

PNM RESOURCES INC
 Form 10-Q
 November 06, 2018
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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, 2018

Commission File Number	Name of Registrants, State of Incorporation, Address Of Principal Executive Offices and Telephone Numbers	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 NO
 Public Service Company of New Mexico ("PNM") YES NO
 Texas-New Mexico Power Company ("TNMP") YES NO

(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 YESüNO
PNM YESüNO
TNMP YESüNO

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Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PNMR	<input checked="" type="checkbox"/>				
PNM			<input checked="" type="checkbox"/>		
TNMP			<input checked="" type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 30, 2018, 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 30, 2018 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 30, 2018 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.

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

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GLOSSARY

Definitions:

2014 IRP	PNM's 2014 IRP
2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
AEP OnSite Partners	AEP OnSite Partners, LLC, a subsidiary of American Electric Power, Inc.
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
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
ARP	Alternative Revenue Program
ASU	Accounting Standards Update
August 2016 RD	Recommended Decision in PNM's NM 2015 Rate Case issued by the Hearing Examiner on August 4, 2016
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
Board	Board of Directors of PNMR
BTMU	MUFG Bank Ltd., formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan Agreement	NM Capital's \$125.0 Million Unsecured Term Loan
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO ₂	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIM	California Independent System Operator Western Energy Imbalance Market
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
Four Corners CSA	Four Corners Power Plant Coal Supply Agreement
FPPAC	Fuel and Purchased Power Adjustment Clause
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions

GWh	Gigawatt hours
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
KW	Kilowatt
KWh	Kilowatt Hour

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La Luz	La Luz Generating Station
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
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million British Thermal Units
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
NM 2015 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on August 27, 2015
NM 2016 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on December 7, 2016
NM Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR
NM District Court	United States District Court for the District of New Mexico
NM Supreme Court	New Mexico Supreme Court
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMMMD	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
NMRD	NM Renewable Development, LLC, owned 50% each by PNMR Development and AEP OnSite Partners, LLC
NO ₂	Nitrogen Dioxide
NO _x	Nitrogen Oxide
NOPR	Notice of Proposed Rulemaking
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NTEC	Navajo Transitional Energy Company, LLC, an entity owned by the Navajo Nation
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

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PNM 2017 New Mexico Credit Facility	PNM's \$40.0 Million Unsecured Revolving Credit Facility
PNM 2017 Senior Unsecured Note Agreement	PNM's Agreement for the sale of Senior Unsecured Notes, aggregating \$450.0 million
PNM 2017 Term Loan Agreement	PNM's \$200.0 Million Unsecured Term Loan

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PNM 2018 SUNs	PNM’s Senior Unsecured Notes to be issued under the PNM 2017 Senior Unsecured Note Agreement
PNM Revolving Credit Facility	PNM’s \$400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan Agreement	PNMR’s \$150.0 Million Three-Year Unsecured Term Loan
PNMR 2016 One-Year Term Loan	PNMR’s \$100.0 Million One-Year Unsecured Term Loan
PNMR 2016 Two-Year Term Loan	PNMR’s \$100.0 Million Two-Year Unsecured Term Loan
PNMR 2018 SUNs	PNMR’s \$300.0 Million Aggregate Principal Amount of Senior Unsecured Notes due 2021
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development’s \$24.5 Million Unsecured Revolving Credit Facility
PNMR Revolving Credit Facility	PNMR’s \$300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico’s Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
RFP	Request For Proposal
Rio Bravo	Rio Bravo Generating Station
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor’s Ratings Services
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
SJGS CSA	San Juan Generating Station Coal Supply Agreement
SJGS RA	San Juan Project Restructuring Agreement
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction
SO ₂	Sulfur Dioxide
SO _x	Sulfur Oxide
SUNs	Senior Unsecured Notes
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 2018 Rate Case	TNMP’s General Rate Case Application Filed on May 30, 2018
TNMP 2018 Term Loan Agreement	TNMP’s \$20.0 Million Unsecured Two-Year Term Loan
TNMP Revolving Credit Facility	TNMP’s \$75.0 Million Secured Revolving Credit Facility

TNP
Tri-State

TNP Enterprises, Inc. and Subsidiaries
Tri-State Generation and Transmission Association, Inc.

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Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power Systems
US Supreme Court	United States Supreme Court
Valencia	Valencia Energy Facility
VaR	Value at Risk
VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
Westmoreland	Westmoreland Coal Company
Westmoreland Loan	\$125.0 million of funding provided by NM Capital to WSJ
WSJ	Westmoreland San Juan, LLC, an indirect wholly-owned subsidiary of Westmoreland

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Electric Operating Revenues:				
Contracts with customers	\$400,023	\$392,607	\$1,042,033	\$1,016,384
Alternative revenue programs	(8,050)	(1,908)	(1,466)	11,591
Other electric operating revenue	30,693	29,201	52,290	84,423
Total electric operating revenues	422,666	419,900	1,092,857	1,112,398
Operating Expenses:				
Cost of energy	113,536	103,748	293,803	310,818
Administrative and general	49,969	44,130	141,607	132,509
Energy production costs	31,350	31,970	108,588	98,150
Regulatory disallowances and restructuring costs	(1,645)	—	149	—
Depreciation and amortization	61,580	58,821	180,365	172,829
Transmission and distribution costs	19,394	16,801	54,800	50,309
Taxes other than income taxes	20,492	19,808	60,094	57,820
Total operating expenses	294,676	275,278	839,406	822,435
Operating income	127,990	144,622	253,451	289,963
Other Income and Deductions:				
Interest income	3,400	3,582	11,862	12,348
Gains on investment securities	2,463	5,406	1,081	17,730
Other income	3,735	6,275	12,000	14,626
Other (deductions)	(2,624)	(6,709)	(9,867)	(17,372)
Net other income and deductions	6,974	8,554	15,076	27,332
Interest Charges	30,492	32,106	96,868	96,137
Earnings before Income Taxes	104,472	121,070	171,659	221,158
Income Taxes	12,899	42,743	18,838	75,154
Net Earnings	91,573	78,327	152,821	146,004
(Earnings) Attributable to Valencia Non-controlling Interest	(3,920)	(4,456)	(11,706)	(11,452)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Net Earnings Attributable to PNMR	\$87,521	\$73,739	\$140,719	\$134,156
Net Earnings Attributable to PNMR per Common Share:				
Basic	\$1.10	\$0.92	\$1.76	\$1.68
Diluted	\$1.09	\$0.92	\$1.76	\$1.67
Dividends Declared per Common Share	\$0.2650	\$0.2425	\$0.7950	\$0.7275

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net Earnings	\$91,573	\$78,327	\$152,821	\$146,004
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of \$(356), \$(2,871), \$(730), and \$(8,654)	1,044	4,528	2,142	13,648
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$91, \$1,601, \$885, and \$4,302	(266)	(2,526)	(2,598)	(6,786)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(480), \$(626), \$(1,442), and \$(1,878)	1,410	987	4,236	2,961
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of \$(3), \$(4), \$(618), and \$108	8	6	1,813	(170)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$(28), \$(62), \$(27), and \$(187)	81	99	75	297
Total Other Comprehensive Income	2,277	3,094	5,668	9,950
Comprehensive Income	93,850	81,421	158,489	155,954
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,920)	(4,456)	(11,706)	(11,452)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(396)	(396)
Comprehensive Income Attributable to PNMR	\$89,798	\$76,833	\$146,387	\$144,106

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

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

	Nine Months Ended September 30, 2018		2017
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 152,821		\$ 146,004
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	207,406		200,286
Deferred income tax expense	18,706		75,224
Net unrealized (gains) losses on commodity derivatives	(84	)	968
(Gains) on investment securities	(1,081	)	(17,730
Stock based compensation expense	4,551		5,322
Regulatory disallowances and restructuring costs	149		—
Allowance for equity funds used during construction	(7,098	)	(6,217
Other, net	2,715		1,409
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(20,447	)	(21,077
Materials, supplies, and fuel stock	(8,731	)	(203
Other current assets	(13,657	)	21,761
Other assets	2,608		(5,981
Accounts payable	(32,638	)	3,729
Accrued interest and taxes	17,113		20,722
Other current liabilities	4,220		(1,588
Other liabilities	(9,656	)	(6,292
Net cash flows from operating activities	316,897		416,337

Cash Flows From			
Investing Activities:			
Additions to utility and non-utility plant	(365,484	)	(353,423
Proceeds from sales of investment securities	911,899		456,577
Purchases of investment securities	(920,217	)	(461,126
Principal repayments on Westmoreland Loan	56,640		28,770
Investments in NMRD	(9,000)	—
Other, net	(365	)	160
Net cash flows from investing activities	(326,527	)	(329,042

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

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

	Nine Months Ended September 30,	
	2018	2017
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	(42,800)	(20,600)
Long-term borrowings	829,652	317,000
Repayment of long-term debt	(650,162)	(263,323)
Proceeds from stock option exercise	937	1,739
Awards of common stock	(12,505)	(13,816)
Dividends paid	(63,721)	(58,344)
Valencia's transactions with its owner	(12,677)	(12,963)
Amounts received under transmission interconnection arrangements	—	11,879
Refunds paid under transmission interconnection arrangements	(2,246)	(9,368)
Debt issuance costs and other, net	(5,858)	(1,872)
Net cash flows from financing activities	40,620	(49,668)
Change in Cash, Restricted Cash, and Equivalents	30,990	37,627
Cash, Restricted Cash, and Equivalents at Beginning of Period	3,974	5,522
Cash, Restricted Cash, and Equivalents at End of Period	\$34,964	\$43,149
Restricted Cash Included in Other Current Assets on Condensed Consolidated Balance Sheets:		
At beginning of period	\$—	\$1,000
At end of period	\$—	\$—
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$81,203	\$75,356
Income taxes paid (refunded), net	\$842	\$625
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	\$16,177	\$(4,499)

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

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

	September 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$34,964	\$ 3,974
Accounts receivable, net of allowance for uncollectible accounts of \$1,433 and \$1,081	108,648	90,473
Unbilled revenues	53,832	54,055
Other receivables	22,246	17,582
Current portion of Westmoreland Loan	—	3,576
Materials, supplies, and fuel stock	75,234	66,502
Regulatory assets	7,261	2,933
Commodity derivative instruments	1,083	1,088
Income taxes receivable	7,589	6,879
Other current assets	53,068	47,358
Total current assets	363,925	294,420
Other Property and Investments:		
Long-term portion of Westmoreland Loan	—	53,064
Investment securities	331,746	323,524
Equity investment in NMRD	26,029	16,510
Other investments	348	503
Non-utility property	3,404	3,404
Total other property and investments	361,527	397,005
Utility Plant:		
Plant in service and held for future use	7,527,250	7,238,285
Less accumulated depreciation and amortization	2,683,626	2,592,692
	4,843,624	4,645,593
Construction work in progress	227,367	245,933
Nuclear fuel, net of accumulated amortization of \$49,376 and \$43,524	92,838	88,701
Net utility plant	5,163,829	4,980,227
Deferred Charges and Other Assets:		
Regulatory assets	580,828	600,672
Goodwill	278,297	278,297
Commodity derivative instruments	2,741	3,556
Other deferred charges	97,848	91,926
Total deferred charges and other assets	959,714	974,451
	\$6,848,995	\$ 6,646,103

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

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

	September 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$262,600	\$ 305,400
Current installments of long-term debt	471,880	256,895
Accounts payable	72,568	121,383
Customer deposits	10,833	11,028
Accrued interest and taxes	80,181	62,357
Regulatory liabilities	9,300	2,309
Commodity derivative instruments	1,092	1,182
Dividends declared	21,240	21,240
Other current liabilities	50,781	53,850
Total current liabilities	980,475	835,644
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,142,631	2,180,750
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	586,295	547,210
Regulatory liabilities	925,116	933,578
Asset retirement obligations	155,203	146,679
Accrued pension liability and postretirement benefit cost	80,871	94,003
Commodity derivative instruments	2,741	3,556
Other deferred credits	127,612	131,706
Total deferred credits and other liabilities	1,877,838	1,856,732
Total liabilities	5,000,944	4,873,126
Commitments and Contingencies (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 (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,150,648	1,157,665
Accumulated other comprehensive income (loss), net of income taxes	(101,480)	(95,940)
Retained earnings	722,130	633,528
Total PNMR common stockholders' equity	1,771,298	1,695,253
Non-controlling interest in Valencia	65,224	66,195
Total equity	1,836,522	1,761,448
	\$6,848,995	\$ 6,646,103

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

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

	Attributable to PNMR			Total PNMR Common Stockholders' Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock	AOCI	Retained Earnings			
	(In thousands)					
Balance at December 31, 2017, as originally reported	\$1,157,665	\$(95,940)	\$633,528	\$1,695,253	\$66,195	\$1,761,448
Cumulative effect adjustment (Note 7)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	1,157,665	(107,148)	644,736	1,695,253	66,195	1,761,448
Net earnings before subsidiary preferred stock dividends	—	—	141,115	141,115	11,706	152,821
Total other comprehensive income	—	5,668	—	5,668	—	5,668
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(63,325)	(63,325)	—	(63,325)
Proceeds from stock option exercise	937	—	—	937	—	937
Awards of common stock	(12,505)	—	—	(12,505)	—	(12,505)
Stock based compensation expense	4,551	—	—	4,551	—	4,551
Valencia's transactions with its owner	—	—	—	—	(12,677)	(12,677)
Balance at September 30, 2018	\$1,150,648	\$(101,480)	\$722,130	\$1,771,298	\$65,224	\$1,836,522

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

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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		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	\$306,019	\$300,604	\$783,310	\$769,069
Alternative revenue programs	(5,338)	(2,551)	(3,484)	1,417
Other electric operating revenue	30,693	29,201	52,290	84,423
Total electric operating revenues	331,374	327,254	832,116	854,909
Operating Expenses:				
Cost of energy	92,384	82,367	229,547	246,635
Administrative and general	44,923	39,888	129,571	120,598
Energy production costs	31,350	31,970	108,588	98,150
Regulatory disallowances and restructuring costs	(1,645)	—	149	—
Depreciation and amortization	38,474	36,764	113,314	109,228
Transmission and distribution costs	12,408	10,207	33,228	30,301
Taxes other than income taxes	10,964	10,668	34,033	32,837
Total operating expenses	228,858	211,864	648,430	637,749
Operating income	102,516	115,390	183,686	217,160
Other Income and Deductions:				
Interest income	3,472	1,782	9,340	6,457
Gains on investment securities	2,463	5,406	1,081	17,730
Other income	2,137	3,762	6,821	10,270
Other (deductions)	(2,085)	(4,964)	(7,314)	(14,490)
Net other income and deductions	5,987	5,986	9,928	19,967
Interest Charges	18,063	20,451	58,881	62,393
Earnings before Income Taxes	90,440	100,925	134,733	174,734
Income Taxes	9,012	35,642	11,009	58,865
Net Earnings	81,428	65,283	123,724	115,869
(Earnings) Attributable to Valencia Non-controlling Interest	(3,920)	(4,456)	(11,706)	(11,452)
Net Earnings Attributable to PNM	77,508	60,827	112,018	104,417
Preferred Stock Dividends Requirements	(132)	(132)	(396)	(396)
Net Earnings Available for PNM Common Stock	\$77,376	\$60,695	\$111,622	\$104,021

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In thousands)			
Net Earnings	\$81,428	\$65,283	\$123,724	\$115,869
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of \$(356), \$(2,871), \$(730), and \$(8,654)	1,044	4,528	2,142	13,648
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$91, \$1,601, \$885, and \$4,302	(266)	(2,526)	(2,598)	(6,786)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(480), \$(626), \$(1,442), and \$(1,878)	1,410	987	4,236	2,961
Total Other Comprehensive Income	2,188	2,989	3,780	9,823
Comprehensive Income	83,616	68,272	127,504	125,692
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,920)	(4,456)	(11,706)	(11,452)
Comprehensive Income Attributable to PNM	\$79,696	\$63,816	\$115,798	\$114,240

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

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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,	
	2018	2017
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$123,724	\$115,869
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	137,224	134,541
Deferred income tax expense	11,894	59,866
Net unrealized (gains) losses on commodity derivatives	(84	) 968
(Gains) on investment securities	(1,081	) (17,730)
Regulatory disallowances and restructuring costs	149	—
Allowance for equity funds used during construction	(5,473	) (5,908)
Other, net	2,495	1,705
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(14,164	) (13,881)
Materials, supplies, and fuel stock	(7,308	) 1,385
Other current assets	(15,493	) 23,488
Other assets	11,829	6,925
Accounts payable	(23,990	) 123
Accrued interest and taxes	13,560	16,221
Other current liabilities	(14,838	) (17,988)
Other liabilities	(12,228	) (8,792)
Net cash flows from operating activities	206,216	296,792
Cash Flows From Investing Activities:		
Utility plant additions	(177,550	) (206,499)
Proceeds from sales of investment securities	911,899	456,577
Purchases of investment securities	(920,217	) (461,126)
Other, net	141	150
Net cash flows from investing activities	(185,727	) (210,898)

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

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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,	
	2018	2017
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	(39,800)	(61,000)
Long-term borrowings	450,000	257,000
Repayment of long-term debt	(450,025)	(232,000)
Dividends paid	(396)	(396)
Valencia's transactions with its owner	(12,677)	(12,963)
Amounts received under transmission interconnection arrangements	68,200	11,879
Refunds paid under transmission interconnection arrangements	(2,246)	(9,368)
Debt issuance costs and other, net	(3,167)	(1,000)
Net cash flows from financing activities	9,889	(47,848)
Change in Cash, Restricted Cash, and Equivalents	30,378	38,046
Cash, Restricted Cash, and Equivalents at Beginning of Period	1,108	1,324
Cash, Restricted Cash, and Equivalents at End of Period	\$31,486	\$39,370
Restricted Cash Included in Other Current Assets on Condensed Consolidated Balance Sheets:		
At beginning of period	\$—	\$1,000
At end of period	\$—	\$—
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$50,160	\$48,627
Income taxes paid (refunded), net	\$—	\$—
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	\$(27)	\$(9,399)

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

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

	September 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$31,486	\$ 1,108
Accounts receivable, net of allowance for uncollectible accounts of \$1,433 and \$1,081	79,526	67,227
Unbilled revenues	43,239	43,869
Other receivables	21,158	14,541
Affiliate receivables	8,855	9,486
Materials, supplies, and fuel stock	68,167	60,859
Regulatory assets	7,063	2,139
Commodity derivative instruments	1,083	1,088
Income taxes receivable	4,294	3,410
Other current assets	46,467	39,904
Total current assets	311,338	243,631
Other Property and Investments:		
Investment securities	331,746	323,524
Other investments	142	283
Non-utility property	96	96
Total other property and investments	331,984	323,903
Utility Plant:		
Plant in service and held for future use	5,681,620	5,501,070
Less accumulated depreciation and amortization	2,087,595	2,029,534
	3,594,025	3,471,536
Construction work in progress	141,174	204,079
Nuclear fuel, net of accumulated amortization of \$49,376 and \$43,524	92,838	88,701
Net utility plant	3,828,037	3,764,316
Deferred Charges and Other Assets:		
Regulatory assets	440,346	459,239
Goodwill	51,632	51,632
Commodity derivative instruments	2,741	3,556
Other deferred charges	76,683	75,286
Total deferred charges and other assets	571,402	589,713
	\$5,042,761	\$ 4,921,563

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

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

	September 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$—	\$ 39,800
Current installments of long-term debt	199,993	23
Accounts payable	53,131	77,094
Affiliate payables	3,148	22,875
Customer deposits	10,833	11,028
Accrued interest and taxes	48,389	33,945
Regulatory liabilities	5,796	784
Commodity derivative instruments	1,092	1,182
Dividends declared	132	132
Other current liabilities	30,582	31,633
Total current liabilities	353,096	218,496
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,456,109	1,657,887
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	480,479	449,012
Regulatory liabilities	736,123	754,441
Asset retirement obligations	154,171	145,707
Accrued pension liability and postretirement benefit cost	74,368	86,124
Commodity derivative instruments	2,741	3,556
Other deferred credits	171,345	106,442
Total deferred credits and liabilities	1,619,227	1,545,282
Total liabilities	3,428,432	3,421,665
Commitments and Contingencies (Note 11)		
Cumulative Preferred Stock		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,264,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(104,521)	(97,093)
Retained earnings	377,179	254,349
Total PNM common stockholder's equity	1,537,576	1,422,174
Non-controlling interest in Valencia	65,224	66,195
Total equity	1,602,800	1,488,369
	\$5,042,761	\$ 4,921,563

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

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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, 2017, as originally reported	\$1,264,918	\$(97,093)	\$254,349	\$1,422,174	\$ 66,195	\$1,488,369
Cumulative effect adjustment (Note 7)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	1,264,918	(108,301)	265,557	1,422,174	66,195	1,488,369
Net earnings	—	—	112,018	112,018	11,706	123,724
Total other comprehensive income	—	3,780	—	3,780	—	3,780
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Valencia's transactions with its owner	—	—	—	—	(12,677)	(12,677)
Balance at September 30, 2018	\$1,264,918	\$(104,521)	\$377,179	\$1,537,576	\$ 65,224	\$1,602,800

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

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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,	
	2018	2017	2018	2017
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	\$94,004	\$92,003	\$258,723	\$247,315
Alternative revenue programs	(2,712)	643	2,018	10,174
Total Electric Operating Revenues	91,292	92,646	260,741	257,489
Operating Expenses:				
Cost of energy	21,152	21,381	64,256	64,183
Administrative and general	9,781	10,765	29,342	30,402
Depreciation and amortization	17,176	16,424	49,676	47,392
Transmission and distribution costs	6,986	6,594	21,572	20,008
Taxes other than income taxes	8,373	8,008	22,710	21,778
Total operating expenses	63,468	63,172	187,556	183,763
Operating income	27,824	29,474	73,185	73,726
Other Income and Deductions:				
Other income	1,300	2,258	4,276	3,621
Other (deductions)	(149)	(1,030)	(1,209)	(1,229)
Net other income and deductions	1,151	1,228	3,067	2,392
Interest Charges	8,241	7,704	23,771	22,619
Earnings before Income Taxes	20,734	22,998	52,481	53,499
Income Taxes	4,634	8,271	11,602	18,964
Net Earnings	\$16,100	\$14,727	\$40,879	\$34,535

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

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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,	
	2018	2017
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$40,879	\$34,535
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	51,076	48,754
Deferred income tax expense (benefit)	(3,259)	8,578
Allowance for equity funds used during construction	(1,624)	(309)
Other, net	184	(296)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(6,283)	(7,196)
Materials and supplies	(1,423)	(1,588)
Other current assets	759	(1,674)
Other assets	(9,169)	(13,799)
Accounts payable	(4,277)	669
Accrued interest and taxes	18,389	13,550
Other current liabilities	6,092	945
Other liabilities	2,613	1,633
Net cash flows from operating activities	93,957	83,802
Cash Flows From Investing Activities:		
Utility plant additions	(170,785)	(106,914)
Net cash flows from investing activities	(170,785)	(106,914)
Cash Flow From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	17,500	—
Short-term borrowings (repayments) – affiliate, net	4,100	(4,600)
Long-term borrowings	80,000	60,000
Dividends paid	(25,804)	(29,663)
Debt issuance costs and other, net	(668)	(874)
Net cash flows from financing activities	75,128	24,863
Change in Cash and Cash Equivalents	(1,700)	1,751
Cash and Cash Equivalents at Beginning of Period	1,700	671
Cash and Cash Equivalents at End of Period	\$—	\$2,422
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$16,338	\$16,721
Income taxes paid (refunded), net	\$842	\$750
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	\$12,822	\$(251)

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

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

	September 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$—	\$ 1,700
Accounts receivable	29,122	23,246
Unbilled revenues	10,593	10,186
Other receivables	2,315	2,860
Affiliate receivables	—	336
Materials and supplies	7,067	5,643
Regulatory assets	198	794
Other current assets	1,490	1,131
Total current assets	50,785	45,896
Other Property and Investments:		
Other investments	206	220
Non-utility property	2,240	2,240
Total other property and investments	2,446	2,460
Utility Plant:		
Plant in service and plant held for future use	1,602,210	1,504,778
Less accumulated depreciation and amortization	477,213	460,858
	1,124,997	1,043,920
Construction work in progress	77,456	34,350
Net utility plant	1,202,453	1,078,270
Deferred Charges and Other Assets:		
Regulatory assets	140,482	141,433
Goodwill	226,665	226,665
Other deferred charges	6,011	6,046
Total deferred charges and other assets	373,158	374,144
	\$ 1,628,842	\$ 1,500,770

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

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

	September 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$ 17,500	\$ —
Short-term debt – affiliate	4,100	—
Current installments of long-term debt	171,889	—
Accounts payable	12,714	29,812
Affiliate payables	3,792	667
Accrued interest and taxes	48,008	29,619
Regulatory liabilities	3,504	1,525
Other current liabilities	3,102	2,450
Total current liabilities	264,609	64,073
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	388,404	480,620
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	123,318	126,415
Regulatory liabilities	188,993	179,137
Asset retirement obligations	843	793
Accrued pension liability and postretirement benefit cost	6,503	7,879
Other deferred credits	6,692	7,448
Total deferred credits and other liabilities	326,349	321,672
Total liabilities	979,362	866,365
Commitments and Contingencies (Note 11)		
Common Stockholder's Equity:		
Common stock (\$10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	504,166	504,166
Retained earnings	145,250	130,175
Total common stockholder's equity	649,480	634,405
	\$ 1,628,842	\$ 1,500,770

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

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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, 2017	\$64	\$504,166	\$130,175	\$634,405
Net earnings	—	—	40,879	40,879
Dividends declared on common stock	—	—	(25,804)	(25,804)
Balance at September 30, 2018	\$64	\$504,166	\$145,250	\$649,480

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

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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, 2018 and December 31, 2017, the consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017, and cash flows for the nine months ended September 30, 2018 and 2017. 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 2017 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2018 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited 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 2017 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 Valencia (Note 6). 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' expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost and are reflected as general and administrative expenses in the business segments. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, equity transactions, and interconnection billings (Note 15). All intercompany transactions and balances have been eliminated.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by the 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 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 attributable to the second quarter of \$0.2650 per share in July 2018 and \$0.2425 in July 2017, which are reflected

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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)

as being in the second quarter within “Dividends Declared per Common Share” on the PNMR Condensed Consolidated Statements of Earnings. The Board declared dividends on common stock for the third quarter of \$0.2650 per share in September 2018 and \$0.2425 per share in September 2017, which are reflected as being in the third quarter within “Dividends Declared per Common Share” on the PNMR Condensed Consolidated Statements of Earnings.

TNMP declared and paid cash dividends on common stock to PNMR of \$25.8 million and \$29.7 million in the nine months ended September 30, 2018 and 2017.

Investment in NM Renewable Development, LLC

As discussed in Note 1 of the 2017 Annual Reports on Form 10-K, PNMR Development and AEP OnSite Partners created NMRD in September 2017 to pursue the acquisition, development, and ownership of renewable energy projects, primarily in the state of New Mexico. NMRD’s current renewable energy capacity in operation is 34.3 MW. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. The investment in NMRD is accounted for using the equity method of accounting because PNMR’s ownership interest results in significant influence, but not control, over NMRD and its operations.

In the nine months ended September 30, 2018, PNMR Development made cash contributions of \$9.0 million to NMRD to be used primarily for its construction activities. For the three and nine months ended September 30, 2018, NMRD had revenues of \$1.0 million and \$2.5 million and net earnings of \$0.5 million and \$1.0 million. At September 30, 2018, NMRD had \$2.3 million of current assets, \$50.4 million of property, plant, and equipment and other assets, \$0.7 million of current liabilities, and \$52.0 million of owners’ equity.

Cash and Restricted Cash

Additional information concerning the Company’s policy for recording cash and cash equivalents is discussed in Note 1 of the 2017 Annual Reports on Form 10-K. In November 2016, the FASB issued Accounting Standards Update 2016-18 – Statement of Cash Flows (Topic 230), which requires amounts generally described as restricted cash and restricted cash equivalents (collectively, “restricted cash”) to be included with cash and cash equivalents when reconciling the beginning of period and end of period amounts shown on the statements of cash flows and adds disclosures necessary to reconcile such amounts to cash and cash equivalents on the balance sheets. ASU 2016-18 does not require that restricted cash be reflected as cash in the statement of financial position and does not provide a definition of what should be considered restricted cash.

During 2015, PNM received a deposit of \$8.2 million from a third party that was restricted for PNM’s construction of transmission interconnection facilities for that party. During 2016, PNM utilized \$7.2 million of such third-party deposits to offset construction costs for the interconnection facilities. The remaining \$1.0 million was held as restricted cash until the second quarter of 2017, at which time a refund was made to the third party. The balances of this deposit arrangement were included in other current assets on the balance sheets of PNMR and PNM. Under the terms of the BTMU Term Loan Agreement (Note 9), all cash of NM Capital was restricted to be used for payments required under that agreement or for taxes and fees. On May 22, 2018, Westmoreland repaid the Westmoreland Loan in full. NM Capital used a portion of the proceeds to repay all its obligations under the BTMU Term Loan Agreement.

These payments effectively terminated the loan agreements (Note 6). Cash held by NM Capital was included in cash and cash equivalents on the balance sheets of PNMR and was less than \$0.1 million at December 31, 2017.

The Company adopted ASU 2016-18 as of January 1, 2018, its required effective date. Upon adoption, ASU 2016-18 requires the use of a retrospective transition method for the statement of cash flows in each period presented. Accordingly, PNM made retrospective adjustments to its Condensed Consolidated Statements of Cash Flows to increase beginning cash, restricted cash, and equivalents at January 1, 2017 by \$1.0 million and to reduce operating cash in-flows – other current assets by \$1.0 million during the nine months ending September 30, 2017. In addition, the beginning and ending balances of cash, restricted cash, and equivalents are presented on the Condensed Consolidated Statements of Cash Flows. No other changes were made to the Condensed Consolidated Financial Statements in connection with the adoption of ASU 2016-18.

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New Accounting Pronouncements

Information concerning recently issued accounting pronouncements that have not been adopted by the Company is presented below. The Company does not expect difficulty in adopting these standards by their required effective dates.

Accounting Standards Update 2016-02 – Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02 to provide guidance on the recognition, measurement, presentation, and disclosure of leases. ASU 2016-02 will require that a liability be recorded on the balance sheet for all leases, based on the present value of future lease obligations. A corresponding right-of-use asset will also be recorded. Amortization of the lease obligation and the right-of-use asset for certain leases, primarily those classified as operating leases, will be on a straight-line basis, which is not expected to have a significant impact on the statements of earnings, whereas other leases will be required to be accounted for as financing arrangements similar to the accounting treatment for capital leases under current GAAP. ASU 2016-02 also revises certain disclosure requirements. ASU 2016-02 originally required that leases be recognized and measured as of the earliest period presented using a modified retrospective approach with all periods presented being restated and presented under the new guidance. The ASU allows entities to apply certain practical expedients to arrangements that exist upon adoption or that expired during the periods presented.

As further discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, the Company has operating leases of office buildings, vehicles, and equipment. PNM also has operating lease interests in PVNGS Units 1 and 2 that will expire in January 2023 and 2024. In addition, the Company also routinely enters into land easements and right-of-way agreements.

The Company, along with others in the utility industry, is continuing to monitor the activities of the FASB and other non-authoritative groups regarding industry specific issues for further clarification. The Company has formed a project team, is conducting outreach activities across its lines of business, and is in the process of implementing software to help administer and account for its leasing activities. The Company has made significant progress in identifying arrangements that may be classified as leases under ASU 2016-02 in addition to those currently classified as operating leases. It is likely the arrangements currently classified as leases will continue to be recognized as leases under ASU 2016-02. It is possible that other contractual arrangements not previously meeting the lease definition may contain elements that qualify as leases and that previously identified operating leases may be classified as financing leases under ASU 2016-02. The Company anticipates its leases of vehicles and certain office equipment commencing after January 1, 2019 will be classified as financing leases. The Company is in the process of analyzing each of the identified contractual arrangements to determine if it contains lease elements under the new standard and quantifying the potential impacts of identified lease arrangements. The Company anticipates this process will continue throughout 2018. The Company will adopt this standard effective as of January 1, 2019, its required effective date. The Company anticipates it will elect the “package” of practical expedients provided by ASU 2016-02 upon adoption. As a result, the Company will not reassess, as of the date of adoption, whether contracts should be accounted for as leases under ASU 2016-02, the classification of contracts accounted for as leases (as operating or financing), or whether any initial direct costs associated with contracts accounted for as leases should be recognized as a component of right-of-use assets.

In January 2018, the FASB issued ASU 2018-01, which clarifies that land easements are to be evaluated under ASU 2016-02, but provides an additional optional practical expedient to not evaluate existing or expired land easements that were not accounted for as leases under the current guidance. The Company has numerous land easements and right-of-way agreements that would fall under this clarification. The only such agreement that has been accounted for as a lease under current guidance is the right-of-way agreement with the Navajo Nation, which is discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K. The Company anticipates it will elect to use the practical expedient for its existing and expired land easements upon adoption of ASU 2016-02.

In July 2018, the FASB issued ASU 2018-11, which provides entities an optional transitional relief method to apply ASU 2016-02 as of the date of initial application of the standard rather than as of the earliest period presented. The Company anticipates it will elect to use this optional transitional relief method.

Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, which changes the way entities recognize impairment of many financial assets, including accounts receivable and investments in certain debt securities, by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. The Company anticipates adopting ASU 2016-13 as of

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January 1, 2020, its required effective date, although early adoption is permitted beginning on January 1, 2019. The Company is in the process of analyzing the impacts of this new standard, but does not anticipate it will have a significant impact on its financial statements.

Accounting Standards Update 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 to simplify the annual goodwill impairment assessment process. Currently, the first step of a quantitative impairment test requires an entity to compare the fair value of each reporting unit containing goodwill with its carrying value (including goodwill). If as a result of this analysis, the entity concludes there is an indication of impairment in a reporting unit having goodwill, the entity is required to perform the second step of the impairment analysis, determining the amount of goodwill impairment to be recorded. The amount is calculated by comparing the implied fair value of the goodwill to its carrying amount. This exercise requires the entity to allocate the fair value determined in step one to the individual assets and liabilities of the reporting unit. Any remaining fair value would be the implied fair value of goodwill on the testing date. To the extent the recorded amount of goodwill of a reporting unit exceeds the implied fair value determined in step two, an impairment loss would be reflected in results of operations. ASU 2017-04 eliminates the second step of the impairment analysis. Accordingly, if the first step of a quantitative goodwill impairment analysis performed after adoption of ASU 2017-04 indicates that the fair value of a reporting unit is less than its carrying value, the goodwill of that reporting unit would be impaired to the extent of that difference. The Company anticipates it will adopt ASU 2017-04 for impairment testing after January 1, 2020, its required effective date, although early adoption is permitted. However, if there is an indication of potential impairment of goodwill as a result of an impairment assessment prior to 2020, the Company will evaluate the impact of ASU 2017-04 and could elect to early adopt this standard.

Accounting Standards Update 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 to better align hedge accounting with an organization's risk management activities and to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for the Company on January 1, 2019, although early adoption is permitted. At adoption, ASU 2017-12 is to be applied prospectively and allows entities to record a cumulative-effect adjustment at the transition date as well as allowing entities to elect certain practical expedients upon adoption. As discussed in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 9, the Company periodically enters into, and designates as cash flow hedges, interest rate swaps to hedge its exposure to changes in interest rates. In addition, as discussed in Note 8 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 7, the Company enters into various derivative instruments to economically hedge the risk of changes in commodity prices, which are not currently designated as cash flow hedges. The Company is evaluating the requirements of ASU 2017-12, but does not anticipate the changes will have a significant impact on the Company's accounting treatment for derivative instruments or on its financial statements.

Accounting Standards Update 2018-13 – Fair Value Measurements (Topic 820) Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurements

In August 2018, the FASB issued ASU 2018-13 to improve fair value disclosures. ASU 2018-13 eliminates certain disclosure requirements related to transfers between Levels 1 and 2 of the fair value hierarchy and the requirement to disclose the valuation process for Level 3 fair value measurements. ASU 2018-13 also amends certain disclosure requirements for investments measured at net asset value and requires new disclosures for Level 3 investments, including a new requirement to disclose changes in unrealized gains or losses recorded in OCI related to Level 3 fair value measurements. ASU 2018-13 is effective for the Company beginning on January 1, 2020, and permits entities to adopt all or certain elements of the new guidance prior to its effective date. ASU 2018-13 requires retrospective application, except for the new disclosures related to Level 3 investments which are to be applied prospectively. As discussed in Note 8 of the Notes to the Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 7, PNM and TNMP have investment securities in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits, which are measured at fair value. Certain investments in these trusts are measured at net asset value per share. These trusts also hold Level 3 investments. The Company is evaluating the requirements of ASU 2018-13, but does not anticipate it will have a significant impact on the Company's fair value disclosures.

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Accounting Standards Update 2018-14 – Compensation - Retirement Benefits - Defined Benefit Plans (Topic 715)
Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14 to improve benefit plan sponsors' disclosures for defined benefit pension and other post-employment benefit plans. ASU 2018-14 removes the requirement to disclose the amounts in other comprehensive income expected to be recognized as benefit cost over the next fiscal year and the requirement to disclose the impact of a one-percentage-point change in the assumed health care cost trend rate; clarifies the disclosure requirements for plans with assets that are less than their projected benefit, or accumulated benefit obligation; and requires significant gains and losses affecting benefit obligations during the period be disclosed. ASU 2018-14 is effective for the Company on January 1, 2021, although early adoption is permitted, and requires retrospective application. As discussed in Note 12 of the Notes to the Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 10, PNM and TNMP maintain qualified defined benefit, other postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The Company is evaluating the requirements of ASU 2018-14, but does not anticipate these changes will have a significant impact on the Company's defined benefit and other postretirement benefit plan disclosures.

Accounting Standards Update 2018-15 – Intangibles - Goodwill and Other - Internal Use Software (Topic 350):
Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract

In August 2018, the FASB issued ASU 2018-15 to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for implementation costs incurred to develop or obtain internal-use software. Under ASU 2018-15, entities are required to capitalize implementation costs for hosting arrangements if those costs meet the capitalization requirements for internal-use software arrangements. ASU 2018-15 requires entities to present cash flows, capitalized costs, and amortization expense in the same financial statement line items as other costs incurred for such hosting arrangements. ASU 2018-15 is effective for the Company on January 1, 2020, although early adoption is permitted, and allows entities to apply the new requirements retrospectively or prospectively. The Company is in the process of analyzing the impacts of this new standard.

(2) 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 includes the generation and sale of electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity includes the asset optimization of PNM's jurisdictional capacity, as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale power and transmission rates.

TNMP

TNMP is an electric utility providing services in Texas under the TECA. TNMP's operations are subject to traditional rate regulation by the PUCT. TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. TNMP also provides transmission services at regulated rates to other utilities that interconnect with TNMP's facilities.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. The activities of PNMR Development, NM Capital, and the equity method investment in NMRD are also included in Corporate and Other. Eliminations of intercompany income and expense transactions are reflected in the Corporate and Other segment.

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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	PNMR Consolidated
	(In thousands)			
Three Months Ended September 30, 2018				
Electric operating revenues	\$331,374	\$91,292	\$—	\$422,666
Cost of energy	92,384	21,152	—	113,536
Utility margin	238,990	70,140	—	309,130
Other operating expenses	98,000	25,140	(3,580)	119,560
Depreciation and amortization	38,474	17,176	5,930	61,580
Operating income (loss)	102,516	27,824	(2,350)	127,990
Interest income	3,472	—	(72)	3,400
Other income (deductions)	2,515	1,151	(92)	3,574
Interest charges	(18,063)	(8,241)	(4,188)	(30,492)
Segment earnings (loss) before income taxes	90,440	20,734	(6,702)	104,472
Income taxes (benefit)	9,012	4,634	(747)	12,899
Segment earnings (loss)	81,428	16,100	(5,955)	91,573
Valencia non-controlling interest	(3,920)	—	—	(3,920)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	\$77,376	\$16,100	\$(5,955)	\$87,521
Nine Months Ended September 30, 2018				
Electric operating revenues	\$832,116	\$260,741	\$—	\$1,092,857
Cost of energy	229,547	64,256	—	293,803
Utility margin	602,569	196,485	—	799,054
Other operating expenses	305,569	73,624	(13,955)	365,238
Depreciation and amortization	113,314	49,676	17,375	180,365
Operating income (loss)	183,686	73,185	(3,420)	253,451
Interest income	9,340	—	2,522	11,862
Other income (deductions)	588	3,067	(441)	3,214
Interest charges	(58,881)	(23,771)	(14,216)	(96,868)
Segment earnings (loss) before income taxes	134,733	52,481	(15,555)	171,659
Income taxes (benefit)	11,009	11,602	(3,773)	18,838
Segment earnings (loss)	123,724	40,879	(11,782)	152,821
Valencia non-controlling interest	(11,706)	—	—	(11,706)
Subsidiary preferred stock dividends	(396)	—	—	(396)
Segment earnings (loss) attributable to PNMR	\$111,622	\$40,879	\$(11,782)	\$140,719

At September 30, 2018:

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Total Assets	\$5,042,761	\$1,628,842	\$177,392	\$6,848,995
Goodwill	\$51,632	\$226,665	\$—	\$278,297

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PNM TNMP