that is ultimately determined to be NOx BART at SJGS. See Regional Haze – SJGS above.

EPA finalized revisions to its NAAQS for fine particulate matter on December 14, 2012. PNM believes the equipment modifications discussed above will assist the plant in complying with the particulate matter NAAQS.

In January 2010, EPA announced it would strengthen the 8-hour ozone standard by setting a new standard in a range of 0.060-0.070 parts per million. EPA is reviewing its 2008 standard and has completed certain assessment phases of developing a new ozone standard. EPA is under a court order to issue a draft proposal by December 1, 2014 and finalize the new standard by October 1, 2015. Depending upon where the standard for ozone is set, San Juan County, where SJGS is situated, could be designated as not attaining the standard for ozone. If that were to occur, NMED would have responsibility for bringing the county into compliance and would look at all sources of NOx and volatile organic compounds since these are the pollutants that form ground-level ozone. As a result, SJGS could be required to install further NOx controls to meet a new ozone NAAQS. In addition, other counties in New Mexico, including Bernalillo County, may be designated as non-attainment. PNM cannot predict the outcome of this matter, the impact of other potential environmental mitigations, or if additional NOx controls would be required at any of its affected facilities as a result of ozone non-attainment designation.

Citizen Suit Under the Clean Air Act

The operations of SJGS are covered by a Consent Decree with the Grand Canyon Trust and Sierra Club and with the NMED that includes stipulated penalties for non-compliance with specified emissions limits. Stipulated penalty amounts are placed in escrow on a quarterly basis pending review of SJGS's emissions performance. In May 2010, PNM filed a petition with the federal district court seeking a judicial determination on a dispute relating to PNM's mercury controls. NMED and plaintiffs sought to require PNM to implement additional mercury controls. PNM estimates the implementation would increase annual mercury control costs for the entire station, which are currently

$0.7 million, to a total of $6.6 million. On March 23, 2014, the court entered a stipulated order reflecting an agreement reached by the parties. Under the stipulated order, PNM is required to repeat the mercury study required under the Consent Decree using sorbent traps instead of the monitoring system used in the initial study. PNM has completed stack testing and anticipates finalizing the study report by the end of 2014. The results of the mercury study will establish the activated carbon injection rate that maximizes mercury removal at SJGS, as required under the Consent Decree. PNM cannot predict the ultimate outcome of this matter.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Section 114 Request
In April 2009, APS received a request from EPA under Section 114 of the CAA seeking detailed information regarding projects at and operations of Four Corners. EPA has taken the position that many utilities have made physical or operational changes at their plants that should have triggered additional regulatory requirements under the NSR provisions of the CAA. APS has responded to EPA's request. PNM is currently unable to predict the timing or content of EPA's response, if any, or any resulting actions.

Four Corners Clean Air Act Lawsuit
In October 2011, Earthjustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against APS and the other Four Corners participants alleging violations of the NSR provisions of the CAA and NSPS violations. The plaintiffs seek to have the court enjoin operations at Four Corners until APS applies for and obtains any required NSR permits and complies with the NSPS. The plaintiffs further request the court to order the payment of civil penalties, including a beneficial mitigation project. On April 2, 2012, the Four Corners participants filed motions to dismiss. The case is being held in abeyance while the parties seek to negotiate a settlement. On March 30, 2013, upon joint motion of the parties, the court issued an order deeming the motions to dismiss withdrawn without prejudice during pendency of the stay. At such time as the stay is lifted, the Four Corners owners may reinstate their motions to dismiss without risk of default. PNM cannot currently predict the outcome of this matter or the range of its potential impact.

WEG v. OSM NEPA Lawsuit

In February 2013, WEG filed a Petition for Review in the United States District Court of Colorado against OSM challenging federal administrative decisions affecting seven different mines in four states issued at various times from 2007 through 2012. In its petition, WEG challenges several unrelated mining plan modification approvals, which were each separately approved by OSM. Of the fifteen claims for relief in the WEG Petition, two concern SJCC's San Juan mine. WEG's allegations concerning the San Juan mine arise from OSM administrative actions in 2008. WEG alleges various National Environmental Policy Act ("NEPA") violations against OSM, including, but not limited to, OSM's alleged failure to provide requisite public notice and participation, alleged failure to analyze certain environmental impacts, and alleged reliance on outdated and insufficient documents. WEG's petition seeks various forms of relief, including a finding that the federal defendants violated NEPA by approving the mine plans, voiding, reversing, and remanding the various mining modification approvals, enjoining the federal defendants from re-issuing the mining plan approvals for the mines until compliance with NEPA has been demonstrated, and enjoining operations at the seven mines. SJCC intervened in this matter. The Court granted SJCC's motion to sever its claims from the lawsuit and transfer venue to the United States District Court for the District of New Mexico, where this matter is now proceeding. If WEG ultimately obtains the relief it has requested, such a ruling could require significant expenditures to reconfigure operations at the San Juan mine, impact the production of coal, and impact the economic viability of the San Juan mine and SJGS. PNM cannot currently predict the outcome of this matter or the range of its potential impact.
Navajo Nation Environmental Issues
Four Corners is located on the Navajo Reservation and is held under an easement granted by the federal government, as well as a lease from the Navajo Nation. The Navajo Acts purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners. In October 1995, the Four Corners participants filed a lawsuit in

the District Court of the Navajo Nation challenging the applicability of the Navajo Acts to Four Corners. Although an agreement was reached resolving claims related to the CAA, the agreement does not address or resolve any dispute relating to other aspects of the Navajo Acts. PNM cannot currently predict the outcome of these matters or the range of their potential impacts.

Cooling Water Intake Structures

EPA issued its final cooling water intake structures rule on May 19, 2014, which establishes national standards for certain cooling water intake structures at existing power plants and other facilities under the Clean Water Act to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens)

and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures). The final rule was published on August 15, 2014 and became effective October 14, 2014.
The final rule allows multiple compliance options and considerations for site specific conditions and the permit writer is granted a significant amount of discretion in determining permit requirements, schedules, and conditions. To minimize impingement mortality, the rule provides operators of facilities, such as SJGS and Four Corners, seven options for meeting "best technology available" standards for reducing impingement. To minimize entrainment mortality, the permitting authority must establish the "best technology available" for entrainment on a site-specific basis, taking into consideration an array of factors, including social costs and benefits. Affected sources must submit source water baseline characterization data to the permitting authority to assist in the determination. Compliance deadlines under the rule are tied to permit renewal and will be subject to a schedule of compliance established by the permitting authority. PNM is performing analyses to determine the potential costs of compliance with the rule. PNM is unable to predict the outcome of this matter or a range of the potential costs of compliance. APS is currently in discussions with EPA Region 9, the National Pollutant Discharge Elimination System permit writer for Four Corners, to determine the scope of the impingement and entrainment requirements, which will, in turn, determine APS's costs to comply with the rule. APS has indicated that it does not expect such costs to be material.

Effluent Limitation Guidelines

On June 7, 2013, EPA published proposed revised wastewater effluent limitation guidelines establishing technology-based wastewater discharge limitations for fossil fuel-fired electric power plants. EPA's proposal offers numerous options that target metals and other pollutants in wastewater streams originating from fly ash and bottom ash handling activities, scrubber activities, and non-chemical metal cleaning waste operations. The preferred alternatives differ with respect to the scope of requirements that would be applicable to existing discharges of pollutants found in wastestreams generated at existing power plants. All four alternatives would establish a "zero discharge" effluent limit for all pollutants in fly ash transport water. However, requirements governing bottom ash transport water differ depending on which alternative EPA ultimately chooses and could range from effluent limits based on Best Available Technology Economically Achievable to "zero discharge" effluent limits. Depending on which alternative EPA finalizes, Four Corners may be required to change equipment and operating practices affecting boilers and ash handling systems, as well as change its waste disposal techniques. PNM has reviewed the proposed rule and continues to assess the potential impact to SJGS and Reeves Station, the only PNM-operated power plants that would be covered by the proposed rule. On April 9, 2014, several environmental groups agreed to allow EPA until September 30, 2015 to issue final effluent limits. Under the agreement, EPA will not seek any further extensions and will follow through on a separate agreement to issue a final rule on coal ash waste disposal by December 19, 2014. If EPA misses the December 19, 2014 deadline to issue a coal ash rule, then the agreement allows the environmental groups to require the EPA to issue the final effluent limits earlier. PNM is unable to predict the outcome of this matter or a range of the potential costs of compliance.
Santa Fe Generating Station
PNM and the NMED are parties to agreements under which PNM installed a remediation system to treat water from a City of Santa Fe municipal supply well, an extraction well, and monitoring wells to address gasoline contamination in the groundwater at the site of the former Santa Fe Generating Station and service center. PNM believes the observed groundwater contamination originated from off-site sources, but agreed to operate the remediation facilities until the groundwater meets applicable federal and state standards or until the NMED determines that additional remediation is

not required, whichever is earlier. The City of Santa Fe has indicated that since the City no longer needs the water from the well, the City would prefer to discontinue its operation and maintain it only as a backup water source. However, for PNM's groundwater remediation system to operate, the water well must be in service. Currently, PNM is not able to assess the duration of this project or estimate the impact on its obligations if the City of Santa Fe ceases to operate the water well.

The Superfund Oversight Section of the NMED has conducted multiple investigations into the chlorinated solvent plume in the vicinity of the site of the former Santa Fe Generating Station. In February 2008, a NMED site inspection report was submitted to EPA, which states that neither the source nor extent of contamination has been determined and that the source may not be the former Santa Fe Generating Station. The NMED investigation is ongoing. In January 2013, NMED notified PNM that monitoring results from April 2012 showed elevated concentrations of nitrate in three monitoring wells and an increase in free-phase hydrocarbons in another well. None of these wells are routinely monitored as part of PNM's obligations under the settlement agreement. In April 2013, NMED conducted the same level of testing on the wells as was conducted in April 2012, which produced

Table of Contents

similar results. PNM conducted similar site-wide sampling activities in April 2014 and obtained results similar to the 2013 data. As part of this effort, PNM also collected a sample of hydrocarbon product for “fingerprint” analysis from a monitoring well located on the northeastern corner of the property. This analysis indicated that the hydrocarbon product was a mixture of newer and older fuels, and the location of the monitoring well suggests that the hydrocarbon product is likely from offsite sources. PNM does not believe the former generating station is the source of the increased levels of free-phase hydrocarbons, but no conclusive determinations have been made. It is possible that PNM’s prior activities to remediate hydrocarbon contamination, as conducted under an NMED-approved plan, may have resulted in increased nitrate levels. Additional testing and analysis will need to be performed before conclusions can be reached regarding the cause of the increased nitrate levels or the method and cost of remediation. PNM is unable to predict the outcome of these matters.

Coal Combustion Byproducts Waste Disposal

CCBs consisting of fly ash, bottom ash, and gypsum from SJGS are currently disposed of in the surface mine pits adjacent to the plant. SJGS does not operate any CCB impoundments. The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department currently regulates mine placement of ash with federal oversight by the OSM. APS disposes of CCBs in ash ponds and dry storage areas at Four Corners and also sells a portion of its fly ash for beneficial uses, such as a constituent in concrete production. Ash management at Four Corners is regulated by EPA and the New Mexico State Engineer’s Office.

In June 2010, EPA published a proposed rule that includes two options for waste designation of coal ash. One option is to regulate CCBs as a hazardous waste, which would allow EPA to create a comprehensive federal program for waste management and disposal of CCBs. The other option is to regulate CCBs as a non-hazardous waste, which would provide EPA with the authority to develop performance standards for waste management facilities handling the CCBs and would be enforced primarily by state authorities or through citizen suits. Both options allow for continued use of CCBs in beneficial applications. EPA’s proposal does not address the placement of CCBs in surface mine pits for reclamation. An OSM CCB rulemaking team has been formed to develop a proposed rule governing the placement of CCBs at coal mining and reclamation operations.

On April 5, 2012, several environmental groups, including Sierra Club, filed a citizen suit in the D.C. Circuit claiming that EPA has failed to review and revise RCRA’s regulations with respect to CCBs. The groups allege that EPA has already determined that revisions to the CCBs regulations are necessary and that EPA now has a non-discretionary duty to revise the regulations. The environmental groups asked the court to direct EPA to complete its review of the regulation of CCBs and a hazardous waste analytical procedure and to issue necessary revisions of such regulations as soon as possible. Two industry group members subsequently filed separate lawsuits in the D.C. Circuit seeking to ensure that disposal of coal ash would not be regulated as a hazardous waste. The environmental and industry lawsuits have been consolidated. On January 29, 2014, EPA entered into a consent decree directing EPA to publish its final action regarding whether or not to pursue the proposed non-hazardous waste option for CCBs by December 19, 2014.

PNM advocates for the non-hazardous regulation of CCBs. If CCBs are ultimately regulated as a hazardous waste, costs could increase significantly. PNM would seek recovery from its ratepayers of all costs that are ultimately incurred. PNM cannot predict the outcome of EPA’s or OSM’s proposed rulemaking regarding CCB regulation, including mine placement of CCBs, or whether these actions will have a material impact on its operations, financial position, or cash flows.

Hazardous Air Pollutants (“HAPs”) Rulemaking

In December 2011, the EPA issued its final Mercury and Air Toxics Standards (“MATS”) to reduce emissions of heavy metals, including mercury, arsenic, chromium, and nickel, as well as acid gases, including hydrochloric and hydrofluoric gases, from coal and oil-fired electric generating units with a capacity of at least 25 MW. Existing facilities will generally have up to four years to demonstrate compliance with the new rule. PNM’s assessment of MATS indicates that the control equipment currently used at SJGS allows the plant to meet the emission standards set forth in the rule. With regard to mercury, stack testing performed for EPA during the MATS rulemaking process showed that SJGS achieved a mercury removal rate of 99% or greater. APS has determined that no additional equipment will be required at Four Corners Units 4 and 5 to comply with the rule.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Other Commitments and Contingencies

Coal Supply

The coal requirements for SJGS are being supplied by SJCC, a wholly owned subsidiary of BHP. In addition to coal delivered to meet the current needs of SJGS, PNM prepays SJCC for certain coal mined but not yet delivered to the plant site. At September 30, 2014 and December 31, 2013, prepayments for coal, which are included in other current assets, amounted to $26.1 million and $12.3 million. SJCC holds certain federal, state, and private coal leases and has an underground coal sales agreement to supply processed coal for operation of SJGS through 2017. Under the coal sales agreement, SJCC is reimbursed for all costs for mining and delivering the coal, including an allocated portion of administrative costs, and receives a return on its investment. BHP Minerals International, Inc. has guaranteed the obligations of SJCC under the coal agreement. The coal agreement contemplates the delivery of coal that would supply substantially all the requirements of SJGS through December 31, 2017.

PNM and the other owners of SJGS are evaluating alternatives for the supply of coal after the expiration of the current coal sales agreement. As discussed under SJGS Ownership Restructuring Matters above, the Resolution and the non-binding term sheet approved by the SJGS Coordination Committee on June 26, 2014 recognize that prior to executing a binding restructuring agreement relating to the ownership of SJGS, the remaining participants will need to have greater certainty in regard to the cost and availability of fuel for SJGS for the period after December 31, 2017. The remaining participants are in the process of negotiating agreements concerning future fuel supply for SJGS with SJCC and BHP. On October 1, 2014, the San Juan Fuels Committee approved a resolution authorizing an amendment to the coal sales agreement. The parties to the coal sales agreement and the amendment are SJCC, PNM, and Tucson. The amendment provides for the negotiation of a potential purchase transaction for the mine assets by one or more of the utilities, an affiliate, or another entity agreed to by the parties to be consummated on or before December 31, 2016. PNM anticipates that a consummated arrangement would ultimately involve a third-party mining company either as the owner of the mine or as a contract miner and could involve some or all of the remaining participants in SJGS. The amendment, which was effective as of October 2, 2014, also releases the parties from the obligation to negotiate an extension of the coal sales agreement, but does not impact the utilities' option to purchase the mining assets at the end of the current contract term if the purchase transaction is not completed. On October 2, 2014, the parties also entered into an agreement that provides the SJGS participants with access to data necessary to evaluate the mine assets and liabilities. PNM cannot currently predict the outcome of these negotiations or if a transaction will be consummated.

APS purchased all of Four Corners' coal requirements from a supplier that was also a subsidiary of BHP and had a long-term lease of coal reserves with the Navajo Nation. That contract was to expire on July 6, 2016 with pricing determined using an escalating base-price. On December 30, 2013, ownership of the mine was transferred to an entity owned by the Navajo Nation and a new coal supply contract for Four Corners, expiring in 2031, was entered into with that entity. The BHP subsidiary is to be retained as the mine manager and operator until December 2016. Coal costs are anticipated to increase approximately 21% for the first full year of the new contract and will further increase over the contract term. PNM anticipates that its share of the increased costs will be recovered through its FPPAC.

In 2013, PNM updated its study of the final reclamation costs for both the surface mines that previously provided coal to SJGS and the current underground mine providing coal and revised its estimates of the final reclamation costs. This estimate reflects that, with the proposed shutdown of SJGS Units 2 and 3 described above, the mine providing coal to SJGS will continue to operate through 2053, the anticipated life of SJGS. The 2013 estimate for decommissioning the Four Corners mine reflects the operation of the mine through 2031, the term of the new coal supply agreement. Based on the 2013 estimates, remaining payments for mine reclamation, in future dollars, are estimated to be $53.9 million for the surface mines at both SJGS and Four Corners and $93.3 million for the underground mine at SJGS as of June

30, 2014. At September 30, 2014 and December 31, 2013, liabilities, in current dollars, of $22.9 million and $23.8 million for surface mine reclamation and $8.4 million and $7.8 million for underground mine reclamation were recorded in other deferred credits.

PNM collects a provision for surface and underground mine reclamation costs in its rates. The NMPRC has capped the amount that can be collected from ratepayers for final reclamation of the surface mines at $100.0 million. Previously, PNM recorded a regulatory asset for the $100.0 million and recovers the amortization of this regulatory asset in rates. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. In conjunction with the proposed shutdown of SJGS Units 2 and 3 to comply with the BART requirements of the CAA discussed under The Clean Air Act – Regional Haze – SJGS above, an updated coal mine reclamation study was requested by the SJGS participants. As discussed under Coal

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Combustion Byproducts Waste Disposal above, SJGS currently disposes of CCBs from the plant in the surface mine pits adjacent to the plant. The updated coal mine reclamation study indicates reclamation costs have increased, including significant increases due to the proposed shutdown of SJGS Units 2 and 3, although the timing of payments will be delayed. The shutdown of Units 2 and 3 would reduce the amount of CCBs generated over the remaining life of SJGS, which could result in a significant increase in the amount of fill dirt required to remediate the underground mine area thereby increasing the overall reclamation costs. How costs would be divided among the owners of SJGS has not been finalized. Regulatory determinations made by the NMPRC may also affect the impact on PNM. The reclamation amounts discussed above reflect PNM's estimates of its share of the revised costs. PNM is currently unable to determine the outcome of these matters or the range of possible impacts.

San Juan Underground Mine Fire Incident

On September 9, 2011, a fire was discovered at the underground mine owned and operated by SJCC that provides coal for SJGS. The federal Mine Safety and Health Administration ("MSHA") was notified of the incident. On September 12, 2011, SJCC informed PNM that the fire was extinguished. However, MSHA required sealing the incident area and confirmation of a noncombustible environment before allowing re-entry of the sealed area. SJCC regained entry into the sealed area of the mine in early March 2012. At that time, MSHA conducted a root cause analysis inspection of the incident area, but has not yet issued its report. SJCC completed inspection of the mine equipment and reported no significant damage. SJCC removed the equipment from the impacted mine panel and reassembled it at a new panel face. On May 4, 2012, SJCC received approval from MSHA and resumed longwall mining operations. Coal inventories have been restored to pre-incident levels and SJCC provided notice to PNM on September 23, 2014 that the mine has been restored to normal operations.

The costs of the mine recovery flowed through the cost-reimbursable component of the coal supply agreement. PNM included the portion of such costs allocable to its customers subject to New Mexico regulation in its FPPAC. PNM's filings with the NMPRC reflected an estimate that this incident increased coal costs and the deferral of cost recovery under the FPPAC by between $17.4 million and $21.6 million. SJCC submitted an insurance claim regarding the costs it incurred due to the mine fire and informed PNM that it settled with its insurance carrier. PNM's portion of the insurance recovery is $18.7 million. PNM has credited its FPPAC balancing account for the insurance proceeds allocable to PNM's New Mexico jurisdictional customers. See Note 12.

Continuous Highwall Mining Royalty Rate

In August 2013, the DOI Bureau of Land Management ("BLM") issued a proposed rulemaking that would retroactively apply the surface mining royalty rate of 12.5% to continuous highwall mining ("CHM"). Comments regarding the rulemaking were due on October 11, 2013, and PNM submitted comments in opposition to the proposed rule. There is no legal deadline for adoption of the final rule.

SJCC utilized the CHM technique from 2000 to 2003 and, with the approval of the Farmington, New Mexico Field Office of BLM to reclassify the final highwall as underground reserves, applied the 8.0% underground mining royalty rate to coal mined using CHM and sold to SJGS. In March 2001, SJCC learned that the DOI Minerals Management Service ("MMS") disagreed with the application of the underground royalty rate to CHM. In August 2006, SJCC and MMS entered into a settlement agreement tolling the statute of limitations on any administrative action to recover unpaid royalties until BLM issued a final, non-appealable determination as to the proper rate for CHM-mined coal. The proposed BLM rulemaking has the potential to terminate the tolling provision of the settlement agreement, and underpaid royalties of approximately $5 million for SJGS would become due if the proposed BLM rule is adopted as proposed. PNM's share of any amount that is ultimately paid would be approximately 46.3%, none of which would be passed through PNM's FPPAC. PNM is unable to predict the outcome of this matter.

SJCC Arbitration

The coal supply agreement for SJGS provides that the participants in SJGS have the right to audit the costs billed by SJCC. An independent accounting firm has been engaged to perform audits of the costs billed under the provisions of the contract. The audit for the period from 2006 through 2009 resulted in disagreements between the SJGS participants and SJCC. As provided in the contract, certain issues were submitted to a panel for binding arbitration. The issues were: 1) whether the SJGS participants owed SJCC unbilled mining costs of $5.2 million or whether SJCC owed the SJGS participants overbilled mining costs of $1.1 million, and 2) whether SJCC billed the SJGS participants $13.9 million as mining costs that SJCC should have considered to be

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

capital costs, which were not billable under the mining contract. PNM's share of amounts subject to the arbitration are approximately 46.3%. A hearing before the arbitration panel on the remaining issues was held in May 2014. The arbitration panel found in favor of SJCC on both issues. Of PNM's share of the costs, approximately 33% of the first issue was passed through PNM's FPPAC and the rest impacted earnings in the three months ended June 30, 2014. The amounts related to the second issue were recorded when billed in prior periods and had no impact in 2014.

Four Corners Severance Tax Assessment

On May 23, 2013, the New Mexico Taxation and Revenue Department ("NMTRD") issued a notice of assessment for coal severance surtax, penalty, and interest totaling approximately $30 million related to coal supplied under the coal supply agreement for Four Corners. PNM's share of any amounts paid related to this assessment would be approximately 8%, all of which would be passed through PNM's FPPAC. For procedural reasons, on behalf of the Four Corners co-owners, including PNM, the coal supplier made a partial payment of the assessment and immediately filed a refund claim with respect to that partial payment in August 2013. On December 19, 2013, the coal supplier and APS, on its own behalf and as operating agent for Four Corners, filed a complaint in the New Mexico District Court contesting both the validity of the assessment and the refund claim denial. PNM believes the assessment and the refund claim denial are without merit, but cannot predict the outcome of this matter.

PVNGS Liability and Insurance Matters

Public liability for incidents at nuclear power plants is governed by the Price-Anderson Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both private sources and an industry retrospective payment plan. In accordance with the Price-Anderson Act, the PVNGS participants have insurance for public liability exposure for a nuclear incident totaling $13.6 billion per occurrence. Commercial insurance carriers provide $375 million and $13.2 billion is provided through a mandatory industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, PNM could be assessed retrospective premium adjustments. Based on PNM's 10.2% interest in each of the three PVNGS units, PNM's maximum potential retrospective premium assessment per incident for all three units is $38.9 million, with a maximum annual payment limitation of $5.7 million.

The PVNGS participants maintain "all risk" (including nuclear hazards) insurance for damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. These coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). Effective April 1, 2014, a sublimit of $2.25 billion for non-nuclear property damage losses has been enacted to the primary policy offered by NEIL. If NEIL's losses in any policy year exceed accumulated funds, PNM is subject to retrospective premium assessments of $4.8 million for each retrospective premium assessment declared by NEIL's Board of Directors. The insurance coverages discussed in this and the previous paragraph are subject to policy conditions and exclusions.

Water Supply

Because of New Mexico's arid climate and periodic drought conditions, there is concern in New Mexico about the use of water, including that used for power generation. PNM has secured groundwater rights in connection with the existing plants at Reeves Station, Rio Bravo, Afton, Luna, and Lordsburg. Water availability is not an issue for these plants at this time. However, prolonged drought, ESA activities, and a Federal lawsuit by the State of Texas (suing the State of New Mexico over water allocations) could pose a threat of reduced water availability for these plants.

PNM, APS, and BHP have undertaken activities to secure additional water supplies for SJGS, Four Corners, and related mines to accommodate the possibility of inadequate precipitation in coming years. Since 2004, PNM has entered into agreements for voluntary sharing of the impacts of water shortages with tribes and other water users in the San Juan basin. This agreement has been extended through 2016. In addition, in the case of water shortage, PNM, APS, and BHP have reached agreement with the Jicarilla Apache Nation on a long-term supplemental contract relating to water for SJGS and Four Corners that runs through 2016. Although PNM does not believe that its operations will be materially affected by drought conditions at this time, it cannot forecast the weather or its ramifications, or how policy, regulations, and legislation may impact PNM should water shortages occur in the future.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

PVNGS Water Supply Litigation

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

San Juan River Adjudication

In 1975, the State of New Mexico filed an action in New Mexico District Court to adjudicate all water rights in the San Juan River Stream System, including water used at Four Corners and SJGS. PNM was made a defendant in the litigation in 1976. In March 2009, President Obama signed legislation confirming a 2005 settlement with the Navajo Nation. Under the terms of the settlement agreement, the Navajo Nation's water rights would be settled and finally determined by entry by the court of two proposed adjudication decrees. The court issued an order in August 2013 finding that no evidentiary hearing was warranted in the Navajo Nation proceeding, and on November 1, 2013 issued a Partial Final Judgment and Decree of the Water Rights of the Navajo Nation approving the proposed settlement with the Navajo Nation. Several parties filed a joint motion for a new trial, which was denied by the court. A number of parties subsequently appealed to the New Mexico Court of Appeals. PNM has entered its appearance in the appellate case. No hearing dates or deadlines have been set at this time.

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

Rights-of-Way Matter

On January 28, 2014, the County Commission of Bernalillo County, New Mexico passed an ordinance requiring utilities to enter into a use agreement and pay a yet to be determined fee as a condition to installing, maintaining, and operating facilities on county rights-of-way. The fee is purported to compensate the county for costs of administering, maintaining, and capital improvements to the rights-of-way. On February 27, 2014, PNM and other utilities filed a Complaint for Declaratory and Injunctive Relief in the United States District Court for the District of New Mexico challenging the validity of the ordinance. In June 2014, the utilities and Bernalillo County reached an agreement whereby the County would not take any enforcement action against the utilities pursuant to the ordinance during the pendency of the litigation, but not including any period for appeal of a judgment, or upon 30 days written notice by either the County or the utilities of their intention to terminate the agreement. The federal court ruled in favor of Bernalillo County, dismissing the state law claims. The utilities filed an amended complaint reflecting the two federal claims remaining before the federal court. The utilities also filed a complaint in Bernalillo County, New Mexico District Court reflecting the state law counts dismissed by the federal court. If the challenges to the ordinance are unsuccessful, PNM believes any fees paid pursuant to the ordinance would be considered franchise fees and would be recoverable from customers. PNM is unable to predict the outcome of this matter or its impact on PNM's operations.

Complaint Against Southwestern Public Service Company

In September 2005, PNM filed a complaint under the Federal Power Act against SPS alleging SPS overcharged PNM for deliveries of energy through its fuel cost adjustment clause practices and that rates for sales to PNM were excessive. PNM also intervened in a proceeding brought by other customers raising similar arguments relating to SPS' fuel cost adjustment clause practices and issues relating to demand cost allocation (the “Golden Spread Proceeding”). In addition, PNM intervened in a proceeding filed by SPS to revise its rates for sales to PNM (“SPS 2006 Rate Proceeding”). In 2008, FERC issued its order in the Golden Spread Proceeding affirming an ALJ decision that SPS violated its fuel cost adjustment clause tariffs, but shortening the refund period applicable to the violation of the fuel cost adjustment clause issues that had been ordered by the ALJ. FERC also reversed the decision of the ALJ, which had been favorable to PNM, on the demand cost allocation issues. PNM and SPS filed petitions for rehearing and clarification of the scope of the remedies that were ordered and seeking reversal of various rulings in the order. On August 15, 2013, FERC issued separate orders in the Golden Spread Proceeding and in the SPS 2006 Rate Proceeding. The order in the Golden Spread Proceeding determined that PNM was not entitled to refunds for SPS’ fuel cost adjustment clause practices. That order and the order in the SPS 2006 Rate Proceeding decided the demand cost allocation issues using the method that PNM had advocated. PNM, SPS, and other customers of SPS have filed requests for rehearing of these orders and they are pending further action by FERC. PNM cannot predict the final outcome of the case at FERC or the range of possible outcomes.

Navajo Nation Allottee Matters