PNM RESOURCES INC
Form 10-Q
July 31, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

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

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

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

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

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

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
PNMR	ü				
PNM			ü		
TNMP			ü		

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

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

As of July 25, 2018, 79,653,624 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM outstanding as of July 25, 2018 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP outstanding as of July 25, 2018 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

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

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

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

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GLOSSARY

Definitions:

2014 IRP	PNM's 2014 IRP
2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
AEP OnSite Partners	AEP OnSite Partners, LLC, a subsidiary of American Electric Power, Inc.
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARP	Alternative Revenue Program
ASU	Accounting Standards Update
August 2016 RD	Recommended Decision in PNM's NM 2015 Rate Case issued by the Hearing Examiner on August 4, 2016
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
Board	Board of Directors of PNMR
BTMU	MUFG Bank Ltd., formerly The Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan Agreement	NM Capital's $125.0 Million Unsecured Term Loan
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO_2	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
Four Corners CSA	Four Corners Power Plant Coal Supply Agreement
FPPAC	Fuel and Purchased Power Adjustment Clause
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours

IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station

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LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NEE	New Energy Economy
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NM 2015 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on August 27, 2015
NM 2016 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on December 7, 2016
NM Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR
NM District Court	United States District Court for the District of New Mexico
NM Supreme Court	New Mexico Supreme Court
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMMMD	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
NMRD	NM Renewable Development, LLC, owned 50% each by PNMR Development and AEP OnSite Partners, LLC
NO_2	Nitrogen Dioxide
NOx	Nitrogen Oxide
NOPR	Notice of Proposed Rulemaking
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NTEC	Navajo Transitional Energy Company, LLC, an entity owned by the Navajo Nation
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries
	PNM's $175.0 Million Unsecured Term Loan

PNM 2016 Term Loan Agreement	
PNM 2017 New Mexico Credit Facility	PNM’s $40.0 Million Unsecured Revolving Credit Facility
PNM 2017 Senior Unsecured Note Agreement	PNM’s Agreement for the sale of Senior Unsecured Notes, aggregating $450.0 million
PNM 2017 Term Loan Agreement	PNM’s $200.0 Million Unsecured Term Loan

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PNM 2018 SUNs	PNM's Senior Unsecured Notes to be issued under the PNM 2017 Senior Unsecured Note Agreement
PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan Agreement	PNMR's $150.0 Million Three-Year Unsecured Term Loan
PNMR 2016 One-Year Term Loan	PNMR's $100.0 Million One-Year Unsecured Term Loan
PNMR 2016 Two-Year Term Loan	PNMR's $100.0 Million Two-Year Unsecured Term Loan
PNMR 2018 SUNs	PNMR's $300.0 Million Aggregate Principal Amount of Senior Unsecured Notes due 2021
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development's $24.5 Million Unsecured Revolving Credit Facility
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
RFP	Request For Proposal
Rio Bravo	Rio Bravo Generating Station
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor's Ratings Services
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJGS CSA	San Juan Generating Station Coal Supply Agreement
SJGS RA	San Juan Project Restructuring Agreement
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
SOx	Sulfur Oxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
SUNs	Senior Unsecured Notes
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2018 Rate Case	TNMP's General Rate Case Application Filed on May 30, 2018

TNMP 2018 Term Loan Agreement	TNMP's $20.0 Million Unsecured Two-Year Term Loan

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Electric Operating Revenues:				
Contracts with customers	$338,659	$326,586	$642,010	$623,777
Alternative revenue programs	5,660	8,920	6,584	13,499
Other electric operating revenue	7,994	26,814	21,597	55,222
Total electric operating revenues	352,313	362,320	670,191	692,498
Operating Expenses:				
Cost of energy	87,711	104,267	180,267	207,070
Administrative and general	43,355	42,984	91,638	88,379
Energy production costs	41,888	34,393	77,238	66,180
Regulatory disallowances and restructuring costs	1,794	—	1,794	—
Depreciation and amortization	60,063	57,625	118,785	114,008
Transmission and distribution costs	18,450	17,031	35,406	33,508
Taxes other than income taxes	19,723	18,777	39,602	38,012
Total operating expenses	272,984	275,077	544,730	547,157
Operating income	79,329	87,243	125,461	145,341
Other Income and Deductions:				
Interest income	4,339	3,885	8,462	8,766
Gains (losses) on investment securities	(1,670)	5,663	(1,382)	12,324
Other income	4,796	3,450	8,265	8,351
Other (deductions)	(5,868)	(5,042)	(7,243)	(10,663)
Net other income and deductions	1,597	7,956	8,102	18,778
Interest Charges	33,321	32,332	66,376	64,031
Earnings before Income Taxes	47,605	62,867	67,187	100,088
Income Taxes	5,156	21,636	5,939	32,411
Net Earnings	42,449	41,231	61,248	67,677
(Earnings) Attributable to Valencia Non-controlling Interest	(4,109)	(3,544)	(7,786)	(6,996)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Net Earnings Attributable to PNMR	$38,208	$37,555	$53,198	$60,417
Net Earnings Attributable to PNMR per Common Share:				
Basic	$0.48	$0.47	$0.67	$0.76
Diluted	$0.48	$0.47	$0.67	$0.75
Dividends Declared per Common Share	$0.2650	$0.2425	$0.5300	$0.4850

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net Earnings	$42,449	$41,231	$61,248	$67,677
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of $(91), $(2,777), $(374), and $(5,783)	266	4,378	1,098	9,120
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $126, $1,629, $794, and $2,701	(371)	(2,569)	(2,332)	(4,260)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(482), $(626), $(962), and $(1,252)	1,415	987	2,826	1,974
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $(143), $40, $(615), and $112	419	(63)	1,805	(176)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $(12), $(82), $1, and $(125)	34	130	(6)	198
Total Other Comprehensive Income	1,763	2,863	3,391	6,856
Comprehensive Income	44,212	44,094	64,639	74,533
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(4,109)	(3,544)	(7,786)	(6,996)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Comprehensive Income Attributable to PNMR	$39,971	$40,418	$56,589	$67,273

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

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

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$61,248	$67,677
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	137,020	131,861
Deferred income tax expense	5,888	32,443
Net unrealized (gains) losses on commodity derivatives	(56)	939
(Gains) losses on investment securities	1,382	(12,324)
Stock based compensation expense	3,325	4,561
Regulatory disallowances and restructuring costs	1,794	—
Allowance for equity funds used during construction	(4,641)	(3,465)
Other, net	1,595	1,056
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(17,130)	(12,204)
Materials, supplies, and fuel stock	(8,282)	969
Other current assets	(16,130)	1,613
Other assets	2,603	3,186
Accounts payable	(21,229)	(2,052)
Accrued interest and taxes	(4,865)	(6,802)
Other current liabilities	(1,516)	(2,498)
Other liabilities	(7,106)	(4,341)
Net cash flows from operating activities	133,900	200,619
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(245,587)	(230,882)
Proceeds from sales of investment securities	794,088	358,045
Purchases of investment securities	(797,271)	(359,853)
Principal repayments on Westmoreland Loan	56,640	19,180
Investments in NMRD	(8,000)	—
Other, net	(120)	143
Net cash flows from investing activities	(200,250)	(213,367)

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

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

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	(22,800)	86,400
Long-term borrowings	709,652	57,000
Repayment of long-term debt	(550,137)	(77,447)
Proceeds from stock option exercise	924	1,574
Awards of common stock	(12,268)	(13,166)
Dividends paid	(42,480)	(38,896)
Valencia’s transactions with its owner	(8,381)	(7,731)
Amounts received under transmission interconnection arrangements	—	11,419
Refunds paid under transmission interconnection arrangements	(1,661)	(8,783)
Debt issuance costs and other, net	(5,584)	(951)
Net cash flows from financing activities	67,265	9,419
Change in Cash, Restricted Cash, and Equivalents	915	(3,329)
Cash, Restricted Cash, and Equivalents at Beginning of Period	3,974	5,522
Cash, Restricted Cash, and Equivalents at End of Period	$4,889	$2,193
Restricted Cash Included in Other Current Assets on Condensed Consolidated Balance Sheets:		
At beginning of period	$—	$1,000
At end of period	$—	$—
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$59,626	$59,982
Income taxes paid (refunded), net	$842	$625
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$17,303	$1,279

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

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

	June 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$4,889	$ 3,974
Accounts receivable, net of allowance for uncollectible accounts of $1,189 and $1,081	89,158	90,473
Unbilled revenues	70,904	54,055
Other receivables	24,338	17,582
Current portion of Westmoreland Loan	—	3,576
Materials, supplies, and fuel stock	74,785	66,502
Regulatory assets	6,586	2,933
Commodity derivative instruments	1,094	1,088
Income taxes receivable	7,670	6,879
Other current assets	51,818	47,358
Total current assets	331,242	294,420
Other Property and Investments:		
Long-term portion of Westmoreland Loan	—	53,064
Investment securities	323,105	323,524
Equity investment in NMRD	24,761	16,510
Other investments	373	503
Non-utility property	3,404	3,404
Total other property and investments	351,643	397,005
Utility Plant:		
Plant in service and held for future use	7,438,356	7,238,285
Less accumulated depreciation and amortization	2,648,684	2,592,692
	4,789,672	4,645,593
Construction work in progress	220,065	245,933
Nuclear fuel, net of accumulated amortization of $43,309 and $43,524	90,962	88,701
Net utility plant	5,100,699	4,980,227
Deferred Charges and Other Assets:		
Regulatory assets	588,971	600,672
Goodwill	278,297	278,297
Commodity derivative instruments	3,014	3,556
Other deferred charges	96,223	91,926
Total deferred charges and other assets	966,505	974,451
	$6,750,089	$ 6,646,103

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

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

	June 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$282,600	$ 305,400
Current installments of long-term debt	471,690	256,895
Accounts payable	82,851	121,383
Customer deposits	10,919	11,028
Accrued interest and taxes	58,283	62,357
Regulatory liabilities	—	2,309
Commodity derivative instruments	1,416	1,182
Dividends declared	132	21,240
Other current liabilities	54,259	53,850
Total current liabilities	962,150	835,644
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,122,352	2,180,750
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	566,084	547,210
Regulatory liabilities	928,706	933,578
Asset retirement obligations	152,300	146,679
Accrued pension liability and postretirement benefit cost	84,934	94,003
Commodity derivative instruments	3,014	3,556
Other deferred credits	130,705	131,706
Total deferred credits and other liabilities	1,865,743	1,856,732
Total liabilities	4,950,245	4,873,126
Commitments and Contingencies (Note 11)		
Cumulative Preferred Stock of Subsidiary		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,149,646	1,157,665
Accumulated other comprehensive income (loss), net of income taxes	(103,757)	(95,940)
Retained earnings	676,826	633,528
Total PNMR common stockholders' equity	1,722,715	1,695,253
Non-controlling interest in Valencia	65,600	66,195
Total equity	1,788,315	1,761,448
	$6,750,089	$ 6,646,103

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

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

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2017, as originally reported	$1,157,665	$(95,940)	$633,528	$1,695,253	$66,195	$1,761,448
Cumulative effect adjustment (Note 7)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	1,157,665	(107,148)	644,736	1,695,253	66,195	1,761,448
Net earnings before subsidiary preferred stock dividends	—	—	53,462	53,462	7,786	61,248
Total other comprehensive income	—	3,391	—	3,391	—	3,391
Subsidiary preferred stock dividends	—	—	(264)	(264)	—	(264)
Dividends declared on common stock	—	—	(21,108)	(21,108)	—	(21,108)
Proceeds from stock option exercise	924	—	—	924	—	924
Awards of common stock	(12,268)	—	—	(12,268)	—	(12,268)
Stock based compensation expense	3,325	—	—	3,325	—	3,325
Valencia's transactions with its owner	—	—	—	—	(8,381)	(8,381)
Balance at June 30, 2018	$1,149,646	$(103,757)	$676,826	$1,722,715	$65,600	$1,788,315

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	$254,728	$246,402	$477,291	$468,465
Alternative revenue programs	1,789	2,881	1,854	3,968
Other electric operating revenue	7,994	26,814	21,597	55,222
Total electric operating revenues	264,511	276,097	500,742	527,655
Operating Expenses:				
Cost of energy	66,361	82,952	137,163	164,268
Administrative and general	40,922	39,798	84,648	80,708
Energy production costs	41,888	34,393	77,238	66,180
Regulatory disallowances and restructuring costs	1,794	—	1,794	—
Depreciation and amortization	38,213	36,448	74,840	72,464
Transmission and distribution costs	10,993	10,175	20,820	20,094
Taxes other than income taxes	11,461	11,029	23,069	22,169
Total operating expenses	211,632	214,795	419,572	425,883
Operating income	52,879	61,302	81,170	101,772
Other Income and Deductions:				
Interest income	3,381	1,858	5,868	4,675
Gains (losses) on investment securities	(1,670)	5,663	(1,382)	12,324
Other income	2,292	2,665	4,684	6,508
Other (deductions)	(3,768)	(4,566)	(5,229)	(9,526)
Net other income and deductions	235	5,620	3,941	13,981
Interest Charges	19,988	20,931	40,818	41,943
Earnings before Income Taxes	33,126	45,991	44,293	73,810
Income Taxes	2,345	15,515	1,997	23,223
Net Earnings	30,781	30,476	42,296	50,587
(Earnings) Attributable to Valencia Non-controlling Interest	(4,109)	(3,544)	(7,786)	(6,996)
Net Earnings Attributable to PNM	26,672	26,932	34,510	43,591
Preferred Stock Dividends Requirements	(132)	(132)	(264)	(264)
Net Earnings Available for PNM Common Stock	$26,540	$26,800	$34,246	$43,327

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net Earnings	$30,781	$30,476	$42,296	$50,587
Other Comprehensive Income:				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of $(91), $(2,777), $(374), and $(5,783)	266	4,378	1,098	9,120
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $126, $1,629, $794, and $2,701	(371)	(2,569)	(2,332)	(4,260)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(482), $(626), $(962), and $(1,252)	1,415	987	2,826	1,974
Total Other Comprehensive Income	1,310	2,796	1,592	6,834
Comprehensive Income	32,091	33,272	43,888	57,421
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(4,109)	(3,544)	(7,786)	(6,996)
Comprehensive Income Attributable to PNM	$27,982	$29,728	$36,102	$50,425

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

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

	Six Months Ended June 30, 2018			2017		
	(In thousands)					
Cash Flows From Operating Activities:						
Net earnings	$	42,296		$	50,587	
Adjustments to reconcile net earnings to net cash flows from operating activities:						
Depreciation and amortization	90,713			88,864		
Deferred income tax expense	2,342			23,685		
Net unrealized (gains) losses on commodity derivatives	(56		)	939		
(Gains) losses on investment securities	1,382			(12,324		)
Regulatory disallowances and restructuring costs	1,794			—		
Allowance for equity funds used during construction	(3,879		)	(3,331		)
Other, net	1,595			1,053		
Changes in certain assets and liabilities:						
Accounts receivable and unbilled revenues	(12,057		)	(8,846		)
Materials, supplies, and fuel stock	(7,071		)	1,591		
Other current assets	(17,995		)	4,623		
Other assets	8,296			8,539		
Accounts payable	(13,050		)	(754		)
Accrued interest and taxes	(988		)	(1,520		)
Other current liabilities	(11,364		)	9,220		
Other liabilities	(10,300		)	(6,949		)
Net cash flows from operating activities	71,658			155,377		

Cash Flows From Investing Activities:		
Utility plant additions	(120,287)	(125,698)
Proceeds from sales of investment securities	794,088	358,045
Purchases of investment securities	(797,271)	(359,853)
Other, net	131	143
Net cash flows from investing activities	(123,339)	(127,363)

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

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

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	(6,200)	(23,000)
Short-term borrowings (repayments) - affiliate, net	4,900	—
Long-term borrowings	350,000	57,000
Repayment of long-term debt	(350,000)	(57,000)
Dividends paid	(264)	(264)
Valencia's transactions with its owner	(8,381)	(7,731)
Amounts received under transmission interconnection arrangements	68,200	11,419
Refunds paid under transmission interconnection arrangements	(1,661)	(8,783)
Debt issuance costs and other, net	(3,147)	(953)
Net cash flows from financing activities	53,447	(29,312)
Change in Cash, Restricted Cash, and Equivalents	1,766	(1,298)
Cash, Restricted Cash, and Equivalents at Beginning of Period	1,108	1,324
Cash, Restricted Cash, and Equivalents at End of Period	$2,874	$26
Restricted Cash Included in Other Current Assets on Condensed Consolidated Balance Sheets:		
At beginning of period	$—	$1,000
At end of period	$—	$—
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$39,881	$39,584
Income taxes paid (refunded), net	$—	$—
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$(841)	$(5,392)

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

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

	June 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,874	$ 1,108
Accounts receivable, net of allowance for uncollectible accounts of $1,189 and $1,081	62,677	67,227
Unbilled revenues	58,880	43,869
Other receivables	22,680	14,541
Affiliate receivables	9,037	9,486
Materials, supplies, and fuel stock	67,930	60,859
Regulatory assets	5,815	2,139
Commodity derivative instruments	1,094	1,088
Income taxes receivable	3,754	3,410
Other current assets	46,369	39,904
Total current assets	281,110	243,631
Other Property and Investments:		
Investment securities	323,105	323,524
Other investments	153	283
Non-utility property	96	96
Total other property and investments	323,354	323,903
Utility Plant:		
Plant in service and held for future use	5,672,141	5,501,070
Less accumulated depreciation and amortization	2,064,741	2,029,534
	3,607,400	3,471,536
Construction work in progress	114,535	204,079
Nuclear fuel, net of accumulated amortization of $43,309 and $43,524	90,962	88,701
Net utility plant	3,812,897	3,764,316
Deferred Charges and Other Assets:		
Regulatory assets	447,691	459,239
Goodwill	51,632	51,632
Commodity derivative instruments	3,014	3,556
Other deferred charges	74,579	75,286
Total deferred charges and other assets	576,916	589,713
	$4,994,277	$ 4,921,563

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

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

	June 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$33,600	$39,800
Short-term debt - affiliate	4,900	—
Current installments of long-term debt	200,012	23
Accounts payable	64,885	77,094
Affiliate payables	8,186	22,875
Customer deposits	10,919	11,028
Accrued interest and taxes	33,301	33,945
Regulatory liabilities	—	784
Commodity derivative instruments	1,416	1,182
Dividends declared	132	132
Other current liabilities	34,910	31,633
Total current liabilities	392,261	218,496
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,455,748	1,657,887
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	463,895	449,012
Regulatory liabilities	742,574	754,441
Asset retirement obligations	151,289	145,707
Accrued pension liability and postretirement benefit cost	78,184	86,124
Commodity derivative instruments	3,014	3,556
Other deferred credits	172,171	106,442
Total deferred credits and liabilities	1,611,127	1,545,282
Total liabilities	3,459,136	3,421,665
Commitments and Contingencies (Note 11)		
Cumulative Preferred Stock		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,264,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(106,709)	(97,093)
Retained earnings	299,803	254,349
Total PNM common stockholder's equity	1,458,012	1,422,174
Non-controlling interest in Valencia	65,600	66,195
Total equity	1,523,612	1,488,369
	$4,994,277	$4,921,563

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

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

	Attributable to PNM					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2017, as originally reported	$1,264,918	$(97,093)	$254,349	$1,422,174	$66,195	$1,488,369
Cumulative effect adjustment (Note 7)	—	(11,208)	11,208	—	—	—
Balance at January 1, 2018, as adjusted	1,264,918	(108,301)	265,557	1,422,174	66,195	1,488,369
Net earnings	—	—	34,510	34,510	7,786	42,296
Total other comprehensive income	—	1,592	—	1,592	—	1,592
Dividends declared on preferred stock	—	—	(264)	(264)	—	(264)
Valencia's transactions with its owner	—	—	—	—	(8,381)	(8,381)
Balance at June 30, 2018	$1,264,918	$(106,709)	$299,803	$1,458,012	$65,600	$1,523,612

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Electric Operating Revenues:				
Contracts with customers	$83,931	$80,184	$164,719	$155,312
Alternative revenue programs	3,871	6,039	4,730	9,531
Total Electric Operating Revenues	87,802	86,223	169,449	164,843
Operating Expenses:				
Cost of energy	21,350	21,315	43,104	42,802
Administrative and general	8,852	9,235	19,561	19,638
Depreciation and amortization	16,113	15,597	32,500	30,968
Transmission and distribution costs	7,457	6,856	14,586	13,414
Taxes other than income taxes	7,201	6,934	14,337	13,770
Total operating expenses	60,973	59,937	124,088	120,592
Operating income	26,829	26,286	45,361	44,251
Other Income and Deductions:				
Other income	2,223	541	2,976	1,363
Other (deductions)	(1,391)	(109)	(1,060)	(198)
Net other income and deductions	832	432	1,916	1,165
Interest Charges	7,801	7,510	15,530	14,915
Earnings before Income Taxes	19,860	19,208	31,747	30,501
Income Taxes	4,493	7,004	6,968	10,693
Net Earnings	$15,367	$12,204	$24,779	$19,808

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

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

	Six Months Ended June 30,	
	2018	2017
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$24,779	$19,808
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	33,390	31,877
Deferred income tax expense (benefit)	(900)	4,894
Allowance for equity funds used during construction and other, net	(762)	(130)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(5,073)	(3,358)
Materials and supplies	(1,211)	(622)
Other current assets	(378)	(3,897)
Other assets	(5,603)	(5,747)
Accounts payable	(4,161)	138
Accrued interest and taxes	1,610	(308)
Other current liabilities	5,410	1,957
Other liabilities	3,874	717
Net cash flows from operating activities	50,975	45,329
Cash Flows From Investing Activities:		
Utility plant additions	(115,361)	(78,940)
Net cash flows from investing activities	(115,361)	(78,940)
Cash Flow From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	13,500	47,000
Short-term borrowings (repayments) – affiliate, net	100	3,400
Long-term borrowings	60,000	—
Dividends paid	(10,436)	(17,459)
Debt issuance costs and other, net	(478)	—
Net cash flows from financing activities	62,686	32,941
Change in Cash and Cash Equivalents	(1,700)	(670)
Cash and Cash Equivalents at Beginning of Period	1,700	671
Cash and Cash Equivalents at End of Period	$—	$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$13,085	$13,999
Income taxes paid (refunded), net	$842	$750
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$14,886	$1,700

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

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

	June 30, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$—	$ 1,700
Accounts receivable	26,481	23,246
Unbilled revenues	12,024	10,186
Other receivables	2,639	2,860
Affiliate receivables	—	336
Materials and supplies	6,855	5,643
Regulatory assets	771	794
Other current assets	1,752	1,131
Total current assets	50,522	45,896
Other Property and Investments:		
Other investments	220	220
Non-utility property	2,240	2,240
Total other property and investments	2,460	2,460
Utility Plant:		
Plant in service and plant held for future use	1,531,459	1,504,778
Less accumulated depreciation and amortization	470,741	460,858
	1,060,718	1,043,920
Construction work in progress	94,810	34,350
Net utility plant	1,155,528	1,078,270
Deferred Charges and Other Assets:		
Regulatory assets	141,280	141,433
Goodwill	226,665	226,665
Other deferred charges	6,856	6,046
Total deferred charges and other assets	374,801	374,144
	$1,583,311	$ 1,500,770

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

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

	June 30, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER’S EQUITY		
Current Liabilities:		
Short-term debt	$13,500	$—
Short-term debt – affiliate	100	—
Current installments of long-term debt	171,683	—
Accounts payable	10,766	29,812
Affiliate payables	6,112	667
Accrued interest and taxes	31,229	29,619
Regulatory liabilities	—	1,525
Other current liabilities	3,604	2,450
Total current liabilities	236,994	64,073
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	368,644	480,620
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	125,623	126,415
Regulatory liabilities	186,132	179,137
Asset retirement obligations	826	793
Accrued pension liability and postretirement benefit cost	6,750	7,879
Other deferred credits	9,594	7,448
Total deferred credits and other liabilities	328,925	321,672
Total liabilities	934,563	866,365
Commitments and Contingencies (Note 11)		
Common Stockholder's Equity:		
Common stock ($10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	504,166	504,166
Retained earnings	144,518	130,175
Total common stockholder’s equity	648,748	634,405
	$1,583,311	$ 1,500,770

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

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

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
Balance at December 31, 2017	$64	$504,166	$130,175	$ 634,405
Net earnings	—	—	24,779	24,779
Dividends declared on common stock	—	—	(10,436)	(10,436)
Balance at June 30, 2018	$64	$504,166	$144,518	$ 648,748

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

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

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at June 30, 2018 and December 31, 2017, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could ultimately differ from those estimated. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2017 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2018 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2017 Annual Reports on Form 10-K.

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

Principles of Consolidation

The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM also consolidates Valencia (Note 6). PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

PNMR shared services' expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost and are reflected as general and administrative expenses in the business segments. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, equity transactions, and interconnection billings (Note 15). All intercompany transactions and balances have been eliminated.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by the Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered being 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 $0.2650 per share in July 2018 and $0.2425 in

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

July 2017, which are reflected as being in the second quarter within “Dividends Declared per Common Share” on the PNMR Condensed Consolidated Statements of Earnings.

TNMP declared and paid cash dividends on common stock to PNMR of $10.4 million and $17.5 million in the six months ended June 30, 2018 and 2017. In July 2018, TNMP declared and paid a cash dividend to PNMR of $15.4 million.

Investment in NM Renewable Development, LLC

As discussed in Note 1 of the 2017 Annual Reports on Form 10-K, PNMR Development and AEP OnSite Partners created NMRD in September 2017 to pursue the acquisition, development, and ownership of renewable energy projects, primarily in the state of New Mexico. NMRD’s current renewable energy capacity in operation is 31.8 MW. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. The investment in NMRD is accounted for using the equity method of accounting because PNMR’s ownership interest results in significant influence, but not control, over NMRD and its operations.

In the six months ended June 30, 2018, PNMR Development made cash contributions of $8.0 million to NMRD to be used primarily for its construction activities. For the three and six months ended June 30, 2018, NMRD had revenues of $1.1 million and $1.5 million and net earnings of $0.4 million and $0.5 million. At June 30, 2018, NMRD had $2.0 million of current assets, $47.9 million of property, plant, and equipment and other assets, $0.4 million of current liabilities, and $49.5 million of owners’ equity.

Cash and Restricted Cash

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

During 2015, PNM received a deposit of $8.2 million from a third party that was restricted for PNM’s construction of transmission interconnection facilities for that party. During 2016, PNM utilized $7.2 million of such third-party deposits to offset construction costs for the interconnection facilities. The remaining $1.0 million was held as restricted cash until the second quarter of 2017, at which time a refund was made to the third party. The balances of this deposit arrangement were included in other current assets on the balance sheets of PNMR and PNM. Under the terms of the BTMU Term Loan Agreement (Note 9), all cash of NM Capital was restricted to be used for payments required under that agreement or for taxes and fees. On May 22, 2018, Westmoreland repaid the Westmoreland Loan in full. NM Capital used a portion of the proceeds to repay all its obligations under the BTMU Term Loan Agreement. These payments effectively terminated the loan agreements. Cash held by NM Capital was included in cash and cash equivalents on the balance sheets of PNMR and was less than $0.1 million at December 31, 2017.

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

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New Accounting Pronouncements

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

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

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

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

The Company, along with others in the utility industry, is continuing to monitor the activities of the FASB and other non-authoritative groups regarding industry specific issues for further clarification. The Company has formed a project team, is conducting outreach activities across its lines of business, and is in the process of implementing software to help administer and account for its leasing activities. The Company has made significant progress in identifying arrangements that may be classified as leases under ASU 2016-02 in addition to those currently classified as operating leases. It is likely the arrangements currently classified as leases will continue to be recognized as leases under ASU 2016-02. It is possible that other contractual arrangements not previously meeting the lease definition may contain elements that qualify as leases and that previously identified operating leases may be classified as financing leases under ASU 2016-02. The Company is in the process of analyzing each of the identified contractual arrangements to determine if it contains lease elements under the new standard and quantifying the potential impacts of identified lease arrangements. The Company is also evaluating the practical expedients, if any, it will elect upon adoption. The Company anticipates this process will continue throughout 2018. The Company will adopt this standard effective as of January 1, 2019, its required effective date.

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

In July 2018, the FASB issued ASU 2018-11, which provides entities an optional transitional relief method to apply ASU 2016-02 as of the date of initial application of the standard rather than as of the earliest period presented. The Company is evaluating this update and has not yet determined if it will elect to use this optional transitional relief method.

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

In June 2016, the FASB issued ASU 2016-13, which changes the way entities recognize impairment of many financial assets, including accounts receivable and investments in certain debt securities, by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. The Company anticipates adopting ASU 2016-13 effective as of January 1, 2020, its required effective date, although early adoption is permitted beginning on January 1, 2019. The Company

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is in the process of analyzing the impacts of this new standard, but does not anticipate it will have a significant impact on its financial statements.

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

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

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

In August 2017, the FASB issued ASU 2017-12 to better align hedge accounting with an organization’s risk management activities and to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for the Company on January 1, 2019 although early adoption is permitted beginning on January 1, 2018. At adoption, ASU 2017-12 is to be applied prospectively and allows entities to record a cumulative-effect adjustment at the transition date as well as allowing entities to elect certain practical expedients upon adoption. As discussed in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 9, the Company periodically enters into, and designates as cash flow hedges, interest rate swaps to hedge its exposure to changes in interest rates. In addition, as discussed in Note 8 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 7, the Company enters into various derivative instruments to economically hedge the risk of changes in commodity prices, which are not currently designated as cash flow hedges. The Company is evaluating the requirements of ASU 2017-12, but does not anticipate the changes will have a significant impact on the Company’s accounting treatment for derivative instruments or on its financial statements.

(2) Segment Information

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

PNM

PNM includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM also includes the generation and sale of electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity includes the asset optimization of PNM's jurisdictional capacity, as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale power and transmission rates.

TNMP

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

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Corporate and Other

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

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

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
Three Months Ended June 30, 2018				
Electric operating revenues	$264,511	$87,802	$—	$352,313
Cost of energy	66,361	21,350	—	87,711
Utility margin	198,150	66,452	—	264,602
Other operating expenses	107,058	23,510	(5,358)	125,210
Depreciation and amortization	38,213	16,113	5,737	60,063
Operating income (loss)	52,879	26,829	(379)	79,329
Interest income	3,381	—	958	4,339
Other income (deductions)	(3,146)	832	(428)	(2,742)
Interest charges	(19,988)	(7,801)	(5,532)	(33,321)
Segment earnings (loss) before income taxes	33,126	19,860	(5,381)	47,605
Income taxes (benefit)	2,345	4,493	(1,682)	5,156
Segment earnings (loss)	30,781	15,367	(3,699)	42,449
Valencia non-controlling interest	(4,109)	—	—	(4,109)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$26,540	$15,367	$(3,699)	$38,208
Six Months Ended June 30, 2018				
Electric operating revenues	$500,742	$169,449	$—	$670,191
Cost of energy	137,163	43,104	—	180,267
Utility margin	363,579	126,345	—	489,924
Other operating expenses	207,569	48,484	(10,375)	245,678
Depreciation and amortization	74,840	32,500	11,445	118,785
Operating income (loss)	81,170	45,361	(1,070)	125,461
Interest income	5,868	—	2,594	8,462
Other income (deductions)	(1,927)	1,916	(349)	(360)
Interest charges	(40,818)	(15,530)	(10,028)	(66,376)
Segment earnings (loss) before income taxes	44,293	31,747	(8,853)	67,187

Income taxes (benefit)	1,997	6,968	(3,026)	5,939
Segment earnings (loss)	42,296	24,779	(5,827)	61,248
Valencia non-controlling interest	(7,786)	—	—	(7,786)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$34,246	$24,779	$(5,827)	$53,198
At June 30, 2018:				
Total Assets	$4,994,277	$1,583,311	$172,501	$6,750,089
Goodwill	$51,632	$226,665	$—	$278,297

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	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
Three Months Ended June 30, 2017				
Electric operating revenues	$276,097	$86,223	$—	$362,320
Cost of energy	82,952	21,315	—	104,267
Utility margin	193,145	64,908	—	258,053
Other operating expenses	95,395	23,025	(5,235)	113,185
Depreciation and amortization	36,448	15,597	5,580	57,625
Operating income (loss)	61,302	26,286	(345)	87,243
Interest income	1,858	—	2,027	3,885
Other income (deductions)	3,762	432	(123)	4,071
Interest charges	(20,931)	(7,510)	(3,891)	(32,332)
Segment earnings (loss) before income taxes	45,991	19,208	(2,332)	62,867
Income taxes	15,515	7,004	(883)	21,636
Segment earnings (loss)	30,476	12,204	(1,449)	41,231
Valencia non-controlling interest	(3,544)	—	—	(3,544)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$26,800	$12,204	$(1,449)	$37,555
Six Months Ended June 30, 2017				
Electric operating revenues	$527,655	$164,843	$—	$692,498
Cost of energy	164,268	42,802	—	207,070
Utility margin	363,387	122,041	—	485,428
Other operating expenses	189,151	46,822	(9,894)	226,079
Depreciation and amortization	72,464	30,968	10,576	114,008
Operating income (loss)	101,772	44,251	(682)	145,341
Interest income	4,675	—	4,091	8,766
Other income (deductions)	9,306	1,165	(459)	10,012
Interest charges	(41,943)	(14,915)	(7,173)	(64,031)
Segment earnings (loss) before income taxes	73,810	30,501	(4,223)	100,088
Income taxes (benefit)	23,223	10,693	(1,505)	32,411
Segment earnings (loss)	50,587	19,808	(2,718)	67,677
Valencia non-controlling interest	(6,996)	—	—	(6,996)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$43,327	$19,808	$(2,718)	$60,417
At June 30, 2017:				
Total Assets	$4,939,407	$1,437,547	$207,491	$6,584,445
Goodwill	$51,632	$226,665	$—	$278,297

The Company defines utility margin as electric operating revenues less cost of energy. Cost of energy consists primarily of fuel and purchase power costs for PNM and costs charged by third-party transmission providers for TNMP. The Company believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all such costs are offset in revenues as fuel and purchase power costs are passed through to customers under PNM’s FPPAC and third-party transmission costs are passed on to customers through TNMP’s transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

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(3) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the six months ended June 30, 2018 and 2017 is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			PNMR	
	Unrealized Gains on Available-for-Sale Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
Balance at December 31, 2017, as originally reported	$13,169	$(110,262)	$(97,093)	$1,153	$(95,940)
Cumulative effect adjustment (Note 7)	(11,208)	—	(11,208)	—	(11,208)
Balance at January 1, 2018, as adjusted	1,961	(110,262)	(108,301)	1,153	(107,148)
Amounts reclassified from AOCI (pre-tax)	(3,126)	3,788	662	(7)	655
Income tax impact of amounts reclassified	794	(962)	(168)	1	(167)
Other OCI changes (pre-tax)	1,472	—	1,472	2,420	3,892
Income tax impact of other OCI changes	(374)	—	(374)	(615)	(989)
Net after-tax change	(1,234)	2,826	1,592	1,799	3,391
Balance at June 30, 2018	$727	$(107,436)	$(106,709)	$2,952	$(103,757)
Balance at December 31, 2016	$4,320	$(96,748)	$(92,428)	$(23)	$(92,451)
Amounts reclassified from AOCI (pre-tax)	(6,961)	3,226	(3,735)	323	(3,412)
Income tax impact of amounts reclassified	2,701	(1,252)	1,449	(125)	1,324
Other OCI changes (pre-tax)	14,903	—	14,903	(288)	14,615
Income tax impact of other OCI changes	(5,783)	—	(5,783)	112	(5,671)
Net after-tax change	4,860	1,974	6,834	22	6,856
Balance at June 30, 2017	$9,180	$(94,774)	$(85,594)	$(1)	$(85,595)

The Condensed Consolidated Statements of Earnings include pre-tax amounts reclassified from AOCI related to Unrealized Gains on Available-for-Sale Securities in gains (losses) on investment securities, related to Pension Liability Adjustment in other (deductions), and related to Fair Value Adjustment for Cash Flow Hedges in interest charges. The income tax impacts of all amounts reclassified from AOCI are included in income taxes in the Condensed Consolidated Statements of Earnings.

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(4) Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	$38,208	$37,555	$53,198	$60,417
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	211	251	208	181
Average Shares – Basic	79,865	79,905	79,862	79,835
Dilutive Effect of Common Stock Equivalents:				
Stock options and restricted stock	114	226	134	286
Average Shares – Diluted	79,979	80,131	79,996	80,121
Net Earnings Per Share of Common Stock:				
Basic	$0.48	$0.47	$0.67	$0.76
Diluted	$0.48	$0.47	$0.67	$0.75

(5) Electric Operating Revenues

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.

Revenue Recognition

Electric operating revenues are recorded in the period of energy delivery, which includes estimated amounts for service rendered but unbilled at the end of each accounting period. The determination of the energy sales billed to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading and the corresponding unbilled revenue are estimated. Unbilled electric revenue is estimated based on the daily generation volumes, estimated customer usage by class, line losses, and applicable customer rates reflecting historical trends and experience. Amounts billed are generally due within the next month. The Company does not incur incremental costs to obtain contracts for its energy services.

PNM's wholesale electricity sales are recorded as electric operating revenues and wholesale electricity purchases are recorded as costs of energy sold. In accordance with GAAP, derivative contracts that are subject to unplanned netting are recorded net in earnings. A "book-out" is the planned or unplanned netting of off-setting purchase and sale transactions. A book-out is a transmission mechanism to reduce congestion on the transmission system or administrative burden. For accounting purposes, a book-out is the recording of net revenues upon the settlement of a derivative contract.

Unrealized gains and losses on derivative contracts that are not designated for hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power and fuel supply agreements, used to hedge generation assets and purchased power costs. Changes in the fair value of economic hedges are reflected in results of operations, with changes related to economic hedges on sales included in operating revenues and changes related to economic hedges on purchases included in cost of energy sold (Note 7).

In May 2014, the FASB issued ASU 2014-09 – Revenue from Contracts with Customers (Topic 606). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also revises the disclosure requirements regarding revenue and requires that revenue from contracts with customers be reported separately from other revenues. ASU 2014-09 provides that it could be applied retrospectively to each prior period presented or on a modified retrospective basis with a cumulative effect adjustment to retained earnings on the date of adoption.

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The Company adopted ASU 2014-09 effective as of January 1, 2018, its required effective date, using the modified retrospective method of adoption. The adoption of ASU 2014-09 did not result in changes to the nature, amount, and timing of the Company's existing revenue recognition processes or information technology infrastructure. Therefore, the adoption of ASU 2014-09 had no effect on the amount of revenue recorded in 2018 compared to the amount that would have been recorded under prior GAAP, no effect on total electric operating revenues or any other caption within the Company's financial statements, and no cumulative effect adjustment was recorded. Revenues for 2018 are presented in accordance with the standard on the Condensed Consolidated Statements of Earnings and 2017 revenues are presented on a comparative basis. Additional disclosures to further disaggregate 2018 revenues are presented below.

Under ASU 2014-09, PNM and TNMP recognize revenue as they satisfy performance obligations, which typically occurs as the customer or end-user consumes the electric service provided. Electric services are typically for a bundle of services that are distinct and transferred to the end-user in one performance obligation measured by KWh or KW. Electric operating revenues are recorded in the period of energy delivery, including estimated unbilled amounts. As permitted under GAAP, the Company has elected to exclude all sales and similar taxes from revenue.

Revenue from contracts with customers is recorded based upon the total authorized tariff price at the time electric service is rendered, including amounts billed under arrangements qualifying as an Alternative Revenue Program ("ARP"). ARP arrangements are agreements between PNM or TNMP and its regulator that allows PNM or TNMP to adjust future rates in response to past activities or completed events, if certain criteria are met. GAAP requires that ARP revenues be reported separately from contracts with customers. ARP revenues in a given period include the recognition of "originating" ARP revenues (i.e. when the regulator-specific conditions are met) in the period, offset by the reversal of ARP revenues billed to customers in that period.

Sources of Revenue

Additional information about the nature of revenues is provided below.

Revenue from Contracts with Customers

PNM

NMPRC Regulated Retail Electric Service – PNM provides electric generation, transmission, and distribution service to its rate-regulated customers in New Mexico. PNM'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. Customer rates for retail electric service are set by the NMPRC and revenue is recognized as energy is delivered to the customer. PNM invoices customers on a monthly basis for electric service and generally collects billed amounts within one month.

Transmission Service to Third Parties – PNM owns transmission lines that are interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. Transmission customers receive service for the transmission of energy owned by the customer utilizing PNM’s transmission facilities. Customers generally receive transmission services, which are regulated by FERC, from PNM through PNM’s Open Access Transmission Tariff (“OATT”) or a specific contract. Customers are billed based on capacity and energy components on a monthly basis.

Other – On January 1, 2018, PNM acquired a 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC (Note 11). PNM sells power from 36 MW of this capacity to a third party at a fixed price that is recorded as revenue from contracts with customers. PNM is obligated to deliver power under this arrangement only when SJGS Unit 4 is operating. To the extent the remainder of this 65 MW interest is used to serve PNM’s retail load requirements, revenue is recorded as revenues from contracts with customers. Other market sales from this 65 MW interest are recorded in other electric operating revenues.

TNMP

PUCT Regulated Retail Electric Service – 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. TNMP’s transmission and distribution activities are solely within ERCOT, which is the independent system operator responsible for maintaining reliable operations for the bulk electric power supply system in most of Texas. Therefore, TNMP is not subject to traditional rate regulation by FERC.

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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. Revenue is recognized as energy is delivered to the consumer. Delivery of service is invoiced as the transaction occurs and is generally paid within a month.

Transmission Cost of Service ("TCOS") – TNMP is a transmission service provider that is allowed to recover its TCOS through a network transmission rate that is approved by the PUCT. TCOS customers are other utilities that receive service for the transmission of energy owned by the customer utilizing TNMP's transmission facilities. Historically, TNMP has updated its transmission rates twice per year to reflect changes in its invested capital although updates are not allowed while a general rate case is in progress. See (Note 12).

Alternative Revenue Programs

ARP revenues, which are discussed above, include recovery or refund provisions under PNM's renewable energy rider and true-ups to PNM's formula transmission rates; TNMP's AMS surcharge, transmission cost recovery factor, and rate impacts of the 2017 change in the corporate income tax rate; and the energy efficiency incentive bonus at both PNM and TNMP. GAAP provides for the recognition of regulatory assets and liabilities for the difference between ARP revenues and amounts billed under those programs. Regulatory assets and liabilities are amortized into earnings as amounts are billed. Accordingly, the Company has deferred certain costs and recorded certain liabilities pursuant to the rate actions of the NMPRC, PUCT, and FERC.

Other Electric Operating Revenues

Other electric operating revenues consist primarily of PNM's sales for resale meeting the definition of a derivative under GAAP. Derivatives are not considered contracts with customers under ASU 2014-09. PNM engages in activities meeting the definition of derivatives to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-ahead, week-ahead, month-ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Through December 31, 2017, PNM's 134 MW share of Unit 3 at PVNGS was excluded from retail rates and was being sold in the wholesale market. In December 2015, the NMPRC approved PNM's request to include PVNGS Unit 3 as a jurisdictional resource to service New Mexico retail customers beginning in 2018.

Disaggregation of Revenues

A disaggregation of revenues from contracts with customers by the type of customer is presented in the table below. The table also reflects ARP revenues and other revenues.

	PNM	TNMP	PNMR Consolidated
Three Months Ended June 30, 2018	(In thousands)		
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$99,508	$31,315	$ 130,823

Commercial	110,652	28,082	138,734
Industrial	14,597	4,184	18,781
Public authority	5,220	1,399	6,619
Economy energy service	6,378	—	6,378
Transmission	14,108	16,743	30,851
Miscellaneous	4,265	2,208	6,473
Total revenues from contracts with customers	254,728	83,931	338,659
Alternative revenue programs	1,789	3,871	5,660
Other electric operating revenues	7,994	—	7,994
Total Electric Operating Revenues	$264,511	$87,802	$ 352,313

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	PNM	TNMP	PNMR Consolidated
Six Months Ended June 30, 2018	(In thousands)		
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$196,676	$60,581	$ 257,257
Commercial	193,501	55,234	248,735
Industrial	28,056	8,489	36,545
Public authority	9,855	2,815	12,670
Economy energy service	13,666	—	13,666
Transmission	26,590	33,251	59,841
Miscellaneous	8,947	4,349	13,296
Total revenues from contracts with customers	477,291	164,719	642,010
Alternative revenue programs	1,854	4,730	6,584
Other electric operating revenues	21,597	—	21,597
Total Electric Operating Revenues	$500,742	$169,449	$ 670,191

Contract balances

Performance obligations related to contracts with customers are typically satisfied when the energy is delivered and the customer or end-user utilizes the energy. Accounts receivable from customers represent amounts billed to the customer or end-user, including amounts under ARP programs. For PNM, accounts receivable reflected on the Condensed Consolidated Balance Sheets includes $62.3 million at June 30, 2018 and $62.9 million at December 31, 2017 resulting from contracts with customers. All of TNMP’s accounts receivable results from contracts with customers.

Contract assets are an entity’s right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity’s future performance). The Company has no contract assets as of June 30, 2018. Contract liabilities arise when consideration is received in advance from a customer before satisfying the performance obligations. Therefore, revenue is deferred and not recognized until the obligation is satisfied. Under its OATT, PNM accepts upfront consideration for capacity reservations requested by transmission customers, which requires PNM to defer the customer’s transmission capacity rights for a specific period of time. PNM recognizes the revenue of these capacity reservations over the period it defers the customer’s capacity rights. Other utilities pay PNM and TNMP in advance for the joint-use of their utility poles. These revenues are recognized over the period of time specified in the joint-use contract, typically for one calendar year. Deferred revenues on these arrangements are recorded as contract liabilities. The Company has no other arrangements with remaining performance obligations to which a portion of the transaction price would be required to be allocated.

Changes during the period in the balances of contract liabilities, which are included in other current liabilities on the Condensed Consolidated Balance Sheets, are as follows:

	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Balance at December 31, 2017	$349	$—	$ 349
Consideration received in advance of service to be provided	3,987	1,512	5,499
Deferred revenue earned	(2,210)	(756)	(2,966)
Balance at June 30, 2018	$2,126	$756	$ 2,882

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(6) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity ("VIE"). GAAP also requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM's VIEs is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third-party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three and six months ended June 30, 2018, PNM paid $4.9 million and $9.8 million for fixed charges and $0.6 million and $0.9 million for variable charges. For the three and six months ended June 30, 2017, PNM paid $4.9 million and $9.8 million for fixed charges and $0.2 million and $0.3 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM's assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

PNM sources fuel for the plant, controls when the facility operates through its dispatch, and receives the entire output of the plant, which factors directly and significantly impact the economic performance of Valencia. Therefore, PNM has concluded that the third-party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity under GAAP since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the Condensed Consolidated Financial Statements of PNM although PNM has no legal ownership interest or voting control of the VIE. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

	Results of Operations			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Operating revenues	$5,911	$5,094	$10,679	$10,021
Operating expenses	(1,802)	(1,550)	(2,893)	(3,025)

Earnings attributable to non-controlling interest	$4,109	$3,544	$7,786	$6,996

Financial Position

	June 30, 2018	December 31, 2017
	(In thousands)	
Current assets	$3,304	$ 2,688
Net property, plant, and equipment	62,975	64,109
Total assets	66,279	66,797
Current liabilities	679	602
Owners' equity – non-controlling interest	$65,600	$ 66,195

Westmoreland San Juan LLC ("WSJ") and SJCC

As discussed in the subheading Coal Supply in Note 11, PNM purchases coal for SJGS from SJCC under a coal supply agreement ("SJGS CSA"). That section includes information on the acquisition of SJCC by WSJ, a subsidiary of Westmoreland, on January 31, 2016, as well as the $125.0 million loan (the "Westmoreland Loan") from NM Capital, a subsidiary of PNMR, to WSJ, which loan provided substantially all of the funds required for the SJCC purchase, and the issuance of $30.3 million in letters of credit to facilitate the issuance of reclamation bonds required in order for SJCC to mine coal to be supplied to SJGS. The Westmoreland Loan and the letters of credit support result in PNMR being considered to have a variable interest in WSJ, including its subsidiary, SJCC, since PNMR and NM Capital could be subject to possible loss in the event of a default by WSJ under the Westmoreland Loan and/or performance was required under the letter of credit support. Principal payments under the Westmoreland Loan began on August 1, 2016 and were required quarterly thereafter. Interest was also paid quarterly beginning on May 3, 2016.

The Westmoreland Loan required that all cash flows of WSJ, in excess of normal operating expenses, capital additions, and operating reserves, be utilized for principal and interest payments under the loan until it was fully repaid. As discussed in Note 11, the full principal outstanding under the Westmoreland Loan of $50.1 million was repaid on May 22, 2018. NM Capital used a portion of the proceeds to repay all remaining amounts owed under the BTMU Term Loan Agreement. These payments effectively terminated the loan agreements and PNMR's guarantee of NM Capital's obligations under the BTMU Term Loan Agreement. The Westmoreland Loan was secured by the assets of and the equity interests in SJCC. PNMR considers the possibility of loss under the letters of credit support to be remote since the purpose of posting the bonds is to provide assurance that SJCC performs the required reclamation of the mine site in accordance with applicable regulations and all reclamation costs are reimbursable under the SJGS CSA. Also, much of the mine reclamation activities will not be performed until after the expiration of the SJGS CSA. In addition, each of the SJGS participants has established and funds a trust to meet its future reclamation obligations.

On April 2, 2018, Westmoreland filed its Annual Report on Form 10-K for the year ended December 31, 2017 with the SEC. In their Form 10-K, Westmoreland indicated that it retained financial advisors and restructuring advisors "to explore strategic alternatives to strengthen the Company's balance sheet and maximize the value of the Company, which may include, but not limited to, seeking reorganization under Chapter 11 of the U.S. Bankruptcy Code." On May 21, 2018, Westmoreland filed a Current Report on Form 8-K with the SEC indicating it had obtained a new credit agreement with certain of its existing creditors that provided Westmoreland with additional financing. In the May 21, 2018 Form 8-K Westmoreland indicated that "A portion of the proceeds of the Financing have been used to refinance in full the Company's and its subsidiaries' existing asset-based revolving credit facilities and Westmoreland San Juan, LLC's existing term loan facility." As mentioned above, the Westmoreland Loan was repaid in full in May 2018.

Both WSJ and SJCC are considered to be VIEs. PNMR's analysis of these arrangements concluded that Westmoreland, as the parent of WSJ, has the ability to direct the SJCC mining operations, which is the factor that most significantly impacts the economic performance of WSJ and SJCC. NM Capital's rights under the Westmoreland Loan were the typical protective rights of a lender, but did not give NM Capital any oversight over mining operations. Other than PNM being able to ensure that coal is supplied in adequate quantities and of sufficient quality to provide the fuel necessary to operate SJGS in a normal manner, the mining operations are solely under the control of Westmoreland and its subsidiaries, including developing mining plans, hiring of personnel, and incurring operating and maintenance expenses. Neither PNMR nor PNM has any ability to direct or influence the mining operation. PNM's involvement through the SJGS CSA is a protective right rather than a participating right and Westmoreland has the power to direct the activities that most significantly impact the economic performance of SJCC. The SJGS CSA requires SJCC to deliver coal required to fuel SJGS in exchange for payment of a set price per ton, which is escalated over time for inflation. If SJCC is able to mine more efficiently than anticipated, its economic performance will be improved. Conversely, if SJCC cannot mine as efficiently as anticipated, its economic performance will be negatively impacted. Accordingly, PNMR believes Westmoreland is the primary beneficiary of WSJ and, therefore, WSJ and SJCC are not consolidated by either PNMR or PNM. The amounts outstanding under the letter of credit support constitute PNMR's maximum exposure to loss from the VIEs at June 30, 2018.

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(7) Fair Value of Derivative and Other Financial Instruments

Additional information concerning energy related derivative contracts and other financial instruments is contained in Note 8 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

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

Energy Related Derivative Contracts

Overview

The primary objective for the use of commodity derivative instruments, including energy contracts, options, swaps, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. PNM's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its customers. PNM is exposed to market risk for the needs of its customers not covered under a FPPAC.

PNM was exposed to market risk for its share of PVNGS Unit 3 through December 31, 2017, at which time PVNGS Unit 3 became a jurisdictional resource to serve New Mexico retail customers. Beginning January 1, 2018, PNM is exposed to market risk for its 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC (Note 11). PNM entered into agreements to sell power from 36 MW of that capacity to a third party at a fixed price for the period January 1, 2018 through June 30, 2022, subject to certain conditions. Under these agreements, PNM is obligated to deliver 36 MW of power only when SJGS Unit 4 is operating. These agreements are not considered derivatives because there is no notional amount due to the unit-contingent nature of the transactions.

PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases. TNMP does not enter into energy related derivative contracts.
Commodity Risk

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

Accounting for Derivatives

Under derivative accounting and related rules for energy contracts, PNM accounts for its various instruments for the purchase and sale of energy, which meet the definition of a derivative, based on PNM's intent. During the six months ended June 30, 2018 and the year ended December 31, 2017, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The derivative contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as

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derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. PNM has no trading transactions.

Commodity Derivatives

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

	Economic Hedges	
	June 30, 2018	December 31, 2017
	(In thousands)	
Current assets	$1,094	$ 1,088
Deferred charges	3,014	3,556
	4,108	4,644
Current liabilities	(1,416)	(1,182)
Long-term liabilities	(3,014)	(3,556)
	(4,430)	(4,738)
Net	$(322)	$ (94)

Certain of PNM's commodity derivative instruments in the above table are subject to master netting agreements whereby assets and liabilities could be offset in the settlement process. PNM does not offset fair value and cash collateral for derivative instruments under master netting arrangements and the above table reflects the gross amounts of fair value assets and liabilities for commodity derivatives. Included in the above table are equal amounts of assets and liabilities aggregating $4.1 million at June 30, 2018 and $4.6 million at December 31, 2017, which result from PNM's hazard sharing arrangements with Tri-State. The hazard sharing arrangements are net-settled upon delivery. Other amounts that could be offset under master netting agreements were immaterial.

At June 30, 2018 and December 31, 2017, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at June 30, 2018 and December 31, 2017, amounts posted as cash collateral under margin arrangements were $0.5 million and $0.8 million. At June 30, 2018 and December 31, 2017, obligations to return cash collateral were $1.9 million and $0.9 million. Cash collateral amounts are included in other current assets and other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has a NMPRC-approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes less than $0.1 million in current assets and $0.3 million of current liabilities at June 30, 2018 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets. There were no amounts hedged under this plan as of December 31, 2017.

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

	Economic Hedges			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(In thousands)			
Electric operating revenues	$8	$4,592	$(2)	$7,933
Cost of energy	(8)	(5,286)	4	(5,276)
Total gain	$—	$(694)	$2	$2,657

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

	Economic Hedges	
	MMBTU	MWh
June 30, 2018	330,000	(51,200)
December 31, 2017	100,000	—

PNM has contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. In connection with managing its commodity risks, PNM enters into master agreements with certain counterparties. If PNM is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral if PNM's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that PNM will perform; and others have no provision for collateral. At June 30, 2018 and December 31, 2017, PNM had $0.2 million and zero of such contracts in a liability position.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Investment securities are carried at fair value. Investment securities consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and trusts for PNM's share of final reclamation costs related to the coal mines serving SJGS and Four Corners (Note 11). At June 30, 2018 and December 31, 2017, the fair value of investment securities included $292.8 million and $293.7 million for the NDT and $30.3 million and $29.8 million for the mine reclamation trusts.

In January 2016, the FASB issued Accounting Standards Update 2016-01 – Financial Instruments (Subtopic 825-10), which makes targeted improvements to GAAP regarding financial instruments. ASU 2016-01 eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and requires those equity securities to be measured at fair value with changes in fair value recognized in net income rather than in OCI. Under ASU 2016-01, the accounting for available-for-sale debt securities remains essentially unchanged. The accounting required by ASU 2016-01 is to be applied prospectively with a cumulative effect adjustment recorded as of the beginning of the year of adoption. ASU 2016-01 also revises certain presentation and disclosure requirements. Accordingly, the following information for 2018 is presented under ASU 2016-01 and the information for 2017 is presented under prior GAAP.

Prior to 2018, PNM classified all debt and equity investments held in the NDT and coal mine reclamation trusts as available-for-sale securities. Unrealized losses on these securities were recorded immediately through earnings and unrealized gains were recorded in AOCI until the securities were sold.

On January 1, 2018, PNM recorded an after-tax cumulative effect adjustment of $11.2 million to reclassify unrealized holding gains on equity securities held in the NDT and coal mine reclamation trusts from AOCI to retained earnings on the

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Condensed Consolidated Balance Sheets. After January 1, 2018, all gains and losses resulting from sales and changes in the fair value of equity securities are recognized in earnings.

Gains and losses recognized on the Condensed Consolidated Statements of Earnings related to investment securities in the NDT and reclamation trusts are presented in the following table.

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(In thousands)	
Equity securities:		
Net gains from equity securities sold	$2,502	$5,330
Net gains (losses) from equity securities still held	(443)	(307)
Total net gains on equity securities	2,059	5,023
Available-for-sale debt securities:		
Net gains (losses) on debt securities	(3,729)	(6,405)
Net gains (losses) on investment securities	$(1,670)	$(1,382)

The proceeds and gross realized gains and losses on the disposition of securities held in the NDT and coal mine reclamation trusts are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold. Gross realized losses shown below exclude the (increase)/decrease in realized impairment losses of $(2.6) million and $(3.8) million for the three and six months ended June 30, 2018 and $(0.1) million and $1.0 million for the three and six months ended June 30, 2017.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Proceeds from sales	$167,359	$91,657	$794,088	$358,045
Gross realized gains	$7,549	$7,971	$13,570	$16,617
Gross realized (losses)	$(6,192)	$(2,236)	$(10,869)	$(5,321)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. At December 31, 2017, PNMR’s held-to-maturity debt securities consisted of the Westmoreland Loan. In May 2018, the full amount owed under the Westmoreland Loan was repaid (Note 11).

The Company has no available-for-sale debt securities for which carrying value exceeds fair value. There are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings.
At June 30, 2018, the available-for-sale debt securities held by PNM, had the following final maturities:

	Fair Value (In thousands)
Within 1 year	$ 8,883

After 1 year through 5 years	61,875
After 5 years through 10 years	67,445
After 10 years through 15 years	10,102
After 15 years through 20 years	9,574
After 20 years	43,241
	$ 201,120

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Fair Value Disclosures

The Company determines the fair values of its derivative and other financial instruments based on the hierarchy established in GAAP, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the six months ended June 30, 2018 or the year ended December 31, 2017.

For investment securities, Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For Level 2 fair values, the pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value as of year-end. Level 3 investments are comprised of corporate term loans. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company’s long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. The valuation of Level 3 investments requires significant judgment by the pricing provider due to the absence of quoted market values, changes in market conditions, and the long-term nature of the assets. The significant unobservable inputs include the trading multiples of public companies that are considered comparable to the company being valued, company specific issues, estimates of liquidation value, current operating performance and future expectations of performance, changes in market outlook and the financing environment, capitalization rates, discount rates, and cash flows. For the Westmoreland Loan, fair values were determined using an internal valuation model of discounted cash flows that took into consideration discount rates observable for similar types of assets and liabilities. Management of the Company independently verifies the information provided by pricing services.

Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy along with gross unrealized gains on investments in available-for-sale securities. Under ASU 2016-01, PNM does not classify its investments in equity instruments as available-for-sale securities beginning January 1, 2018.

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		GAAP Fair Value Hierarchy			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Unrealized Gains
	(In thousands)				
June 30, 2018					
Cash and cash equivalents	$7,850	$7,850	$—	$ —	
Equity securities:					
Corporate stocks, common	35,363	35,363	—	—	
Corporate stocks, preferred	6,338	849	5,489	—	
Mutual funds and other	72,434	72,434	—	—	
Available-for-sale debt securities:					
U.S. Government	29,621	22,178	7,443	—	$ 249
International Government	8,757	—	8,757	—	4
Municipals	43,493	—	43,493	—	157
Corporate and other	119,249	—	116,258	2,991	565
	$323,105	$138,674	$181,440	$ 2,991	$ 975
Commodity derivative assets	$4,108	$—	$4,108	$ —	
Commodity derivative liabilities	(4,430)	—	(4,430)	—	
Net	$(322)	$—	$(322)	$ —	
December 31, 2017					
Available-for-sale securities					
Cash and cash equivalents	$52,636	$52,636	$—	$ —	
Equity securities:					
Domestic value	40,032	40,032	—	—	$ 4,011
Domestic growth	35,456	35,456	—	—	3,995
International and other	45,867	42,332	3,535	—	6,810
Fixed income securities:					
U.S. Government	34,317	33,645	672	—	273
Municipals	48,076	—	48,076	—	1,225
Corporate and other	67,140	—	67,140	—	1,714
	$323,524	$204,101	$119,423	$ —	$ 18,028
Commodity derivative assets	$4,644	$—	$4,644	$ —	

Commodity derivative liabilities	(4,738)	—	(4,738)	—
Net	$ (94)	$—	$ (94)	$ —

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A reconciliation of the changes in Level 3 fair value measurements is as follows:

	Corporate Debt (In thousands)
Balance at December 31, 2017	$ —
Actual return on assets sold during the period	(4)
Actual return on assets still held at period end	(5)
Purchases	4,011
Sales	(1,011)
Balance at June 30, 2018	$ 2,991

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

	Carrying Amount	Fair Value	GAAP Fair Value Hierarchy Level 1	Level 2	Level 3
June 30, 2018	(In thousands)				
PNMR					
Long-term debt	$2,594,042	$2,643,276	$—	$2,643,276	$—
Other investments	$373	$373	$373	$—	$—
PNM					
Long-term debt	$1,655,760	$1,679,090	$—	$1,679,090	$—
Other investments	$153	$153	$153	$—	$—
TNMP					
Long-term debt	$540,327	$566,327	$—	$566,327	$—
Other investments	$220	$220	$220	$—	$—
December 31, 2017					
PNMR					
Long-term debt	$2,437,645	$2,554,836	$—	$2,554,836	$—
Westmoreland Loan	$56,640	$66,588	$—	$—	$66,588
Other investments	$503	$503	$503	$—	$—
PNM					
Long-term debt	$1,657,910	$1,727,135	$—	$1,727,135	$—
Other investments	$283	$283	$283	$—	$—
TNMP					
Long-term debt	$480,620	$527,563	$—	$527,563	$—
Other investments	$220	$220	$220	$—	$—

(8) Stock-Based Compensation

PNMR has various stock-based compensation programs, including stock options, restricted stock, and performance shares granted under the Performance Equity Plan (“PEP”). Although certain PNM and TNMP employees participate in the PNMR plans, PNM and TNMP do not have separate employee stock-based compensation plans. The Company has not awarded stock options since 2010. Certain restricted stock awards are subject to achieving performance or market targets. Other awards of restricted stock are only subject to time vesting requirements. Additional information concerning stock-based compensation under the PEP is contained in Note 13 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

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

The stock-based compensation expense related to restricted stock awards without performance or market conditions to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized. Compensation expense for other such awards is amortized to compensation expense over the shorter of the requisite vesting period or the period until the participant becomes retirement eligible. Compensation expense for performance-based shares is recognized over the performance period as required service is provided and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At June 30, 2018 and December 31, 2017, PNMR had unrecognized expense related to stock awards of $5.4 million and $3.8 million, which are expected to be recognized over an average of 1.79 and 1.53 years.

PNMR receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options, and a tax deduction for the value of restricted stock at the vesting date. GAAP requires that all excess tax benefits and deficiencies be recorded to tax expense and, when used to reduce income taxes payable, classified as cash flows from operating activities.

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

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

	Six Months Ended June 30,	
Restricted Shares and Performance Based Shares	2018	2017
Expected quarterly dividends per share	$0.2650	$0.2425
Risk-free interest rate	2.38 %	1.50 %
Market-Based Shares		
Dividend yield	2.96 %	2.67 %
Expected volatility	19.12 %	20.80 %

Risk-free interest rate	2.36 %	1.54 %

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The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the six months ended June 30, 2018:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2017	189,045	$ 31.11	193,441	$ 9.98
Granted	221,062	$ 29.65	—	$ —
Exercised	(231,735)	$ 28.37	(107,941)	$ 8.56
Forfeited	(3,562)	$ 30.58	—	$ —
Expired	—	$ —	—	$ —
Outstanding at June 30, 2018	174,810	$ 32.90	85,500	$ 11.77

PNMR's stock-based compensation program provides for performance and market targets through 2020. Included as granted and as exercised in the above table are 97,697 previously awarded shares that were earned for the 2015 through 2017 performance measurement period and ratified by the Board in February 2018 (based upon achieving market targets at "target" levels, weighted at 60%, and performance targets at below "target" levels, weighted at 40%). Excluded from the above table are maximums of 138,081, 135,818, and 152,750 shares for the three-year performance periods ending in 2018, 2019, and 2020 that would be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

Effective as of January 1, 2015, the Company entered into a retention award agreement with its Executive Vice President and Chief Financial Officer under which he would receive awards of restricted stock if PNMR met specific performance targets at the end of 2016 and 2017 and he remained an employee of the Company. If PNMR achieved the specified performance target for the period from January 1, 2015 through December 31, 2016, he was to receive $100,000 of PNMR common stock based on the market value per share on the grant date in early 2017. The specified market target was achieved at the end of 2016 and the Board ratified him receiving $100,000 of PNMR common stock in February 2017 based on a market per share value of $36.30 on the grant date of March 3, 2017, or 2,754 shares. Similarly, if PNMR achieved the specified performance target for the period from January 1, 2015 through December 31, 2017, he was to receive $275,000 of PNMR common stock based on the market value per share on the grant date in early 2018. The specified performance target was achieved at the end of 2017 and the Board ratified him receiving $275,000 of PNMR common stock in February 2018 based on the market value per share of $35.85 on the grant date of March 2, 2018, or 7,670 shares, which are included in the above table. The retention award was made under the PEP and was approved by the Board on December 9, 2014.

In March 2015, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive 53,859 shares of PNMR's common stock if PNMR meets certain performance targets at the end of 2019 and she remains an employee of the Company. Under the agreement, she was to receive 17,953 of the total shares if PNMR achieved specific performance targets at the end of 2017. The specified performance target was achieved at the end of 2017 and the Board ratified her receiving the 17,953 shares in February

2018, which are included in the above table. The retention award was made under the PEP and was approved by the Board on February 26, 2015. The above table does not include the restricted stock shares that remain unvested under this retention award agreement.

At June 30, 2018, the aggregate intrinsic value of stock options outstanding, all of which are exercisable, was $2.3 million with a weighted-average remaining contract life of 1.5 years. At June 30, 2018, no outstanding stock options had an exercise price greater than the closing price of PNMR common stock on that date.

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

	Six Months Ended June 30,	
Restricted Stock	2018	2017
Weighted-average grant date fair value	$29.65	$23.06
Total fair value of restricted shares that vested (in thousands)	$8,328	$5,489
Stock Options		
Weighted-average grant date fair value of options granted	$—	$—
Total fair value of options that vested (in thousands)	$—	$—
Total intrinsic value of options exercised (in thousands)	$2,968	$1,699

(9) Financing

The Company's financing strategy includes both short-term and long-term borrowings. The Company utilizes short-term revolving credit facilities, as well as cash flows from operations, to provide funds for both construction and operating expenditures. Depending on market and other conditions, the Company will periodically sell long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under the revolving credit facilities or refinance other debt. Each of the Company's revolving credit facilities and term loans has contained a single financial covenant, which requires the maintenance of a debt-to-capitalization ratio of less than or equal to 65%, and generally also include customary covenants, events of default, cross default provisions, and change of control provisions. In July 2018, the PNMR Revolving Credit Facility, the PNMR 2016 One-Year Term Loan (as extended), the PNMR 2016 Two-Year Term Loan, and the PNMR Development Revolving Credit Facility were each amended such that PNMR is now required to maintain a debt-to-capitalization ratio of less than or equal to 70%. The debt-to-capitalization ratio requirement remains at less than or equal to 65% for PNM and TNMP agreements. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. Additional information concerning financing activities is contained in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

Financing Activities

As discussed in Note 11, NM Capital, a wholly-owned subsidiary of PNMR, entered into a $125.0 million term loan agreement (the "BTMU Term Loan Agreement") with BTMU, as lender and administrative agent, as of February 1, 2016. The BTMU Term Loan Agreement had a maturity date of February 1, 2021 and bore interest at a rate based on LIBOR plus a customary spread. PNMR, as parent company of NM Capital, guaranteed NM Capital's obligations to BTMU. NM Capital utilized the proceeds of the BTMU Term Loan Agreement to provide funding of $125.0 million (the "Westmoreland Loan") to a ring-fenced, bankruptcy-remote, special-purpose entity subsidiary of Westmoreland Coal Company to finance Westmoreland's purchase of SJCC. See Note 6. The BTMU Term Loan Agreement required that NM Capital utilize all amounts, less taxes and fees, it received under the Westmoreland Loan to repay the BTMU Term Loan Agreement. On May 22, 2018, the full principal outstanding under the Westmoreland Loan of $50.1 million was repaid. NM Capital used a portion of the proceeds to repay all remaining principal of $43.0 million owed under the BTMU Term Loan Agreement. These payments effectively terminated the loan agreements. In addition, PNMR's guarantee of NM Capital's obligations was also effectively terminated.

On October 21, 2016, PNMR entered into letter of credit arrangements with JPMorgan Chase Bank, N.A. (the "JPM LOC Facility") under which letters of credit aggregating $30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC is required to post in connection with permits relating to the operation of the San Juan mine (Note 11).

On July 28, 2017, PNM entered into an agreement (the "PNM 2017 Senior Unsecured Note Agreement") with institutional investors for the sale of $450.0 million aggregate principal amount of SUNs (the "PNM 2018 SUNs") offered in private placement transactions. On May 14, 2018, PNM issued $350.0 million of the PNM 2018 SUNs under that agreement and used the proceeds to repay an equal amount of PNM's 7.95% SUNs that matured on May 15, 2018. On July 31, 2018 PNM issued the remaining

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$100.0 million of the PNM 2018 SUNs and will use the proceeds to repay an equal amount of PNM’s 7.50% SUNs at their maturity on August 1, 2018. The PNM 2017 Senior Unsecured Note Agreement includes customary covenants, including a covenant that requires PNM to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, including a cross default provision, and covenants regarding parity of financial covenants, liens and guarantees with respect to PNM’s material credit facilities. In the event of a change of control, PNM will be required to offer to prepay the PNM 2018 SUNs at par. PNM will have the right to redeem any or all of the PNM 2018 SUNs prior to their respective maturities, subject to payment of a customary make-whole premium. In accordance with GAAP, aggregate borrowings of $100.0 million under PNM’s 7.95% SUNs due August 1, 2018, are reflected as being long-term in the Condensed Consolidated Balance Sheet at June 30, 2018 since the PNM 2017 Senior Unsecured Note Agreement demonstrates PNM’s ability to re-finance the $100.0 million SUNs on a long-term basis. Information concerning the maturities and interest rates on the PNM 2018 SUNs is as follows:

Funding Date	Maturity Date	Principal Amount (In millions)	Interest Rate
May 14, 2018	May 15, 2023	$ 55.0	3.15 %
May 14, 2018	May 15, 2025		