

PNM RESOURCES INC  
 Form 10-K  
 February 28, 2014  
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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, 2013

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

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

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

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

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

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

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

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 <input type="checkbox"/>	NO <input type="checkbox"/>
PNM	YES <input type="checkbox"/>	NO <input type="checkbox"/>

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 <input checked="" type="checkbox"/>	NO
PNM	YES <input checked="" type="checkbox"/>	NO
TNMP	YES	NO <input checked="" type="checkbox"/>

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

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

PNMR	YES <input checked="" type="checkbox"/>	NO
PNM	YES <input checked="" type="checkbox"/>	NO
TNMP	YES <input checked="" type="checkbox"/>	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 registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
PNMR	<input checked="" type="checkbox"/>		<input type="checkbox"/>	
PNM	<input type="checkbox"/>		<input checked="" type="checkbox"/>	
TNMP	<input type="checkbox"/>		<input checked="" type="checkbox"/>	

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

YES  NO

As of February 21, 2014, shares of common stock outstanding were:

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

On June 28, 2013, 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 \$22.19 per share reported by The Wall Street Journal, was \$1,767,513,917. PNM and TNMP have no common stock held by non-affiliates.

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Proxy Statement to be filed by PNMR with the SEC pursuant to Regulation 14A relating to the annual meeting of stockholders of PNMR to be held on May 15, 2014.

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

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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:

ABO	Accumulated Benefit Obligation
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, which is the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BHP	BHP Billiton, Ltd, the parent of SJCC
Board	Board of Directors of PNMR
BTU	British Thermal Unit
CAA	Clean Air Act
Cascade	Cascade Investment, L.L.C.
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO <sub>2</sub>	Carbon Dioxide
CTC	Competition Transition Charge
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station
DOE	United States Department of Energy
DOI	United States Department of Interior
ECJV	ECJV Holdings, LLC
EGU	Electric Generating Unit
EIB	New Mexico Environmental Improvement Board
EIP	Eastern Interconnection Project
EPA	United States Environmental Protection Agency
EPE	El Paso Electric
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
First Choice	FCP Enterprises, Inc. and Subsidiaries
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC
FPPAC	Fuel and Purchased Power Adjustment Clause
GAAP	Generally Accepted Accounting Principles in the United States of America
Gallup	City of Gallup, New Mexico
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours

IBEW  
IRP  
IRS

International Brotherhood of Electrical Workers  
Integrated Resource Plan  
Internal Revenue Service

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KW	Kilowatt
KWh	Kilowatt Hour
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody’s	Moody’s Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NERC	North American Electric Reliability Council
New Mexico Wind	New Mexico Wind Energy Center
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NOx	Nitrogen Oxides
NOI	Notice of Inquiry
NOPR	Notice of Proposed Rulemaking
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
Optim Energy	Optim Energy, LLC, a limited liability company, formerly known as EnergyCo, LLC
OSM	United States Office of Surface Mining Reclamation and Enforcement
PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds
PG&E	Pacific Gas and Electric Co.
PNM	Public Service Company of New Mexico and Subsidiaries
PNM New Mexico Credit Facility	PNM’s \$50.0 Million Unsecured Revolving Credit Facility
PNM Revolving Credit Facility	PNM’s \$400.0 Million Unsecured Revolving Credit Facility
PNM Term Loan Agreement	PNM’s \$75.0 Million Unsecured Term Loan Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR Revolving Credit Facility	PNMR’s \$300.0 Million Unsecured Revolving Credit Facility
	PNMR’s \$100.0 Million Unsecured Term Loan Facility

PNMR Term Loan  
Agreement

PPA                      Power Purchase Agreement  
PSD                     Prevention of Significant Deterioration  
PUCT                    Public Utility Commission of Texas

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PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico’s Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
RMC	Risk Management Committee
RPS	Renewable Energy Portfolio Standard
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction
SO <sub>2</sub>	Sulfur Dioxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
S&P	Standard and Poor’s Ratings Services
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2011 Term Loan Agreement	TNMP’s \$50.0 Million Secured Term Loan
TNMP Revolving Credit Facility	TNMP’s \$75.0 Million Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power System
Valencia	Valencia Energy Facility
VaR	Value at Risk
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
WSPP	Western Systems Power Pool

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PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

PNMR is an investor-owned holding company of utilities providing electricity and electric services in New Mexico and Texas. With PNMR's exit from its unregulated businesses in 2011, PNMR is now positioned as a holding company of regulated electric utilities focused on achieving the following strategic goals:

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

PNMR's success in accomplishing these strategic goals is highly dependent on continued favorable regulatory treatment for its regulated utilities. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. In Texas, the PUCT has approved mechanisms that allow for recovery of capital invested in transmission and distribution projects without having to file a general rate case. In 2011, PNM and TNMP completed general rate proceedings before their state regulators. In August 2012, PNM implemented a rate rider to collect renewable energy procurement costs that are not otherwise being collected in rates. On January 2, 2013, FERC approved a settlement for an increase in rates PNM charges its transmission customers and, in December 2012, PNM filed for an additional increase in rates charged to those customers based on a formula rate methodology, which is pending before FERC. In April 2013, PNM received FERC approval of a settlement for an increase in rates charged to NEC, its largest firm-requirements wholesale customer. PNM also reached agreement with Gallup, its second largest firm-requirements wholesale customer, to increase rates and extend the contract through June 30, 2014. TNMP received PUCT approvals to increase rates to reflect increases in its transmission cost of service in September 2012, March 2013, and September 2013. 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 will be indicated as such. 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](http://www.pnmresources.com), is an important source of Company information. New or updated information for public access is routinely posted. PNMR encourages analysts, investors, and other interested parties to register on the website to automatically receive Company information by e-mail. This information includes news releases, notices of webcasts, and filings with the SEC. Participants can unsubscribe at any time and will not receive

information that was not requested.

Our Internet addresses are:

PNMR: [www.pnmresources.com](http://www.pnmresources.com)

PNM: [www.pnm.com](http://www.pnm.com)

TNMP: [www.tnmp.com](http://www.tnmp.com)

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

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Also available on the Company's website at [www.pnmresources.com/investors/governance.cfm](http://www.pnmresources.com/investors/governance.cfm) and in print upon request from any shareholder are our:

• Corporate Governance Principles

• Code of Ethics (Do the Right Thing-Principles of Business Conduct)

• Charters of the Audit and Ethics Committee, Nominating and Governance Committee, Compensation and Human Resources Committee, and Finance Committee

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

OPERATIONS AND REGULATION

Regulated Operations

PNM

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

Regulation encompasses the utility's electric rates, service, accounting, issuances of securities, construction of major new generation, types of generation resources, transmission and distribution facilities, and other matters.

Other services provided by PNM include transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. The utility owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. The largest retail electric customer served by PNM accounted for 3.8% of the utility's revenues for the year ended December 31, 2013. PNM was incorporated in the State of New Mexico in 1917.

Rate Proceedings

Customer rates for retail electric service are set by the NMPRC. PNM made a general rate case filing in June 2010. On August 8, 2011, the NMPRC issued a final order modifying a stipulation reached by PNM and other parties in this case. The modified stipulation provides:

• \$72.1 million increase in annual non-fuel revenues for all New Mexico retail customers, implemented August 21, 2011

• Customers formerly served by TNMP prior to its acquisition by PNMR ("PNM South") being covered by the same FPPAC utilized for other retail customers of PNM ("PNM North")

• Subject to further NMPRC approvals, recovery of costs associated with NMPRC approved renewable energy procurement plans through a rate rider

• Limit on annual recovery of costs for fuel, renewable energy, and energy efficiency, with recovery of additional amounts deferred for collection to future periods

As permitted by the above NMPRC order, PNM filed an application in January 2012 for a rate rider to collect costs for renewable energy procurements incurred after December 31, 2010 that are not otherwise being collected in rates. These costs include the procurement of solar RECs from customers, wind resource procurements, and the revenue requirements for PNM-owned solar PV facilities and a solar battery storage demonstration project. On August 14, 2012, the NMPRC approved the rider, which PNM implemented on August 20, 2012. The rider will terminate upon a

final order in PNM's next general rate case unless that order authorizes a continuation of the rider. Amounts that can be collected under the rider were capped at \$18.0 million in 2012 and \$24.6 million in 2013. Any amounts above the caps were to be deferred for future recovery without carrying costs. Collections under the rider during 2012 and 2013 were below the cap. As a separate component of the rider, if PNM's earned return on jurisdictional equity in 2013, adjusted for weather and other items not representative of normal operation, exceeded 10.5%, it would refund to customers during May through December 2014 the amount over 10.5%. PNM's earned return on jurisdictional equity in 2013 did not exceed 10.5%.

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PNM has entered into firm-requirements wholesale contracts to provide electricity to various customers. These contracts contain both capacity charges and energy charges. Capacity charges are monthly payments for a commitment of resources to service the contract requirements. Energy charges are payments based on the amount of electricity delivered to the customer and are intended to compensate for the variable costs incurred to provide the energy. PNM's firm-requirements demand was 114 MW in 2013, and is expected, based solely on existing contracts and reflecting that the current contract with Gallup expires in 2014, to be 104 MW in 2014, 69 MW in 2015, and 69 MW in 2016. No firm-requirements customer of PNM accounted for more than 2.5% of PNM's revenues for the year ended December 31, 2013.

In September 2011, PNM filed with FERC to increase rates for electric service and ancillary services provided to NEC, PNM's largest firm-requirements wholesale customer. PNM also requested a traditional FPPAC and full recovery of certain third-party transmission charges. FERC issued an order allowing the increased rates to be collected beginning April 14, 2012, subject to refund. The parties agreed to a settlement providing for an increase in rates of \$5.3 million, an extension of the contract for 10 years, and an agreement that PNM will be able to file an application for formula based rates to be effective in 2015. FERC approved the settlement in April 2013. PNM provides both energy and power services to Gallup, its second largest firm-requirements wholesale customer, under an electric service agreement that was to expire June 30, 2013. On May 1, 2013, PNM and Gallup agreed to extend the term of the agreement to June 30, 2014 and to increase rates by \$3.1 million during the term of the amended agreement. In June 2013, FERC approved the amended agreement. In response to Gallup's request for proposals, PNM submitted a proposal for long term power supply in November 2013. On January 13, 2014, PNM was notified that it was not the highest ranked proposal. Gallup has stated they are negotiating a contract with the top-ranked bidder. See Results of Operations in MD&A and Note 17. PNM is unable to predict the outcome of this matter.

In October 2010, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of PNM's wholesale electric transmission service customers, which include other utilities, electric cooperatives, and entities that use PNM's transmission system to transmit power at the wholesale level. The proposed rates were implemented on June 1, 2011, subject to refund. On January 2, 2013, FERC approved a settlement among the parties providing for an increase in transmission service revenues of \$2.9 million annually. In addition, the parties agreed that if PNM files for a formula based rate change within one year from FERC's approval of the settlement agreement, no party will oppose the general principle of a formula rate, although the parties may still object to particular aspects of the formula. The rate increase does not impact PNM's retail customers.

In December 2012, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of its transmission customers. The filing represents a formula based rate as contemplated by the approved settlement in the case described above. The proposed increase of \$1.3 million, as updated, went into effect, subject to refund, on August 2, 2013. Settlement negotiations are ongoing concerning issues in this proceeding. PNM is unable to predict the outcome of this proceeding.

## Operational Information

Weather-normalized retail electric KWh sales decreased by 1.8% in 2013 and 0.7% in 2012. The system peak demands for retail and firm-requirements customers increased year over year. The system peak demands were as follows:

## System Peak Demands

	2013 (Megawatts)	2012	2011
Summer	2,008	1,948	1,938
Winter	1,576	1,523	1,709

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow the utility to access public rights-of-way for placement of its electric facilities. Franchise agreements have expired in some areas PNM serves, including Albuquerque, Rio Rancho, and Santa Fe. Because PNM remains obligated under New Mexico state law to provide service to customers in these areas, the expirations should not have a material adverse impact. The Albuquerque, Rio Rancho, and Santa Fe metropolitan areas accounted for 48.6%, 11.0%, and 9.7% of PNM's 2013 revenues and no other franchise area represents more than 5%. Although PNM is not required to collect or pay franchise fees in some areas it serves, the utility continues to collect and pay such fees in certain parts of its service territory, including Albuquerque, Rio Rancho, and Santa Fe. As discussed in Note 16, the County Commission of Bernalillo County, New Mexico passed an ordinance on January 28, 2014 that would require PNM to enter into a use agreement and pay a yet to be determined fee as a condition for installing, maintaining, and operating facilities on county rights-of-way. PNM and other utilities have filed a Complaint for Declaratory and Injunctive Relief in the United States District Court for the District of New Mexico challenging the validity of the ordinance. If the challenge to the ordinance is unsuccessful, PNM believes any fees paid pursuant to the ordinance

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

PNM owns or leases 3,189 circuit miles of electric transmission lines that interconnect with other utilities in New Mexico, Arizona, Colorado, Texas, and Utah. There has been little development of new transmission facilities in recent years. Therefore, most of the capacity on PNM's transmission system is fully committed during peak hours, with very little to no additional access available on a firm commitment basis. These factors result in physical constraints on the system and limit the ability to wheel power into PNM's service area from outside of New Mexico.

PNM also generates and sells electricity into the wholesale market. Because PNM's 134 MW share of Unit 3 at PVNGS currently is excluded from retail rates, that unit's power is being sold in the wholesale market. PNM has contracted to sell 100% of PVNGS Unit 3 output through 2015, at market price plus a premium. PNM has established fixed rates for all of these sales through the end of 2014 through hedging arrangements that are accounted for as economic hedges. PNM is also partially hedged for 2015. As discussed in Note 16, PNM has requested NMPRC approval to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers as part of the revised plan to comply with the regional haze requirements of the CAA. Beyond the PVNGS contracts, PNM also engages in activities to optimize its existing jurisdictional assets and long-term purchase power agreements through spot market, hour ahead, day ahead, week ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Gains from these sales, other than those from PVNGS Unit 3, are credited to retail customers through the FPPAC.

### Use of Future Test Year

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

The use of a future test year should help PNM mitigate the adverse effects of regulatory lag, which is inherent when using a historical test year. Accordingly, the utility's earnings should more closely reflect the rate of return allowed by the NMPRC. PNM 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.

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

### Renewable Portfolio Standard

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

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

#### TNMP

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

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

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

TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. TNMP experienced annualized increases in weather-normalized retail KWh sales of 2.6% in 2013 and 3.7% in 2012. As of December 31, 2013, 97 active REPs receive transmission and distribution services from TNMP. The acquirer of First Choice, including the former First Choice operations, accounted for 17% of TNMP's revenues in 2013. Two other unaffiliated customers of TNMP accounted for operating revenues of 16% and 10% in 2013. No other customer accounted for more than 10% of revenues.

### Regulatory Activities

In August 2010, TNMP filed with the PUCT for a general rate increase. On January 27, 2011, the PUCT approved a stipulation that settles the case. Key components of the settlement were:

- ▲ revenue increase of \$10.25 million, effective February 1, 2011
- ▲ return on equity of 10.125%
- A target debt-equity capital structure of 55%/45%

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect \$113.3 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011. Deployment of smart meters began in September 2011 and is scheduled to be completed over a 5-year period.

The PUCT approved interim adjustments to TNMP's transmission rates of \$2.5 million on September 27, 2012, \$2.9 million on March 20, 2013, and \$2.8 million on September 17, 2013.

### 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.

### Exit from Competitive Businesses

#### First Choice

As discussed in Note 3, PNMR completed the sale of First Choice on November 1, 2011 receiving \$270.0 million, plus \$59.3 million for estimated working capital. The latter amount was subject to adjustment based on the actual

amounts of certain components of working capital at October 31, 2011. PNMR recognized a pre-tax gain of \$174.9 million on the sale in 2011. The parties could not agree on the working capital amount and, in accordance with the agreement for the sale, this matter was submitted to an independent party for a decision binding on the parties. A decision was received in August 2012 resulting in an additional pre-tax gain of \$1.0 million in 2012. PNMR used the net proceeds from the sale of First Choice to repurchase some of PNMR's outstanding debt and equity and for other corporate purposes, including repayment of borrowings under the PNMR Revolving Credit Facility.

First Choice, operating as a certified REP in ERCOT, provided electricity to residential, small commercial and governmental customers. First Choice focused its competitive customer acquisition efforts in major Texas metropolitan areas open to electric choice within ERCOT, including Dallas-Fort Worth, Houston, Corpus Christi, and McAllen-Harlingen. Although First Choice was regulated in certain respects by the PUCT, its business was not subject to traditional rate of return regulation. Rates were negotiated by First Choice with each customer. No specific provisions existed for the recovery of First Choice's purchased power costs and changes in those costs affected operating results.

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During the period it was a subsidiary of PNMR, First Choice's operating results were pressured by several factors. Due to the competitive nature of the Texas market, First Choice, similar to other REPs, experienced significant turnover in its customer base, which along with depressed economic conditions resulted in significant increases in the levels of uncollectible accounts and bad debt expense. First Choice's load fluctuated due to customer additions and losses, changes in customer usage, and seasonality of weather. First Choice experienced increased sales and operating revenues during the summer months as a result of increased air conditioner usage. First Choice monitored and revised its load forecast to account for changing customer loads and entered into hedging arrangements to cover forecasted sales.

Optim Energy

In January 2007, PNMR and ECJV, a wholly owned subsidiary of Cascade, which until late in 2011 was a large PNMR shareholder, created Optim Energy to serve expanding energy markets, principally the areas of Texas covered by ERCOT. Optim Energy's business consisted of development, operation, and ownership of diverse generation assets, complemented by wholesale marketing to optimize those assets. PNMR and ECJV each had a 50 percent ownership interest in Optim Energy, a limited liability company. Optim Energy had interests in three electric generating resources located within the ERCOT area.

Beginning in 2009, Optim Energy was affected by continuing adverse market conditions, primarily low natural gas and power prices. In response to those adverse conditions, Optim Energy changed its strategy to focus on utilizing cash flow from operations to reduce debt. Optim Energy also concentrated on optimizing generation assets as a stand-alone independent power producer.

As discussed in Note 20, PNMR determined its investment in Optim Energy was fully impaired at December 31, 2010 and reduced the carrying value of the investment to zero. PNMR, ECJV, and Cascade entered into agreements on September 23, 2011, whereby Optim Energy was restructured and ECJV made an equity contribution to Optim Energy in exchange for an increased ownership interest, which resulted in PNMR's ownership in Optim Energy being reduced from 50% to 1%. On January 4, 2012, ECJV exercised its option to acquire PNMR's remaining 1% ownership interest in Optim Energy at fair market value, which was determined to be zero. PNMR accounted for its investment in Optim Energy using the equity method of accounting through September 23, 2011 and used the cost method thereafter. In accordance with GAAP, PNMR did not record income or losses associated with its investment in Optim Energy in 2011.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. PNMR Services Company provides corporate services through shared services agreements to PNMR and all of PNMR's business units, including PNM and TNMP. These services are charged and billed at cost on a monthly basis to the business units. PNMR Services Company also provided corporate services under shared services agreements with First Choice and Optim Energy through their disposition and for limited periods thereafter under transition services agreements.

SOURCES OF POWER

PNM

Generation Capacity

As of December 31, 2013, the total net generation capacity of facilities owned or leased by PNM was 2,368 MW. PNM also obtains 204 MW of power under a long-term PPA for the power produced by New Mexico Wind.

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PNM's capacity in electric generating facilities, which are owned, leased, or under PPAs, in commercial service as of December 31, 2013 is:

Type	Name	Location	Generation Capacity (MW)
Coal	SJGS	Waterflow, New Mexico	783
Coal	Four Corners	Fruitland, New Mexico	200
Gas	Reeves Station	Albuquerque, New Mexico	154
Gas	Afton (combined cycle)	La Mesa, New Mexico	230
Gas	Lordsburg	Lordsburg, New Mexico	80
Gas	Luna (combined cycle)	Deming, New Mexico	185
Gas/Oil	Delta	Albuquerque, New Mexico	132
Gas	Valencia	Belen, New Mexico	158
Nuclear	PVNGS	Wintersburg, Arizona	402
Solar	PNM-owned solar	Eight sites in New Mexico	44
Wind	New Mexico Wind	House, New Mexico	204
			2,572

## Fossil Fueled Plants

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

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

PNM owns 100% of Reeves, Afton, and Lordsburg and one-third of Luna. The remaining interests in Luna are owned equally by Tucson and Freeport McMoRan. PNM is entitled to the energy and capacity of Delta under a PPA that is deemed to be an operating lease. PNM has a PPA that entitles it to the entire output of Valencia. Valencia is a variable interest entity and is consolidated by PNM as required by GAAP. Therefore, Valencia is reflected in the above table as if it were owned. Reeves, Lordsburg, Delta, and Valencia are used primarily for peaking power and transmission support. See Note 9 for additional information about the Delta operating lease, including the potential purchase of Delta, and Valencia, including the potential purchase of 50% of Valencia.

Nuclear Plant

PNM is participating in the three units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), SRP, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2% of the power and energy generated by PVNGS. PNM has ownership interests of 2.3% in Unit 1, 4.6% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 5.6% in Unit 2. The lease payments for the leased portions of PVNGS are recovered through retail rates approved by the NMPRC. See Note 7 for additional information concerning the PVNGS leases, including notices given in 2013 to the lessors under the PVNGS Unit 1 leases and one of the PVNGS Unit 2 leases that PNM would renew those leases and notices given in 2014 that PNM would exercise its fair market purchase option for the other

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three Unit 2 leases. On February 25, 2014, PNM and one of the Unit 2 lessors agreed on the price to be paid upon PNM's exercise of the fair market value purchase option. See Note 16 for information on other PVNGS matters, including PNM's proposal to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers.

On March 11, 2011, a 9.0 magnitude earthquake occurred off the northeastern coast of Japan. The earthquake produced tsunamis that caused significant damage to the Fukushima Daiichi Nuclear Power Station in Japan. Following these events, the NRC established a task force to conduct a systematic and methodical review of NRC processes and regulations to determine whether the agency should make additional improvements to its regulatory system. In March 2012, the NRC issued the first regulatory requirements based on the recommendations of the task force. With respect to PVNGS, the NRC issued two orders requiring safety enhancements regarding: (1) mitigation strategies to respond to extreme natural events resulting in the loss of power at plants; and (2) enhancement of spent fuel pool instrumentation. The NRC has issued a series of interim staff guidance documents regarding implementation of these requirements. Due to the developing nature of these requirements, PNM cannot predict the financial or operational impacts on PVNGS; however, the NRC has directed nuclear power plants to implement the first tier of its recommendations. In response to these recommendations, PVNGS expects to spend approximately \$100 million for capital enhancements to the plant over the next several years. PNM's share of these enhancements would be 10.2%, substantially all of which are included in PNM's current projection of capital expenditures.

## Solar

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

## Plant Operating Statistics

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

Plant	Operator	2013	2012	2011
SJGS	PNM	77.6%	81.7%	86.9%
Four Corners	APS	72.9%	83.5%	81.5%
PVNGS	APS	89.4%	90.6%	89.1%

## Joint Projects

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different entities. Some participants in the joint projects are investor-owned entities, while others are municipally or co-operatively owned. Furthermore, participants in SJGS and Four Corners may have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in 2016 for Four Corners, 2022 for SJGS, and 2027 for PVNGS. In addition, SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. The agreement for coal supply expires 2017 for SJGS. In late December 2013, the coal supply arrangement for Four Corners was extended through 2031. As described above, Four Corners is situated on land under a lease from the Navajo Nation. Portions of PNM's interests in PVNGS Units 1 and 2 are through leases that expire in 2015 and 2016, but contain certain fixed-rate renewal and fair market value purchase options. See Nuclear Plant above and Note 7 regarding PNM's actions related to these options.

Several of the participants in the joint projects are located in California. There are legislative and regulatory mandates in California that may prohibit utilities from entering into new, or extending existing, arrangements for coal-fired generation. It is also possible that the participants in the joint projects have changed circumstances and objectives from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of CCBs, GHG, and other air emissions, as well as the impacts of the costs of compliance and operational viability of all or certain units within the joint projects. It is unclear how these factors will enter into discussion and negotiations concerning the status of the joint projects as the expiration of basic operational agreements approaches. PNM can provide no assurance that its participation in the joint projects will continue in the manner that currently exists. See Note 16 for a discussion of potential restructuring of SJGS ownership and developments with respect to Four Corners.

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## PPAs

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

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

PNM's 2013 renewable energy procurement plan includes a 20-year agreement to purchase energy and RECs from the Lightning Dock Geothermal facility built near Lordsburg. The facility, which is the first geothermal project for the PNM system, began providing limited power to PNM on January 1, 2014. The current output of the facility is 4 MW and future expansion may result in up to 10 MW of generation capacity.

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

A summary of purchased power, excluding Delta and Valencia, but including power purchased under long-term contracts that have expired by their terms, is as follows:

	Year Ended December 31,		
	2013	2012	2011
Purchased under long-term PPAs			
MWh	490,539	546,321	794,867
Cost per MWh	\$27.25	\$27.25	\$29.93
Other purchased power			
Total MWh	1,061,514	948,911	988,564
Cost per MWh	\$35.64	\$27.30	\$31.47

## TNMP

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

## First Choice

First Choice bought electricity and entered into hedging arrangements to purchase quantities of power to match the supply obligations to customers that were under fixed price contracts. Power was purchased long-term in the over-the-counter market or using futures. In the short term, hedges were adjusted to load changes by buying and selling power in the over-the-counter market or ERCOT day-ahead market.

## FUEL AND WATER SUPPLY

## PNM

The percentages of PNM's generation of electricity (on the basis of KWh), including Valencia and Delta, 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
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	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2013	56.8	% \$2.62	30.4	% \$0.88	12.2	% \$4.12
2012	59.2	% \$2.99	31.3	% \$0.88	9.0	% \$3.25
2011	61.8	% \$2.79	29.7	% \$0.80	8.4	% \$4.47

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In 2013, 2012, and 2011, 0.6%, 0.5%, and 0.1% of PNM's generation was from utility owned solar, which has no fuel cost. The generation mix for 2014 is expected to be 61.4% coal, 28.9% nuclear, 8.8% gas and oil, and 0.9% 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.

### Coal

The coal supply contract that provides fuel for SJGS expires in 2017. Coal supply has not been arranged for periods after the existing contract expires. PNM believes there is adequate availability of coal resources to continue to operate SJGS although an extended or new contract could result in higher prices. In late December 2013, the expiration date of the coal supply contract for Four Corners was extended from 2016 to 2031. PNM estimates fuel costs for Four Corners will increase approximately 26% during the extension period. See Note 16 for additional information about PNM's coal supply.

### Natural Gas

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

### Nuclear Fuel and Waste

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNGS participants have contracted for all of PVNGS's requirements for uranium concentrates through 2017, 90% of its requirements for 2018, and 45% of its requirements through 2020. The participants have contracted for all of PVNGS's conversion services through 2016, 95% of its requirements in 2017 and 2018, and 45% of its requirements through 2020. The participants have contracted for all of PVNGS's enrichment services through 2014 and 95%-100% of its requirements through 2020. All of PVNGS's fuel assembly fabrication services are contracted through 2016.

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) filed a lawsuit for DOE's breach in the United States Court of Federal Claims. The Court of Federal Claims ruled in favor of APS and in October 2010 awarded \$30.2 million in damages to the PVNGS participants for costs incurred through December 2006. APS filed a subsequent lawsuit against DOE in the Court of Federal Claims on December 19, 2012. The lawsuit alleges that from January 1, 2007 through June 30, 2011, APS, as a co-owner of PVNGS, incurred additional damages due to DOE's continuing failure to remove spent nuclear fuel and high level waste from PVNGS. See Note 16.

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

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

#### Water Supply

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

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## ENVIRONMENTAL MATTERS

Electric utilities are subject to stringent laws and regulations for protection of the environment by local, state, federal, and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. The liabilities under these laws and regulations can be material. In some instances, liabilities may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. The construction expenditure projection includes environmental upgrades at SJGS and Four Corners aggregating \$10.0 million in 2014 and \$150.3 million in 2015 through 2018, as discussed in Note 16. See MD&A - Other Issues Facing the Company - Climate Change Issues for information on GHG. In addition, Note 16 contains information related to the following matters, incorporated in this item by reference:

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

## COMPETITION

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

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

## EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM, and TNMP as of December 31, 2013:

	PNMR	PNM	TNMP
Corporate <sup>(1)</sup>	446	—	—
PNM	1,127	1,127	—
TNMP	351	—	351
Total	1,924	1,127	351

(1)Represents employees of PNMR Services Company.

As of December 31, 2013, PNM had 614 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW Local 611 that was entered into in July 2012 and expires April 30, 2015.

On March 25, 2013, a petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to certify a union at TNMP for utility workers. On April 12, 2013, a second petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to certify a union at TNMP for meter technicians, who were not included in the original petition. Approximately 200 employees were covered by the petitions. Elections to determine whether the IBEW would represent the employees were held in May 2013. The employees voted to unionize through both petitions and contract negotiations have begun.

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Subsequently, on June 25, 2013, a third petition was filed by IBEW Local 66 with the National Labor Relations Board seeking to include a group of three relay technicians, who were not included in the original petition. In August 2013, the relay technicians voted to unionize and contract negotiations have begun. As of December 31, 2013, TNMP had 192 employees represented by IBEW Local 66. The parties are still in negotiations on a collective bargaining agreement.

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 recovery of the net book value of SJGS Units 2 and 3 at the date of their proposed early retirement as contemplated in the revised SIP to comply with the regional haze provisions of the CAA

The ability of the Company to successfully forecast and manage its operating and capital expenditures  
State and federal regulation or legislation relating to environmental matters, including the approval of the revised SIP for SJGS's compliance with the CAA, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM's generating plants

The impacts on the electricity usage of the Company's customers due to performance of state, regional, and national economies and mandatory energy efficiency measures, weather, seasonality, and other changes in supply and demand  
State and federal regulatory, legislative, and judicial decisions and actions on ratemaking, tax, and other matters

Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational agreements for the projects and fuel supply for SJGS, including potential restructuring and approval issues at SJGS and Four Corners necessary for operational and environmental compliance matters

Uncertainty regarding the requirements and related costs of decommissioning power plants and coal mines supplying certain power plants, as well as the ability to recover decommissioning costs from customers

The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, extreme weather conditions, terrorism, and cybersecurity breaches

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

The risks associated with completion of generation, transmission, distribution, and other projects

Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties

The risk that reliability standards regarding available transmission capacity and other FERC rulemakings may negatively impact the operation of PNM's transmission system

The Company's ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates

The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions

- The impacts of decreases in the values of marketable equity securities maintained to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits
- Commodity and counterparty credit risk transactions and the effectiveness of risk management
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles

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.”

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SECURITIES ACT DISCLAIMER

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

ITEM 1A. RISK FACTORS

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

Regulatory Factors

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

The rates PNM charges its customers are regulated by the NMPRC and FERC. TNMP is regulated by the PUCT. The Company is in a period requiring significant capital investment and is projecting total construction expenditures for the years 2014-2018 to be \$2,267.2 million. See Note 14. The Company anticipates a trend toward increasing costs, for which it will have to seek regulatory recovery. These costs include or are related to:

Environmental compliance expenditures

The proposed early retirement of SJGS Units 2 and 3 as part of a revised plan to comply with the regional haze provisions of the CAA, including recovery of their net book value at the date of retirement and costs of generation capacity to replace those units

New asset construction related to generation, transmission, and distribution systems necessary to provide electric service

The regulatory mandate to acquire power from renewable resources

Increased regulation related to nuclear safety

Fuel costs

Increased interest costs to finance capital investments

Depreciation

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

Changing customer behaviors, including increased emphasis on energy efficiency measures and utilization of alternative sources of power

Reduced new sources of demand

Reductions in costs of energy efficient technology

Unpredictable weather patterns

Adverse economic conditions

In 2013 and 2012, PNM experienced annualized decreases in weather-normalized, retail sales of 1.8% and 0.7%. The sales decreases reflect a continued sluggish economy in New Mexico. In particular, the Albuquerque metropolitan area continues to lag the nation in economic recovery. There is no clear indication regarding the future of New Mexico's economy. Encouraging signs such as growth in the housing industry, increased tax revenue in the Albuquerque metropolitan area, and unemployment rates below the national average are contrasted by indicators such as flat population growth and low job growth.

The combination of costs increasing relatively rapidly and the slowing of customer usage places upward pressure on the per unit prices that must be charged by the Company to recover its 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

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sources of power. Without timely cost recovery and the authorization to earn a reasonable return on invested capital, the Company's liquidity and results of operations could be negatively impacted.

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

The coal supply contract that provides fuel for SJGS expires in 2017. Coal supply has not been arranged for periods after the existing contract expires. It is possible that an extended contract with the existing supplier or a new contract for coal from an alternative source could result in higher prices. In late December 2013, the expiration date of the coal supply contract for Four Corners was extended from 2016 to 2031. PNM estimates fuel costs for Four Corners will increase approximately 26% during the extension period. PNM currently recovers the cost of fuel for its generation facilities through its FPPAC. Although PNM believes costs under new or extended coal supply agreements would continue to be recovered through the FPPAC, there can be no assurance that full recovery would be allowed.

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

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

EPA has issued its BART determinations for both SJGS and Four Corners under the program to address regional haze in the "four corners" area, which would reduce the levels of NOx emitted at both plants. Significant capital expenditures would be required for the installation of control technology at both generating stations and operating costs would increase. On February 15, 2013, PNM, NMED, and EPA agreed to pursue a revised plan regarding SJGS, which is discussed in Note 16. PNM is taking actions to effectuate the revised plan, but there is no assurance that it will be approved by EPA or that required approvals will be obtained from the NMPRC. In addition, the other participants in SJGS must approve the necessary expenditures required by the plan. As discussed below, certain of the participants in SJGS desire to exit their ownership and the participants are attempting to negotiate a restructuring of ownership. If all of these approvals are not obtained and appropriate relief cannot be obtained from EPA, PNM could be forced to temporarily cease operation of some or all of the SJGS units. If a shutdown was required, PNM would then have to acquire temporary replacement power through short-term or open-market purchases in order to serve the needs of its customers, which could increase costs and negatively impact earnings unless the increased costs are allowed to be recovered from customers.

EPA, environmental advocacy groups, other organizations, and some other federal and state agencies are predicted to focus considerable attention on GHG from power generation facilities, including the role of those facilities in climate change. PNM depends on fossil-fueled generation for a significant share of its electricity. Therefore, it could be

exposed to possible future GHG regulations imposed by New Mexico and/or the federal government. For example, as discussed in the Climate Change Issues subsection of the Other Issues Facing the Company section of MD&A, EPA re-proposed its GHG NSPS rule for new sources in September 2013 and is scheduled to issue a draft of a GHG NSPS for modified and existing EGU's in June 2014. Any such proposals that become regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

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

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

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PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of regulations regarding climate change, CCBs, and other power plant emissions, such regulations could have a material impact on operations. The California entities that are participants in SJGS have indicated that, under California law, they may be prohibited from making significant capital improvements to SJGS, including those related to environmental compliance. Therefore, the California participants, along with one other participant, have expressed the intent to exit their ownership in SJGS no later than December 31, 2017. Negotiations have begun among the SJGS participants regarding arrangements that would allow the exit of ownership by those participants desiring to do so, including addressing continuing liabilities for reclamation, decommissioning, environmental, and other matters, but no agreements have been reached. It is possible that failure to reach a satisfactory agreement to restructure SJGS ownership, requirements to comply with the final BART determinations, combined with the financial impact of possible future climate change regulation or legislation, if any, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the ability of individual participants to continue participation in SJGS, as well as the economic viability of the plant. 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 cover many aspects of the Company's utility operations including: location, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers.

FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. A rule issued in 2011 revised the determination of total transmission capability under the reliability standards for transmission systems. The order could potentially reduce the capacity of the transmission facilities used to deliver power from PNM's generation resources to its customers. Such reductions could require PNM to acquire additional transmission rights or assets, which could involve substantial investments and a significant amount of time to accomplish.

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

### Operational Factors

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

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

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

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

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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 initiatives are periodically undertaken in various localities to municipalize or otherwise take over Company facilities. If any such municipalization initiative is successful, the result could be a material reduction in the usage of the Company's facilities, a reduction in rate base, and reduced earnings.

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

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

PNM has interests in a nuclear power plant, two coal-fired power plants, and several natural gas-fired power plants. PNM is obligated to pay for the costs of decommissioning its share of the power plants. PNM is also obligated to pay for its share of the costs of decommissioning the mines that supply coal to the coal-fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning obligations and it is important to PNM that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, and restoration. The NMPRC has established a cap on the amount of decommissioning costs for the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal obligations for decommissioning and reclamation. These estimates include many assumptions about future events and are inherently imprecise. In the event any of these costs exceed current estimates, results of operations will be negatively impacted.

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

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

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

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

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

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In the event a party desires to disrupt the bulk power or transmission systems in the United States, the Company's computer and operating systems could be subject to physical or cyber attack. Although the Company has implemented security measures, critical infrastructure, including information and operational technology systems, are vulnerable to disability, failures, or unauthorized access. A successful physical or cyber attack or other similar failure of the systems could impact the reliability of PNM's generation and PNM's and TNMP's transmission and distribution systems, including the possible unauthorized shutdown of facilities. Such an event could lead to significant disruptions of business operations, including the Company's ability to generate, transport, and deliver power to serve customers, to bill customers, and to process other financial information. A major physical or cyber incident could lead to increased regulatory oversight, litigation, fines, other remedial action, and reputational damage. The costs incurred to investigate and remediate a physical or cyber security attack could be significant. If the Company's systems were to fail or be breached and not recovered in a timely way, critical business functions could be impaired and sensitive or confidential data could be compromised. A physical or cyber attack on the Company's critical infrastructure could have a material adverse impact on the operations and financial condition of PNMR, PNM, and TNMP.

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

PNM has a 10.2% undivided interest in PVNGS, including interests in Units 1 and 2 held under leases. PVNGS represents 17.0% 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
- Securing the facilities against possible terrorist attacks
- Unscheduled outages due to equipment failures

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

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or impacting the industry generally may lead the NRC to impose additional requirements and regulations on all nuclear generation facilities, including PVNGS. As a result of the March 2011 earthquake and tsunamis that caused significant damage to the Fukushima Daiichi Nuclear Power Plant in Japan, various industry organizations are working to analyze information from the Japan incident and develop action plans for nuclear power plants in the United States. Additionally, the NRC has been performing its own independent review of the events at Fukushima Daiichi, including a review of the agency's processes and regulations in order to determine whether the agency should promulgate additional regulations and possibly make more fundamental changes to the NRC's system of regulation. PNM cannot predict when or if the NRC will complete its formal actions as a result of its review. As a result of the Fukushima Daiichi event, however, the NRC has directed nuclear power plants to implement the first tier its recommendations. In response to these recommendations, PVNGS expects to spend approximately \$100 million for capital enhancements to the plant over the next several years of which PNM's share of these enhancements would be 10.2%, substantially all of which are included in PNM's current projection of capital expenditures. PNM cannot predict whether these amounts will increase or whether additional financial and/or operational requirements on PVNGS may be imposed.

In the event of noncompliance with its requirements, the NRC has the authority to impose a progressively increased inspection regime that could ultimately result in the shut-down of a unit or civil penalties, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and/or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM.

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

PNM is obligated to supply power to retail customers and certain wholesale customers. At peak times, power demand could exceed PNM's available generation capacity. Market or competitive forces may require PNM to purchase capacity on the open market or build additional generation capabilities. Regulators or market conditions may not permit PNM to pass all of these purchases or construction costs on to customers. If that occurs, PNM may not be able to fully recover these costs. Or, there may

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be a lag between when costs are incurred and when regulators permit recovery in customers' rates. These situations could have negative impacts on results of operations and cash flows.

### General Economic and Weather Factors

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

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

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 companies.

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

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

### Financial Factors

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

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

The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC has also restricted PNM from paying dividends in any year, as determined on a rolling four-quarter basis, in excess of net earnings without

prior NMPRC approval. PNM is permitted to pay dividends to PNMR from prior equity contributions made by PNMR. Additionally, PNM has various financial covenants that limit the transfer of assets, through dividends or other means.

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

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

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NMPRC's and PUCT's decisions in various regulatory cases currently pending and which may be docketed in the future

Conditions imposed by the NMPRC or PUCT

The effect of federal regulatory decisions and legislative acts

Economic conditions in the United States and in the Company's service areas

Future growth plans and the related capital requirements

Other business considerations

Disruption in the credit and capital markets may impact the Company's growth strategy and ability to raise capital. PNMR and its subsidiaries rely on access to both short-term and longer-term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations, including energy infrastructure investments and new projects. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2014-2018 to be \$2,267.2 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, and 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 threatened attacks

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

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

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

The Company targets 21% of its pension trust funds and 70% of its trust funds for other postretirement benefits to be invested in marketable equity securities. Over one-half of funds held in the NDT are typically invested in marketable

equity securities. Declines in market values could result in increased funding of the trusts as well as the recognition of losses as impairments for the NDT and additional expense for the benefit plans.

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

PNMR, PNM, and TNMP annually evaluate their recorded goodwill for impairment. They also assess long-lived assets whenever indicators of impairment exist. Factors that affect the long-term value of these assets as well as other economic and market conditions could result in impairments. Significant impairments could adversely affect the Company's business, financial position, liquidity, and results of operations.

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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 7.

### Governance Factors

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

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

PNMR. The material provisions that may have such an effect include:

• Authorization for the Board to issue PNMR's preferred stock in series and to fix rights and preferences of the series (including, among other things, voting rights and preferences with respect to dividends and other matters)

• Advance notice procedures with respect to any proposal other than those adopted or recommended by the Board

• Provisions specifying that only a majority of the Board, the chairman of the Board, the chief executive officer, or holders of at least one-tenth of all of PNMR's shares entitled to vote may call a special meeting of stockholders

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

### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

### ITEM 2. PROPERTIES

PNMR

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

PNM

See Sources of Power in Part I, Item. 1 Business above for information on PNM's owned and leased capacity in electric generating stations. As of December 31, 2013, PNM owned, jointly owned, or leased, 3,189 circuit miles of electric transmission lines (including the EIP), 5,849 miles of distribution overhead lines, 5,669 cable miles of underground distribution lines (excluding street lighting), and 280 substations. PNM's electric transmission and

distribution lines are generally located within easements and rights-of-way on public, private, and Native American lands. The EIP line is a 223 mile, 345 kilovolt line with a capacity of 200 MW. PNM leases interests in PVNGS Units 1 and 2 and related property, Delta, EIP and associated equipment, data processing, communication, office and other equipment, office space, vehicles, and real estate. PNM also owns and leases service and office facilities in Albuquerque and in other areas throughout its service territory. See Note 7 for additional information concerning leases, including notices given to the lessors under the PVNGS leases that PNM would renew certain of the leases and would exercise its option to purchase the assets underlying certain other leases at the expiration of the original lease terms. As discussed in Note 7, PNM agreed to exercise its option to purchase the leased portion of the EIP at expiration of the lease at fair market value. See Note 9 for additional information about the Delta operating lease and Valencia, including the potential purchase of Delta and 50% of Valencia.

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TNMP

TNMP's facilities consist primarily of transmission and distribution facilities located in its service areas. TNMP also owns and leases service and office facilities in other areas throughout its service territory. As of December 31, 2013, TNMP owned 966 circuit miles of overhead electric transmission lines, 7,073 pole miles of overhead distribution lines, 1,098 circuit miles of underground distribution lines, and 108 substations. Substantially all of TNMP's property is pledged to secure its first mortgage bonds. See Note 6.

ITEM 3. LEGAL PROCEEDINGS

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

Note 16

- ¶The Clean Air Act - Regional Haze – SJGS
- ¶The Clean Air Act - Regional Haze – Four Corners
- ¶The Clean Air Act - Four Corners BART FIP Challenge
- ¶The Clean Air Act - Regional Haze Challenges
- ¶The Clean Air Act - SJGS Operating Permit Challenge
- ¶The Clean Air Act - Citizen Suit Under the Clean Air Act
- ¶The Clean Air Act - Four Corners Clean Air Act Lawsuit
- ¶WEG v. OSM NEPA Lawsuit
- ¶Navajo Nation Environmental Issues
- ¶Endangered Species Act
- ¶Santa Fe Generating Station
- ¶Coal Combustion Byproducts Waste Disposal - Sierra Club Allegations
- ¶Continuous Highwall Mining Royalty Rate
- ¶SJCC Arbitration
- ¶Four Corners Severance Tax Assessment
- ¶VNGS Water Supply Litigation
- ¶San Juan River Adjudication
- ¶Conflicts at San Juan Mine Involving Oil and Gas Leaseholders
- ¶Rights-of-Way Matter
- ¶Complaint Against Southwestern Public Service Company
- ¶Navajo Nations Allottee Matters

Note 17

- ¶PNM - Renewable Portfolio Standard
- ¶PNM - Renewable Energy Rider
- ¶PNM - Energy Efficiency and Load Management
- ¶FPPAC Continuation Application
- ¶PNM - Emergency FPPAC
- ¶PNM - Application for Approvals to Purchase Delta
- ¶Application for Approval of La Luz Generating Station
- ¶San Juan Generating Station Units 2 and 3 Retirement
- ¶PNM - Transmission Rate Case
- ¶PNM - Formula Transmission Rate Case
- ¶TNMP - Advance Meter System Deployment
- ¶TNMP - Transmission Cost of Service Rates

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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## SUPPLEMENTAL ITEM - EXECUTIVE OFFICERS OF PNM RESOURCES, INC.

All officers are elected annually by the Board of PNMR. Executive officers, their ages as of February 21, 2014 and offices held with PNMR for the past five years, or other companies if less than five years with PNMR, are as follows:

Name	Age	Office	Initial Effective Date
P. K. Collawn	55	Chairman, President, and Chief Executive Officer	January 2012
		President and Chief Executive Officer	March 2010
		President and Chief Operating Officer	August 2008
C. N. Eldred	60	Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	62	Senior Vice President, General Counsel and Secretary	January 2010
		University Counsel, University of New Mexico	May 2006
R. E. Talbot	53	Senior Vice President and Chief Operating Officer	January 2012
		Chief Operating Officer, Power Supply and Power Delivery - Indianapolis Power and Light Company	June 2011
		Senior Vice President, Power Supply - Indianapolis Power and Light Company	February 2007
R. N. Darnell	56	Senior Vice President, Public Policy	December 2011
		Vice President, Regulatory Affairs	April 2008
T. G. Sategna	60	Vice President and Corporate Controller	October 2003

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## PART II

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

PNMR's common stock is traded on the New York Stock Exchange (Symbol: PNM). Ranges of sales prices of PNMR's common stock, reported as composite transactions, and dividends declared on the common stock for 2013 and 2012, by quarters, are as follows:

Quarter Ended	Range of Sales Prices		Dividends Declared Per Share
	High	Low	
2013			
March 31	\$23.29	\$20.28	\$0.165
June 30	24.01	21.35	0.165
September 30	24.29	21.25	0.165
December 31	24.28	22.21	0.185
Fiscal Year	24.29	20.28	0.680
2012			
March 31	\$18.94	\$17.52	\$0.145
June 30	19.54	17.84	0.145
September 30	21.42	19.75	0.145
December 31	22.32	20.05	0.145
Fiscal Year	22.32	17.52	0.580

Dividends on PNMR's common stock are declared by its Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered to be attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of \$0.145 per share in July 2012 and \$0.165 per share in July 2013, 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 \$0.145 per share in September 2012 and \$0.165 per share in September 2013, which are reflected as being in the third quarter above. On February 27, 2014, the Board declared a quarterly dividend of \$0.185 per share. PNMR targets a long-term dividend payout ratio of 50% to 60% of consolidated earnings. During the period it was outstanding, PNMR's Series A convertible preferred stock was entitled to receive dividends equivalent to any dividends paid on PNMR common stock as if the preferred stock had been converted into common stock.

On February 21, 2014, there were 10,889 holders of record of PNMR's common stock. All of the outstanding common stock of PNM and TNMP is held by PNMR.

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

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

## Preferred Stock

PNM is not aware of any active trading market for its cumulative preferred stock. Quarterly cash dividends were paid on PNM's outstanding cumulative preferred stock at the stated rates during 2013 and 2012. PNMR purchased and retired all of its outstanding convertible preferred stock, Series A, effective September 23, 2011. TNMP does not have any preferred stock outstanding.

## Sales of Unregistered Securities

None.

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## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A. On January 30, 2009, PNM completed the sale of its gas operations, which are considered discontinued operations and excluded from continuing operations information in the table below. PNMR sold First Choice on November 1, 2011. First Choice is included in the following information through October 31, 2011. PNMR fully impaired its equity method investment in Optim Energy in 2010 and recorded no income or loss for that investment through September 23, 2011, when Optim Energy was restructured reducing PNMR's ownership to 1%.

## PNM RESOURCES, INC. AND SUBSIDIARIES

	2013	2012	2011	2010	2009
	(In thousands except per share amounts and ratios)				
Total Operating Revenues from Continuing Operations	\$1,387,923	\$1,342,403	\$1,700,619	\$1,673,517	\$1,647,744
Earnings (Loss) from Continuing Operations	\$115,556	\$120,125	\$190,934	\$(31,124)	\$65,933
Net Earnings (Loss)	\$115,556	\$120,125	\$190,934	\$(31,124)	\$136,734
Net Earnings (Loss) Attributable to PNMR	\$100,507	\$105,547	\$176,359	\$(45,215)	\$124,316
Earnings (Loss) from Continuing Operations Attributable to PNMR per Common Share					
Basic	\$1.26	\$1.32	\$1.98	\$(0.49)	\$0.58
Diluted	\$1.25	\$1.31	\$1.96	\$(0.49)	\$0.58
Net Earnings (Loss) Attributable to PNMR per Common Share					
Basic	\$1.26	\$1.32	\$1.98	\$(0.49)	\$1.36
Diluted	\$1.25	\$1.31	\$1.96	\$(0.49)	\$1.36
Cash Flow Data					
Net cash flows from operating activities	\$386,587	\$281,349	\$292,240	\$287,352	\$87,706
Net cash flows from investing activities	\$(331,446)	\$(285,895)	\$19,778	\$(275,906)	\$379,726
Net cash flows from financing activities	\$(61,593)	\$(1,560)	\$(312,331)	\$(10,683)	\$(593,435)
Total Assets	\$5,500,210	\$5,372,583	\$5,204,613	\$5,225,083	\$5,359,921
Long-Term Debt, including current installments	\$1,745,420	\$1,672,290	\$1,674,013	\$1,565,847	\$1,567,331
Common Stock Data					
Market price per common share at year end	\$24.12	\$20.51	\$18.23	\$13.02	\$12.65
Book value per common share at year end	\$21.01	\$20.19	\$19.76	\$17.90	\$19.13
Tangible book value per share at year end	\$17.52	\$16.70	\$16.27	\$14.10	\$15.33
Average number of common shares outstanding - diluted	80,431	80,417	89,757	91,557	91,671
Dividends declared per common share	\$0.680	\$0.580	\$0.500	\$0.500	\$0.500

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Capitalization

PNMR common stockholders' equity	48.8	% 48.9	% 48.3	% 47.8	% 49.6	%
Convertible preferred stock	—	—	—	3.1	3.0	
Preferred stock of subsidiary, without mandatory redemption requirements	0.3	0.3	0.3	0.4	0.3	
Long-term debt	50.9	50.8	51.4	48.7	47.1	
	100.0	% 100.0	% 100.0	% 100.0	% 100.0	%

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

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Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
COMPARATIVE OPERATING STATISTICS

	2013	2012	2011	2010	2009
	(In thousands)				
<b>PNM Revenues</b>					
Residential	\$411,579	\$409,005	\$390,380	\$355,905	\$320,965
Commercial	415,621	413,332	386,383	355,699	330,552
Industrial	74,552	78,637	73,742	65,358	62,699
Public authority	25,745	25,495	23,970	21,302	19,770
Economy service	32,909	25,354	21,141	20,218	16,841
Transmission	38,228	39,373	43,637	38,667	36,075
Firm-requirements wholesale	42,370	39,390	34,127	31,870	29,048
Other sales for resale	67,538	47,321	69,318	121,729	140,314
Mark-to-market activity	293	892	4,214	(3,599)	) 151
Other	7,477	13,465	10,377	9,979	11,594
<b>Total PNM Revenues</b>	<b>\$1,116,312</b>	<b>\$1,092,264</b>	<b>\$1,057,289</b>	<b>\$1,017,128</b>	<b>\$968,009</b>
<b>TNMP Revenues</b>					
Residential	\$111,373	\$103,255	\$100,290	\$83,645	\$74,739
Commercial	95,098	88,258	84,896	77,474	73,346
Industrial	13,084	13,405	13,065	12,342	12,113
Other	52,056	45,222	39,607	39,127	32,434
<b>Total TNMP Revenues</b>	<b>\$271,611</b>	<b>\$250,140</b>	<b>\$237,858</b>	<b>\$212,588</b>	<b>\$192,632</b>
<b>First Choice Revenues</b>					
Residential	\$—	\$—	\$260,161	\$305,834	\$349,629
Commercial	—	—	166,498	159,785	160,998
Trading gains (losses)	—	—	—	(4	) 14
Other	—	—	12,791	17,588	18,177
<b>Total First Choice Revenues</b>	<b>\$—</b>	<b>\$—</b>	<b>\$439,450</b>	<b>\$483,203</b>	<b>\$528,818</b>

Notes: Under TECA, consumers in Texas can choose any REP to provide energy. TNMP delivers energy to consumers within its service area regardless of the REP chosen. Therefore, TNMP earns revenue for energy delivery and REPs earn revenue on the usage of that energy by its customers. The revenues reported above for TNMP include \$33.8 million, \$39.1 million, and \$41.3 million received from First Choice in 2011, 2010, and 2009.

PNM Gas, which was sold on January 30, 2009, is reported as discontinued operations and has been excluded from the above table.

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

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
COMPARATIVE OPERATING STATISTICS

	2013	2012	2011	2010	2009
PNM MWh Sales					
Residential	3,304,350	3,323,544	3,402,842	3,361,472	3,264,378
Commercial	3,954,774	4,022,184	4,043,796	4,015,999	3,899,121
Industrial	1,041,160	1,136,011	1,132,110	1,073,475	1,071,955
Public authority	266,368	279,169	282,062	263,424	249,554
Economy service	719,342	635,305	428,757	376,458	382,525
Firm-requirements wholesale	654,135	651,972	650,356	677,508	689,740
Other sales for resale	2,061,851	1,652,225	2,076,869	2,203,787	3,996,317
Total PNM MWh Sales	12,001,980	11,700,410	12,016,792	11,972,123	13,553,590
TNMP MWh Sales					
Residential	2,796,661	2,714,511	2,862,337	2,699,601	2,582,555
Commercial	2,451,299	2,353,135	2,360,998	2,260,505	2,216,870
Industrial	2,598,442	2,727,126	2,578,877	2,241,452	1,983,165
Other	104,516	103,856	108,664	103,341	107,091
Total TNMP MWh Sales	7,950,918	7,898,628	7,910,876	7,304,899	6,889,681
First Choice MWh Sales					
Residential	—	—	2,006,437	2,267,836	2,441,550
Commercial	—	—	1,538,203	1,363,746	1,218,949
Total First Choice MWh Sales	—	—	3,544,640	3,631,582	3,660,499

The MWh reported above for TNMP include 836,599, 1,012,842, and 1,131,907 MWh for 2011, 2010, and Notes:2009, used by consumers who chose First Choice as their REP. These MWh are also included in the First Choice MWh sales.

PNM Gas, which was sold on January 30, 2009, is reported as discontinued operations and has been excluded from the above table.

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

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
COMPARATIVE OPERATING STATISTICS

	2013	2012	2011	2010	2009
PNM Customers					
Residential	453,218	450,507	448,979	447,789	445,637
Commercial	55,447	54,953	54,468	54,005	53,787
Industrial	251	250	251	259	269
Economy service	1	1	1	1	1
Other sales for resale	34	36	28	46	44
Other	928	952	983	1,003	991
Total PNM Customers	509,879	506,699	504,710	503,103	500,729
TNMP Consumers					
Residential	196,799	193,550	192,356	190,809	188,812
Commercial	37,460	36,819	37,208	37,356	37,728
Industrial	70	70	73	72	73
Other	2,070	2,037	2,092	2,099	2,059
Total TNMP Consumers	236,399	232,476	231,729	230,336	228,672
First Choice Customers					
Residential	—	—	176,577	172,506	183,605
Commercial	—	—	44,485	41,695	41,371
Total First Choice Customers	—	—	221,062	214,201	224,976
PNMR Generation Statistics					
Net Capability - MW, including PPAs	2,572	2,537	2,547	2,631	2,711
Coincidental Peak Demand - MW	2,008	1,948	1,938	1,973	1,866
Average Fuel Cost per MMBTU	\$2.237	\$2.308	\$2.267	\$2.064	\$1.895
BTU per KWh of Net Generation	10,308	10,289	10,441	10,237	10,277

The consumers reported above for TNMP include 64,732, 70,366, and 80,718 consumers for 2011, 2010, and Notes: 2009, who chose First Choice as their REP. These TNMP customers are also included in the First Choice customers.

PNM Gas, which was sold on January 30, 2009, is reported as discontinued operations and has been excluded from the above table.

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

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

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

MD&A FOR PNMR

EXECUTIVE SUMMARY

Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 746,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. In the latter part of 2011, PNMR exited both of its competitive businesses, First Choice and Optim Energy, and repositioned itself as a holding company solely operating its electric utilities, PNM and TNMP.

Strategic Goals

PNMR is focused on achieving the following strategic goals:

- Earning authorized returns on its regulated businesses
- Maintaining investment grade credit ratings
- Providing a top-quartile total return to investors

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

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

Earning Authorized Returns on Regulated Businesses

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

Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. 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, which allows for more timely recovery. The NMPRC has approved rate riders for renewable energy and energy efficiency that also allow for more timely recovery of investments and improve the ability to earn authorized returns from PNM's retail customers. In 2012, PNM saw additional progress toward achieving authorized returns for its FERC regulated transmission and generation services. PNM currently has a pending case before FERC in which it is requesting an increase in rates charged to transmission customers based on a formula rate mechanism. Additional information about rate filings is provided in Note 17.

Fair and timely rate treatment from regulators is crucial to PNMR achieving its strategic goals because it leads to PNM and TNMP earning their allowed returns. PNMR believes that if the utilities earn their allowed returns, it would be viewed positively by credit rating agencies and would further improve the Company's ratings, which could lower

costs to utility customers. Also, earning allowed returns should result in increased earnings for PNMR, which would lead to increased total returns to investors.

PNM's interest in PVNGS Unit 3 is currently excluded from NMPRC jurisdictional rates. While PVNGS Unit 3's financial results are not included in the authorized returns on its regulated business, it impacts PNM's earnings and has been demonstrated to be a valuable asset. Power generated from PNM's 134 MW interest in PVNGS Unit 3 is currently sold into the wholesale market and any earnings or losses are attributable to shareholders. PNM has requested NMPRC approval to include PVNGS Unit

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3 as a jurisdictional resource in the determination of rates charged to customers in New Mexico beginning in 2018 as part of compliance with the requirements for BART at SJGS discussed below.

### Maintaining Investment Grade Credit Ratings

PNM is committed to maintaining investment grade credit ratings. 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. S&P raised the corporate credit ratings and senior debt ratings for PNMR, PNM, and TNMP, as well as the preferred stock rating for PNM, on April 5, 2013. S&P retained the outlook as stable for all entities. On June 21, 2013, Moody's changed the ratings outlook for PNMR, PNM, and TNMP to positive from stable. On January 30, 2014, Moody's raised the credit ratings for PNMR, PNM and TNMP by one notch, while maintaining the positive outlook. All of the Company's credit ratings are now investment grade by both Moody's and S&P.

### Providing Top-Quartile Total Returns to Investors

PNMR's strategic goal to provide top quartile total return to investors over the 2012 to 2016 period is based on five-year ongoing earnings per share growth plus five-year average dividend yield from a group of regulated electric utility companies with similar market capitalization. Top quartile total return currently is equal to an average annual rate of 10 percent to 13 percent.

PNMR's long-term target is a dividend payout ratio of 50 percent to 60 percent of its ongoing earnings. Ongoing earnings, which is a non-GAAP financial measure, excludes certain non-recurring, infrequent, and other items from earnings determined in accordance with GAAP. The annual common stock dividend was raised by 16 percent in February 2012, 14 percent in February 2013, and 12 percent in December 2013. PNMR expects to provide above-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.

### Business Focus

In addition to its strategic goals, PNMR's strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power to create enduring value for customers and communities. To accomplish this, PNMR 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.

### Reliable and Affordable Power

PNMR and its utilities are keenly aware of the roles they play in enhancing economic vitality in their New Mexico and Texas service territories. Management believes that maintaining strong and modern electric infrastructure is critical to ensuring reliability and economic growth. When considering expanding or relocating to other communities, 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. The utilities also work to ensure that rates reflect actual costs of providing service. 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 top-tier electric reliability.

In September 2011, TNMP began its deployment of smart meters in homes and businesses across its Texas service area. Through the end of 2013, TNMP had completed installation of more than 128,000 smart meters, which is approximately 56% of the anticipated total. TNMP's deployment is expected to be completed in 2016.

As part of the State of Texas' long-term initiative to create a smart electric grid, installation of smart meters will ultimately give consumers more data about their energy consumption and help them make more informed decisions. In 2014, TNMP will install a new outage management system that will leverage capabilities of the smart meters to

enhance TNMP's responsiveness to outages.

During the 2011 to 2013 period, PNM and TNMP together invested \$937.5 million in utility plant, including substations, power plants, and transmission and distribution systems. In 2012, PNM announced plans for the 40 MW natural gas-fired La Luz peaking generating station, to be located near Belen, New Mexico. PNM filed a request in May 2013 with the NMPRC for approval to construct the La Luz plant, which is expected to begin in 2014, with the facility going into service in 2016. PNM also announced an agreement to purchase Delta, a 132 MW gas-fired peaking facility, which has served PNM jurisdictional needs under a 20-year PPA since 2000. The purchase has been approved by the NMPRC and FERC. Closing on the Delta purchase will occur once certain environmental issues are resolved.

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### Environmentally Responsible Power

PNMR has a long-standing record of environmental stewardship. In 2012 and 2013, its environmental focus has been in three key areas:

- Developing strategies to meet regional haze rules at the coal-fired SJGS as cost-effectively as possible while providing broad environmental benefits
- Preparing to meet New Mexico's increasing renewable energy requirements as cost-effectively as possible
- Increasing energy efficiency participation

Another area of emphasis is the reduction of the amount of fresh water used during electricity generation at PNM's power plants. The fresh water used per MWh generated has dropped by 21.0% since 2002, primarily due to the growth of renewable energy sources, the expansion of Afton to a combined-cycle plant that has both air and water cooling systems, and the use of gray water for cooling at Luna. In addition to the above areas of focus, the Company is also working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. The Company has performed well in this area in the past and has set goals for even further reductions.

### Renewable Energy

PNM's 2013 renewable procurement strategy almost doubled PNM's existing solar capacity with the addition of 21.5 MW of utility-owned solar capacity. In addition to the solar expansion, the 2013 plan included a 20-year agreement to purchase energy from a geothermal facility built near Lordsburg, New Mexico. The facility began providing power to PNM in January 2014. The current output of the facility is 4 MW and future expansion may result in up to 10 MW of generation capacity. PNM's 2014 renewable procurement strategy calls for the construction of an additional 23 MW of utility-owned solar capacity, a 20 year PPA for the output of an existing 102 MW wind energy center, and the purchase of RECs in 2014 and 2015 to meet the RPS.

In addition to PNM's utility-owned PV solar facilities, 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 features one of the largest combinations of battery storage and PV energy in the nation and involves extensive research and development of smart grid concepts. The facility was the nation's first solar storage facility fully integrated into a utility's power grid.

PNM also purchases 204 MW of wind power and power from a customer-owned distributed solar generation program having an installed capacity of 30.5 MW at the end of 2013. These renewable resources are key means for PNM to meet the RPS and related regulations, which require PNM to achieve prescribed levels of energy sales from renewable sources, if that can be accomplished without exceeding the RCT cost limit set by the NMPRC.

In 2013, PNM made renewable procurements consistent with the 2013 plan approved by the NMPRC. PNM believes its currently planned resources will enable it to comply with the NMPRC's diversity requirements, as amended in December 2012. PNM will continue to procure renewable resources while balancing the bill impact to customers in order to meet New Mexico's escalating RPS requirements.

### SJGS

PNM continues its efforts to comply with the EPA regional haze rule in a manner that minimizes the cost impact to customers while still achieving broad environmental benefits. Additional information about BART at SJGS is contained in Note 16.

In August 2011, EPA issued a FIP for regional haze that would require the installation of SCRs on all four units at SJGS by September 2016. Following approval by the majority of the other SJGS owners, PNM, NMED, and EPA agreed on February 15, 2013 to pursue a revised plan that could provide a new BART path to comply with federal visibility rules at SJGS. The terms of the non-binding agreement would result in the retirement of SJGS Units 2 and 3 by the end of 2017 and the installation of SNCRs on Units 1 and 4 by the later of January 31, 2016 or 15 months after EPA approval of a revised SIP from the State of New Mexico. The revised SIP has been approved by the EIB and submitted to EPA for its approval. EPA action is projected for late 2014.

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Contemporaneously with the signing of the non-binding agreement, EPA indicated in writing that if the above plan does not move forward due to circumstances outside of the control of PNM and NMED, EPA will work with the State of New Mexico and PNM to create a reasonable FIP compliance schedule to reflect the time used to develop the new state plan.

On December 20, 2013, PNM made a filing with the NMPRC requesting certain approvals necessary to effectuate the revised SIP. In this filing, PNM requests authorization to:

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- Retire SJGS Units 2 and 3 at December 31, 2017 and to recover over 20 years their net book value at that date along with a regulated return on those costs
- Include PNM's ownership of PVNGS Unit 3 as a resource to serve New Mexico retail customers effective January 1, 2018
- Allow cost recovery for the installation of SNCR equipment and the additional equipment to comply with NAAQS requirements on SJGS Units 1 and 4
- Exchange ownership of 78 MW of PNM's capacity in SJGS Unit 3 for 78 MW in SJGS Unit 4

PNM requested the NMPRC issue its final ruling on the application no later than December 2014. On February 11, 2014, PNM's application was determined to be complete. The Hearing Examiner indicated the NMPRC should proceed with the review of PNM's application and establish a schedule that would allow NMPRC action on the application by the end of 2014. The Hearing Examiner indicated that he will schedule a public hearing to begin on August 19, 2014.

The December 20, 2013 filing also identifies a new 177 MW natural gas fired generation source and 40 MW of new utility-scale solar generation to replace a portion of PNM's share of the reduction in generating capacity due to the retirement of SJGS Units 2 and 3. Specific approvals to acquire these facilities and the treatment of associated costs will be requested in future filings.

In connection with the implementation of the revised plan and the proposed retirement of SJGS Units 2 and 3, some of the SJGS participants have expressed a desire to exit their ownership in the plant. As a result, the SJGS participants are attempting to negotiate a restructuring of the ownership in SJGS, as well as addressing the obligations of the exiting participants for plant decommissioning, mine reclamation, environmental matters, and certain ongoing operating costs, among other items. The SJGS participants have engaged a mediator to assist in facilitating resolution of a number of outstanding matters among the owners. Although discussions are continuing, no agreements have been reached. Owners of the affected units also may seek approvals of their utility commissions or governing boards. PNM is unable to predict the outcome of the negotiations.

PNM, as the SJGS operating agent, presented the SNCR project to the participants in Unit 1 and Unit 4 for approval in late October 2013. The project was approved for Unit 1, but the Unit 4 project did not obtain the required percentage of votes for approval. Other capital projects related to Unit 4 were also not approved by the participants. The SJPPA provides that PNM is authorized and obligated to take reasonable and prudent actions necessary for the successful and proper operation of SJGS pending resolution by the participants. PNM is evaluating its responsibilities and obligations as operating agent under the SJPPA regarding the SJGS Unit 4 capital projects that were not approved by the participants and will take reasonable and prudent actions as it deems necessary. PNM cannot predict the outcome of this matter.

This revised BART plan would achieve similar visibility improvements as the installation of SCRs on all four units at SJGS. It has the added advantage of reducing other emissions beyond NO<sub>x</sub>, including SO<sub>2</sub>, particulate matter, CO<sub>2</sub>, and mercury, as well as reducing water usage. PNM has begun taking steps to prepare for the potential installation of SNCRs on Units 1 and 4. In May 2013, PNM entered into an SNCR equipment and related services contract with an SNCR technology provider, but has not yet entered into a construction and procurement contract. PNM can provide no assurance that the requirements of this plan will be accomplished at all or within the required timeframes.

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. Because of environmental upgrades completed in 2009, SJGS is well positioned to outperform the mercury limit imposed by EPA in the 2011 Mercury and Air Toxics Standards. The major environmental upgrades on each of the four units at SJGS have significantly reduced emissions of NO<sub>x</sub>, SO<sub>2</sub>,

particulate matter, and mercury. Since 2006, SJGS has reduced NOx emissions by 41 percent, SO<sub>2</sub> by 60 percent, particulate matter by 69 percent, and mercury by 99 percent.

#### Energy Efficiency

Energy efficiency also plays a significant role in helping to keep customers' electricity costs low while continuing to meet their energy needs. PNM's and TNMP's energy efficiency and load management portfolios continue to achieve robust results. In 2013, annual energy saved as a result of PNM's portfolio of energy efficiency programs was approximately 75 GWh. This is equivalent to the annual consumption of approximately 10,200 homes in PNM's service territory. PNM's load management and energy efficiency programs also help lower peak demand requirements. TNMP's energy efficiency programs in 2013 resulted in energy savings totaling an estimated 17.0 GWh. This is equivalent to the annual consumption of approximately 1,650 homes in TNMP's service territory.

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### Creating Value for Customers and Communities

The Company strives to deliver a superior customer experience by understanding the dynamic needs of its customers through ongoing market research, identifying and establishing best-in-class services and programs, and proactively communicating and engaging with customers at a regional and community level. In 2013, PNM refocused its efforts to improve the customer experience through an integrated marketing and communications strategy that encompassed brand repositioning and advertising, customer service improvements, and strategic customer and stakeholder engagement.

Integrated communication around known satisfaction drivers, including billing and payment options, bill redesign, energy efficiency, and environmental and community stewardship ensured PNM retained traction from the previous year, as well as gained new ground in critical areas, notably corporate citizenship perceptions. PNM's perceived value to customers has also improved.

Recognizing the importance of environmental stewardship to customers and other stakeholders, PNM expanded engagement with environmental stakeholders to promote ongoing dialogue and input. Similarly, PNM also proactively communicated with communities about its efforts and plans related to environmental stewardship. Customers took note of PNM's efforts in this area. A nationally recognized customer satisfaction benchmark revealed gains in awareness of PNM's efforts to improve environmental impact, as well as customer perceptions around the commitment to preserving the environment now and for future generations. Benchmark data also demonstrates positive movement in the communication component of the customer experience.

Through outreach, collaboration, and various community-oriented programs, PNMR has a demonstrated commitment to build productive relationships with stakeholders, including customers, regulators, legislators, and intervenors. Building off work that began in 2008, PNM has continued outreach efforts to connect low-income customers with nonprofit community service providers offering support and help with such needs as utility bills, food, clothing, medical programs, services for seniors, and weatherization. In 2013, PNM hosted 22 community events throughout its service territory to assist low-income customers. Furthermore, the PNM Good Neighbor Fund provided \$0.3 million of assistance with utility bills to 3,610 families in 2013. In 2013, PNM committed funding of \$0.9 million to the PNM Good Neighbor Fund.

The PNM Resources Foundation helps nonprofits become more energy efficient through Reduce Your Use grants. In 2013, PNMR committed funding of \$3.5 million to the PNM Resources Foundation. For 2013, the foundation awarded \$0.2 million to support 56 projects in New Mexico to provide shade structure installations, window replacements, and efficient appliance purchases. Since the program's inception in 2008, Reduce Your Use grants have provided nonprofit agencies in New Mexico with a total of \$1.4 million of support. In 2013, in connection with the PNM Resources Foundation's 30<sup>th</sup> anniversary, the foundation awarded thirty \$10,000 environmental grants to nonprofit agencies.

PNM continues to expand its environmental stakeholder outreach, piloting small environmental stakeholder dialogue groups on key issues such as renewable energy and energy efficiency planning. PNM also employed proactive stakeholder outreach in two key projects - the development of PNM's renewable energy procurement plans that involved distributed solar energy developers early in the conversation and the siting of the planned gas-fired peaking generation facility near Belen, New Mexico, which featured in-depth community involvement and education early in the planning stages of the project. In both cases highly favorable outcomes were achieved, and controversial negative media coverage was virtually eliminated.

In Texas, community outreach has focused on supporting employee volunteerism, as well as customer education to address questions about the ongoing smart meter deployment. TNMP also offers energy efficiency programs specific to government buildings and schools and has successfully used the programs to improve customer relationships.

### Economic Factors

In 2013 and 2012, PNM experienced annualized decreases in weather-normalized, retail load of 1.8% and 0.7%. TNMP experienced annualized increases in weather-normalized, retail load of 2.6% in 2013 and 3.7% in 2012. In recent years, New Mexico and Texas have fared better than the national average in unemployment. However, New Mexico's figures may be misleading due to people dropping out of the workforce. Employment growth is a stronger predictor of load. Texas' employment growth rates are well above the national rate, while New Mexico's employment remains relatively flat.

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## Results of Operations

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

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions, except per share amounts)				
Net earnings	\$100.5	\$105.5	\$176.4	\$(5.0)	\$(70.9)
Average common and common equivalent shares	80.4	80.4	89.8	—	(9.4)
Net earnings per diluted share	\$1.25	\$1.31	\$1.96	\$(0.06)	\$(0.65)

The components of the changes in earnings from continuing operations attributable to PNMR by segment are:

	Change	
	2013/2012	2012/2011
	(In millions)	
PNM	\$(3.4)	\$37.0
TNMP	2.4	4.4
First Choice	—	(24.1)
Corporate and Other	(4.0)	(88.2)
Net change	\$(5.0)	\$(70.9)

PNMR's operational results were affected by the following:

- Rate increases for PNM and TNMP - Additional information about these rate increases is provided in Note 17
- Lower retail load at PNM partially offset by higher retail load in at TNMP
- Milder weather
- Fluctuating prices for sales of power from PVNGS Unit 3
- Increased income tax expense due to impairments of state tax credits and a change in state tax rate (Note 11)
- Exit from unregulated businesses - PNMR sold First Choice in 2011, resulting in a pre-tax gain of \$174.9 million, which was included in the Corporate and Other segment. The results of operations only include First Choice through October 31, 2011.
- Decrease in the number of common and common equivalent shares, primarily due to PNMR's purchase of its equity as described in Note 6
- Other factors impacting results of operation for each segment are discussed under Results of Operations below

## Liquidity and Capital Resources

The Company has revolving credit facilities that provide capacities for short-term borrowing and letters of credit of \$300.0 million for PNMR and \$400.0 million for PNM, both of which expire in October 2018. In addition, PNM has a \$50.0 million revolving credit facility, which expires in January 2018, with banks having a significant presence in New Mexico and TNMP has a \$75.0 million revolving credit facility, which expires in September 2018. Total availability for PNMR on a consolidated basis was \$718.5 million at February 21, 2014. 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.

The Company projects that its total capital requirements, consisting of construction expenditures and dividends, will total \$2,564.5 million for 2014-2018. The construction expenditures include estimated amounts related to environmental upgrades at SJGS to address regional haze and the identified sources of replacement capacity under the revised plan for compliance described in Note 16. The construction expenditures also include additional renewable

resources anticipated to be required to meet the RPS, additional peaking resources needed to meet needs outlined in PNM's current IRP, and environmental upgrades at Four Corners. 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 2014-2018 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.

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## RESULTS OF OPERATIONS

## 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.

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. Refer also to Disclosure Regarding Forward Looking Statements in Part I, Item 1 and to Part II, Item 7A. Risk Factors.

## PNM

The table below summarizes operating results for PNM:

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions)				
Electric operating revenues	\$1,116.3	\$1,092.3	\$1,057.3	\$24.0	\$35.0
Cost of energy	374.7	353.6	362.2	21.1	(8.6 )
Margin	741.6	738.6	695.1	3.0	43.5
Operating expenses	428.6	435.4	438.8	(6.8 )	(3.4 )
Depreciation and amortization	103.8	97.3	94.8	6.5	2.5
Operating income	209.2	205.9	161.4	3.3	44.5
Other income (deductions)	21.5	26.5	19.9	(5.0 )	6.6
Net interest charges	(79.2 )	(76.1 )	(75.3 )	(3.1 )	(0.8 )
Segment earnings before income taxes	151.5	156.3	106.0	(4.8 )	50.3
Income (taxes)	(48.8 )	(50.7 )	(37.4 )	1.9	(13.3 )
Valencia non-controlling interest	(14.5 )	(14.1 )	(14.0 )	(0.4 )	(0.1 )
Preferred stock dividend requirements	(0.5 )	(0.5 )	(0.5 )	—	—
Segment earnings	\$87.6	\$91.0	\$54.0	\$(3.4 )	\$37.0

The table below summarizes the significant changes to total revenues, cost of energy, and margin:

	2013/2012 Change			2012/2011 Change		
	Total Revenues	Cost of Energy	Margin	Total Revenues	Cost of Energy	Margin
	(In millions)					
Retail rate increases	\$—	\$—	\$—	\$40.3	\$—	\$40.3
Customer usage/load	(8.6 )	—	(8.6 )	(4.8 )	—	(4.8 )
Weather	(3.3 )	—	(3.3 )	(3.0 )	—	(3.0 )
Transmission	(1.6 )	1.0	(2.6 )	1.1	(0.2 )	1.3
Wholesale rate increase	2.9	—	2.9	4.0	—	4.0
Unregulated margins	2.8	(2.7 )	5.5	(5.9 )	1.1	(7.0 )
Energy efficiency rider	(2.1 )	—	(2.1 )	8.9	—	8.9
Renewable energy rider	14.7	6.3	8.4	6.9	2.0	4.9
Net unrealized economic hedges	(0.6 )	(0.9 )	0.3	(3.3 )	(1.1 )	(2.2 )
Other	19.8	17.4	2.5	(9.2 )	(10.4 )	1.1
Net change	\$24.0	\$21.1	\$3.0	\$35.0	\$(8.6 )	\$43.5



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The following table shows PNM operating revenues by customer class and average number of customers:

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions, except customers)				
Residential	\$411.6	\$409.0	\$390.4	\$2.6	\$18.6
Commercial	415.6	413.3	386.4	2.3	26.9
Industrial	74.6	78.6	73.8	(4.0)	) 4.8
Public authority	25.7	25.5	24.0	0.2	1.5
Economy service	32.9	25.4	21.1	7.5	4.2
Transmission	38.2	39.4	43.6	(1.2)	) (4.2)
Firm-requirements wholesale	42.4	39.4	34.1	3.0	5.3
Other sales for resale	67.5	47.4	69.3	20.1	(21.9)
Mark-to-market activity	0.3	0.9	4.2	(0.6)	) (3.3)
Other	7.5	13.4	10.4	(5.9)	) 3.0
	\$1,116.3	\$1,092.3	\$1,057.3	\$24.0	\$35.0
Average retail customers (thousands)	508.2	505.6	503.9	2.6	1.7

The following table shows PNM GWh sales by customer class:

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(Gigawatt hours)				
Residential	3,304.3	3,323.5	3,402.8	(19.2)	) (79.3)
Commercial	3,954.8	4,022.2	4,043.8	(67.4)	) (21.6)
Industrial	1,041.2	1,136.0	1,132.1	(94.8)	) 3.9
Public authority	266.4	279.2	282.1	(12.8)	) (2.9)
Economy Service	719.3	635.3	428.8	84.0	206.5
Firm-requirements wholesale	654.1	652.0	650.4	2.1	1.6
Other sales for resale	2,061.9	1,652.2	2,076.8	409.7	(424.6)
	12,002.0	11,700.4	12,016.8	301.6	(316.4)

On August 21, 2011, PNM implemented a \$72.1 million annual non-fuel rate increase for its retail customers. This rate increase improved 2012 revenues and margins by \$40.3 million. There was no retail rate increase in 2013. For 2013, retail sales were lower compared to 2012 reflecting a continued sluggish economy in New Mexico. In particular, the Albuquerque metropolitan area continues to lag the nation in economic recovery. PNM's weather normalized and leap-year adjusted retail KWh sales were lower in 2013 by 1.8%, which decreased margin \$8.6 million compared to 2012 primarily due to the sluggish economy. In spite of the economic pressures, PNM experienced growth in average retail customers of 0.5% in 2013 compared to 2012. Weather negatively impacted revenues and margin by \$3.3 million in 2013 as cooling degree days were 10.7% lower in 2013 than in 2012. In 2012, lower retail KWh sales, primarily in the residential and commercial customer classes, reflecting lower weather normalized and leap-year adjusted average usage per customer, decreased revenues and margins by \$4.8 million. In addition, cooling degree days were 2.3% higher in 2012 compared to 2011, but were more than offset by lower heating degree days of 12.4%, resulting in lower revenue and margin of \$3.0 million. There is no clear indication regarding the future of New Mexico's economy. Encouraging signs such as growth in the housing industry, increased tax revenue in the Albuquerque metropolitan area, and unemployment rates below the national average are contrasted by indicators such as flat population growth and low job growth.

In 2013, lower transmission revenues as a result of expiration of contracts combined with higher third-party transmission expenses incurred to deliver power to the retail customers reduced margins by \$2.6 million. In 2012,

higher transmission rates as a result of the June 1, 2011 rate increase improved revenues and margins. PNM implemented new rates for NEC, its largest wholesale firm-requirements customer, in April 2012 and for Gallup, its second largest wholesale customer, in July 2013. These increases improved revenues and margins \$2.9 million in 2013 and \$4.0 million in 2012. PNM has responded to Gallup's request for proposals for long-term power supply. On January 13, 2014, PNM was notified that its proposal was not the highest ranked and Gallup has stated that a contract is being negotiated with the top-ranked bidder. If a contract is executed with the top-ranked

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bidder, PNM's contract with Gallup would expire on June 30, 2014. PNM's 2013 revenues for power sold under the Gallup contract were \$11.7 million. See Note 17. If PNM does not continue to supply power to Gallup, costs currently being recovered under the Gallup contract would be reallocated and partially included in PNM's next retail rate case filing, which is expected to be filed by the end of 2014. In addition, PNM would consider opportunities to serve other FERC generation customers. PNM is unable to predict the outcome of this matter.

PNM offers several energy efficiency programs and initiatives to its retail customers regulated by the NMPRC. In addition, PNM is allowed to earn incentives on these programs based on energy savings of the programs. PNM recovers the energy efficiency program costs and incentives via a rate rider. Changes in energy efficiency revenues are offset by changes in operating expenses. In 2013, revenues and margins from the energy efficiency rider were lower by \$2.1 million due to lower KWh sales and a decrease in the recovery rate. In 2012, revenues and margins were higher by \$8.9 million, primarily related to increases in operating expenses for the energy efficiency programs.

On August 20, 2012, PNM implemented its renewable energy rider, a mechanism approved by the NMPRC, which recovers renewable energy procurement costs, including the investment in and an allowed return on the 22 MW of PNM-owned solar PV facilities constructed to meet the RPS. See Note 17. Revenues under this rider were \$6.9 million in 2012 and increased by an additional \$14.7 million in 2013. Related cost of energy, reflecting the purchase cost of RECs, was \$2.0 million in 2012 and increased by an additional \$6.3 million in 2013. Included in revenues is the earned return component on its investment of \$1.2 million in 2012, which increased by \$1.8 million in 2013. The remaining revenues from this rider recover renewable energy operating, depreciation, and interest expenses.

Unregulated revenues and margins are primarily associated with PVNGS Unit 3. In 2013, higher market power prices on sales offset by lower available generation increased revenue \$2.8 million and margin \$2.9 million. In 2012, lower market power prices and increases in nuclear fuel costs resulted in decreases in unregulated revenues of \$5.9 million and margin of \$5.0 million. In addition, PNM incurred cost of energy for gas imbalance settlements of \$2.0 million in 2012 that did not recur in 2013.

Changes in unrealized mark-to-market gains and losses result from economic hedges for sales and fuel costs not covered under the FPPAC, primarily associated with PVNGS Unit 3. Unrealized gains of \$1.9 million in 2013 compared to unrealized gains of \$1.6 million for 2012 increased margin by \$0.3 million, primarily due to gains on purchase power contracts of \$0.8 million and gains on retail hedges of \$0.1 million offset by PVNGS Unit 3 hedge losses of \$0.6 million. Unrealized gains of \$1.6 million in 2012 compared to unrealized gains of \$3.8 million for 2011 decreased margin by \$2.2 million due to higher losses on PVNGS Unit 3 hedging activities of \$3.5 million, offset by settlement of natural gas hedges of \$1.5 million.

Other impacts to revenue and margin include economy energy services to a major customer. In spite of the increase in KWh sales to this customer in 2013 and 2012 there is only a minor impact in margin resulting from providing ancillary services. Other changes in revenues and cost of energy are a pass through with no impact to margin. Other sales for resale revenues and KWh volumes increased in 2013 and decreased in 2012 primarily due to reduced off-system sales at SJGS in 2012 resulting from the fire incident at the mine providing coal to SJGS. See Note 16 for more discussion on the SJGS mine fire incident. Gains from other sales for resale are deferred under the FPPAC with no impact to margin. Lower cost of energy associated with coal mine decommissioning of \$1.9 million increased margins in 2013 compared to 2012.

In 2013, operating expenses decreased compared to 2012 due to lower maintenance expenses related to planned outages at SJGS of \$8.8 million and unplanned outages at SJGS, PVNGS, and PNM's natural gas plants of \$0.9 million, \$0.6 million and \$2.1 million, partially offset by increased maintenance expense for unplanned outages at Four Corners of \$2.3 million. Lower healthcare claims and lower pension and retiree medical expenses (see Note 12)

reduced operating expense by \$2.3 million in 2013. In addition, capitalized administrative and general expenses increased \$3.0 million in 2013 due to increased capital spending, resulting in lower operating expenses compared to 2012. Also, lower energy efficiency expenses of \$2.6 million, which are offset in revenues, reduced operating expenses. The allocation of corporate expenses in 2012 included \$2.3 million related to business restructuring, which did not recur in 2013. Improved collection experience in 2013 decreased bad debt expense by \$0.5 million further decreasing operating expenses. Higher incentive compensation expenses of \$2.8 million and the \$3.3 million allocation of the Company's contributions to the PNM Resources Foundation and additional financial support to the PNM Good Neighbor Fund increased operating expense in 2013. Property taxes increased \$1.8 million due to increased plant in service and higher assessed values and a \$0.7 million increase in regulatory, payroll, and gross receipts taxes increased operating expenses in 2013 compared to 2012. In addition, in 2013, PNM concluded that certain costs that were being deferred as regulatory assets were no longer probable of recovery and recorded regulatory disallowances of \$12.2 million, including a write-off of \$10.5 million of the under-collected balance of the FPPAC pursuant to a settlement in the FPPAC continuation matter discussed in Note 17. As discussed in Note 7, PNM recorded a lease abandonment loss of \$6.2 million in operating expenses in 2012.

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In 2012, operating expenses decreased by \$2.1 million due to lower maintenance expense at PVNGS and \$4.2 million resulting from process improvement initiatives implemented during 2011. In addition, retiree medical and employee health care costs were \$1.2 million lower. These reductions in operating expenses were offset by higher expenses associated with planned maintenance outages at SJGS of \$7.3 million and union labor negotiation expenses of \$1.0 million. Operating expenses also increased in 2012 due to higher energy efficiency expenses of \$11.4 million and renewable expenses of \$1.0 million, which are offset in revenues, and the lease abandonment loss of \$6.2 million, as discussed above. In addition, property taxes were higher by \$2.2 million as the result of increased plant additions, higher property tax rates, and a settlement with a Native American pueblo. In 2011, operating expenses reflect a regulatory disallowance of \$17.5 million resulting from PNM's 2010 Electric Rate Case. No regulatory disallowances were recorded in 2012. In addition, PNM incurred operating expenses of \$6.7 million in 2011 to implement process improvement initiatives associated with reducing future costs.

Depreciation and amortization expense increased in 2013 and 2012 due to additions to utility plant in service, including 22 MW of PNM-owned solar PV facilities. Depreciation on the PNM-owned solar PV facilities is recovered through the renewable energy rate rider as discussed above.

For 2013, other income (deductions) was \$5.0 million lower than in 2012, primarily related to lower income from investments held by the NDT of \$2.5 million and lower interest income on the PVNGS lessor notes of \$2.3 million due to lower outstanding balances. PNM made commitments of \$1.0 million to support employment and other economic activities in the "four corners" area, including the Navajo Nation, which further decreased earnings. These decreases were partially offset by higher equity AFUDC of \$0.4 million. In 2012, other income (deductions) increased \$6.6 million compared to 2011, primarily related to higher income from investments held by the NDT of \$5.9 million. In addition, higher equity AFUDC of \$3.3 million improved other income in 2012, offset by lower interest income on the PVNGS lessor notes of \$2.8 million due to lower outstanding balances.

Interest expense increased \$3.1 million in 2013 primarily due to the deferral in 2012 of interest costs associated with the 22 MW of PNM-owned solar PV facilities, which are now being recovered through a renewable energy rate rider. In 2012, interest expense increased \$7.0 million due to the issuance of \$160.0 million of long-term debt in October 2011. This was partially offset by \$5.6 million for the debt portion of AFUDC and \$0.9 million of interest charges on PNM's investment in renewable resources that are deferred for recovery through the renewable energy rate rider.

## TNMP

The table below summarizes the operating results for TNMP:

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions)				
Electric operating revenues	\$271.6	\$250.1	\$237.9	\$21.5	\$12.2
Cost of energy	57.6	46.2	41.2	11.4	5.0
Margin	214.0	203.9	196.7	10.1	7.2
Operating expenses	91.6	87.1	88.2	4.5	(1.1 )
Depreciation and amortization	50.2	49.3	44.6	0.9	4.7
Operating income	72.2	67.5	63.8	4.7	3.7
Other income (deductions)	1.9	2.7	1.6	(0.8 )	1.1
Net interest charges	(27.4 )	(28.2 )	(29.3 )	0.8	1.1
Segment earnings before income taxes	46.7	42.1	36.1	4.6	6.0
Income (taxes)	(17.6 )	(15.4 )	(13.9 )	(2.2 )	(1.5 )
Segment earnings	\$29.1	\$26.7	\$22.3	\$2.4	\$4.4



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The table below summarizes the significant changes to total revenues, cost of energy, and margin:

	2013/2012 Change			2012/2011 Change			
	Total Revenues	Cost of Energy	Margin	Total Revenues	Cost of Energy	Margin	
	(In millions)						
Rate increases	\$4.8	\$—	\$4.8	\$1.4	\$—	\$1.4	
Customer usage/load	2.0	—	2.0	0.8	—	0.8	
Customer growth	1.5	—	1.5	1.2	—	1.2	
Demand based customers	3.6	—	3.6	—	—	—	
Weather	(0.7	) —	(0.7	) (4.1	) —	(4.1	)
Recovery of third-party transmission costs	11.8	11.4	0.4	4.9	5.0	(0.1	)
AMS surcharge	2.7	—	2.7	6.9	—	6.9	
CTC surcharge	(3.4	) —	(3.4	) (0.6	) —	(0.6	)
1999 rate settlement	(1.6	) —	(1.6	) 1.6	—	1.6	
Other	0.8	—	0.8	0.1	—	0.1	
Net change	\$21.5	\$11.4	\$10.1	\$12.2	\$5.0	\$7.2	

The following table shows TNMP operating revenues by retail tariff consumer class, including intersegment revenues, and average number of consumers:

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions, except consumers)				
Residential	\$111.3	\$103.3	\$100.3	\$8.0	\$3.0
Commercial	95.1	88.3	84.9	6.8	3.4
Industrial	13.1	13.4	13.1	(0.3	) 0.3
Other	52.1	45.1	39.6	7.0	5.5
	\$271.6	\$250.1	\$237.9	\$21.5	\$12.2
Average consumers (thousands) <sup>(1)</sup>	235.1	233.0	231.3	2.1	1.7

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,

<sup>(1)</sup> consumers in Texas have the ability to choose any REP to provide energy. The average consumers reported above include 67,268 consumers of TNMP for 2011 that chose First Choice as their REP. These consumers are also included in the First Choice segment.

The following table shows TNMP GWh sales by retail tariff consumers class:

	Year Ended December 31,			Change		
	2013	2012	2011	2013/2012	2012/2011	
	(Gigawatt hours) <sup>(1)</sup>					
Residential	2,796.7	2,714.5	2,862.3	82.2	(147.8	)
Commercial	2,451.3	2,353.1	2,361.0	98.2	(7.9	)
Industrial	2,598.4	2,727.1	2,578.9	(128.7	) 148.2	
Other	104.5	103.9	108.7	0.6	(4.8	)
	7,950.9	7,898.6	7,910.9	52.3	(12.3	)

<sup>(1)</sup> The GWh sales reported above include 836.6 GWhs for 2011 used by consumers of TNMP who have chosen First Choice as their REP. These GWhs are also included below in the First Choice segment.

Implementation of rate increases in September 2012, March 2013, and September 2013 increased revenues and margins by \$4.8 million in 2013 compared to 2012. See Note 17. In 2013, TNMP experienced average customer growth of 0.9% further

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increasing revenues and margins by \$1.5 million. Higher weather normalized and leap-year adjusted usage per customer increased revenues and margin by \$2.0 million in 2013 compared to 2012. Milder weather in 2013 compared to 2012, decreased revenues and margins by \$0.7 million. TNMP's weather normalized and leap-year adjusted retail KWh sales increased 2.6% for the year ended 2013 compared to 2012. Rate increases implemented in February 2011 and September 2012 increased revenues and margins by \$1.4 million in 2012 compared to 2011. Higher weather normalized and leap-year adjusted usage per customer increased margin \$0.8 million in 2012. TNMP's weather normalized and leap-year adjusted retail KWh sales increased 3.7%. Customer growth in TNMP's service areas increased revenues and margin \$1.2 million in 2012. These increases were more than offset with milder weather in 2012 compared to 2011, which reduced revenues and margins by \$4.1 million.

Differences between revenues and costs charged by third-party transmission providers are deferred and recovered through a transmission cost recovery factor. Higher transmission cost of energy resulting from rate increases and higher demand based charges from other transmission service providers within ERCOT increased cost of energy \$11.4 million in 2013 and \$5.0 million in 2012. These increases in cost of energy resulted in TNMP rate increases for the recovery of third party transmission costs increasing revenue \$11.8 million in 2013 and \$4.9 million in 2012.

On August 11, 2011, TNMP implemented a surcharge for its AMS deployment. The surcharge will recover TNMP's investment in AMS over a 12 year period. The surcharge has a true-up mechanism, which allows TNMP to match revenues collected against the expenses incurred and allows for a return to be earned on its investments. AMS revenues increased by \$2.7 million in 2013 and \$6.9 million in 2012, which offset increases in operating expenses and depreciation.

Demand based customers increased revenues and margins by \$3.6 million in 2013 compared to 2012. This primarily results from TNMP, under a PUCT approved tariff, lowering the power factor billing threshold from 700 KW to 300 KW. TNMP received a \$1.6 million settlement related to ERCOT transmission rates charged from the fourth quarter of 1999, which increased 2012 revenues and margin, but did not recur in 2013. TNMP experienced lower revenues and margins of \$3.4 million associated with the recovery of CTC due to a rate rider decrease implemented in January 2013, which was offset by lower amortization expense. Other revenue increases include recovery of energy efficiency program costs, which are offset with increases in operating expenses.

Higher energy efficiency program expenses of \$1.5 million increased operating expense in 2013, which is offset by increases in revenue under TNMP's energy efficiency cost recovery factor. Increased property and sales taxes of \$1.1 million, primarily due to increased utility plant in service and higher assessed values, higher expenses for incentive compensation of \$0.9 million, higher employee healthcare claims of \$0.8 million, and higher pension and retiree medical expense of \$0.8 million (see Note 12) increased operating expenses in 2013. Other increases to operating expenses in 2013 include a \$0.5 million write-off of costs incurred in exploring the possibility of securitizing the remaining CTC costs and the allocation of the Company's contributions to the PNM Resources Foundation of \$0.7 million. These increases were offset by lower vegetation management of \$1.1 million in 2013 due to additional vegetation management expenditures in 2012 and the 2012 lease abandonment loss of \$1.2 million, which did not recur in 2013.

In 2012, operating expenses associated with the AMS deployment increased \$2.6 million and vegetation management expenses increased \$1.7 million. These increases were offset by lower maintenance expenses of \$1.1 million related to extreme drought conditions experienced in 2011 in the Gulf Coast region, lower administrative and general expenses of \$1.9 million based on process improvements initiated in 2011, and higher capitalization of administrative and general expenses related to construction projects of \$1.3 million, which improved operating expenses in 2012. Depreciation expense associated with AMS deployment, which is recovered through the AMS surcharge, increased \$1.8 million in 2013. In addition, an increase in utility plant in service increased depreciation by \$ 1.4 million in 2013. This was offset by decreased amortization of the CTC regulatory asset of \$2.3 million. In 2012, depreciation and amortization expense increased due to higher utility plant in service and AMS deployment.

Other income (deductions) increased in 2012 due to higher AFUDC on equity funds of \$0.6 million compared to 2013 and 2011. A gain on the sale of property of \$0.3 million further increased other income in 2012.

In April 2013, TNMP exchanged \$93.2 million of its 9.5% First Mortgage Bonds for an equal amount of a new series of 6.95% First Mortgage Bonds. This resulted in a decrease in interest expense of \$1.8 million in 2013. This was partially offset by increased interest expense due to higher short-term debt balances in 2013. In September 2011, TNMP replaced its 2009 Term Loan Agreement, at a lower interest rate, which resulted in lower interest expense in 2012. In addition, an increase in AFUDC on borrowed funds further reduced interest expense in 2012.

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## First Choice

As discussed in Note 3, PNMR sold First Choice on November 1, 2011. The table below summarizes the operating results for First Choice from January 1, 2011 through October 31, 2011:

	Ten Months Ended October 31, 2011 (In millions)	
Electric operating revenues	\$439.5	
Cost of energy	323.3	
Margin	116.1	
Operating expenses	76.0	
Depreciation and amortization	1.1	
Operating income	39.1	
Other income (deductions)	(0.6)	)
Net interest charges	(0.6)	)
Segment earnings before income taxes	37.9	
Income (taxes)	(13.8)	)
Segment earnings	\$24.1	

For the ten months of operations in 2011, First Choice operating revenues consisted of \$260.2 million from residential customers, \$166.5 million from commercial customers, and \$12.8 million from other sources. First Choice's sales were 2,006.4 GWh to residential customers and 1,538.2 GWh to commercial customers. At October 31, 2013, First Choice had 0.2 million customers. See note above in the TNMP segment discussion about the impact of TECA.

First Choice revenues increased in 2011 compared to the same period in 2010 due to favorable weather and an increase in both MWh sales and number of customers, which were partially offset by a decrease in the average revenue rates. First Choice incurred significantly higher purchased power costs per MWh due to extreme summer temperatures in 2011. These higher energy costs more than offset the increase in revenues. First Choice managed its exposure to fluctuations in market energy prices by matching sales contracts with supply instruments designed to preserve targeted margins. Changes in the fair value of supply contracts that were not designated or were not eligible for hedge or normal purchase or normal sales accounting were marked to market through current period earnings as required by GAAP. During 2011, market energy prices increased, which increased segment earnings by \$4.9 million due to unrealized mark-to-market gains on certain of First Choice's forward supply contracts. First Choice was not required to mark the related fixed price sales contracts to market, which would likely offset the supply contracts. The allowance for uncollectible accounts and related bad debt expense was based on collections and write-off experience. For the ten months ended October 21, 2011, bad debt expense was \$20.3 million. Initiatives to reduce bad debts included efforts to reduce the default rate experienced for customers switching to another REP and increased focus on identifying new customer prospects that are more likely to demonstrate desired payment behavior. First Choice focused its marketing efforts on commercial customers and customers with established payment patterns, increased the required credit score, and expanded advance deposits requirements.

Prior to the sale, operating expenses in 2011 increased compared to the same period in 2010 due to increases in marketing and operational costs, which were partially offset by a decrease in incentive compensation expense. In 2011, interest expense decreased primarily due to lower short-term debt.

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## Corporate and Other

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

	Year Ended December 31,			Change		
	2013	2012	2011	2013/2012	2012/2011	
	(In millions)					
Electric operating revenues	\$—	—	\$(34.0)	) \$—	\$34.0	
Cost of energy	—	—	(33.8)	) —	33.8	
Margin	—	—	(0.2)	) —	0.2	
Operating expenses	(18.3	) (17.9	) (9.7	) (0.4	) (8.2	)
Depreciation and amortization	12.8	17.5	16.5	(4.7	) 1.0	
Operating income (loss)	5.5	0.3	(7.0)	) 5.2	7.3	
Gain on sale of First Choice	—	1.0	174.9	(1.0	) (173.9	)
Other income (deductions)	(13.7	) (8.1	) (15.8	) (5.6	) 7.7	
Net interest charges	(14.9	) (16.6	) (19.6	) 1.7	3.0	
Segment earnings (loss) before income taxes	(23.1	) (23.4	) 132.5	0.3	(155.9	)
Income (taxes) benefit	6.9	11.2	(56.5)	) (4.3	) 67.7	
Segment earnings (loss)	\$(16.2	) \$(12.2	) \$76.0	\$(4.0	) \$(88.2	)

The Corporate and Other segment includes consolidation eliminations of revenues and cost of energy between business segments related to TNMP's sale of transmission services to First Choice prior to November 1, 2011, when PNMR sold First Choice (Note 3). Accordingly, there were no eliminations of intersegment revenues in 2012 or 2013. Corporate and Other results also include the gain on the sale of First Choice.

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP. The amounts allocated include certain expenses shown as depreciation and amortization and other income (deductions) in the table above. The operating income (loss) of \$5.5 million in 2013 reflects the allocation of \$4.0 million of the Company's contributions to the PNM Resources Foundation and financial support to the PNM Good Neighbor Fund, recorded in other income (deductions), which were allocated to PNM and TNMP reducing operating expenses. The operating income (loss) of \$(7.0) million in 2011 reflects legal and consulting expenses of \$4.6 million related to assessment of strategic alternatives for PNMR's competitive businesses, as well as depreciation and other operating expenses that were retained in the Corporate and Other segment. Beginning in 2012, substantially all Corporate and Other operating expenses are allocated to the utilities.

Depreciation expense increased in 2012 by \$4.5 million due to accelerated amortization of leasehold improvements for part of its corporate headquarters that was abandoned during 2012. PNM and TNMP deferred their allocations of the accelerated amortization of leasehold improvements as regulatory assets to be recovered through rates. This increase was partially offset by lower depreciation on software applications that were fully depreciated by the end of 2011. Beginning in 2012, substantially all depreciation and amortization expense is offset in operating expenses as a result of allocation of these costs to other business segments.

The year-over-year changes in other income and deductions are primarily due to losses of \$3.3 million in 2013 and \$9.2 million in 2011 recognized on the repurchase of \$23.8 million and \$50.0 million of PNMR's 9.25% senior unsecured notes (Note 6). As discussed above, in 2013, Corporate and Other made contributions to the PNM Resources Foundation and the PNM Good Neighbor Fund totaling \$4.0 million, which were allocated to PNM and TNMP. The impact of these changes is offset by lower performance on other investments in 2012. Net interest charges decreased in 2013 and 2012, primarily due to the repurchase of 9.25% senior unsecured notes.

In 2013 and 2012, income tax benefits were reduced by \$3.9 million and \$0.7 million due to impairments of New Mexico wind energy production tax credit carry forwards. The impaired credits are not expected to be utilized prior to

their expiration due to the Company's net operating loss position and the extension of fifty percent bonus depreciation under the American Taxpayer Relief Act of 2012. Additional expense of \$1.2 million was recognized in 2013 due to reductions in Corporate and Other's deferred tax assets resulting from legislation, which reduced future New Mexico corporate income tax rates. See Note 11.

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## LIQUIDITY AND CAPITAL RESOURCES

## Statements of Cash Flows

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

	Year Ended December 31,			Change	
	2013	2012	2011	2013/2012	2012/2011
	(In millions)				
Net cash flows from:					
Operating activities	\$386.6	\$281.3	\$292.2	\$105.3	\$(10.9)
Investing activities	(331.4)	(285.9)	19.8	(45.5)	(305.7)
Financing activities	(61.6)	(1.6)	(312.3)	(60.0)	310.7
Net change in cash and cash equivalents	\$(6.5)	\$(6.1)	\$(0.3)	\$(0.2)	\$(5.9)

The changes in PNMR's cash flows from operating activities primarily relate to income tax refunds received of \$95.3 million in 2013 compared to income taxes paid of \$5.3 million in 2012 and refunds received of \$5.5 million in 2011 and rate increases at TNMP and PNM. Contributions to the PNM and TNMP pension and other postretirement benefit plans of \$66.5 million in 2013 compared to \$88.5 million in 2012 and \$48.3 million in 2011 also contributed to operating cash flow changes. In addition, changes in assets and liabilities resulting from normal operations impact operating cash flows. These increases were offset by refunds of \$15.2 million made to customers related to the settlement of PNM's transmission rate case in 2013, as well as governmental grants received by PNM of \$21.6 million in 2012 and \$2.1 million in 2011 that did not recur in 2013, and lower retail load at PNM in 2013.

Cash flows from investing activities are primarily driven by additions to utility plant. PNMR's utility plant additions increased \$39.1 million in 2013 and decreased \$18.0 million in 2012. At PNM, total utility plant additions increased by \$43.1 million in 2013 and decreased by \$54.5 million in 2012. PNM's additions included \$59.2 million related to solar projects in 2011 and \$35.7 million in 2013. Also, PNM's transmission and distribution additions increased \$22.7 million in 2013 offset by \$5.8 million lower nuclear fuel purchases than 2012, relating to the timing of purchases. TNMP utility plant additions decreased \$3.9 million in 2013 compared to 2012, including an increase in advanced meter additions of \$2.5 million, offset by a decrease in other transmission and distribution additions of \$6.4 million. TNMP utility plant additions increased \$25.6 million in 2012 compared to 2011, including increases of \$12.9 million in distribution projects, \$13.8 million in transmission projects, and a decrease of \$2.8 million related to the deployment of advanced meters. Plant additions at the Corporate and Other segment increased \$13.4 million in 2012 primarily related to improvements to the Company's corporate headquarters building. Construction expenditures were funded primarily through cash flows from operating activities and short-term borrowings. Investing cash flows also include the proceeds from the sale of First Choice of \$4.0 million in 2012 and \$329.3 million in 2011, offset by related transaction costs of \$10.9 million in 2011.

The changes in cash flows from financing activities relate primarily to the use of proceeds from the sale of First Choice in 2011 to purchase PNMR common stock for \$125.7 million, PNMR's convertible preferred stock, Series A, for \$73.5 million, and long-term debt for \$58.5 million. Cash flows from financing activities in 2013 also includes long-term borrowings of \$75.0 million made at PNM. In addition, \$13.0 million was paid in connection with TNMP's debt exchange and \$26.9 million was paid by PNMR to repurchase \$23.8 million of its outstanding 9.25% Senior Unsecured Notes, Series A, due 2015, in 2013. In 2012, PNMR obtained \$100.0 million in new short-term borrowings, and used the proceeds to repay borrowings under the PNMR Revolving Credit Facility. PNM also refinanced \$20.0 million of PCRBS in 2012. In 2011, PNM obtained \$160.0 million in new long-term borrowings, using the proceeds to reduce short-term borrowings. Also in 2011, TNMP replaced \$50.0 million in long-term debt with a new term loan agreement for \$50.0 million.

## Financing Activities

See Note 6, 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

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Conditions in the financial markets

Credit ratings

The \$100.0 million PNMR Term Loan Agreement matures on December 26, 2014 and the \$75.0 million PNM Term Loan Agreement matures on October 21, 2014. Each of the term loans contains one financial covenant that requires the maintenance of debt-to-capital ratios of less than or equal to 65%. These ratios reflect the present value of payments under the PVNGS and EIP leases as debt. PNMR and PNM anticipate that funds to repay these term loans will come from entering into a new arrangement similar to the existing agreements, borrowing under their revolving credit facilities, or a combination of these sources. At December 31, 2013, average interest rates were 1.02% for the PNMR Term Loan Agreement and 1.42% for the PNM Term Loan Agreement. PNM anticipates entering into a new \$175.0 million term loan agreement with a term of 18 months in March 2014. PNM would use a portion of the funds borrowed under the new agreement to repay all amounts outstanding under the PNM Term Loan Agreement and would use the balance of the funds to repay other short-term borrowings.

#### Capital Requirements

Total capital requirements consist of construction expenditures and cash dividend requirements for PNMR common stock and PNM preferred stock. 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 2014-2018 are:

	2014 (In millions)	2015-2018	Total
Construction expenditures	\$509.0	\$1,758.2	\$2,267.2
Dividends on PNMR common stock	58.9	235.8	294.7
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	\$568.4	\$1,996.1	\$2,564.5

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 estimated amounts of \$80.0 million related to environmental upgrades at SJGS to address regional haze and \$276.3 million related to the identified sources of replacement capacity under the revised plan for compliance described in Note 16. The above construction expenditures also include additional renewable resources anticipated to be required to meet the RPS, additional peaking resources to meet needs outlined in PNM's current IRP, environmental upgrades at Four Corners of \$80.3 million, the purchase of the leased portion of the EIP and the assets underlying three of the PVNGS Unit 2 leases at the expiration of those leases, and the anticipated purchase of Delta. See Note 16 and Commitments and Contractual Obligations below. 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 5 describes regulatory and contractual restrictions on the payment of dividends by PNM and TNMP. Expenditures for the SJGS and Four Corners environmental upgrades are estimated to be \$10.0 million in 2014.

During the year ended December 31, 2013, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements and borrowings under term loans.

In addition to the capital requirements for construction expenditures and dividends, the Company has long-term debt that must be paid or refinanced at maturity. Note 6 contains information about the maturities on long-term debt. 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.

Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility and the PNM Revolving Credit Facility that both expire in October 2018 and the TNMP Revolving Credit Facility that expires in September 2018. The PNMR Revolving Credit Facility has a financing capacity of \$300.0 million, the PNM Revolving Credit Facility has a financing capacity of \$400.0 million, and the TNMP Revolving Credit Facility has a financing capacity of \$75.0 million. On January 8, 2014, PNM entered into the \$50.0 million PNM New Mexico Credit Facility, which expires on January 8, 2018. 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.

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Each of the credit facilities contains one financial covenant that requires the maintenance of debt-to-capital ratios of less than or equal to 65%. For PNMR and PNM, these ratios reflect the present value of payments under the PVNGS and EIP leases as debt.

The revolving credit facilities and the PNM 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 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. Borrowings under the PNMR Revolving Credit Facility ranged from zero to \$84.0 million during the year ended December 31, 2013, \$14.0 million to \$141.0 million during the year ended December 31, 2012, and zero to \$106.0 million during the year ended December 31, 2011. Such borrowings ranged from zero to \$28.1 million during the three months ended December 31, 2013. Borrowings under the PNM Revolving Credit Facility ranged from zero to \$130.8 million during the year ended December 31, 2013, zero to \$168.0 million during the year ended December 31, 2012, and zero to \$298.0 million during the year ended December 31, 2011. Such borrowings ranged from zero to \$51.8 million during the three months ended December 31, 2013. Borrowings under the TNMP Revolving Credit Facility ranged from zero to \$40.0 million during the year ended December 31, 2013 and from zero to \$19.0 million during the three months ended December 31, 2013. There were no such borrowings in 2012 and 2011. At December 31, 2013, the average interest rate was 1.42% for the PNM Revolving Credit Facility. The PNMR Revolving Credit Facility and the TNMP Revolving Credit Facility had no borrowings outstanding at December 31, 2013.

The Company currently believes that its capital requirements can be met through internal cash generation, existing credit arrangements, and access to public and private capital markets. 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 experienced during the recent recession return, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives. Also, PNM may consider seeking authorization for the issuance of first mortgage bonds to improve access to the capital markets.

In addition to its internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements during the 2014-2018 period. This could include debt refinancing, new debt issuances, and/or new equity.

On April 5, 2013, S&P raised the corporate credit ratings and the senior debt ratings for PNMR, PNM, and TNMP, as well as the preferred stock rating for PNM. S&P retained the outlook as stable for all entities. On June 21, 2013, Moody's changed the ratings outlook for PNMR, PNM, and TNMP to positive from stable. On January 30, 2014, Moody's raised the senior unsecured rating for PNMR, the senior unsecured and issuer ratings for PNM, and the senior secured and issuer ratings for TNMP. Moody's continued to maintain the ratings outlook for PNMR, PNM, and TNMP as positive. As of February 21, 2014, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
<b>S&amp;P</b>			
Senior secured	*	*	A-
Senior unsecured	BBB-	BBB	*
Preferred stock	*	BB+	*
<b>Moody's</b>			
Senior secured	*	*	A2
Senior unsecured	Baa3	Baa2	*
Preferred stock	*	Ba2	*

\* Not applicable

Investors are cautioned that a security rating is not a recommendation to buy, sell or hold securities, that it is subject to revision or withdrawal at any time by the assigning rating organization, and that each rating should be evaluated independently of any other rating.

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A summary of liquidity arrangements as of February 21, 2014 is as follows:

	PNMR Separate	PNM Separate (In millions)	TNMP Separate	PNMR Consolidated
Financing capacity:				
Revolving credit facility	\$300.0	\$400.0	\$75.0	\$775.0
PNM New Mexico Credit Facility	—	50.0	—	50.0
Total financing capacity	\$300.0	\$450.0	\$75.0	\$825.0
Amounts outstanding as of February 21, 2014:				
Revolving credit facility	\$—	\$69.4	\$—	\$69.4
PNM New Mexico Credit Facility	—	25.0	—	25.0
Letters of credit	8.6	3.2	0.3	12.1
Total short term-debt and letters of credit	8.6	97.6	0.3	106.5
Remaining availability as of February 21, 2014	\$291.4	\$352.4	\$74.7	\$718.5
Invested cash as of February 21, 2014	\$1.9	\$—	\$—	\$1.9

The above table excludes intercompany debt. 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.

For offerings of securities registered with the SEC, PNMR has a shelf registration statement expiring in March 2014. This shelf registration statement has unlimited availability and can be amended to include additional securities, subject to certain restrictions and limitations. PNMR can also offer new shares of common stock through the PNM Resources Direct Plan under a separate SEC shelf registration statement that expires in August 2015. PNM has a shelf registration statement for up to \$440.0 million of senior unsecured notes that will expire in May 2014.

#### Off-Balance Sheet Arrangements

PNMR's off-balance sheet arrangements include PNM's operating lease obligations for PVNGS Units 1 and 2, the EIP transmission line, and Delta.

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 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. The revenue requirements are high in the initial years and decline over the life of the plant as depreciation occurs. By contrast, the lease payments are level over the lease term. The leases, which were scheduled to expire in 2015 and 2016, contain options to renew the leases at a fixed price or to purchase the property for fair market value. See discussion below and Note 7 regarding the status of these alternatives. For reasons similar to the PVNGS sale and leaseback transactions, PNM built the EIP transmission line and sold it in sale and leaseback transactions in 1985. PNM currently owns 60% and operates the other 40% of the EIP line under the terms of a lease agreement. The lease expires in 2015 with fixed-rate and fair market value renewal options and a fair market value purchase option. PNM has agreed to exercise its option to purchase the leased assets at expiration of the lease at fair market value. See Note 7.

Additionally, in 1996, PNM entered into a PPA for the rights to all the output of the Delta generating plant through June 2020. The PPA is accounted for as an operating lease. The gas turbine generating unit is operated by Delta, which is a variable interest entity. The plant is mainly used to meet peak load requirements. See Note 9 for additional information about the Delta operating lease, including the potential purchase of Delta.

The future lease payments shown below for the PVNGS leases have been reduced by amounts that will be returned to PNM through its ownership in related lessor notes.



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	PVNGS Units 1&2 (In thousands)	EIP	Delta	Total
2014	\$32,207	\$4,267	\$5,956	\$42,430
2015	25,319	—	5,956	31,275
2016	20,589	—	5,956	26,545
2017	18,139	—	5,956	24,095
2018	18,139	—	5,956	24,095
Thereafter	83,263	—	9,430	92,693
Total	\$197,656	\$4,267	\$39,210	\$241,133

As discussed in Note 7, PNM and the lessors under each of the PVNGS Unit 1 leases entered into amendments to those leases that renew the leases from their original expiration on January 15, 2015 through January 15, 2023. In addition, PNM anticipates entering into an amendment with the lessor under one of the PVNGS Unit 2 leases that would extend that lease from its original expiration on January 15, 2016 through January 15, 2024. PNM has given notice to lessors under the other three PVNGS Unit 2 leases that PNM will exercise its option to purchase the assets underlying the leases at fair market value at the expiration of the leases on January 15, 2016. The semiannual renewal payments aggregate \$8.3 million under the PVNGS Unit 1 leases and are \$0.8 million for the one renewed PVNGS Unit 2 lease, which amounts are included above. See Sources of Power in Part I, Item 1, Investments in Note 1, and Note 7 for additional information.

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## Commitments and Contractual Obligations

The following table sets forth PNMR's long-term contractual obligations as of December 31, 2013. See Note 7 for further details about the Company's significant leases:

Contractual Obligations	Payments Due				Total
	2014	2015-2016	2017-2018	2019 and Thereafter	
	(In thousands)				
Long-term debt (a)	\$75,000	\$158,066	\$507,025	\$985,045	\$1,725,136
Interest on long-term debt (b)	113,064	208,890	188,316	681,933	1,192,203
Operating leases (c)	53,594	74,740	61,890	167,225	357,449
Transmission reservation payments	13,858	20,558	18,621	38,595	91,632
Coal contracts (d)	63,491	133,753	100,173	443,536	740,953
Coal mine decommissioning (e)	2,969	2,640	2,148	141,381	149,138
Nuclear decommissioning funding requirements (f)	2,637	5,274	5,274	10,120	23,305
Outsourcing	5,574	10,169	3,398	—	19,141
Pension and retiree medical (g)	5,470	45,953	37,176	—	88,599
Construction expenditures (h)	509,002	1,013,220	744,935	—	2,267,157
Total (i)	\$844,659	\$1,673,263	\$1,668,956	\$2,467,835	\$6,654,713

Represents total long-term debt, excluding unamortized discounts of \$2.4 million and unamortized premiums of \$22.7 million. The TNMP 2011 Term Loan Agreement, which is due on June 30, 2014, is not reflected as maturing in 2014 in the above table since TNMP has entered into the TNMP 2013 Bond Purchase Agreement to re-finance that debt on a long-term basis as discussed in Note 6.

(b) Represents interest payments during the period.

The operating lease amounts include amounts due to Delta. The amounts include payments under the PVNGS leases through the expiration of the leases, including renewal periods for leases for which PNM has provided renewal notices, and the EIP lease. The amounts in the above table are net of amounts to be returned to PNM as payments on its investments in related PVNGS lessor notes. See Off-Balance Sheet Arrangements above, Investments in Note 1, Note 7, and Note 9.

(d) Represents only certain minimum payments that may be required under the coal contracts if no deliveries are made.

(e) Includes funding of the trust established for post-term reclamation related to the mines serving SJGS. See 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.

Represents forecasted construction expenditures, including nuclear fuel, under which substantial commitments have been made. See Note 14. The Company only forecasts capital expenditures for the next five years. The construction expenditures include the purchase of the leased portion of the EIP and the assets underlying three of the PVNGS Unit 2 leases at the expiration of those leases, as well as the anticipated purchase of Delta. See Capital Requirements above, Note 7 and Note 9.

PNMR is unable to reasonably estimate the timing of liability and interest payments for uncertain income tax positions (Note 11) in individual years due to uncertainties in the timing of the effective settlement of tax positions. Therefore, PNMR's liability of \$19.9 million and interest payable of \$1.1 million are not reflected in this table.

(i) Amounts PNM is obligated to pay Valencia are not included above since Valencia is consolidated by PNM in accordance with GAAP. See Note 9. No amounts are included above for the New Mexico Wind, Lightning Dock Geothermal, and Red Mesa Wind PPAs 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.

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The PNMR Revolving Credit Facility, PNM Revolving Credit Facility, PNM New Mexico Credit Facility, TNMP Revolving Credit Facility, and TNMP 2011 Term Loan 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. In addition, these facilities, as well as the PNMR Term Loan Agreement and PNM Term Loan Agreement, each contain a covenant requiring the maintenance of debt-to-capital ratios of not more than 65%. In the calculation of debt for PNMR and PNM, the present value of payments under the PVNGS and EIP leases are considered debt. If that ratio were to exceed 65%, 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.

PNM’s standard purchase agreement for the procurement of 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.

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

## 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,		
	2013	2012	
<b>PNMR</b>			
PNMR common equity	48.8	% 48.9	%
Preferred stock of subsidiary	0.3	% 0.3	%
Long-term debt	50.9	% 50.8	%
Total capitalization	100.0	% 100.0	%
<b>PNM</b>			
PNM common equity	48.2	% 50.5	%
Preferred stock	0.4	% 0.5	%
Long-term debt	51.4	% 49.0	%
Total capitalization	100.0	% 100.0	%
<b>TNMP</b>			
Common equity	59.9	% 59.8	%
Long-term debt	40.1	% 40.2	%
Total capitalization	100.0	% 100.0	%

## OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

According to EPA, gases that trap heat in the atmosphere are called greenhouse gases. The four primary greenhouse gases are CO<sub>2</sub>, methane, nitrous oxide, and fluorinated gases, including chlorofluorocarbons such as Freon. In 2013, GHG associated

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with PNM's interests in its generating plants were approximately 7.0 million metric tons of CO<sub>2</sub>, which comprises the vast majority of PNM's GHG. By comparison, the total GHG in the United States in 2011, the latest year for which EPA has published this data, were approximately 6.7 billion metric tons, of which approximately 5.6 billion metric tons were CO<sub>2</sub>.

PNM has several programs underway to reduce or offset its GHG from its resource portfolio, thereby reducing its exposure to climate change regulation. See Note 17. In 2011, PNM completed construction of 22 MW of utility-scale solar generation located at five sites on PNM's system throughout New Mexico. In 2013, PNM expanded its renewable energy portfolio by constructing 21.5 MW of utility-scale solar generation. On December 18, 2013, the NMPRC approved PNM's 2014 renewable energy procurement plan that includes construction of an additional 23 MW of utility-scale solar generation. The proposed generation is anticipated to be online by the end of 2014. Since 2003 PNM has purchased the entire output of New Mexico Wind, which has an aggregate capacity of 204 MW, and will purchase of the full output of Red Mesa Wind, which has an aggregate capacity of 102 MW, beginning in January 2015. PNM has signed a 20-year PPA for the output of Lightning Dock Geothermal, which began providing power to PNM in January 2014. The current output of the facility is 4 MW and future expansion may result in up to 10 MW of generation capacity. Additionally, PNM has a customer distributed solar generation program that represented almost 31 MW at the end of 2013 and is expected to grow to over 36 MW by the end of 2014. Once fully subscribed, the distributed solar programs will reduce PNM's production from fossil-fueled electricity generation by 117 GWh per year. PNM offers its customers a comprehensive portfolio of energy efficiency and load management programs, with a 2013 budget of over \$17 million, that PNM estimates saved approximately 76 GWh of electricity in 2013. Over the next 20 years, PNM projects the expanded energy efficiency and load management programs will provide the equivalent of approximately 13,565 GWh of electricity, which will avoid at least 6.8 million metric tons of CO<sub>2</sub> based upon projected emissions from PNM's system-wide resources. These estimates are subject to change based upon the difficulty in accurately estimating avoidance because of the high uncertainty of many of the underlying variables and complex interrelationships between those variables, including changes in demand for electricity.

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 sustainability impacts of operations on the environment. The Board considers associated issues around climate change, the Company's GHG exposures, and potential financial consequences that might result from potential federal and/or state regulation of GHG.

As of December 31, 2013, approximately 74.7% 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. Based on current forecasts, the Company does not expect its output of GHG from existing sources to increase significantly in the near-term. Many factors affect the amount of GHG emitted. For example, if new natural gas-fired generation resources are added to meet increased load as anticipated in PNM's current IRP, GHG would be incrementally increased. In addition, plant performance could impact the amount of GHG emitted. If PVNGS experienced prolonged outages, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG. As described in Note 16, on February 15, 2013, PNM, NMED, and EPA agreed to pursue a strategy to address the regional haze requirements of the CAA at the coal-fired SJGS, which would include the shutdown of SJGS Units 2 and 3. The shutdown of Units 2 and 3 would result in a reduction of GHG of approximately 50 percent at SJGS. That agreement also contemplates that gas-fired generation would be built to partially replace the retired capacity. Although replacement power strategies have not been finalized, the reduction in GHG from the retirement of the coal-fired generation would be far greater than the increase in GHG from replacement with gas-fired generation. On September 5, 2013, the EIB unanimously approved a revised SIP submitted by NMED that encompassed the February 15, 2013 agreement and the revised SIP was submitted to EPA for approval on October 18, 2013. EPA action on the revised SIP is projected for late 2014.

Because of PNM's dependence on fossil-fueled generation, any 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 that cost 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 will adversely impact PNM.

Given the geographic location of its facilities and customers, PNM generally has not been exposed to the extreme weather events and other physical impacts commonly attributed to climate change, with the exception of periodic drought conditions. PNM's service areas also experience high winds and severe thunderstorms periodically. Climate changes are generally not expected to have material consequences in the near-term. Drought conditions in northwestern New Mexico could impact the availability of water for cooling coal-fired generating plants. Water shortage sharing agreements have been in place since 2004, although no shortage has been declared due to sufficient precipitation in the San Juan River basin. PNM also has a supplemental water contract in place with the Jicarilla Apache Nation to help address any water shortages from primary sources. The contract expires on

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December 31, 2016. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic hurricanes and drought conditions. In addition to potentially causing physical damage to TNMP-owned facilities, which disrupt the ability to transmit and/or distribute energy, hurricanes can temporarily reduce customers' usage and demand for energy.

### EPA Regulation

In April 2007, the United States 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 stating that the atmospheric concentrations of six key greenhouse gases (CO<sub>2</sub>, 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 (the "Tailoring Rule") to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule is to "tailor" the applicability of two programs, PSD and Title V operating permit programs, to avoid impacting millions of small GHG emitters. The rule focuses on the largest sources of GHG, including fossil-fueled electric generating units. This program currently covers new construction projects that emit GHG of at least 100,000 tons per year (even if PSD is not triggered for other pollutants). In addition, modifications at existing facilities that increase GHG by at least 75,000 tons per year will be subject to PSD permitting requirements, even if they do not significantly increase emissions of any other pollutant. All of PNM's fossil-fueled generating plants are potentially subject to the Tailoring Rule because of the magnitude of non-GHG, but the existing plants do not have any currently planned projects that would trigger PSD permitting for GHG. Any newly constructed fossil-fired power plant would likely be subject to the Tailoring Rule.

On June 26, 2012, the D.C. Circuit rejected challenges to EPA's 2009 GHG endangerment finding, GHG standards for light-duty vehicles, PSD Interpretive Memorandum (EPA's so-called GHG "Timing Rule"), and Tailoring Rule. The Court found that EPA's endangerment finding and its light-duty vehicle rule "are neither arbitrary nor capricious," that "EPA's interpretation of the governing CAA provisions is unambiguously correct," and that "no petitioner has standing to challenge the Timing and Tailoring Rules." On October 15, 2013, the United States Supreme Court granted a petition for a Writ of Certiorari regarding the permitting of stationary sources that emit GHG. The Supreme Court limited the question that it will be reviewing to: "Whether EPA permissibly determined that its regulation of greenhouse gas emissions from new motor vehicles triggered permitting requirements under the Clean Air Act for stationary sources that emit greenhouse gases." Specifically, the case deals with whether EPA's determination that regulation of GHG from motor vehicles required EPA to regulate stationary sources under the PSD and Title V permitting programs. The petitioners argued that EPA's determination that it was required to regulate GHG under the PSD and Title V Programs was unlawful as it violates Congressional intent.

On March 27, 2012, EPA issued its proposed carbon pollution standards for GHG from new fossil-fueled EGU. The proposed NSPS set a limit of 1,000 lb CO<sub>2</sub>/MWh and would cover newly constructed fossil-fueled EGUs larger than 25 MW. The proposed limit was based on the performance of natural gas combined cycle technology. Therefore, coal-fired power plants would only be able to comply with the standard by using carbon capture and sequestration technology. The proposed rule included an exemption for new simple cycle EGUs. EPA accepted comment on the proposed rule through June 25, 2012, during which EPA received over 2.5 million comments on the proposed rule.

On June 25, 2013, President Obama announced the President's Climate Action Plan which outlines how his administration plans 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 proposes actions that would lead to the reduction of GHG by 17% below 2005 levels by 2020. The President also issued a Presidential Memorandum to EPA to continue development of the GHG NSPS regulations for electric generators. The Presidential Memorandum establishes a timeline for the reproposal and issuance of a GHG NSPS for new sources and a timeline for the proposal and final rule for developing carbon pollution standards, regulations, or guidelines for GHG reductions from existing

sources. EPA met the President's timeline for the reproposal of the GHG NSPS for new sources by releasing the draft rule on September 20, 2013. In accordance with the Presidential Memorandum, EPA will issue a final rule in "a timely fashion thereafter." EPA is also directed to issue the proposed GHG NSPS for modified and existing EGUs by June 1, 2014 and issue the final rule by June 1, 2015. Each state then must submit a SIP that addresses how the state will comply with the new regulation no later than June 30, 2016.

The Presidential Memorandum further directs EPA to allow the use of "market-based instruments" and "other regulatory flexibilities" to ensure standards will allow for continued reliance on a range of energy sources and technologies and that they are developed and implemented in a manner that provides for reliable and affordable energy and to undertake the rulemaking through direct engagement with states, "as they will play a central role in establishing and implementing standards for existing power plants," and with utility leaders, labor leaders, non-governmental organizations, tribal officials and other stakeholders.

EPA's repropoed GHG NSPS for new sources published on September 20, 2013 apply only to new EGUs. The repropoed standard would revise requirements for new fossil-fired utility boilers, integrated gasification combined cycle units, combined and

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simple cycle turbines, and new sources meeting certain other criteria. New fossil fuel-fired utility boilers including coal-fired and integrated gasification combined cycle units would be required to meet an emissions limit of 1,100 pounds of CO<sub>2</sub> per MWh on a 12-operating month rolling average basis or an alternative limit of 1,000 to 1,050 pounds of CO<sub>2</sub> per MWh based on an 84-operating month average. New coal-fired facilities would only be able to meet the standard by using carbon capture and sequestration technology. New combined or simple cycle gas turbines would be subject to an emission limit of either 1,000 or 1,100 pounds of CO<sub>2</sub> per MWh based on whether the rated capacity of the unit is above or below 850 million BTUs per hour. The repropoed GHG NSPS removed the blanket exemption for simple-cycle turbines and instead provided an exemption for units that sell to the transmission grid less than one-third of their potential electric output over a three-year rolling average.

EPA regulation of GHG from large stationary sources will impact PNM's fossil-fueled EGUs. Impacts could involve investments in efficiency improvements and/or control technologies at the fossil-fueled EGUs. In setting existing source standards, EPA has historically used technology-based performance standards on emission rates. The only end-of-pipe emission control technology for coal and gas fired power plants available for GHG reduction is carbon capture and sequestration, which is not yet a commercially demonstrated technology. There are limited efficiency enhancement measures that may be available to a subset of the existing EGUs; however, such measures would provide only marginal GHG improvements. It is also possible EPA may consider a broader range of emission reduction measures, such as fuel switching, end use energy efficiency, or renewable energy deployment. Additional GHG control technologies for existing EGUs may become viable in the future. The costs of such improvements or technologies could impact the economic viability of some plants.

The ultimate impact of EPA's regulation of GHG to PNM is unknown because the regulatory requirements, including BACT implications and NSPS requirements, are in draft form or are still developing. PNM estimates that implementation of the revised SIP for BART at SJGS, which requires the installation of SNCRs on Units 1 and 4 by January 2016 or 15 months after EPA approval of a revised SIP and the retirement of SJGS Units 2 and 3 by the end of 2017, will allow PNM on a system-wide basis to meet or exceed the President's GHG reduction goal of 17% below 2005 levels by 2020. The reduction in CO<sub>2</sub> emissions that will result from implementation of the revised SIP may allow PNM to meet future GHG regulations; however, until such regulations are finalized, PNM is uncertain of the requirements for compliance.

#### Federal Legislation

Prospects for enactment of legislation imposing a new or enhanced regulatory program to address climate change in Congress are unlikely in 2014, although there is growing interest among some policymakers in addressing climate change and there may be legislation in the future. Instead, EPA is the primary venue for GHG regulation in the near future, especially for coal-fired units. PNM has assessed, and continues to assess, the impacts of potential climate change legislation or regulation on its business. This assessment is preliminary and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding the specific GHG limits, the timing of implementation of these limits, the possibility of a cap and trade program including the associated costs and the availability of offsets, the development of technologies for renewable energy and to reduce emissions, 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, at best, are preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation 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 ongoing, but too preliminary and speculative at this time for the meaningful prediction of financial impact.

#### 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<sub>2</sub> 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. However, PNM is required to use these prices for purposes of its IRP, and the prices may not reflect the costs that it ultimately will incur. PNM's IRP filed with the NMPRC on July 18, 2011 showed that while consideration of the NMPRC required carbon emissions costs did not significantly change the resource decisions regarding future facilities over the next 20 years, it did slightly impact the projected in-service dates of some of the identified resources. Much higher GHG costs than assumed

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in the NMPRC analysis are necessary to impact future resource decisions. The primary consequence of the standardized cost of carbon emissions was an increase to generation portfolio costs.

In recent years, New Mexico adopted regulations, which have since been repealed, that would directly limit GHG from larger sources, including EGUs, through a regional GHG cap and trade program and that would cap GHG from larger sources such as EGUs. Although these rules have been repealed, PNM cannot rule out future state legislative or regulatory initiatives to regulate GHG.

On August 2, 2012, thirty-three New Mexico organizations representing public health, business, environmental, consumers, Native American, and other interested parties filed a petition for rulemaking with the NMPRC. The petition asked the NMPRC to issue a NOPR regarding the implementation of an Optional Clean Energy Standard for electric utilities located in New Mexico. The proposed standard would have utilities that elect to participate reduce their CO<sub>2</sub> emissions by 3% per year. Utilities that opt into the program would be assured recovery of their reasonable compliance costs. On October 4, 2012, the NMPRC held a workshop to discuss the proposed standard and whether it has authority to proceed with the NOPR. On August 23, 2013, the petitioners amended the August 2, 2012 petition and requested that the NMPRC issue a NOPR to implement a “Carbon Risk Reduction Rule” for electric utilities in New Mexico. The proposed rule would require affected utilities to demonstrate a 3% per year CO<sub>2</sub> emission reduction from a three-year average baseline period between 2005 and 2012. The proposed rule would use a credit system that provides credits for electricity production based on how much less than one metric ton of CO<sub>2</sub> per MWh the utility emits. Credits would be retired such that 3% per year reductions are achieved from the baseline year until 2035 unless a participating utility elects to terminate the program at the end of 2023. Credits would not expire and could be banked. An advisory committee of interested stakeholders would monitor the program. In addition, utilities would be allowed to satisfy their obligations by funding NMPRC approved energy efficiency programs. There has been no further action on this matter at the NMPRC.

## International Accords

The Company monitors international treaties and accords such as the Kyoto Protocol and the EU Emissions Trading System to determine potential impacts to their business activities. The Company does not anticipate any direct impact near-term from international accords.

## 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 No. 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

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MOD-001-1a, MOD-004-1, MOD-008-1, MOD-028-2, MOD-029-1a, and MOD-030-2. 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. The retirement and changes to these MOD standards will remove the risk of reduced TTC for PNM and other southwestern utilities.

In July 2011, FERC issued Order 1000 adopting new requirements for transmission planning, cost allocation, and development. Order 1000 calls for significant changes to the transmission process of WestConnect, an organization of utility companies providing transmission of electricity in the western region that includes PNM. On October 11, 2012, PNM and other WestConnect participants filed modified versions of Attachment K to their transmission tariffs to meet Order 1000 regional compliance requirements. Thirteen intervention motions were filed, with several objecting to and/or protesting various provisions of the filings submitted by the WestConnect participants. On December 17, 2012, the WestConnect participants filed responses to the issues raised by the intervenors. On March 22, 2013, FERC issued its order regarding PNM's and six other WestConnect FERC jurisdictional utilities compliance filings. FERC partially accepted many aspects of the filings including the governance structure that gives the transmission owners a veto authority over the regional plan and cost allocations. A major change directed by FERC is the requirement that the cost allocations be binding on identified beneficiaries and that a process be created that will result in a qualified developer being selected. PNM and the other WestConnect FERC jurisdictional entities submitted compliance filings on September 20, 2013 to address and comply with the March 22, 2013 FERC order. On July 11, 2013, the WestConnect participants submitted an additional compliance filing to address the planning and cost allocation between WestConnect and other regions.

## 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 recordkeeping 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 or mitigate commercial risk. PNM expects to qualify for this exception. PNM also expects to be able to comply with its requirements under the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of the Dodd-Frank Reform Act and related rules, PNM's swap activities could be subject to increased costs, including from higher margin requirements. In addition, implementation of, and compliance with, the swaps provisions of the Dodd-Frank Reform Act and related rules by PNM's swap counterparties could result in increased costs. 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 PNM, 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.

#### Unbilled Revenues

The Company records unbilled revenues representing management's assessment of the estimated amount of revenue earned from customers for services rendered between the meter-reading dates in a particular month and the end of that month. Management estimates unbilled revenues based on daily generation volumes, estimated customer usage by class, weather factors, line losses, and applicable customer rates reflecting historical trends and experience. The estimate requires the use of various judgments and assumptions; significant changes to these judgments and assumptions could have a material impact to the Company's results of operations.

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### 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 4.

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 which have materially 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 are probable.

### Impairments

Tangible long-lived assets and amortizable intangible 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; 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.

Goodwill and non-amortizable other intangible assets are evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill and intangible assets might be impaired. GAAP allows impairment testing to be performed based on either a qualitative analysis or quantitative analysis. Note 21 contains information on the impairment testing performed by the Company on goodwill and intangible assets. For 2013, the Company utilized a qualitative analysis for the TNMP reporting unit and a quantitative analysis for the PNM reporting unit. No impairments were indicated in the Company's annual goodwill testing, which was performed as of April 1, 2013. 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 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 qualitative analysis performed in 2013 for the TNMP reporting unit, the Company concluded that there were no changes that were reasonably likely to cause the fair value of the reporting unit to be less than the 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.

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

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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. For the First Choice unregulated reporting unit, which PNMR sold on November 1, 2011 (Note 3), assumptions regarding customer usage, pricing, retention, and payment behavior, in addition to fluctuations in the cost of energy, significantly impacted estimates of future cash flows.

The Company believes that the WACC and cash flow projections utilized in the 2013 qualitative testing appropriately reflected the fair value of the PNM reporting unit. Since any cash flow projection contains uncertainty, the Company adjusted the WACC used to reflect that uncertainty. The Company does not believe that there are indications of goodwill impairment in any of its reporting units, but this analysis is highly subjective. As of the impairment testing for April 1, 2013, the fair value of the PNM reporting unit, which had goodwill of \$51.6 million, exceeded its carrying value by approximately 27%. An increase of 0.5% in the expected return on equity capital utilized in calculating the WACC used to discount the forecasted cash flows, would have reduced the excess of PNM's fair value over carrying value to approximately 20% at April 1, 2013. The April 1, 2012 quantitative evaluation of fair value of the TNMP reporting unit, which had goodwill of \$226.7 million, exceeded its carrying value by approximately 26%. Due to the subjectivity and sensitivities of the assumptions and estimates underlying the impairment analysis, there can be no assurance that future analyses, which will be based on the appropriate assumptions and estimates at that time, will not result in impairments.

#### Decommissioning and Reclamation Costs

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. Changes in these estimates could significantly impact PNMR's and PNM's financial position, results of operations and cash flows. PNM owns and leases nuclear and fossil-fuel generation facilities. 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. Nuclear decommissioning costs are based on site-specific estimates of the costs for removing all radioactive and other structures at PVNGS and are dependent upon numerous assumptions including estimates of future decommissioning costs at current price levels, inflation rates, and discount rates. AROs, including nuclear decommissioning costs, are discussed in Note 15. Nuclear decommissioning costs represent approximately 84% 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 \$8.8 million at December 31, 2013. PVNGS Units 1 and 2 are included in PNM's retail rates while PVNGS Unit 3 is excluded although PNM has requested Unit 3 be included. PNM collects a provision for ultimate decommissioning of PVNGS Units 1 and 2 and its fossil-fuel generation facilities in its rates and recognizes a corresponding expense and liability for these amounts. PNM believes that it will continue to be able to collect in rates for its legal asset retirement obligations for nuclear generation activities included in the ratemaking process. 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 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 \$2.9 million at December 31, 2013. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. See Note 16 for discussion of the final

reclamation costs.

#### Derivatives

The Company follows the provisions set forth in GAAP to account for derivatives. These provisions establish accounting and reporting standards requiring derivative instruments to be recorded in the balance sheet as either an asset or liability measured at their fair value. GAAP also requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting or normal purchase and sale criteria are met. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability varies based on commodity location market liquidity, and term of the agreement. Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in

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any estimate technique. Changes in the assumptions used in the fair value determinations could have significant impacts on the results of operations and financial position of the Company. Note 8 contains additional information on commodity derivatives, including the volumes covered by derivative contracts.

**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. They both 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 12 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. Losses associated with uncollectible trade accounts receivable was a significant contingency for First Choice, which PNMR sold on November 1, 2011. The determination of bad debt expense is based on factors such as historical write-off experience, aging of accounts receivable balances, general economic conditions, and customer behavior. 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 events that are both probable and 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 11.

**Market Risk**

See Part II, Item 7A. Quantitative and Qualitative Disclosure About Market Risk for discussion regarding the Company's accounting policies and sensitivity analysis for the Company's financial instruments and derivative energy and other derivative contracts.

**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.

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## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company manages the scope of its various forms of 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:

- Establishment of policies regarding risk exposure levels and activities in each of the business segments
- Approval of the types of derivatives entered into for hedging
- Review and approval of hedging risk activities
- Establishment of policies regarding counterparty exposure and limits
- Authorization and delegation of transaction limits
- Review and approval of controls and procedures for derivative activities
- Review and approval of models and assumptions used to calculate mark-to-market and market risk exposure
- Proposing risk limits to the Board's Finance Committee for its approval
- Quarterly 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 8, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Consolidated Balance Sheets. At December 31, 2013 and 2012, PNMR and PNM 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 and those derivatives designated as normal purchases and normal sales, are recorded at fair value on the Consolidated Balance Sheet. The following table details the changes in the net asset or liability balance sheet position for mark-to-market energy transactions.

	Economic Hedges PNMR and PNM (In thousands)	
Sources of fair value gain (loss):		
Net fair value at December 31, 2011	\$(356	)
Amount realized on contracts delivered during period	(4,110	)
Changes in fair value	5,708	
Net mark-to-market change recorded in earnings	1,598	
Net change recorded as regulatory liability	(38	)
Net fair value at December 31, 2012	1,204	
Amount realized on contracts delivered during period	(970	)
Changes in fair value	2,836	
Net mark-to-market change recorded in earnings	1,866	
Net change recorded as regulatory liability	203	
Net fair value at December 31, 2013	\$3,273	



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The following table provides the maturity of the net assets (liabilities), giving an indication of when these mark-to-market amounts will settle and generate (use) cash.

Fair Value of Mark-to-Market Instruments at December 31, 2013

	2014	2015	2016
PNMR and PNM	(In thousands)		
Economic hedges			
Prices actively quoted	\$—	\$—	\$—
Prices provided by other external sources	1,366	2,281	(374 )
Prices based on models and other valuations	—	—	—
Total	\$1,366	\$2,281	\$(374 )

PNM measures the market risk of its long-term contracts and wholesale activities using a Monte Carlo VaR simulation model to report the possible loss in value from price movements. VaR is not a measure of the potential accounting mark-to-market loss. The quantitative risk information is limited by the parameters established in creating the model. The Monte Carlo VaR methodology employs the following critical parameters: historical volatility estimates, market values of all contractual commitments, a three-day holding period, seasonally adjusted and cross-commodity correlation estimates, and a 95% confidence level. The instruments being evaluated may trigger a potential loss in excess of calculated amounts if changes in commodity prices exceed the confidence level of the model used.

PNM measures VaR for the positions in its wholesale portfolio (not covered by the FPPAC). For the year ended December 31, 2013, the high, low, and average VaR amounts were \$1.4 million, \$0.6 million, and \$0.9 million. For the year ended December 31, 2012, the high, low and average VaR amounts were \$1.4 million, \$0.3 million, and \$0.6 million. At December 31, 2013 and December 31, 2012, the VaR amounts for the PNM wholesale portfolio were \$0.6 million and \$0.5 million.

The VaR limits, which were not exceeded during 2013 or 2012, represent an estimate of the potential gains or losses that could be recognized on the Company's portfolios, subject to market risk, given current volatility in the market, and are not necessarily indicative of actual results that may occur, since actual future gains and losses will differ from those estimated. Actual gains and losses may differ due to actual fluctuations in market prices, operating exposures, and the timing thereof, as well as changes to the underlying portfolios during the year.

**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) of the counterparties and concentration of credit risk to counterparties. All credit exposures at December 31, 2013 will mature in less than two years.

**Schedule of Credit Risk Exposure**

December 31, 2013

Rating <sup>(1)</sup>	Credit Risk Exposure <sup>(2)</sup> (Dollars in thousands)	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
PNMR and PNM			
External ratings:			
Investment grade	\$9,130	2	\$8,954
Non-investment grade	—	—	—
Internal ratings:			
Investment grade	477	—	—

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Non-investment grade	410	—	—
Total	\$10,017		\$8,954

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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.

The Credit Risk Exposure is the gross credit exposure, including long-term contracts (other than full-requirements customers), forward sales, and short-term sales. The 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, 2013, PNMR and PNM held \$0.2 million of cash collateral to offset their credit exposure.

Net credit risk for PNMR’s and PNM’s largest counterparty as of December 31, 2013 was \$6.7 million, which is due from a full requirements customer.

The PVNGS lessor notes are not exposed to credit risk, since the notes are repaid as PNM makes payments on the underlying leases. 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 2.5%, 2.4%, and 3.5%, if interest rates were to decline by 50 basis points from their levels at December 31, 2013. 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. As described in Note 6, TNMP has long-term debt of \$50.0 million that bears interest at a variable rate. However, TNMP has also entered into a hedging arrangement that effectively results in this debt bearing interest at a fixed rate, thereby eliminating interest rate risk. At February 21, 2014, PNMR, PNM, and TNMP had zero, \$69.4 million, and zero 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 \$25.0 million under the \$50.0 million PNM New Mexico Credit Facility at February 21, 2014. The revolving credit facilities, the PNM New Mexico Credit Facility, the \$75.0 million PNM Term Loan, and the \$100.0 million PNMR Term Loan Agreement bear interest at variable rates, which averaged 1.01% for the PNMR Term Loan Agreement, 1.41% for the PNM Revolving Credit Facility, 1.41% for the PNM New Mexico Credit Facility, and 1.41% for the PNM Term Loan on February 21, 2014 borrowings, and the Company is exposed to interest rate risk to the extent of future increases in variable interest rates.

The investments held by PNM in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits had an estimated fair value of \$858.2 million at December 31, 2013, of which 52.0% were fixed-rate debt securities that subject PNM 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, 2013, the decrease in the fair value of the fixed-rate securities would be 5.7%, or \$25.4 million. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of \$76.0 million at December 31, 2013, of which 46.6% 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, 2013, the decrease in the fair value of the fixed-rate securities would be 6.3%, or \$2.2 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. 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, 2013. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 36.3% and 31.0% of the securities held by the various PNM and TNMP trusts as of December 31, 2013. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$31.2 million for PNM and \$2.4 million for TNMP.

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There was a significant decline in the general price levels of marketable equity securities in late 2008 and in early 2009. The impacts of these declines were considered in the funding and expense valuations performed for 2011 and 2012, which resulted in reduced income or increased expense related to the pension plans being recorded and required increased levels of funding beginning in 2010.

Alternatives Investment Risk

The Company had 15.4% of its pension assets invested in the alternatives asset class as of December 31, 2013. The Company has changed the target for this class to 14.8%. This includes real estate, private equity, and hedge funds. These investments are limited partner structures that are multi-manager multi-strategy funds. This investment approach gives broad diversification and minimizes risk compared to a direct investment in any one component of the funds. The general partner oversees the selection and monitoring of the underlying managers. The Company's Corporate Investment Committee, assisted by its investment consultant, monitors the performance of the funds and general partner's investment 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 value. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by \$9.6 million. The valuation of the alternative asset class was also impacted by the significant decline in the general price levels of marketable equity securities in 2008 and 2009.

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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 (1992) 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, 2013.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on PNMR’s internal control over financial reporting which is included herein.

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

/s/ Charles Eldred  
Charles 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 (1992) 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, 2013.

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

/s/ Charles Eldred  
Charles 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 (1992) 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, 2013.

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

/s/ Thomas G. Sategna  
Thomas G. Sategna  
Vice President and Controller

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

PNM Resources, Inc:

We have audited PNM Resources, Inc and subsidiaries (the Company) internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible 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 internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 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.

In our opinion, PNM Resources, Inc and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Company as of December 31, 2013, the related consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended, and our report dated February 28, 2014 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Albuquerque, New Mexico

February 28, 2014



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

PNM Resources, Inc:

We have audited the accompanying consolidated balance sheet of PNM Resources, Inc and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PNM Resources, Inc and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), PNM Resources, Inc and subsidiaries internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control - Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2014 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Albuquerque, New Mexico

February 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
PNM Resources, Inc.  
Albuquerque, New Mexico

We have audited the accompanying consolidated balance sheets of PNM Resources, Inc. and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PNM Resources, Inc. and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP  
Phoenix, Arizona  
March 1, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Public Service Company of New Mexico:

We have audited the accompanying consolidated balance sheet of Public Service Company of New Mexico and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Public Service Company of New Mexico and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Albuquerque, New Mexico

February 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Public Service Company of New Mexico  
Albuquerque, New Mexico

We have audited the accompanying consolidated balance sheets of Public Service Company of New Mexico and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of earnings, comprehensive income, changes in equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Public Service Company of New Mexico and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP  
Phoenix, Arizona  
March 1, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholder

Texas-New Mexico Power Company:

We have audited the accompanying consolidated balance sheet of Texas-New Mexico Power Company and subsidiaries (the Company) as of December 31, 2013, and the related consolidated statement of earnings, consolidated statement of comprehensive income, consolidated statement of changes in common stockholder's equity, and consolidated statement of cash flows for the year then ended. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Texas-New Mexico Power Company and subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Albuquerque, New Mexico

February 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of  
Texas-New Mexico Power Company  
Lewisville, Texas

We have audited the accompanying consolidated balance sheets of Texas-New Mexico Power Company and subsidiaries (the "Company") as of December 31, 2012, and the related consolidated statements of earnings, comprehensive income, changes in common stockholder's equity, and cash flows for each of the two years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Texas-New Mexico Power Company and subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP  
Phoenix, Arizona  
March 1, 2013

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands, except per share amounts)		
Electric Operating Revenues	\$1,387,923	\$1,342,403	\$1,700,619
Operating Expenses:			
Cost of energy	432,316	399,850	692,922
Administrative and general	179,210	187,740	257,774
Energy production costs	175,819	185,417	180,850
Regulatory disallowances	12,235	—	21,402
Depreciation and amortization	166,881	164,173	157,047
Transmission and distribution costs	70,124	71,125	69,693
Taxes other than income taxes	64,496	60,377	63,632
Total operating expenses	1,101,081	1,068,682	1,443,320
Operating income	286,842	273,721	257,299
Other Income and Deductions:			
Interest income	10,043	13,072	15,515
Gains on available-for-sale securities	10,612	12,965	8,985
Other income	10,572	12,746	5,309
Gain on sale of First Choice	—	1,012	174,925
Other (deductions)	(21,552)	(17,636)	(24,715)
Net other income and deductions	9,675	22,159	180,019
Interest Charges	121,448	120,845	124,849
Earnings before Income Taxes	175,069	175,035	312,469
Income Taxes	59,513	54,910	121,535
Net Earnings	115,556	120,125	190,934
(Earnings) Attributable to Valencia Non-controlling Interest	(14,521)	(14,050)	(14,047)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Net Earnings Attributable to PNMR	\$100,507	\$105,547	\$176,359
Net Earnings Attributable to PNMR per Common Share:			
Basic	\$1.26	\$1.32	\$1.98
Diluted	\$1.25	\$1.31	\$1.96

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

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net Earnings	\$115,556	\$120,125	\$190,934
Other Comprehensive Income (Loss):			
Unrealized Gain on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(10,855), \$(15,262), and \$(13,577)	16,564	23,286	20,718
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,734, \$14,755, and \$13,956	(7,222)	) (22,514	) (21,295)
Pension Liability Adjustment:			
Experience gain (loss), net of income tax (expense) benefit of \$(6,781), \$11,910 and \$1,187	10,355	(18,174)	) (1,771)
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(2,524), \$(1,825) and \$(1,699)	3,840	2,786	2,593
Fair Value Adjustment for Designated Cash Flow Hedges:			
Change in fair market value, net of income tax (expense) benefit of \$98, \$153, and \$349	(181)	) (275	) (653)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$(73), \$(65), and \$(1,230)	134	117	2,218
Total Other Comprehensive Income (Loss)	23,490	(14,774)	) 1,810
Comprehensive Income	139,046	105,351	192,744
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,521)	) (14,050	) (14,047)
Preferred Stock Dividend Requirements of Subsidiary	(528)	) (528	) (528)
Comprehensive Income Attributable to PNMR	\$123,997	\$90,773	\$178,169

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

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 115,556	\$ 120,125	\$ 190,934
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	208,173	206,499	195,366
Bad debt expense	2,849	3,367	24,116
Deferred income tax expense	60,430	56,243	124,424
(Gain) on sale of First Choice	—	(1,012)	(174,925)
Net unrealized (gains) on derivatives	(1,866)	(1,598)	(8,713)
Realized (gains) on available-for-sale securities	(10,612)	(12,965)	(8,985)
Loss on reacquired debt	3,253	—	9,209
Abandonment of leased premises	—	7,411	—
Stock based compensation expense	5,320	3,585	6,556
Regulatory disallowances	12,235	—	21,402
Other, net	(4,496)	(4,165)	(3,497)
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(7,562)	(2,547)	(70,734)
Materials, supplies, and fuel stock	(7,580)	(5,412)	(2,200)
Other current assets	8,577	(2,598)	(21,979)
Other assets	(12,801)	(30,778)	(15,835)
Accounts payable	4,484	14,020	20,969
Accrued interest and taxes	91,537	255	7,304
Other current liabilities	(19,648)	(19,905)	3,460
Proceeds from governmental grants	—	21,567	2,103
Other liabilities	(61,262)	(70,743)	(6,735)
Net cash flows from operating activities	386,587	281,349	292,240
Cash Flows From Investing Activities:			
Utility plant additions	(348,039)	(308,909)	(326,931)
Proceeds from sales of available-for-sale securities	271,140	167,330	145,286
Purchases of available-for-sale securities	(282,000)	(176,748)	(149,185)
Proceeds from sale of First Choice	—	4,034	329,281
Transaction costs for sale of First Choice	—	—	(10,930)
Return of principal on PVNGS lessor notes	23,357	23,455	32,274
Other, net	4,096	4,943	(17)
Net cash flows from investing activities	(331,446)	(285,895)	19,778
The accompanying notes, as they relate to PNMR, are an integral part of these consolidated financial statements.			

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term loan	—	100,000	—
Revolving credit facilities borrowings (repayments), net	(9,500	) (24,000	) (139,300 )
Long-term borrowings	75,000	20,000	210,000
Repayment of long-term debt	(29,468	) (22,387	) (110,752 )
Cash paid in debt exchange	(13,048	) —	—
Purchase of preferred stock	—	—	(73,475 )
Purchase of common stock	—	—	(125,683 )
Proceeds from stock option exercise	4,618	11,684	5,622
Purchases to satisfy awards of common stock	(13,807	) (25,168	) (10,104 )
Dividends paid	(51,508	) (45,137	) (45,656 )
Valencia's transactions with its owner	(18,335	) (15,630	) (16,801 )
Other, net	(5,545	) (922	) (6,182 )
Net cash flows from financing activities	(61,593	) (1,560	) (312,331 )
Change in Cash and Cash Equivalents	(6,452	) (6,106	) (313 )
Cash and Cash Equivalents at Beginning of Year	8,985	15,091	15,404
Cash and Cash Equivalents at End of Year	\$2,533	\$8,985	\$15,091
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	\$99,382	\$113,265	\$116,391
Income taxes paid (refunded), net	\$(95,327	) \$5,302	\$(5,527 )
Supplemental schedule of noncash investing and financing activities:			
Changes in accrued plant additions	\$6,006	\$(17,983	) \$24,768
Premium on long-term debt incurred in connection with debt exchange	\$36,297		
The accompanying notes, as they relate to PNMR, are an integral part of these consolidated financial statements.			

Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$2,533	\$8,985
Accounts receivable, net of allowance for uncollectible accounts of \$1,423 and \$1,751	90,251	87,093
Unbilled revenues	58,806	57,266
Other receivables	53,909	53,332
Materials, supplies, and fuel stock	67,223	59,643
Regulatory assets	24,416	39,120
Commodity derivative instruments	4,064	3,785
Income taxes receivable	7,066	101,477
Current portion of accumulated deferred income taxes	58,681	—
Other current assets	34,590	31,490
Total current assets	401,539	442,191
Other Property and Investments:		
Investment in PVNGS lessor notes	32,200	54,325
Available-for-sale securities	226,855	192,511
Other investments	1,835	5,599
Non-utility property, net of accumulated depreciation of \$61 and \$131	4,353	4,487
Total other property and investments	265,243	256,922
Utility Plant:		
Plant in service and plant held for future use	5,563,061	5,313,796
Less accumulated depreciation and amortization	1,838,832	1,774,223
	3,724,229	3,539,573
Construction work in progress	132,080	125,287
Nuclear fuel, net of accumulated amortization of \$47,347 and \$42,644	77,602	81,627
Net utility plant	3,933,911	3,746,487
Deferred Charges and Other Assets:		
Regulatory assets	523,955	555,577
Goodwill	278,297	278,297
Commodity derivative instruments	3,002	352
Other deferred charges	94,263	92,757
Total deferred charges and other assets	899,517	926,983
	\$5,500,210	\$5,372,583

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



Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$ 149,200	\$ 158,700
Current installments of long-term debt	75,000	2,530
Accounts payable	109,666	99,177
Customer deposits	13,456	18,176
Accrued interest and taxes	49,600	52,003
Regulatory liabilities	1,081	15,173
Commodity derivative instruments	2,699	1,000
Dividends declared	14,864	11,679
Current portion of accumulated deferred income taxes	—	258
Other current liabilities	77,105	75,407
<b>Total current liabilities</b>	<b>492,671</b>	<b>434,103</b>
<b>Long-term Debt</b>	<b>1,670,420</b>	<b>1,669,760</b>
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	801,408	701,545
Accumulated deferred investment tax credits	25,855	14,242
Regulatory liabilities	460,649	423,460
Asset retirement obligations	96,135	85,893
Accrued pension liability and postretirement benefit cost	80,046	224,565
Commodity derivative instruments	1,094	1,933
Other deferred credits	109,805	116,523
<b>Total deferred credits and other liabilities</b>	<b>1,574,992</b>	<b>1,568,161</b>
<b>Total liabilities</b>	<b>3,738,083</b>	<b>3,672,024</b>
<b>Commitments and Contingencies (See Note 16)</b>		
<b>Cumulative Preferred Stock of Subsidiary</b>		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
<b>Equity:</b>		
<b>PNMR common stockholders' equity:</b>		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,178,369	1,182,819
Accumulated other comprehensive income (loss), net of income taxes	(58,140	) (81,630 )
Retained earnings	553,340	506,998
<b>Total PNMR common stockholders' equity</b>	<b>1,673,569</b>	<b>1,608,187</b>
Non-controlling interest in Valencia	77,029	80,843
<b>Total equity</b>	<b>1,750,598</b>	<b>1,689,030</b>
	<b>\$ 5,500,210</b>	<b>\$ 5,372,583</b>

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



Table of ContentsPNM RESOURCES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to PNMR				Total	Non-controlling Interest in Valencia	Total Equity
	Preferred Stock, Series A	Common Stock	AOCI	Retained Earnings			
	(In thousands)						
Balance at December 31, 2010	\$100,000	\$1,290,465	\$(68,666)	\$314,943	\$1,536,742	\$85,177	\$1,721,919
Proceeds from stock option exercise	—	5,622	—	—	5,622	—	5,622
Purchases to satisfy awards of common stock	—	(10,104)	—	—	(10,104)	—	(10,104)
Stock based compensation expense	—	6,556	—	—	6,556	—	6,556
Valencia's transactions with its owner	—	—	—	—	—	(16,801)	(16,801)
Purchase of preferred stock (100,000)	—	26,490	—	—	26,490	—	(73,510)
Purchase of common stock	—	(125,838)	—	—	(125,838)	—	(125,838)
Net earnings excluding subsidiary preferred stock dividends	—	—	—	176,887	176,887	14,047	190,934
Subsidiary preferred stock dividends	—	—	—	(528)	(528)	—	(528)
Total other comprehensive income	—	—	1,810	—	1,810	—	1,810
Dividends declared on common stock	—	—	—	(43,652)	(43,652)	—	(43,652)
Balance at December 31, 2011	—	1,193,191	(66,856)	447,650	1,573,985	82,423	1,656,408
Proceeds from stock option exercise	—	11,684	—	—	11,684	—	11,684
Purchases to satisfy awards of common stock	—	(25,168)	—	—	(25,168)	—	(25,168)
Excess tax (shortfall) from stock-based payment arrangements	—	(473)	—	—	(473)	—	(473)
Stock based compensation expense	—	3,585	—	—	3,585	—	3,585
Valencia's transactions with its owner	—	—	—	—	—	(15,630)	(15,630)
Net earnings excluding subsidiary preferred stock dividends	—	—	—	106,075	106,075	14,050	120,125
Subsidiary preferred stock dividends	—	—	—	(528)	(528)	—	(528)

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Total other comprehensive income (loss)	—	(14,774 )	—	(14,774 )	—	(14,774 )
Dividends declared on common stock	—	—	(46,199 )	(46,199 )	—	(46,199 )
Balance at December 31, 2012	—	1,182,819	(81,630 )	506,998	1,608,187	80,843
Proceeds from stock option exercise	—	4,618	—	—	4,618	—
Purchases to satisfy awards of common stock	—	(13,807 )	—	—	(13,807 )	—
Excess tax (shortfall) from stock-based payment arrangements	—	(581 )	—	—	(581 )	—
Stock based compensation expense	—	5,320	—	—	5,320	—
Valencia's transactions with its owner	—	—	—	—	—	(18,335 )
Net earnings excluding subsidiary preferred stock dividends	—	—	—	101,035	101,035	14,521
Subsidiary preferred stock dividends	—	—	—	(528 )	(528 )	—
Total other comprehensive income	—	—	23,490	—	23,490	—
Dividends declared on common stock	—	—	—	(54,165 )	(54,165 )	—
Balance at December 31, 2013	\$—	\$1,178,369	\$(58,140)	\$553,340	\$1,673,569	\$77,029

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,		
	2013	2012	2011
	(In thousands)		
Electric Operating Revenues	\$1,116,312	\$1,092,264	\$1,057,289
Operating Expenses:			
Cost of energy	374,710	353,649	362,237
Administrative and general	157,144	169,285	157,217
Energy production costs	175,819	185,403	180,802
Regulatory disallowances	12,235	—	17,479
Depreciation and amortization	103,826	97,291	94,787
Transmission and distribution costs	45,936	46,039	45,768
Taxes other than income taxes	37,457	34,715	37,556
Total operating expenses	907,127	886,382	895,846
Operating income	209,185	205,882	161,443
Other Income and Deductions:			
Interest income	10,182	13,243	15,562
Gains on available-for-sale securities	10,612	12,965	8,985
Other income	7,650	8,126	2,220
Other (deductions)	(6,974)	) (7,801	) (6,896
Net other income and deductions	21,470	26,533	19,871
Interest Charges	79,175	76,101	75,349
Earnings before Income Taxes	151,480	156,314	105,965
Income Taxes	48,804	50,713	37,427
Net Earnings	102,676	105,601	68,538
(Earnings) Attributable to Valencia Non-controlling Interest	(14,521)	) (14,050	) (14,047
Net Earnings Attributable to PNM	88,155	91,551	54,491
Preferred Stock Dividends Requirements	(528)	) (528	) (528
Net Earnings Available for PNM Common Stock	\$87,627	\$91,023	\$53,963

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,		
	2013	2012	2011
	(In thousands)		
Net Earnings	\$ 102,676	\$ 105,601	\$ 68,538
Other Comprehensive Income (Loss):			
Unrealized Gain on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of \$(10,855), \$(15,262), and \$(13,577)	16,564	23,286	20,718
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,734, \$14,755, and \$13,956	(7,222	) (22,514	) (21,295
Pension Liability Adjustment:			
Experience gain (loss), net of income tax (expense) benefit of \$(6,781), \$11,910 and \$1,334	10,355	(18,174	) (2,035
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of \$(2,524), \$(1,825) and \$(1,694)	3,840	2,786	2,584
Fair Value Adjustment for Designated Cash Flow Hedges:			
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$0, \$0, and \$(11)	—	—	16
Total Other Comprehensive Income (Loss)	23,537	(14,616	) (12
Comprehensive Income	126,213	90,985	68,526
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,521	) (14,050	) (14,047
Comprehensive Income Attributable to PNM	\$ 111,692	\$ 76,935	\$ 54,479

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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,		
	2013	2012	2011
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$ 102,676	\$ 105,601	\$ 68,538
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	136,732	129,514	123,216
Deferred income tax expense	50,043	65,479	90,567
Net unrealized (gains) losses on derivatives	(1,866	) (1,598	) (3,822
Realized (gains) on available-for-sale securities	(10,612	) (12,965	) (8,985
Regulatory disallowances	12,235	—	17,479
Other, net	(1,614	) (170	) 1,658
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(3,021	) (4,756	) (23,487
Materials, supplies, and fuel stock	(7,730	) (5,268	) (2,067
Other current assets	8,556	(3,014	) (14,916
Other assets	(13,363	) (27,338	) (795
Accounts payable	2,807	11,028	12,524
Accrued interest and taxes	72,740	47,666	(45,579
Other current liabilities	(27,376	) (2,539	) 15,216
Proceeds from governmental grants	—	21,567	2,103
Other liabilities	(59,753	) (54,787	) (18,612
Net cash flows from operating activities	260,454	268,420	213,038
Cash Flows From Investing Activities:			
Utility plant additions	(239,906	) (196,800	) (251,345
Proceeds from sales of available-for-sale securities	271,140	167,330	145,286
Purchases of available-for-sale securities	(282,000	) (176,748	) (149,185
Return of principal on PVNGS lessor notes	23,357	23,455	32,274
Other, net	3,843	2,406	1,782
Net cash flows from investing activities	(223,566	) (180,357	) (221,188

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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,		
	2013	2012	2011
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term borrowings (repayments), net	28,100	(44,900	) (124,000 )
Short-term borrowings (repayments) - affiliate, net	32,500	—	—
Long-term borrowings	75,000	20,000	160,000
Repayment of long-term debt	—	(20,000	) —
Equity contribution from parent	—	—	43,000
Valencia's transactions with its owner	(18,335	) (15,630	) (16,801 )
Dividends paid	(155,556	) (34,961	) (47,862 )
Other, net	(2,534	) (921	) (4,216 )
Net cash flows from financing activities	(40,825	) (96,412	) 10,121
Change in Cash and Cash Equivalents	(3,937	) (8,349	) 1,971
Cash and Cash Equivalents at Beginning of Year	3,958	12,307	10,336
Cash and Cash Equivalents at End of Year	\$21	\$3,958	\$12,307
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	\$71,306	\$73,036	\$69,995
Income taxes paid (refunded), net	\$(77,434	) \$(63,113	) \$(1,541 )
Supplemental schedule of noncash investing activities:			
Changes in accrued plant additions	\$7,921	\$(19,732	) \$18,164

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 BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands)	
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$21	\$3,958
Accounts receivable, net of allowance for uncollectible accounts of \$1,423 and \$1,751	70,126	69,876
Unbilled revenues	48,992	49,085
Other receivables	52,964	50,975
Affiliate receivables	10,054	9,050
Materials, supplies, and fuel stock	64,520	56,790
Regulatory assets	19,394	36,490
Commodity derivative instruments	4,064	3,785
Income taxes receivable	4,030	80,223
Current portion of accumulated deferred income taxes	43,827	—
Other current assets	30,510	27,457
Total current assets	348,502	387,689
Other Property and Investments:		
Investment in PVNGS lessor notes	32,200	54,325
Available-for-sale securities	226,855	192,511
Other investments	445	494
Non-utility property	976	976
Total other property and investments	260,476	248,306
Utility Plant:		
Plant in service and plant held for future use	4,314,016	4,133,532
Less accumulated depreciation and amortization	1,402,531	1,355,240
	2,911,485	2,778,292
Construction work in progress	107,344	102,329
Nuclear fuel, net of accumulated amortization of \$47,347 and \$42,644	77,602	81,627
Net utility plant	3,096,431	2,962,248
Deferred Charges and Other Assets:		
Regulatory assets	384,217	431,956
Goodwill	51,632	51,632
Commodity derivative instruments	3,002	352
Other deferred charges	83,356	81,724
Total deferred charges and other assets	522,207	565,664
	\$4,227,616	\$4,163,907

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 BALANCE SHEETS

	December 31,	
	2013	2012
	(In thousands, except share information)	
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>Current Liabilities:</b>		
Short-term debt	\$49,200	\$21,100
Short-term debt - affiliate	32,500	—
Current installments of long-term debt	75,000	—
Accounts payable	84,643	73,914
Affiliate payables	20,498	25,340
Customer deposits	13,456	18,176
Accrued interest and taxes	27,665	30,320
Regulatory liabilities	1,081	15,172
Commodity derivative instruments	2,699	1,000
Dividends declared	132	132
Current portion of accumulated deferred income taxes	—	3,447
Other current liabilities	50,392	54,150
Total current liabilities	357,266	242,751
Long-term Debt	1,215,618	1,215,579
<b>Deferred Credits and Other Liabilities:</b>		
Accumulated deferred income taxes	651,239	573,881
Accumulated deferred investment tax credits	25,855	14,242
Regulatory liabilities	414,611	379,841
Asset retirement obligations	95,225	85,042
Accrued pension liability and postretirement benefit cost	76,611	208,618
Commodity derivative instruments	1,094	1,933
Other deferred credits	91,340	95,585
Total deferred credits and liabilities	1,355,975	1,359,142
Total liabilities	2,928,859	2,817,472
<b>Commitments and Contingencies (See Note 16)</b>		
<b>Cumulative Preferred Stock</b>		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
<b>Equity:</b>		
<b>PNM common stockholder's equity:</b>		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,061,776	1,061,776
Accumulated other comprehensive income (loss), net of income tax	(57,877	) (81,414
Retained earnings	206,300	273,701
Total PNM common stockholder's equity	1,210,199	1,254,063
Non-controlling interest in Valencia	77,029	80,843
Total equity	1,287,228	1,334,906
	\$4,227,616	\$4,163,907

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 CHANGES IN EQUITY

	Attributable to PNM					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2010	\$1,018,776	\$(66,786 )	\$171,359	\$1,123,349	\$85,177	\$1,208,526
Valencia's transactions with its owner	—	—	—	—	(16,801 )	(16,801 )
Net earnings	—	—	54,491	54,491	14,047	68,538
Total other comprehensive income (loss)	—	(12 )	—	(12 )	—	(12 )
Equity contributions from parent	43,000	—	—	43,000	—	43,000
Dividends declared on preferred stock	—	—	(528 )	(528 )	—	(528 )
Dividends declared on common stock	—	—	(8,211 )	(8,211 )	—	(8,211 )
Balance at December 31, 2011	1,061,776	(66,798 )	217,111	1,212,089	82,423	1,294,512
Valencia's transactions with its owner	—	—	—	—	(15,630 )	(15,630 )
Net earnings	—	—	91,551	91,551	14,050	105,601
Total other comprehensive income (loss)	—	(14,616 )	—	(14,616 )	—	(14,616 )
Dividends declared on preferred stock	—	—	(528 )	(528 )	—	(528 )
Dividends declared on common stock	—	—	(34,433 )	(34,433 )	—	(34,433 )
Balance at December 31, 2012	1,061,776	(81,414 )	273,701	1,254,063	80,843	1,334,906
Valencia's transactions with its owner	—	—	—	—	(18,335 )	(18,335 )
Net earnings	—	—	88,155	88,155	14,521	102,676
Total other comprehensive income	—	23,537	—	23,537	—	23,537
Dividends declared on preferred stock	—	—	(528 )	(528 )	—	(528 )
Dividends declared on common stock	—	—	(155,028 )	(155,028 )	—	(155,028 )
Balance at December 31, 2013	\$1,061,776	\$(57,877 )	\$206,300	\$1,210,199	\$77,029	\$1,287,228

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

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

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Electric Operating Revenues:			
Non-affiliates	\$271,611	\$250,140	\$204,045
Affiliate	—	—	33,813
Total electric operating revenues	271,611	250,140	237,858
Operating Expenses:			
Cost of energy	57,606	46,201	41,166
Administrative and general	44,635	40,775	39,485
Regulatory disallowances	—	—	3,923
Depreciation and amortization	50,219	49,340	44,616
Transmission and distribution costs	24,188	25,086	23,915
Taxes other than income taxes	22,778	21,218	20,911
Total operating expenses	199,426	182,620	174,016
Operating income	72,185	67,520	63,842
Other Income and Deductions:			
Interest income	—	1	2
Other income	2,377	4,698	1,753
Other (deductions)	(458	) (1,959	) (173
Net other income and deductions	1,919	2,740	1,582
Interest Charges	27,393	28,161	29,286
Earnings Before Income Taxes	46,711	42,099	36,138
Income Taxes	17,621	15,352	13,881
Net Earnings	\$29,090	\$26,747	\$22,257

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

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

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Net Earnings	\$29,090	\$26,747	\$22,257
Other Comprehensive Income (Loss):			
Pension Liability Adjustment:			
Experience gain (loss), net of income tax (expense) benefit of \$0, \$0 and \$(147)	—	—	267
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax expense (benefit) of \$0, \$0 and \$(5)	—	—	8
Fair Value Adjustment for Designated Cash Flow Hedge:			
Change in fair value, net of income tax (expense) benefit of \$98, \$153, and \$430	(181	) (275	) (777
Reclassification adjustment for losses included in net earnings, net of income tax expense (benefit) of \$(73), \$(65), and \$(1,068)	134	117	1,929
Total Other Comprehensive Income (Loss)	(47	) (158	) 1,427
Comprehensive Income	\$29,043	\$26,589	\$23,684

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

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

	Year Ended December 31,		
	2013	2012	2011
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	\$29,090	\$26,747	\$22,257
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	54,395	54,396	48,572
Regulatory disallowances	—	—	3,923
Deferred income tax expense	20,662	4,378	15,478
Other, net	(30	) (889	) (532
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(4,542	) 2,208	(9,130
Materials and supplies	150	(143	) 77
Other current assets	(1,137	) (3,515	) 4,777
Other assets	941	(3,145	) (3,247
Accounts payable	3,709	(666	) 2,225
Accrued interest and taxes	(6,713	) 9,825	(2,520
Other current liabilities	(3,197	) (2,106	) 513
Other liabilities	460	4,311	(611
Net cash flows from operating activities	93,788	91,401	81,782
Cash Flows From Investing Activities:			
Utility plant additions	(89,117	) (92,973	) (67,407
Net cash flows from investing activities	(89,117	) (92,973	) (67,407
The accompanying notes, as they relate to TNMP, are an integral part of these consolidated financial statements.			

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

Year Ended December 31,  
2013                      2012                      2011  
(In thousands)