PNM RESOURCES INC
Form 10-K
March 01, 2019
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2018

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of February 22, 2019, shares of common stock outstanding were:

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

On June 29, 2018 the aggregate market value of the voting common stock held by non-affiliates of PNMR as computed by reference to the New York Stock Exchange composite transaction closing price of $38.90 per share reported by The Wall Street Journal, was $3,098,525,974. PNM and TNMP have no common stock held by non-affiliates.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Proxy Statement to be filed by PNMR with the SEC pursuant to Regulation 14A relating to the annual meeting of shareholders of PNMR to be held on May 21, 2019.

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

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GLOSSARY

Definitions:	
2014 IRP	PNM’s 2014 IRP
2017 IRP	PNM’s 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
ABO	Accumulated Benefit Obligation
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
ALJ	Administrative Law Judge
AMI	Advanced Metering Infrastructure
AMS	Advanced Meter System
Anaheim	City of Anaheim, California
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
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
BHP	BHP Billiton, Ltd
Board	Board of Directors of PNMR
BSER	Best system of emission reduction technology
BTMU	MUFG Bank Ltd., formerly the Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan	NM Capital’s $125.0 Million Unsecured Term Loan
BTU	British Thermal Unit
CAA	Clean Air Act
Casa Mesa Wind	Casa Mesa Wind Energy Center
CCN	Certificate of Convenience and Necessity
CCR	Coal Combustion Residuals
CIAC	Contributions in Aid of Construction
CO_2	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIM	California Independent System Operator Western Energy Imbalance Market
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
EPE	El Paso Electric Company
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
FPL	FPL Energy New Mexico Wind, LLC
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
IBEW	International Brotherhood of Electrical Workers
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
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 BTUs
Moody’s	Moody’s Investor Services, Inc.
MSR	M-S-R Public Power Agency
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
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking

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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
PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2014 New Mexico Credit Facility	PNM’s $50.0 Million Unsecured Revolving Credit Facility
PNM 2014 Term Loan	PNM’s $175.0 Million Unsecured Term Loan
PNM 2016 Term Loan	PNM’s $175.0 Million Unsecured Term Loan
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	PNM’s $200.0 Million Unsecured Term Loan
PNM 2018 SUNs	PNM’s Senior Unsecured Notes issued under the PNM 2017 Senior Unsecured Note Agreement
PNM 2019 Term Loan	PNM’s $250.0 million Unsecured Term Loan
PNM Multi-draw Term Loan	PNM’s $125.0 Million Unsecured Multi-draw Term Loan Facility
PNM Revolving Credit Facility	PNM’s $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan	PNMR’s $150.0 Million Three-Year Unsecured Term Loan that matured on March 9, 2018
PNMR 2016 One-Year Term Loan	PNMR’s $100.0 Million One-Year Unsecured Term Loan that matured on December 14, 2018
PNMR 2016 Two-Year Term Loan	PNMR’s $100.0 Million Two-Year Unsecured Term Loan that matured on December 21, 2018
PNMR 2018 One-Year Term Loan	PNMR’s $150.0 Million One-Year Unsecured Term Loan
PNMR 2018 Two-Year Term Loan	PNMR’s $50.0 Million Two-Year Unsecured Term Loan
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development’s $25.0 million Unsecured Revolving Credit Facility
PNMR Development Term Loan	PNMR Development’s $90.0 Million Unsecured Term Loan
PNMR Revolving Credit Facility	PNMR’s $300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan	PNMR’s $150.0 Million One-Year Unsecured Term Loan that matured on December 21, 2016
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic

PVNGS	Palo Verde Nuclear Generating Station

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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, formerly known as Delta
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
S&P	Standard and Poor's Ratings Services
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
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
SPS	Southwestern Public Service Company
SRP	Salt River Project
Tax Act	Federal tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2018 Term Loan	TNMP's $35.0 Million Unsecured Term Loan
TNMP 2019 Bonds	TNMP's First Mortgage Bonds to be issued under the TNMP 2019 Bond Purchase Agreement
TNMP 2019 Bond Purchase Agreement	TNMP's Agreement to Issue an Aggregate of $305.0 Million in First Mortgage Bonds in 2019
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
UG-CSA	Underground Coal Sales Agreement for San Juan Generating Station
US Supreme Court	United States Supreme Court
Valencia	Valencia Energy Facility
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
WSPP	Western Systems Power Pool

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PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

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

- Earning authorized returns on its regulated businesses
- Delivering at or above industry-average earnings and dividend growth
- Maintaining solid investment grade credit ratings

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

- Maintaining strong employee safety, plant performance, and system reliability
- Delivering a superior customer experience
- Demonstrating environmental stewardship in business operations, including reducing CO_2 emissions
- Supporting the communities in their service territories

PNMR's success in accomplishing these strategic goals is highly dependent on fair and timely regulatory treatment for its regulated utilities. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. PNM filed general rate cases with the NMPRC in August 2015 and December 2016. The NMPRC issued rate orders in those cases in September 2016 and January 2018. TNMP filed a general rate case in May 2018 and the PUCT issued an order in that case in December 2018. Additional information about rate filings is provided in Operations and Regulation below and in Note 17.

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

Other Information

These filings for PNMR, PNM, and TNMP include disclosures for each entity. For discussion purposes, this report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. A reference to "MD&A" in this report refers to Part II, Item 7. – Management's Discussion and Analysis of Financial Condition and Results of Operations. A reference to a "Note" refers to the accompanying Notes to Consolidated Financial Statements.

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

WEBSITES

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

Our corporate internet addresses are:

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

The PNMR website includes a link to PNMR's Sustainability Portal, www.pnmresources.com/about-us/sustainability-portal.aspx. This portal provides access to key sustainability information, including a Climate Change Report, related to the

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operations of PNM and TNMP and reflects PNMR's commitment to do business in an ethical, open, and transparent manner, and outlines PNM's plans (subject to NMPRC approval) to exit all coal-fired generation by 2031.

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

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

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

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

OPERATIONS AND REGULATION

Regulated Operations

PNM

PNM is an electric utility that provides electric generation, transmission, and distribution service to its rate-regulated customers. PNM was incorporated in the State of New Mexico in 1917. 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. Service to retail electric customers is subject to the jurisdiction of the NMPRC. The largest retail electric customer served by PNM accounted for 2.3% of its revenues for the year ended December 31, 2018. Other services provided by PNM include wholesale transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. PNM owns transmission lines that are interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. Regulation encompasses the utility's electric rates, service, accounting, issuances of securities, construction of major new generation, abandonment of existing generation, types of generation resources, transmission and distribution facilities, and other matters. See Note 17 for additional information on rate cases and other regulatory matters.

NMPRC Regulated Retail Rate Proceedings

Customer rates for retail electric service are set by the NMPRC. On October 1, 2016, PNM implemented a NMPRC order in PNM's NM 2015 Rate Case that approved an increase in non-fuel base rates of $61.2 million annually. PNM is appealing certain aspects of the NMPRC's order in the NM Supreme Court. Other parties in that rate case have filed cross-appeals contesting other aspects of the NMPRC ruling. Oral argument at the NM Supreme Court was held on October 30, 2017. Although appeals of regulatory actions of the NMPRC have priority at the NM Supreme Court, there is no required time frame for the court to act on the appeal. See Note 17.

In December 2016, PNM filed the NM 2016 Rate Case with the NMPRC. The NM 2016 Rate Case proposed a non-fuel revenue increase of $99.2 million above October 1, 2016 base rates to be effective on January 1, 2018. The requested increase was based on a calendar 2018 FTY and a ROE of 10.125% compared to a ROE of 9.575% authorized in the NM 2015 Rate Case. The drivers of PNM's identified revenue deficiency included the implementation of the plan for SJGS to comply with the CAA as discussed in Note 16, including the shutdown of SJGS Units 2 and 3, recovery of 50% of the net book value of those units, and the inclusion of PVNGS Unit 3 in retail rates as replacement power. In May 2017, PNM and several intervenors filed a stipulation that reduced the requested non-fuel revenue increase to $62.3 million and proposed an initial increase of $32.3 million beginning January 1, 2018 and the remaining increase beginning January 1, 2019. Among other things, the stipulation reduced the ROE to 9.575% and sought a debt-only return on PNM's investment in SCRs at Four Corners. In October 2017, the Hearing Examiners to the NM 2016 Rate Case recommended approval of the agreed upon stipulation with certain modifications, including identifying PNM's continuation in Four Corners as imprudent and recommending against PNM's ability to collect a debt or equity return on certain investments in that facility. On January 17, 2018, the NMPRC issued a final order partially adopting the Hearing Examiners' recommendation resulting in an approved annual non-fuel revenue increase of $10.3 million. The NMPRC's final order in the NM 2016 Rate case includes modifications to reflect a reduction of approximately $47.6 million in customer rates for the impact of federal tax reform beginning in 2018, rather than in 2019 as proposed, provides for a debt-only return on $148.1 million of PNM's investments in Four Corners, and defers further consideration regarding PNM's prudence related to Four Corners to PNM's next general rate case. In accordance with the NMPRC's final order, PNM implemented 50% of the approved rate increase for service rendered (rather than for bills rendered as PNM had requested) on February 1, 2018 and the rest of the increase for service rendered on January 1, 2019.

In February 2018, NEE filed a notice of appeal with the NM Supreme Court asking the court to review the NMPRC's decisions in the NM 2016 Rate Case. Several parties to the case intervened in the appeal as intervenor-appellees in support of the NMPRC's final decisions in the NM 2016 Rate Case. On November 15, 2018, NEE filed an unopposed motion to withdraw its appeal. On December 3, 2018, the NM Supreme Court issued an order of dismissal and remanded the matter to the NMPRC.

PNM has a NMPRC-approved rate rider to collect costs for renewable energy procurements that are not otherwise being collected in rates. If PNM's earned return on jurisdictional equity in a calendar year, adjusted for weather and other items not representative of normal operation, exceeds the NMPRC-approved rate by 0.5%, the rider provides that PNM would refund the excess to customers during the following year. Through 2018, PNM's earned return on jurisdictional equity has not exceeded the limitation. The NMPRC has also approved riders designed to allow PNM to bill and collect substantially all of fuel and purchased power costs and costs of approved energy efficiency initiatives.

FERC Regulated Wholesale Operations

Rates charged to wholesale electric transmission customers are based on a formula rate mechanism pursuant to which rates for wholesale transmission service are calculated annually in accordance with an approved formula. The formula includes updating cost of service components, including investment in plant and operating expenses, based on information contained in PNM's annual financial report filed with FERC, as well as including projected large transmission capital projects to be placed into service in the following year. The projections included are subject to true-up in the formula rate for the following year. Certain items, including changes to return on equity and depreciation rates, require a separate filing to be made with FERC before being included in the formula rate.

The low natural gas price environment resulted in market prices for power being substantially lower than what PNM is able to offer wholesale generation customers under the cost of service model that FERC requires PNM to use. Consequently, PNM decided to stop pursuing wholesale generation contracts and currently has no full-requirements wholesale generation customers.

Operational Information

Weather-normalized retail electric KWh sales increased by 0.6% in 2018 and decreased by 0.9% in 2017. The system peak demands for retail and firm-requirements customers were as follows:

System Peak Demands

	2018	2017	2016
	(Megawatts)		
Summer	1,885	1,843	1,908
Winter	1,351	1,289	1,376

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow the utility to access public rights-of-way for placement of its electric facilities. Franchise agreements have expired in some areas PNM serves, including Albuquerque, Rio Rancho, and Santa Fe. Because PNM remains obligated under New Mexico state law to provide service to customers in these areas, the expirations should not have a material adverse impact. The Albuquerque, Rio Rancho, and Santa Fe metropolitan areas accounted for 41.9%, 7.5%, and 6.7% of PNM's 2018 revenues and no other franchise area represents more than 5%. PNM also earns revenues from its electric retail operations in its service areas that do not require franchise agreements.

As discussed in Note 16, PNM and other utilities are challenging the legal validity of an ordinance passed by the County Commission of Bernalillo County, New Mexico that would require utilities pay a yet-to-be-determined fee for operating facilities on county rights-of-way. If the challenge to the ordinance is unsuccessful, PNM believes any fees paid pursuant to the ordinance would be considered franchise fees and would be recoverable from customers. PNM is unable to predict the outcome of this matter.

PNM owns 3,206 miles of electric transmission lines that interconnect with other utilities in New Mexico, Arizona, Colorado, Texas, and Utah. PNM owns transmission capacity in an area of eastern New Mexico with large wind generation potential and in recent years there has been substantial interest by developers of wind generation to interconnect to PNM's transmission system in this area. PNM plans to construct approximately $130 million of new transmission facilities by 2020 to provide additional transmission service to deliver power from these generation resources to customers in New Mexico and California.

PNM also generates and sells electricity into the wholesale market. 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. Effective January 1, 2018, the NMPRC authorized PNM to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers and to acquire 65 MW of SJGS Unit 4 as merchant plant. See Note 16 and Note 17. Shareholders realize any earnings or losses from generating resources that are not included in retail rates. PNM also engages in activities to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-ahead, week-ahead, and other sales of excess generation not required to fulfill retail load and contractual commitments. Through PNM's FPPAC, 90% of the margins from these optimization sales were credited to retail customers through December 31, 2016, after which date 100% of the margins are credited to customers.

Use of Future Test Year ("FTY")

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

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

As with any forward looking financial information, utilizing a FTY in a rate filing presents challenges. These include forecasts of both operating and capital expenditures that necessitate reliance on many assumptions concerning future conditions and operating results. In the rate making process, PNM's assumptions are subject to challenge by regulators and intervenors who may assert different interpretations or assumptions.

Renewable Energy

The REA was enacted to encourage the development of renewable energy in New Mexico. The act establishes a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 15% of retail electric sales by 2015 and 20% by 2020. The act provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures utilities recovery of costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. PNM files required renewable energy plans with the NMPRC annually and makes procurements consistent with the plans approved by the NMPRC. See Note 17.

TNMP

TNMP is a regulated utility operating and incorporated in the State of Texas. TNMP's predecessor was organized in 1925. 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. TNMP serves a market of small to medium sized communities, most of which have populations of less than 50,000. TNMP is the exclusive provider of transmission and distribution services in most areas it serves.

TNMP's service territory consists of three non-contiguous areas. One portion of this territory extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red

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River, and to communities north, west, and south of Fort Worth. The second portion of its service territory includes the area along the Texas Gulf Coast between Houston and Galveston, and the third portion includes areas of far west Texas between Midland and El Paso.

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. For its volumetric load customers billed on KWh usage, TNMP experienced increases in weather-normalized retail KWh sales of 3.2% in 2018 and 1.2% in 2017. As of December 31, 2018, 99 active REPs receive transmission and distribution services from TNMP. In 2018, the three largest REP customers of TNMP accounted for 21%, 16%, and 12% of TNMP's operating revenues. No other customer accounted for more than 10% of revenues.

Regulatory Activities

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect $113.4 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011 and deployment of advanced meters began in September 2011. TNMP completed its mass deployment of AMS in 2016 and has installed more than 242,000 advanced meters. The PUCT approved interim adjustments to TNMP's transmission rates of $4.3 million in March 2016, $1.8 million in September 2016, $4.8 million in March 2017, $4.7 million in September 2017, and $0.6 million in March 2018. On January 25, 2019, TNMP filed an application to further update its transmission rates, which would increase revenues by $14.3 million annually. The application is pending before the PUCT.

TNMP filed a general rate case application with the PUCT in May 2018 requesting an annual increase to base rates of $25.9 million based on a ROE of 10.5%, a cost of debt of 7.2%, and a capital structure comprised of 50% debt and 50% equity. TNMP's application also proposed a new rate rider to recover Hurricane Harvey restoration and other costs, a request to increase depreciation rates, and a request to integrate revenues recorded under TNMP's AMS rider, as well as other unrecovered AMS investments, into base rates. The application also proposed to return the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers and to reduce its federal corporate income tax rate to 21%. On November 2, 2018, TNMP and other parties to the case filed an unopposed settlement agreement. The unopposed settlement was approved by the PUCT on December 20, 2018. The approved settlement agreement results in a $10.0 million annual increase to base rates and provides for a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. The approved settlement integrates AMS revenues and other unrecovered AMS investments into base rates, adjusts how TNMP will return the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers, grants TNMP's request for updated depreciation rates, and provides for a new rider to recover Hurricane Harvey restoration and other costs. The approved settlement excludes from rate base certain transmission investments that were requested in TNMP's original filing. These transmission investments were subsequently included in TNMP's January 2019 transmission cost of service filing, which is pending before the PUCT. New rates under the TNMP 2018 Rate Case were effective beginning on January 1, 2019. See Note 17.

Franchise Agreements

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

Corporate and Other

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

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SOURCES OF POWER
PNM
Generation Capacity

As of December 31, 2018, the total net generation capacity of facilities owned or leased by PNM was 2,102 MW. PNM also obtains power under long-term PPAs for the power produced by Valencia, New Mexico Wind, Red Mesa Wind, Casa Mesa Wind, the Lightning Dock Geothermal facility, and the NMRD-owned solar facilities.

PNM's capacity in electric generating facilities, which are owned, leased, or under PPAs, in commercial operation as of December 31, 2018 is:

Type	Name	Location	Generation Capacity (MW)
Coal	SJGS	Waterflow, New Mexico	562
Coal	Four Corners	Fruitland, New Mexico	200
Gas	Reeves Station	Albuquerque, New Mexico	154
Gas	Afton (combined cycle)	La Mesa, New Mexico	230
Gas	Lordsburg	Lordsburg, New Mexico	80
Gas	Luna (combined cycle)	Deming, New Mexico	189
Gas/Oil	Rio Bravo	Albuquerque, New Mexico	138
Gas	Valencia	Belen, New Mexico	158
Gas	La Luz	Belen, New Mexico	40
Nuclear	PVNGS	Wintersburg, Arizona	402
Solar	PNM-owned solar	Fifteen sites in New Mexico	107
Solar	NMRD-owned solar	Los Lunas, New Mexico	30
Wind	New Mexico Wind	House, New Mexico	204
Wind	Red Mesa Wind	Seboyeta, New Mexico	102
Wind	Casa Mesa Wind	House, New Mexico	50
Geothermal	Lightning Dock Geothermal	Lordsburg, New Mexico	15
			2,661

Fossil Fueled Plants

SJGS is operated by PNM and, until December 2017, consisted of four units. As discussed in Note 16, SJGS Units 2 and 3 were retired in December 2017 and the ownership interests in SJGS Unit 4 were restructured as of December 31, 2017. The table below presents the rated capacities and ownership interests of each participant in each unit of SJGS before and after these events:

	Unit MW Capacity and Ownership Interests					
	Prior to Restructuring				After Restructuring	
	Unit 1	Unit 2	Unit 3	Unit 4	Unit 1	Unit 4
Capacity (MW)	340	340	497	507	340	507
PNM [(1)]	50.000 %	50.000 %	50.000 %	38.457 %	50.000 %	77.297 %
Tucson	50.000	50.000	—	—	50.000	—
SCPPA	—	—	41.800	—	—	—
Tri-State	—	—	8.200	—	—	—
MSR	—	—	—	28.800	—	—
Anaheim	—	—	—	10.040	—	—

Farmington	—	—	—	8.475	—	8.475
Los Alamos	—	—	—	7.200	—	7.200
UAMPS	—	—	—	7.028	—	7.028
Total	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%

(1) After restructuring includes a 12.8% interest held in SJGS Unit 4 as a merchant plant.

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Four Corners Units 4 and 5 are 13% owned by PNM. These units are jointly owned with APS, SRP, Tucson, and NTEC, and are operated by APS. Prior to July 22, 2018, NTEC's 7% share of Four Corners was owned by an affiliate of APS, which had acquired the interest from EPE on July 7, 2016. PNM had no ownership interest in Four Corners Units 1, 2, or 3, which were shut down by APS on December 30, 2013. The Four Corners plant site is located on land within the Navajo Nation and is subject to an easement from the federal government. APS, on behalf of the Four Corners participants, negotiated amendments to extend the owners' right to operate the plant on the site to July 2041. See Note 16 for additional information about Four Corners.

PNM owns 100% of Reeves, Afton, Rio Bravo, Lordsburg, and La Luz and one-third of Luna. The remaining interests in Luna are owned equally by Tucson and Samchully Power & Utilities 1, LLC. PNM is also entitled to the entire output of Valencia under a PPA. Reeves, Lordsburg, Rio Bravo, La Luz, and Valencia are used primarily for peaking power and transmission support. As discussed in Note 10, Valencia is a variable interest entity and is consolidated by PNM as required by GAAP.

Nuclear Plant

PNM is participating in the three units of PVNGS with APS (the operating agent), SRP, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2%, including portions that are leased to PNM, of the power and energy generated by PVNGS. See Note 8 for additional information concerning the PVNGS leases. Currently, PNM has ownership interests of 2.3% in Unit 1, 9.4% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 0.8% in Unit 2. The lease payments for the leased portions of PVNGS are recovered through retail rates approved by the NMPRC. See Note 16 for information on other PVNGS matters, including the NMPRC's approval for PNM to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers beginning in 2018 and Note 17 for information concerning the NMPRC's treatment of the purchased assets and extended leases in PNM's NM 2015 Rate Case. See Note 8 for information concerning PNM's option to purchase or return the assets underlying four leases in PVNGS Unit 1 and one lease in PVNGS Unit 2 that expire January 2023 and January 2024.

Solar

At December 31, 2018, PNM owns a total of 107 MW of solar facilities in commercial operation. PNM is also entitled to the entire output from 30 MW of NMRD-owned solar facilities. As discussed in Note 1, NMRD is a 50% equity method investee of PNMR Development. As discussed in Note 17, PNM's 2018 renewable energy procurement plan includes the addition of 50 MW of PNM-owned solar-PV facilities which are expected to be in commercial operation by December 2019. The NMPRC has approved a voluntary tariff that allows PNM retail customers to buy renewable electricity for a small monthly premium. Power from 1.5 MW of PNM's solar capacity is used to service load under the voluntary tariff.

Plant Operating Statistics

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

Plant	Operator	2018	2017	2016
SJGS	PNM	71.4%	84.1%	76.5%
Four Corners	APS	61.7%	50.6%	62.0%
PVNGS	APS	88.6%	91.9%	91.4%

Joint Projects

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different entities. Some participants in the joint projects are investor-owned entities, while others are privately, municipally, or co-operatively owned. Furthermore, participants in SJGS have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in July 2022 for SJGS, July 2041 for Four Corners, December 2046 for Luna, and November 2047 for PVNGS. SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. An agreement for coal supply for SJGS, which expires on June 30, 2022, became effective on January 31, 2016. At that same time, an agreement to restructure the ownership in SJGS became effective. The restructuring agreement provided for certain participants in SJGS to exit ownership at December 31, 2017, by which time SJGS Units 2 and 3 were required to be permanently shut down. See Note 16 for a discussion of the restructuring of SJGS ownership. In December 2013, a coal supply arrangement for Four Corners that runs through July 6, 2031 was executed. As described above, Four Corners is located on land within the Navajo Nation and is subject to an easement from the federal government. Portions of PNM's interests in PVNGS Units 1 and 2 are held under leases. See Nuclear Plant above and Note 8 regarding PNM's actions related to these leases.

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On December 31, 2018, PNM submitted a filing with the NMPRC (the "December 2018 Compliance Filing") indicating that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS (subject to future NMPRC approval) when the current coal supply and operating agreements governing the facility expire in mid-2022. PNM's December 2018 Compliance Filing indicates that PNM has provided notice that it does not intend to extend the existing coal supply agreement beyond its current June 30, 2022 expiration date. In addition, PNM's 2017 IRP also indicates customers would benefit from PNM's exit from Four Corners when the current coal supply agreement for that facility expires in 2031. See Notes 16 and 17 for additional information about PNM's coal supply, PNM's December 2018 Compliance Filing, and PNM's 2017 IRP. It is possible that other participants in the joint projects have circumstances and objectives that have changed from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of GHG, other air emissions, and CCRs, as well as the impacts of the costs of compliance and operational viability of all or certain units within the joint projects. It is unclear how these factors will enter into discussions and negotiations concerning the status of the joint projects as the expiration of basic operational agreements approaches. PNM can provide no assurance that its participation in the joint projects will continue in the manner that currently exists.

PPAs

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

In 2002, PNM entered into a 25-year agreement to purchase all of the power and RECs generated by New Mexico Wind. PNM began receiving power from the project in June 2003. FPL owns and operates New Mexico Wind, which currently consists of 136 wind-powered turbines having an aggregate capacity of 204 MW on a site in eastern New Mexico. PNM also has a 20-year agreement to purchase energy and RECs from the Lightning Dock Geothermal facility built near Lordsburg, New Mexico. The current capacity of the facility is 15 MW. PNM's 2018 renewable plan filing, which was approved by the NMPRC on November 15, 2017, included requests to procure an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind and an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal. The PPAs now expire in 2044 for New Mexico Wind and 2042 for Lightning Dock Geothermal.

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

PNM and Tri-State have a hazard sharing agreement, which expires on May 31, 2022. Under this agreement, each party sells the other party 100 MW of capacity and energy from a designated generation resource on a unit contingent basis, subject to certain performance guarantees. Both the purchases and sales are made at the same market index price. This agreement serves to reduce the magnitude of each party's single largest generating hazard and assists in enhancing the reliability and efficiency of their respective operations. See Note 17 for details related to purchases and sales. Since PNM purchases and sells approximately the same amount of energy under the hazard sharing agreement, it is not included as a capacity resource in the above table.

As discussed in Note 1, PNMR Development and AEP OnSite Partners created NMRD on September 22, 2017 to pursue the acquisition, development, and ownership of renewable energy generation projects primarily in the State of New Mexico. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD, a limited liability company. In December 2017, PNMR Development made a contribution to NMRD of its interest in three 10

MW solar facilities and assigned its interests in several agreements related to those facilities to NMRD. AEP OnSite Partners made a cash contribution to NMRD equal to 50% of the value of the 30 MW solar capacity, which cash was then distributed from NMRD to PNMR Development. Power from the 30 MWs of solar capacity is being sold to PNM under 25-year PPAs to supply renewable energy to a data center in PNM's service territory.

In March 2018, the NMPRC approved PNM's request to enter into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply power to Facebook, Inc. These PPAs include the purchase of the power and RECs from an aggregate of 266 MW of wind and solar-PV generation facilities to be located in New Mexico. In November 2018, the 50 MW of capacity from Casa Mesa Wind was placed in commercial operation. PNM expects the remaining 216 MW of wind and solar-PV generating facilities will be in commercial operation by December 2021. In October 2018, the NMPRC approved PNM's request to enter into two 25-year PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities to be owned and operated by NMRD, which will also be used to supply power and RECs to Facebook. NMRD is required to obtain FERC approval of the PPAs. Subject to FERC approval, the first 50 MW of these facilities is expected to be in commercial operation by December 2019 and the remaining capacity is expected to be in

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commercial operation by June 2020. The cost of these PPAs will be passed through to Facebook, Inc., under one of PNM's NMPRC approved rate riders (Note 17).

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

	Year Ended December 31,		
	2018	2017	2016
Purchased under long-term PPAs			
MWh	1,626,300	1,574,716	1,211,852
Cost per MWh	$32.49	$ 29.02	$ 28.26
Other purchased power			
Total MWh	444,347	445,464	502,893
Cost per MWh	$41.46	$ 31.74	$ 27.78

TNMP

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

FUEL AND WATER SUPPLY

PNM

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

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2018	44.7%	$ 2.60	34.1%	$ 0.58	18.5%	$ 2.43
2017	56.5%	$ 2.16	31.9%	$ 0.64	9.2 %	$ 3.02
2016	54.1%	$ 2.34	31.6%	$ 0.71	11.8%	$ 2.80

In 2018, 2017, and 2016, 2.7%, 2.4%, and 2.5% of PNM's generation was from utility-owned solar, which has no fuel cost. In December 2017, SJGS Units 2 and 3 were retired and PNM assumed a greater interest in SJGS Unit 4, which results in a lower percentage of PNM's electric generation capacity being fueled by coal. The generation mix for 2019 is expected to be 41.7% coal, 30.3% nuclear, 24.8% gas and oil, and 3.2% utility-owned solar. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits, and the generally adequate supply of nuclear fuel, PNM believes that adequate sources of fuel are available for its generating stations into the foreseeable future. See Sources of Power – PNM – PPAs for information concerning the cost of purchased power. PNM recovers substantially all of its fuel and purchased power costs through the FPPAC.

Coal

A coal supply contract for SJGS, which expires on June 30, 2022, became effective on January 31, 2016. Coal supply has not been arranged for periods after the existing contract expires. Substantially all of the benefits of lower coal pricing under the new contract are being passed through to PNM's customers under the FPPAC. PNM believes there is adequate availability of coal resources to continue to operate SJGS through mid-2022.

In late December 2013, a fifteen-year coal supply contract for Four Corners, which began in July 2016, was executed. The average coal price per ton under the new contract was approximately 51% higher in the twelve months ended June 30, 2017 than in the twelve months ended June 30, 2016 and approximately 6.9% higher in the twelve months ended June 30, 2018 than in the twelve months ended June 30, 2017. The contract provides for pricing adjustments over its term based on economic indices.

As discussed above, PNM's December 2018 Compliance Filing indicates that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS (subject to future NMPRC approval) after the current coal supply agreement expires in mid-2022 and that PNM does not intend to extend the SJGS CSA beyond that time. See Note 16 for additional information about PNM's December 2018 Compliance Filing and PNM's coal supply. As discussed in Note 17, PNM's 2017 IRP also indicates that PNM exiting ownership in Four Corners after the end of its current coal supply agreement in 2031 would provide long-term cost savings to PNM's customers.

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Natural Gas

The natural gas used as fuel for the electric generating plants is procured on the open market and delivered by third-party transportation providers. The supply of natural gas can be subject to disruptions due to extreme weather events and/or pipeline or facility outages. PNM has contracted for firm gas transmission capacity to minimize the potential for disruptions due to extreme weather events. Certain of PNM's natural gas plants are generally used as peaking resources that are highly relied upon during seasonally high load periods and/or during periods of extreme weather, which also may be the times natural gas has the highest demand from other users. PNM's reliance on its natural gas generating resources has increased with the December 2017 retirement of SJGS Units 2 and 3. Substantially all of PNM's natural gas costs are recovered through the FPPAC.

Nuclear Fuel and Waste

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNG participants have contracted for 100% of PVNGS's requirements for uranium concentrates through 2025 and 15% of its requirements through 2028. In 2018, PVNGS executed five uranium contracts covering the time period from 2019 to 2025. The PVNGS participants have also contracted for 100% of the requirements for conversion services through 2025 and 40% of its requirements through 2030. A long-term contract for conversion services was executed in 2018 covering the time period from 2019 to 2030. The PVNGS participants have also contracted for 100% of the requirements for enrichment services through 2021, 90% of enrichment services for 2022, and 80% of its enrichment services for 2023 through 2026. In 2018, four enrichment contracts were executed to bring coverage to these levels. All of PVNGS's fuel assembly fabrication services are contracted through 2027. In 2018, a fabrication contract was executed with a new fabrication supplier for Unit 2, and the existing fabrication contract was renegotiated for Units 1 and 3.

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

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

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

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

Water Supply

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

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ENVIRONMENTAL MATTERS

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

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

COMPETITION

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

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

EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM, and TNMP as of December 31, 2018:

	PNMR	PNM	TNMP
Corporate [(1)]	389	—	—
PNM	938	938	—
TNMP	365	—	365
Total	1,692	938	365

(1) Represents employees of PNMR Services Company.

As of December 31, 2018, PNM had 487 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW Local 611 that is in effect through April 30, 2020. As of December 31, 2018, TNMP had 189 employees represented by IBEW Local 66 covered by a collective bargaining agreement that is in effect through August 31, 2019. The wages and benefits for PNM and TNMP employees who are members of the IBEW are typically included in the rates charged to electric customers and consumers, subject to approval of the NMPRC and PUCT.

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DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

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

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

- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the impacts of the NMPRC orders in PNM’s NM 2015 Rate Case, the appeal of that order, the NM 2016 Rate Case and related deferral of the issue of PNM’s prudence of continuation of participation in Four Corners to PNM’s next general rate case and recovery of PNM’s investments in that plant, any actions resulting from PNM’s December 2018 Compliance Filing, which indicates PNM intends to retire its share of SJGS in 2022 (subject to future NMPRC approval), and/or the conclusions reached in PNM’s 2017 IRP (collectively, the “Regulatory Proceedings”) and the impact on service levels for PNM customers if the ultimate outcomes do not provide for the recovery of costs of operating and capital expenditures, as well as other impacts of federal or state regulatory and judicial actions
- The ability of the Company to successfully forecast and manage its operating and capital expenditures, including aligning expenditures with the revenue levels resulting from the ultimate outcomes of the Regulatory Proceedings and supporting forecasts utilized in future test year rate proceedings
- Uncertainty surrounding the status of PNM’s participation in jointly-owned generation projects, including the 2022 scheduled expiration of the operational and fuel supply agreements for SJGS, the outcome of PNM’s December 2018 Compliance Filing, the results of PNM’s 2017 IRP filing, which indicates that PNM’s customers would benefit from PNM’s exit from Four Corners in 2031, including regulatory recovery of undepreciated investments in the event the NMPRC orders generating facilities be retired
- Uncertainty regarding the requirements and related costs of decommissioning power plants and reclamation of coal mines supplying certain power plants, as well as the ability to recover those costs from customers, including the potential impacts of the ultimate outcomes of the Regulatory Proceedings
- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies, energy efficiency measures, weather, seasonality, alternative sources of power, advances in technology, and other changes in supply and demand
- Uncertainty regarding what actions PNM may take with respect to the generating capacity in PVNGS Units 1 and 2 that is under lease at the expiration of the lease terms in 2023 and 2024, or upon the occurrence of certain specified events, as well as the related treatment for ratemaking purposes by the NMPRC
- The Company’s ability to access the financial markets in order to provide financing to repay or refinance debt as it comes due, as well as for ongoing operations and construction expenditures, including disruptions in the capital or credit markets, actions by ratings agencies, and fluctuations in interest rates, including any negative impacts that could result from the ultimate outcomes of the Regulatory Proceedings
- The risks associated with completion of generation, transmission, distribution, and other projects
- The potential unavailability of cash from PNMR’s subsidiaries due to regulatory, statutory, or contractual restrictions or subsidiary earnings or cash flows
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, fuel quality and supply issues, unplanned outages, extreme weather conditions, wildfires, terrorism, cybersecurity breaches, and other catastrophic events, as well the costs the Company may incur to

repair its facilities and/or the liabilities the Company may incur to third parties in connection with such issues

- State and federal regulation or legislation relating to environmental matters and renewable energy requirements, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM’s generating plants
- State and federal regulatory, legislative, executive, and judicial decisions and actions on ratemaking, tax, including the impacts and related uncertainties of tax reform enacted in 2017, and other matters
- Risks related to climate change, including potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG
- Employee workforce factors, including cost control efforts and issues arising out of collective bargaining agreements and labor negotiations with union employees
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM’s coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties

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- The risk that FERC rulemakings or lack of additional capacity during peak hours may negatively impact the operation of PNM's transmission system
- The impacts of decreases in the values of marketable securities maintained in trusts to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits, including potential increased volatility resulting from international developments
- Uncertainty surrounding counterparty performance and credit risk, including the ability of counterparties to supply fuel and perform reclamation activities and impacts to financial support provided to facilitate the coal supply at SJGS
- The effectiveness of risk management regarding commodity transactions and counterparty risk
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles or policies

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

SECURITIES ACT DISCLAIMER

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

ITEM 1A. RISK FACTORS

The business and financial results of PNMR, PNM, and TNMP are subject to a number of risks and uncertainties, many of which are beyond their control, including those set forth below and in MD&A, Note 16, and Note 17. For other factors that may cause actual results to differ materially from those indicated in any forward-looking statement contained in this report, see Disclosure Regarding Forward Looking Statements in Item 1. Business. TNMP provides transmission and distribution services to REPs that provide electric service to consumers in TNMP's service territories. References to customers in the risk factors discussed below also encompass the customers of these REPs who are the ultimate consumers of electricity transmitted and distributed through TNMP's facilities.

Regulatory Factors

The profitability of PNMR's utilities depends on being able to recover their costs through regulated rates and earn a fair return on invested capital, including investments in its generating plants. Without timely cost recovery and the opportunity to earn a fair return on invested capital, PNMR's liquidity and results of operations could be negatively impacted. Further, PNM and TNMP are in a period of significant capital expenditures, including costs of replacing generating capacity as coal-fired plants are retired. While increased capital investments and other costs are placing upward pressure on rates, energy efficiency initiatives and other factors are placing downward pressure on customer usage. The combination of these matters could adversely affect the Company's results of operations and cash flows.

The rates PNM charges its customers are regulated by the NMPRC and FERC. TNMP is regulated by the PUCT. The Company is in a period requiring significant capital investment and is projecting total construction expenditures for the years 2019-2023 to be $2,708.7 million. See Note 14. PNM and TNMP anticipate a trend toward increasing costs, for which it will have to seek regulatory recovery. These costs include or are related to:

- Costs of asset construction for generation, transmission, and distribution systems necessary to provide electric service, including new generation and transmission resources, as well as the cost to remove and retire existing assets
- Environmental compliance expenditures

- The regulatory mandate to acquire power from renewable resources
- Increased regulation related to nuclear safety
- Increased interest costs to finance capital investments
- Depreciation

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

- Changing customer behaviors, including increased emphasis on energy efficiency measures and utilization of alternative sources of power
- Rate design that is not driven by economics, which could influence customer behavior

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- Unfavorable economic conditions
- Reductions in costs of self-generation energy resources and energy efficiency technology
- Reduced new sources of demand
- Unpredictable weather patterns

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

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

As discussed in Note 17, in August 2015, PNM filed an application (the "NM 2015 Rate Case") with the NMPRC for a general rate increase, including base non-fuel revenues of $121.5 million. The primary drivers of PNM's identified revenue deficiency were infrastructure investments and the recovery of those investment dollars, including depreciation based on an updated depreciation study, and declines in forecasted energy sales as a result of PNM's successful energy efficiency programs and other economic factors. The NMPRC issued an order authorizing an increase in non-fuel revenues of $61.2 million effective beginning in October 2016. The NMPRC disallowed recovery of PNM's capital investment in BDT equipment installed on SJGS Units 1 and 4, which is required by the NSR permit for SJGS (Note 16), and a portion of the acquisition costs for PNM's January 15, 2016 purchase of 64.1 MW of PVNGS Unit 2, which were previously leased to PNM, as well as the undepreciated costs of capitalized improvements made during the period that capacity was leased. PNM filed an appeal of these disallowances with the NM Supreme Court. Other parties to that rate case have filed cross-appeals to PNM's appeal in order to appeal other decisions of the NMPRC regarding issues in the NM 2015 Rate Case. On October 30, 2017, the NM Supreme Court heard oral argument on the case but has not yet rendered a decision on the appealed matters and there is no required time frame for a decision to be issued.

In December 2016, PNM filed a request in the NM 2016 Rate Case for a general increase in rates of $99.2 million. The primary drivers of PNM's identified revenue deficiency were implementation of the plan for SJGS to comply with the CAA, including the shutdown of Units 2 and 3 of SJGS, recovery of 50% of the net book value of those units, and the inclusion in retail rates of PVNGS Unit 3 as replacement power (Note 16). In May 2017, PNM and several signatories filed a comprehensive stipulation, which reduced the non-fuel revenue increase to $62.3 million and provided that PNM would only earn a debt return on its investments in SCR technology at Four Corners. In January 2018, the NMPRC issued an order which approved many aspects of the revised comprehensive stipulation with several modifications. The most significant of these modifications include a requirement for PNM to reflect the impacts of federal tax reform in rates beginning in 2018, rather than in 2019 as proposed in the comprehensive stipulation, and disallowance of PNM's ability to collect an equity return on approximately $148.1 million of investments in Four Corners. The NMPRC's January 2018 order also indicated that the NMPRC would defer further consideration of the prudency of PNM's continued participation in Four Corners to PNM's next general rate case. On February 7, 2018, NEE filed a notice of appeal with the NM Supreme Court asking the court to review the NMPRC's decisions in the NM 2016 Rate Case. Several parties to the case intervened to support the NMPRC's decisions in the

NM 2016 Rate Case. In November 2018, NEE filed an unopposed motion to withdraw its appeal. On December 3, 2018, the NM Supreme Court issued its order of dismissal and remanded the matter to the NMPRC.

The NMPRC's December 16, 2015 order required that, no later than December 31, 2018, PNM shall make a filing with the NMRPC setting forth PNM's recommendation and supporting testimony and exhibits to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022. On December 31, 2018, PNM submitted the required filing (the "December 2018 Compliance Filing") to the NMPRC indicating that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS (subject to future NMPRC approval) after the current SGJS CSA expires in mid-2022. On January 10, 2019, the NMPRC opened a docket to determine whether the NMPRC should grant PNM's request to accept the December 2018 Compliance Filing and take no further action pending PNM submitting a formal consolidated abandonment and replacement resources application, or whether the NMPRC should immediately establish a formal procedural schedule regarding the abandonment of SJGS. The NMPRC received responses from parties regarding the initial order and, on January 30, 2019, approved an order initiating a proceeding and requiring PNM to submit an application for the abandonment of PNM's share of SJGS in 2022 by March 1, 2019. On February 7, 2019, PNM filed a motion requesting the NMPRC vacate the January 30, 2019 order and extend the deadline for PNM's abandonment filing until the end of the second

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quarter of 2019, which was deemed denied. On February 27, 2019, PNM filed a petition with the NM Supreme Court stating that the requirements of the January 30, 2019 order exceed the NMPRC's authority by, among other things, mandating PNM to make a filing that is legally voluntary, and that the order is contrary to NMPRC precedent which requires abandonment applications to also include identified replacement resources and other information that will not be available to PNM by March 1, 2019. PNM's petition also requested the NM Supreme Court stay the January 30, 2019 order until after June 14, 2019. On March 1, 2019, the NM Supreme Court granted a temporary stay of the NMPRC's order and will consider the merits of PNM's petition after receiving responses, which are due by March 19, 2019.

PNM's 2017 IRP also indicates PNM's customers would benefit from PNM's exit from participation from Four Corners in 2031. The December 2018 Compliance Filing and the 2017 IRP are not final determinations of PNM's future generation portfolio. Retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings. NMPRC approval of new generation resources through CCN, PPA, or other applicable filings, would also be required. The NMPRC has issued regulatory orders requiring depreciation (and resultant regulatory recovery) of significant portions of these resources through estimated lives of 2053 for SJGS and 2041 for Four Corners.

An adverse outcome in the NM 2015 Rate Case, including the pending appeal of that order before the NM Supreme Court, or adverse decisions of the NMPRC regarding the potential retirement of PNM's share of SJGS in a formal abandonment proceeding, and/or the prudency of PNM's continued participation in Four Corners in PNM's next rate case could negatively impact PNM's financial position, results of operation, and cash flows. Likewise, if the NMPRC does not authorize appropriate recovery of any remaining investments in SJGS and Four Corners at the time those resources cease to be used to provide service to New Mexico ratepayers, including required future investments, and does not authorize recovery of the costs of obtaining power to replace those resources, PNM's financial position, results of operation, and cash flows could be negatively impacted.

PNM currently recovers the cost of fuel for its generation facilities through its FPPAC. A coal supply contract for SJGS, which expires on June 30, 2022, became effective on January 31, 2016 and provides for lower coal pricing than under the prior contract. In December 2013, a new fifteen-year coal supply contract for Four Corners beginning in July 2016 was executed. The average coal price per MMBTU under the new contract for Four Corners was approximately 51% higher in the twelve months ended June 30, 2017 compared to the twelve months ended June 30, 2016 and 6.9% higher in the twelve months ended June 30, 2018 compared to the twelve months ended June 30, 2017. The contracts provide for pricing adjustments over their terms based on economic indices. Although PNM believes substantially all costs under coal supply arrangements would continue to be recovered through the FPPAC, there can be no assurance that full recovery will be allowed.

PNM's regulatory approvals from the NMPRC, which are necessary for PNM to comply with the regional haze requirements of the CAA pertaining to SJGS, have been appealed to the NM Supreme Court. Furthermore, the NMPRC approval required PNM to make a filing in 2018 to determine the extent to which SJGS should continue to serve PNM's retail customers after June 30, 2022, on which date the SJPPA and the current coal supply agreement will expire. PNMR has counterparty credit risk in connection with financial support that was provided to facilitate the coal supply arrangement for SJGS. Adverse developments from these factors could have a negative impact on the business, financial condition, results of operations, and cash flows of PNM and PNMR.

SJGS, which currently comprises 26.7% of PNM's owned and leased generation capacity and is its largest generation resource, is subject to the CAA. As discussed in Note 16, in December 2015, the NMPRC approved a plan enabling SJGS to comply with the CAA (the "BART Approval"). The plan required the shutdown of SJGS Units 2 and 3 by December 31, 2017 and the shutdown was completed by that date. NEE, an intervenor in the NMPRC proceeding regarding the approval of the plan, appealed the BART Approval to the NM Supreme Court, which was denied in March 2018. NEE has also filed a complaint with the NMPRC against PNM regarding the financing provided by NM Capital, a subsidiary of PNMR, to facilitate the sale of SJCC, which is discussed below and described under Coal Supply in Note 16. The complaint alleges that PNM failed to comply with its discovery obligation in the SJGS abandonment case and requests the NMPRC to investigate whether the financing transactions could adversely affect PNM's ability to provide electric service to its retail customers. The NMPRC has taken no action on this matter.

The BART Approval required PNM to make a filing with the NMPRC no later than December 31, 2018, and before entering into an agreement for post-2022 coal supply for SJGS, setting forth its position to determine the extent to which SJGS should continue serving PNM's retail customers' needs after mid-2022. The existing SJPPA among the SJGS participants, which governs the operations of SJGS, expires on July 1, 2022 and the SJGS CSA for coal supply at SJGS described in Note 16 expires on June 30, 2022. As described above and in Note 16, PNM submitted its December 2018 Compliance Filing to the NMPRC indicating that, consistent with the conclusions reached in PNM's 2017 IRP, PNM's customers would benefit from the retirement of PNM's share of SJGS (subject to future NMPRC approval) after the current SGJS CSA and SJPPA expire in mid-2022. PNM's 2017 IRP also indicates that PNM's exit from ownership in Four Corners after the current coal supply agreement expires in 2031 would provide long-term cost savings for PNM's customers.

The restructuring of SJGS ownership and obtaining the new coal supply for SJGS were integral components of the process to achieve compliance with the CAA at SJGS. The effectiveness of the new SJGS CSA was dependent on the closing of the purchase of the existing coal mine operation by WSJ. In support of the closing of the mine purchase, NM Capital provided a loan of $125.0 million to WSJ, which was organized to be a bankruptcy-remote entity. In addition, PNMR has an arrangement with a bank under which the bank has issued $30.3 million of letters of credit in favor of sureties in order for the sureties to post reclamation bonds that are required under the mine's operating permit.

In May 2018, Westmoreland, the parent of WSJ, obtained a new credit agreement with certain of its creditors that provided additional financing, a portion of which was used to repay all amounts owned under $125.0 million loan to WSJ from NM Capital. In October 2018, Westmoreland filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. In its October 9, 2018 Current Report on Form 8-K filing with the SEC, Westmoreland indicated it had agreed to terms with its secured creditors that would allow it to fund normal course operations and to continue to serve its customers during the course of the bankruptcy case (Note 10). On February 28, 2019, the bankruptcy court approved Westmoreland's plan providing for the sale of Westmoreland's core assets, which includes the San Juan mine, and the assignment and assumption of related agreements. It is anticipated that the sale process will be completed by April 2019. If the sale process is successful and the PNMR and PNM agreements are assumed by and assigned to the purchaser, PNMR may be asked to amend the letters of credit supporting the reclamation bonds to take into account the transfer of the SJCC assets to the purchaser or to cause replacement letters of credit. If the sale process is not successful or the PNMR and PNM agreements are not assumed by and assigned to the purchaser, the coal supply for SJGS and letters of credit supporting the reclamation obligations at the San Juan mine could be negatively impacted. PNM is unable to predict the outcome of this matter. See Note 7 and Note 16.

The inability to operate SJGS or Four Corners or their early retirement would require approval of the NMPRC and would require PNM to obtain power from other sources in order to serve the needs of its customers. There can be no assurance that the NMPRC would approve early retirement or that recovery of any undepreciated investments through rates charged to customers would be authorized. In addition, there can be no assurance that adequate sources of replacement power would be available, that adequate transmission capabilities would be available to bring that power into PNM's service territory, or whether the cost of obtaining those resources would be economic. Any such events would negatively impact PNM's financial position, results of operation, and cash flows unless the NMPRC authorized the collection from customers of any un-recovered costs related to SJGS and Four Corners, as well as costs of obtaining replacement power.

It is also possible that unsatisfactory outcomes of these matters, the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of SJGS and/or Four Corners or the ability of individual participants to continue their participation through the periods currently contemplated in the agreements governing those facilities.

PNMR's utilities are subject to numerous federal, state, and local environmental laws and regulations, including those related to climate change, which may impose significant compliance costs and may significantly limit or affect their operations and financial results.

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

Under the Obama Administration, EPA’s Clean Power Plan required states to develop and implement plans to ensure compliance with emissions guidelines that would limit GHG from existing power plants. Individual states would develop and implement plans to ensure compliance with the proposed standards. Currently, the Clean Power Plan is stayed and under review. The Trump Administration has proposed to repeal the Clean Power Plan and has published the Affordable Clean Energy rule, which requires states to set performance standards consistent with the EPA’s determination of “best system of emission reduction” technology. In addition, on June 1, 2017, President Trump announced that the United States would withdraw from the Paris Agreement. Therefore, PNMR is dealing with an uncertain regulatory and policy environment. While EPA and other federal agencies may be seeking to reduce climate change regulations, some state agencies, environmental advocacy groups, and other organizations have been focusing considerable attention on GHG from power generation facilities. PNM currently depends on fossil-fueled generation for a significant portion of its electricity. As discussed under Climate Change Issues, this type of generation could be subject to future EPA or state regulations requiring GHG reductions. This includes new, existing, and modified or reconstructed EGUs which are also being considered in a proposed rule by EPA to revise the GHG NSPS rule. The uncertainty regarding climate change regulation presents challenges and represents a possible shift of greater authority to the states to make decisions and issue and enforce regulations. Federal and/or state regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

CCRs from the operation of SJGS are currently being used in the reclamation of a surface coal mine. These CCRs consist of fly ash, bottom ash, and gypsum. Any new regulation that would affect the reclamation process, including any future decision regarding classification of CCRs as hazardous waste or non-hazardous waste, could significantly increase the costs of the disposal of CCRs and the costs of mine reclamation. See Note 16.

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

BART determinations have been made for both SJGS and Four Corners under the program to address regional haze in the “four corners” area, which reduce the levels of several emissions, including NOx, at both plants. Significant capital expenditures have been made at SJGS and at Four Corners for the installation of control technology resulting in operating costs increases. PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of the implementation of EPA’s regulations regarding climate change, CCRs and other power plant emissions, including changes to the ambient air quality standards, the promulgation and implementation of such regulations could have a material impact on operations. The Company is unable to estimate these costs due to the many uncertainties associated with, among other things, the nature and extent of future regulations and changes in existing regulations, including the changes in regulatory policy under the Trump Administration. Timely regulatory recovery of costs associated with any environmental-related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company’s business, financial position, results of operations, and liquidity.

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

To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT, FERC, NRC, EPA, and NERC. Oversight by these agencies covers many aspects of the Company’s utility operations including, but not limited to: location, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers. FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. The significant level of regulation imposes restrictions on the operations of the Company and causes the incurrence of substantial compliance costs. PNMR and its subsidiaries are unable to predict the impact on their business and operating results from future actions of any agency regulating the Company. Changes in existing regulations or the adoption of new ones could result in additional expenses and/or changes in business operations. Failure to comply with any applicable rules, regulations or decisions may lead to customer refunds, fines, penalties, and other payments, which could materially and adversely affect the results of operations and financial condition of PNMR and its subsidiaries.

Operational Factors

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

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

- Rates charged by PNM and TNMP
- Rates charged by REPs utilizing TNMP's facilities to deliver power
- Energy efficiency initiatives

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- Availability and cost of alternative sources of power
- National, regional, or local economic conditions

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

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

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

Another factor that could negatively impact the Company is that proposals are periodically advanced in various localities to municipalize, or otherwise take over PNM's facilities, which PNM believes would require state legislative action to implement, or to establish new municipal utilities in areas currently served by PNM. If any such initiative is successful, the result could be a material reduction in the usage of the facilities, a reduction in rate base, and reduced earnings.

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

Advances in technology could make electric generating facilities less competitive.

Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer-oriented generation, energy storage, and energy efficiency. PNM generates power at central station power plants to achieve economies of scale and produce power at a cost that is competitive with rates established through the regulatory process. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, and solar cells, which have become increasingly cost competitive. It is possible that advances in technology will continue to reduce the costs of these alternative methods of producing power to a level that is competitive with that of central station power production. Advances in the capabilities for energy storage could also have impacts on power production by PNM as it would be increasingly simple to reduce peak usage by dispatching battery systems. This could result in demand reduction that could negatively impact revenue and/or result in underutilized assets that had been built to serve peak usage. In addition, certain federal, state, or local requirements that regulated utilities such as PNM are required to follow could result in third parties being able to provide electricity from similar generation technologies to consumers at prices lower than PNM is able to offer. If these technologies become cost competitive or can be used by third-parties to supply power at lower prices than PNM is able to offer, PNM's energy sales and/or regulated returns could be eroded, and the value of its generating facilities could be reduced. Advances in technology could also change the channels through which electric customers purchase or use power, which could reduce the Company's sales and revenues or increase expenses. These advances can also create more uncertainty in load shapes and forecasts, which could have implications for generation and system planning.

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

PNM has interests in a nuclear power plant, two coal-fired power plants, and several natural gas-fired power plants. PNM is obligated to pay for the costs of decommissioning its share of the power plants. PNM is also obligated to pay for its share of the costs of reclamation of the mines that supply coal to the coal-fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning and reclamation obligations and it is important to PNM that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, reclamation, and restoration. The NMPRC has established a cap on the amount of costs for the final reclamation of the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal obligations for decommissioning and reclamation in accordance with GAAP. These estimates include many assumptions about future events and are inherently imprecise. As discussed above, on December 31, 2018, PNM submitted its December 2018 Compliance Filing to the NMPRC indicating that, consistent with the conclusions reached in PNM’s 2017 IRP, PNM’s customers would benefit from the retirement of PNM’s share of SJGS (subject to future NMPRC approval) after the current coal supply agreement expires in mid-2022. In addition, PNM’s 2017 IRP also indicates that exiting PNM’s ownership interest

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in Four Corners in 2031 would provide long-term cost savings for customers. See additional discussion of PNM's December 2018 Compliance Filing and its 2017 IRP in Notes 16 and 17. In the event the costs to decommission those facilities or to reclaim the mines serving the plants exceed current estimates, or if amounts are not approved for recovery by the NMPRC, results of operations could be negatively impacted. In addition, the NMPRC's order in the NM 2015 Rate Case (Note 17) disallows recovery of future contributions for the decommissioning of certain portions of PVNGS. PNM has appealed the NMPRC decision in the NM 2015 Rate Case, oral argument has been held, and the appeal is pending before the NM Supreme Court. An adverse outcome of the appeal could negatively impact PNM's future results of operations, cash flows, and liquidity.

The costs of decommissioning any nuclear power plant are substantial. PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS, including portions under lease both during and after termination of the leases. PNM maintains trust funds designed to provide adequate financial resources for decommissioning PVNGS and for reclamation of the coal mines serving SJGS and Four Corners at the end of their expected lives. However, if the PVNGS units are decommissioned before their planned date or the coal mines are shut down sooner than expected, these funds may prove to be insufficient.

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

The Company's financial performance depends on the successful operation of PNM's generation assets, as well as the transmission and distribution systems of PNM and TNMP. As indicated above, SJGS Units 2 and 3 were shut down in December 2017. Also, PNM's December 2018 Compliance Filing indicates that PNM's customers would benefit from retiring PNM's share of SJGS (subject to future NMPRC approval) after the coal supply agreement for that facility expires in mid-2022. PNM's 2017 IRP also indicates that PNM exiting its ownership interest in Four Corners in 2031 would provide long-term cost savings for customers. These actions will increase PNM's dependency on other generation resources, particularly PVNGS, and will reduce PNM's flexibility in managing those resources. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the electric generation assets, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, cybersecurity attacks, wildfires, disruptions in the supply, quality, and delivery of fuel and water supplies, and other factors could result in PNM's load requirements being larger than available system generation capacity. Assured supplies of water are important for PNM's generating plants. Water in the southwestern United States is limited and there are conflicting claims regarding water rights. In addition, the "four corners" region where SJGS and Four Corners are located is prone to drought conditions, which could potentially affect the plants' water supplies. Unplanned outages of generating units and extensions of scheduled outages occur from time to time and are an inherent risk of the Company's business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM's and TNMP's ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs.

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

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

The utility industry in which the Company operates is a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure, some of which are deemed to be critical infrastructure under NERC guidelines. Certain of the Company's systems are interconnected with external networks. In the regular course of business, the utilities handle a range of sensitive security and customer information. PNM and TNMP are subject to the rules of various agencies concerning safeguarding and maintaining the confidentiality of this information. Despite steps the Company may take to detect, mitigate and/or eliminate threats and respond to security incidents, the techniques used by those who wish to obtain unauthorized access, and possibly disable or sabotage systems and/or abscond with confidential information and data, change frequently and the Company may not be able to protect against all such actions.

In the event a capable party attempts to disrupt the generation, transmission, or distribution systems in the United States, the Company's computer and operating systems could be subject to physical or cybersecurity attack. Although the Company has implemented security measures to identify, prevent, detect, respond to, and recover from cyber and physical security events, critical infrastructure, including information and operational technology systems, are vulnerable to disability, failures, or unauthorized access, which could occur as a result of malicious compromise, employee error, and/or employee misconduct. A successful physical or cybersecurity attack or other similar failure of the systems could impact the reliability of PNM's generation and PNM's and TNMP's transmission and distribution systems, including the possible unauthorized shutdown of facilities. Such an event could lead to disruptions of business operations, including the Company's ability to generate, transport, and deliver power to serve customers, to bill customers, and to process other financial information. A breach of the Company's information systems could also lead to the loss and destruction of confidential and proprietary data, personally identifiable information, trade secrets, intellectual property and supplier data, and could disrupt business operations which could harm the Company's reputation and financial results, as well as potential increased regulatory oversight, litigation, fines, and other remedial action. The costs incurred to investigate and remediate a physical or cybersecurity attack could be significant. A significant physical or cybersecurity attack on the Company's critical infrastructure could have a material adverse impact on the operations and financial condition of PNMR, PNM, and TNMP.

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

PNM has a 10.2% undivided interest in PVNGS, including interests in Units 1 and 2 held under leases. PVNGS represents 19.1% of PNM's total owned and leased generating capacity. PVNGS is subject to environmental, health, and financial risks, including, but not limited to:

- The ability to obtain adequate supplies of nuclear fuel and water
- The ability to dispose of spent nuclear fuel
- Decommissioning of the plant (see above)
- Securing the facilities against possible terrorist attacks
- Unscheduled outages due to equipment failures

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or which impact the industry generally may lead the NRC to impose additional requirements and regulations on all nuclear generation facilities, including PVNGS. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.
In the event of noncompliance with its requirements, the NRC has the authority to impose a progressively increasing inspection regime that could ultimately result in the shutdown of a unit, civil penalties, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and/or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM. Although PNM has no reason to anticipate a serious nuclear incident at PVNGS, if an incident did occur, it could materially and adversely affect PNM's results of operations and financial condition.

PNM has external insurance coverage to minimize its financial exposure to some risks. However, it is possible that liabilities associated with nuclear operations could exceed the amount of insurance coverage. See Note 16.

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

PNM is obligated to supply power to retail customers and certain wholesale customers. At peak times, power demand could exceed PNM's available generation capacity, particularly if PNM's power plants are not performing as anticipated. SJGS Units 2 and 3 were shut down in December 2017 and PNM has provided notice to the NMPRC that

PNM's customers would benefit from the retirement of PNM's remaining share of SJGS in mid-2022 (subject to future NMPRC approval). In addition, PNM's 2017 IRP indicates that it would also save customers money for PNM to exit ownership in Four Corners in 2031. SJGS and Four Corners comprise a significant portion of PNM's base load generation capacity and their retirement would increase reliance on other existing or new generating and/or battery storage resources. Market forces, competitive forces, or adverse regulatory actions may require PNM to purchase capacity on the open market or build additional resources to meet customers' energy needs. Regulators or market conditions may not permit PNM to pass all of these purchases or construction costs on to customers. If that occurs, PNM may not be able to fully recover these costs or there may be a lag between when costs are incurred and when regulators permit recovery in customers' rates. These situations could have negative impacts on results of operations and cash flows.

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General Economic and Weather Factors

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

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

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

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

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

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

Financial Factors

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

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

The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC has also restricted PNM from paying dividends in any year, as determined on a rolling four-quarter basis, in excess of net earnings without prior NMPRC approval. PNM is permitted to pay dividends to PNMR from prior equity contributions made by PNMR. Additionally, PNMR's financing agreements generally include a covenant to maintain a debt-to-capitalization ratio that does not exceed 70%, and PNM and TNMP's financing arrangements generally include a covenant to

maintain debt-to-capitalization ratios that do not exceed 65%. PNM also has various financial covenants that limit the transfer of assets, through dividends or other means and the Federal Power Act imposes certain restrictions on dividends paid by public utilities, including that dividends cannot be paid from paid-in capital.
Further, the ability of PNMR to declare dividends depends upon:

- The extent to which cash flows will support dividends
- The Company’s financial circumstances and performance

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- Decisions of the NMPRC and PUCT in various regulatory cases currently pending or that may be docketed in the future, including the outcome of appeals of those decisions
- Conditions imposed by the NMPRC, PUCT, or Federal Power Act
- The effect of federal regulatory decisions and legislative acts
- Economic conditions in the United States and in the Company's service areas
- Future growth plans and the related capital requirements
- Other business considerations

Disruption in the credit and capital markets may impact the Company's strategy and ability to raise capital.
As discussed in MD&A – Liquidity and Capital Resources, PNMR and its subsidiaries rely on access to both short-term and longer-term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2019-2023, including capital requirements related to its investment in NMRD, to be $2,772.1 million. If PNMR or its operating subsidiaries are not able to access capital at competitive rates, or at all, PNMR's ability to finance capital requirements and implement its strategy will be limited. Disruptions in the credit markets, which could negatively impact the Company's access to capital, could be caused by:

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

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

PNMR, PNM, and TNMP cannot be sure that any of their current credit ratings will remain in effect for any given period of time or that a rating will not be put under review for a downgrade, lowered, or withdrawn entirely by a rating agency. On January 16, 2018, S&P changed the outlook for PNMR, PNM and TNMP from stable to negative while affirming the investment grade ratings of each entity. On June 29, 2018, Moody's changed the ratings outlook for PNMR and PNM from positive to stable, maintained the stable outlook for TNMP, and affirmed the long-term credit ratings of each entity. Downgrades or changing requirements could result in increased borrowing costs due to higher interest rates on current borrowings or future financings, a smaller potential pool of investors, and decreased funding sources. Such conditions also could require the provision of additional support in the form of letters of credit and cash or other collateral to various counterparties.

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

The pension plans' targeted asset allocation is 26% equities, 54% fixed income, and 20% alternative investments. The Company has chosen to implement a strategy, known as Liability Driven Investing ("LDI"), by increasing the liability matching investments as the funded status of the pension plans improve. In 2018, the Company modified its LDI strategy by decreasing the liability matching fixed income investments portfolio from 65% to 54% in 2018. The OPEB plans generally use the same pension fixed income and equity investment managers and utilize the same overall investment strategy as the pension plans, except there is no allocation to alternative investments and the OPEB plans have a target asset allocation of 70% equities and 30% fixed income. Due to the funded status of the NDT and recent overall market performance, PNM re-balanced the NDT investment portfolio to a target of 85% fixed income (debt) securities. The re-balancing was completed in January 2018 and increases the exposure of the NDT investment portfolio to interest rate risk. Declines in market values could result in increased funding of the trusts, the recognition of losses as impairments for the NDT and mine reclamation trusts, and additional expense for the benefit plans. In addition, a change in GAAP requires that all changes in the fair value of equity securities recorded on the Company's balance sheet be reflected in earnings beginning in 2018, which results in increased volatility in earnings.

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

The Company annually evaluates recorded goodwill for impairment. See Note 19 and the Critical Accounting Policies and Estimates section of MD&A. Long-lived assets are also assessed whenever indicators of impairment exist. Factors that affect the long-term value of these assets, including treatment by regulators in ratemaking proceedings, as well as other economic and market conditions, could result in impairments. Significant impairments could adversely affect the Company's business, financial position, liquidity, and results of operations.

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

The "Events of Loss" generally relate to casualties, accidents, and other events at PVNGS, including the occurrence of specified nuclear events, which would severely adversely affect the ability of the operating agent, APS, to operate, and the ability of PNM to earn a return on its interests in PVNGS. The "Deemed Loss Events" consist primarily of legal and regulatory changes (such as issuance by the NRC of specified violation orders, changes in law making the sale and leaseback transactions illegal, or changes in law making the lessors liable for nuclear decommissioning obligations). PNM believes that the probability of such "Events of Loss" or "Deemed Loss Events" occurring is remote for the following reasons: (1) to a large extent, prevention of "Events of Loss" and some "Deemed Loss Events" is within the control of the PVNGS participants through the general PVNGS operational and safety oversight process; and (2) other "Deemed Loss Events" would involve a significant change in current law and policy. PNM is unaware of any proposals pending or being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events. See Note 8.

The impacts and implementation of United States tax reform legislation may negatively impact PNMR's, PNM's, and TNMP's businesses, financial position, results of operations, and cash flows.

On December 22, 2017, comprehensive changes in United States federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"). Among other things, the Tax Act reduces the federal corporate income tax rate from 35% to 21% effective January 1, 2018, eliminates federal bonus depreciation for utilities, and limits interest deductibility for non-utility business activities and the deductibility of certain officer compensation. During 2018, the IRS issued additional guidance related to certain officer compensation and proposed regulations on interest deductibility that provide a 10% "de minimis" exception that allows entities with predominantly regulated activities to fully deduct interest expenses. In addition, the IRS issued proposed regulations interpreting Tax Act amendments to depreciation provisions of the Internal Revenue Code that allow the Company to claim a bonus depreciation deduction on certain construction projects placed in service subsequent to the third quarter of 2017.

In December 2017, the SEC issued Staff Accounting Bulletin No. 118, which provides guidance to address the application of GAAP to reflect the Tax Act in circumstances where all information and analysis of the Tax Act was not yet available or complete. This bulletin provided for up to a one-year period in which to complete the required analyses and accounting for the impacts of the Tax Act.

In accordance with GAAP, as of December 31, 2017, the Company adjusted its deferred tax assets and liabilities resulting in increases in regulatory liabilities related to adjustments of net deferred tax liabilities associated with regulated activities, which are being returned to PNM's and TNMP's ratepayers over time, and increased income tax expense related to adjustments of net deferred tax assets related to items excluded from regulated activities. During 2018, the Company completed its analysis of the Tax Act resulting in certain adjustments being recorded at PNMR, PNM, and TNMP. These adjustments resulted primarily from differences between the estimated amounts recorded as of December 31, 2017 and the actual amounts reflected in the Company's 2017 tax return filing. The Company also recorded adjustments to reflect the impacts of proposed regulations and interpretations discussed above.

The Company believes that the impacts of the Tax Act will not significantly impact the future earnings of regulated activities due to the ratemaking process. However, cash flows will be reduced in the near term due to less cash being received from customer billings as the benefits of the reduced corporate income tax are passed on to ratepayers, but without a corresponding reduction in income taxes paid due to the Company having a net operating loss carryforward for income taxes purposes. In addition, the income tax benefit of net losses for the unregulated activities of PNMR will be negatively impacted by the reduced rate.

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It is possible that further changes to U.S. Treasury regulations, IRS interpretations of the provisions of the Tax Act, actions by the NMPRC, PUCT, and FERC could cause the Company's expectations of the impacts of the Tax Act to change. Any such change could adversely affect the Company's financial position, results of operations, and cash flows.

Governance Factors

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

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

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

Under the New Mexico Public Utility Act, NMPRC approval is required for certain transactions that may result in PNMR's change in control or exercise of control, including ownership of 10% or more of PNMR's voting stock. PUCT approval is required for changes to the ownership of TNMP or its parent and certain other transactions relating to TNMP. Certain acquisitions of PNMR's outstanding voting securities also require FERC approval.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
PNMR
The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.
PNM
See Sources of Power in Part I, Item. 1 Business above for information on PNM's owned and leased capacity in electric generating stations. As of December 31, 2018, PNM owned, or jointly owned, 3,206 miles of electric transmission lines, 6,067 miles of distribution overhead lines, 5,885 miles of underground distribution lines (excluding street lighting), and 255 substations. PNM's electric transmission and distribution lines are generally located within easements and rights-of-way on public, private, and Native American lands. PNM owns and leases interests in PVNGS Units 1 and 2 and related property, communication, office and other equipment, office space, vehicles, and real estate. PNM also owns service and office facilities throughout its service territory. See Note 8 for additional information concerning leases.
TNMP
TNMP's facilities consist primarily of transmission and distribution facilities located in its service areas. TNMP also owns and leases vehicles, service facilities, and office locations throughout its service territory. As of December 31, 2018, TNMP owned 997 miles of overhead electric transmission lines, 7,151 miles of overhead distribution lines, 1,260 miles of underground distribution lines, and 122 substations. Substantially all of TNMP's property is pledged to secure its first mortgage bonds. See Note 7.

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ITEM 3. LEGAL PROCEEDINGS

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

Note 16

- The Clean Air Act – Regional Haze – NEE Complaint
- The Clean Air Act – Regional Haze – December 2018 Compliance Filing
- The Clean Air Act – Regional Haze – Four Corners – Four Corners Federal Agency Lawsuit
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Santa Fe Generating Station
- Coal Combustion Residuals Waste Disposal
- Continuous Highwall Mining Royalty Rate
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Navajo Nation Allottee Matters

Note 17

- PNM – New Mexico 2015 Rate Case
- PNM – Renewable Portfolio Standard
- PNM – Renewable Energy Rider
- PNM – Energy Efficiency and Load Management
- PNM – Integrated Resource Plans
- PNM – Cost Recovery Related to Joining the EIM
- PNM – Facebook, Inc. Data Center Project
- TNMP – Transmission Cost of Service Rates

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

SUPPLEMENTAL ITEM – EXECUTIVE OFFICERS OF PNM RESOURCES, INC.

All officers are elected annually by the Board of PNMR. Executive officers, their ages as of February 22, 2019 and offices held with PNMR for the past five years are as follows:

Name	Age	Office	Initial Effective Date
P. K. Collawn	60	Chairman, President, and Chief Executive Officer	January 2012
C. N. Eldred	65	Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	67	Senior Vice President, General Counsel, and Secretary	January 2010
R. N. Darnell	61	Senior Vice President, Public Policy	January 2012
C. M. Olson	61	Senior Vice President, Utility Operations	February 2018
		Vice President, Utility Operations	December 2016
		Vice President, Generation – PNM	November 2012
J. D. Tarry	48	Vice President, Controller and Treasurer	September 2018
		Vice President, Finance and Controller	February 2017

Vice President, Corporate Controller, and Chief Information Officer	April 2015
Vice President, Customer Service and Chief Information Officer	May 2012

PART II

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

PNMR's common stock is traded on the New York Stock Exchange under the symbol "PNM".

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

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declared dividends on common stock considered to be for the second quarter of $0.2425 per share in July 2017 and $0.2650 per share in July 2018, which are reflected as being in the second quarter above. The Board declared dividends on common stock considered to be for the third quarter of $0.2425 per share in September 2017 and $0.2650 per share in September 2018, which are reflected as being in the third quarter above. On February 22, 2019, the Board declared a quarterly dividend of $0.29 per share. PNMR targets a long-term dividend payout ratio of 50% to 60% of ongoing earnings, which is a non-GAAP financial measure that excludes from earnings determined in accordance with GAAP certain non-recurring, infrequent, and other items that are not indicative of fundamental changes in the earnings capacity of the Company's operations. PNMR uses ongoing earnings to evaluate the operations of the Company and to establish goals, including those used for certain aspects of incentive compensation, for management and employees.

On February 22, 2019, there were 12,970 holders of record of PNMR's common stock. All of the outstanding common stock of PNM and TNMP is held by PNMR.

See Note 6 for a discussion on limitations on the payments of dividends and the payment of future dividends, as well as dividends paid by PNM and TNMP.

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

Preferred Stock

PNM is not aware of any active trading market for its cumulative preferred stock. Quarterly cash dividends were paid on PNM's outstanding cumulative preferred stock at the stated rates during 2018 and 2017. PNMR and TNMP do not have any preferred stock outstanding.

Sales of Unregistered Securities

None.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2018	2017	2016	2015	2014
	(In thousands except per share amounts and ratios)				
Total Operating Revenues	$1,436,613	$1,445,003	$1,362,951	$1,439,082	$1,435,853
Net Earnings	$101,282	$95,419	$131,896	$31,078	$130,909
Net Earnings Attributable to PNMR	$85,642	$79,874	$116,849	$15,640	$116,254
Net Earnings Attributable to PNMR per Common Share					
Basic	$1.07	$1.00	$1.47	$0.20	$1.46
Diluted	$1.07	$1.00	$1.46	$0.20	$1.45
Cash Flow Data					
Net cash flows from operating activities	$428,226	$523,462	$408,283	$395,045	$414,876
Net cash flows from investing activities	$(475,724)	$(466,163)	$(699,375)	$(544,528)	$(485,329)
Net cash flows from financing activities	$45,646	$(58,847)	$242,392	$175,431	$96,194
Total Assets	$6,865,551	$6,646,103	$6,471,080	$6,009,328	$5,790,237
Long-Term Debt, including current installments	$2,670,111	$2,437,645	$2,392,712	$2,091,948	$1,962,385
Common Stock Data					
Market price per common share at year end	$41.09	$40.45	$34.30	$30.57	$29.63
Book value per common share at year end	$21.20	$21.28	$21.04	$20.78	$21.61
Tangible book value per share at year end	$17.70	$17.79	$17.55	$17.28	$18.12
Average number of common shares outstanding – diluted	80,012	80,141	80,132	80,139	80,279

Dividends declared per common share	$1.0850	$0.9925	$0.9025	$0.8200	$0.7550
Capitalization					
PNMR common stockholders’ equity	38.6 %	40.9 %	41.1 %	44.0 %	46.6 %
Preferred stock of subsidiary, without mandatory redemption requirements	0.3	0.3	0.3	0.3	0.3
Long-term debt	61.1	58.8	58.6	55.7	53.1
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2018	2017	2016	2015	2014
	(In thousands)				
PNM Revenues					
Residential	$433,009	$419,105	$395,490	$427,958	$411,412
Commercial	408,333	408,354	394,150	437,279	428,085
Industrial	61,119	58,851	56,650	75,308	73,002
Public authority	21,688	23,604	23,174	26,202	25,278
Economy service	26,764	30,645	31,121	35,132	39,123
Transmission	54,280	45,932	34,267	33,216	38,284
Firm-requirements wholesale	—	4,468	22,497	31,263	38,313
Other sales for resale [1], [2]	76,168	101,897	70,375	63,195	82,508
Mark-to-market activity	(1,051)	1,317	(1,645)	(5,270)	5,996
Other miscellaneous [2]	14,098	10,057	9,834	6,912	5,913
Alternative revenue programs [3]	(2,443)	—	—	—	—
Total PNM Revenues	$1,091,965	$1,104,230	$1,035,913	$1,131,195	$1,147,914
TNMP Revenues					
Residential	$130,288	$126,587	$124,462	$120,771	$114,826
Commercial	111,261	106,503	103,174	102,956	99,701
Industrial	17,317	18,140	17,427	16,316	15,049
Other miscellaneous	81,583	89,543	81,975	67,844	58,363
Alternative revenue programs [3]	4,199	—	—	—	—
Total TNMP Revenues	$344,648	$340,773	$327,038	$307,887	$287,939

[1] Includes sales to Tri-State under hazard sharing agreement (Note 17).
[2] Beginning in 2018, $7.6 million of sales related to the SJGS 65 MW are classified as other miscellaneous revenue from contracts with customers (Note 4).
[3] Beginning in 2018, alternative revenue programs include recovery or refund provisions under PNM's renewable energy rider; true-ups to PNM's formula transmission rates, and TNMP's AMS surcharge, and transmission cost recovery factor; the impacts of the PUCT's January 25, 2018 order regarding the change in the federal corporate income tax rate in 2018 at TNMP; and the energy efficiency incentive bonuses at PNM and TNMP (Note 4).

PNM MWh Sales					
Residential	3,250,560	3,136,066	3,189,527	3,185,363	3,169,071
Commercial	3,814,659	3,774,417	3,831,295	3,800,472	3,874,292
Industrial	879,308	850,914	875,109	957,308	984,130
Public authority	241,238	250,500	249,860	246,496	251,187
Economy service	667,288	722,501	805,733	796,430	758,629
Firm-requirements wholesale [1]	—	87,600	429,345	444,495	527,597
Other sales for resale [2]	2,525,220	3,632,137	2,899,322	2,110,947	2,271,480
Total PNM MWh Sales	11,378,273	12,454,135	12,280,191	11,541,511	11,836,386
TNMP MWh Sales					
Residential	3,094,965	2,936,291	2,933,938	2,912,019	2,802,768
Commercial	3,186,788	2,793,263	2,742,366	2,654,102	2,583,664
Industrial	3,681,480	3,202,528	2,976,800	2,804,919	2,708,151

Other	100,300	94,767	98,596	100,999	102,118
Total TNMP MWh Sales	10,063,533	9,026,849	8,751,700	8,472,039	8,196,701

(1) Decrease in 2018 and 2017 reflects the loss of NEC as a wholesale generation customer (Note 17).
(2) Includes sales to Tri-State under hazard sharing agreement (Note 17).

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2018	2017	2016	2015	2014
PNM Customers					
Residential	470,192	465,950	462,921	459,353	455,907
Commercial	57,000	56,655	56,357	56,107	55,853
Industrial	236	239	247	250	249
Economy service	1	1	1	1	1
Other sales for resale	39	36	36	39	39
Other	932	931	887	908	911
Total PNM Customers	528,400	523,812	520,449	516,658	512,960
TNMP Consumers					
Residential	210,696	207,788	204,744	202,359	199,963
Commercial	40,508	39,814	39,817	39,014	38,033
Industrial	88	82	66	70	70
Other	1,924	1,948	1,993	2,018	2,044
Total TNMP Consumers	253,216	249,632	246,620	243,461	240,110
PNM Generation Statistics					
Net Capability – MW, including PPAs[1]	2,661	2,580	2,791	2,787	2,707
Coincidental Peak Demand – MW	1,885	1,843	1,908	1,889	1,878
Average Fuel Cost per MMBTU	$ 1.808	$ 1.704	$ 1.821	$ 2.168	$ 2.415
BTU per KWh of Net Generation	10,193	10,396	9,975	10,456	10,422

[1] Amounts are reflective of the shutdown of SJGS Units 2 and 3 in December 2017 and restructured ownership of SJGS Unit 4 as of December 31, 2017.

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

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

MD&A FOR PNMR

EXECUTIVE SUMMARY

Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 782,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

Strategic Goals

PNMR is focused on achieving three key strategic goals:

- Earning authorized returns on regulated businesses
- Delivering at or above industry-average earnings and dividend growth
- Maintaining solid investment grade credit ratings

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

- Maintaining strong employee safety, plant performance, and system reliability
- Delivering a superior customer experience
- Demonstrating environmental stewardship in business operations, including reducing CO_2 emissions
- Supporting the communities in their service territories

Earning Authorized Returns on Regulated Businesses

PNMR's success in accomplishing its strategic goals is highly dependent on two key factors: fair and timely regulatory treatment for its utilities and the utilities' strong operating performance. The Company has multiple strategies to achieve favorable regulatory treatment, all of which have as their foundation a focus on the basics: safety, operational excellence, and customer satisfaction, while engaging stakeholders to build productive relationships. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders.

Fair and timely rate treatment from regulators is crucial to PNM and TNMP in earning their allowed returns and critical for PNMR to achieve its strategic goals. PNMR believes that earning allowed returns is viewed positively by credit rating agencies and that improvements in the Company's ratings could lower costs to utility customers. Additional information about rate filings is provided in Note 17.

State Regulation

New Mexico 2015 Rate Case – On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in base non-fuel rates of $61.2 million for New Mexico retail customers, effective for bills sent after September 30, 2016. This order was on PNM's application for a general increase in retail electric rates (the "NM 2015 Rate Case") filed in August 2015. PNM's application requested an increase in base non-fuel revenues of $121.5 million based on a future test year ("FTY") beginning October 1, 2015. The primary drivers of the revenue deficiency were infrastructure investments and declines in forecasted energy sales due to successful energy efficiency programs and other economic factors.

The NMPRC's September 28, 2016 order included a determination that PNM was imprudent in purchasing 64.1 MW of previously leased capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. Major components of the difference between the increase in non-fuel revenues approved in the order and PNM's request, include:

- A ROE of 9.575%, compared to the 10.5% requested by PNM

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- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, totaling 64.1 MW, of PVNGS Unit 2 (Note 8) at an initial rate base value of $83.7 million, compared to PNM's request for recovery of the fair market value purchase price of $163.3 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which costs totaled $43.8 million when the order was issued
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016 and the 114.6 MW of the leased capacity in PVNGS Units 1 and 2 that were extended for eight years beginning January 15, 2015 and 2016 (Note 8)
- Disallowance of recovery of the costs associated with converting SJGS Units 1 and 4 to BDT, which is required by the NSR permit for SJGS (Note 16); PNM's share of the costs of installing the BDT equipment was $52.3 million, $40.0 million of which PNM requested be included in rate base in the NM 2015 Rate Case

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. PNM is appealing the NMPRC's determination that PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. PNM's appeal includes the following specific elements of the NMPRC's order:

- Disallowance of recovery of the full fair market value purchase price of the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016
- Disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM
- Disallowance of recovery of future contributions for PVNGS decommissioning attributable to 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases
- Disallowance of recovery of the costs of converting SJGS Units 1 and 4 to BDT

NEE, NMIEC, and ABCWUA filed notices of cross appeal to PNM's appeal. The issues that are being appealed by the various cross-appellants are:

- The NMPRC allowing PNM to recover the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and any of the purchase price for the 64.1 MW in PVNGS Unit 2
- The NMPRC allowing PNM to recover the costs incurred under the new coal supply contract for Four Corners
- The revised method to collect PNM's fuel and purchased power costs under the FPPAC
- The final rate design
- The NMPRC allowing PNM to include the "prepaid pension asset" in rate base

The NM Supreme Court has orally stated that the court's intent would be to request that PNM reimburse ratepayers for any amount overcharged should the cross-appellants prevail on the merits. Oral argument at the NM Supreme Court was held on October 30, 2017. Although appeals of regulatory actions of the NMPRC have a priority at the NM Supreme Court under New Mexico law, there is no required time frame for the court to act on the appeals.

PNM evaluated the accounting consequences of the order in the NM 2015 Rate Case and the likelihood of being successful on the issues it is appealing in the NM Supreme Court as required under GAAP. The evaluation indicated it is reasonably possible that PNM will be successful on the issues it is appealing. If the NM Supreme Court rules in PNM's favor on some or all of the issues, those issues would be remanded back to the NMPRC for further action. PNM originally estimated that it would take a minimum of 15 months from September 30, 2016 for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. Accordingly, PNM recorded pre-tax regulatory disallowances of $11.3 million representing capital cost recovery for the period October 1, 2016 through December 31, 2017 on its investments that the order disallowed, as well as amounts recorded as regulatory assets and deferred charges that the order disallowed and which PNM did not challenge in its appeal. PNM has periodically updated its estimate of the time frame necessary to resolve these matters resulting in additional pre-tax disallowances of $3.1 million and $4.0 million being recorded in 2017 and 2018. PNM’s aggregate pre-tax losses of $18.4 million assume the NM Supreme Court will issue a decision and that any remanded issues will be addressed by the NMPRC by April 30, 2019. Additional losses will be recorded if the currently estimated time frame for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues is further extended.

PNM continues to believe that the disallowed investments, which are the subject of PNM’s appeal, were prudently incurred and that PNM is entitled to full recovery of those investments through the ratemaking process. If PNM’s appeal is unsuccessful, PNM would record additional pre-tax losses related to any unsuccessful issues. The December 31, 2018 book values of PNM’s investments that the order disallowed, after considering the losses recorded to date, were $73.3 million for the 64.1 MW of purchased

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capacity in PVNGS Unit 2, $38.0 million for the PVNGS Unit 2 disallowed capital improvements, and $50.0 million for the BDT equipment.

PNM does not believe that the likelihood of the cross-appeals being successful is probable. However, if the NM Supreme Court were to overturn all of the issues subject to the cross-appeals and, upon remand, the NMPRC did not provide any cost recovery of those items, PNM would write-off all of the costs to acquire the assets previously leased under three leases aggregating 64.1 MW of PVNGS Unit 2 capacity, totaling $146.1 million (which amount includes $73.3 million that is the subject of PNM's appeal discussed above), after considering the losses recorded through December 31, 2018. The impacts of not recovering costs for the lease extensions, new coal supply contract for Four Corners, and "prepaid pension asset" in rate base would be recognized in future periods reflecting that rates charged to customers would not recover those costs as they are incurred. The outcomes of the cross-appeals regarding the FPPAC and rate design should not have a financial impact to PNM.

New Mexico 2016 Rate Case – On January 16, 2018, the NMPRC issued an order that authorized PNM to implement an increase in base non-fuel rates of $10.3 million. PNM implemented 50% of the approved increase for service rendered, rather than bills sent, beginning February 1, 2018 and implemented the rest of the increase for service rendered beginning January 1, 2019. This order was on PNM's application for a general increase in retail electric rates (the "NM 2016 Rate Case") filed in December 2016. PNM's December 2016 application requested an increase in base non-fuel revenues of $99.2 million based on a FTY beginning January 1, 2018 and did not include a request to recover any of the costs disallowed in the NM 2015 Rate Case that are at issue in PNM's pending appeal to the NM Supreme Court. The primary drivers of the revenue deficiency in PNM's application were:

- Implementation of the modifications in PNM's resource portfolio, which were previously approved by the NMPRC as part of the SJGS regional haze compliance plan (see below and Note 16)
- Infrastructure investments, including environmental upgrades at Four Corners
- Declines in forecasted energy sales due to successful energy efficiency programs and other economic factors
- Updates in the FERC/retail jurisdictional allocations

After NMPRC ordered settlement discussions were held, PNM and thirteen intervenors entered into a comprehensive stipulation in May 2017, which was subsequently revised to address issues raised by the Hearing Examiners in the case. NEE was the sole party opposing the revised stipulation. The terms of the revised stipulation included:

- A revenue increase totaling $62.3 million, with an initial increase of $32.3 million beginning January 1, 2018 and the remaining increase beginning January 1, 2019
- A ROE of 9.575%, compared to the 10.125% requested by PNM
- Full recovery of PNM's investment in SCRs at Four Corners with a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM's rate riders, with an effective date prior to January 1, 2020
- An agreement to adjust the January 2019 increase for certain changes in federal corporate tax laws and to true-up PNM's cost of debt
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM's retail operations
- PNM would perform a cost benefit analysis in its 2020 IRP of the impact of a possible early exit from Four Corners in 2024 and 2028

A public hearing on the revised stipulation was held in August 2017. On October 31, 2017, the Hearing Examiners issued a Certification of Stipulation recommending modifications to the revised stipulation that would identify PNM's decision to continue its participation in Four Corners as imprudent, not allow PNM to collect a debt or equity return on $148.1 million of investments in SCRs and other projects at Four Corners, and to temporarily disallow recovery of $36.8 of PNM's projected capital improvements at SJGS.

Extensive proceedings before the NMPRC were conducted in December 2017 and January 2018 as described in Note 17. Ultimately, the NMPRC's January 16, 2018 order approved the Certification of Stipulation with certain changes, which included allowing PNM to recover its $148.1 million of investments in SCR and other projects at Four Corners with a debt-only return (but maintaining the recommended disallowance of an equity return), deferring further consideration regarding the prudency of PNM's decisions to continue its participation in Four Corners to PNM's next general rate case, requiring the impacts of changes related to the reduction in the federal corporate income tax rate and PNM's cost of debt (aggregating an estimated $47.6 million) be implemented in 2018 rather than January 1, 2019, and requiring PNM to reduce its requested $62.3 million increase in non-fuel revenues by $4.4 million.

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GAAP required PNM to recognize a loss reflecting that it will earn a debt-only return on $148.1 million of investments at Four Corners rather than a full return. Accordingly, PNM recorded a pre-tax regulatory disallowance of $27.9 million as of December 31, 2017.

On February 7, 2018, NEE filed a notice of appeal with the NM Supreme Court asking the court to review the NMPRC's decisions in the NM 2016 Rate Case. Several parties to the case participated in the appeal as intervenor-appellees in support of the NMPRC's final decisions in the case. On November 15, 2018, NEE filed an unopposed motion to withdraw its appeal, which was approved by the NM Supreme Court. This matter is now concluded.

TNMP 2018 Rate Case – On December 20, 2018, the PUCT approved an unopposed settlement stipulation allowing TNMP to increase annual base rates by $10.0 million effective January 1, 2019. TNMP's original application, which was filed with the PUCT on May 30, 2018, (the "TNMP 2018 Rate Case"), requested an annual increase to base rates of $25.9 million based on a ROE of 10.5%, a cost of debt of 7.2%, and a capital structure comprised of 50% debt and 50% equity. TNMP's request included $7.7 million of new rate riders to recover Hurricane Harvey restoration, rate case, and additional vegetation management costs. The application also included a request for increased depreciation rates and the integration of revenues currently recorded under the AMS rider, as well as collection of other unrecovered AMS investments, into base rates. In 2017, TNMP recorded revenues of $21.8 million under the AMS rider. The TNMP 2018 Rate Case application also proposed to return the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers and to reduce its federal corporate income tax rate to 21%. On November 2, 2018, TNMP and other parties to the case filed an unopposed settlement agreement that reduced the requested increase to base rates to $10.0 million based on a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. The approved settlement integrates revenues previously recorded under the AMS rider into base rates, including recovery of other unrecovered AMS costs, adjusts how TNMP will return the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers, grants TNMP's request for updated depreciation rates, and provides for a new rider to recover Hurricane Harvey restoration costs. As discussed below, the new rider for Hurricane Harvey restoration costs will be offset by 2018 tax savings resulting from the reduction in the federal corporate income tax rate and collected from customers over a period of no more than five years beginning on the effective date of new rates. The approved settlement excludes from rate base certain transmission investments that were requested in TNMP's original filing. These transmission investments were subsequently included in TNMP's January 2019 transmission cost of service filing, which is pending before the PUCT.

San Juan Generating Station Unit 1 Outage – On March 17, 2018, a coal silo used to supply fuel to SJGS Unit 1 collapsed resulting in an outage. PNM initiated a review of the cause of the outage and promptly contacted the staff of the NMPRC to inform them of the event. To minimize the operational and financial impacts of this event, PNM accelerated the fall 2018 planned outage on Unit 1 to be performed while the unit was out of service for this event. Repairs necessary to return Unit 1 to service were completed by July 5, 2018. The majority of the damages to the facility related to the coal silo collapse have been reimbursed under an existing property insurance policy that covers SJGS, subject to a deductible of $2.0 million. PNM's cost of repairs subject to the deductible was $1.0 million, reflecting PNM's 50% ownership interest in SJGS Unit 1.
On April 12, 2018, NEE filed a petition (jointly with certain other organizations) requesting that the NMPRC order an investigation into the SJGS Unit 1 event. Pursuant to an NMPRC order, PNM filed a response on May 8, 2018 indicating that it used best practices when inspecting the SJGS coal silos during planned outages, that the damage to SJGS Unit 1 was repairable and could be made in a timely manner, that all but a limited amount of cost of the repairs are reimbursable under an existing insurance policy, and that further proceedings on the matter were unnecessary. On May 31, 2018, NMPRC staff preliminary recommended that the NMPRC not allow PNM to recover any costs associated with the SJGS Unit 1 coal silo repairs, including the cost of preventing similar failures on other SJGS coal silos, and that PNM reimburse customers for the loss of off-system sales during the time SJGS Unit 1 was in outage.

On October 9, 2018, PNM filed a motion with the NMPRC requesting the inquiry docket be closed and stating the NMPRC staff's proposal that PNM be required to absorb all losses related to the event, including the loss of off-system sales, is unwarranted and would result in piecemeal ratemaking. On November 15, 2018, the NMPRC staff filed a response to PNM's motion proposing the investigation be closed provided, among other things, that PNM agree to hold customers harmless for PNM's share of the uninsured costs to repair SJGS for the event. In its response, PNM agreed that it would not seek recovery of the uninsured costs to repair the units. The NMPRC issued a final order to close the docket on December 5, 2018.

Advanced Metering – In September 2011, TNMP began its deployment of advanced meters for homes and businesses across its service area. TNMP completed its mass deployment in 2016 and has installed more than 242,000 advanced meters. As part of the State of Texas' long-term initiative to create an advanced electric grid, installation of advanced meters will ultimately give consumers more data about their energy consumption and help them make more informed decisions. In addition, TNMP completed installation of a new outage management system that will leverage capabilities of the advanced metering infrastructure to enhance TNMP's responsiveness to outages.

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In February 2016, PNM filed an application with the NMPRC requesting approval of a project to replace its existing customer metering equipment with Advanced Metering Infrastructure ("AMI"). In March 2018, the Hearing Examiner issued a recommended decision finding that PNM had not proven a net public benefit in the case and recommending the NMPRC not approve the application. In April 2018, PNM filed a statement on exceptions to the recommended decision indicating, among other things, that PNM disagreed with the finding that the record did not demonstrate a net public benefit to customers, but that PNM would not take exception to a recommendation to not approve the application. On April 11, 2018, the NMPRC adopted an order accepting the recommended decision and disapproving PNM's application. The order also indicated PNM's next energy efficiency plan filing should include a proposal for an AMI pilot project.

Rate Riders and Interim Rate Relief – The PUCT has approved mechanisms that allow TNMP to recover capital invested in transmission and distribution projects without having to file a general rate case. This permits more timely recovery of investments. The PUCT has also approved riders that allow TNMP to recover amounts related to AMS, energy efficiency, third-party transmission costs, and the CTC. As discussed above, the approved settlement agreement in the TNMP 2018 Rate Case authorizes TNMP to integrate revenues historically recorded under the AMS rider into base rates and to establish a new rate rider to collect Hurricane Harvey restoration costs. The new rider will be offset by 2018 savings resulting from the reduction in the federal corporate income tax rate and will be collected over a period of no more than five years. The NMPRC has approved PNM recovering fuel costs through the FPPAC, as well as rate riders for renewable energy and energy efficiency that allow for more timely recovery of investments and improve PNM's ability to earn its authorized return.

Cost Recovery Related to Joining the EIM – In 2018, PNM completed a cost-benefit analysis that indicated PNM's participation in the California Independent System Operator Western Energy Imbalance Market ("EIM") would provide substantial benefits to retail customers. In August 2018, PNM filed an application with the NMPRC requesting, among other things, authorization to recover the cost of initial capital investments and to establish a regulatory asset to recover other expenses that would be incurred in order to join the EIM. PNM's application proposes recovery of the costs incurred to join the EIM would be recovered beginning on the effective date of new rates in PNM's next general rate case and that the benefits of participating in the EIM be credited to retail customers through PNM's existing FPPAC. A public hearing was held on December 12, 2018. On December 19, 2018, the NMPRC issued an order approving the establishment of a regulatory asset to recover PNM's cost of joining the EIM. On January 17, 2019, ABCWUA filed a motion to reopen the case and to reconsider the NMPRC's order approving the establishment of a regulatory asset. On February 6, 2019, the NMPRC issued an order granting rehearing and vacating the December 19, 2018 order. On February 24, 2019, Western Resource Advocates, and the Coalition for Clean and Affordable Energy filed a motion for an expedited final order, which was supported by PNM and other parties and opposed by ABCWUA. On February 27, 2019, the NMPRC issued a procedural order that appoints a hearing examiner and requires the hearing examiner to report to the NMPRC, by March 13, 2019, on whether the matter should be reopened. PNM cannot predict the outcome of this matter.

FERC Regulation

Rates PNM charges wholesale transmission customers and wholesale generation customers are subject to traditional rate regulation by FERC. Rates charged to wholesale electric transmission customers are based on a formula rate mechanism pursuant to which rates for wholesale transmission service are calculated annually in accordance with an approved formula. The formula includes updating cost of service components, including investment in plant and operating expenses, based on information contained in PNM's annual financial report filed with FERC, as well as including projected transmission capital projects to be placed into service in the following year. The projections included are subject to true-up. Certain items, including changes to return on equity and depreciation rates, require a separate filing to be made with FERC before being included in the formula rate.

The low natural gas price environment resulted in market prices for power being substantially lower than what PNM is able to offer wholesale generation customers under the cost of service model that FERC requires PNM to use. Consequently, PNM decided to stop pursuing wholesale generation contracts and currently has no full-requirements wholesale generation customers.

Delivering At or Above Industry-Average Earnings and Dividend Growth

PNMR’s strategic goal to deliver at or above industry-average earnings and dividend growth enables investors to realize the value of their investment in the Company’s business. PNMR’s current target is 5% to 6% earnings and dividend growth for the period 2018 through 2022. PNMR’s earnings and dividend target for the year ending December 2022 includes assumptions about potential capital expenditures that would be incremental to construction expenditures discussed below in Liquidity and Capital Resources - Capital Requirements. Earnings growth is based on ongoing earnings, which is a non-GAAP financial measure that excludes from GAAP earnings certain non-recurring, infrequent, and other items that are not indicative of fundamental changes in the earnings capacity of the Company’s operations. PNMR uses ongoing earnings to evaluate the operations of the Company and to establish goals, including those used for certain aspects of incentive compensation, for management and employees.

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PNMR targets a dividend payout ratio in the 50% to 60% range of its ongoing earnings. PNMR expects to provide at or above industry-average dividend growth in the near-term and to manage the payout ratio to meet its long-term target. The Board will continue to evaluate the dividend on an annual basis, considering sustainability and growth, capital planning, and industry standards. The Board approved the following increases in the indicated annual common stock dividend:

Approval Date	Percent Increase	
December 2015	10	%
December 2016	10	%
December 2017	9	%
December 2018	9	%

Maintaining Solid Investment Grade Credit Ratings

The Company is committed to maintaining solid investment grade credit ratings in order to reduce the cost of debt financing and to help ensure access to credit markets, when required. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. In January 2018, S&P changed the outlook for PNMR, PNM, and TNMP from stable to negative. In June 2018, Moody's changed the outlook for PNMR and PNM from positive to stable and maintained a stable outlook for TNMP.

Business and Strategic Focus

PNMR strives to create enduring value for customers, communities, and shareholders. PNMR's strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power. The Company works closely with customers, stakeholders, legislators, and regulators to ensure that resource plans and infrastructure investments benefit from robust public dialogue and balance the diverse needs of our communities. Equally important is the focus of PNMR's utilities on customer satisfaction and community engagement.

Reliable and Affordable Power
PNMR and its utilities are aware of the important roles they play in enhancing economic vitality in their service territories. Management believes that maintaining strong and modern electric infrastructure is critical to ensuring reliability and supporting economic growth. When contemplating expanding or relocating their operations, businesses consider energy affordability and reliability to be important factors. PNM and TNMP strive to balance service affordability with infrastructure investment to maintain a high level of electric reliability and to deliver a superior customer experience. Investing in PNM's and TNMP's infrastructure is critical to ensuring reliability and meeting future energy needs. Both utilities have long-established records of providing customers with reliable electric service.

Utility Plant and Strategic Investments

Utility Plant Investments – During the 2016 to 2018 period, PNM and TNMP together invested $1,501.7 million in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. PNM completed the 40 MW natural gas-fired La Luz peaking generating station located near Belen, New Mexico in December 2015. PNM also completed installation of SNCR and BDT equipment on SJGS Units 1 and 4 in early 2016 and the addition of 40 MW of PNM-owned solar-PV facilities in 2015. In addition, on January 15, 2016, PNM completed the $163.3 million acquisition of 64.1 MW of capacity in PVNGS Unit 2 that had previously been leased to PNM. During 2018 and 2019, PNM will construct an additional 50 MW of PNM-owned PV facilities, which were approved by the NMPRC in PNM's 2018 renewable energy procurement plan. The 50 MW PV facilities are expected to be in commercial operations by December 2019 at a cost not to exceed $73.0 million. See the subheading Capital Requirements included in the full discussion of Liquidity and Capital Resources below for additional discussion of the Company's projected capital requirements.

Strategic Investments – In 2017, PNMR Development and AEP OnSite Partners created NMRD to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. Abundant renewable resources, large tracts of affordable land, and strong government and community support make New Mexico a favorable location for renewable generation. New Mexico has the 2^{nd} highest technical potential of the 48 contiguous states for utility scale solar photovoltaics as noted in 2015 by the National Renewable Energy Laboratory, while New Mexico is 6^{th} for technical potential for land-based wind. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. Through NMRD, PNMR anticipates being able to provide additional renewable generation solutions to customers within and surrounding its regulated jurisdictions through partnering with a subsidiary of one of the United States' largest electric utilities. The formation of this joint

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venture provides a more efficient use of PNMR’s capital to support new renewable investment opportunities while maintaining the necessary capital to support investments required by regulated jurisdictions. NMRD’s current renewable energy capacity in operation is 33.9 MW, which includes 30 MW of solar-PV facilities required to supply energy to the Facebook data center located within PNM’s service territory, 1.9 MW to supply energy to Columbus Electric Cooperative located in southwest New Mexico, and 2.0 MW to supply energy to the Central New Mexico Electric Cooperative. In August 2018, the NMPRC approved PNM’s request to enter into two additional 25-year PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities to be constructed by NMRD to supply power to Facebook. NMRD is required to obtain FERC approval of the PPAs. Subject to FERC approval, these facilities are expected to be in commercial operation by June 2020. NMRD actively explores opportunities for additional renewable projects, including large-scale projects to serve future data centers and other customer needs.

Integrated Resource Plan

NMPRC rules require that investor-owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period. PNM filed its 2017 IRP on July 3, 2017. Under the NMPRC’s order concerning SJGS’ compliance with the BART requirements of the CAA discussed in Note 16, PNM was required to make a filing in 2018 to determine the extent to which SJGS should continue serving PNM’s retail customers’ needs after June 30, 2022. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP include:

- Retiring PNM’s share of SJGS in 2022 after the expiration of the current operating and coal supply agreements would provide long-term cost savings for PNM’s customers
- PNM exiting its ownership interest in Four Corners after its current coal supply agreement expires in 2031 would also provide long-term cost savings for customers
- The best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity; the mix could include energy storage if the economics support it and wind energy provided additional transmission capacity becomes available
- Significant increases in future wind energy supplies will likely require new transmission capacity to be built from eastern New Mexico to PNM’s service territory
- PNM should retain the currently leased capacity in PVNGS, which would avoid replacement with carbon-emitting generation
- PNM should continue to develop and implement energy efficiency and demand management programs
- PNM should assess the costs and benefits of participating in the California Independent System Operator Western Energy Imbalance Market
- PNM should analyze its current Reeves Station to consider possible technology improvements to phase out the older generators and replace them with new, more flexible supplies or energy storage

On October 26, 2018, the Hearing Examiner issued a recommended decision recommending that the NMPRC accept PNM’s 2017 IRP as compliant with the applicable statute and NMPRC rules. On December 19, 2018, the NMPRC issued a final order accepting the Hearing Examiner’s recommended decision. On January 18, 2019, The Board of the County of Commissioners for San Juan County, New Mexico, the City of Farmington, New Mexico, and other parties filed a Notice of Appeal with the NM Supreme Court regarding the NMPRC’s final order in PNM’s 2017 IRP. Statements of Issues in the appeal must be filed by March 9, 2019. On January 18, 2019, NEE submitted a motion requesting the NMPRC reconsider its acceptance of PNM’s 2017 IRP filing alleging informational inadequacy and deficiencies in PNM’s filing. On January 29, 2019, PNM submitted a filing to the NMPRC in response to NEE’s motion for reconsideration. In its response, PNM stated that the issues raised by NEE had already been considered and rejected by the NMPRC in its December 19, 2018 final order and that the NMPRC lacks jurisdiction over the matters because the NMPRC's final order has been appealed to the NM Supreme Court. The NMPRC did not take action on NEE's motion for reconsideration. On February 19, 2019, NEE filed a motion with the NM Supreme Court to intervene in the appeal and to seek remand of the matter to the NMPRC. PNM plans to file a response to NEE's motion by March 6, 2019. PNM cannot predict the outcome of this matter.

See additional discussion of PNM's December 2018 Compliance Filing regarding SJGS below and in Notes 16 and 17.

Environmentally Responsible Power

PNMR has a long-standing record of environmental stewardship. PNM's environmental focus is in three key areas:

- Developing strategies to provide reliable and affordable power while transforming PNM's generation resources to a cleaner energy portfolio by reducing CO_2 emissions

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- Preparing PNM's system to meet New Mexico's increasing renewable energy resources as cost-effectively as possible
- Increasing energy efficiency participation

PNMR's Sustainability Portal provides key environmental and sustainability information related to PNM's and TNMP's operations and is available at http://www.pnmresources.com/about-us/sustainability-portal.aspx. The portal also contains a Climate Change Report, which outlines plans to be coal-free by 2031 (subject to regulatory approval). This would enable PNM to achieve its goal of 70% of its electricity generation being carbon-free by 2032 and to reduce GHG by 87% in 2040 when compared to 2005 baseline levels.

SJGS

Regional Haze Rule Compliance Plan – In December 2015, PNM received NMPRC approval for the plan to comply with the EPA regional haze rule at SJGS that minimizes the cost impact to customers while still achieving broad environmental benefits. Under the approved plan, the installation of SNCRs on SJGS Units 1 and 4 was completed in early 2016 and Units 2 and 3 were retired in December 2017. The plan provides for similar visibility improvements, but at a lower cost to PNM customers than a previous EPA ruling that would have required the installation of more expensive SCRs on all four units at SJGS. The plan has the added advantage of reducing other emissions in addition to NOx, including SO_2, particulate matter, CO_2, and mercury, as well as significantly reducing water usage. Additional information is contained in Note 16.

The December 2015 order also provided, among other things, that:

- PNM was granted a CCN to acquire an additional 132 MW in SJGS Unit 4 as a jurisdictional resource to serve New Mexico customers effective January 1, 2018; PNM is prohibited from seeking recovery of any undepreciated investment in the 132 MW interest in the event SJGS Unit 4 is abandoned
- PNM was granted a CCN for 134 MW of PVNGS Unit 3 as a jurisdictional resource to serve New Mexico customers beginning January 1, 2018
- PNM was authorized to acquire 65 MW of SJGS Unit 4 as merchant utility plant
- PNM was required to make a filing with the NMPRC no later than December 31, 2018 to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022. PNM's filing was required to be made before PNM entered into a binding commitment to extend the SJGS CSA beyond its scheduled June 30, 2022 expiration date but after PNM had received firm pricing and other terms for the extended supply of coal to SJGS, unless PNM does not propose to pursue an extended SJGS CSA. See additional discussion in Note 16 and below under December 2018 Compliance Filing.

NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's December 2015 order. On March 5, 2018, the NM Supreme Court issued its opinion affirming the NMPRC's December 2015 order, thereby denying NEE's appeal. This matter is now concluded.

December 2018 Compliance Filing – The NMPRC's December 16, 2015 order required that PNM make a filing setting forth PNM's recommendation, along with supporting testimony and exhibits, to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022 (the "December 2018 Compliance Filing"). The December 2018 Compliance Filing was required to be made before PNM entered into a binding commitment for post-2022 coal supply, but after PNM had received firm pricing and other terms for the supply of coal, unless PNM did not intend to pursue an agreement for post-2022 coal supply at SJGS. The NMPRC's December 16, 2015 order also indicated that PNM's 65 MW interest in SJGS Unit 4 is excluded from being used as a resource to serve PNM's retail customers and that PNM is prohibited from recovering any undepreciated investment of its 132 MW jurisdictional interest in the event SJGS Unit 4 is abandoned. PNM is currently depreciating all its investments in

SJGS through 2053, the expected life of SJGS approved by the NMPRC.

PNM submitted the December 2018 Compliance Filing to the NMPRC on December 31, 2018 indicating that, consistent with the conclusions reached in PNM’s 2017 IRP, PNM’s customers would benefit from the retirement of PNM’s share of SJGS (subject to future NMPRC approval) after the current SGJS CSA expires in mid-2022. The December 2018 Compliance Filing also indicates that all of the SJGS owners except for Farmington have provided written notice that they do not intend to extend the SJGS operating agreements beyond their June 30, 2022 expiration dates and that PNM has provided written notice to SJCC that PNM does not intend to extend the SJGS CSA beyond June 30, 2022. The December 2018 Compliance Filing also requested the NMPRC’s December 16, 2015 order remain closed, and that PNM anticipates it will have sufficient information by the end of the second quarter of 2019 to support a consolidated application seeking NMPRC approval to retire PNM’s share of SJGS in 2022 and for approval of CCNs, PPAs, or other applicable approvals, for resources to replace PNM’s capacity in SJGS. On January 30, 2019, the NMPRC approved an order initiating a proceeding and requiring PNM to submit an application for the abandonment of PNM’s share of SJGS in 2022 by March 1, 2019. On February 7, 2019, PNM filed a motion requesting the NMPRC vacate the

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January 30, 2019 order and extend the deadline for PNM's abandonment filing until the end of the second quarter of 2019, which was deemed denied. On February 27, 2019, PNM filed a petition with the NM Supreme Court stating that the requirements of the January 30, 2019 order exceed the NMPRC's authority by, among other things, mandating PNM to make a filing that is legally voluntary, and that the order is contrary to NMPRC precedent which requires abandonment applications to also include identified replacement resources and other information that will not be available to PNM by March 1, 2019. PNM's petition also requested the NM Supreme Court stay the January 30, 2019 order until after June 14, 2019. On March 1, 2019, the NM Supreme Court granted a temporary stay of the NMPRC's order and will consider the merits of PNM's petition after receiving responses, which are due by March 19, 2019. PNM cannot predict the outcome of this matter.

GAAP requires PNM to periodically test the recoverability of its investments, including investments in the SJGS. In accordance with GAAP, PNM tested its investments in SJGS for recoverability as of December 31, 2018 and determined that PNM's 132 MW jurisdictional and 65 MW merchant interests are impaired. At December 31, 2018, PNM recorded a pre-tax loss for amounts that cannot be recovered from customers of approximately $35.0 million for PNM's 132 MW jurisdictional and 65 MW merchant interests in SJGS Unit 4, which are reflected as regulatory disallowances and restructuring costs on the Consolidated Statements of Earnings. PNM also was required to remeasure its liability for coal mine reclamation for the mine that serves SJGS to reflect that reclamation activities may occur sooner than previously anticipated. This remeasurement increased PNM's liability for coal mine reclamation as of December 31, 2018 by $39.2 million, resulting in a pre-tax loss of $29.8 million for amounts that cannot be recovered from customers. See additional discussions of PNM's December 2018 Compliance Filing and the increase in PNM's estimated liability for coal mine reclamation in Note 16.

The December 2018 Compliance Filing and the 2017 IRP are not final determinations of PNM's future generation portfolio. Retiring PNM's share of SJGS would require future NMPRC approval. PNM will also be required to obtain NMPRC approval of replacement power resources through CCN, PPA, or other applicable filings. The financial impact of an early retirement of SJGS and the NMPRC approval process are influenced by many factors outside of PNM's control, including the economic impact of a potential SJGS abandonment on the area surrounding the plant and related mine, as well as overall political and economic conditions in New Mexico. PNM will seek full recovery of its remaining undepreciated investments and other costs necessary to retire the SJGS and for replacement resources but, due to the uncertainty in obtaining the required approvals, PNM is unable to predict the outcome of this matter.

SJGS Ownership Restructuring and Other Matters – In connection with the plan to comply with EPA regional haze rules at SJGS, some of the SJGS participants expressed a desire to exit their ownership in the plant. As a result, the SJGS participants negotiated a restructuring of the ownership in SJGS and addressed the obligations of the exiting participants for plant decommissioning, mine reclamation, environmental matters, and certain future operating costs, among other items. The San Juan Project Restructuring Agreement ("SJGS RA") sets forth the agreement among the SJGS owners regarding ownership restructuring and addresses other related matters, including that the exiting participants remain obligated for their proportionate shares of environmental, mine reclamation, and certain other legacy liabilities that are attributable to activities that occurred prior to their exit. The SJGS RA became effective contemporaneously with the effectiveness of the new SJGS CSA on January 31, 2016. See Note 16.

Other Environmental Matters – In addition to the regional haze rule, SJGS is required to comply with other rules currently being developed or implemented that affect coal-fired generating units, including rules regarding GHG under Section 111(d) of the CAA. Implementation of the Clean Power Plan, which was published by EPA in October 2015, is currently stayed by order of the US Supreme Court pending further proceedings before the DC Circuit. Oral argument was heard by the DC Circuit in September 2016, but the court has taken no action. On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order sets out two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order rescinds various actions undertaken by the previous administration and directs the EPA Administrator to review and if appropriate suspend, revise, or rescind the Clean Power Plan, as well as other environmental regulations. On October 10, 2017, EPA issued a proposal to repeal the Clean Power Plan based on a legal interpretation of the CAA under which the Clean Power Plan exceeds EPA's statutory authority. EPA published the proposed repeal rule on October 16, 2017 and accepted public comments through April 26, 2018. On August 31, 2018, EPA published a proposed rule, informally known as the Affordable Clean Energy rule, to replace the Clean Power Plan. The Affordable Clean Energy rule proposes GHG reductions be achieved through heat-rate improvement technologies identified as Best System of Emission Reduction ("BSER"). Under the proposed rule, states would determine and propose to EPA which technologies to apply to each coal-fired EGU and establish performance standards based on the degree of emission reduction achievable through application of the selected BSER (Note 16). Also, on December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the carbon pollution standards rule issued in October 2015 for certain fossil fueled power plants. The proposal would revise the emissions standards for new, reconstructed, or modified coal-fired EGUs to make them less stringent. PNM estimates that implementation of the BART plan at SJGS, along with potentially exiting ownership in the remaining units at SJGS (as well as Four Corners), as discussed above, should provide significant steps for New Mexico to

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meet its ultimate compliance with Section 111(d) under the Clean Power Plan, the proposed Affordable Clean Energy rule, or any similar rule. PNM does not expect SJGS or Four Corners will be subject to the carbon pollution standards rule that EPA has proposed to revise. PNM is unable to predict the impact of these matters on its generation portfolio.

Because of environmental upgrades completed in 2009, SJGS has a mercury removal efficiency of 98% and mercury emissions are well below the mercury limit imposed by EPA in the 2011 Mercury and Air Toxics Standards. Although EPA published a proposal on February 7, 2019 to reconsider some of the determinations underlying those standards, the proposal is not expected to alter the standards themselves, and therefore, should not impact SJGS. Major environmental upgrades on each of the units at SJGS have significantly reduced emissions of NOx, SO_2, particulate matter, and mercury. Between 2006 and 2017, SJGS has reduced emissions of NOx by 41%, SO_2 by 70%, particulate matter by 61%, and mercury by 98%.

Renewable Energy

PNM's renewable procurement strategy includes utility-owned solar capacity, as well as wind and geothermal energy purchased under PPAs. As discussed above, PNM is also considering the use of additional energy storage capacity in the event of an early retirement of SJGS. As of December 31, 2017, PNM had 107 MW of utility-owned solar capacity. In addition, PNM purchases power from a customer-owned distributed solar generation program that had an installed capacity of 100.6 MW at December 31, 2018. PNM also owns the 500 KW PNM Prosperity Energy Storage Project, which uses advanced batteries to store solar power and dispatch the energy either during high-use periods or when solar production is limited. The project was one of the first combinations of battery storage and PV energy in the nation and involved extensive research and development of advanced grid concepts. The facility also was the nation's first solar storage facility fully integrated into a utility's power grid. Since 2003, PNM has purchased the output from New Mexico Wind, a 204 MW wind facility, and began purchasing the output of Red Mesa Wind, an existing 102 MW wind energy center, on January 1, 2015. PNM has a 20-year agreement to purchase energy from the Lightning Dock Geothermal facility built near Lordsburg, New Mexico, which has a current capacity of 15 MW. PNM also purchases RECs as necessary to meet the RPS.

The majority of these renewable resources are key means for PNM to meet the RPS and related regulations that require PNM to achieve prescribed levels of energy sales from renewable sources, if that can be accomplished without exceeding the RCT limit set by the NMPRC. PNM makes renewable procurements consistent with the plans approved by the NMPRC. PNM's 2017 renewable energy procurement plan meets RPS and diversity requirements for 2017 and 2018 using existing resources and does not propose any significant new procurements. The NMPRC approved the plan on November 23, 2016. On June 1, 2017, PNM filed its 2018 renewable energy procurement plan, which requested approval to procure an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; approval to procure an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; approval to procure 50 MW of new solar facilities to be constructed beginning in 2018; continuation of customer REC purchase programs; and other purchases of RECs to ensure annual compliance with the RPS. On November 15, 2017, the NMPRC issued an order approving PNM's plan. NMIEC filed an appeal with the NM Supreme Court objecting to the fuel allocation methodology. NEE filed a motion to intervene and cross-appeal objecting to the approval of the 50 MW of new solar facilities indicating, among other things, that PNM's RFP process favored ownership of the 50 MW facilities compared to PPAs. PNM and other parties have been granted approval to intervene in the case. On February 27, 2018, the court issued an order denying a motion by NMIEC for a partial stay. PNM and the NMPRC each filed Answer Briefs to the NM Supreme Court on September 4, 2018 stating, among other things, that there is substantial evidence in the case record to support the NMPRC's decision, and that PNM's RFP process was reasonable, complied with RPS requirements, and consistent with industry standards. NEE's Reply Brief was filed on October 15, 2018. On June 1, 2018, PNM filed its 2019 renewable energy procurement plan which meets RPS and diversity requirements for 2019 and 2020 using resources already approved by the NMPRC and does not propose any significant new procurements. Hearings on PNM's 2019 renewable energy procurement plan were held in September and October 2018. On October 29, 2018, PNM and NMPRC staff filed a joint proposed recommended decision requesting the NMPRC accept PNM's 2019 renewable energy procurement plan provided PNM agree to certain requirements. On November 28, 2018, the NMPRC approved the joint proposed recommended decision. See Note 17.

As discussed in Strategic Investments above, PNM is currently purchasing the output of 30 MW of solar capacity from NMRD that is used to serve the Facebook data center. In late 2017, PNM entered into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply additional renewable power to the Facebook data center. These PPAs include the purchase of the power and RECs from a 50 MW wind project, which was placed in commercial operation in November 2018, a 166 MW wind project to be operational in November 2020, and a 50 MW solar project to be operational in December 2021. The NMPRC approved these PPAs on March 21, 2018. In August 2018, the NMPRC approved PNM's request to enter into two additional 25-year PPAs to purchase renewable energy and RECs from an aggregate of approximately 100 MW of capacity from two solar-PV facilities to be constructed by NMRD to supply power to Facebook. NMRD is required to obtain FERC approval of the PPAs. Subject to FERC approval, these facilities are expected to begin commercial operation by June 2020 (Note 17).

PNM will continue to procure renewable resources while balancing the impact to customers' electricity costs in order to meet New Mexico's escalating RPS requirements.

Energy Efficiency

Energy efficiency plays a significant role in helping to keep customers' electricity costs low while meeting their energy needs and is one of the Company's approaches to supporting environmentally responsible power. PNM's and TNMP's energy efficiency and load management portfolios continue to achieve robust results. In 2018, incremental energy saved as a result of new participation in PNM's portfolio of energy efficiency programs was approximately 72 GWh. This is equivalent to the annual consumption of approximately 10,300 homes in PNM's service territory. PNM's load management and annual energy efficiency programs also help lower peak demand requirements. In 2018, TNMP's incremental energy saved as a result of new participation in TNMP's energy efficiency programs was approximately 17 GWh. This is equivalent to the annual consumption of approximately 1,500 homes in TNMP's service territory. In April 2018, TNMP received the "Partner of the Year Energy Efficiency Delivery Award" for its High-Performance Homes Program.

Water Conservation and Solid Waste Reduction

PNM continues its efforts to reduce the amount of fresh water used to make electricity (about 20% more efficient than in 2007). Continued growth in PNM's fleet of solar and wind energy sources, energy efficiency programs, and innovative uses of gray water and air-cooling technology have contributed to this reduction. Water usage has continued to decline as PNM has substituted less fresh-water-intensive generation resources to replace SJGS Units 2 and 3 starting in 2018, as water consumption at that plant has been reduced by approximately 50%. Focusing on responsible stewardship of New Mexico's scarce water resources improves PNM's water-resilience in the face of persistent drought and ever-increasing demands for water to spur the growth of New Mexico's economy.

In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. In 2018, 19 of the Company's 23 facilities met the solid waste diversion goal of a 65% diversion rate. The Company expects to continue to do well in this area in the future.

Customer, Stakeholder, and Community Engagement

The Company strives to deliver a superior customer experience. Through outreach, collaboration, and various community-oriented programs, the Company has a demonstrated commitment to building productive relationships with stakeholders, including customers, community partners, regulators, intervenors, legislators, and shareholders. PNM continues to focus its efforts to enhance the customer experience through customer service improvements, including customer service options, strategic customer engagement, and improved communications. These efforts are supported by market research to understand the varying needs of customers, identifying and establishing valued services and programs, and proactively communicating and engaging with customers.

The Company has leveraged a number of communications channels and strategic content to better serve and engage its many stakeholders. PNM's website, www.pnm.com, provides the details of major regulatory filings, including general rate requests, as well as the background on PNM's efforts to maintain reliability, keep prices affordable, and protect the environment. The Company's website is also a resource for information about PNM's operations and community outreach efforts, including plans for building a sustainable energy future for New Mexico. PNM has also leveraged social media in communications with customers on various topics such as education, outage alerts, safety, customer service, and PNM's community partnerships in philanthropic projects. In May 2017, a chat function was added to PNM's website to provide customers options when communicating with customer service representatives and an online management system was launched to expedite applications for solar interconnections. In 2018, a program was implemented to increase communication and collaboration with large commercial and industrial customers.

PNMR also has a dedicated Sustainability Portal on its corporate website www.pnmresources.com to provide additional information regarding the Company's environmental and other sustainability efforts. The site provides the key corporate governance and sustainability information related to the operations of PNM and TNMP. In January 2018, PNM added a Climate Change Report to this portal. The portal also includes information presented under the additional headings: Environment, Generation Portfolio, Social, Economic, and Governance.

With reliability being the primary role of a transmission and distribution service provider in Texas' deregulated market, TNMP continues to focus on keeping end-users updated about interruptions and to encourage consumer preparation when severe weather is forecasted. In August 2017, Hurricane Harvey made landfall in the gulf coast region and TNMP employees worked to restore power safely and efficiently for affected customers. In addition, PNMR made donations to support relief and restoration efforts in the gulf coast region. TNMP employees who were impacted by Hurricane Harvey were provided emergency crisis funds supported by the PNM Resources Foundation and other employee donations.

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Local relationships and one-on-one communications remain two of the most valuable ways both PNM and TNMP connect with their stakeholders. Both companies maintain long-standing relationships with governmental representatives and key electricity consumers to ensure that these stakeholders are updated on company investments and initiatives. Key electricity consumers also have dedicated Company contacts that support their important service needs.

PNMR has a long tradition of supporting the communities it serves in New Mexico and Texas. The Company demonstrates its core value of caring through the PNM Resources Foundation, corporate giving, employee volunteerism, and PNM's low-income assistance programs. In addition to the extensive engagement both PNM and TNMP have with nonprofit organizations in their communities, the PNM Resources Foundation provides more than $1 million in grant funding each year across New Mexico and Texas. These grants help nonprofits innovate or sustain programs to grow and develop business, help create community spaces for public use, and provide educational opportunities supporting economic development. PNMR also provides employee matching and volunteer grants for various purposes. In early 2018, the PNM Resources Foundation awarded five grants of $0.2 million each, to be paid over two years, to a number of not-for-profit organizations to support their efforts in areas such as assisting businesses, supporting education, and other economic development efforts. Recipients included the New Mexico State University College of Engineering, to support education for professional surveyors, Central New Mexico Community College, and other local economic organizations to support workforce and small business education programs. In December 2018, PNM announced an additional $0.5 million in donations to the PNM Resources Foundation to support future economic development and educational programs in New Mexico.

Over the past six years, the Company has contributed a total of more than $7.0 million to civic, educational, environmental, low income, and economic development organizations. PNMR is proud to support programs and organizations that enrich the quality of life for the people in its service territories and communities. One of PNM's most important outreach programs is tailored for low-income customers. In 2018, PNM hosted 50 community events throughout its service territory to connect low-income customers with nonprofit community service providers offering support and help with such needs as water and gas utility bills, food, clothing, medical programs, and services for seniors. Additionally, through its Good Neighbor Fund, PNM provided $0.5 million of assistance with electric bills to 3,811 families in 2018 and offered financial literacy training to further support customers.

Volunteerism is an important facet of the PNMR culture. The mission of the PNMR Corporate Volunteer Group is to help make the communities in which PNMR serves safer, stronger, smarter, and more vibrant. In 2018, PNM and TNMP employees and retirees contributed approximately 11,500 volunteer hours serving their local communities. Company volunteers also actively participate on nonprofit boards, in educational, economic, and environmental forums, as well as safety seminars. PNMR employees are, in large part, responsible for the success of the Company's customer, stakeholder, and community outreach.

Economic Factors

PNM – In 2018 and 2017, PNM experienced an increase in weather-normalized retail load of 0.6% and a decrease 0.9%. Economic conditions in Albuquerque have shown improvement in recent months. Employment growth in the Albuquerque metro area outpaced the national average during the second half of 2018. In 2018, Netflix, Inc., announced plans to make significant investments in production in New Mexico, and activities related to a data center by Facebook, Inc., are continuing to progress. There also have been some expansions of existing businesses, particularly in healthcare, education, lending, and professional services.

TNMP – In 2018 and 2017, TNMP experienced increases in volumetric weather normalized retail load of 3.2% and 1.2%. Most of TNMP's industrial and larger commercial customers are billed based on their peak demand.

Demand-based load, excluding retail transmission customers, increased 6.8% and 4.0% in 2018 and 2017. The Texas economy continues to grow, primarily due to its diverse base, and TNMP is seeing continued requests to interconnect to its system. The relocation of some national and global corporate headquarters to the Dallas-Fort Worth area has led to growth in commercial customers and also contributes to growth in residential and small business customers.

Results of Operations

Net earnings attributable to PNMR were $85.6 million, or $1.07 per diluted share in the year ended December 31, 2018 compared to $79.9 million, or $1.00 per diluted share in 2017. Among other things, earnings in 2018 benefited from additional revenues due to the rate increase approved in the NM 2016 Rate Case at PNM, higher revenues under FERC formula transmission rates and new transmission customers at PNM, lower interest expense at PNM, rate increases and increased load at PNM and TNMP, warmer weather at PNM and TNMP in the summer of 2018 and colder weather at TNMP in early 2018, and reduced income tax expense due to the reduced federal corporate income tax rate and the amortization of excess deferred income taxes ordered by the NMPRC. These increases were offset by increases in regulatory disallowances and restructuring costs at PNM related to adjustments to the estimated coal mine reclamation obligation for the mine that serves SJGS and for the impairment of certain

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investments in SJGS Unit 4 (offset by regulatory disallowances recorded in 2017 related to the NM 2016 Rate Case), reduced revenues at PNM due to power from PVNGS Unit 3 not being sold into the wholesale market, higher plant maintenance costs at PNM, increased operating expense due to the additional 197 MW of ownership in SJGS Unit 4 (offset by reduced expenses from the shutdown of SJGS Units 2 and 3), increased depreciation and property taxes due to increased plant in service at PNM and TNMP, losses on investment securities in 2018 at PNM, and higher interest expense and lower interest income on the Westmoreland Loan at PNMR. Additional information on factors impacting results of operation for each segment is discussed below under Results of Operations.

Liquidity and Capital Resources

PNMR and PNM have revolving credit facilities that currently expire in October 2023. In July 2018, the PNMR Revolving Credit Facility was amended to provide for two one-year extension options, subject to approval by a majority of the lenders. In October 2018, the PNM Revolving Credit Facility was amended to add two one-year extension options, subject to approval by a majority of the lenders. As a result, PNMR and PNM have the opportunity to extend the facilities through October 2024. The PNMR and PNM facilities have capacities of $300.0 million and $400.0 million through October 2020 and $290.0 million and $360.0 million beginning November 2020. Both facilities provide for short-term borrowings and letters of credit. In addition, PNM has a $40.0 million revolving credit facility, which expires in December 2022, with banks having a significant presence in New Mexico and TNMP has a $75.0 million revolving credit facility, which expires in September 2022. Total availability for PNMR on a consolidated basis was $729.0 million at February 22, 2019. On February 26, 2018, PNMR Development entered into a $24.5 million revolving credit facility that was scheduled to expire on February 25, 2019. On February 22, 2019, PNMR Development amended the revolving credit facility to increase the capacity to $25.0 million and to expire on February 24, 2020. The PNMR Development Revolving Credit Facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development’s obligations under the PNMR Development Revolving Credit Facility. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational expenditures. PNMR also has intercompany loan agreements with each of its subsidiaries.

PNMR projects that its consolidated capital requirements, consisting of construction expenditures, capital contributions for PNMR Development’s 50% ownership interest in NMRD, and dividends, will total $3,236.7 million for 2019-2023. The construction expenditures include estimated amounts for environmental upgrades at Four Corners, 50 MW of new solar facilities included in PNM’s 2018 renewable energy procurement plan, and an anticipated expansion of PNM’s transmission system.

In July 2017, PNM entered into the PNM 2017 Senior Unsecured Note Agreement, under which $350.0 million of the PNM 2018 SUNs were issued in May 2018 and the remaining $100.0 million were issued in July 2018. The proceeds from these issuances were used to repay $450.0 million of SUNs on their maturity dates. On January 18, 2019, PNM entered into the $250.0 million PNM 2019 Term Loan, which bears interest at a variable rate and must be repaid on or before July 17, 2020. A portion of the proceeds from this issuance were used to repay the PNM 2017 Term Loan and short-term borrowings under the PNM Revolving Credit Facility. In March 2018, PNMR issued $300.0 million of 3.25% PNMR 2018 SUNs, which mature on March 9, 2021. Proceeds from the issuance of the PNMR 2018 SUNs were used to repay a $150.0 million term loan and borrowings under the PNMR Revolving Credit Facility. On November 26, 2018, PNMR Development entered into the $90.0 million PNMR Development Term Loan, which bears interest at a variable rate and matures on November 26, 2020. Proceeds from the PNMR Development Term Loan were used to repay short-term borrowings under the PNMR Development’s revolving credit facility and to repay borrowings under its intercompany loan from PNMR. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development’s obligations under the loan. On December 14, 2018, PNMR entered into the $150.0 million PNMR 2018 One-Year Term Loan, which bears interest at a variable rate and matures on December 13, 2019. A portion of the proceeds from the PNMR 2018 One-Year Term Loan were used to repay the PNMR 2016 One-Year Term Loan (as extended) and a portion of the PNMR 2016 Two-Year Term Loan. On December 21, 2018, PNMR entered into the $50.0 million PNMR 2018 Two-Year Term Loan, which bears interest at a variable rate and matures on December 21, 2020. A portion of the proceeds from the PNMR 2018 Two-Year Term Loan were used to repay the remaining amount owned under the PNMR 2016 Two-Year Term Loan. On June 28, 2018, TNMP issued $60.0 million of first mortgage bonds which will mature on June 28, 2028 and used the proceeds to reduce borrowings under the TNMP Revolving Credit Facility. On July 25, 2018, TNMP entered into the $20.0 million TNMP 2018 Term Loan that is due on July 25, 2020 and used the proceeds to reduce short-term borrowings and for general corporate purposes. On December 17, 2018, the TNMP 2018 Term Loan was amended and restated to provide additional funding of $15.0 million, which results in a total committed amount of $35.0 million under the agreement. On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement which provides for the sale of $305.0 million aggregate principal amount of TNMP first mortgage bonds (the “TNMP 2019 Bonds”). Under the TNMP 2019 Bond Purchase Agreement, TNMP has agreed to issue $225.0 million of TNMP 2019 Bonds on March 29, 2019 (at fixed annual interest rates ranging from 3.79% to 4.06% for terms ranging from 15 to 25 years) and $80.0 million of TNMP 2019 Bonds on or before July 1, 2019 (at a fixed annual interest rate of 3.60% for a term of ten years).

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After considering the effects of these financings, PNMR has consolidated maturities and other repayments of short-term and long-term debt aggregating $150.0 million in the period from January 1, 2019 through December 31, 2019. In addition to internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing in the form of debt refinancing, new debt issuances, and/or new equity in order to fund its capital requirements during the 2019-2023 period. The Company currently believes that its internal cash generation, existing credit arrangements, and access to public and private capital markets will provide sufficient resources to meet the Company's capital requirements for at least the next twelve months. The Company is in compliance with its debt covenants.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto. Trends and contingencies of a material nature are discussed to the extent known. Also, refer to Disclosure Regarding Forward Looking Statements in Part I, Item 1 and to Risk Factors in Part I, Item 1A.

A summary of net earnings attributable to PNMR is as follows:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
	(In millions, except per share amounts)				
Net earnings attributable to PNMR	$85.6	$79.9	$116.8	$5.8	$ (37.0)
Average diluted common and common equivalent shares	80.0	80.1	80.1	(0.1)	—
Net earnings attributable to PNMR per diluted share	$1.07	$1.00	$1.46	$0.07	$ (0.46)

The components of the changes in net earnings attributable to PNMR by segment are:

	Change	
	2018/2017	2017/2016
	(In millions)	
PNM	$(17.2)	$ (5.0)
TNMP	16.0	(6.1)
Corporate and Other	7.0	(25.9)
Net change	$5.8	$ (37.0)

Information regarding the factors impacting PNMR's operating results by segment are set forth below.

Segment Information

The following discussion is based on the segment methodology that PNMR's management uses for making operating decisions and assessing performance of its various business activities. See Note 2 for more information on PNMR's operating segments.

PNM

PNM defines utility margin as electric operating revenues less cost of energy, which consists primarily of fuel and purchase power costs. PNM believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all fuel and purchase power costs are offset in revenues as those costs are passed through to customers under PNM's FPPAC. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

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The following table summarizes the operating results for PNM:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
	(In millions)				
Electric operating revenues	$1,092.0	$1,104.2	$1,035.9	$(12.2)	$ 68.3
Cost of energy	314.0	321.7	299.7	(7.7)	22.0
Utility margin	777.9	782.6	736.2	(4.7)	46.4
Operating expenses	481.0	414.5	407.9	66.5	6.6
Depreciation and amortization	151.9	147.0	133.4	4.9	13.6
Operating income	145.0	221.1	194.8	(76.1)	26.3
Other income (deductions)	(4.2)	30.6	25.5	(34.8)	5.1
Interest charges	(76.5)	(82.7)	(87.5)	6.2	4.8
Segment earnings (loss) before income taxes	64.4	169.0	132.9	(104.6)	36.1
Income (taxes) benefit	6.0	(81.6)	(40.9)	87.6	(40.7)
Valencia non-controlling interest	(15.1)	(15.0)	(14.5)	(0.1)	(0.5)
Preferred stock dividend requirements	(0.5)	(0.5)	(0.5)	—	—
Segment earnings (loss)	$54.7	$71.9	$76.9	$(17.2)	$ (5.0)

The following table shows GWh sales, including the impacts of weather, by customer class and average number of customers:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
	(Gigawatt hours, except customers)				
Residential	3,250.6	3,136.1	3,189.5	114.5	(53.4)
Commercial	3,814.7	3,774.4	3,831.3	40.3	(56.9)
Industrial	879.3	850.9	875.1	28.4	(24.2)
Public authority	241.2	250.5	249.9	(9.3)	0.6
Economy service [(1)]	667.3	722.5	805.7	(55.2)	(83.2)
Firm-requirements wholesale [(2)]	—	87.6	429.3	(87.6)	(341.7)
Other sales for resale [(3)]	2,525.2	3,632.1	2,899.3	(1,106.9)	732.8
	11,378.3	12,454.1	12,280.2	(1,075.8)	174.0
Average retail customer (thousands)	526.3	522.0	518.6	4.3	3.4

(1) PNM purchases energy for a large customer on the customer's behalf and delivers the energy to the customer's location through PNM's transmission system. PNM charges the customer for the cost of the energy as a direct pass through to the customer with only a minor impact in utility margin resulting from providing ancillary services.

(2) Decrease in 2018 and 2017 reflects the loss of NEC as a wholesale generation customer.

(3) Decrease in 2018 reflects that PVNGS Unit 3 is included as a New Mexico jurisdictional resource beginning January 1, 2018 rather than as a merchant plant in 2017, partially offset by sales from PNM's 65 MW merchant interest in SJGS Unit 4 (Note 16).

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Operating Results – 2018 Compared to 2017

The following table summarizes the significant changes to utility margin:

Utility margin:	Year Ended December 31, 2018 Change (In millions)
Rate relief – Additional revenue due to rate increase approved by the NMPRC effective February 1, 2018 (Note 17)	$ 4.7
Customer usage/load – Weather normalized retail KWh sales increased 0.6%, due to increased sales to residential, commercial, and industrial customers	3.9
Weather – Warmer weather in 2018; cooling degree days were 13.4% higher and heating degree days were 32.4% higher	11.1
Transmission – The addition of new customers and higher revenues under formula transmission rates	9.5
Wholesale contracts – Loss of NEC as a wholesale generation customer (Note 17)	(2.3)
Unregulated margin – Primarily related to loss of PVNGS Unit 3 wholesale power sales	(26.9)
PVNGS Unit 3 third party transmission costs – Transmission of power to serve New Mexico retail customers	(6.9)
Net unrealized economic hedges – Primarily related to 2017 hedges of PVNGS Unit 3 power sales and sales to NEC	2.9
Other	(0.7)
Net Change	$ (4.7)

The following tables summarize the primary drivers for operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Year Ended December 31, 2018 Change (In millions)
Higher plant maintenance and other costs primarily at SJGS, Four Corners and PVNGS	$ 17.1
Increased costs associated with additional 132 MW of SJGS Unit 4 and accelerated recovery of SNCRs on SJGS Units 1 and 4	15.5
Increased costs associated with 65 MW of SJGS Unit 4 held as merchant plant beginning January 1, 2018 (Note 16)	6.0
Higher property taxes due to increases in utility plant in service and higher assessed property values	2.7
Higher employee related, outside service, and vegetation management expenses	2.6
Higher bad debt expense	0.7
Lower capitalized administrative and general expenses due to lower construction spending in 2018	2.3
Cost savings resulting from the retirement of SJGS Units 2 and 3	(17.8)
2017 Training costs associated with new software implementation	(1.1)

2017 regulatory disallowance due to the NMPRC's January 17, 2018 order in PNM's NM 2016 Rate Case (Note 17)	(27.9)
Regulatory disallowance resulting from the NMPRC's September 28, 2016 order in PNM's NM 2015 Rate Case (Note 17)	0.9
2018 regulatory disallowance associated with 132 MW and restructuring costs associated with 65 MW of SJGS Unit 4 (Note 16)	35.0
Regulatory disallowance due to changes in estimated write-offs associated with the SJGS BART determination and ownership restructuring (Note 16)	4.0
2018 increase in estimated coal mine reclamation costs associated with ownership restructuring (Note 16)	27.3
Other	(0.8)
Net Change	$ 66.5

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Depreciation and amortization:	Year Ended December 31, 2018 Change (In millions)
Increased utility plant in service	$ 9.0
Lower depreciation resulting from the retirement of SJGS Units 2 and 3, partially offset by amortization of the associated regulatory asset (Note 16)	(4.5)
Other	0.4
Net Change	$ 4.9

Other income (deductions):	
2018 losses compared to 2017 gains on investment securities in the NDT and coal mine reclamation trusts, including the impact of a new accounting pronouncement (Note 9)	$(44.3)
Lower equity AFUDC	(0.5)
2017 interest income from third party transmission service provider due to FERC ruling	(1.0)
Lower non-service components of pension and OPEB expense	4.3
Higher interest income and lower trust expenses related to investment securities in the NDT and coal mine reclamation trusts	6.1
Other	0.6
Net Change	$(34.8)

Interest charges:	
Lower interest on $350.0 million of PNM 2018 SUNs refinanced in May 2018	$9.6
Lower interest on $100.0 million of PNM 2018 SUNs refinanced in August 2018	1.3
Lower interest on $57.0 million of PCRBs refinanced in June 2017	0.5
Higher interest on term loan agreements	(2.2)
Interest on deposit by PNMR Development for potential transmission interconnection which is offset in Corporate and Other (Note 7)	(2.4)
Lower debt AFUDC	(0.2)
Other	(0.4)
Net Change	$6.2

Income taxes:	
Decrease due to reduction in corporate income tax rate and lower segment earnings before income taxes	$46.0
Change in excess deferred income taxes due to reduction in federal corporate income tax rate	29.2
Amortization of excess deferred income taxes, as ordered by the NMPRC in the NM 2016 Rate Case (Note 17)	19.8
Impacts of decrease in equity AFUDC	(0.1)
Regulatory recovery of prior year impairments of state net operating loss carryforwards due to NMPRC orders in PNM rate cases (Note 17) (net of amortization)	(3.6)
Reversal of deferred items related to the retirement of SJGS Units 2 and 3	(1.6)
2017 impacts of phased-in reduction in New Mexico corporate income tax rates	(1.2)
Decrease in excess tax benefits related to stock compensation awards (Note 12)	(0.7)

Impairments of state NOL carryforwards	0.9
Impairments, valuation allowances, and non-deductible compensation	(1.1)
Net Change	$87.6

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Operating Results – 2017 Compared to 2016

The following table summarizes the significant changes to utility margin:

Utility margin:	Year Ended December 31, 2017 Change (In millions)
Rate relief – Additional revenue due to rate increase approved by the NMPRC on September 28, 2016 and certain fuel costs being passed through the FPPAC	$ 51.9
Customer usage/load – PNM's weather normalized retail KWh sales decreased 0.9%, due to decreased sales to residential, commercial, and industrial customers	(5.9)
Weather – Milder weather; heating degree days were 8.9% lower, partially offset by higher cooling degree days of 2.0%	(3.8)
Leap Year – Decrease in revenue due to additional day in 2016	(1.6)
Transmission – Higher revenues under formula transmission rates and the addition of new customers	12.1
Wholesale contracts – Primarily due to NEC (Note 17)	(7.8)
Unregulated margin – Higher hedged prices for PVNGS Unit 3 power sales	3.9
Rate riders – Includes renewable energy and energy efficiency riders, which are partially offset in operating expenses, depreciation and amortization, and interest charges	(1.9)
Net unrealized economic hedges – Losses related to hedges of NEC power sales, partially offset by gains related to hedges of PVNGS	(1.3)
Other	0.8
Net Change	$ 46.4

The following tables summarize the primary drivers for operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Year Ended December 31, 2017 Change (In millions)
2017 regulatory disallowance due to the NMPRC's January 17, 2018 order in PNM's NM 2016 Rate Case (Note 17)	$ 27.9
Regulatory disallowances due to the NMPRC's September 28, 2016 order in PNM's NM 2015 Rate Case (Note 17)	(8.1)
Regulatory disallowances due to change in estimated write-offs associated with the SJGS BART determination and ownership restructuring (Note 16)	(7.8)
Lower plant maintenance costs at SJGS, Four Corners, and PVNGS, partially offset by increased costs at gas-fired plants	(3.8)
Implementation of process improvement initiatives in 2016 associated with reducing future costs	(3.7)
Lower employee related expenses and outside consulting costs	(3.4)

Lower rent expense associated with PVNGS leases (Note 8)	(0.9)
Higher capitalized administrative and general expenses due to higher construction spending	(1.7)
Higher allocated corporate depreciation, primarily related to computer software	5.4
Training costs associated with new software implementation	1.1
Contribution to the PNM Resources Foundation	1.0
Higher property taxes due to increased utility plant in service	0.9
Higher environmental expenses	0.5
Other	(0.8)
Net Change	$ 6.6

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Depreciation and amortization:	Year Ended December 31, 2017 Change (In millions)
Higher depreciation rates approved by the NMPRC in PNM's 2015 NM Rate Case, including the impacts of impairments (Note 16)	$ 6.1
Increased utility plant in service	6.8
Other	0.7
Net Change	$ 13.6

Other income (deductions):	
Higher gains on investment securities in the NDT and coal mine reclamation trusts	$7.6
Higher equity AFUDC, primarily due to increased levels of construction expenditures	4.5
Interest income from third party transmission service provider due to FERC ruling	1.0
Lower income from "refined coal" (a third-party pre-treatment process); income is now passed through to customers as ordered in PNM's NM 2015 Rate Case	(3.8)
2016 interest income from IRS, net of related expenses (Note 18)	(2.9)
Higher non-service components of pension and OPEB expense	(1.8)
Other	0.5
Net Change	$5.1

Interest charges:	
Lower interest on $146.0 million of PCRBs refinanced in September 2016	$2.6
Lower interest on $57.0 million of PCRBs refinanced in June 2017	0.6
Lower short-term debt borrowings	0.8
Higher debt AFUDC as a result of higher construction spending	1.0
Other	(0.2)
Net Change	$4.8

Income taxes:	
Increase due to higher segment earnings before income taxes	$(13.8)
Impacts of increase in equity AFUDC	1.7
Regulatory recovery of prior year impairments of state net operating loss carryforwards due to NMPRC orders in PNM rate cases (Note 17) (net of amortization)	0.3
Impacts of phased-in reduction in New Mexico corporate income tax rates	2.0
Decrease due to excess tax benefits related to stock compensation awards (Note 12)	1.7
Impairments of state NOL carryforwards	(0.9)
Impact of change in federal corporate income tax rate	(29.6)
Other impairments and valuation allowances	(2.1)
Net Change	$(40.7)

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TNMP

TNMP defines utility margin as electric operating revenues less cost of energy, which consists of costs charged by third-party transmission providers. TNMP believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since all third-party transmission costs are passed on to customers through a transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

The following table summarizes the operating results for TNMP:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
	(In millions)				
Electric operating revenues	$344.6	$340.8	$327.0	$3.8	$ 13.8
Cost of energy	85.7	85.8	80.9	(0.1)	4.9
Utility margin	259.0	255.0	246.2	4.0	8.8
Operating expenses	96.3	98.2	93.4	(1.9)	4.8
Depreciation and amortization	66.2	63.1	61.1	3.1	2.0
Operating income	96.5	93.6	91.6	2.9	2.0
Other income (deductions)	4.1	3.6	3.2	0.5	0.4
Interest charges	(32.1)	(30.1)	(29.3)	(2.0)	(0.8)
Segment earnings before income taxes	68.5	67.1	65.5	1.4	1.6
Income (taxes)	(16.9)	(31.5)	(23.8)	14.6	(7.7)
Segment earnings	$51.6	$35.6	$41.7	$16.0	$ (6.1)

The following table shows total GWh sales, including the impacts of weather, by retail tariff consumer class and average number of consumers:

	Year Ended December 31,			Percentage Change	
	2018	2017	2016	2018/2017	2017/2016
Volumetric load [(1)] (GWh)					
Residential	3,095.0	2,936.6	2,933.9	5.4 %	0.1 %
Commercial and other	32.2	34.0	42.4	(5.3)%	(19.8)%
Total volumetric load	3,127.2	2,970.6	2,976.3	5.3 %	(0.2)%
Demand-based load [(2)] (MW)	18,181.2	16,599.5	15,564.8	9.5 %	6.6 %
Average retail consumers (thousands) [(3)]	251.6	248.3	245.3	1.3 %	1.2 %

(1) Volumetric load consumers are billed on KWh usage.

(2) Demand-based load includes consumers billed on a monthly KW peak and also includes retail transmission customers that are primarily billed under rate riders.

(3) TNMP provides transmission and distribution services to REPs that provide electric service to customers in TNMP’s service territories. The number of consumers above represents the customers of these REPs. Under TECA, consumers in Texas have the ability to choose any REP to provide energy.

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Operating results – 2018 compared to 2017

The following table summarizes the significant changes to utility margin:

Utility margin:	Year Ended December 31, 2018 Change (In millions)
Rate relief – Transmission cost of service rate increases in March and September of 2017 and March of 2018	$ 3.9
Retail customer usage/load – Weather normalized retail KWh sales increased 3.2%, primarily related to the residential class; the average number of retail consumers increased 1.3%	2.0
Demand based customer usage/load – Higher demand-based revenues for large commercial and industrial retail consumers; billed demand, excluding retail transmission customers, increased 6.8%	4.4
Rate riders – Impacts of rate riders, including the AMS surcharge, CTC surcharge, energy efficiency rider, and transmission cost recovery factor, which are partially offset in depreciation and amortization	(2.6)
Weather – Milder weather in 2017; heating degree days were 49.1% higher in 2018	1.3
Revenue subject to refund - Amounts deferred for the impact of the reduction in the federal corporate income tax rate (Note 17)	(5.4)
Other	0.4
Net Change	$ 4.0

The following tables summarize the primary drivers for operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Year Ended December 31, 2018 Change (In millions)
Higher allocated corporate depreciation, primarily related to computer software	$ 0.8
Higher employee related expenses	2.1
Training costs associated with new software implementation in 2017	(0.4)
Higher capitalized administrative and general expenses due to higher construction spending in 2018	(3.7)
Regulatory recovery authorized in the PUCT's December 20, 2018 approval of TNMP's 2018 Rate Case (Note 17)	(0.7)
Net Change	$ (1.9)

Depreciation and amortization:

Increased utility plant in service	$4.2
Reduced CTC amortization and AMS depreciation	(1.1)
Net Change	$3.1

Other income (deductions):

Higher equity AFUDC	$1.4
Lower CIAC	(0.8)
Other	(0.1)
Net Change	$0.5

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Interest charges:	Year Ended December 31, 2018 Change (In millions)
Increase due to the issuance of $60.0 million of long-term debt in August 2017	$ (1.3)
Increase due to the issuance of $60.0 million of long-term debt in June 2018	(1.2)
Increase due to the issuance of $35.0 million term loan in 2018	(0.4)
Higher debt AFUDC	1.1
Other	(0.2)
Net Change	$ (2.0)

Income taxes:

Decrease due to reduction in corporate income tax rate, partially offset by higher segment earnings before income taxes	$9.1
Change in excess deferred income taxes due to reduction in federal corporate income tax rate	7.9
Decrease in excess tax benefits related to stock compensation awards (Note 12)	(0.2)
Impairments, valuations allowances, and non-deductible compensation	(2.2)
Net Change	$14.6

Operating Results – 2017 compared to 2016

The following table summarizes the significant changes to utility margin:

Utility margin:	Year Ended December 31, 2017 Change (In millions)
Rate relief – Transmission cost of service rate increases in March and September of 2017 and 2016	$ 6.7
Retail customer usage/load – Weather normalized retail KWh sales increased 1.2%, primarily related to the residential class; the average number of retail consumers increased 1.2%	0.6
Demand based customer usage/load – Higher demand-based revenues for large commercial and industrial retail consumers; billed demand, excluding retail transmission customers, increased 4.0%	2.5
Wholesale transmission load – Increased coincidental peak load for third-party transmission customers	1.3
Rate riders – Impacts of rate riders, including the AMS surcharge, CTC surcharge, energy efficiency rider, and transmission cost recovery factor, which are partially offset in operating expenses, depreciation and	(1.4)

amortization, and interest charges	
Weather – Milder weather in 2017; heating degree days were 13.1% lower	(0.8)
Other	(0.1)
Net Change	$ 8.8

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The following tables summarize the primary drivers for operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Year Ended December 31, 2017 Change (In millions)
Higher allocated corporate depreciation, primarily related to computer software	$ 1.9
Higher outside consulting costs, including vegetation management	2.8
Higher property taxes due to increased utility plant in service	1.4
Higher employee related expenses	0.4
Training costs associated with new software implementation	0.4
Higher capitalized administrative and general expenses due to higher construction spending in 2017	(1.3)
2016 lease abandonment costs associated with building consolidation efforts	(1.0)
Other	0.2
Net Change	$ 4.8

Depreciation and amortization:

Increased utility plant in service	$3.0
Reduced CTC amortization and AMS depreciation	(1.0)
Net Change	$2.0

Other income (deductions):

Higher CIAC	$0.2
2016 interest income from IRS, net of related expenses (Note 18)	(0.3)
Other	0.5
Net Change	$0.4

Interest charges:

Increase due to the issuance of $60.0 million of long-term debt in February 2016	$(0.2)
Increase due to the issuance of $60.0 million of long-term debt in August 2017	(0.7)
Higher debt AFUDC	0.3
Other	(0.2)
Net Change	$(0.8)

Income taxes:

Increase due to higher segment earnings before income taxes	$(0.5)
Decrease due to excess tax benefits related to stock compensation awards (Note 12)	0.6
Impact of change in federal corporate income tax rate	(7.9)
Other	0.1
Net Change	$(7.7)

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Corporate and Other

The table below summarizes the operating results for Corporate and Other:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
		(In millions)			
Total revenues	$—	$—	$—	$—	$ —
Cost of energy	—	—	—	—	—
Utility margin	—	—	—	—	—
Operating expenses	(17.7)	(22.1)	(12.8)	4.4	(9.3)
Depreciation and amortization	23.1	21.8	14.5	1.3	7.3
Operating income (loss)	(5.5)	0.4	(1.7)	(5.9)	2.1
Other income (deductions)	0.4	4.2	10.4	(3.8)	(6.2)
Interest charges	(18.7)	(14.8)	(11.8)	(3.9)	(3.0)
Segment earnings (loss) before income taxes	(23.8)	(10.3)	(3.2)	(13.5)	(7.1)
Income (taxes) benefit	3.1	(17.3)	1.5	20.4	(18.8)
Segment earnings (loss)	$(20.6)	$(27.6)	$(1.7)	$7.0	$ (25.9)

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP under shared services agreements. The amounts allocated include certain expenses shown as depreciation and amortization and other income (deductions) in the table above. Operating expenses in 2018 includes approximately $2.7 million in legal and consulting costs that were not allocated to PNM or TNMP. The changes in depreciation expense primarily relates to increased corporate depreciation rates and additions to computer software. Substantially all depreciation and amortization expense is offset in operating expenses as a result of allocation of these costs to other business segments.

Operating results – 2018 compared to 2017

The following tables summarize the primary drivers for other income (deductions), interest charges, and income taxes:

Other income (deductions):	Year ended December 31, 2018 Change (In millions)
Decrease in interest income on the Westmoreland Loan (Note 16)	$ (5.0)
Decrease in donations and community involvement expenses	0.4
Equity in net earnings of NMRD	0.5
Other	0.3
Net Change	$ (3.8)

Interest charges:

Issuance of $300.0 million PNMR 2018 SUNs in March 2018	$(8.5)
Increase in interest expense on the PNMR 2016 Two-Year Term Loan	(0.7)
Issuance of $90.0 million PNMR Development 2018 Term Loan in November 2018	(0.3)
Higher short-term borrowings and interest rates	(0.8)
Repayment of $150.0 million PNMR 2015 Term Loan in March 2018	2.4

Elimination of intercompany interest (Note 7)	2.4
Repayment of the BTMU Term Loan in May 2018	1.6
Net Change	$(3.9)

Income taxes:

Increase in tax benefit due to higher segment losses before income taxes, partially offset by lower federal corporate income tax rate	$2.0
Change in excess deferred income taxes due to reduction in federal corporate income tax rate	16.6
Other impairments and valuation allowances	1.1
Other	0.7
Net Change	$20.4

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Operating Results – 2017 compared to 2016

The following tables summarize the primary drivers for other income (deductions), interest charges, and income taxes:

Other income (deductions):	Year ended December 31, 2017 Change (In millions)
Decrease in interest income on the Westmoreland Loan (Note 16)	$ (3.7)
2016 interest income from IRS, net of related expenses (Note 18)	(0.8)
Increase in donations, including the PNM Resources Foundation	(1.5)
Other	(0.2)
Net Change	$ (6.2)

Interest charges:	
Issuance of the $100.0 million 2016 Two-Year Term Loan in December 2016	$(2.0)
Issuance of the $100.0 million 2016 One-Year Term Loan in December 2016	(1.9)
Higher short-term borrowings and interest rates	(2.4)
Repayment of a $150.0 million PNMR term loan in December 2016	2.0
Decrease in interest expense on the BTMU Loan (Note 7)	1.2
Other	0.1
Net Change	$(3.0)

Income taxes:	
Increase in benefit due to change in segment (earnings) loss before income taxes	$2.7
Impact of change in federal corporate income tax rate	(20.0)
Other impairments and valuation allowances	(1.1)
Other	(0.4)
Net Change	$(18.8)

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows

The information concerning PNMR's cash flows is summarized as follows:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
	(In millions)				
Net cash flows from:					
Operating activities	$428.2	$523.5	$408.3	$(95.3)	$ 115.2
Investing activities	(475.7)	(466.2)	(699.4)	(9.5)	233.2
Financing activities	45.6	(58.8)	242.4	104.4	(301.2)
Net change in cash and cash equivalents	$(1.9)	$(1.5)	$(48.7)	$(0.4)	$ 47.2

Cash Flows from Operating Activities

Changes in PNMR's cash flow from operating activities result from net earnings, adjusted for items impacting earnings that do not provide or use cash. See Results of Operations above. Certain changes in assets and liabilities resulting from normal operations, including the effects of the seasonal nature of the Company’s operations, also impact operating cash flows.

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Cash Flows from Investing Activities

The changes in PNMR's cash flows from investing activities relate primarily to changes in utility plant additions. Cash flows from investing activities also include activity related to the Westmoreland Loan and NMRD. Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

	Year Ended December 31,			Change	
	2018	2017	2016	2018/2017	2017/2016
Cash (Outflows) for Utility Plant Additions	(In millions)				
PNM:					
Generation	$(55.3)	$(74.4)	$(84.3)	$19.1	$ 9.9
Transmission and distribution	(163.1)	(173.4)	(127.2)	10.3	(46.2)
Purchase of previously leased capacity in PVNGS Unit 2	—	—	(163.3)	—	163.3
Four Corners SCRs	(7.6)	(34.9)	(40.9)	27.3	6.0
Nuclear fuel	(29.6)	(26.4)	(29.8)	(3.2)	3.4
	(255.6)	(309.1)	(445.5)	53.5	136.4
TNMP:					
Transmission	(87.5)	(60.7)	(71.5)	(26.8)	10.8
Distribution	(135.9)	(83.5)	(39.4)	(52.4)	(44.1)
AMS	—	(1.3)	(11.6)	1.3	10.3
	(223.4)	(145.5)	(122.5)	(77.9)	(23.0)
Corporate and Other:					
Computer hardware and software	(22.1)	(19.9)	(31.0)	(2.2)	11.1
PNMR Development utility plant additions	—	(25.9)	(1.1)	25.9	(24.8)
	(22.1)	(45.8)	(32.1)	23.7	(13.7)
	$(501.1)	$(500.4)	$(600.1)	$(0.7)	$ 99.7
Cash Inflows (Outflows) on the Westmoreland Loan					
Loan origination	$—	$—	$(122.3)	$—	$ 122.3
Principal payments	56.6	38.4	30.0	18.2	8.4
	$56.6	$38.4	$(92.3)	$18.2	$ 130.7
Cash Inflows (Outflows) Related to NMRD					
Investments in NMRD	$(9.0)	$(4.1)	$—	$(4.9)	$ (4.1)
Disbursements from NMRD	—	$12.4	—	(12.4)	12.4
	$(9.0)	$8.3	$—	$(17.3)	$ 8.3
Other Cash Flows from Investing Activities					
Proceeds from sales of investment securities	$984.5	$637.5	$522.6	$347.0	$ 114.9
Purchases from sales of investment securities	(1,007.0)	(650.3)	(538.4)	(356.7)	(111.9)
Return of principal on PVNGS lessor notes	—	—	8.5	—	(8.5)
Other, net	0.3	0.4	0.2	(0.1)	0.2
	$(22.2)	$(12.4)	$(7.1)	$(9.8)	$ (5.3)
	$(475.7)	$(466.1)	$(699.5)	$(9.6)	$ 233.4

Cash Flow from Financing Activities

The changes in PNMR's cash flows from financing activities include:

- In 2016, PNMR borrowed $100.0 million under the PNMR One-Year Term Loan (included in short-term borrowings) and $100.0 million under the PNMR Two-Year Loan and repaid the PNMR Term Loan with the proceeds
- In 2016, PNM borrowed $175.0 million under the PNM 2016 Term Loan and repaid the PNM Multi-draw Term Loan with the proceeds

- NM Capital received net proceeds of $122.5 million under the $125.0 million BTMU Term Loan in 2016 and utilized the proceeds to provide funds for the Westmoreland Loan; in accordance with the BTMU Term Loan agreement, NM Capital made principal payments of $50.1 million in 2018, $42.1 million in 2017 and $32.8 million in 2016
- In 2017, PNM borrowed $200.0 million under the PNM 2017 Term Loan and repaid the PNM 2016 Term Loan with the proceeds
- PNM successfully remarketed PCRBs of $57.0 million in 2017 and $146.0 million in 2016

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- TNMP issued $60.0 million of 3.85% first mortgage bonds in 2018, $60.0 million of 3.22% first mortgage bonds in 2017, and $60.0 million of 3.53% first mortgage bonds in 2016
- In 2018, PNMR issued $300.0 million aggregate principal amount of 3.250% SUNs and used the proceeds to repay the $150.0 million PNMR 2015 Term Loan and to reduce short-term borrowings
- In 2018, PNM issued $450.0 million of SUNs and repaid $350.0 million of 7.95% SUNs and $100.0 million of 7.50% SUNs
- In 2018, TNMP borrowed $35.0 million under the TNMP 2018 Term Loan and used the proceeds to reduce short-term borrowings and for general corporate purposes
- In 2018, PNMR Development borrowed $90.0 million under the PNMR Development Term Loan
- In 2018, PNMR borrowed $150.0 million under the PNMR 2018 One-Year Term Loan and used the proceeds to repay the PNMR 2016 One-Year Term Loan, a portion of the PNMR 2016 Two-Year Term Loan, and for general corporate purposes
- In 2018, PNMR borrowed $50.0 million under the PNMR 2018 Two-Year Term Loan and used the proceeds to repay the remaining amount of the PNMR 2016 Two-Year Term Loan and for general corporate purposes
- Short-term borrowings decreased $119.5 million in 2018 compared to an increase of $18.3 million in 2017 compared to an increase of $86.5 million in 2016, resulting in a net decrease in cash flows from financing activities of $137.8 in 2018 and $68.2 million in 2017
- In 2018, PNMR had net amounts received under transmission interconnection arrangements of $1.2 million compared to net amounts repaid in 2017 of $9.4 million compared to net amounts received in 2016 of $4.3 million

Financing Activities

See Note 7 for additional information concerning the Company’s financing activities. 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. The Company’s ability to access the credit and capital markets at a reasonable cost is largely dependent upon its:

- Ability to earn a fair return on equity
- Results of operations
- Ability to obtain required regulatory approvals
- Conditions in the financial markets
- Credit ratings

Prior to July 2018, each of the Company’s revolving credit facilities and term loans contained a single financial covenant, which required the maintenance of a debt-to-capitalization ratio of less than or equal to 65%. In July 2018, the PNMR Revolving Credit Facility, PNMR’s term loans, 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 the PNM and TNMP agreements. The Company’s revolving credit facilities and term loans generally also contain customary covenants, events of default, cross-default provisions, and change-of-control provisions. The Company is in compliance with its debt covenants.

As discussed in Note 16, NM Capital, a wholly-owned subsidiary of PNMR, entered into the $125.0 million BTMU Term Loan agreement with BTMU, as lender and administrative agent. The BTMU Term Loan 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 to provide funding for the $125.0 million Westmoreland Loan to a ring-fenced, bankruptcy-remote, special-purpose entity subsidiary of Westmoreland to finance Westmoreland’s purchase of SJCC. On May 22, 2018, the full principal balance 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. These payments effectively terminated the loan agreements. In addition, PNMR’s guarantee of NM Capital’s obligations was also effectively terminated. See Note 10.

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 16).

On December 21, 2016, PNMR entered into two term loan agreements: (1) the $100.0 million PNMR 2016 One-Year Term Loan that was to mature on December 21, 2017; and (2) the $100.0 million PNMR 2016 Two-Year Term Loan that matured on December 21, 2018. The proceeds of these term loans were used to repay the $150.0 million PNMR Term Loan and to reduce borrowings under the PNMR Revolving Credit Facility. On December 15, 2017, the PNMR 2016 One-Year Term Loan was extended to mature on December 14, 2018.

On March 9, 2018, PNMR issued $300.0 million aggregate principal amount of 3.250% SUNs (the “PNMR 2018 SUNs”), which mature on March 9, 2021. The proceeds from the offering were used to repay the $150.0 million PNMR 2015 Term Loan that was due on March 9, 2018 and to reduce borrowings under the PNMR Revolving Credit Facility.

On November 26, 2018, PNMR Development entered into a $90.0 million term loan agreement (the “PNMR Development Term Loan”), among PNMR Development and KeyBank, N.A., as administrative agent and sole lender. Proceeds from the PNMR Development Term Loan were used to repay intercompany borrowings from PNMR and for general corporate purposes. The PNMR Development Term Loan bears interest at a variable rate, which was 3.32% on December 31, 2018, and matures on November 26, 2020. PNMR, as parent company of PNMR Development, has guaranteed PNMR Development’s obligations under the loan. The PNMR Development Term Loan requires PNMR to maintain a debt-to-capitalization ratio of less than or equal to 70%, and contains customary events of default, a cross-default, and a change-of-control provision.

On December 14, 2018, PNMR entered into a $150.0 million term loan agreement (the “PNMR 2018 One-Year Term Loan”) among PNMR, the lenders identified therein, and MUFG Bank, Ltd., as administrative agent. The proceeds from the PNMR 2018 One-Year Term Loan were used to repay the PNMR 2016 One-Year Term Loan, a portion of the PNMR 2016 Two-Year Term Loan, and for general corporate purposes. The PNMR 2018 One-Year Term Loan bears interest at a variable rate, which was 3.20% at December 31, 2018, and matures on December 13, 2019.

On December 21, 2018, PNMR entered into a $50.0 million term loan agreement (the “PNMR 2018 Two-Year Term Loan”), between PNMR and Bank of America, N.A. as sole lender. Proceeds from the PNMR 2018 Two-Year Term Loan were used to repay the remaining amount owed under the PNMR 2016 Two-Year Term Loan and for general corporate purposes. The PNMR 2018 Two-Year Term Loan bears interest at a variable rate, which was 3.28% at December 31, 2018, and matures on December 21, 2020.

On July 20, 2017, PNM entered into the $200.0 million PNM 2017 Term Loan, which bore interest at a variable rate, which was 3.26% on December 31, 2018, and was repaid on January 18, 2019. PNM used the proceeds of the PNM 2017 Term Loan to prepay the $175.0 million PNM 2016 Term Loan, which was to mature on November 17, 2017, and to reduce short-term borrowings.

On July 28, 2017, PNM entered into the PNM 2017 Senior Unsecured Note Agreement with institutional investors for the sale of $450.0 million aggregate principal amount of eight series 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 (at fixed annual interest rates ranging from 3.15% to 4.50% for terms between 5 and 30 years) 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 $100.0 million of the PNM 2018 SUNs (at fixed annual interest rates of 3.78% and 4.60% for terms of 10 and 30 years) and used the proceeds to repay an equal amount of PNM’s 7.50% SUNs on that matured on August 1, 2018.

On January 18, 2019, PNM entered into a $250.0 million term loan agreement (the “PNM 2019 Term Loan”) among PNM, the lenders identified therein, and U.S. Bank N.A., as administrative agent. PNM used the proceeds of the PNM 2019 Term Loan to repay the PNM 2017 Term Loan, to reduce short-term borrowings under the PNM Revolving Credit Facility, and for general corporate purposes. The PNM 2019 Term Loan bears interest at a variable rate, which was 3.13% on February 22, 2019, and must be repaid on or before July 17, 2020.

On June 28, 2018, TNMP entered into an agreement under which TNMP issued $60.0 million aggregate principal amount of 3.85% first mortgage bonds, due 2028. On July 25, 2018, TNMP entered into a $20.0 million term loan agreement. On December 17, 2018, the TNMP term loan agreement was amended and restated to add an additional $15.0 million, which results in a total committed amount of $35.0 million under the agreement (the "TNMP 2018 Term Loan"). The TNMP 2018 Term Loan bears interest at a variable rate, which was 3.22% at December 31, 2018, and matures on July 25, 2020. TNMP used the proceeds from these issuances to repay short-term borrowings and for TNMP's general corporate purposes.

On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement with institutional investors for the sale of $305.0 million aggregate principal amount of four series of TNMP First Mortgage Bonds (the "TNMP 2019 Bonds") offered in private placement transactions. Under the TNMP 2019 Bond Purchase Agreement, TNMP has agreed to issue $225.0 million of the TNMP 2019 Bonds on March 29, 2019 (at fixed annual interest rates ranging from 3.79% to 4.06% for terms ranging from 15 to and 25 years) and $80.0 million of the TNMP 2019 Bonds on or before July 1, 2019 (at a fixed annual interest rate of 3.60% for a term of ten years). The issuances of the TNMP 2019 Bonds are subject to the satisfaction of customary conditions, including continuing compliance with the representations, warranties and covenants of the TNMP 2019 Bond Purchase Agreement. TNMP will use the proceeds from the TNMP 2019 Bonds to repay $172.3 million 9.50% first mortgage bonds at their maturity on April

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1, 2019, as well as to repay borrowings under the TNMP Revolving Credit Facility and for general corporate purposes. The terms of the TNMP 2019 Bonds contain customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, a cross-default provision, and a change-of-control provision. TNMP will have the right to redeem any or all of the TNMP 2019 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium.

PNMR had a hedging agreement whereby it effectively established a fixed interest rate of 1.927%, subject to change if there is a change in PNMR's credit rating, for borrowings under the $150.0 million PNMR 2015 Term Loan for the period from January 11, 2016 through its maturity on March 9, 2018. In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, subject to change if there is a change in PNMR's credit rating, for three separate tranches, each of $50.0 million, of its variable rate debt.

Capital Requirements

PNMR's total capital requirements consist of construction expenditures, cash dividend requirements for PNMR common stock and PNM preferred stock, and capital contributions for PNMR Development's 50% ownership interest in NMRD. Key activities in PNMR's current construction program include:

- Upgrading generation resources, including expenditures for compliance with environmental requirements and for renewable energy resources
- Expanding the electric transmission and distribution systems
- Purchasing nuclear fuel

Projected capital requirements for 2019-2023 are:

	2019	2020-2023	Total
	(In millions)		
Construction expenditures	$605.3	$ 2,103.4	$2,708.7
Capital contributions to NMRD	29.6	33.8	63.4
Dividends on PNMR common stock	92.4	369.6	462.0
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	$727.8	$ 2,508.9	$3,236.7

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. The construction expenditures above include environmental upgrades of $61.2 million for 50 MW of new solar facilities included in PNM's 2018 renewable energy procurement plan, and approximately $130 million in 2019-2020 for anticipated expansions of PNM's transmission system. Not included in the table above are potential incremental expenditures for new customer growth in New Mexico and Texas, other transmission and renewable energy expansion in New Mexico, and potential replacement resources related to the planned shutdown of SJGS Units 1 and 4 in 2022. Expenditures for new customer growth, the expansion of PNM's transmission system and renewable energy facilities, and SJGS replacement resources are subject to obtaining necessary approvals of the NMPRC. PNM will be required to file CCN applications with the NMPRC to obtain those approvals, as well as to make an abandonment filing for approval to shut down SJGS. See Note 16 and 17. The ability of PNMR to pay dividends on its common stock is dependent upon the ability of PNM and TNMP to be able to pay dividends to PNMR. Note 6 describes regulatory and contractual restrictions on the payment of dividends by PNM and TNMP. During the year ended December 31, 2018, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements and the borrowings discussed in Financing Activities above.

In addition to the capital requirements for construction expenditures and dividends, the Company has long-term debt and term loans that must be paid or refinanced at maturity. As discussed above, PNM entered into the $250.0 million PNM 2019 Term Loan on January 18, 2019 and used a portion of the proceeds under that agreement to repay the

$200.0 million PNM 2017 Term Loan on that date. On February 26, 2019, TNMP entered into the TNMP 2019 Bond Purchase Agreement under which an aggregate of $305.0 million of TNMP 2019 Bonds are to be issued in 2019 and will use a portion of the proceeds from that agreement to repay $172.3 million of TNMP's first mortgage bonds that mature on April 1, 2019. Note 7 contains additional information about the maturities of long-term debt. The Company anticipates that funds to repay long-term debt maturities and term loans will come from entering into new arrangements similar to the existing agreements, borrowing under the revolving credit facilities, issuance of new long-term debt or equity in the public or private capital markets, or a combination of these sources. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

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Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility, the PNM Revolving Credit Facility, and the TNMP Revolving Credit Facility. In July 2018, the PNMR Revolving Credit Facility was amended to provide for two one-year extension options, subject to approval by a majority of the lenders. In October 2018, the PNM Revolving Credit Facility was amended to add two one-year extension options, subject to approval by a majority of the lenders. As a result, PNMR and PNM have the opportunity to extend these facilities through October 2024. On December 19, 2018, PNMR and PNM each exercised the first of these one-year extension options resulting in the PNMR and PNM Revolving Credit Facilities maturing in October 2023. The PNMR and PNM facilities have capacities of $300.0 million and $400.0 million through October 2020 and $290.0 million and $360.0 million beginning November 2020. The $75.0 million TNMP Revolving Credit Facility matures in September 2022. PNM had the $50.0 million PNM 2014 New Mexico Credit Facility with banks having a significant presence in New Mexico that was scheduled to expire on January 8, 2018. On December 12, 2017, PNM entered into the PNM 2017 New Mexico Credit Facility, a similar $40.0 million unsecured revolving credit facility to replace the PNM 2014 New Mexico Credit Facility. The PNM 2017 New Mexico Credit Facility expires on December 12, 2022. The Company believes the terms and conditions of these facilities are consistent with those of other investment grade revolving credit facilities in the utility industry. The Company expects that it will be able to extend or replace these credit facilities under similar terms and conditions prior to their expirations.

On February 26, 2018, PNMR Development entered into a $24.5 million revolving credit facility that was scheduled to expire on February 25, 2019. On February 22, 2019, PNMR Development amended the revolving credit facility to increase the capacity to $25.0 million and to expire on February 24, 2020. The facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development anticipates using the facility to finance its participation in NMRD (Note 1).

The revolving credit facilities and the PNM 2017 New Mexico Credit Facility provide short-term borrowing capacity. The revolving credit facilities also allow letters of credit to be issued. Letters of credit reduce the available capacity under the facilities. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational expenditures. The Company's business is seasonal with more revenues and cash flows from operations being generated in the summer months. In general, the Company relies on the credit facilities to be the initial funding source for construction expenditures. Accordingly, borrowings under the facilities may increase over time. Depending on market and other conditions, the Company will periodically sell long-term debt and use the proceeds to reduce the borrowings under the credit facilities. Information regarding the range of borrowings for each facility is as follows:

	Three Months Ended December 31, 2018		Year Ended December 31					
			2018		2017		2016	
Range of Borrowings	Low	High	Low	High	Low	High	Low	High
	(In millions)							
PNM:								
PNM Revolving Credit Facility	$—	$32.4	$—	$64.2	$—	$65.0	$—	$135.0
PNM New Mexico facilities [1]	—	10.0	—	20.0	—	26.0	—	50.0
TNMP Revolving Credit Facility	12.0	34.5	—	73.9	—	53.0	—	70.0
PNMR Revolving Credit Facility	20.0	142.8	20.0	210.0	112.3	185.3	40.0	179.5
PNMR Development Revolving Credit Facility	6.0	24.5	—	24.5	—	—	—	—

[1] Includes both the PNM 2014 New Mexico Credit Facility and the PNM 2017 New Mexico Credit Facility

At December 31, 2018, the average interest rates were 3.76% for the PNMR Revolving Credit Facility, 3.63% for the PNM Revolving Credit Facility, 3.56% for the PNM 2017 New Mexico Credit Facility, 3.17% for the TNMP Revolving Credit Facility, and 3.46% for the PNMR Development Revolving Credit Facility.

The Company currently believes that its capital requirements for at least the next twelve months can be met through internal cash generation, existing, extended, or new credit arrangements, and access to public and private capital markets. The Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements during the 2019-2023 period. This could include new debt and/or equity issuances. The Company currently anticipates utilizing an at-the-market equity issuance program to raise equity beginning in 2020 to partially fund capital requirements. This at-the-market program should provide a flexible, efficient, and low-cost way to issue equity as needed. The Company also expects to issue new debt periodically to fund capital investments. To cover the difference in the amounts and timing of internal cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements. However, if difficult market conditions return, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should

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that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives.

Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. On January 16, 2018, S&P changed the outlook for PNMR, PNM, and TNMP from stable to negative while affirming the ratings set forth below for all the entities. On June 29, 2018, Moody's changed the ratings outlook for PNMR and PNM from positive to stable, maintained the stable outlook for TNMP, and affirmed the long-term credit ratings of each entity.

As of February 22, 2019, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
S&P			
Issuer rating	BBB+	BBB+	BBB+
Senior secured debt	*	*	A
Senior unsecured debt	BBB	BBB+	*
Preferred stock	*	BBB-	*
Moody's			
Issuer rating	Baa3	Baa2	A3
Senior secured debt	*	*	A1
Senior unsecured debt	Baa3	Baa2	*

* Not applicable

The ultimate outcomes from PNM's NM 2015 Rate Case, including the pending appeal before the NM Supreme Court, as discussed in Note 17, could affect both the outlook and credit ratings. Investors are cautioned that a security rating is not a recommendation to buy, sell, or hold securities, that each rating is subject to revision or withdrawal at any time by the rating organization, and that each rating should be evaluated independently of any other rating.

A summary of liquidity arrangements as of February 22, 2019 is as follows:

	PNM	TNMP	PNMR Separate	PNMR Development	PNMR Consolidated
			(In millions)		
Financing capacity:					
Revolving credit facility	$400.0	$ 75.0	$300.0	$ 25.0	$ 800.0
PNM 2017 New Mexico Credit Facility	40.0	—	—	—	40.0
Total financing capacity	$440.0	$ 75.0	$300.0	$ 25.0	$ 840.0
Amounts outstanding as of February 22, 2019:					
Revolving credit facility	$—	$ 37.5	$45.3	$ 10.9	$ 93.7
PNM 2017 New Mexico Credit Facility	10.0	—	—	—	10.0
Letters of credit	2.5	0.1	4.7	—	7.3
Total short-term debt and letters of credit	12.5	37.6	50.0	10.9	111.0
Remaining availability as of February 22, 2019	$427.5	$ 37.4	$250.0	$ 14.1	$ 729.0
Invested cash as of February 22, 2019	$18.1	$ —	$0.9	$ —	$ 19.0

In addition to the above, PNMR has $30.3 million of letters of credit outstanding under the JPM LOC Facility. The above table excludes intercompany debt. As of February 22, 2019, PNM and TNMP had no intercompany borrowings from PNMR. The remaining availability under the revolving credit facilities at any point in time varies based on a number of factors, including the timing of collections of accounts receivables and payments for construction and operating expenditures.

PNMR has an automatic shelf registration that provides for the issuance of various types of debt and equity securities that expires in March 2021. PNM has a shelf registration statement for up to $475.0 million of Senior Unsecured Notes that expires in May 2020.

Off-Balance Sheet Arrangements

PNMR's off-balance sheet arrangements include PNM's operating leases for portions of PVNGS Units 1 and 2. These arrangements help ensure PNM the availability of lower-cost generation needed to serve customers.

In 1985 and 1986, PNM consummated sale and leaseback transactions for its interest in PVNGS Units 1 and 2. The original purpose of the sale-leaseback financing was to lower revenue requirements and to levelize the ratemaking impact of PVNGS being placed in-service. The lease payments reflected lower capital costs as the equity investors were able to capitalize

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the investment with greater leverage than PNM and because the sale transferred tax benefits that PNM could not fully utilize. Under traditional ratemaking, the capital costs of ownership of a major rate base addition, such as a nuclear plant, are front-end loaded with higher revenue requirements in the initial years that decline over the life of the plant as depreciation occurs. By contrast, the revenue requirements for lease payments are level over the lease term. The leases, which were scheduled to expire in 2015 and 2016, contained options to renew the leases at a fixed price or to purchase the property for fair market value.

As discussed in Note 8, PNM and the lessors under each of the PVNGS Unit 1 leases entered into amendments to those leases that extended the leases through January 15, 2023 from their original expiration on January 15, 2015. In addition, PNM entered into an amendment with the lessor under one of the PVNGS Unit 2 leases that extended that lease through January 15, 2024 from its original expiration on January 15, 2016. PNM entered into agreements with the lessors under the other three PVNGS Unit 2 leases under which PNM exercised its option to purchase the assets underlying the leases at the agreed to fair market values aggregating $163.3 million at the expiration of the leases on January 15, 2016. The semiannual payments during the renewal period aggregate $8.3 million under the renewed PVNGS Unit 1 leases and $0.8 million for the one renewed PVNGS Unit 2 lease. PNM has the option to purchase or return the extended leases at the end of their current lease terms and must provide notice under each of the PVNGS Unit 1 leases by January 2020 and for the remaining PVNGS Unit 2 lease by January 2021. See Sources of Power in Part I, Item 1 and Note 8 for additional information.

The future lease payments for the PVNGS leases are shown below.

	PVNGS Units 1&2 (In thousands)
2019	$ 18,131
2020	18,131
2021	18,131
2022	18,131
2023	9,884
Thereafter	818
Total	$ 83,226

Commitments and Contractual Obligations

The following table sets forth PNMR’s long-term contractual obligations as of December 31, 2018. See Note 8 for further details about the Company’s significant leases.

	Payments Due				
Contractual Obligations	2019	2020-2021	2022-2023	2024 and Thereafter	Total
	(In thousands)				
Long-term debt [(a)]	$372,302	$881,345	$112,000	$1,300,698	$2,666,345
Interest on long-term debt [(b)]	97,566	162,545	121,488	634,641	1,016,240
Operating leases [(c)]	27,544	51,430	42,157	42,109	163,240
Transmission service arrangements	8,011	15,665	10,460	7,358	41,494
Coal contracts [(d)]	116,537	223,377	119,176	303,166	762,256
Coal mine decommissioning [(e)] [(f)]	13,303	32,184	39,198	58,198	142,883
Nuclear decommissioning funding requirements [(f)]	2,637	5,274	5,274	7,771	20,956
SJGS decommissioning funding requirements	—	—	14,670	—	14,670
Outsourcing	5,848	6,089	5,247	—	17,184
Pension and retiree medical [(g)]	1,768	3,068	2,885	—	7,721
Equity contributions to NMRD[(h)]	29,647	33,769	—	—	63,416
Construction expenditures [(i)]	605,340	1,145,062	958,302	—	2,708,704

Total [j]	$1,280,503	$2,559,808	$1,430,857	$2,353,941	$7,625,109

[a] Represents total long-term debt, excluding unamortized discounts, premiums, and issuance costs (Note 7)
[b] Represents interest payments during the period

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(c) The operating lease amounts exclude expected future payments of $18.5 million that could be avoided if the leases were returned and the lessor is able to recover the estimated market value of the equipment from third parties and include payments under the PVNGS leases through their expiration dates; see Off-Balance Sheet Arrangements above, Note 8, and Note 10

(d) Represents certain minimum payments that may be required under the coal contracts in effect on December 31, 2018 if no deliveries are taken for SJGS and Four Corners and other minimum payments due for Four Corners

(e) Includes funding of trusts for post-term reclamation related to the mines serving SJGS and Four Corners (Note 16)

(f) These obligations represent funding based on the current rate of return on investments

(g) The Company only forecasts funding for its pension and retiree medical plans for the next five years

(h) Represents commitments to fund NMRD for its contractual construction obligations

(i) Represents forecasted construction expenditures, including nuclear fuel, under which substantial commitments have been made; the Company only forecasts capital expenditures for the next five years; see Capital Requirements above and Note 14

(j) PNMR is unable to reasonably estimate the timing of liability for uncertain income tax positions (Note 18) in individual years due to uncertainties in the timing of the effective settlement of tax positions and, therefore, PNMR's liability of $10.2 million is not reflected in this table; amounts PNM is obligated to pay Valencia are not included above since Valencia is consolidated by PNM in accordance with GAAP, as discussed in Note 10; no amounts are included above for the New Mexico Wind, Lightning Dock Geothermal, Red Mesa Wind, and Casa Mesa Wind PPAs, and the Tri-State hazard sharing agreement since there are no minimum payments required under those agreements

Contingent Provisions of Certain Obligations

PNMR, PNM, and TNMP have a number of debt obligations and other contractual commitments that contain contingent provisions. Some of these, if triggered, could affect the liquidity of the Company. In the unlikely event that the contingent requirements were to be triggered, PNMR, PNM, or TNMP could be required to provide security, immediately pay outstanding obligations, or be prevented from drawing on unused capacity under certain credit agreements. The most significant consequences resulting from these contingent requirements are detailed in the discussion below.

The PNMR Revolving Credit Facility, PNM Revolving Credit Facility, PNM 2017 New Mexico Credit Facility, and the TNMP Revolving Credit Facility contain "ratings triggers," for pricing purposes only. If PNMR, PNM, or TNMP is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost. Prior to July 2018, these facilities, as well as the Company's other term loans, each contained a covenant requiring the maintenance of debt-to-capitalization ratio of less than or equal to 65%. In July 2018, PNMR's facilities were 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 the PNM and TNMP facilities. If these ratios were exceeded, the entity could be required to repay all borrowings under its facility, be prevented from borrowing on the unused capacity under the facility, and be required to provide collateral for all outstanding letters of credit issued under the facility.

If a contingent requirement were to be triggered under the PNM facilities resulting in an acceleration of the repayment of outstanding loans, a cross-default provision in the PVNGS leases could occur if the accelerated amount is not paid. If a cross-default provision is triggered, the PVNGS lessors have the ability to accelerate their rights under the leases, including acceleration of all future lease payments. The Company's revolving credit facilities and term loan agreements also include cross-default provisions (Note 8).

PNM's standard purchase agreement for the procurement of natural gas for its fuel needs contains a contingent requirement that could require PNM to provide collateral for its gas purchase obligations if the seller were to reasonably believe that PNM was unable to fulfill its payment obligations under the agreement.

The master agreement for the sale of electricity in the WSPP contains a contingent requirement that could require PNM to provide collateral if the credit ratings on its debt falls below investment grade. The WSPP agreement also contains a contingent requirement, commonly called a material adverse change provision, which could require PNM to provide collateral if a material adverse change in its financial condition or operations were to occur. Additionally, PNM utilizes standard derivative contracts to financially hedge and trade energy. These agreements contain contingent requirements that require PNM to provide security if the credit rating on its debt falls below investment grade. The Company believes its financing arrangements are sufficient to meet the requirements of the contingent provisions.

No conditions have occurred that would result in any of the above contingent provisions being implemented.

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Capital Structure

The capitalization tables below include the current maturities of long-term debt, but do not include short-term debt and do not include operating lease obligations as debt.

	December 31,	
PNMR	2018	2017
PNMR common equity	38.6 %	40.9 %
Preferred stock of subsidiary	0.3	0.3
Long-term debt	61.1	58.8
Total capitalization	100.0%	100.0%
PNM		
PNM common equity	45.6 %	46.0 %
Preferred stock	0.4	0.4
Long-term debt	54.0	53.6
Total capitalization	100.0%	100.0%
TNMP		
Common equity	53.9 %	56.9 %
Long-term debt	46.1	43.1
Total capitalization	100.0%	100.0%

OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

For the past several years, management has identified multiple risks and opportunities related to climate change, including potential environmental regulation, technological innovation, and availability of fuel and water for operations, as among the most significant risks facing the Company. Accordingly, these risks are overseen by the full Board in order to facilitate more integrated risk and strategy oversight and planning. Board oversight includes understanding the various challenges and opportunities presented by these risks, including the financial consequences that might result from potential federal and/or state regulation of GHG; plans to mitigate the risks; and the impacts these risks may have on the Company's strategy. In addition, the Board approves certain PNM investments in environmental equipment and grid modernization technologies.

Management is also responsible for assessing significant risks, developing and executing appropriate responses, and reporting to the Board on the status of risk activities. For example, management periodically updates the Board on implementation of the corporate environmental policy and the Company's environmental management systems, promotion of energy efficiency, and use of renewable resources. The Board is also advised of the Company's practices and procedures to assess the impacts of operations on the environment. The Board considers issues associated with climate change, the Company's GHG exposures, and the financial consequences that might result from potential federal and/or state regulation of GHG. Management has published, with Board oversight, a Climate Change Report available at http://www.pnmresources.com/about-us/sustainability-portal.aspx, that details PNM's efforts to transition to a coal-free generation portfolio.

As part of management's continuing effort to monitor climate-related risks and opportunities, the Company is evaluating different transparency frameworks, including the framework created by the Task Force on Climate-related Financial Disclosures and a framework created by Edison Electric Institute. The Company is also participating in an Electric Power Research Institute project that is evaluating potential climate change policy scenario analysis and GHG goal setting.

Changes in the climate are generally not expected to have material consequences to the Company in the near-term. The Company cannot anticipate or predict the potential long-term effects of climate change or climate change related regulation on its assets and operations.

Greenhouse Gas Emissions Exposures

In 2018, GHG associated with PNM's interests in its fossil-fueled generating plants included approximately 5.1 million metric tons of CO_2, which comprises the vast majority of PNM's GHG.

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As of December 31, 2018, approximately 66% of PNM's generating capacity, including resources owned, leased, and under PPAs, all of which is located within the United States, consisted of coal or gas-fired generation that produces GHG. This reflects the retirement of SJGS Units 2 and 3 that occurred in December 2017 and the restructuring of ownership in SJGS Unit 4. These events reduced PNM's entitlement in SJGS from 783 MW to 562 MW and caused the Company's output of GHG to decrease when compared to 2017. Many factors affect the amount of GHG emitted, including plant performance, economic dispatch, and the availability of renewable resources. For example, between 2007 and 2018, production from New Mexico Wind has varied from a high of 580 GWh in 2011 to a low of 405 GWh in 2014. Variations are primarily due to how much and how often the wind blows. In addition, if PVNGS experienced prolonged outages or if PNM's entitlement from PVNGS were reduced, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG.

PNM has several programs underway to reduce or offset GHG from its generation resource portfolio, thereby reducing its exposure to climate change regulation. See Note 17. As described in Note 16, PNM received approval for the December 31, 2017 shutdown of SJGS Units 2 and 3 as part of its strategy to address the regional haze requirements of the CAA. The shutdown of SJGS Units 2 and 3 resulted in a reduction of GHG for the entire station of approximately 54%, reflecting a reduction of 41% of GHG from the Company's owned interests in SJGS, below 2005 levels. On December 31, 2018, PNM submitted a compliance filing notifying the NMPRC that, consistent with the conclusions reached in the 2017 IRP, PNM's customers would benefit from the retirement of SJGS in 2022. In addition, as discussed in Note 17, PNM's 2017 IRP also indicates exiting ownership in Four Corners in 2031 would provide long-term cost savings to its customers. If approved by the NMPRC, retiring PNM's share of SJGS and exiting participation in Four Corners would further reduce PNM's GHG. PNM owns utility-scale solar generation in commercial operation with a total generation capacity of 107 MW. Since 2003, PNM has purchased the entire output of New Mexico Wind, which has an aggregate capacity of 204 MW, and, since January 2015, has purchased the full output of Red Mesa Wind, which has an aggregate capacity of 102 MW. PNM has a 20-year PPA for the output of Lightning Dock Geothermal, which began providing power to PNM in January 2014. The current capacity of the geothermal facility is 15 MW. On November 15, 2017 the NMPRC approved PNM's 2018 renewable energy procurement plan. As a result, PNM will acquire an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; and PNM will construct 50 MW of new solar facilities in 2018 and 2019. Additionally, PNM began purchasing renewable energy from 30 MW of solar-PV facilities owned by NMRD in 2018 and, subject to FERC approval, will purchase an additional 100 MW of capacity from solar-PV facilities to be owned by NMRD in 2019 and 2020 to supply power to a data center being constructed in PNM's service territory (Note 16). In December 2018, PNM began purchasing 50 MW of renewable energy from Casa Mesa Wind, which is also being used to support the data center in PNM's service territory. PNM also has a customer distributed solar generation program that represented 100.6 MW at December 31, 2018. PNM's distributed solar programs will reduce PNM's annual production from fossil-fueled electricity generation by about 201.2 GWh. PNM has offered its customers a comprehensive portfolio of energy efficiency and load management programs since 2007, with a budget of $23.6 million for the 2018 program year. PNM's cumulative annual savings from these programs were approximately 653 GWh of electricity in 2018. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 7,700 GWh of electricity, which will avoid at least 4.2 million metric tons of CO_2 based upon projected emissions from PNM's system-wide resources. These estimates are subject to change because of the uncertainty of many of the underlying variables, including changes in demand for electricity, and complex relationships between those variables.

Because of PNM's dependence on fossil-fueled generation, legislation or regulation that imposes a limit or cost on GHG could impact the cost at which electricity is produced. While PNM expects to recover any such costs through rates, the timing and outcome of proceedings for cost recovery are uncertain. In addition, to the extent that any additional costs are recovered through rates, customers may reduce their usage, relocate facilities to other areas with lower energy costs, or take other actions that ultimately could adversely impact PNM.

Other Climate Change Risks

PNM's generating stations are located in the arid southwest. Access to water for cooling for some of these facilities is critical to continued operations. Forecasts for the impacts of climate change on water supply in the southwest range from reduced precipitation to changes in the timing of precipitation. In either case, PNM's generating facilities requiring water for cooling will need to mitigate the impacts of climate change through adaptive measures. Current measures employed by PNM generating stations such as air cooling, use of grey water, improved reservoir operations, and shortage sharing arrangements with other water users will continue to be important to sustain operations.

PNM's service areas occasionally experience periodic high winds, forest fires, and severe thunderstorms. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic hurricanes and other extreme weather conditions. In addition to potentially causing physical damage to Company-owned facilities, which disrupts the ability to transmit and/or distribute energy,

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weather and other events of nature can temporarily reduce customers' usage and demand for energy. During the third quarter of 2017, Hurricane Harvey had significant impacts on the Gulf Coast region, including certain areas serviced by TNMP.

EPA Regulation

In April 2007, the US Supreme Court held that EPA has the authority to regulate GHG under the CAA. This decision heightened the importance of this issue for the energy industry. In December 2009, EPA released its endangerment finding for GHG from new motor vehicles, stating that the atmospheric concentrations of six key greenhouse gases (CO_2, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final PSD and Title V Greenhouse Gas Tailoring Rule to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, the PSD construction permit and Title V operating permit programs, to avoid impacting millions of small GHG emitters. On June 23, 2014, the US Supreme Court found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year, and thus held EPA may not require a source to obtain a PSD permit solely on the basis of its potential GHG. However, the court upheld EPA's authority to apply the PSD program for GHGs to "anyway" sources – those sources that have to comply with the PSD program for other non-GHG pollutants.

On June 25, 2013, then President Obama announced his Climate Action Plan, which outlined how his administration planned to cut GHG in the United States, prepare the country for the impacts of climate change, and lead international efforts to combat and prepare for global warming. The plan proposed actions that would lead to the reduction of GHG by 17% below 2005 levels by 2020.

On August 3, 2015, EPA responded to the Climate Action Plan by issuing three separate but related actions, which were published in October 2015: (1) the final Carbon Pollution Standards for new, modified, and reconstructed power plants (under Section 111(b)); (2) the final Clean Power Plan for existing power plants (under Section 111(d)); and (3) a proposed federal plan associated with the final Clean Power Plan.

EPA's Carbon Pollution Standards for new sources (those constructed after January 8, 2014) established separate standards for gas- and coal-fired units. The standards reflect the degree of emission limitation achievable through the application of what EPA determined to be the BSER demonstrated for each type of unit. For newly constructed and reconstructed base load natural gas-fired stationary combustion turbines, EPA finalized a standard based on efficient natural gas combined cycle technology. The final standards for coal-fired power plants vary depending on whether the unit is new, modified, or reconstructed, but the new unit standards were based on EPA's determination that the BSER for new units was partial carbon recapture and sequestration.

The final Clean Power Plan established numeric "emission standards" for existing electric generating units – one for "fossil-steam" units (coal- and oil-fired units) and one for natural gas-fired units (combined cycle only). The emission standards are based on emission reduction opportunities that EPA deemed achievable using technical assumptions for three "building blocks": efficiency improvements at coal-fired EGUs, displacement of affected EGUs with renewable energy, and displacement of coal-fired generation with natural gas-fired generation.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. The DC Circuit refused to stay the rule, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. As a result, the Clean Power Plan is not in effect and neither states nor sources are obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a 10-judge en banc panel. However, before the DC Circuit could issue an opinion, President Trump took office and his administration asked the court to hold the case in abeyance while the rule is re-evaluated, which the court granted.

On March 28, 2017, President Trump issued an Executive Order titled "Promoting Energy Independence and Economic Growth." Among its goals are to "promote clean and safe development of our Nation's vast energy resources, while at the same time avoiding regulatory burdens that unnecessarily encumber energy production, constrain economic growth, and prevent job creation." The order rescinds several key pieces of the Obama Administration's climate agenda, including the Climate Action Plan and the Final Guidance on Consideration of Climate Change in NEPA Reviews. It directs agencies to review and suspend, revise or rescind any regulations or agency actions that potentially burden the development or use of domestically produced energy resources.

Most notably, the order directs EPA to immediately review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Carbon Pollution Standards for new, reconstructed or modified electric utilities, (2) the Clean Power Plan, (3) the

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Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response, the EPA signed a NOPR to repeal the Clean Power Plan on October 10, 2017. The notice proposes a legal interpretation concluding that the Clean Power Plan exceeds EPA's statutory authority. EPA accepted comments on that proposed interpretation through April 26, 2018. Any final rule will likely be subject to judicial review. On December 18, 2017, EPA released an advanced NOPR addressing GHG guidelines for existing electric utility generating units. Comments were due by February 26, 2018. On August 31, 2018, EPA published a proposed rule, which is informally known as the Affordable Clean Energy rule, to replace the Clean Power Plan. The proposed Affordable Clean Energy rule, among other things, would establish guidelines that replace the "outside-the-fenceline" control measures and specific numerical emission rates for existing EGUs with a list of "candidate technologies" for heat rate improvement measures that EPA has identified as BSER. States would determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable once BSER is applied. States will have three years from when the rule is finalized to submit a plan to EPA and EPA will have one year to determine if each proposed plan is acceptable. If states do not submit a plan, or if their submitted plan is not acceptable, EPA will have two years to develop a federal plan. EPA is also proposing revisions to NSR program that would provide coal-fired power plants more latitude to make efficiency improvements consistent with BSER without triggering NSR permit requirements. Comments on the proposed Affordable Clean Energy rule were due to EPA by October 31, 2018.

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the carbon pollution standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon recapture and sequestration, which results in less stringent CO_2 emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines. Comments on the proposal are due on March 18, 2019.

PNM is unable to predict the impact to the Company of these proposed rulemakings. If a future regulation limiting or otherwise reducing GHG from fossil-fueled EGUs is adopted, such regulations could impact PNM's existing and future fossil-fueled EGUs. The current Carbon Pollution Standards could also impact PNM's generation fleet to the extent any EGUs qualify as new, reconstructed, or modified, although that rule remains under review by EPA and the DC Circuit.

Federal Legislation

Prospects for enactment in Congress of legislation imposing a new or enhanced regulatory program to address climate change are highly unlikely in 2019. Although the new democratic leadership in the U.S. House of Representatives may soon begin to reconsider proposals for legislation aimed at addressing climate change, such legislation is unlikely to pass the republican controlled U.S. Senate or be signed by the President.

State and Regional Activity

Pursuant to New Mexico law, each utility must submit an IRP to the NMPRC every three years to evaluate renewable energy, energy efficiency, load management, distributed generation, and conventional supply-side resources on a consistent and comparable basis. The IRP is required to take into consideration risk and uncertainty of fuel supply, price volatility, and costs of anticipated environmental regulations when evaluating resource options to meet supply needs of the utility's customers. The NMPRC requires that New Mexico utilities factor a standardized cost of carbon emissions into their IRPs using prices ranging between $8 and $40 per metric ton of CO_2 emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the developing nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. In its 2017 IRP, PNM analyzed resource portfolio plans for scenarios that assumed SJGS will operate beyond the end of the current coal supply agreement that runs through June 30, 2022 and for scenarios that assumed SJGS will cease operations by the end of 2022 as discussed in Note 17. The key findings of the 2017 IRP include that exiting SJGS in 2022 would provide long-term economic benefits to PNM's customers and that PNM exiting its ownership interest in Four Corners in 2031 would also save customers money. The materials presented in the IRP process are available at www.pnm.com\irp.

On August 30, 2017, Western Resource Advocates provided the NMPRC with a presentation on a proposed rulemaking for the adoption of a clean energy standard in New Mexico and a suggestion that the NMPRC issue a NOPR. The NMAG's office and Prosperity Works joined in the petition. The proposed clean energy standard, if adopted, would require utilities to reduce carbon emissions by four percent per year for the next 20 years. The NMPRC convened a series of workshops to develop a clean energy standard rule that could be proposed for a future rulemaking proceeding. The major topic areas discussed at the workshops have included: jurisdictional and other legal issues; selection of the timeframe for the emissions baseline year to be used, unspecified power, and electric vehicle credits; and cost responsibilities, benefits, reasonable cost threshold, impact on rates, compliance issues, reliability impacts, and unintended consequences. Workshops were completed in 2018. PNM is unable to predict the outcome of any proposed rule that may result from this process.

On February 7, 2019, Senate Bill 489 was introduced in the 2019 New Mexico state legislative session. Senate Bill 489, which is commonly referred to as the Energy Transition Act bill, among other things, introduces legislation that would provide legal mechanisms for securitized financing of utilities' undepreciated investments and other costs associated with retiring coal-fired generating facilities, would require the NMPRC to prioritize replacement resources in a manner intended to mitigate the economic impact to communities affected by these plant retirements, and would increase the renewable energy portfolio and zero-carbon emissions requirements for utilities over a several year period. The Energy Transition Act and other legislation currently being considered by the New Mexico state legislature, if enacted, would significantly influence PNM's efforts to retire its remaining interests in SJGS and Four Corners and would have long-term implications on PNM's future generating portfolio. PNM cannot predict if the Energy Transition Act bill will ultimately be enacted or if it will be enacted as currently proposed.

International Accords

The United Nations Framework Convention on Climate Change ("UNFCCC") is an international environmental treaty that was negotiated at the 1992 United Nations Conference on Environment and Development (informally known as the Earth Summit) and entered into force in March 1994. The objective of the treaty is to "stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system." Parties to the UNFCCC, including the United States, have been meeting annually in Conferences of the Parties ("COP") to assess progress in meeting the objectives of the UNFCCC.

On December 12, 2015, the Paris Agreement was finalized during the 2015 COP. The aim of the Paris Agreement is to limit global temperature rise to two degrees Celsius above pre-industrial levels. The agreement, which was agreed to by more than 190 nations, requires that countries submit Intended Nationally Determined Contributions ("INDCs"). INDCs reflect national targets and actions that arise out of national policies and elements relating to oversight, guidance and coordination of actions to reduce emissions by all countries. In November 2014, then President Obama announced the United States' commitment to reduce GHG, on an economy-wide basis, by 26%-28% from 2005 levels by the year 2025. The United States INDC is part of an overall effort by the former administration to have the United States achieve economy-wide reductions of around 80% by 2050. The former administration's GHG reduction target for the electric utility industry is a key element of its INDC and is based on EPA's final GHG regulations for new, existing, and modified and reconstructed sources. The United States is one of 190 nations that offered INDCs. Thresholds for the number of countries necessary to ratify or accede to the Paris Agreement and total global GHG percentage were achieved on October 5, 2016 and the Paris Agreement entered into force on November 4, 2016. To date, 184 countries have ratified the Paris Agreement and 177 countries have submitted INDCs. On June 1, 2017, President Trump announced that the United States would withdraw from the Paris Agreement. In his public statement, he indicated that the United States would "begin negotiations to reenter either the Paris Accord or a .... new transaction on terms that are fair to the United States, its businesses, its workers, its people, its taxpayers." The United States continues to hold the position that it will withdraw from the Paris Agreement unless it can negotiate better terms. The earliest date that the United States could give formal notification of its withdrawal is November 4, 2020. In the interim, the United States continues to participate in international climate negotiations. It is uncertain if the United States will choose to pursue a transition to a low-carbon economy using a pathway that aligns with the Paris Agreement to keep global temperature rise to below two degrees Celsius (the "2 Degree Scenario") above pre-industrial levels or in connection with other regulation or legislation. PNM has not conducted a 2 Degree Scenario analysis but is participating in the Electric Power Research Institute program, "Understanding Climate Change Scenarios and

Goal-setting Activities". PNM has also calculated GHG reductions that would result from implementation of the 2017 IRP scenarios that assume PNM would retire its share of the SJGS in 2022 and would exit from Four Corners in 2031. Assuming necessary regulatory approvals are obtained for an early retirement of the SJGS and for an exit from Four Corners, PNM has set goals for its electricity generation to be 70% carbon free by 2032 and to achieve GHG reduction of 87% in 2040 when compared to 2005 baseline levels. This compares favorably to the 26% - 28% by 2025 United States INDC and the former administration's effort to achieve an 80% reduction by 2050. As discussed in Note 16, retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings, which PNM would make at appropriate times in the future.

PNM will continue to monitor the United States' and other parties' involvement in international accords, but the potential impact that such accords may have on the Company cannot be determined at this time.

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Assessment of Legislative/Regulatory Impacts

The Company has assessed, and continues to assess, the impacts of climate change legislation and regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding specific GHG limits; the timing of implementation of these limits; the possibility of a market-based trading program, including the associated costs and the availability of emission credits or allowances; the development of emission reduction and/or renewable energy technologies; and provisions for cost containment. Moreover, the assessment assumes various market reactions such as the price of coal and gas and regional plant economics. These assumptions are, at best, preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation or regulation could, among other things, result in significant compliance costs, including large capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Note 16. In turn, these consequences could lead to increased costs to customers and affect results of operations, cash flows, and financial condition if the incurred costs are not fully recovered through regulated rates. Higher rates could also contribute to reduced usage of electricity. PNM's assessment process is too preliminary and speculative at this time for a meaningful prediction of financial impact.

Transmission Issues

At any given time, FERC has various notices of inquiry and rulemaking dockets related to transmission issues pending. Such actions may lead to changes in FERC administrative rules or ratemaking policy, but have no time frame in which action must be taken or a docket closed with no further action. Further, such notices and rulemaking dockets do not apply strictly to PNM, but will have industry-wide effects in that they will apply to all FERC-regulated entities. PNM monitors and often submits comments taking a position in such notices and rulemaking dockets or may join in larger group responses. PNM often cannot determine the full impact of a proposed rule and policy change until the final determination is made by FERC and PNM is unable to predict the outcome of these matters.

On November 24, 2009, FERC issued Order 729 approving two Modeling, Data, and Analysis Reliability Standards ("Reliability Standards") submitted by NERC – MOD-001-1 (Available Transmission System Capability) and MOD-029-1 (Rated System Path Methodology). Both MOD-001-1 and MOD-029-1 require a consistent approach, provided for in the Reliability Standards, to measuring the total transmission capability ("TTC") of a transmission path. The TTC level established using the two Reliability Standards could result in a reduction in the available transmission capacity currently used by PNM to deliver generation resources necessary for its jurisdictional load and for fulfilling its obligations to third-party users of the PNM transmission system.

During the first quarter of 2011, at the request of PNM and other southwestern utilities, NERC advised all transmission owners and transmission service providers that the implementation of portions of the MOD-029 methodology for "Flow Limited" paths has been delayed until such time as a modification to the standard can be developed that will mitigate the technical concerns identified by the transmission owners and transmission service providers. PNM and other western utilities filed a Standards Action Request with NERC in the second quarter of 2012.

NERC initiated an informal development process to address directives in Order 729 to modify certain aspects of the MOD standards, including MOD-001 and MOD-029. The modifications to this standard would retire MOD-029 and require each transmission operator to determine and develop methodology for TTC values for MOD-001.

A final ballot for MOD-001-2 concluded on December 20, 2013 and received sufficient affirmative votes for approval. On February 10, 2014, NERC filed with FERC a petition for approval of MOD-001-2 and retirement of reliability standards MOD-001-1a, MOD-004-1, MOD-008-1, MOD-028-2, MOD-029-1a, and MOD-030-2. On June 19, 2014, FERC issued a NOPR to approve a new reliability standard. The MOD-001-2 standard will become effective on the first day of the calendar quarter that is 18 months after the date the standard is approved by FERC. MOD-001-2 will replace multiple existing reliability standards and will remove the risk of reduced TTC for PNM and other western utilities.

Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Reform Act”), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and record keeping and may impose margin requirements on swaps that are not centrally cleared. The United States Commodity Futures Trading Commission (“CFTC”) has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge

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or mitigate commercial risk. PNM has elected the end-user exception to the mandatory clearing requirement. PNM expects to be in compliance with the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of implementing and complying with the Dodd-Frank Reform Act and related rules, PNM’s swap activities could be subject to increased costs, including from higher margin requirements. The Trump Administration has indicated that the provisions of the Dodd-Frank Reform Act will be reviewed and certain regulations may be rolled back, but no formal action has been taken yet. At this time, PNM cannot predict the ultimate impact the Dodd-Frank Reform Act may have on PNM’s financial condition, results of operations, cash flows, or liquidity.

Other Matters

See Notes 16 and 17 for a discussion of commitments and contingencies and rate and regulatory matters. See Note 1 for a discussion of accounting pronouncements that have been issued, but are not yet effective and have not been adopted by the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to apply accounting policies and to make estimates and judgments that best provide the framework to report the results of operations and financial position for PNMR, PNM, and TNMP. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions. Management has identified the following accounting policies that it deems critical to the portrayal of the financial condition and results of operations and that involve significant subjectivity. The following discussion provides information on the processes utilized by management in making judgments and assumptions as they apply to its critical accounting policies.

Regulatory Accounting

The Company is subject to the provisions of GAAP for rate-regulated enterprises and records assets and liabilities resulting from the effects of the ratemaking process, which would not be recorded under GAAP for non-regulated entities. Additional information concerning regulatory assets and liabilities is contained in Note 13.

The Company continually evaluates the probability that regulatory assets and liabilities will impact future rates and makes various assumptions in those analyses. The expectations of future rate impacts are generally based on orders issued by regulatory commissions or historical experience, as well as discussions with applicable regulatory authorities. If future recovery or refund ceases to be probable, the Company would be required to write-off the portion that is not recoverable or refundable in current period earnings.

The Company has made adjustments to regulatory assets and liabilities that affected its results of operations in the past due to changes in various factors and conditions impacting future cost recovery. Based on its current evaluation, the Company believes that future recovery of its regulatory assets is probable.

Impairments

Tangible long-lived assets are evaluated for impairment when events and circumstances indicate that the assets might be impaired in accordance with GAAP. These potential impairment indicators include management’s assessment of fluctuating market conditions as a result of planned and scheduled customer purchase commitments; future market penetration; changing environmental requirements; fluctuating market prices resulting from factors including changing fuel costs and other economic conditions; long-term weather patterns; and other market trends. The amount of impairment recognized, if any, is the difference between the fair value of the asset and the carrying value of the asset and would reduce both the asset and current period earnings. Variations in the assessment of potential impairment or in the assumptions used to calculate an impairment could result in different outcomes, which could lead to significant effects on the Consolidated Financial Statements. See Note 16.

Goodwill is evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill might be impaired. GAAP allows impairment testing to be performed based on either a qualitative analysis or quantitative analysis. Note 19 contains information on the impairment testing performed by the Company on goodwill. For 2018, the Company utilized a quantitative analysis for PNM and a qualitative analysis for TNMP. No impairments were indicated in the Company’s annual goodwill testing, which was performed as of April 1, 2018. Since the annual evaluation, there have been no indications that the fair values of the reporting units with recorded goodwill have decreased below the carrying values. The annual testing was based on certain critical estimates and assumptions. Changes in the estimates or the use of different assumptions could affect the determination of fair value and the conclusion of impairment for each reporting unit.

Application of the quantitative impairment test requires judgment, including assignment of assets and liabilities to reporting units and the determination of the fair value of a reporting unit. A discounted cash flow methodology is primarily used by the Company to estimate the fair value of a reporting unit. This analysis requires significant judgments, including estimation of future cash flows, which is dependent on internal forecasts, estimation of long-term growth rates for the business, and determination of appropriate WACC for each reporting unit.

In determining the fair value of a reporting unit under the quantitative approach, the WACC is a significant factor. The Company considers many factors in selecting a WACC, including the market view of risk for each individual reporting unit, the appropriate capital structure based on that used in the ratemaking process, and the borrowing rate appropriate for a reporting unit. The Company considers available market-based information and may consult with third parties to help determine the WACC. The selection of a WACC is subjective and modifications to this rate could significantly increase or decrease the fair value of a reporting unit.

The other primary factor impacting the determination of the fair value of a reporting unit is the estimation of future cash flows. The Company considers budgets, long-term forecasts, historical trends, and expected growth rates in order to estimate future cash flows. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For the PNM and TNMP reporting units, which are subject to rate-regulation, a fair recovery of and return on costs prudently incurred to serve customers is assumed. Should the regulators not allow recovery of certain costs or not allow these reporting units to earn a fair rate of return on invested capital, the fair value of the reporting units could decrease.

Application of the qualitative goodwill impairment test requires evaluating various events and circumstances to determine whether it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. As a part of the Company's goodwill qualitative testing process for a reporting unit, various factors that are specific to the reporting unit as well as industry and macroeconomic factors are evaluated in order to determine whether these factors are reasonably likely to have a material impact on the fair value of the reporting unit. Examples of the factors that were considered in the qualitative testing of the goodwill include the results of the most recent quantitative impairment test, current and long-term forecasted financial results, regulatory environment, credit rating, changes in the interest rate environment, and operating strategy for the reporting unit.

Based on the quantitative analysis for PNM and the qualitative analysis for TNMP performed in 2018, the Company concluded that there were no changes that were reasonably likely to cause the fair value of the reporting units to be less than their carrying value and determined that there was no impairment of goodwill. Although the Company believes all relevant factors were considered in the qualitative impairment analysis to reach the conclusion that goodwill is not impaired, significant changes in any one of the assumptions could produce a significantly different result potentially leading to the recording of an impairment that could have significant impacts on the results of operations and financial position of the Company.

Decommissioning and Reclamation Costs

In accordance with GAAP, PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists. Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Decommissioning costs are based on site-specific estimates, which are updated periodically and involve numerous judgments and assumptions, including estimates of future decommissioning costs at current price levels, inflation rates, and discount rates. Changes in these estimates could significantly impact PNMR's and PNM's financial position, results of operations, and cash flows. Nuclear decommissioning costs are based on estimates of the costs for removing all radioactive and other structures at PVNGS. AROs, including nuclear decommissioning costs, are discussed in Note 15. Nuclear decommissioning costs represent approximately 81% of PNM's ARO liability. A 10% increase in the estimates of future decommissioning costs at current price levels would have increased the ARO liability by $16.4 million at December 31, 2018. PVNGS Units 1 and 2 are included in PNM's retail rates while PVNGS Unit 3 was excluded through 2017, but is included beginning in 2018. PNM recognizes an expense and a corresponding liability for ultimate decommissioning of PVNGS. See Note 17 for information concerning the treatment of nuclear decommissioning in the NMPRC's order in PNM's NM 2015 Rate Case and PNM's appeal of that order.

In connection with both the SJGS coal agreement and the Four Corners fuel agreement, the owners are required to reimburse the mining companies for the cost of contemporaneous reclamation, as well as the costs for final reclamation of the coal mines. The reclamation costs are based on periodic site-specific studies that estimate the costs to be incurred in the future and are dependent upon numerous assumptions, including estimates of future reclamation costs at current price levels, inflation rates, and discount rates. A 10% increase in the estimates of future reclamation costs at current price levels would have increased the mine reclamation liability by $8.9 million at December 31, 2018. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. The NMPRC has capped the amount that can be collected from ratepayers for final reclamation of the surface mines. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. See Note 16 for discussion of reclamation costs.

Pension and Other Postretirement Benefits

The Company maintains qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The net periodic benefit cost or income and the calculation of the projected benefit obligations are recognized in the Company's financial statements and depend on expected investment performance, the level of contributions made to the plans, and employee demographics. These calculations require the use of a number of actuarial assumptions and estimates. The most critical of the actuarial assumptions are the expected long-term rate of return, the discount rate, and projected health care cost trend rates. The Company reviews and evaluates its actuarial assumptions annually and adjusts them as necessary. Changes in the pension and OPEB assets and liabilities associated with these factors are not immediately recognized as net periodic benefit cost or income in results of operations, but are recognized in future years, generally, over the remaining life of the plan. However, these factors could have a significant impact on the financial position of the Company. Note 11 contains additional information about pension and OPEB obligations, including assumptions utilized in the calculations and impacts of changes in certain of those assumptions.

Accounting for Contingencies

The financial results of the Company may be affected by judgments and estimates related to loss contingencies. Contingencies related to litigation and claims, as well as environmental and regulatory matters, also require the use of significant judgment and estimation. The Company attempts to take into account all known factors regarding the future outcome of contingent events and records an accrual for any contingent loss events that are both probable of occurring and can be reasonably estimated based upon current available information. However, the actual outcomes can vary from any amounts accrued which could have a material effect on the results of operations and financial position of the Company. See Note 16 and Note 17.

Income Taxes

The Company's income tax expense and related balance sheet amounts involve significant judgment and use of estimates. Amounts of deferred income tax assets and liabilities, current and noncurrent accruals, and determination of uncertain tax positions involve judgment and estimates related to timing and probability of the recognition of income and deductions by taxing authorities. In addition, some temporary differences are accorded flow-through treatment by the Company's regulators and impact the Company's effective tax rate. In assessing the likelihood of the realization of deferred tax assets, management considers the estimated amount and character of future taxable income. Significant changes in these judgments and estimates could have a material impact on the results of operations and financial position of the Company. Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, the Company's forecasted financial condition and results of operations in future periods, and the final review from taxing authorities. See Note 18 for additional information, including a discussion of the impacts of tax reform under the Tax Cuts and Jobs Act enacted on December 22, 2017.

MD&A FOR PNM

RESULTS OF OPERATIONS

PNM operates in only one reportable segment, as presented above in Results of Operations for PNMR.

MD&A FOR TNMP

RESULTS OF OPERATIONS

TNMP operates in only one reportable segment, as presented above in Results of Operations for PNMR.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages the scope of its various forms of market risk through a comprehensive set of policies and procedures with oversight by senior level management through the RMC. The Board's Finance Committee sets the risk limit parameters. The RMC has oversight over the risk control organization. The RMC is assigned responsibility for establishing and enforcing the policies, procedures, and limits and evaluating the risks inherent in proposed transactions on an enterprise-wide basis. The RMC's responsibilities include:

- Establishing policies regarding risk exposure levels and activities in each of the business segments
- Approving the types of derivatives entered into for hedging
- Reviewing and approving hedging risk activities
- Establishing policies regarding counterparty exposure and limits
- Authorizing and delegating transaction limits
- Reviewing and approving controls and procedures for derivative activities
- Reviewing and approving models and assumptions used to calculate mark-to-market and market risk exposure

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- Proposing risk limits to the Board's Finance Committee for its approval
- Reporting to the Board's Audit and Finance Committees on these activities

To the extent an open position exists, fluctuating commodity prices, interest rates, equity prices, and economic conditions can impact financial results and financial position, either favorably or unfavorably. As a result, the Company cannot predict with certainty the impact that its risk management decisions may have on its businesses, operating results, or financial position.

Commodity Risk

Information concerning accounting for derivatives and the risks associated with commodity contracts is set forth in Note 9, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Consolidated Balance Sheets. During the years ended December 31, 2018 and 2017, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts, other than those that do not meet the definition of a derivative under GAAP, are recorded at fair value on the Consolidated Balance Sheets. The following table details the changes in the net asset or liability balance sheet position for mark-to-market energy transactions.

	Year Ended December 31,	
	2018	2017
Economic Hedges	(In thousands)	
Sources of fair value gain (loss):		
Net fair value at beginning of period	$(94)	$2,885
Amount realized on contracts delivered during period	102	(2,640)
Changes in fair value	(102)	(235)
Net mark-to-market change recorded in earnings	—	(2,875)
Net change recorded as regulatory liability	—	(104)
Net fair value at end of period	$(94)	$(94)

All of the fair values as of December 31, 2018 were determined based on prices provided by external sources other than actively quoted market prices. All of the mark-to-market amounts will settle in 2019.

PNM is exposed to changes in the market prices of electricity and natural gas for the positions in its wholesale portfolio not covered by the FPPAC. The Company manages risks associated with these market fluctuations by utilizing various commodity instruments that may qualify as derivatives, including futures, forwards, options, and swaps. PNM uses such instruments to hedge its exposure to changes in the market prices of electricity and natural gas. PNM also uses such instruments under an NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC.

Prior to 2018, PNM measured the market risk of its wholesale activities not covered by the FPPAC using a Monte Carlo VaR ("Value at Risk") simulation model to report the possible loss in value from price movements. In January 2018, PNM's interest in PVNGS Unit 3 became a jurisdictional resource to serve New Mexico customers and PNM began selling 36 MW of its 65 MW merchant interest in SJGS Unit 4 to a third party at a fixed price. These events significantly reduced PNM's exposure to commodity risk and, beginning in February 2018, the Company no longer uses VaR as a risk metric. VaR limits were not exceeded during the year ended December 31, 2017.

Credit Risk

The Company is exposed to credit risk from its retail and wholesale customers, as well as the counterparties to derivative instruments. The Company conducts counterparty risk analysis across business segments and uses a credit management process to assess the financial conditions of counterparties. The following table provides information related to credit exposure by the credit worthiness (credit rating) and concentration of credit risk for wholesale counterparties, all of which will mature in less than two years.

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Schedule of Credit Risk Exposure
December 31, 2018

Rating (1)	Credit Risk Exposure(2)	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
	(Dollars in thousands)		
External ratings:			
Investment grade	$6,234	1	$ 1,303
Non-investment grade	1	—	—
Split ratings	—	—	—
Internal ratings:			
Investment grade	4,759	2	3,513
Non-investment grade	—	—	—
Total	$10,994		$ 4,816

(1) The rating "Investment Grade" is for counterparties, or a guarantor, with a minimum S&P rating of BBB- or Moody's rating of Baa3. The category "Internal Ratings – Investment Grade" includes those counterparties that are internally rated as investment grade in accordance with the guidelines established in the Company's credit policy.

(2) The Credit Risk Exposure is the gross credit exposure, including long-term contracts (other than firm-requirements wholesale customers and the Tri-State hazard sharing agreement), forward sales, and short-term sales. The gross exposure captures the amounts from receivables/payables for realized transactions, delivered and unbilled revenues, and mark-to-market gains/losses. Gross exposures can be offset according to legally enforceable netting arrangements but are not reduced by posted credit collateral. At December 31, 2018, PNMR held $1.0 million of cash collateral to offset its credit exposure.

Net credit risk for the Company's largest counterparty as of December 31, 2018 was $2.3 million.

Other investments have no significant counterparty credit risk.

Interest Rate Risk

The majority of the Company's long-term debt is fixed-rate debt and does not expose earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of long-term debt instruments for PNMR, PNM, and TNMP would increase by 2.1%, 2.2%, and 3.0%, if interest rates were to decline by 50 basis points from their levels at December 31, 2018. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if all or a portion of debt instruments were acquired in the open market prior to their maturity. At February 22, 2019, PNMR, PNM, and TNMP had $45.3 million, zero, and $37.5 million of short-term debt outstanding under their revolving credit facilities, which allow for a maximum aggregate borrowing capacity of $300.0 million for PNMR, $400.0 million for PNM, and $75.0 million for TNMP. PNM also had borrowings of $10.0 million under the $40.0 million PNM 2017 New Mexico Credit Facility and PNMR Development had $10.9 million outstanding under the PNMR Development Revolving Credit Facility at February 22, 2019. The revolving credit facilities, the PNM 2017 New Mexico Credit Facility, the $150.0 million PNMR 2018 One-Year Term Loan, the $50.0 million PNMR 2018 Two-Year Term Loan, the $90.0 million PNMR Development Term Loan, the $250.0 million PNM 2019 Term Loan, and the $35.0 million TNMP Term Loan bear interest at variable rates. On February 22, 2019, interest rates on borrowings averaged 3.75% for the PNMR Revolving Credit Facility, 3.25% for the PNMR 2018 One-Year Term Loan, 3.28% for the PNMR 2018 Two-Year Term Loan, 3.49% for the PNMR Development Revolving Credit Facility, 3.30% for the PNMR Development Term Loan, 3.63% for the PNM 2017

New Mexico Credit Facility, 3.13% for the PNM 2019 Term Loan, 3.26% for the TNMP Revolving Credit Facility, and 3.20% for the TNMP 2018 Term Loan. The Company is exposed to interest rate risk to the extent of future increases in variable interest rates. However, as discussed in Note 7, PNMR has entered into hedging arrangements to effectively establish fixed interest rates on $150.0 million of variable rate debt.

The investments held by PNM in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits had an estimated fair value of $887.6 million at December 31, 2018, of which 47.4% were fixed-rate debt securities that subject PNM to risk of loss of fair value with increases in market interest rates. If interest rates were to increase by 50 basis points from their levels at December 31, 2018, the decrease in the fair value of the fixed-rate securities would be 4.3%, or $18.1 million. Due to the funded status of the nuclear decommissioning trust and overall market performance, PNM began to re-balance the decommissioning investment portfolio in late 2017 to increase the percentage of the investments in fixed income (debt) securities to approximately 85%. The portfolio re-balancing was completed in early 2018 and is expected to increase the exposure related to interest rate risk and reduce the equity market risk referenced below. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of $63.5 million at December 31, 2018, of which 38.0% were fixed-rate debt securities that subject TNMP to risk of loss of fair value with movements in market interest rates. If interest rates were to increase by 50 basis points from their levels at December 31, 2018, the decrease in the fair value of the fixed-rate securities would be 5.6%, or $1.4 million.

PNM and TNMP do not directly recover or return through rates any losses or gains on the securities, including equity and alternative investments discussed below, in the trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits. However, the overall performance of these trusts does enter into the periodic determinations of expense and funding levels, which are factored into the rate making process to the extent applicable to regulated operations. However, as described in Note 17, the NMPRC has ruled that PNM would not be able to include future contributions made by PNM for decommissioning of PVNGS, to the extent applicable to certain capacity previously leased by PNM, in rates charged to retail customers. PNM has appealed the NMPRC’s ruling to the NM Supreme Court. PNM and TNMP are at risk for shortfalls in funding of obligations due to investment losses, including those from the equity market and alternatives investment risks discussed below to the extent not ultimately recovered through rates charged to customers.

Equity Market Risk

The investments held by PNM in trusts for decommissioning and reclamation and trusts established for PNM’s and TNMP’s pension and post-employment benefits plans include certain equity securities at December 31, 2018. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 40.6% and 43.6% of the securities held by the various PNM and TNMP trusts as of December 31, 2018. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $36.0 million for PNM and $2.8 million for TNMP.

Alternatives Investment Risk

The Company had 15.8% of its pension assets invested in the alternative asset class as of December 31, 2018. The Company’s target for this class is 20%. Alternative investments include investments in hedge funds, real estate funds, and private equity funds. The hedge funds and private equity funds are limited partner structures that are structured as multi-manager multi-strategy fund of funds to achieve a diversified position in these asset classes. The general partner oversees the selection and monitoring of the underlying managers. The hedge funds pursue various absolute return strategies such as relative value, long-short equity, and event driven. Private equity fund strategies include mezzanine financing, buy-outs, and venture capital. The real estate investments are commingled real estate portfolios that invest in a diversified portfolio of assets including commercial property and multi-family housing. The Company’s Corporate Investment Committee, assisted by its investment consultants, monitors the performance of the funds and general partner’s investments process. There is risk associated with these funds due to the nature of the strategies and techniques and the use of investments that do not have readily determinable fair values. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $8.6 million.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
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MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of PNM Resources, Inc. and subsidiaries (“PNMR”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of PNMR’s internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNMR’s internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of and for the year ended December 31, 2018 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their audit report which is included herein.

/s/ Patricia K. Collawn
Patricia K. Collawn,
Chairman, President, and Chief Executive Officer

/s/ Charles N. Eldred
Charles N. Eldred
Executive Vice President and
Chief Financial Officer

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MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Public Service Company of New Mexico and subsidiaries (“PNM”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of PNM’s internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNM’s internal control over financial reporting was effective as of December 31, 2018.

/s/ Patricia K. Collawn
Patricia K. Collawn,
President and Chief Executive Officer

/s/ Charles N. Eldred
Charles N. Eldred
Executive Vice President and
Chief Financial Officer

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Texas-New Mexico Power Company and subsidiaries ("TNMP") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of TNMP's internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that TNMP's internal control over financial reporting was effective as of December 31, 2018.

/s/ Patricia K. Collawn
Patricia K. Collawn,
Chief Executive Officer

/s/ Charles N. Eldred
Charles N. Eldred
Executive Vice President and
Chief Financial Officer

Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
PNM Resources, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting
We have audited the accompanying consolidated balance sheets of PNM Resources, Inc. and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the years in the three year period ended December 31, 2018, the related notes and financial statement Schedule I – Condensed Financial Information of Parent Company and Schedule II – Valuation and Qualifying Accounts (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.
Basis for Opinions
The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.
Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.
Definition and Limitations of Internal Control Over Financial Reporting
A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those

policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable

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assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.
Albuquerque, New Mexico
March 1, 2019

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Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
Public Service Company of New Mexico:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Public Service Company of New Mexico and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the years in the three year period ended December 31, 2018, the related notes and Schedule II – Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.
Albuquerque, New Mexico
March 1, 2019

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Report of Independent Registered Public Accounting Firm
To the Stockholder and Board of Directors
Texas New Mexico Power Company:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Texas New Mexico Power Company and subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of earnings, consolidated statements of changes in common stockholder's equity, and consolidated statements of cash flows for each of the years in the three year period ended December 31, 2018, the related notes and Schedule II – Valuation and Qualifying Accounts (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2013.
Albuquerque, New Mexico
March 1, 2019

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2018	2017	2016
	(In thousands, except per share amounts)		
Electric Operating Revenues			
Contracts with customers	$1,359,740	$1,321,023	$1,277,594
Alternative revenue programs	1,756	15,779	16,035
Other electric operating revenue	75,117	108,201	69,322
Total electric operating revenues	1,436,613	1,445,003	1,362,951
Operating Expenses:			
Cost of energy	399,726	407,479	380,596
Administrative and general	188,470	177,791	184,774
Energy production costs	149,477	137,450	146,187
Regulatory disallowances and restructuring costs	65,598	27,036	15,011
Depreciation and amortization	241,188	231,942	209,110
Transmission and distribution costs	76,434	71,576	66,227
Taxes other than income taxes	79,673	76,690	76,321
Total operating expenses	1,200,566	1,129,964	1,078,226
Operating income	236,047	315,039	284,725
Other Income and Deductions:			
Interest income	15,540	15,916	22,293
Gains (losses) on investment securities	(17,176)	27,161	19,517
Other income	17,586	19,515	17,796
Other (deductions)	(15,696)	(24,247)	(20,524)
Net other income and deductions	254	38,345	39,082
Interest Charges	127,244	127,625	128,633
Earnings before Income Taxes	109,057	225,759	195,174
Income Taxes	7,775	130,340	63,278
Net Earnings	101,282	95,419	131,896
(Earnings) Attributable to Valencia Non-controlling Interest	(15,112)	(15,017)	(14,519)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Net Earnings Attributable to PNMR	$85,642	$79,874	$116,849
Net Earnings Attributable to PNMR per Common Share:			
Basic	$1.07	$1.00	$1.47
Diluted	$1.07	$1.00	$1.46

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net Earnings	$101,282	$95,419	$131,896
Other Comprehensive Income (Loss):			
Unrealized Gains on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of $(963), $(10,927), and $(304)	2,827	17,233	474
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $970, $6,816, and $8,639	(2,849)	(10,751)	(13,500)
Pension Liability Adjustment:			
Experience gains (losses), net of income tax (expense) benefit of $2,637, $(919), and $7,219	(7,745)	2,699	(11,282)
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of $(1,922), $(2,504), and $(2,148)	5,646	3,948	3,356
Fair Value Adjustment for Cash Flow Hedges:			
Change in fair market value, net of income tax (expense) benefit of $(145), $(388), and $341	425	612	(533)
Reclassification adjustment for losses included in net earnings, net of income tax (benefit) of $(56), $(225), and $(298)	160	356	466
Total Other Comprehensive Income (Loss)	(1,536)	14,097	(21,019)
Comprehensive Income	99,746	109,516	110,877
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(15,112)	(15,017)	(14,519)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Comprehensive Income Attributable to PNMR	$84,106	$93,971	$95,830

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	$101,282	$95,419	$131,896
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	275,641	268,194	242,033
Deferred income tax expense	8,019	130,528	63,805
Net unrealized losses on commodity derivatives	—	2,875	1,577
(Gains) losses on investment securities	17,176	(27,161)	(19,517)
Stock based compensation expense	7,120	6,194	5,634
Regulatory disallowances and restructuring costs	65,598	27,036	15,011
Allowance for equity funds used during construction	(10,404)	(9,516)	(4,949)
Other, net	3,529	2,329	3,060
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(8,702)	(1,846)	2,543
Materials, supplies, and fuel stock	(5,331)	1,473	(4,169)
Other current assets	2,491	31,298	(9,640)
Other assets	(840)	(5,486)	(42,864)
Accounts payable	(20,714)	14,468	3,159
Accrued interest and taxes	1,713	(327)	3,345
Other current liabilities	2,614	(6,513)	(12,509)
Other liabilities	(10,966)	(5,503)	29,868
Net cash flows from operating activities	428,226	523,462	408,283
Cash Flows From Investing Activities:			
Additions to utility and non-utility plant	(501,213)	(500,461)	(600,076)
Proceeds from sales of investment securities	984,533	637,492	522,601
Purchases of investment securities	(1,007,022)	(650,284)	(538,383)
Return of principal on PVNGS lessor notes	—	—	8,547
Investments in NMRD	(9,000)	(4,077)	—
Disbursements from NMRD	—	12,415	—
Investment in Westmoreland Loan	—	—	(122,250)
Principal repayments on Westmoreland Loan	56,640	38,360	30,000
Other, net	338	392	186
Net cash flows from investing activities	(475,724)	(466,163)	(699,375)

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term loan	50,000	—	100,000
Repayment of short-term loan	—	—	(150,000)
Revolving credit facilities borrowings (repayments), net	(119,500)	18,300	86,500
Long-term borrowings	984,652	317,000	603,500
Repayment of long-term debt	(750,162)	(274,070)	(303,793)
Proceeds from stock option exercise	963	1,739	7,028
Awards of common stock	(12,635)	(13,929)	(15,451)
Dividends paid	(84,961)	(77,792)	(70,623)
Valencia’s transactions with its owner	(17,095)	(17,742)	(17,006)
Amounts received under transmission interconnection arrangements	4,060	11,879	7,171
Refunds paid under transmission interconnection arrangements	(2,830)	(21,290)	(2,830)
Other, net	(6,846)	(2,942)	(2,104)
Net cash flows from financing activities	45,646	(58,847)	242,392
Change in Cash and Cash Equivalents	(1,852)	(1,548)	(48,700)
Cash and Cash Equivalents at Beginning of Year	3,974	5,522	54,222
Cash and Cash Equivalents at End of Year	$2,122	$3,974	$5,522
Restricted Cash Included in Other Current Assets on Consolidated Balance Sheets:			
At beginning of period	$—	$1,000	$8,171
At end of period	$—	$—	$1,000
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	$119,308	$120,955	$115,043
Income taxes paid (refunded), net	$842	$625	$(307)
Supplemental schedule of noncash investing and financing activities:			
(Increase) decrease in accrued plant additions	$(11,502)	$(25,261)	$18,345
Contribution of utility plant to NMRD	$578	$24,829	$—

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$2,122	$3,974
Accounts receivable, net of allowance for uncollectible accounts of $1,406 and $1,081	92,800	90,473
Unbilled revenues	57,092	54,055
Other receivables	11,369	17,582
Current portion of Westmoreland Loan	—	3,576
Materials, supplies, and fuel stock	71,834	66,502
Regulatory assets	4,534	2,933
Commodity derivative instruments	1,083	1,088
Income taxes receivable	7,965	6,879
Other current assets	53,725	47,358
Total current assets	302,524	294,420
Other Property and Investments:		
Long-term portion of Westmoreland Loan	—	53,064
Investment securities	328,242	323,524
Equity investment in NMRD	26,564	16,510
Other investments	297	503
Non-utility property	3,404	3,404
Total other property and investments	358,507	397,005
Utility Plant:		
Plant in service and held for future use	7,548,581	7,238,285
Less accumulated depreciation and amortization	2,604,177	2,592,692
	4,944,404	4,645,593
Construction work in progress	194,427	245,933
Nuclear fuel, net of accumulated amortization of $42,511 and $43,524	95,798	88,701
Net utility plant	5,234,629	4,980,227
Deferred Charges and Other Assets:		
Regulatory assets	598,930	600,672
Goodwill	278,297	278,297
Commodity derivative instruments	2,511	3,556
Other deferred charges	90,153	91,926
Total deferred charges and other assets	969,891	974,451
	$6,865,551	$6,646,103

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$235,900	$305,400
Current installments of long-term debt	—	256,895
Accounts payable	112,170	121,383
Customer deposits	10,695	11,028
Accrued interest and taxes	65,156	62,357
Regulatory liabilities	9,446	2,309
Commodity derivative instruments	1,177	1,182
Dividends declared	23,231	21,240
Other current liabilities	54,678	53,850
Total current liabilities	512,453	835,644
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,670,111	2,180,750
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	600,719	547,210
Regulatory liabilities	891,428	933,578
Asset retirement obligations	158,674	146,679
Accrued pension liability and postretirement benefit cost	100,375	94,003
Commodity derivative instruments	2,511	3,556
Other deferred credits	165,157	131,706
Total deferred credits and other liabilities	1,918,864	1,856,732
Total liabilities	5,101,428	4,873,126
Commitments and Contingencies (See Note 16)		
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)	1,153,113	1,157,665
Accumulated other comprehensive income (loss), net of income taxes	(108,684)	(95,940)
Retained earnings	643,953	633,528
Total PNMR common stockholders' equity	1,688,382	1,695,253
Non-controlling interest in Valencia	64,212	66,195
Total equity	1,752,594	1,761,448
	$6,865,551	$6,646,103

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2015	$1,166,465	$(71,432)	$559,780	$1,654,813	$71,407	$1,726,220
Net earnings before subsidiary preferred stock dividends	—	—	117,377	117,377	14,519	131,896
Total other comprehensive income (loss)	—	(21,019)	—	(21,019)	—	(21,019)
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(71,887)	(71,887)	—	(71,887)
Proceeds from stock option exercise	7,028	—	—	7,028	—	7,028
Awards of common stock	(15,451)	—	—	(15,451)	—	(15,451)
Excess tax (shortfall) from stock-based payment arrangements	(15)	—	—	(15)	—	(15)
Stock based compensation expense	5,634	—	—	5,634	—	5,634
Valencia's transactions with its owner	—	—	—	—	(17,006)	(17,006)
Balance at December 31, 2016, as originally reported	1,163,661	(92,451)	604,742	1,675,952	68,920	1,744,872
Cumulative effect adjustment (Note 12)	—	—	10,382	10,382	—	10,382
Balance at January 1, 2017, as adjusted	1,163,661	(92,451)	615,124	1,686,334	68,920	1,755,254
Reclassification of stranded income taxes resulting from tax reform (Note 18)	—	(17,586)	17,586	—	—	—
Net earnings before subsidiary preferred stock dividends	—	—	80,402	80,402	15,017	95,419
Total other comprehensive income (loss)	—	14,097	—	14,097	—	14,097
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(79,056)	(79,056)	—	(79,056)
Proceeds from stock option exercise	1,739	—	—	1,739	—	1,739
Awards of common stock	(13,929)	—	—	(13,929)	—	(13,929)
Stock based compensation expense	6,194	—	—	6,194	—	6,194
Valencia's transactions with its owner	—	—	—	—	(17,742)	(17,742)
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 9)	—	(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	—	—	86,170	86,170	15,112	101,282
Total other comprehensive income (loss)	—	(1,536)	—	(1,536)	—	(1,536)

Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Dividends declared on common stock	—	—	(86,425)	(86,425)	—	(86,425)
Proceeds from stock option exercise	963	—	—	963	—	963
Awards of common stock	(12,635)	—	—	(12,635)	—	(12,635)
Stock based compensation expense	7,120	—	—	7,120	—	7,120
Valencia's transactions with its owner	—	—	—	—	(17,095)	(17,095)
Balance at December 31, 2018	$1,153,113	$(108,684)	$643,953	$1,688,382	$64,212	$1,752,594

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

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

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Electric Operating Revenues			
Contracts with customers	$1,019,291	$992,462	$963,158
Alternative revenue programs	(2,443)	3,567	3,433
Other electric operating revenue	75,117	108,201	69,322
Total electric operating revenues	1,091,965	1,104,230	1,035,913
Operating Expenses:			
Cost of energy	314,036	321,677	299,714
Administrative and general	173,178	163,892	162,469
Energy production costs	149,477	137,450	146,187
Regulatory disallowances and restructuring costs	66,339	27,036	15,011
Depreciation and amortization	151,866	147,017	133,447
Transmission and distribution costs	46,855	42,370	39,657
Taxes other than income taxes	45,181	43,709	44,598
Total operating expenses	946,932	883,151	841,083
Operating income	145,033	221,079	194,830
Other Income and Deductions:			
Interest income	13,089	8,454	10,173
Gains (losses) on investment securities	(17,176)	27,161	19,517
Other income	10,992	13,527	12,088
Other (deductions)	(11,128)	(18,556)	(16,279)
Net other income and (deductions)	(4,223)	30,586	25,499
Interest Charges	76,458	82,697	87,469
Earnings before Income Taxes	64,352	168,968	132,860
Income Taxes (Benefit)	(5,971)	81,555	40,922
Net Earnings	70,323	87,413	91,938
(Earnings) Attributable to Valencia Non-controlling Interest	(15,112)	(15,017)	(14,519)
Net Earnings Attributable to PNM	55,211	72,396	77,419
Preferred Stock Dividends Requirements	(528)	(528)	(528)
Net Earnings Available for PNM Common Stock	$54,683	$71,868	$76,891

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

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

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Net Earnings	$70,323	$87,413	$91,938
Other Comprehensive Income (Loss):			
Unrealized Gains on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of $(963), $(10,927), and $(304)	2,827	17,233	474
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $970, $6,816, and $8,639	(2,849)	(10,751)	(13,500)
Pension Liability Adjustment:			
Experience gains (losses), net of income tax (expense) benefit of $2,637, $(919), and $7,219	(7,745)	2,699	(11,282)
Reclassification adjustment for amortization of experience losses recognized as net periodic benefit cost, net of income tax (benefit) of $(1,922), $(2,504), and $(2,148)	5,646	3,948	3,356
Total Other Comprehensive Income (Loss)	(2,121)	13,129	(20,952)
Comprehensive Income	68,202	100,542	70,986
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(15,112)	(15,017)	(14,519)
Comprehensive Income Attributable to PNM	$53,090	$85,525	$56,467

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

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

	Year Ended December 31,		
	2018	2017	2016
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings (loss)	$70,323	$87,413	$91,938
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	182,355	180,500	166,047
Deferred income tax expense	3,334	82,549	53,119
Net unrealized losses on commodity derivatives	—	2,875	1,577
(Gains) losses on investment securities	17,176	(27,161)	(19,517)
Regulatory disallowances and restructuring costs	66,339	27,036	15,011
Allowance for equity funds used during construction	(8,173)	(8,664)	(4,163)
Other, net	3,395	2,615	3,046
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(7,959)	(419)	4,769
Materials, supplies, and fuel stock	(6,238)	3,542	(3,924)
Other current assets	(468)	31,775	(6,044)
Other assets	6,894	15,121	(23,880)
Accounts payable	(14,290)	9,736	5,614
Accrued interest and taxes	(7,617)	21,523	(9,601)
Other current liabilities	(17,975)	(11,099)	(12,136)
Other liabilities	(3,761)	(9,389)	20,119
Net cash flows from operating activities	283,335	407,953	281,975
Cash Flows From Investing Activities:			
Utility plant additions	(255,627)	(309,142)	(445,464)
Proceeds from sales of investment securities	984,533	637,492	522,601
Purchases of investment securities	(1,007,022)	(650,284)	(538,383)
Return of principal on PVNGS lessor notes	—	—	8,547
Other, net	544	33	171
Net cash flows from investing activities	(277,572)	(321,901)	(452,528)

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

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

	Year ended December 31,		
	2018	2017	2016
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term borrowings (repayments), net	2,600	(21,200	61,000
Short-term borrowings (repayments) - affiliate, net	19,800	—	—
Long-term borrowings	450,000	257,000	321,000
Repayment of long-term debt	(450,025	(232,000	(271,000
Equity contribution from parent	—	—	28,142
Valencia’s transactions with its owner	(17,095	(17,742	(17,006
Dividends paid	(77,904	(61,223	(4,670
Amounts received under transmission interconnection arrangements	72,260	11,879	7,171
Refunds paid under transmission interconnection arrangements	(2,830	(21,290	(2,830
Other, net	(3,592	(1,692	(1,239
Net cash flows from financing activities	(6,786	(86,268	120,568
Change in Cash and Cash Equivalents	(1,023	(216	(49,985
Cash and Cash Equivalents at Beginning of Year	1,108	1,324	