

PNM RESOURCES INC  
 Form 10-Q  
 October 30, 2015  
Table of Contents

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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	<input type="checkbox"/>	NO	<input type="checkbox"/>
Public Service Company of New Mexico ("PNM")	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>
Texas-New Mexico Power Company ("TNMP")	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>

(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  
PNM  
TNMP

YES ü NO  
YES ü NO  
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 23, 2015, 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 23, 2015 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 23, 2015 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

	Page No.
<u>GLOSSARY</u>	<u>4</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	
<u>PNM RESOURCES, INC. AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>11</u>
<u>Condensed Consolidated Statement of Changes in Equity</u>	<u>13</u>
<u>PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings</u>	<u>14</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>15</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>16</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>18</u>
<u>Condensed Consolidated Statement of Changes in Equity</u>	<u>20</u>
<u>TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings</u>	<u>21</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>22</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>23</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>24</u>
<u>Condensed Consolidated Statement of Changes in Common Stockholder's Equity</u>	<u>26</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>27</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>79</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>110</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>113</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>113</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>114</u>
<u>ITEM 6. EXHIBITS</u>	<u>114</u>
<u>SIGNATURE</u>	<u>116</u>

Table of Contents

GLOSSARY

Definitions:

ABCWUA	Albuquerque-Bernalillo County Water Utility Authority
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, the operator and a co-owner of PVNGS and Four Corners
ASU	Accounting Standards Update
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BDT	Balanced Draft 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 <sub>2</sub>	Carbon Dioxide
COFA	Capacity Option and Funding Agreement
CSA	Coal Supply Agreement
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
EPE	El Paso Electric
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
FTY	Future Test Year
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

4

---

Table of Contents

ISFSI	Independent Spent Fuel Storage Installation
KW	Kilowatt
KWh	Kilowatt Hour
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
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.
NEE	New Energy Economy
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NMSC	New Mexico Supreme Court
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
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2013 Term Loan Agreement	PNM's \$75.0 Million Unsecured Term Loan
PNM 2014 Term Loan Agreement	PNM's \$175.0 Million Unsecured Term Loan
PNM Multi-draw Term Loan	PNM's \$125.0 Million Unsecured Multi-draw 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
PNMR	PNM Resources, Inc. and Subsidiaries
	PNMR's \$150.0 Million Unsecured Term Loan

PNMR 2015 Term  
Loan Agreement

PNMR Development      PNMR Development and Management Company, an unregulated wholly-owned subsidiary of  
PNMR

5

---



Table of Contents

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
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RA	San Juan Project Restructuring Agreement
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
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
S&P	Standard and Poor's Ratings Services
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
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 <sub>2</sub>	Sulfur Dioxide
SPS	Southwestern Public Service Company
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 Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tucson	Tucson Electric Power Company
UG-CSA	Underground Coal Sales Agreement
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,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Electric Operating Revenues	\$417,433	\$413,951	\$1,103,187	\$1,089,008
Operating Expenses:				
Cost of energy	124,255	132,499	353,939	354,532
Administrative and general	46,375	42,190	130,161	131,283
Energy production costs	42,168	43,287	129,627	136,422
Regulatory disallowances	—	—	1,744	—
Depreciation and amortization	47,503	44,295	139,013	128,424
Transmission and distribution costs	16,768	16,884	50,123	49,857
Taxes other than income taxes	18,859	17,997	55,093	51,641
Total operating expenses	295,928	297,152	859,700	852,159
Operating income	121,505	116,799	243,487	236,849
Other Income and Deductions:				
Interest income	1,151	2,084	4,842	6,241
Gains on available-for-sale securities	2,536	962	12,116	8,234
Other income	6,165	2,895	16,844	7,648
Other (deductions)	(3,222)	(2,084)	(10,591)	(7,185)
Net other income and deductions	6,630	3,857	23,211	14,938
Interest Charges	27,528	30,115	86,714	89,621
Earnings before Income Taxes	100,607	90,541	179,984	162,166
Income Taxes	35,752	31,055	61,621	53,368
Net Earnings	64,855	59,486	118,363	108,798
(Earnings) Attributable to Valencia Non-controlling Interest	(3,678)	(3,701)	(10,909)	(11,140)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Net Earnings Attributable to PNMR	\$61,045	\$55,653	\$107,058	\$97,262
Net Earnings Attributable to PNMR per Common Share:				
Basic	\$0.77	\$0.70	\$1.34	\$1.22
Diluted	\$0.76	\$0.69	\$1.34	\$1.21
Dividends Declared per Common Share	\$0.200	\$0.185	\$0.600	\$0.555

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,	
	2015	2014	2015	2014
	(In thousands)			
Net Earnings	\$64,855	\$59,486	\$118,363	\$108,798
Other Comprehensive Income (Loss):				
Unrealized Gain on Available-for-Sale Securities:				
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of \$1,200, \$(137), \$(1,213) and \$(3,946)	(1,862	) 210	1,882	6,256
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$3,925, \$1,059, \$8,838 and \$4,547	(6,090	) (1,628	) (13,714	) (6,997
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(583), \$(508), \$(1,749) and \$(1,524)	905	780	2,715	2,340
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of \$276, \$0, \$276 and \$53	(428	) —	(428	) (100
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$0, \$3, \$0 and \$(58)	—	(6	) —	109
Total Other Comprehensive Income (Loss)	(7,475	) (644	) (9,545	) 1,608
Comprehensive Income	57,380	58,842	108,818	110,406
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,678	) (3,701	) (10,909	) (11,140
Preferred Stock Dividend Requirements of Subsidiary	(132	) (132	) (396	) (396
Comprehensive Income Attributable to PNMR	\$53,570	\$55,009	\$97,513	\$98,870

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,	
	2015	2014
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$ 118,363	\$ 108,798
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	165,563	157,687
Deferred income tax expense	62,511	55,553
Net unrealized (gains) losses on commodity derivatives	1,251	(67 )
Realized (gains) on available-for-sale securities	(12,116 )	(8,234 )
Stock based compensation expense	3,748	4,680
Regulatory disallowances	1,744	—
Other, net	(4,301 )	(642 )
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(23,783 )	(22,158 )
Materials, supplies, and fuel stock	(3,629 )	5,494 )
Other current assets	37,756	(19,816 )
Other assets	12,350	30,502
Accounts payable	1,275	79
Accrued interest and taxes	28,233	32,488
Other current liabilities	(12,731 )	(21,197 )
Other liabilities	(40,662 )	3,074 )
Net cash flows from operating activities	335,572	326,241
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(411,606 )	(293,361 )
Proceeds from sales of available-for-sale securities	166,097	82,222
Purchases of available-for-sale securities	(166,268 )	(81,644 )
Return of principal on PVNGS lessor notes	21,694	20,758
Purchase of Rio Bravo	—	(36,235 )
Other, net	2,891	(3,433 )
Net cash flows from investing activities	(387,192 )	(311,693 )

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,	
	2015	2014
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	(3,000	) (49,200
Long-term borrowings	463,605	255,000
Repayment of long-term debt	(333,066	) (125,000
Proceeds from stock option exercise	7,394	5,495
Awards of common stock	(18,955	) (15,573
Dividends paid	(48,188	) (44,600
Valencia's transactions with its owner	(12,107	) (12,749
Other, net	(5,402	) (2,030
Net cash flows from financing activities	50,281	11,343
Change in Cash and Cash Equivalents	(1,339	) 25,891
Cash and Cash Equivalents at Beginning of Period	28,274	2,533
Cash and Cash Equivalents at End of Period	\$26,935	\$28,424
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$63,046	\$60,075
Income taxes paid (refunded), net	\$(1,636	) \$(2,529
Supplemental schedule of noncash investing and financing activities:		
Changes in accrued plant additions	\$(8,748	) \$(6,674

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, 2015	December 31, 2014
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$26,935	\$28,274
Accounts receivable, net of allowance for uncollectible accounts of \$1,363 and \$1,466	110,562	87,038
Unbilled revenues	61,739	63,719
Other receivables	22,234	39,857
Materials, supplies, and fuel stock	67,256	63,628
Regulatory assets	4,957	47,855
Commodity derivative instruments	6,144	11,232
Income taxes receivable	5,614	6,360
Current portion of accumulated deferred income taxes	26,383	26,383
Other current assets	76,161	58,471
Total current assets	407,985	432,817
Other Property and Investments:		
Investment in PVNGS lessor notes	—	9,538
Available-for-sale securities	242,795	250,145
Other investments	490	1,762
Non-utility property	3,404	3,406
Total other property and investments	246,689	264,851
Utility Plant:		
Plant in service and plant held for future use	6,147,782	5,941,581
Less accumulated depreciation and amortization	2,043,482	1,939,760
	4,104,300	4,001,821
Construction work in progress	366,980	190,389
Nuclear fuel, net of accumulated amortization of \$51,719 and \$44,507	79,954	77,796
Net utility plant	4,551,234	4,270,006
Deferred Charges and Other Assets:		
Regulatory assets	464,766	491,007
Goodwill	278,297	278,297
Commodity derivative instruments	3,369	—
Other deferred charges	100,512	92,347
Total deferred charges and other assets	846,944	861,651
	\$6,052,852	\$5,829,325

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, 2015	December 31, 2014
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Short-term debt	\$ 102,600	\$ 105,600
Current installments of long-term debt	125,000	333,066
Accounts payable	120,052	110,029
Customer deposits	12,502	12,555
Accrued interest and taxes	81,932	53,863
Regulatory liabilities	2,205	1,703
Commodity derivative instruments	984	1,209
Dividends declared	16,063	16,063
Other current liabilities	57,249	70,194
Total current liabilities	518,587	704,282
Long-term Debt	1,980,381	1,642,024
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	949,642	891,111
Regulatory liabilities	472,035	466,143
Asset retirement obligations	111,595	104,170
Accrued pension liability and postretirement benefit cost	66,346	110,738
Commodity derivative instruments	—	477
Other deferred credits	107,072	103,759
Total deferred credits and other liabilities	1,706,690	1,676,398
Total liabilities	4,205,658	4,022,704
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)	1,165,895	1,173,845
Accumulated other comprehensive income (loss), net of income taxes	(71,300	) (61,755 )
Retained earnings	668,722	609,456
Total PNMR common stockholders' equity	1,763,317	1,721,546
Non-controlling interest in Valencia	72,348	73,546
Total equity	1,835,665	1,795,092
	\$ 6,052,852	\$ 5,829,325

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			Total PNMR Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock	AOCI	Retained Earnings			
	(In thousands)					
Balance at December 31, 2014	\$1,173,845	\$(61,755 )	\$609,456	\$1,721,546	\$73,546	\$1,795,092
Proceeds from stock option exercise	7,394	—	—	7,394	—	7,394
Awards of common stock	(18,955 )	—	—	(18,955 )	—	(18,955 )
Excess tax (shortfall) from stock-based payment arrangements	(137 )	—	—	(137 )	—	(137 )
Stock based compensation expense	3,748	—	—	3,748	—	3,748
Valencia's transactions with its owner—	—	—	—	—	(12,107 )	(12,107 )
Net earnings before subsidiary preferred stock dividends	—	—	107,454	107,454	10,909	118,363
Subsidiary preferred stock dividends	—	—	(396 )	(396 )	—	(396 )
Total other comprehensive income (loss)	—	(9,545 )	—	(9,545 )	—	(9,545 )
Dividends declared on common stock—	—	—	(47,792 )	(47,792 )	—	(47,792 )
Balance at September 30, 2015	\$1,165,895	\$(71,300 )	\$668,722	\$1,763,317	\$72,348	\$1,835,665

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,	
	2015	2014	2015	2014
	(In thousands)			
Electric Operating Revenues	\$333,437	\$334,993	\$870,826	\$873,434
Operating Expenses:				
Cost of energy	105,708	115,097	299,302	304,365
Administrative and general	41,927	37,519	118,450	116,731
Energy production costs	42,168	43,287	129,627	136,422
Regulatory disallowances	—	—	1,744	—
Depreciation and amortization	29,042	27,524	86,446	81,629
Transmission and distribution costs	10,478	10,693	31,519	32,202
Taxes other than income taxes	10,404	10,258	31,194	30,359
Total operating expenses	239,727	244,378	698,282	701,708
Operating income	93,710	90,615	172,544	171,726
Other Income and Deductions:				
Interest income	1,152	2,102	4,869	6,295
Gains on available-for-sale securities	2,536	962	12,116	8,234
Other income	5,369	1,804	13,661	5,359
Other (deductions)	(2,616)	(1,197)	(7,230)	(4,844)
Net other income and deductions	6,441	3,671	23,416	15,044
Interest Charges	19,837	20,092	59,477	59,927
Earnings before Income Taxes	80,314	74,194	136,483	126,843
Income Taxes	27,258	25,142	44,560	42,331
Net Earnings	53,056	49,052	91,923	84,512
(Earnings) Attributable to Valencia Non-controlling Interest	(3,678)	(3,701)	(10,909)	(11,140)
Net Earnings Attributable to PNM	49,378	45,351	81,014	73,372
Preferred Stock Dividends Requirements	(132)	(132)	(396)	(396)
Net Earnings Available for PNM Common Stock	\$49,246	\$45,219	\$80,618	\$72,976

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, 2015		2014		Nine Months Ended September 30, 2015		2014	
	(In thousands)							
Net Earnings	\$53,056		\$49,052		\$91,923		\$84,512	
Other Comprehensive Income (Loss):								
Unrealized Gain on Available-for-Sale Securities:								
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of \$1,200, \$(137), \$(1,213) and \$(3,946)	(1,862	)	210		1,882		6,256	
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$3,925, \$1,059, \$8,838 and \$4,547	(6,090	)	(1,628	)	(13,714	)	(6,997	)
Pension Liability Adjustment:								
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(583), \$(508), \$(1,749) and \$(1,524)	905		780		2,715		2,340	
Total Other Comprehensive Income (Loss)	(7,047	)	(638	)	(9,117	)	1,599	
Comprehensive Income	46,009		48,414		82,806		86,111	
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,678	)	(3,701	)	(10,909	)	(11,140	)
Comprehensive Income Attributable to PNM	\$42,331		\$44,713		\$71,897		\$74,971	

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,	
	2015	2014
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$91,923	\$84,512
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	111,371	108,069
Deferred income tax expense	46,268	45,313
Net unrealized (gains) losses on commodity derivatives	1,251	(67 )
Realized (gains) on available-for-sale securities	(12,116	) (8,234 )
Regulatory disallowances	1,744	—
Other, net	(5,288	) (355 )
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(16,220	) (16,782 )
Materials, supplies, and fuel stock	(3,328	) 5,697
Other current assets	36,707	(20,806 )
Other assets	12,126	29,796
Accounts payable	(794	) 10,100
Accrued interest and taxes	22,856	19,984
Other current liabilities	(12,099	) (21,586 )
Other liabilities	(34,224	) 2,841
Net cash flows from operating activities	240,177	238,482
Cash Flows From Investing Activities:		
Utility plant additions	(301,410	) (199,771 )
Proceeds from sales of available-for-sale securities	166,097	82,222
Purchases of available-for-sale securities	(166,268	) (81,644 )
Return of principal on PVNGS lessor notes	21,694	20,758
Purchase of Rio Bravo	—	(36,235 )
Other, net	3,051	(3,404 )
Net cash flows from investing activities	(276,836	) (218,074 )

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,	
	2015	2014
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	—	(49,200 )
Short-term borrowings (repayments), affiliate, net	—	(26,000 )
Long-term borrowings	313,605	175,000
Repayment of long-term debt	(214,300 )	(75,000 )
Valencia's transactions with its owner	(12,107 )	(12,749 )
Dividends paid	(46,548 )	(30,659 )
Other, net	(4,934 )	(1,196 )
Net cash flows from financing activities	35,716	(19,804 )
Change in Cash and Cash Equivalents	(943 )	) 604
Cash and Cash Equivalents at Beginning of Period	25,480	21
Cash and Cash Equivalents at End of Period	\$24,537	\$625
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$42,680	\$41,606
Income taxes paid (refunded), net	\$(1,450 )	) \$(215 )
Supplemental schedule of noncash investing activities:		
Changes in accrued plant additions	\$(9,933 )	) \$(10,586 )

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, 2015	December 31, 2014
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$24,537	\$25,480
Accounts receivable, net of allowance for uncollectible accounts of \$1,363 and \$1,466	83,401	67,622
Unbilled revenues	52,342	54,140
Other receivables	19,036	37,622
Affiliate receivables	8,859	8,853
Materials, supplies, and fuel stock	64,186	60,859
Regulatory assets	3,064	43,980
Commodity derivative instruments	6,144	11,232
Income taxes receivable	6,363	6,105
Current portion of accumulated deferred income taxes	12,418	12,418
Other current assets	70,796	53,095
Total current assets	351,146	381,406
Other Property and Investments:		
Investment in PVNGS lessor notes	—	9,538
Available-for-sale securities	242,795	250,145
Other investments	252	397
Non-utility property	96	96
Total other property and investments	243,143	260,176
Utility Plant:		
Plant in service and plant held for future use	4,728,597	4,581,066
Less accumulated depreciation and amortization	1,556,065	1,486,406
	3,172,532	3,094,660
Construction work in progress	307,676	169,673
Nuclear fuel, net of accumulated amortization of \$51,719 and \$44,507	79,954	77,796
Net utility plant	3,560,162	3,342,129
Deferred Charges and Other Assets:		
Regulatory assets	337,712	357,045
Goodwill	51,632	51,632
Commodity derivative instruments	3,369	—
Other deferred charges	90,389	81,264
Total deferred charges and other assets	483,102	489,941
	\$4,637,553	\$4,473,652

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, 2015	December 31, 2014
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Current installments of long-term debt	\$ 125,000	\$ 214,300
Accounts payable	95,194	86,055
Affiliate payables	17,070	18,232
Customer deposits	12,502	12,555
Accrued interest and taxes	52,994	29,298
Regulatory liabilities	2,205	1,703
Commodity derivative instruments	984	1,209
Dividends declared	132	132
Other current liabilities	40,798	52,053
Total current liabilities	346,879	415,537
Long-term Debt	1,464,991	1,276,357
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	758,182	715,814
Regulatory liabilities	435,473	425,481
Asset retirement obligations	110,545	103,182
Accrued pension liability and postretirement benefit cost	59,367	102,850
Commodity derivative instruments	—	477
Other deferred credits	90,034	86,023
Total deferred credits and liabilities	1,453,601	1,433,827
Total liabilities	3,265,471	3,125,721
<b>Commitments and Contingencies (See Note 11)</b>		
<b>Cumulative Preferred Stock</b>		
without mandatory redemption requirements (\$100 stated value; 10,000,000 authorized; issued and outstanding 115,293 shares)	11,529	11,529
<b>Equity:</b>		
<b>PNM common stockholder's equity:</b>		
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	(70,872	) (61,755 )
Retained earnings	297,301	262,835
Total PNM common stockholder's equity	1,288,205	1,262,856
Non-controlling interest in Valencia	72,348	73,546
Total equity	1,360,553	1,336,402
	\$ 4,637,553	\$ 4,473,652

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			Total PNM Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock (In thousands)	AOCI	Retained Earnings			
Balance at December 31, 2014	\$1,061,776	\$(61,755 )	\$262,835	\$1,262,856	\$73,546	\$1,336,402
Valencia's transactions with its owner	—	—	—	—	(12,107 )	(12,107 )
Net earnings	—	—	81,014	81,014	10,909	91,923
Total other comprehensive income (loss)	—	(9,117 )	—	(9,117 )	—	(9,117 )
Dividends declared on preferred stock	—	—	(396 )	(396 )	—	(396 )
Dividends declared on common stock	—	—	(46,152 )	(46,152 )	—	(46,152 )
Balance at September 30, 2015	\$1,061,776	\$(70,872 )	\$297,301	\$1,288,205	\$72,348	\$1,360,553

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,	
	2015	2014	2015	2014
	(In thousands)			
Electric Operating Revenues	\$83,996	\$78,958	\$232,361	\$215,574
Operating Expenses:				
Cost of energy	18,547	17,402	54,637	50,167
Administrative and general	9,071	9,230	26,946	27,839
Depreciation and amortization	15,016	13,432	42,065	37,276
Transmission and distribution costs	6,290	6,191	18,604	17,655
Taxes other than income taxes	7,405	6,830	19,782	18,238
Total operating expenses	56,329	53,085	162,034	151,175
Operating income	27,667	25,873	70,327	64,399
Other Income and Deductions:				
Other income	774	1,072	3,106	2,078
Other (deductions)	(102)	(279)	(349)	(583)
Net other income and deductions	672	793	2,757	1,495
Interest Charges	6,855	6,870	20,636	20,122
Earnings before Income Taxes	21,484	19,796	52,448	45,772
Income Taxes	7,795	7,441	19,200	17,081
Net Earnings	\$13,689	\$12,355	\$33,248	\$28,691

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Net Earnings	\$ 13,689	\$ 12,355	\$ 33,248	\$ 28,691
Other Comprehensive Income:				
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of \$0, \$0, \$0 and \$53	—	—	—	(100 )
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$0, \$3, \$0 and \$(58)	—	(6 )	—	109
Total Other Comprehensive Income (Loss)	—	(6 )	—	9
Comprehensive Income	\$ 13,689	\$ 12,349	\$ 33,248	\$ 28,700

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,	
	2015	2014
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$33,248	\$28,691
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	43,272	39,577
Deferred income tax expense	3,575	4,256
Other, net	(125	) (169
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(7,563	) (5,376
Materials and supplies	(301	) (203
Other current assets	2,712	1,761
Other assets	(272	) (58
Accounts payable	(210	) (1,302
Accrued interest and taxes	19,757	19,054
Other current liabilities	1,033	(1,217
Other liabilities	(5,870	) 1,397
Net cash flows from operating activities	89,256	86,411
Cash Flows From Investing Activities:		
Utility plant additions	(90,497	) (88,940
Net cash flows from investing activities	(90,497	) (88,940
Cash Flow From Financing Activities:		
Short-term borrowings (repayments), net	(5,000	) —
Short-term borrowings (repayments) – affiliate, net	25,800	(10,300
Long-term borrowings	—	80,000
Repayment of long-term debt	—	(50,000
Dividends paid	(19,559	) (16,336
Other, net	—	(835
Net cash flows from financing activities	1,241	2,529
Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents at Beginning of Period	1	1
Cash and Cash Equivalents at End of Period	\$1	\$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$13,308	\$11,778
Income taxes paid (refunded), net	\$545	\$(299
Supplemental schedule of noncash investing and financing activities:		
Changes in accrued plant additions	\$(216	) \$1,658

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, 2015	December 31, 2014
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1	\$ 1
Accounts receivable	27,161	19,416
Unbilled revenues	9,397	9,579
Other receivables	1,009	2,063
Materials and supplies	3,070	2,769
Regulatory assets	1,893	3,875
Current portion of accumulated deferred income taxes	6,398	6,398
Other current assets	1,256	938
Total current assets	50,185	45,039
Other Property and Investments:		
Other investments	238	242
Non-utility property	2,240	2,240
Total other property and investments	2,478	2,482
Utility Plant:		
Plant in service and plant held for future use	1,235,573	1,182,112
Less accumulated depreciation and amortization	399,479	375,407
	836,094	806,705
Construction work in progress	42,535	16,538
Net utility plant	878,629	823,243
Deferred Charges and Other Assets:		
Regulatory assets	127,054	133,962
Goodwill	226,665	226,665
Other deferred charges	8,186	8,850
Total deferred charges and other assets	361,905	369,477
	\$ 1,293,197	\$ 1,240,241

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, 2015	December 31, 2014
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
Current Liabilities:		
Short-term debt	\$—	\$5,000
Short-term debt – affiliate	48,500	22,700
Accounts payable	14,210	14,203
Affiliate payables	2,596	2,469
Accrued interest and taxes	48,331	28,574
Other current liabilities	3,145	2,271
Total current liabilities	116,782	75,217
Long-term Debt	365,390	365,667
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	221,714	217,945
Regulatory liabilities	36,562	40,662
Asset retirement obligations	902	848
Accrued pension liability and postretirement benefit cost	6,979	7,888
Other deferred credits	6,514	7,349
Total deferred credits and other liabilities	272,671	274,692
Total liabilities	754,843	715,576
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
Retained earnings	134,124	120,435
Total common stockholder's equity	538,354	524,665
	\$1,293,197	\$1,240,241

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	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
Balance at December 31, 2014	\$64	\$404,166	\$120,435	\$524,665
Net earnings	—	—	33,248	33,248
Dividends declared on common stock	—	—	(19,559	) (19,559
Balance at September 30, 2015	\$64	\$404,166	\$134,124	\$538,354

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, 2015 and December 31, 2014, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2015 and 2014, and the consolidated cash flows for the nine months ended September 30, 2015 and 2014. 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 2014 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2015 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 2014 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 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 equity transactions. 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 \$0.200 per share in July 2015 and \$0.185 in July 2014, which are reflected as being in the second quarter within "Dividends Declared per Common Share" on the PNMR Condensed

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)

Consolidated Statements of Earnings. The Board declared dividends on common stock considered to be for the third quarter of \$0.200 per share in September 2015 and \$0.185 in September 2014, 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 common stock to PNMR of \$46.2 million and \$30.3 million in the nine months ended September 30, 2015 and 2014. TNMP declared and paid cash dividends of \$19.6 million and \$16.3 million in the nine months ended September 30, 2015 and 2014

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. On August 12, 2015, the FASB issued a one-year deferral in the effective date. The Company must now adopt the new standard beginning on January 1, 2018. Early adoption would be permitted beginning January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method although it is unlikely the Company would elect to early adopt the new standard. The Company is analyzing the impacts this new standard will have on its consolidated financial statements and related disclosures, but has not determined the effect of the standard on its ongoing financial reporting.

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 analyzing the impacts of this new standard.

Accounting Standards Update 2015-03 - Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs

On April 7, 2015, the FASB issued ASU No. 2015-03, which requires that issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction of the carrying amount of that debt and not as an asset.

The new standard was subsequently amended to not require a reduction of debt liabilities for issuance costs related to line-of-credit arrangements. The ASU is effective for the Company for reporting periods beginning after December 15, 2015, with early adoption permitted. The Company is evaluating the impacts of the ASU. Currently, unamortized debt issuance costs that would be reclassified are included in other deferred charges on the Condensed Consolidated Balance Sheets and, at September 30, 2015, amounted to \$13.9 million for PNMR, \$9.7 million for PNM, and \$4.0 million for TNMP.

Accounting Standards Update 2015-07 - Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)

On May 1, 2015, the FASB issued ASU No. 2015-07, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The new standard is effective for reporting periods beginning after December 31, 2016, with early adoption permitted. Once adopted, the update is required to be applied on a retrospective basis for all periods presented. The Company is in the process of analyzing this new standard; however, it is not expected to have a significant impact on the financial statements other than the disclosure 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)

presentation of certain investments of the Company's employee benefit plans that are measured using the net asset value practical expedient.

## (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,	
	2015	2014	2015	2014
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	\$ 61,045	\$ 55,653	\$ 107,058	\$ 97,262
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	100	112	103	134
Average Shares – Basic	79,754	79,766	79,757	79,788
Dilutive Effect of Common Stock Equivalents <sup>(1)</sup> :				
Stock options and restricted stock	362	457	377	491
Average Shares – Diluted	80,116	80,223	80,134	80,279
Net Earnings Per Share of Common Stock:				
Basic	\$ 0.77	\$ 0.70	\$ 1.34	\$ 1.22
Diluted	\$ 0.76	\$ 0.69	\$ 1.34	\$ 1.21

<sup>(1)</sup> Excludes the effect of out-of-the-money options for 244,900 shares of common stock at September 30, 2015.

## (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.



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

## PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended September 30, 2015				
Electric operating revenues	\$333,437	\$83,996	\$—	\$417,433
Cost of energy	105,708	18,547	—	124,255
Margin	227,729	65,449	—	293,178
Other operating expenses	104,977	22,766	(3,573)	) 124,170
Depreciation and amortization	29,042	15,016	3,445	47,503
Operating income	93,710	27,667	128	121,505
Interest income	1,152	—	(1)	) 1,151
Other income (deductions)	5,289	672	(482)	) 5,479
Net interest charges	(19,837)	) (6,855)	) (836)	) (27,528)
Segment earnings (loss) before income taxes	80,314	21,484	(1,191)	) 100,607
Income taxes	27,258	7,795	699	35,752
Segment earnings (loss)	53,056	13,689	(1,890)	) 64,855
Valencia non-controlling interest	(3,678)	) —	—	(3,678)
Subsidiary preferred stock dividends	(132)	) —	—	(132)
Segment earnings (loss) attributable to PNMR	\$49,246	\$13,689	\$(1,890)	) \$61,045
Nine Months Ended September 30, 2015				
Electric operating revenues	\$870,826	\$232,361	\$—	\$1,103,187
Cost of energy	299,302	54,637	—	353,939
Margin	571,524	177,724	—	749,248
Other operating expenses	312,534	65,332	(11,118)	) 366,748
Depreciation and amortization	86,446	42,065	10,502	139,013
Operating income	172,544	70,327	616	243,487
Interest income	4,869	—	(27)	) 4,842
Other income (deductions)	18,547	2,757	(2,935)	) 18,369
Net interest charges	(59,477)	) (20,636)	) (6,601)	) (86,714)
Segment earnings (loss) before income taxes	136,483	52,448	(8,947)	) 179,984
Income taxes (benefit)	44,560	19,200	(2,139)	) 61,621
Segment earnings (loss)	91,923	33,248	(6,808)	) 118,363
Valencia non-controlling interest	(10,909)	) —	—	(10,909)
Subsidiary preferred stock dividends	(396)	) —	—	(396)
Segment earnings (loss) attributable to PNMR	\$80,618	\$33,248	\$(6,808)	) \$107,058

Edgar Filing: PNM RESOURCES INC - Form 10-Q

At September 30, 2015:

Total Assets	\$4,637,553	\$1,293,197	\$122,102	\$6,052,852
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, 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
(4) Accumulated Other Comprehensive Income (Loss)				

Information regarding accumulated other comprehensive income (loss) for the nine months ended September 30, 2015 and 2014 is as follows:

31

---

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)					
	PNM Unrealized Gain on Available-for- Sale Securities (In thousands)	Pension Liability Adjustment	Total	TNMP Fair Value Adjustment for Cash Flow Hedges	PNMR Fair Value Adjustment for Cash Flow Hedges	Total
Balance at December 31, 2014	\$28,008	\$(89,763 )	\$(61,755 )	\$—	\$—	\$(61,755 )
Amounts reclassified from AOCI (pre-tax)	(22,552 )	4,464	(18,088 )	—	—	(18,088 )
Income tax impact of amounts reclassified	8,838	(1,749 )	7,089	—	—	7,089
Other OCI changes (pre-tax)	3,095	—	3,095	—	(704 )	2,391
Income tax impact of other OCI changes	(1,213 )	—	(1,213 )	—	276	(937 )
Net change after income taxes	(11,832 )	2,715	(9,117 )	—	(428 )	(9,545 )
Balance at September 30, 2015	\$16,176	\$(87,048 )	\$(70,872 )	\$—	\$(428 )	\$(71,300 )
Balance at December 31, 2013	\$25,748	\$(83,625 )	\$(57,877 )	\$(263 )	\$—	\$(58,140 )
Amounts reclassified from AOCI (pre-tax)	(11,544 )	3,864	(7,680 )	167	—	(7,513 )
Income tax impact of amounts reclassified	4,547	(1,524 )	3,023	(58 )	—	2,965
Other OCI changes (pre-tax)	10,202	—	10,202	(153 )	—	10,049
Income tax impact of other OCI changes	(3,946 )	—	(3,946 )	53	—	(3,893 )
Net change after income taxes	(741 )	2,340	1,599	9	—	1,608
Balance at September 30, 2014	\$25,007	\$(81,285 )	\$(56,278 )	\$(254 )	\$—	\$(56,532 )

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, 2015 and 2014, 22.4% and 23.6% of the pension amounts reclassified were capitalized into construction work in process and 2.5% and 1.7% 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.

(5) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity. 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 2014 Annual Reports on Form 10-K.

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)

## 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, 2015, PNM paid \$4.9 million and \$14.5 million for fixed charges and \$0.3 million and \$0.9 million for variable charges. 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. 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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Operating revenues	\$5,182	\$5,061	\$15,337	\$15,300
Operating expenses	(1,504)	(1,360)	(4,428)	(4,160)
Earnings attributable to non-controlling interest	\$3,678	\$3,701	\$10,909	\$11,140

## Financial Position

	September 30,	December 31,
	2015	2014
	(In thousands)	
Current assets	\$3,410	\$2,513
Net property, plant, and equipment	70,471	72,321
Total assets	73,881	74,834
Current liabilities	1,533	1,288
Owners' equity – non-controlling interest	\$72,348	\$73,546

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) 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 NMPRC and FERC would be required, which could take up to 15 months. On May 30, 2014, after evaluating its alternatives with respect to Valencia, PNM notified the owner of Valencia that PNM intended



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)

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. The owner of Valencia subsequently submitted a counter-proposal to PNM in April 2015. PNM is evaluating available options. PNM cannot predict if 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 provided 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 provided 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 could be further extended for up to an additional six years if the appraised remaining useful lives and fair value of the leased assets were greater than parameters set forth in the leases. See Note 7 of the Notes to Consolidated Financial Statements in the 2014 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, 2015, these payments, which, net of amounts that will be returned to PNM through its ownership in related lessor notes and the Unit 2 beneficial trust, aggregate \$140.1 million, including the renewal terms of the leases that PNM has 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, 2015, PNM could have been required to pay the beneficial owners up to \$205.8 million on January 15, 2016 in addition to the regularly scheduled lease payments. In such event, PNM would record the acquired assets at the lower of their fair value or the aggregate of the amount paid and PNM's carrying value of its investment in PVNGS lessor notes. 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 no assets or liabilities recorded on its Condensed Consolidated Balance Sheets related to the trusts other than accrued lease payments of \$8.4 million at September 30, 2015 and \$26.0 million at December 31, 2014, which are included in other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has evaluated the PVNGS lease arrangements, including actions taken with respect to renewal and purchase options, 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.

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 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 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. PNM closed on the purchase on July 17, 2014 and recorded the purchase as of that date. PNM changed the name of the facility to Rio Bravo.

34

---

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 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. PNM recovered the variable energy charges through its FPPAC.

PNM began including the assets, liabilities, and operations of Rio Bravo at the date of the acquisition. Prior to the acquisition, consolidation of Delta would have been immaterial to 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 leased an interest in the EIP transmission line through April 1, 2015. All of the Company's leases are accounted for as operating leases. Additional information concerning the Company's lease commitments is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2014 Annual Reports on Form 10-K, including information regarding renewal and purchase options, and actions taken by PNM under the PVNGS leases.

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. The four Unit 1 leases have been extended to expire on January 15, 2023 and one of the Unit 2 leases has been extended to expire on January 15, 2024. For the other three PVNGS Unit 2 leases, PNM elected to purchase the assets underlying those leases on the expiration date of the original leases and has entered into agreements with the lessors that establish the purchase prices, representing the fair market value, to be paid on January 15, 2016 by PNM for the assets underlying the leases. The leases remain in existence and PNM will record the purchases at the termination of the leases on January 15, 2016.

PNM will pay \$78.1 million for the assets underlying one of the Unit 2 leases, which is for 31.25 MW of the entitlement from PVNGS Unit 2. On September 18, 2015, PNM entered into a definitive agreement to implement the purchase by PNM of the generating capacity under this lease on January 15, 2016, at which time the purchase price will be paid by PNM and the transfer of the leased interests will take place. PNM will pay \$85.2 million for the assets underlying the other two Unit 2 leases, which are for 32.76 MW of the entitlement from PVNGS Unit 2. PNMR Development is also a party to the agreement regarding these two leases, 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. PNMR does not anticipate that PNMR Development will exercise the early purchase option.

At March 31, 2015, PNM owned 60% of the EIP and leased the other 40%, under a lease that expired on April 1, 2015. Following procedures set forth in the lease, PNM and the lessor entered into a definitive agreement for PNM to exercise its option to purchase on April 1, 2015 the leased capacity at fair market value, which the parties agreed would be \$7.7 million. PNM closed on the purchase on April 1, 2015 and recorded the purchase of the assets

underlying the lease at that date.

(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

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)

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 2014 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. During the nine months ended September 30, 2015 and the year ended December 31, 2014, 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, 2015	December 31, 2014
PNMR and PNM	(In thousands)	

Edgar Filing: PNM RESOURCES INC - Form 10-Q

Current assets	\$6,144	\$11,232	
Deferred charges	3,369	—	
	9,513	11,232	
Current liabilities	(984	) (1,209	)
Long-term liabilities	—	(477	)
	(984	) (1,686	)
Net	\$8,529	\$9,546	

36

---

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)

Included in the above table are \$2.2 million of current assets and \$3.4 million in deferred charges at September 30, 2015 and \$3.0 million of current assets at December 31, 2014 related to contracts for the sale of energy from PVNGS Unit 3 through 2017 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, 2015 and December 31, 2014.

At September 30, 2015 and December 31, 2014, PNMR and PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at September 30, 2015 and December 31, 2014, amounts posted as cash collateral under margin arrangements were \$1.2 million and \$3.8 million for both PNMR and PNM. At September 30, 2015 and December 31, 2014, obligations to return cash collateral were \$0.1 million and \$0.2 million, for both PNMR and PNM. 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 \$0.3 million of current assets and less than \$0.1 million of current liabilities at September 30, 2015 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets. At December 31, 2014, there were no hedges in place under this plan.

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,	
	2015	2014	2015	2014
PNMR and PNM	(In thousands)			
Electric operating revenues	\$6,823	\$2,352	\$7,354	\$(2,124 )
Cost of energy	(78 )	(60 )	(227 )	186
Total gain (loss)	\$6,745	\$2,292	\$7,127	\$(1,938 )

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
PNMR and PNM		
September 30, 2015	1,227,498	(2,942,281 )
December 31, 2014	650,000	(1,919,000 )

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

37

---



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 existing contracts and does not reflect letters of credit under PNM'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.

Contingent Feature – Credit Rating Downgrade	Contractual Liability (In thousands)	Existing Cash Collateral	Net Exposure
PNMR and PNM			
September 30, 2015	\$967	\$—	\$207
December 31, 2014	\$1,686	\$—	\$167

## Sale of Power from PVNGS Unit 3

Because PNM's 134 MW share of Unit 3 at PVNGS is not currently included in retail rates, that unit's power is being sold in the wholesale market. As of September 30, 2015, PNM had contracted to sell 100% of PVNGS Unit 3 output through 2017, at market price plus a premium. Through hedging arrangements that are accounted for as economic hedges, PNM has established fixed rates, which average approximately \$37 per MWh, for substantially all of the sales through 2015. There are currently no hedging arrangements in place for the 2016 and 2017 sales.

## 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 serving SJGS (Note 11). At September 30, 2015 and December 31, 2014, the fair value of available-for-sale securities included \$237.3 million and \$244.6 million for the NDT and \$5.5 million and \$5.5 million for the mine reclamation trust. The fair value and gross unrealized gains of investments in available-for-sale securities are presented in the following table.

	September 30, 2015		December 31, 2014	
	Unrealized Gains	Fair Value	Unrealized Gains	Fair Value
	(In thousands)			
PNMR and PNM				
Cash and cash equivalents	\$—	\$28,813	\$—	\$8,276
Equity securities:				
Domestic value	11,880	42,769	17,418	45,340
Domestic growth	10,124	58,424	21,354	74,053
International and other	1	1,681	156	16,599
Fixed income securities:				
U.S. Government	598	25,544	903	22,563
Municipals	3,499	61,106	5,851	68,973
Corporate and other	618	24,458	666	14,341

\$26,720      \$242,795      \$46,348      \$250,145

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. Gross realized losses shown below exclude the change in realized impairment losses of \$(2.4) million and \$(3.2) million for the three and nine months ended September 30, 2015 and \$(1.2) million and \$(0.7) million for the three and nine months ended September 30, 2014.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
	(In thousands)			
Proceeds from sales	\$71,576	\$29,103	\$166,097	\$82,222
Gross realized gains	\$8,998	\$3,134	\$22,463	\$11,616
Gross realized (losses)	\$(4,014)	\$(936)	\$(7,133)	\$(2,731)

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 securities impairments considered to be "other than temporary" included in AOCI. All such impairments have been recognized in earnings.

At September 30, 2015, 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	\$4,558	\$8,947	\$8,947
After 1 year through 5 years	21,516	652	—
After 5 years through 10 years	23,048	—	—
After 10 years through 15 years	11,105	—	—
After 15 years through 20 years	10,593	—	—
After 20 years	40,288	—	—
	\$111,108	\$9,599	\$8,947

#### 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. 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, 2015 and the year ended December 31, 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)

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. 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.

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)

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, 2015 and December 31, 2014 for items recorded at fair value.

	Total	GAAP Fair Value Hierarchy	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
September 30, 2015	(In thousands)		
PNMR and PNM			
Available-for-sale securities			
Cash and cash equivalents	\$28,813	\$28,813	\$—
Equity securities:			
Domestic value	42,769	42,769	—
Domestic growth	58,424	58,424	—
International and other	1,681	1,681	—
Fixed income securities:			
U.S. Government	25,544	24,254	1,290
Municipals	61,106	—	61,106
Corporate and other	24,458	4,169	20,289
	\$242,795	\$160,110	\$82,685
Commodity derivative assets	\$9,513		