PNM RESOURCES INC
Form 10-K
February 27, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2014

Commission File Number	Names 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

Securities Registered Pursuant To Section 12(b) Of The Act:

Registrant	Title of Each Class	Name of Each Exchange on Which Registered
PNM Resources, Inc.	Common Stock, no par value	New York Stock Exchange

Securities Registered Pursuant To Section 12(g) Of The Act:

Registrant	Title of Each Class
Public Service Company of New Mexico	1965 Series, 4.58% Cumulative Preferred Stock ($100 stated value without sinking fund)

Indicate by check mark whether each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PNMR	YES	NO ü
PNM	YES	NO ü

TNMP	YES ü	NO

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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.

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S–K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ü

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 Act).

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

Indicate by check mark whether the registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO ü

As of February 20, 2015, shares of common stock outstanding were:

PNMR	79,653,624
PNM	39,117,799
TNMP	6,358

On June 30, 2014, the aggregate market value of the voting common stock held by non-affiliates of PNMR as computed by reference to the New York Stock Exchange composite transaction closing price of $29.33 per share reported by The Wall Street Journal, was $2,336,240,792. PNM and TNMP have no common stock held by non-affiliates.

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

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into Part III of this report:

Proxy Statement to be filed by PNMR with the SEC pursuant to Regulation 14A relating to the annual meeting of stockholders of PNMR to be held on May 12, 2015.

This combined Form 10-K 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-K 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-K 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:

ABO	Accumulated Benefit Obligation
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
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_2	Carbon Dioxide
CTC	Competition Transition Charge
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station
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 Study
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
First Choice	FCP Enterprises, Inc. and Subsidiaries
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC
FPPAC	Fuel and Purchased Power Adjustment Clause
GAAP	Generally Accepted Accounting Principles in the United States of America
Gallup	City of Gallup, New Mexico
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours

IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service

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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.
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Council
New Mexico Wind	New Mexico Wind Energy Center
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
Optim Energy	Optim Energy, LLC, a limited liability company, formerly known as EnergyCo, LLC
OSM	United States Office of Surface Mining Reclamation and Enforcement
PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds
PG&E	Pacific Gas and Electric Co.
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's $400.0 Million Unsecured Revolving Credit Facility

PNM Revolving Credit Facility	
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR

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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
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station, formerly know as Delta
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
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_2	Sulfur Dioxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
S&P	Standard and Poor's Ratings Services
TCEQ	Texas Commission on Environmental Quality
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
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power System
Valencia	Valencia Energy Facility
VaR	Value at Risk
WACC	Weighted Average Cost of Capital

WEG	WildEarth Guardians
WSPP	Western Systems Power Pool

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PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

PNMR is an investor-owned holding company with two regulated utilities providing electricity and electric services in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP. PNMR is focused on achieving the following strategic goals:

- Earning authorized returns on its regulated businesses
- Continuing to improve credit ratings
- Providing a top quartile total return to investors

PNMR's success in accomplishing these strategic goals is highly dependent on continued favorable regulatory treatment for its regulated utilities. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. PNM filed a general rate case with the NMPRC in December 2014. Additional information about rate filings is provided in Operations and Regulation below and in Note 17.

PNMR's common stock trades on the New York Stock Exchange under the symbol PNM. PNMR was incorporated in the State of New Mexico in 2000.

Other Information

These filings for PNMR, PNM, and TNMP include disclosures for each entity. For discussion purposes, 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. A reference to "MD&A" in this report refers to Part II, Item 7. –Management's Discussion and Analysis of Financial Condition and Results of Operations. A reference to a "Note" refers to the accompanying Notes to Consolidated Financial Statements.

Financial information relating to amounts of revenue, net income, and total assets of reportable segments is contained in MD&A and Note 2.

WEBSITES

The PNMR website, www.pnmresources.com, is an important source of Company information. New or updated information for public access is routinely posted. PNMR encourages analysts, investors, and other interested parties to register on the website to automatically receive Company information by e-mail. This information includes news releases, notices of webcasts, and filings with the SEC. Participants can unsubscribe at any time and will not receive information that was not requested.

Our corporate Internet addresses are:

- PNMR: www.pnmresources.com
- PNM: www.pnm.com
- TNMP: www.tnmp.com

In addition to the corporate websites, PNM established a website, www.PowerforProgress.com, dedicated to showing how it balances delivering reliable power at affordable prices and protecting the environment. This website is designed to be a resource for the facts about PNM's operations and support efforts, including plans for building a

sustainable energy future for New Mexico. The contents of these websites are not a part of this Form 10-K. The SEC filings of PNMR, PNM, and TNMP, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are accessible free of charge on the PNMR website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. These reports are also available in print upon request from PNMR free of charge.

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Also available on the Company's website at http://www.pnmresources.com/corporate-governance.aspx and in print upon request from any shareholder are our:

- Corporate Governance Principles
- Code of Ethics (Do the Right Thing – Principles of Business Conduct)
- Charters of the Audit and Ethics Committee, Nominating and Governance Committee, Compensation and Human Resources Committee, and Finance Committee

The Company will post amendments to or waivers from its code of ethics (to the extent applicable to the Company's executive officers and directors) on its website.

OPERATIONS AND REGULATION

Regulated Operations

PNM

PNM is an electric utility that provides electric generation, transmission, and distribution service to its rate-regulated customers. In New Mexico, the utility's retail electric service territory covers a large area of north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. PNM also provides electricity to firm-requirements wholesale customers in New Mexico and Arizona. Service to retail electric customers is subject to the jurisdiction of the NMPRC. Service to wholesale customers is regulated by FERC. Regulation encompasses the utility's electric rates, service, accounting, issuances of securities, construction of major new generation, types of generation resources, transmission and distribution facilities, and other matters.

Other services provided by PNM include transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. PNM owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. The largest retail electric customer served by PNM accounted for 3.4% of the utility's revenues for the year ended December 31, 2014. PNM was incorporated in the State of New Mexico in 1917.

NMPRC Regulated Retail Rate Proceedings

Customer rates for retail electric service are set by the NMPRC. PNM filed a general rate case with the NMPRC in December 2014. PNM's application proposes a revenue increase of $107.4 million, effective January 1, 2016, based on a calendar 2016 future year test and a ROE of 10.5%. PNM requested this increase to account for infrastructure investments made since its last rate case and investments needed in the next two years to provide reliable service to PNM's retail customers, as well as to reflect declining sales growth in PNM's service territory. PNM is proposing several changes to rate design to establish fair and equitable pricing across rate classes and to better align cost recovery with cost causation, including an access charge to customers installing photovoltaic systems after December 31, 2015. See Note 17 for additional information concerning this filing.

PNM's previous general rate case filing was made in June 2010. In August 2011, the NMPRC issued a final order that included, among other things, a $72.1 million increase in annual non-fuel revenues for New Mexico retail customers. As permitted by that order, PNM filed an application in January 2012 for a rate rider to collect costs for renewable energy procurements incurred after December 31, 2010 that are not otherwise being collected in rates. The rider will terminate upon a final order in PNM's next general rate case unless that order authorizes a continuation of the rider. As a separate component of the rider, if PNM's earned return on jurisdictional equity in a calendar year, adjusted for weather and other items not representative of normal operation, exceeded 10.5%, it would refund to customers during

May through December of the following year the amount over 10.5%. PNM's earned return on jurisdictional equity did not exceed 10.5% in 2013 or 2014.

FERC Regulated Wholesale Operations

In October 2010, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of PNM's wholesale electric transmission service customers, which include other utilities, electric cooperatives, and entities that use PNM's transmission system to transmit power at the wholesale level. The proposed rates were implemented on June 1, 2011, subject to refund. On January 2, 2013, FERC approved a settlement among the parties providing for an increase in transmission service revenues of $2.9 million annually.

In December 2012, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of its transmission customers. The filing represents a formula based rate as contemplated by the approved settlement in the case described

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above. The proposed increase of $1.3 million, as updated, went into effect, subject to refund, on August 2, 2013. On May 1, 2014, PNM updated its formula rate incorporating 2013 data resulting in a $0.5 million rate increase over the then current rates. The updated rate request went into effect on May 30, 2014, subject to refund. The parties have engaged in settlement negotiations and PNM anticipates that a settlement will be filed with FERC in the near future. There is no required time frame for FERC to act upon a settlement. PNM is unable to predict the outcome of this proceeding.

PNM has entered into firm-requirements wholesale contracts to provide electricity to various customers. These contracts contain both capacity charges and energy charges. Capacity charges are monthly payments for a commitment of resources to service the contract requirements. Energy charges are payments based on the amount of electricity delivered to the customer and are intended to compensate for the variable costs incurred to provide the energy. The average billing demands for PNM's firm-requirements wholesale customers aggregate approximately 62 MW, excluding the contract with Gallup that expired in 2014. No firm-requirements customer of PNM accounted for more than 2.5% of PNM's revenues for the year ended December 31, 2014.

In September 2011, PNM filed with FERC to increase rates for electric service and ancillary services provided to NEC, PNM's largest firm-requirements wholesale customer. PNM also requested a traditional FPPAC and full recovery of certain third-party transmission charges. FERC issued an order allowing the increased rates to be collected beginning April 14, 2012, subject to refund. The parties agreed to a settlement providing for an increase in rates of $5.3 million and an extension of the contract for 10 years through December 31, 2035. FERC approved the settlement in April 2013. PNM provided both energy and power services to Gallup, which was its second largest firm-requirements wholesale customer, under an electric service agreement that expired on June 30, 2014. PNM's recently filed general rate case discussed above includes a reallocation of costs among regulatory jurisdictions reflecting the termination of the contract to serve Gallup. See Results of Operations in MD&A and Note 17.

PNM also provides electricity at wholesale to the City of Aztec, New Mexico under a contract that expires on June 30, 2016. In 2014, PNM entered into a contract with the Jicarilla Apache Nation to provide electricity at wholesale through May 8, 2016, which date can be extended through May 8, 2019, if approved by the NMPRC.

PNM's current authorization under FERC regulation requires that revenue requirements for sales of electricity at wholesale are to be based on PNM's costs of providing such service. In August 2014, PNM filed an application with FERC to allow PNM to enter into arrangements to sell electricity at wholesale prices within PNM's balancing authority area using rates that are based on market conditions. There is no statutory requirement for FERC to act upon this application within a specified period of time. PNM cannot predict if FERC will grant the request to sell at market-based rates.

Operational Information

Weather-normalized retail electric KWh sales decreased by 1.7% in 2014 and 1.8% in 2013. The system peak demands for retail and firm-requirements customers decreased in 2014 and increased in 2013. The system peak demands were as follows:

System Peak Demands

	2014	2013	2012
	(Megawatts)		
Summer	1,878	2,008	1,948
Winter	1,471	1,576	1,523

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow the utility to access public rights-of-way for placement of its electric facilities. Franchise agreements have expired in some areas PNM serves, including Albuquerque, Rio Rancho, and Santa Fe. Because PNM remains obligated under New Mexico state law to provide service to customers in these areas, the expirations should not have a material adverse impact. The Albuquerque, Rio Rancho, and Santa Fe metropolitan areas accounted for 48.0%, 10.5%, and 9.6% of PNM's 2014 revenues and no other franchise area represents more than 5%. Although PNM is not required to collect or pay franchise fees in some areas it serves, the utility continues to collect and pay such fees in certain parts of its service territory, including Albuquerque, Rio Rancho, and Santa Fe.

As discussed in Note 16, the County Commission of Bernalillo County, New Mexico passed an ordinance on January 28, 2014 that would require PNM and other utilities to enter into a use agreement and pay a yet to be determined fee as a condition for installing, maintaining, and operating facilities on county rights-of-way. PNM and other utilities have filed complaints in federal and state courts challenging the validity of the ordinance. If the challenge to the ordinance is unsuccessful, PNM believes

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any fees paid pursuant to the ordinance would be considered franchise fees and would be recoverable from customers. PNM is unable to predict the outcome of this matter.

PNM owns or leases 3,197 circuit miles of electric transmission lines that interconnect with other utilities in New Mexico, Arizona, Colorado, Texas, and Utah. There has been little development of new transmission facilities in recent years. Therefore, most of the capacity on PNM's transmission system is fully committed during peak hours, with very little to no additional access available on a firm commitment basis. These factors result in physical constraints on the system and limit the ability to wheel power into PNM's service area from outside of New Mexico.

PNM also generates and sells electricity into the wholesale market. Because PNM's 134 MW share of Unit 3 at PVNGS currently is excluded from retail rates, that unit's power is being sold in the wholesale market and any earnings or losses are realized by shareholders. PNM has contracted to sell 100% of PVNGS Unit 3 output through 2015, at market price plus a premium. Through hedging arrangements that are accounted for as economic hedges, PNM has established fixed rates for substantially all of these sales. As discussed in Note 16, PNM has requested NMPRC approval to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers beginning in 2018 as part of the revised plan to comply with the regional haze requirements of the CAA. Beyond the PVNGS contracts, PNM also engages in activities to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour ahead, day ahead, week ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Ninety percent of the margins from these optimization sales are credited to retail customers through the FPPAC.

Use of Future Test Year

Under New Mexico law, the NMPRC must set rates using the test period, including a future test year, that best reflects the conditions the utility will experience when new rates are anticipated to go into effect. In addition, the NMPRC must include certain construction work in progress ("CWIP") for environmental improvement, generation, and transmission projects in rate base. These provisions are designed to promote more timely recovery of reasonable costs of providing utility service.

The use of a future test year should help PNM mitigate the adverse effects of regulatory lag, which is inherent when using a historical test year. Accordingly, the utility's earnings should more closely reflect the rate of return allowed by the NMPRC. PNMR believes that achieving earnings that approximate its allowed rate of return is an important factor in attracting equity investors, as well as being considered favorably by credit rating agencies and financial analysts.

As discussed above, in December 2014, PNM filed a request for a general rate increase with the NMPRC, which is based on a 2016 future test year. As with any forward looking financial information, utilizing a future test year in a rate filing presents challenges that exist in the forecasting process. These include forecasts of both operating and capital expenditures that necessitate reliance on many assumptions concerning future conditions and operating results. In the rate making process, PNM's assumptions are subject to challenge by regulators and intervenors who may assert different interpretations or assumptions.

Renewable Portfolio Standard

The REA was enacted to encourage the development of renewable energy in New Mexico. The act establishes a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% by 2011, 15% by 2015, and 20% by 2020. The act provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures utilities recovery of costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to

rates. PNM files required renewable energy plans with the NMPRC annually and makes procurements consistent with the plans approved by the NMPRC. See Note 17.

TNMP

TNMP is a regulated utility operating in Texas. TNMP's predecessor was organized in 1925. TNMP is incorporated in the State of Texas.

TNMP provides transmission and distribution services in Texas under the provisions of TECA and the Texas Public Utility Regulatory Act. TNMP is subject to traditional cost-of-service regulation with respect to rates and service under the jurisdiction of the PUCT and certain municipalities. Because its transmission and distribution activities are solely within ERCOT, TNMP is not subject to traditional rate regulation by FERC. TNMP serves a market of small to medium sized communities, most of which have populations of less than 50,000. TNMP is the exclusive provider of transmission and distribution services in most areas it serves.

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TNMP's service territory consists of three non-contiguous areas. One portion of this territory extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red River, and to communities north, west, and south of Fort Worth. The second portion of its service territory includes the area along the Texas Gulf Coast between Houston and Galveston, and the third portion includes areas of far west Texas between Midland and El Paso. ERCOT is the independent system operator that is responsible for maintaining reliable operations for the bulk electric power supply system in its region.

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 experienced increases in weather-normalized retail KWh sales of 3.2% in 2014 and 2.6% in 2013. As of December 31, 2014, 94 active REPs receive transmission and distribution services from TNMP. The acquirer of First Choice, including the former First Choice operations, accounted for 15% of TNMP's revenues in 2014. Two other unaffiliated customers of TNMP accounted for operating revenues of 15% and 11% in 2014. No other customer accounted for more than 10% of revenues.

Regulatory Activities

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect $113.4 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011. Deployment of smart meters began in September 2011 and is scheduled to be completed over a 5-year period.

The PUCT approved interim adjustments to TNMP's transmission rates of $2.5 million on September 27, 2012, $2.9 million on March 20, 2013, $2.8 million on September 17, 2013, $2.9 million on March13, 2014, and $4.2 million on September 8, 2014. On January16, 2015, TNMP filed an application to further update its transmission rates, which would increase revenues by $4.4 million annually. The application is pending before the PUCT.

Franchise Agreements

TNMP holds long-term, non-exclusive franchise agreements for its electric transmission and distribution services. These agreements have varying expiration dates and some have expired. TNMP intends to negotiate and execute new or amended franchise agreements with municipalities where the agreements have expired or will be expiring. Since TNMP is the exclusive provider of transmission and distribution services in most areas that it serves, the need to renew or renegotiate franchise agreements should not have a material adverse impact. TNMP also earns revenues from service provided to facilities in its service area that lie outside the territorial jurisdiction of the municipalities with which TNMP has franchise agreements.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. PNMR Services Company provides corporate services through shared services agreements to PNMR and all of PNMR's business units, including PNM and TNMP. These services are charged and billed at cost on a monthly basis to the business units.

SOURCES OF POWER
PNM
Generation Capacity

As of December 31, 2014, the total net generation capacity of facilities owned or leased by PNM was 2,397 MW. PNM also obtains power under a long-term PPA for the power produced by New Mexico Wind, which has a capacity of 204 MW, and the output of the Lightning Dock Geothermal facility, which currently has a capacity of 4 MW. On January 1, 2015, PNM began obtaining the power output of Red Mesa Wind, which has a capacity of 102 MW.

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PNM's capacity in electric generating facilities, which are owned, leased, or under PPAs, in commercial service as of January 1, 2015 is:

Type	Name	Location	Generation Capacity (MW)
Coal	SJGS	Waterflow, New Mexico	783
Coal	Four Corners	Fruitland, New Mexico	200
Gas	Reeves Station	Albuquerque, New Mexico	154
Gas	Afton (combined cycle)	La Mesa, New Mexico	230
Gas	Lordsburg	Lordsburg, New Mexico	80
Gas	Luna (combined cycle)	Deming, New Mexico	185
Gas/Oil	Rio Bravo, formerly known as Delta	Albuquerque, New Mexico	138
Gas	Valencia	Belen, New Mexico	158
Nuclear	PVNGS	Wintersburg, Arizona	402
Solar	PNM-owned solar	Eleven sites in New Mexico	67
Wind	New Mexico Wind	House, New Mexico	204
Wind	Red Mesa Wind	Seboyeta, New Mexico	102
Geothermal	Lightning Dock Geothermal	Lordsburg, New Mexico	4
			2,707

Fossil Fueled Plants

SJGS consists of four units operated by PNM. Units 1, 2, 3, and 4 at SJGS have net rated capacities of 340 MW, 340 MW, 497 MW and 507 MW. SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson. SJGS Unit 3 is owned 50% by PNM, 41.8% by SCPPA, and 8.2% by Tri State. SJGS Unit 4 is owned 38.457% by PNM, 28.8% by MSR Public Power Agency, 10.04% by the City of Anaheim, California, 8.475% by the City of Farmington, New Mexico, 7.2% by the County of Los Alamos, New Mexico, and 7.028% by UAMPS. See Note 16 for additional information about SJGS, including the proposal to shut down Units 2 and 3 on December 31, 2017 and the restructuring of the ownership interests in SJGS.

Four Corners Units 4 and 5 are 13% owned by PNM. Units 4 and 5 at Four Corners are jointly owned with APS, SRP, Tucson, and EPE and are operated by APS. PNM had no ownership interest in Four Corners Units 1, 2, or 3, which were shutdown by APS on December 30, 2013. The Four Corners plant site is leased from the Navajo Nation and is also subject to an easement from the federal government. APS, on behalf of the Four Corners participants, negotiated amendments to an existing facility lease with the Navajo Nation, which extends the Four Corners leasehold interest from 2016 to 2041. The Navajo Nation approved these amendments in March 2011. The effectiveness of the amendments also requires the approval of the DOI, as does a related federal rights-of-way grant, which the Four Corners participants are pursuing. A federal environmental review is underway as part of the DOI review process. PNM cannot predict whether the federal approvals will be granted, and if so on a timely basis, or whether any conditions that may be attached to them will be acceptable to PNM and the other Four Corners owners. See Note 16 for additional information about Four Corners.

PNM owns 100% of Reeves, Afton, Rio Bravo, and Lordsburg and one-third of Luna. The remaining interests in Luna are owned equally by Tucson and Samchully Power & Utilities 1, LLC. Prior to July 17, 2014 when PNM closed on the purchase of Rio Bravo, PNM was entitled to its energy and capacity under a PPA. PNM has a PPA that entitles it to the entire output of Valencia. Valencia is a variable interest entity and is consolidated by PNM as required by GAAP. Therefore, Valencia is reflected in the above table as if it were owned. Reeves, Lordsburg, Rio Bravo, and Valencia are used primarily for peaking power and transmission support. See Note 9 for additional information about

Rio Bravo and Valencia, including the potential purchase of 50% of Valencia.

Nuclear Plant

PNM is participating in the three units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), SRP, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2% of the power and energy generated by PVNGS. PNM has ownership interests of 2.3% in Unit 1, 4.6% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 5.6% in Unit 2. The lease payments for the leased portions of

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PVNGS are recovered through retail rates approved by the NMPRC. See Note 7 for additional information concerning the PVNGS leases, including agreements with the lessors of the PVNGS Unit 1 leases and one of the PVNGS Unit 2 leases for PNM to renew those leases and agreements with the lessors of the other three Unit 2 leases for PNM to exercise its fair market purchase options to purchase the assets underlying those leases. See Note 16 for information on other PVNGS matters, including PNM's proposal to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers.

On March 11, 2011, a 9.0 magnitude earthquake occurred off the northeastern coast of Japan. The earthquake produced tsunamis that caused significant damage to the Fukushima Daiichi Nuclear Power Station in Japan. Following these events, the NRC established a task force to conduct a systematic and methodical review of NRC processes and regulations to determine whether the agency should make additional improvements to its regulatory system. In March 2012, the NRC issued the first regulatory requirements based on the recommendations of the task force. With respect to PVNGS, the NRC issued two orders requiring safety enhancements regarding: (1) mitigation strategies to respond to extreme natural events resulting in the loss of power at plants; and (2) enhancement of spent fuel pool instrumentation. The NRC has issued a number of guidance documents regarding implementation of these requirements. Due to the developing nature of these requirements, PNM cannot predict the financial or operational impacts on PVNGS. However, PVNGS expects to spend approximately $40 million for capital enhancements to the plant over the next two years in addition to the approximately $80 million that has already been spent on capital enhancements as of December 31, 2014. PNM's share of these enhancements would be 10.2%, substantially all of which are included in PNM's current projection of capital expenditures.

Solar

In 2011, PNM completed its first major utility-owned renewable energy project aggregating 22 MW when five utility-scale solar facilities in New Mexico went online. In addition to these facilities, PNM completed its solar-storage demonstration project in Albuquerque, which has a generation capacity of 0.5 MW and is included in the above table. In 2013, PNM completed the installation of an additional 21.5 MW of utility-owned solar capacity at four sites, including expansion of capacity at two of the existing sites. In 2014, PNM completed construction of an additional 23 MW of PNM-owned solar PV facilities at three additional sites. PNM's 2015 renewable energy procurement includes the construction by December 31, 2015 of an additional 40 MW of PNM-owned solar PV facilities.

Plant Operating Statistics

Equivalent availability of PNM's major base-load generating stations was:

Plant	Operator	2014	2013	2012
SJGS	PNM	76.5%	77.6%	81.7%
Four Corners	APS	68.1%	72.9%	83.5%
PVNGS	APS	91.8%	89.4%	90.6%

Joint Projects

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different entities. Some participants in the joint projects are investor-owned entities, while others are municipally or co-operatively owned. Furthermore, participants in SJGS have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in July 2016 for Four Corners, July 2022 for SJGS, December 2046 for Luna, and November 2047 for PVNGS. In addition, SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. The agreement for coal

supply for SJGS expires on December 31, 2017. In late December 2013, the coal supply arrangement for Four Corners was extended through 2031. As described above, Four Corners is situated on land under a lease from the Navajo Nation. Portions of PNM's interests in PVNGS Units 1 and 2 are leased. See Nuclear Plant above and Note 7 regarding PNM's actions related to options under these leases. Several of the participants in the joint projects are located in California. There are legislative and regulatory mandates in California that may prohibit utilities from entering into new, or extending existing, arrangements for coal-fired generation. It is also possible that the participants in the joint projects have changed circumstances and objectives from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of CCBs, GHG, and other air emissions, as well as the impacts of the costs of compliance and operational viability of all or certain units within the joint projects. It is unclear how these factors will enter into discussion and negotiations concerning the status of the joint projects as the expiration of basic operational agreements approaches. PNM can provide no assurance that its participation in the joint projects will continue in the manner that currently exists. See Note 16 for a discussion of potential restructuring of SJGS ownership and developments with respect to Four Corners.

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PPAs

In addition to generating its own power, PNM purchases power under long-term PPAs. PNM also purchases power in the forward, day-ahead, and real-time markets.

In 2002, PNM entered into an agreement with FPL to develop New Mexico Wind. PNM began receiving power from the project in June 2003. FPL owns and operates New Mexico Wind, which consists of 136 wind-powered turbines having an aggregate capacity of 204 MW on a site in eastern New Mexico. PNM has a contract to purchase all the power and RECs generated by New Mexico Wind for 25 years. The NMPRC has approved a voluntary tariff that allows PNM retail customers to buy renewable electricity for a small monthly premium. Power from New Mexico Wind is used to service load under the voluntary tariff and as part of PNM's electric supply mix for meeting retail load.

PNM has a 20-year agreement to purchase energy and RECs from the Lightning Dock Geothermal facility built near Lordsburg. The facility, which is the first geothermal project for the PNM system, began providing limited power to PNM on January 1, 2014. The current capacity of the facility is 4 MW and future expansion may result in up to 10 MW of generation capacity.

In June 2013, PNM entered into a 20 year PPA with Red Mesa Wind, LLC, a subsidiary of NextEra Energy Resources, LLC, to purchase all of the power and RECs produced by Red Mesa Wind beginning on January 1, 2015. Red Mesa Wind, LLC owns and operates the facility, which consists of 64 wind-powered turbines having an aggregate capacity of 102 MW on a site west of Albuquerque.

A summary of purchased power, excluding Rio Bravo and Valencia, is as follows:

	Year Ended December 31,		
	2014	2013	2012
Purchased under long-term PPAs			
MWh	492,906	490,539	546,321
Cost per MWh	$27.82	$27.25	$27.25
Other purchased power			
Total MWh	1,023,744	1,061,514	948,911
Cost per MWh	$40.30	$35.64	$27.30

TNMP

TNMP provides only transmission and distribution services and does not sell power.

FUEL AND WATER SUPPLY

PNM

The percentages of PNM's generation of electricity (on the basis of KWh), including Valencia and Rio Bravo, fueled by coal, nuclear fuel, and gas and oil, and the average costs to PNM of those fuels per MMBTU were as follows:

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2014	56.7 %	$3.00	32.0 %	$0.83	10.3 %	$4.26
2013	56.8 %	$2.62	30.4 %	$0.88	12.2 %	$4.12
2012	59.2 %	$2.99	31.3 %	$0.88	9.0 %	$3.25

In 2014, 2013, and 2012, 1.0%, 0.6%, and 0.5% of PNM's generation was from utility owned solar, which has no fuel cost. The generation mix for 2015 is expected to be 56.7% coal, 30.7% nuclear, 11.0% gas and oil, and 1.6% utility

owned solar. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits, and the generally adequate supply of nuclear fuel, PNM believes that adequate sources of fuel are available for its generating stations into the foreseeable future. See Sources of Power – PNM – PPAs for information concerning the cost of purchased power.

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Coal

The coal supply contract that provides fuel for SJGS expires on December 31, 2017. Coal supply has not been arranged for periods after the existing contract expires although negotiations are ongoing. PNM believes there is adequate availability of coal resources to continue to operate SJGS although an extended or new contract could result in higher prices. In late December 2013, the expiration date of the coal supply contract for Four Corners was extended from 2016 to 2031. Coal costs are anticipated to increase approximately 30% at the inception of the new contract. The contract provides for pricing adjustments over its term based on economic indices. See Note 16 for additional information about PNM's coal supply.

Natural Gas

The natural gas used as fuel for the electric generating plants is procured on the open market and delivered by third party transportation providers. The supply of natural gas can be subject to disruptions due to extreme weather events and/or pipeline or facility outages. PNM has contracted for firm gas transmission capacity to minimize the potential for disruptions due to extreme weather events. PNM's natural gas plants are generally used as peaking resources that are highly relied upon during periods of extreme weather, which also may be the times natural gas has the highest demand from other users.

Nuclear Fuel and Waste

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNGS participants have contracted for all of PVNGS's requirements for uranium concentrates and conversion services through 2018 and 45% of its requirements in 2019-2020. The participants have also contracted for 100% of PVNGS's enrichment services through 2020. All of PVNGS's fuel assembly fabrication services are contracted through 2022.

The Nuclear Waste Policy Act of 1982 required the DOE to begin to accept, transport, and dispose of spent nuclear fuel and high level waste generated by the nation's nuclear power plants by 1998. The DOE's obligations are reflected in a contract with each nuclear power plant. The DOE failed to begin accepting spent nuclear fuel by 1998. APS (on behalf of itself and the other PVNGS participants) has pursued legal actions. See Note 16 for information concerning these actions.

The DOE had planned to meet its disposal obligations by designing, licensing, constructing, and operating a permanent geologic repository at Yucca Mountain, Nevada. In March 2010, the DOE filed a motion to dismiss with prejudice its Yucca Mountain construction authorization application that was pending before the NRC. Several interested parties have intervened in the NRC proceeding. Additionally, a number of interested parties have filed a variety of lawsuits in different jurisdictions around the country challenging the DOE's authority to withdraw the Yucca Mountain construction authorization application. None of these lawsuits has been conclusively decided by the courts. However, in August 2013, the D.C. Circuit ordered the NRC to resume its review of the application with available appropriated funds.

On October 16, 2014, the NRC issued Volume 3 of the safety evaluation report developed as part of the Yucca Mountain construction authorization application. This volume addresses repository safety after permanent closure, and its issuance is a key milestone in the Yucca Mountain licensing process. Volume 3 contains the staff's finding that the DOE's repository design meets the requirements that apply after the repository is permanently closed, including but not limited to the post-closure performance objectives in NRC's regulations. On December 18, 2014, the NRC issued Volume 4 of the safety evaluation report developed as part of the Yucca Mountain construction authorization application. This volume covers administrative and programmatic requirements for the repository. It documents the staff's evaluation of whether the DOE's research and development and performance confirmation programs, as well as other administrative controls and systems, meet applicable NRC requirements. Volume 4 contains the staff's finding that most administrative and programmatic requirements in NRC regulations are met, except for certain requirements relating to ownership of land and water rights. Publication of Volumes 3 and 4 does not signal whether or when the NRC might authorize construction of the repository.

All spent nuclear fuel from PVNGS is being stored on-site. PVNGS has sufficient capacity at its on-site ISFSI to store all of the nuclear fuel that will be irradiated during the initial operating license periods, which end in November 2027. Additionally, PVNGS has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the extended license periods, which end in November 2047. If uncertainties regarding the United States government's obligation to accept and store spent fuel are not favorably resolved, the PVNGS participants will evaluate alternative storage solutions. These may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the extended license periods.

Water Supply

See Note 16 for information about PNM's water supply.

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ENVIRONMENTAL MATTERS

Electric utilities are subject to stringent laws and regulations for protection of the environment by local, state, federal, and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews pursuant to NEPA. The liabilities under these laws and regulations can be material. In some instances, liabilities may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. The construction expenditure projection includes environmental upgrades at SJGS and Four Corners aggregating $72.1 million in 2015 and $78.6 million in 2016 through 2019, as discussed in Note 16. See MD&A – Other Issues Facing the Company – Climate Change Issues for information on GHG. In addition, Note 16 contains information related to the following matters, incorporated in this item by reference:

- PVNGS Decommissioning Funding
- Nuclear Spent Fuel and Waste Disposal
- Environmental Matters under the caption “The Clean Air Act”
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Cooling Water Intake Structures
- Effluent Limitation Guidelines
- Santa Fe Generating Station
- Environmental Matters under the caption “Coal Combustion Byproducts Waste Disposal”
- Hazardous Air Pollutants (“HAPs”) Rulemaking

COMPETITION

Regulated utilities are generally not subject to competition from other utilities in areas that are under the jurisdiction of state regulatory commissions. In New Mexico, PNM does not have direct competition for services provided to its retail electric customers. In Texas, TNMP is not currently in any direct retail competition with any other regulated electric utility. However, PNM and TNMP are subject to customer conservation and energy efficiency activities as well as initiatives to utilize alternative energy sources, including self-generation, or otherwise bypass the PNM and TNMP systems.

PNM is subject to varying degrees of competition in certain territories adjacent to or within the areas it serves. This competition comes from other utilities in its region as well as rural electric cooperatives and municipal utilities. PNM is involved in the generation and sale of electricity into the wholesale market. It is subject to competition from regional utilities and merchant power suppliers with similar opportunities to generate and sell energy at market-based prices and larger trading entities that do not own or operate generating assets.

EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM, and TNMP as of December 31, 2014:

	PNMR	PNM	TNMP
Corporate [1]	433	—	—
PNM	1,093	1,093	—
TNMP	355	—	355
Total	1,881	1,093	355

(1)Represents employees of PNMR Services Company.

As of December 31, 2014, PNM had 593 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW Local 611 that was entered into in July 2012 and expires April 30, 2015. Negotiations for a new agreement with the IBEW began in January 2015. While the Company is optimistic that a timely agreement will be reached, PNM cannot, at this time, predict the outcome of the negotiations. PNM is currently working on contingency planning for certain scenarios that may occur as a result of negotiations. The wages and benefits for all PNM employees who are members of the IBEW are typically included in the rates charged to electric customers, subject to approval of the NMPRC.

On March 25, 2013, a petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to certify a union at TNMP for utility workers. On April 12, 2013, a second petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to certify a union at TNMP for meter technicians, who were not included in the original petition.

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Approximately 200 employees were covered by the petitions. Elections to determine whether the IBEW would represent the employees were held in May 2013. The employees voted to unionize through both petitions and contract negotiations began. Subsequently, on June 25, 2013, a third petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to include a group of three relay technicians, who were not included in the original petition. In August 2013, the relay technicians voted to unionize. As of December 31, 2014, TNMP had 195 employees represented by IBEW Local 66. In January 2015, a decertification election was held for those employees covered by the original petition. The employees voted to retain union representation. The parties have reached a tentative agreement on a collective bargaining agreement. A vote of the union members on whether to ratify the agreement is in process.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Statements made in this filing that relate to future events or PNMR's, PNM's, or TNMP's expectations, projections, estimates, intentions, goals, targets, and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates. PNMR, PNM, and TNMP assume no obligation to update this information.

Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM, and TNMP caution readers not to place undue reliance on these statements. PNMR's, PNM's, and TNMP's business, financial condition, cash flows, and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. These factors include:

- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including treatment of SJGS Units 2 and 3 at the date of their proposed early retirement
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational agreements for SJGS and Four Corners, as well as the fuel supply agreement for SJGS, including potential restructuring and approval issues at SJGS and Four Corners necessary for operational and potential future environmental compliance matters
- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies and mandatory energy efficiency measures, weather, seasonality, alternative sources of power, and other changes in supply and demand
- State and federal regulation or legislation relating to environmental matters, including the RSIP for SJGS's compliance with the CAA, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM's generating plants
- The ability of the Company to successfully forecast and manage its operating and capital expenditures
- Physical and operational risks related to climate change and potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG
- Uncertainty regarding the requirements and related costs of decommissioning power plants and coal mines supplying certain power plants, as well as the ability to recover decommissioning costs from customers
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, fuel quality, unplanned outages, extreme weather conditions, terrorism, cybersecurity breaches, and other catastrophic events
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM's coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- State and federal regulatory, legislative, and judicial decisions and actions on ratemaking, tax, and other matters
- The risks associated with completion of generation, transmission, distribution, and other projects

- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties
- The Company’s ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates
- The potential unavailability of cash from PNMR’s subsidiaries due to regulatory, statutory, or contractual restrictions
- The risk that FERC rulemakings may negatively impact the operation of PNM’s transmission system
- The impacts of decreases in the values of marketable equity securities maintained to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits
- Employee workforce factors, including issues arising out of collective bargaining agreements and labor negotiations with union employees
- Commodity and counterparty credit risk transactions and the effectiveness of risk management

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- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles or policies

For information about the risks associated with the use of derivative financial instruments see Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk."

SECURITIES ACT DISCLAIMER

Certain securities described in this report have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be reoffered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy any securities.

ITEM 1A. RISK FACTORS

The business and financial results of PNMR, PNM, and TNMP are subject to a number of risks and uncertainties, including those set forth below and in MD&A, Note 16, and Note 17. TNMP provides transmission and distribution services to REPs that provide electric service to consumers in TNMP's service territories. References to customers in the risk factors discussed below also encompass the customers of these REPs who are the ultimate consumers of electricity transmitted and distributed through TNMP's facilities.

Regulatory Factors

The profitability of PNMR's utilities depends on being able to recover their costs through regulated rates and earn a fair return on invested capital. PNM and TNMP are in a period of significant capital expenditures. While increased capital investments and other costs are placing upward pressure on rates, energy efficiency and a sluggish New Mexico economy are reducing usage by customers.

The rates PNM charges its customers are regulated by the NMPRC and FERC. TNMP is regulated by the PUCT. The Company is in a period requiring significant capital investment and is projecting total construction expenditures for the years 2015-2019 to be $2,207.3 million. See Note 14. PNM and TNMP anticipate a trend toward increasing costs, for which it will have to seek regulatory recovery. These costs include or are related to:

- Environmental compliance expenditures
- The proposed early retirement of SJGS Units 2 and 3 as part of a revised plan to comply with the regional haze provisions of the CAA, including treatment of their net book value at the date of retirement and costs of generation capacity to replace those units
- New asset construction related to generation, transmission, and distribution systems necessary to provide electric service
- The regulatory mandate to acquire power from renewable resources
- Increased regulation related to nuclear safety
- Fuel costs
- Increased interest costs to finance capital investments
- Depreciation

At the same time costs are increasing, there are factors placing downward pressures on the demand for power, thereby reducing load growth and customer usage. These factors include:

-

- Changing customer behaviors, including increased emphasis on energy efficiency measures and utilization of alternative sources of power
- Reduced new sources of demand
- Reductions in costs of energy efficient technology
- Unpredictable weather patterns
- Adverse economic conditions

In 2014 and 2013, PNM experienced decreases in weather-normalized retail sales of 1.7% and 1.8%. The sales decreases reflect a continued sluggish economy in New Mexico. In particular, the Albuquerque metropolitan area continues to lag the nation in economic recovery. After several years of being relatively flat, New Mexico's employment showed modest growth in 2014 and

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only modest growth is anticipated in the near future. Also, low population growth will result in low growth in the number of customers. In Texas, the drop in oil prices has impacted the economy although it remains relatively strong.

The combination of costs increasing relatively rapidly and the slowing of customer usage places upward pressure on the per unit prices that must be charged to recover costs. This upward pressure on unit prices could result in additional efforts by customers to reduce consumption through energy efficiency or to pursue self-generation or other alternative sources of power. Without timely cost recovery and the authorization to earn a reasonable return on invested capital, the Company's liquidity and results of operations could be negatively impacted.

Under New Mexico law, utilities may propose the use of a future test year in establishing rates. As with any forward looking financial information, a future test year presents challenges that are inherent in the forecasting process. Forecasts of both operating and capital expenditures necessitate reliance on many assumptions concerning future conditions and operating results. Accordingly, if rate requests based on a future test year cannot be successfully supported, cash flows and results of operations may be negatively impacted. This could result from not being able to withstand challenges from regulators and intervenors regarding the utility's capability to make reasonable forecasts.

The coal supply contract that currently provides fuel for SJGS expires on December 31, 2017. Negotiations for a new coal supply contract, which are in process, could result in higher prices. In late December 2013, the expiration date of the coal supply contract for Four Corners was extended from 2016 to 2031. Coal costs are anticipated to increase approximately 30% at the inception of the new contract. The contract provides for pricing adjustments over its term based on economic indices. PNM currently recovers the cost of fuel for its generation facilities through its FPPAC. Although PNM believes costs under new coal supply arrangements would continue to be recovered through the FPPAC, there can be no assurance that full recovery would be allowed.

PNMR's utilities are subject to numerous federal, state, and local environmental laws and regulations that may significantly limit or affect their operations and financial results.

Compliance with federal, state, and local environmental laws and regulations, including those addressing climate change, air quality, CCBs, discharges of wastewater originating from fly ash and bottom ash handling facilities, cooling water, and other matters, may result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emission obligations. These costs could include remediation, containment, civil liability, and monitoring expenses. The Company cannot predict how they would be affected if existing environmental laws and regulations were to be revised or reinterpreted, or if new environmental statutes and rules were to be adopted. See Note 16 and the Climate Change Issues subsection of the Other Issues Facing the Company section of MD&A.

EPA, environmental advocacy groups, other organizations, and some other federal and state agencies are predicted to focus considerable attention on GHG from power generation facilities, including the role of those facilities in climate change. PNM depends on fossil-fueled generation for a significant share of its electricity. Therefore, it could be exposed to possible future GHG regulations imposed by New Mexico and/or the federal government. For example, as discussed in the Climate Change Issues subsection of the Other Issues Facing the Company section of MD&A, EPA has proposed its GHG NSPS rules for new sources, as well as modified and existing EGU's. Any such proposals that become regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

CCBs from the operation of SJGS are currently being used in the reclamation of a surface coal mine. These CCBs consist of fly ash, bottom ash, and gypsum. Any new regulation that would affect the reclamation process, including mine use of CCBs being classified as hazardous waste by EPA, could significantly increase the costs of the disposal of

CCBs and the costs of mine reclamation. See Note 16.

A regulatory body may identify a site requiring environmental cleanup and designate PNM or TNMP as a responsible party. There is also uncertainty in quantifying exposure under environmental laws that impose joint and several liability on all potentially responsible parties. Failure to comply with environmental laws and regulations, even if caused by factors beyond PNM's or TNMP's control, may result in the assessment of civil or criminal penalties and fines.

BART determinations have been made for both SJGS and Four Corners under the program to address regional haze in the "four corners" area, which would reduce the levels of NOx emitted at both plants. Significant capital expenditures will be required for the installation of control technology at both generating stations and operating costs would increase.PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of regulations regarding climate change, CCBs, and other power plant emissions, such regulations could have a material impact on operations. Timely regulatory recovery of

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costs associated with any environmental-related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company's business, financial position, results of operations, and liquidity.

PNM has a case pending before the NMPRC requesting regulatory approvals necessary for PNM to comply with the regional haze requirements of the CAA pertaining to SJGS. Failure to obtain the approval of the NMPRC in this matter could impact PNM's ability to efficiently operate SJGS, which could have a negative impact on PNM's business, financial condition, results of operations, and cash flows.

SJGS, which currently comprises 28.9% of PNM's owned and leased generation capacity and is its largest generation resource, is subject to the CAA. In February 2013, PNM, NMED, and EPA agreed to pursue a revised plan regarding SJGS. In October 2014, EPA published its approval of NMED's RSIP, which requires the installation of SNCRs on SJGS Units 1 and 4 combined with the shutdown of SJGS Units 2 and 3. PNM believes significant progress is being made towards implementation of the RSIP. In order to retire San Juan Units 2 and 3, final binding agreements must be reached among the SJGS owners on a revised ownership structure of SJGS, as well as addressing continuing liabilities for reclamation, decommissioning, environmental, and other matters. The participants are attempting to agree on these items and are engaged in ongoing mediated negotiations, but binding agreements have not been reached.

The coal supply contract that currently provides fuel for SJGS expires on December 31, 2017. Coal supply has not been arranged for periods after the existing contract expires. In order for the participants to approve the restructuring of ownership in SJGS, they have indicated they need to obtain greater certainty regarding fuel supply for SJGS for the period after December 31, 2017. The remaining participants in SJGS are in the process of negotiating agreements concerning future fuel supply for SJGS. The date for negotiation of a transaction has been extended until May 1, 2015. However, it is possible that the participants may not be able to negotiate a new contract for coal supply or that a new contract for coal could result in higher prices, either of which could impact the restructuring process.

PNM has a filing pending before the NMPRC that requests the regulatory approvals required to effectuate the RSIP. A public hearing on PNM's requests was held in January 2015 and PNM believes it justified that its requests provide the best alternative for New Mexico retail ratepayers in order to comply with the requirements of the CAA. Final approvals from the NMPRC are necessary to implement the RSIP. PNM believes that for the NMPRC to approve PNM's requests, the SJGS participants will have to reach binding agreements regarding restructuring ownership in SJGS. In the NMPRC proceeding, PNM has committed to reaching binding agreements on restructuring by May 1, 2015. For the participants to reach such agreements, it is likely that the remaining participants in SJGS will need to have completed negotiations regarding the coal supply for SJGS for periods after December 31, 2017.

Additional information regarding the RSIP, the restructuring negotiations, the request for NMPRC approvals, and coal supply is discussed in Note 16.

PNM can provide no assurance that these requirements will be accomplished or that the NMPRC will approve PNM's requests. If NMPRC approval is not obtained, PNM may not be able to implement the RSIP. If the RSIP requirements ultimately are not implemented due to adverse or alternative regulatory, legislative, legal, or restructuring developments or other factors, PNM would need to pursue other alternatives to address compliance with the CAA. In such circumstances, PNM could be forced to temporarily or permanently cease operation of some or all of the SJGS units. If a shutdown was required, PNM would then have to acquire replacement power through short-term or open-market purchases in order to serve the needs of its customers. There can be no assurance that sufficient replacement power will be available to serve PNM's needs or, if available, what costs would be incurred. To the extent any additional costs incurred are not allowed to be recovered from customers through the ratemaking process, PNM's financial condition, results of operation, and cash flows could be negatively impacted.

It is also possible that failure to reach a satisfactory agreement to restructure SJGS ownership, requirements to comply with the final BART determinations, the financial impact of possible future climate change regulation or legislation, if any, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of the plant or the ability of individual participants to continue participation in SJGS.

PNMR, PNM, and TNMP are subject to complex government regulation unrelated to the environment, which may have a negative impact on their businesses, financial position and results of operations.

To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT,

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FERC, NRC, EPA, and NERC. Oversight by these agencies covers many aspects of the Company's utility operations including: location, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers. FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards.

PNMR and its subsidiaries are unable to predict the impact on their business and operating results from future actions of any agency regulating the Company. Changes in existing regulations or the adoption of new ones could result in additional expenses and/or changes in business operations. In turn, operating results could be adversely impacted.

Operational Factors

Customer electricity usage could be reduced by increases in prices charged and other factors. This could result in underutilization of PNM's generating capacity, as well as the capacities of PNM's and TNMP's transmission and distribution systems. Should this occur, operating and capital costs might not be fully recovered, and financial performance could be negatively impacted.

A number of factors influence customers' electricity purchases. These factors include, but are not limited to:

- Rates charged by PNM and TNMP
- Rates charged by REPs utilizing TNMP's facilities to deliver power
- Energy efficiency initiatives
- Availability and cost of alternative sources of power
- National, regional, or local economic conditions

These factors and others may prompt customers to institute additional energy efficiency measures or take other actions that would result in lower power consumption. If customers bypass or underutilize PNM's and TNMP's facilities through self-generation, renewable or other energy resources, technological change, or other measures, revenues would be negatively impacted.

PNM's and TNMP's service territories include several military bases and federally funded national laboratories, as well as large industrial customers that have significant direct and indirect impacts on the local economies where they operate. The Company does not directly provide service to any of the military bases or national laboratories, but does provide service to large industrial customers. The Company's business could be hurt from the impacts on the local economies associated with these customer groups, as well as directly from the large industrial customers, for a number of reasons, including:

- Federally-mandated base closures or significant curtailment of the activities at the bases or national laboratories
- Closure of industrial facilities or significant curtailment of their activities

Another factor that could negatively impact the Company is that proposals are periodically advanced in various localities to municipalize, or otherwise take over PNM's facilities, which PNM believes would require state legislative action to implement, or to establish new municipal utilities in areas currently served by PNM. For example, officials in the City of Santa Fe, New Mexico have indicated a desire to reduce the carbon footprint of the city, which could include exploring renewable resources dedicated to serve the city, a partnership with existing utilities, or the feasibility of a city-owned municipal electric utility. PNM is monitoring that situation. If any such initiative is successful, the result could be a material reduction in the usage of the facilities, a reduction in rate base, and reduced earnings.

Should any of the above factors result in facilities being underutilized, the Company's financial position, operational results, and cash flows could be significantly impacted.

Costs of decommissioning, remediation, and restoration of nuclear and fossil-fueled power plants, as well as related coal mines, could exceed the estimates of PNMR and PNM, which could negatively impact results of operations and liquidity.

PNM has interests in a nuclear power plant, two coal-fired power plants, and several natural gas-fired power plants. PNM is obligated to pay for the costs of decommissioning its share of the power plants. PNM is also obligated to pay for its share of the costs of decommissioning the mines that supply coal to the coal-fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning obligations and it is important to PNM that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, and restoration. The NMPRC has established a cap on the amount of decommissioning costs for the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal

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obligations for decommissioning and reclamation. These estimates include many assumptions about future events and are inherently imprecise. In the event any of these costs exceed current estimates, results of operations could be negatively impacted.

The financial performance of PNMR, PNM, and TNMP may be adversely affected if power plants and transmission and distribution systems do not operate reliably and efficiently.

The Company's financial performance depends on the successful operation of PNM's generation assets, as well as the transmission and distribution systems of PNM and TNMP. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the electric generation assets, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, disruptions in the supply, quality, and delivery of fuel and water supplies, and other factors could result in PNM's load requirements being larger than available system generation capacity. Assured supplies of water are important for PNM's generating plants. Water in the southwestern United States is limited and there are conflicting claims regarding water rights. In addition, the "four corners" region where two of PNM's power plants are located is prone to drought conditions, which could potentially affect the plants' water supplies. In addition, unplanned outages of generating units and extensions of scheduled outages occur from time to time and are an inherent risk of the Company's business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM's and TNMP's ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs.

PNMR, PNM, and TNMP are subject to information security breaches and risks of unauthorized access to their information and operational technology systems as well as physical threats to assets.

The Company faces the risk of physical and cyber attacks, both threatened and actual, against generation facilities, transmission and distribution infrastructure used to transport power, and information technology systems and network infrastructure, which could negatively impact the ability of the Company to generate, transport, and deliver power, or otherwise operate facilities in the most efficient manner or at all.

The Company functions in a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure, some of which are deemed to be critical infrastructure under NERC guidelines. Certain of the Company's systems are interconnected with external networks. In the regular course of business, the utilities handle a range of sensitive security and customer information. PNM and TNMP are subject to the rules of various agencies concerning safeguarding and maintaining the confidentiality of this information.

In the event a party desires to disrupt the bulk power or transmission systems in the United States, the Company's computer and operating systems could be subject to physical or cyber attack. Although the Company has implemented security measures, critical infrastructure, including information and operational technology systems, are vulnerable to disability, failures, or unauthorized access. A successful physical or cyber attack or other similar failure of the systems could impact the reliability of PNM's generation and PNM's and TNMP's transmission and distribution systems, including the possible unauthorized shutdown of facilities. Such an event could lead to significant disruptions of business operations, including the Company's ability to generate, transport, and deliver power to serve customers, to bill customers, and to process other financial information. A major physical or cyber incident could lead to increased regulatory oversight, litigation, fines, other remedial action, and reputational damage. The costs incurred to investigate

and remediate a physical or cyber security attack could be significant. If the Company's systems were to fail or be breached and not recovered in a timely way, critical business functions could be impaired and sensitive or confidential data could be compromised. A physical or cyber attack on the Company's critical infrastructure could have a material adverse impact on the operations and financial condition of PNMR, PNM, and TNMP.

There are inherent risks in the ownership and operation of nuclear facilities.

PNM has a 10.2% undivided interest in PVNGS, including interests in Units 1 and 2 held under leases. PVNGS represents 16.8% of PNM's total owned and leased generating capacity. PVNGS is subject to environmental, health, and financial risks, including, but not limited to:

- The ability to obtain adequate supplies of nuclear fuel and water
- The ability to dispose of spent nuclear fuel
- Decommissioning of the plant

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- Securing the facilities against possible terrorist attacks
- Unscheduled outages due to equipment failures

PNM maintains trust funds designed to provide adequate financial resources for decommissioning at the end of the expected life of the PVNGS units. However, if the units are decommissioned before their planned date, these funds may prove to be insufficient. PNM also has external insurance coverage to minimize its financial exposure to some risks. However, it is possible that liabilities associated with nuclear operations could exceed the amount of insurance coverage. See Note 16.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or impacting the industry generally may lead the NRC to impose additional requirements and regulations on all nuclear generation facilities, including PVNGS. As a result of the March 2011 earthquake and tsunamis that caused significant damage to the Fukushima Daiichi Nuclear Power Plant in Japan, various industry organizations are working to analyze information from the Japan incident and develop action plans for nuclear power plants in the United States. Additionally, the NRC has been performing its own independent review of the events at Fukushima Daiichi, including a review of the agency's processes and regulations in order to determine whether the agency should promulgate additional regulations and possibly make more fundamental changes to the NRC's system of regulation. PNM cannot predict when or if the NRC will complete its formal actions as a result of its review. However, PVNGS expects to spend approximately $40 million for capital enhancements to the plant over the next two years in addition to the approximately $80 million that has already been spent on capital enhancements as of December 31, 2014. PNM's share of these enhancements would be 10.2%, substantially all of which are included in PNM's current projection of capital expenditures. PNM cannot predict whether these amounts will increase or whether additional financial and/or operational requirements on PVNGS may be imposed.
In the event of noncompliance with its requirements, the NRC has the authority to impose a progressively increased inspection regime that could ultimately result in the shut down of a unit or civil penalties, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and/or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM. Although PNM has no reason to anticipate a serious nuclear incident at PVNGS, if an incident did occur, it could materially and adversely affect PNM's results of operations and financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.

Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation facilities.

PNM is obligated to supply power to retail customers and certain wholesale customers. At peak times, power demand could exceed PNM's available generation capacity. Market forces, competitive forces, or adverse regulatory actions may require PNM to purchase capacity on the open market or build additional generation capabilities. Regulators or market conditions may not permit PNM to pass all of these purchases or construction costs on to customers. If that occurs, PNM may not be able to fully recover these costs. Or, there may be a lag between when costs are incurred and when regulators permit recovery in customers' rates. These situations could have negative impacts on results of operations and cash flows.

General Economic and Weather Factors

General economic conditions of the nation and/or specific areas can affect the Company's customers and suppliers. Economic recession or downturn may result in decreased consumption by customers and increased bad debt expense, and could also negatively impact suppliers, all of which could negatively impact the Company.

Economic activity is a key factor in PNMR subsidiaries' performance. Decreased economic activity can lead to declines in energy consumption, which could adversely affect future revenues, earnings, and growth. Higher unemployment rates, both in the Company's service territories and nationwide, could result in commercial customers ceasing operations and lower levels of income for residential customers. These customers might then be unable to pay their bills on time, which could increase bad debt expense and negatively impact results of operations and cash flows. Economic conditions also impact the supply and/or cost of commodities and materials needed to construct or acquire utility assets or make necessary repairs.

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The operating results of PNMR and its operating subsidiaries fluctuate on a seasonal and quarterly basis as well as being affected by weather conditions, including regional drought.

Electric generation, transmission, and distribution are generally seasonal businesses that vary with the demand for power. With power consumption typically peaking during the hot summer months, revenues traditionally peak during that period. As a result, quarterly operating results of PNMR and its operating subsidiaries vary throughout the year. In addition, PNMR and its operating subsidiaries have historically had lower revenues resulting in lower earnings when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net earnings, and cash flows of the Company.

Drought conditions in New Mexico, especially in the “four corners” region, where SJGS and Four Corners are located, may affect the water supply for PNM’s generating plants. If inadequate precipitation occurs in the watershed that supplies that region, PNM may have to decrease generation at these plants. This would require PNM to purchase power to serve customers and/or reduce the ability to sell excess power on the wholesale market and reduce revenues. Drought conditions or actions taken by regulators or legislators could limit PNM’s supply of water, which would adversely impact PNM’s and PNMR’s business. Although PNM has in place supplemental contracts and voluntary shortage sharing agreements with tribes and other water users in the “four corners” region, PNM cannot be certain these contracts will be enforceable in the event of a major drought or that it will be able to renew these contracts in the future.

TNMP’s service areas are exposed to extreme weather, including high winds, drought, flooding, and periodic hurricanes. Extreme weather conditions, particularly high winds and severe thunderstorms, also occur periodically in PNM’s service areas. These severe weather events can physically damage TNMP’s and PNM’s owned facilities. Any such occurrence both disrupts the ability to deliver energy and increases costs. Extreme weather can also reduce customers’ usage and demand for energy. These factors could negatively impact results of operations and cash flows.

Financial Factors

PNMR may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay dividends or distributions to PNMR.

PNMR is a holding company and has no operations of its own. PNMR’s ability to meet its financial obligations and to pay dividends on its common stock primarily depends on the net income and cash flows of PNM and TNMP and their capacity to pay upstream dividends or distributions. Prior to providing funds to PNMR, PNM and TNMP have financial and regulatory obligations that must be satisfied, including among others, debt service and, in the case of PNM, preferred stock dividends.

The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC has also restricted PNM from paying dividends in any year, as determined on a rolling four-quarter basis, in excess of net earnings without prior NMPRC approval. PNM is permitted to pay dividends to PNMR from prior equity contributions made by PNMR. Additionally, PNM has various financial covenants that limit the transfer of assets, through dividends or other means.

Further, the ability of PNMR to declare dividends depends upon:

- The extent to which cash flows will support dividends
- The Company’s financial circumstances and performance
- NMPRC’s and PUCT’s decisions in various regulatory cases currently pending and which may be docketed in the future
- Conditions imposed by the NMPRC or PUCT
- The effect of federal regulatory decisions and legislative acts
- Economic conditions in the United States and in the Company’s service areas
- Future growth plans and the related capital requirements
- Other business considerations

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Disruption in the credit and capital markets may impact the Company's strategy and ability to raise capital.
PNMR and its subsidiaries rely on access to both short-term and longer-term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations, including energy infrastructure investments and new projects. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2015-2019 to be $2,207.3 million. If PNMR or its operating subsidiaries are not able to access capital at competitive rates, or at all, PNMR's ability to finance capital requirements and implement its strategy will be limited. Disruptions in the credit markets, which could negatively impact the Company's access to capital, could be caused by:

- An economic recession
- Declines in the health of the banking sector generally, or the failure of specific banks who are parties to the Company's credit facilities
- Deterioration in the overall health of the utility industry
- The bankruptcy of an unrelated energy company
- War, terrorist or cybersecurity attacks, or threatened attacks

If the Company's cash flow and credit and capital resources are insufficient to fund capital expenditure plans, the Company may be forced to delay important capital investments, sell assets, seek additional equity or debt capital, or restructure debt. In addition, insufficient cash flows and capital resources may result in reductions of credit ratings. This could negatively impact the Company's ability to incur additional indebtedness on acceptable terms and would result in an increase in the interest rates applicable under the Company's credit facilities. The Company's cash flow and capital resources may be insufficient to pay interest and principal on debt in the future. If that should occur, the Company's capital raising or debt restructuring measures may be unsuccessful or inadequate to meet scheduled debt service obligations. This could cause the Company to default on its obligations and further impair liquidity.
Reduction in credit ratings or changing rating agency requirements could materially and adversely affect the Company's growth, strategy, business, financial position, results of operations, and liquidity.

PNMR, PNM, and TNMP cannot be sure that any of their current ratings will remain in effect for any given period of time or that a rating will not be put under review for a downgrade, lowered, or withdrawn entirely by a rating agency. Downgrades or changing requirements could result in increased borrowing costs due to higher interest rates in future financings, a smaller potential pool of investors, and decreased funding sources. Such conditions also could require the provision of additional support in the form of letters of credit and cash or other collateral to various counterparties.

Declines in values of marketable securities held in trust funds for pension and other postretirement benefits and in the NDT could result in sustained increases in costs and funding requirements for those obligations, which may affect operational results.

The Company targets 21% of its pension trust funds and 70% of its trust funds for other postretirement benefits to be invested in marketable equity securities. Over one-half of funds held in the NDT are typically invested in marketable equity securities. Declines in market values could result in increased funding of the trusts as well as the recognition of losses as impairments for the NDT and additional expense for the benefit plans.

Impairments of goodwill and long-lived assets of PNMR, PNM, and TNMP could adversely affect the Company's business, financial position, liquidity, and results of operations.

PNMR, PNM, and TNMP annually evaluate their recorded goodwill for impairment. They also assess long-lived assets whenever indicators of impairment exist. Factors that affect the long-term value of these assets as well as other

economic and market conditions could result in impairments. Significant impairments could adversely affect the Company's business, financial position, liquidity, and results of operations.

PNM's PVNGS leases describe certain events, including "Events of Loss" and "Deemed Loss Events", the occurrence of which could require PNM to take ownership of the underlying assets and pay the lessors for the assets.

The "Events of Loss" generally relate to casualties, accidents, and other events at PVNGS, including the occurrence of specified nuclear events, which would severely adversely affect the ability of the operating agent, APS, to operate, and the ability of PNM to earn a return on its interests in PVNGS. The "Deemed Loss Events" consist primarily of legal and regulatory changes (such as issuance by the NRC of specified violation orders, changes in law making the sale and leaseback transactions illegal, or

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changes in law making the lessors liable for nuclear decommissioning obligations). PNM believes that the probability of such “Events of Loss” or “Deemed Loss Events” occurring is remote for the following reasons: (1) to a large extent, prevention of “Events of Loss” and some “Deemed Loss Events” is within the control of the PVNGS participants through the general PVNGS operational and safety oversight process; and (2) other “Deemed Loss Events” would involve a significant change in current law and policy. PNM is unaware of any proposals pending or being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events. See Note 7.

Governance Factors

Provisions of PNMR’s organizational documents, as well as several other statutory and regulatory factors, will limit another party’s ability to acquire PNMR and could deprive PNMR’s shareholders of the opportunity to receive a takeover premium for shares of PNMR’s common stock.

PNMR’s restated articles of incorporation and by-laws include a number of provisions that may have the effect of discouraging persons from acquiring large blocks of PNMR’s common stock, or delaying or preventing a change in control of PNMR. The material provisions that may have such an effect include:

- Authorization for the Board to issue PNMR’s preferred stock in series and to fix rights and preferences of the series (including, among other things, voting rights and preferences with respect to dividends and other matters)
- Advance notice procedures with respect to any proposal other than those adopted or recommended by the Board
- Provisions specifying that only a majority of the Board, the chairman of the Board, the chief executive officer, or holders of at least one-tenth of all of PNMR’s shares entitled to vote may call a special meeting of stockholders

Under the New Mexico Public Utility Act, NMPRC approval is required for certain transactions that may result in PNMR’s change in control or exercise of control, including ownership of 10% or more of PNMR’s voting stock. Certain acquisitions of PNMR’s outstanding voting securities also require FERC approval.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

PNMR

The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.

PNM

See Sources of Power in Part I, Item. 1 Business above for information on PNM’s owned and leased capacity in electric generating stations. As of December 31, 2014, PNM owned, jointly owned, or leased, 3,197 circuit miles of electric transmission lines (including the EIP), 5,851 miles of distribution overhead lines, 5,715 cable miles of underground distribution lines (excluding street lighting), and 280 substations. PNM’s electric transmission and distribution lines are generally located within easements and rights-of-way on public, private, and Native American lands. The EIP line is a 223 mile, 345 kilovolt line with a capacity of 200 MW. PNM leases interests in PVNGS Units 1 and 2 and related property, EIP and associated equipment, data processing, communication, office and other equipment, office space, vehicles, and real estate. PNM also owns and leases service and office facilities in Albuquerque and in other areas throughout its service territory. See Note 7 for additional information concerning leases, including notices given to the lessors under the PVNGS leases that PNM would renew certain of the leases and would exercise its option to purchase the assets underlying certain other leases at the expiration of the original lease terms. As discussed in Note 7, PNM agreed to exercise its option to purchase the leased portion of the EIP at expiration of the lease at fair market value. See Note 9 for additional information about Valencia, including the

potential purchase of 50% of Valencia.

TNMP

TNMP's facilities consist primarily of transmission and distribution facilities located in its service areas. TNMP also owns and leases service and office facilities in other areas throughout its service territory. As of December 31, 2014, TNMP owned 966 circuit miles of overhead electric transmission lines, 7,085 pole miles of overhead distribution lines, 1,152 circuit miles of underground distribution lines, and 109 substations. Substantially all of TNMP's property is pledged to secure its first mortgage bonds. See Note 6.

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ITEM 3. LEGAL PROCEEDINGS

See Note 16 and Note 17 for information related to the following matters for PNMR, PNM, and TNMP, incorporated in this item by reference.

Note 16

- The Clean Air Act – Regional Haze – SJGS
- The Clean Air Act – Regional Haze – Four Corners
- The Clean Air Act – Four Corners BART FIP Challenge
- The Clean Air Act – Regional Haze Challenges
- The Clean Air Act – Citizen Suit Under the Clean Air Act
- The Clean Air Act – Four Corners Clean Air Act Lawsuit
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Santa Fe Generating Station
- Coal Combustion Byproducts Waste Disposal – Sierra Club Consent Decree
- Continuous Highwall Mining Royalty Rate
- SJCC Arbitration
- Four Corners Severance Tax Assessment
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Complaint Against Southwestern Public Service Company
- Navajo Nations Allottee Matters

Note 17

- PNM – 2014 Electric Rate Case
- PNM – Renewable Portfolio Standard
- PNM – Renewable Energy Rider
- PNM – Energy Efficiency and Load Management
- PNM – FPPAC Continuation Application
- PNM – Integrated Resource Plan
- PNM – San Juan Generating Station Units 2 and 3 Retirement
- PNM – Transmission Rate Case
- PNM – Formula Transmission Rate Case
- TNMP – Advanced Meter System Deployment
- TNMP – Remand of ERCOT Transmission Rates for 1999 and 2000
- TNMP – Energy Efficiency
- TNMP – Transmission Cost of Service Rates

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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SUPPLEMENTAL ITEM – EXECUTIVE OFFICERS OF PNM RESOURCES, INC.

All officers are elected annually by the Board of PNMR. Executive officers, their ages as of February 20, 2015 and offices held with PNMR for the past five years, or other companies if less than five years with PNMR, are as follows:

Name	Age	Office	Initial Effective Date
P. K. Collawn	56	Chairman, President, and Chief Executive Officer	January 2012
		President and Chief Executive Officer	March 2010
		President and Chief Operating Officer	August 2008
C. N. Eldred	61	Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	63	Senior Vice President, General Counsel and Secretary	January 2010
		University Counsel, University of New Mexico	May 2006
R. E. Talbot	54	Senior Vice President and Chief Operating Officer	January 2012
		Chief Operating Officer, Power Supply and Power Delivery – Indianapolis Power and Light Company	June 2011
		Senior Vice President, Power Supply – Indianapolis Power and Light Company	February 2007
R. N. Darnell	57	Senior Vice President, Public Policy	January 2012
		Vice President, Regulatory Affairs	April 2008
T. G. Sategna [(1)]	61	Vice President and Corporate Controller	October 2003

[(1)] On December 9, 2014, T. G. Sategna notified the Company that he intends to retire as the Company's principal accounting officer effective as of March 31, 2015. Mr. Sategna has agreed to continue employment with PNMR Services Company through December 31, 2015 to (among other things) assist the Company and his successor in the transition process. On December 11, 2014, the Company appointed J. D. Tarry as its Vice President and Controller (and principal accounting officer), effective as of April 1, 2015. His appointment was approved by the Board on February 26, 2015. Mr. Tarry, 44, joined the Company in 1996 and has served as Vice President, Customer Service and Chief Information Officer since May 2012. From January 1, 2010 through May 2012, he served as Executive Director of Financial Planning and Business Analysis.

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PART II

ITEM 5. MARKET FOR PNMR'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

PNMR's common stock is traded on the New York Stock Exchange (Symbol: PNM). Ranges of sales prices of PNMR's common stock, reported as composite transactions, and dividends declared on the common stock for 2014 and 2013, by quarters, are as follows:

Quarter Ended	Range of Sales Prices		Dividends Declared Per Share
	High	Low	
2014			
March 31	$27.15	$23.53	$0.185
June 30	29.33	26.28	0.185
September 30	29.80	24.27	0.185
December 31	31.39	25.18	0.200
Fiscal Year	31.39	23.53	0.755
2013			
March 31	$23.29	$20.28	$0.165
June 30	24.01	21.35	0.165
September 30	24.29	21.25	0.165
December 31	24.28	22.21	0.185
Fiscal Year	24.29	20.28	0.680

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 $0.165 per share in July 2013 and $0.185 per share in July 2014, which are reflected as being in the second quarter above. The Board declared dividends on common stock considered to be for the third quarter of $0.165 per share in September 2013 and $0.185 per share in September 2014, which are reflected as being in the third quarter above. On February 26, 2015, the Board declared a quarterly dividend of $0.20 per share. PNMR targets a long-term dividend payout ratio of 50% to 60% of consolidated earnings. During the period it was outstanding, PNMR's Series A convertible preferred stock was entitled to receive dividends equivalent to any dividends paid on PNMR common stock as if the preferred stock had been converted into common stock.

On February 20, 2015, there were 10,283 holders of record of PNMR's common stock. All of the outstanding common stock of PNM and TNMP is held by PNMR.

See Note 5 for a discussion on limitations on the payments of dividends and the payment of future dividends, as well as dividends paid by PNM and TNMP.

See Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Preferred Stock

PNM is not aware of any active trading market for its cumulative preferred stock. Quarterly cash dividends were paid on PNM's outstanding cumulative preferred stock at the stated rates during 2014 and 2013. PNMR and TNMP do not have any preferred stock outstanding.

Sales of Unregistered Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A. PNMR sold First Choice on November 1, 2011. First Choice is included in the following information through October 31, 2011. PNMR fully impaired its equity method investment in Optim Energy in 2010 and recorded no income or loss for that investment through September 23, 2011, when Optim Energy was restructured reducing PNMR's ownership to 1%.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2014	2013	2012	2011	2010
	(In thousands except per share amounts and ratios)				
Total Operating Revenues	$1,435,853	$1,387,923	$1,342,403	$1,700,619	$1,673,517
Net Earnings (Loss)	$130,909	$115,556	$120,125	$190,934	$(31,124)
Net Earnings (Loss) Attributable to PNMR	$116,254	$100,507	$105,547	$176,359	$(45,215)
Net Earnings (Loss) Attributable to PNMR per Common Share					
Basic	$1.46	$1.26	$1.32	$1.98	$(0.49)
Diluted	$1.45	$1.25	$1.31	$1.96	$(0.49)
Cash Flow Data					
Net cash flows from operating activities	$414,876	$386,587	$281,349	$292,240	$287,352
Net cash flows from investing activities	$(485,329)	$(331,446)	$(285,895)	$19,778	$(275,906)
Net cash flows from financing activities	$96,194	$(61,593)	$(1,560)	$(312,331)	$(10,683)
Total Assets	$5,829,325	$5,500,210	$5,372,583	$5,204,613	$5,225,083
Long-Term Debt, including current installments	$1,975,090	$1,745,420	$1,672,290	$1,674,013	$1,565,847
Common Stock Data					
Market price per common share at year end	$29.63	$24.12	$20.51	$18.23	$13.02
Book value per common share at year end	$21.61	$21.01	$20.19	$19.76	$17.90
Tangible book value per share at year end	$18.12	$17.52	$16.70	$16.27	$14.10
Average number of common shares outstanding – diluted	80,279	80,431	80,417	89,757	91,557
Dividends declared per common share	$0.755	$0.680	$0.580	$0.500	$0.500
Capitalization					
PNMR common stockholders' equity	46.4 %	48.8 %	48.9 %	48.3 %	47.8 %
Convertible preferred stock	—	—	—	—	3.1
Preferred stock of subsidiary, without mandatory redemption requirements	0.3	0.3	0.3	0.3	0.4
Long-term debt	53.3	50.9	50.8	51.4	48.7
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Note: The book value per common share at year end, tangible book value per share at year end, average number of common shares outstanding, and return on average common equity reflect the 477,800 shares of PNMR Series A convertible preferred stock as if it was converted into common stock through September 23, 2011, when it was retired by PNMR.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2014	2013	2012	2011	2010
	(In thousands)				
PNM Revenues					
Residential	$411,412	$411,579	$409,005	$390,380	$355,905
Commercial	428,085	415,621	413,332	386,383	355,699
Industrial	73,002	74,552	78,637	73,742	65,358
Public authority	25,278	25,745	25,495	23,970	21,302
Economy service	39,123	32,909	25,354	21,141	20,218
Transmission	38,284	38,228	39,373	43,637	38,667
Firm-requirements wholesale	38,313	42,370	39,390	34,127	31,870
Other sales for resale	82,508	67,538	47,321	69,318	121,729
Mark-to-market activity	5,996	293	892	4,214	(3,599)
Other	5,913	7,477	13,465	10,377	9,979
Total PNM Revenues	$1,147,914	$1,116,312	$1,092,264	$1,057,289	$1,017,128
TNMP Revenues					
Residential	$114,826	$111,373	$103,255	$100,290	$83,645
Commercial	99,701	95,098	88,258	84,896	77,474
Industrial	15,049	13,084	13,405	13,065	12,342
Other	58,362	52,056	45,222	39,607	39,127
Total TNMP Revenues	$287,938	$271,611	$250,140	$237,858	$212,588
First Choice Revenues					
Residential	$—	$—	$—	$260,161	$305,834
Commercial	—	—	—	166,498	159,785
Trading gains (losses)	—	—	—	—	(4)
Other	—	—	—	12,791	17,588
Total First Choice Revenues	$—	$—	$—	$439,450	$483,203

Notes: Under TECA, consumers in Texas can choose any REP to provide energy. TNMP delivers energy to consumers within its service area regardless of the REP chosen. Therefore, TNMP earns revenue for energy delivery and REPs earn revenue on the usage of that energy by its customers. The revenues reported above for TNMP include $33.8 million and $39.1 million received from First Choice in 2011 and 2010.

First Choice is included through October 31, 2011, when it was sold by PNMR.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2014	2013	2012	2011	2010
PNM MWh Sales					
Residential	3,169,071	3,304,350	3,323,544	3,402,842	3,361,472
Commercial	3,874,292	3,954,774	4,022,184	4,043,796	4,015,999
Industrial	984,130	1,041,160	1,136,011	1,132,110	1,073,475
Public authority	251,187	266,368	279,169	282,062	263,424
Economy service	758,629	719,342	635,305	428,757	376,458
Firm-requirements wholesale	527,597	654,135	651,972	650,356	677,508
Other sales for resale	2,271,480	2,061,851	1,652,225	2,076,869	2,203,787
Total PNM MWh Sales	11,836,386	12,001,980	11,700,410	12,016,792	11,972,123
TNMP MWh Sales					
Residential	2,802,768	2,796,661	2,714,511	2,862,337	2,699,601
Commercial	2,564,751	2,451,299	2,353,135	2,360,998	2,260,505
Industrial	2,727,064	2,598,442	2,727,126	2,578,877	2,241,452
Other	102,118	104,516	103,856	108,664	103,341
Total TNMP MWh Sales	8,196,701	7,950,918	7,898,628	7,910,876	7,304,899
First Choice MWh Sales					
Residential	—	—	—	2,006,437	2,267,836
Commercial	—	—	—	1,538,203	1,363,746
Total First Choice MWh Sales	—	—	—	3,544,640	3,631,582

Notes: The MWh reported above for TNMP include 836,599 and 1,012,842 MWh for 2011 and 2010, used by consumers who chose First Choice as their REP. These MWh are also included in the First Choice MWh sales.

First Choice is included through October 31, 2011, when it was sold by PNMR.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2014	2013	2012	2011	2010
PNM Customers					
Residential	455,907	453,218	450,507	448,979	447,789
Commercial	55,853	55,447	54,953	54,468	54,005
Industrial	249	251	250	251	259
Economy service	1	1	1	1	1
Other sales for resale	39	34	36	28	46
Other	911	928	952	983	1,003
Total PNM Customers	512,960	509,879	506,699	504,710	503,103
TNMP Consumers					
Residential	199,963	196,799	193,550	192,356	190,809
Commercial	38,033	37,460	36,819	37,208	37,356
Industrial	70	70	70	73	72
Other	2,044	2,070	2,037	2,092	2,099
Total TNMP Consumers	240,110	236,399	232,476	231,729	230,336
First Choice Customers					
Residential	—	—	—	176,577	172,506
Commercial	—	—	—	44,485	41,695
Total First Choice Customers	—	—	—	221,062	214,201
PNMR Generation Statistics					
Net Capability – MW, including PPAs	2,707	2,572	2,537	2,547	2,631
Coincidental Peak Demand – MW	1,878	2,008	1,948	1,938	1,973
Average Fuel Cost per MMBTU	$2.415	$2.237	$2.308	$2.267	$2.064
BTU per KWh of Net Generation	10,422	10,308	10,289	10,441	10,237

Notes: The consumers reported above for TNMP include 64,732 and 70,366 consumers for 2011 and 2010, who chose First Choice as their REP. These TNMP customers are also included in the First Choice customers.

First Choice is as of October 31, 2011, when it was sold by PNMR.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations for PNMR is presented on a combined basis, including certain information applicable to PNM and TNMP. The MD&A for PNM and TNMP is presented as permitted by Form 10-K General Instruction I (2). A reference to a "Note" in this Item 7 refers to the accompanying Notes to Consolidated Financial Statements included in Part II, Item 8, unless otherwise specified. Certain of the tables below may not appear visually accurate due to rounding.

MD&A FOR PNMR

EXECUTIVE SUMMARY

Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 753,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

Strategic Goals

PNMR is focused on achieving the following strategic goals:

- Earning authorized returns on its regulated businesses
- Continuing to improve credit ratings
- Providing a top-quartile total return to investors

In conjunction with these goals, PNM and TNMP are dedicated to:

- Achieving industry-leading safety performance
- Maintaining strong plant performance and system reliability
- Delivering a superior customer experience
- Environmental leadership in its business operations

Earning Authorized Returns on Regulated Businesses

PNMR's success in accomplishing its strategic goals is highly dependent on continued favorable regulatory treatment for its utilities and their strong operating performance. The Company has multiple strategies to achieve favorable regulatory treatment, all of which have as their foundation a focus on the basics: safety, operational excellence, and customer satisfaction, while engaging stakeholders to build productive relationships.

Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. PNM filed a general rate case with the NMPRC in December 2014. PNM's application proposes a revenue increase of $107.4 million, effective January 1, 2016, based on a calendar 2016 future year test and a ROE of 10.5%. PNM requested this increase to account for infrastructure investments made since its last rate case and investments needed in the next two years to provide reliable service to PNM's retail customers, as well as to reflect declining sales growth in PNM's service territory. The infrastructure investments account for approximately 92% of the rate increase. PNM's success with energy efficiency programs is a contributing factor to the decline in sales growth and accounts for the balance of the rate increase after offsetting cost reductions. PNM is proposing several changes to rate design to establ