PNM RESOURCES INC
Form 10-K
February 29, 2016
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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, 2015

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

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

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

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

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

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

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

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

PNMR	YES	NO ü
PNM	YES	NO ü

TNMP	YES ü	NO

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

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

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

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

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

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

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Act).

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

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

YES NO ü

As of February 19, 2016, shares of common stock outstanding were:

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

On June 30, 2015, 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 $24.60 per share reported by The Wall Street Journal, was $1,959,479,150. 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 17, 2016.

This combined Form 10-K is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to

information relating to the other registrants. When this Form 10-K is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-K that relate to each other registrant are not incorporated by reference therein.

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

Definitions:

ABO	Accumulated Benefit Obligation
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
Anaheim	City of Anaheim, California
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
ASU	Accounting Standards Update
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
BHP	BHP Billiton, Ltd
Board	Board of Directors of PNMR
BTMU	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan Agreement	NM Capital's $125.0 Million Unsecured Term Loan
BTU	British Thermal Unit
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
CO_2	Carbon Dioxide
COFA	Capacity Option and Funding Agreement
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station, now known as Rio Bravo
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIB	New Mexico Environmental Improvement Board
EIP	Eastern Interconnection Project
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
EPE	El Paso Electric Company
EPNG	El Paso Natural Gas Company, L.L.C.
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan

First Choice	FCP Enterprises, Inc. and Subsidiaries
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC

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FPPAC	Fuel and Purchased Power Adjustment Clause
FTY	Future Test Year
GAAP	Generally Accepted Accounting Principles in the United States of America
Gallup	City of Gallup, New Mexico
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station
LIBOR	London Interbank Offered Rate
Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody's	Moody's Investor Services, Inc.
MSR	M-S-R Public Power Agency
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NEE	New Energy Economy
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NM Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NMSC	New Mexico Supreme Court
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement

PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds

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PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2013 Term Loan Agreement	PNM’s $75.0 Million Unsecured Term Loan
PNM 2014 Term Loan Agreement	PNM’s $175.0 Million Unsecured Term Loan
PNM Multi-draw Term Loan	PNM’s $125.0 Million Unsecured Multi-draw Term Loan Facility
PNM New Mexico Credit Facility	PNM’s $50.0 Million Unsecured Revolving Credit Facility
PNM Revolving Credit Facility	PNM’s $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan Agreement	PNMR’s $150.0 Million Three-Year Unsecured Term Loan
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Revolving Credit Facility	PNMR’s $300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan Agreement	PNMR’s $150.0 Million One-Year Unsecured Term Loan
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RA	San Juan Project Restructuring Agreement
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico’s Renewable Energy Act of 2004
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station, formerly known as Delta
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
RSIP	Revised State Implementation Plan
S&P	Standard and Poor’s Ratings Services
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJPPA	San Juan Project Participation Agreement
SNCR	Selective Non-Catalytic Reduction

SO_2	Sulfur Dioxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
TCEQ	Texas Commission on Environmental Quality

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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 2013 Bond Purchase Agreement	TNMP's $80.0 Million First Mortgage Bonds
TNMP 2015 Bond Purchase Agreement	TNMP's $60.0 Million First Mortgage Bonds
TNMP Revolving Credit Facility	TNMP's $75.0 Million Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power Systems
UG-CSA	Underground Coal Sales Agreement
USSC	United States Supreme Court
Valencia	Valencia Energy Facility
VaR	Value at Risk
VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
Westmoreland	Westmoreland Coal Company
WSPP	Western Systems Power Pool

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PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

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

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

PNMR's success in accomplishing these strategic goals is highly dependent on continued favorable regulatory treatment for its regulated utilities. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. PNM has a general rate case, filed in August 2015, pending before the NMPRC. Additional information about rate filings is provided in Operations and Regulation below and in Note 17.

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

Other Information

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

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

WEBSITES

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

Our corporate Internet addresses are:

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

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

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

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

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

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

OPERATIONS AND REGULATION
Regulated Operations
PNM

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

Other services provided by PNM include transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. PNM owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. The largest retail electric customer served by PNM accounted for 3.2% of its revenues for the year ended December 31, 2015. PNM was incorporated in the State of New Mexico in 1917.

NMPRC Regulated Retail Rate Proceedings

Customer rates for retail electric service are set by the NMPRC. PNM filed a general rate case with the NMPRC in December 2014. PNM's application proposed a revenue increase of $107.4 million, effective January 1, 2016, based on a calendar 2016 future test year ("FTY"). On May 13, 2015, the NMPRC voted to dismiss PNM's application as being incomplete, primarily due to procedural defects. On August 27, 2015, PNM filed a new application with the NMPRC for a general increase in retail electric rates. The application proposes a revenue increase of $123.5 million, including base fuel revenues. The primary drivers of PNM's identified revenue deficiency are infrastructure investments and declines in forecasted energy sales as a result of PNM's successful energy efficiency programs and other economic factors. The new application includes several proposed changes to rate design to establish fair and equitable pricing across rate classes and to better align cost recovery with cost causation. New rates are expected to become effective in the third quarter of 2016. See Note 17 for additional information concerning this filing.

PNM filed an application in January 2012 for a rate rider to collect costs for renewable energy procurements incurred after December 31, 2010 that are not otherwise being collected in rates. The rider will terminate upon a final order in PNM's next general rate case unless that order authorizes a continuation of the rider, which PNM requested in its current rate filing. As a separate component of the rider, if PNM's earned return on jurisdictional equity in a calendar year, adjusted for weather and other items not representative of normal operation, exceeded 10.5%, PNM would

refund the excess to customers during May through December of the following year. PNM's earned return on jurisdictional equity did not exceed 10.5% in 2013, 2014, or 2015.

FERC Regulated Wholesale Operations

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

In December 2012, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of its transmission customers. The filing represents a formula-based rate as contemplated by the approved settlement in the case described above. On March 20, 2015, PNM along with five other parties entered into a settlement agreement, which was filed at FERC.

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No party has filed in opposition of the settlement. The settlement reflects a ROE of 10% and results in an annual increase of $1.3 million above the rates approved in the previous rate case. The FERC ALJ authorized the interim implementation of settled rates beginning on April 1, 2015, subject to refund. There is no required time frame for FERC to act upon a settlement. PNM is unable to predict the outcome of this proceeding.

PNM has entered into firm-requirements wholesale contracts to provide electricity to various customers. These contracts contain both capacity charges and energy charges. Capacity charges are monthly payments for a commitment of resources to service the contract requirements. Energy charges are payments based on the amount of electricity delivered to the customer and are intended to compensate for the variable costs incurred to provide the energy. The average billing demands for PNM's firm-requirements wholesale customers aggregated approximately 62 MW in 2015. No firm-requirements customer of PNM accounted for more than 2.5% of PNM's revenues for the year ended December 31, 2015.

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. The parties agreed to a settlement providing for an increase in rates of $5.3 million and an extension of the contract for 10 years through December 31, 2035. FERC approved the settlement in April 2013. On April 8, 2015, NEC filed a petition for a declaratory order requesting that FERC find that NEC can purchase an unlimited amount of power and energy from third-party supplier(s) under the PSA. PNM intervened, requesting that FERC deny NEC's petition. On October 29, 2015, PNM and NEC entered into and filed with FERC a settlement agreement that includes amendments to the PSA and related contracts, subject to FERC approval. Under the agreement, PNM would serve all of NEC's load in 2016 at reduced demand and energy rates from those under the PSA. The PSA would terminate on December 31, 2016. In 2017, PNM would continue to serve 10 MW of NEC's load under a short-term coordination tariff at a rate lower than provided under the PSA, but higher than prices currently available under short-term market rates. FERC approved the settlement on January 21, 2016. PNM anticipates that, in future general rate cases, assets and costs previously assigned to serve NEC will be reassigned, primarily to retail customers. In 2015 and 2014, monthly billing demand for power supplied to NEC averaged approximately 54 MW and 55 MW and revenues were $27.1 million and $28.4 million under the PSA.

PNM provided both energy and power services to Gallup, which was its second largest firm-requirements wholesale customer, under an electric service agreement that expired on June 30, 2014. PNM also provides electricity at wholesale to the City of Aztec, New Mexico under a contract that will expire on June 30, 2016. PNM's recently filed general rate case discussed above includes a reallocation of costs among regulatory jurisdictions reflecting the termination of these contracts. See Results of Operations in MD&A and Note 17. In 2014, PNM entered into a contract with the Jicarilla Apache Nation to provide electricity at wholesale through May 8, 2019, although the customer has the option to terminate the contract upon appropriate notice.

PNM's current authorization under FERC regulation requires that revenue requirements for sales of electricity at wholesale are to be based on PNM's costs of providing such service. In August 2014, PNM filed an application with FERC to allow PNM to enter into arrangements to sell electricity at wholesale prices within PNM's balancing authority area using rates that are based on market conditions. In October 2015, FERC denied PNM's request.

Operational Information

Weather-normalized retail electric KWh sales decreased by 1.4% in 2015 and 1.7% in 2014. The system peak demands for retail and firm-requirements customers were as follows:

System Peak Demands

	2015	2014	2013

	(Megawatts)		
Summer	1,889	1,878	2,008
Winter	1,433	1,471	1,576

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 49.8%, 10.7%, and 9.9% of PNM’s 2015 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.

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

PNM owns 3,199 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, PNM's transmission system is fully committed during peak hours for delivery of existing resources, 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 bring power into PNM's service area from outside of New Mexico.

PNM also generates and sells electricity into the wholesale market. Because PNM's 134 MW share of Unit 3 at PVNGS currently is excluded from retail rates, that unit's power is being sold in the wholesale market and shareholders realize any earnings or losses. PNM has contracted to sell all of PVNGS Unit 3 output through 2017 at market price plus a premium. Through hedging arrangements that are accounted for as economic hedges, PNM has established fixed rates for substantially all of these sales in 2016. In December 2015, the NMPRC approved PNM's request to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers beginning in 2018 as part of the revised plan to comply with the regional haze requirements of the CAA. See Note 16. In addition to the PVNGS contracts, PNM also engages in activities to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-ahead, week-ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Through PNM's FPPAC, 90% of the margins from these optimization sales are credited to retail customers through December 31, 2016, after which date 100% of the margins will be credited to customers.

Use of Future Test Year

Under New Mexico law, the NMPRC must set rates using the test period, including a FTY, that best reflects the conditions the utility will experience when new rates are anticipated to go into effect. In November 2015, the NMPRC clarified that FTY could begin up to 13 months after the filing of a rate case application. The NMPRC also 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 FTY should help PNM mitigate the adverse effects of regulatory lag, which is inherent when using a historical test year. Accordingly, the utility's earnings should more closely reflect the rate of return allowed by the NMPRC. PNMR believes that achieving earnings that approximate its allowed rate of return is an important factor in attracting equity investors, as well as being considered favorably by credit rating agencies and financial analysts.

As discussed above, PNM's current request for a general rate increase is based on a FTY period beginning October 1, 2015. As with any forward looking financial information, utilizing a FTY 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 Energy

The REA was enacted to encourage the development of renewable energy in New Mexico. The act establishes a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% of retail electric sales 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.

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TNMP provides transmission and distribution services in Texas under the provisions of TECA and the Texas Public Utility Regulatory Act. TNMP is subject to traditional cost-of-service regulation with respect to rates and service under the jurisdiction of the PUCT and certain municipalities. TNMP's transmission and distribution activities are solely within ERCOT, which is the independent system operator responsible for maintaining reliable operations for the bulk electric power supply system in most of Texas. Therefore, TNMP is not subject to traditional rate regulation by FERC. TNMP serves a market of small to medium sized communities, most of which have populations of less than 50,000. TNMP is the exclusive provider of transmission and distribution services in most areas it serves.

TNMP's service territory consists of three non-contiguous areas. One portion of this territory extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red River, and to communities north, west, and south of Fort Worth. The second portion of its service territory includes the area along the Texas Gulf Coast between Houston and Galveston, and the third portion includes areas of far west Texas between Midland and El Paso.

TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. TNMP experienced increases in weather-normalized retail KWh sales of 2.6% in 2015 and 3.2% in 2014. As of December 31, 2015, 101 active REPs receive transmission and distribution services from TNMP. In 2015, the three largest REP customers of TNMP accounted for operating revenues of 16%, 13%, and 11%. No other customer accounted for more than 10% of revenues.

Regulatory Activities

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect $113.4 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011. Deployment of smart meters began in September 2011 and is scheduled to be completed in 2016.

The PUCT approved interim adjustments to TNMP's transmission rates of $2.9 million in March 2013, $2.8 million in September 2013, $2.9 million in March 2014, $4.2 million in September 2014, $4.4 million in March 2015, and $1.4 million in September 2015. On January 29, 2016, TNMP filed an application to further update its transmission rates, which would increase revenues by $4.3 million annually. The application is pending before the PUCT.

Franchise Agreements

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

Corporate and Other

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

SOURCES OF POWER
PNM
Generation Capacity

As of December 31, 2015, the total net generation capacity of facilities owned or leased by PNM was 2,477 MW. PNM also obtains power under long-term PPAs for the power produced by New Mexico Wind, which has a capacity of 204 MW, the output of the Lightning Dock Geothermal facility, which currently has a capacity of 4 MW, and the power output of Red Mesa Wind, which has a capacity of 102 MW.

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PNM's capacity in electric generating facilities, which are owned, leased, or under PPAs, in commercial service as of December 31, 2015 is:

Type	Name	Location	Generation Capacity (MW)
Coal	SJGS	Waterflow, New Mexico	783
Coal	Four Corners	Fruitland, New Mexico	200
Gas	Reeves Station	Albuquerque, New Mexico	154
Gas	Afton (combined cycle)	La Mesa, New Mexico	230
Gas	Lordsburg	Lordsburg, New Mexico	80
Gas	Luna (combined cycle)	Deming, New Mexico	185
Gas/Oil	Rio Bravo	Albuquerque, New Mexico	138
Gas	Valencia	Belen, New Mexico	158
Gas	La Luz	Belen, New Mexico	40
Nuclear	PVNGS	Wintersburg, Arizona	402
Solar	PNM-owned solar	Fifteen sites in New Mexico	107
Wind	New Mexico Wind	House, New Mexico	204
Wind	Red Mesa Wind	Seboyeta, New Mexico	102
Geothermal	Lightning Dock Geothermal	Lordsburg, New Mexico	4
			2,787

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, 10.04% by Anaheim, 8.475% by Farmington, 7.2% by Los Alamos, and 7.028% by UAMPS. See Note 16 for additional information about SJGS, including the shutdown of Units 2 and 3 on December 31, 2017 and the restructuring of the ownership interests in SJGS. Under the restructuring agreement, PNM would own 64.5% of Unit 4, PNMR Development would own 12.8% of Unit 4, and SCPPA, Tri-State, MSR, and Anaheim would no longer have any ownership interest in SJGS following the December 31, 2017 restructuring. However, PNMR anticipates that the interest of PNMR Development will be transferred to PNM, as authorized by the NMPRC, prior to the restructuring date.

Four Corners Units 4 and 5 are 13% owned by PNM. These units are jointly owned with APS, SRP, Tucson, and EPE and are operated by APS. PNM had no ownership interest in Four Corners Units 1, 2, or 3, which were shutdown by APS on December 30, 2013. The Four Corners plant site is leased from the Navajo Nation and is also subject to an easement from the federal government. APS, on behalf of the Four Corners participants, negotiated amendments to an existing facility lease with the Navajo Nation, which extends the Four Corners leasehold interest from 2016 to 2041. The Navajo Nation approved these amendments in March 2011. The effectiveness of the amendments also required the approval of the DOI, as did a related federal rights-of-way grant, which was received in July 2015. APS has announced it has agreed to acquire the 7% interest of EPE, which is anticipated to become effective in July 2016. APS is negotiating an agreement for the sale of that 7% interest to an entity of the Navajo Nation. See Note 16 for additional information about Four Corners.

PNM owns 100% of Reeves, Afton, Rio Bravo, Lordsburg, and La Luz and one-third of Luna. The remaining interests in Luna are owned equally by Tucson and Samchully Power & Utilities 1, LLC. Prior to July 17, 2014, when PNM closed on the purchase of Rio Bravo, PNM was entitled to the energy and capacity of Rio Bravo under a PPA. PNM is

entitled to the entire output of Valencia under a PPA. Valencia is a variable interest entity and is consolidated by PNM as required by GAAP. Reeves, Lordsburg, Rio Bravo, La Luz, and Valencia are used primarily for peaking power and transmission support. See Note 9 for additional information about Rio Bravo and Valencia, including the potential purchase of 50% of Valencia.

Nuclear Plant

PNM is participating in the three units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), SRP, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2% of the power and energy generated by PVNGS, including portions that are leased to PNM. See Note 7 for additional in

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formation concerning the PVNGS leases, including the renewal of the four PVNGS Unit 1 leases and one of the PVNGS Unit 2 leases and the purchase of the assets underlying the other three Unit 2 leases. Following the January 15, 2016 exercise of the Unit 2 purchase options, PNM has ownership interests of 2.3% in Unit 1, 9.4% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 0.8% in Unit 2. The lease payments for the leased portions of PVNGS are recovered through retail rates approved by the NMPRC. See Note 16 for information on other PVNGS matters, including the NMPRC's approval of PNM's proposal to include PVNGS Unit 3 as a jurisdictional resource to serve New Mexico retail customers.

On March 11, 2011, a 9.0 magnitude earthquake occurred off the northeastern coast of Japan. The earthquake produced tsunamis that caused significant damage to the Fukushima Daiichi Nuclear Power Station in Japan. Following these events, the NRC established a task force to conduct a systematic and methodical review of NRC processes and regulations to determine whether the agency should make additional improvements to its regulatory system. In March 2012, the NRC issued the first regulatory requirements based on the recommendations of the task force. With respect to PVNGS, the NRC issued two orders requiring safety enhancements regarding: (1) mitigation strategies to respond to extreme natural events resulting in the loss of power at plants; and (2) enhancement of spent fuel pool instrumentation. The NRC has issued a number of guidance documents regarding implementation of these requirements. PVNGS has met the NRC's imposed deadlines for installation of equipment to address these requirements, but has minor additional work to perform in 2016. PVNGS has spent approximately $125 million on capital enhancements as of December 31, 2015 (PNM's share is 10.2%).

Solar

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 2011. PNM also completed its solar-storage demonstration project in Albuquerque, which has a generation capacity of 0.5 MW and is included in the above table. In 2013, PNM completed the installation of an additional 21.5 MW of utility-owned solar capacity at four sites, including expansion of capacity at two of the existing sites. In 2014, PNM completed construction of an additional 23 MW of PNM-owned solar PV facilities at three additional sites. In 2015, PNM completed construction of an additional 40 MW of PNM-owned solar PV facilities at four additional sites. The NMPRC has approved a voluntary tariff that allows PNM retail customers to buy renewable electricity for a small monthly premium. Power from 1 MW of PNM's solar capacity is used to service load under the voluntary tariff.

Plant Operating Statistics

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

Plant	Operator	2015	2014	2013
SJGS	PNM	67.4%	76.5%	77.6%
Four Corners	APS	77.8%	68.1%	72.9%
PVNGS	APS	94.2%	91.8%	89.4%

Joint Projects

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different entities. Some participants in the joint projects are investor-owned entities, while others are municipally or co-operatively owned. Furthermore, participants in SJGS have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in July 2016 for Four Corners, July 2022 for SJGS, December 2046 for Luna, and November 2047 for PVNGS. The Four Corners owners executed amendments to the agreements governing the operations of Four Corners that would extend those agreements until

July 2041. The amendments are expected to become effective upon APS' purchase of the ownership interest of EPE, which is anticipated to occur in July 2016. In addition, SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. A new agreement for coal supply for SJGS, which expires on June 30, 2022, became effective at 11:59 PM on January 31, 2016. At that same time, an agreement to restructure the ownership in SJGS became effective. That agreement provides for certain existing participants in SJGS to exit ownership at December 31, 2017, at which time two of the four SJGS units will be permanently shutdown. In December 2013, the coal supply arrangement for Four Corners was extended through 2031. See Note 16 for a discussion of the restructuring of SJGS ownership and developments with respect to Four Corners. As described above, Four Corners is situated on land under a lease from the Navajo Nation. Portions of PNM's interests in PVNGS Units 1 and 2 are leased. See Nuclear Plant above and Note 7 regarding PNM's actions related to these leases. It is possible that other participants in the joint projects have circumstances and objectives that have changed from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of 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 proj

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ects. 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.

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. Power from New Mexico Wind is used to service load under the voluntary tariff discussed above and as part of PNM's electric supply mix for meeting retail load.

PNM has a 20-year agreement to purchase energy and RECs from the Lightning Dock Geothermal facility built near Lordsburg. The facility, which is the first geothermal project for the PNM system, began providing limited power to PNM on January 1, 2014. The current capacity of the facility is 4 MW and future expansion may result in up to 9 MW of generation capacity.

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

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

	Year Ended December 31,		
	2015	2014	2013
Purchased under long-term PPAs			
MWh	599,562	492,906	490,539
Cost per MWh	$22.18	$27.82	$27.25
Other purchased power			
Total MWh	729,895	1,023,744	1,061,514
Cost per MWh	$28.94	$40.30	$35.64

TNMP

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

FUEL AND WATER SUPPLY

PNM

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

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2015	53.3 %	$2.88	32.6 %	$0.70	12.6 %	$2.91
2014	56.7 %	$3.00	32.0 %	$0.83	10.3 %	$4.26
2013	56.8 %	$2.62	30.4 %	$0.88	12.2 %	$4.12

In 2015, 2014, and 2013, 1.5%, 1.0%, and 0.6% of PNM's generation was from utility owned solar, which has no fuel cost. The generation mix for 2016 is expected to be 57.1% coal, 30.7% nuclear, 9.5% gas and oil, and 2.7% utility owned solar. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits, and the generally adequate

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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

A new coal supply contract for SJGS, which expires on June 30, 2022, became effective at 11:59 PM on January 31, 2016. Substantially all of the benefits of lower coal pricing under the new contract will be passed through to PNM's customers under the FPPAC. 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, a new fifteen-year coal supply contract for Four Corners, beginning in July 2016, was executed. Coal costs are anticipated to increase approximately 40% in the first year of the new contract. The contract provides for pricing adjustments over its term based on economic indices. See Note 16 for additional information about PNM's coal supply.

Natural Gas

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

Nuclear Fuel and Waste

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNGS participants have contracted for all of PVNGS's requirements for uranium concentrates and conversion services through 2018 and 45% of its requirements in 2019-2025. The participants have also contracted for 100% of PVNGS's enrichment services through 2020 and 20% of its enrichment services through 2026. All of PVNGS's fuel assembly fabrication services are contracted through 2022.

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

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

On October 16, 2014, the NRC issued Volume 3 of the safety evaluation report developed as part of the Yucca Mountain construction authorization application. This volume addresses repository safety after permanent closure, and its issuance is a key milestone in the Yucca Mountain licensing process. Volume 3 contains the staff's finding that the DOE's repository design meets the requirements that apply after the repository is permanently closed, including but not limited to the post-closure performance objectives in NRC's regulations. On December 18, 2014, the NRC issued Volume 4 of the safety evaluation report developed as part of the Yucca Mountain construction authorization application. This volume covers administrative and programmatic requirements for the repository. It documents the

staff's evaluation of whether the DOE's research and development and performance confirmation programs, as well as other administrative controls and systems, meet applicable NRC requirements. Volume 4 contains the staff's finding that most administrative and programmatic requirements in NRC regulations are met, except for certain requirements relating to ownership of land and water rights. Publication of Volumes 3 and 4 does not signal whether or when the NRC might authorize construction of the repository.

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

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Water Supply

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

ENVIRONMENTAL MATTERS

Electric utilities are subject to stringent laws and regulations for protection of the environment by local, state, federal, and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews. The liabilities under these laws and regulations can be material. In some instances, liabilities may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. The construction expenditure projection (Note 14) includes the environmental upgrades at SJGS and Four Corners discussed in Note 16, which aggregate $46.9 million in 2016 and $44.8 million in 2017 through 2020. 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"
- Four Corners Coal Mine
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Cooling Water Intake Structures
- Effluent Limitation Guidelines
- Santa Fe Generating Station
- Environmental Matters under the caption "Coal Combustion Byproducts Waste Disposal"
- Hazardous Air Pollutants ("HAPs") Rulemaking
- Environmental Matters under the caption "Coal Supply"

COMPETITION

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

PNM is subject to varying degrees of competition in certain territories adjacent to or within the areas it serves. This competition comes from other utilities in its region as well as rural electric cooperatives and municipal utilities. PNM is involved in the generation and sale of electricity into the wholesale market. 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, 2015:

	PNMR	PNM	TNMP
Corporate [1]	437	—	—
PNM	1,074	1,074	—
TNMP	357	—	357
Total	1,868	1,074	357

(1)Represents employees of PNMR Services Company.

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As of December 31, 2015, PNM had 561 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW Local 611 that is in effect from December 5, 2015 through April 30, 2020. The wages and benefits for all PNM employees who are members of the IBEW are typically included in the rates charged to electric customers, subject to approval of the NMPRC.
As of December 31, 2015, TNMP had 185 employees represented by IBEW Local 66. The parties have a collective bargaining agreement that is in effect from March 9, 2015 through September 9, 2016.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

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

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

- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the pending application for a retail rate increase before the NMPRC and other impacts of federal or state regulatory and judicial actions
- State and federal regulation or legislation relating to environmental matters, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM's generating plants
- Physical and operational risks related to climate change and potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG, including the Clean Power Plan
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational agreements for SJGS and Four Corners, as well as the fuel supply agreement for SJGS, including the 2018 required NMPRC filing to determine the extent to which SJGS should continue serving PNM's retail customers

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- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies, mandatory energy efficiency measures, weather, seasonality, alternative sources of power, and other changes in supply and demand
- The ability of the Company to successfully forecast and manage its operating and capital expenditures
- Uncertainty surrounding counterparty credit risk, including financial support provided to facilitate the new coal supply and ownership restructuring at SJGS, as well as obligations to provide additional collateral in support of required reclamation bonds
- Uncertainty regarding the requirements and related costs of decommissioning power plants and reclamation of coal mines supplying certain power plants, as well as the ability to recover those costs from customers
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, fuel quality, unplanned outages, extreme weather conditions, terrorism, cybersecurity breaches, and other catastrophic events
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM's coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- The risks associated with completion of generation, transmission, distribution, and other projects
- State and federal regulatory, legislative, and judicial decisions and actions on ratemaking, tax, and other matters
- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties
- The Company's ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates
- The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions
- The risk that FERC rulemakings may negatively impact the operation of PNM's transmission system
- The impacts of decreases in the values of marketable equity securities maintained to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits
- Employee workforce factors, including issues arising out of collective bargaining agreements and labor negotiations with union employees
- The effectiveness of risk management regarding commodity transactions and counterparty risk
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles or policies

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

SECURITIES ACT DISCLAIMER

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

ITEM 1A. RISK FACTORS

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

Regulatory Factors

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

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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 2016-2020 to be $2,037.0 million. See Note 14. PNM and TNMP anticipate a trend toward increasing costs, for which it will have to seek regulatory recovery. These costs include or are related to:

- New asset construction related to generation, transmission, and distribution systems necessary to provide electric service, including costs of generation capacity to replace the early retirement of SJGS Units 2 and 3 as part of compliance with the regional haze provisions of the CAA (Note 16)
- Environmental compliance expenditures
- The regulatory mandate to acquire power from renewable resources
- Increased regulation related to nuclear safety
- Increased interest costs to finance capital investments
- Depreciation

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

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

In 2015 and 2014, PNM experienced decreases in weather-normalized retail sales of 1.4% and 1.7%. The sales decreases reflect a continued sluggish economy in New Mexico. In particular, the Albuquerque metropolitan area has lagged the nation in economic recovery. The economy in New Mexico continues to have mixed indicators. New Mexico’s overall economy continues to experience softness that is driven primarily by low oil and natural gas prices. Although PNM does not serve the regions of the state that produce oil and gas, it is anticipated that the impacts of layoffs and the decrease in state royalty revenues will further soften the economies in PNM’s service territory to some degree, particularly in the Albuquerque metro area and Santa Fe, as the state deals with budget shortfalls. In Texas, the drop in oil prices has impacted the economy, particularly in the Houston area, although it remains relatively strong.

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

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

As discussed in Note 17, PNM filed an application for a general rate increase in December 2014, which the NMPRC dismissed in May 2015, based on the Hearing Examiners recommendation, which cited procedural defects in the

filing. PNM filed a new application with the NMPRC for a $123.5 million general rate increase in August 27, 2015. The primary drivers of PNM's identified revenue deficiency are infrastructure investments and the recovery of those investment dollars, including depreciation based on an updated depreciation study, and declines in forecasted energy sales as a result of PNM's successful energy efficiency programs and other economic factors. The new application includes several proposed changes to rate design, a revenue decoupling pilot program, a re-allocation of revenue among PNM's customer classes, a new economic development rate, and continuation of PNM's renewable energy rider. PNM requested that the proposed new rates become effective beginning in July 2016. PNM believes that all of the capital costs proposed to be recovered in the rate case should be approved by the NMPRC. However, certain intervenors have proposed the disallowance or only partial recovery of PNM's capital investment in BDT equipment installed on SJGS Units 1 and 4 (Note 16) and disallowance of all or a portion of the acquisition costs for PNM's January 15, 2016 purchase of 64 MW of PVNGS Unit 2, which were previously leased to PNM. The NMPRC's designated Hearing Exa

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miner has established a procedural schedule that anticipates a public hearing on the proposed new rates will begin on March 14, 2016. An adverse outcome in the current rate case could negatively impact PNM's results of operation and cash flows.

PNM currently recovers the cost of fuel for its generation facilities through its FPPAC. A new coal supply contract for SJGS, which expires on June 30, 2022, became effective at 11:59 PM on January 31, 2016 and provides for lower coal pricing than under the prior contract. In December 2013, a new fifteen-year coal supply contract for Four Corners, beginning in July 2016, was executed. Four Corners coal costs are anticipated to increase approximately 40% in the first year of the new contract. The contracts provide for pricing adjustments over their terms based on economic indices. Although PNM believes costs under coal supply arrangements would continue to be recovered through the FPPAC, there can be no assurance that full recovery would be allowed.

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

SJGS, which currently comprises 31.6% of PNM's owned and leased generation capacity and is its largest generation resource, is subject to the CAA. As discussed in Note 16, in December 2015, the NMPRC approved a plan enabling SJGS to comply with the CAA (the "BART Approval"). The plan requires the installation of SNCRs on SJGS Units 1 and 4 combined with the shutdown of SJGS Units 2 and 3. NEE, an intervenor in the NMPRC proceeding regarding the approval of the plan, has appealed the BART Approval to the NMSC. NEE has also filed a motion with the NMPRC asking for reconsideration of the BART Approval order based on developments subsequent to the order related to the loan made by NM Capital, a subsidiary of PNMR, to facilitate the sale of SJCC, which is discussed below and described under Coal Supply in Note 16. NEE alleges the loan is a transaction that requires prior NMPRC approval. If the BART Approval is negated, PNM may not be able to continue to operate SJGS without being in violation of the environmental requirements of EPA.

The BART Approval also requires PNM to make a filing with the NMPRC no later than December 31, 2018, and before entering into an agreement for post-2022 coal supply for SJGS, setting forth its position in a case to determine the extent to which SJGS should continue serving PNM's retail customers' needs after mid-2022. The existing SJPPA among the SJGS participants, which governs the operations of SJGS, and the new CSA for coal supply at SJGS described in Note 16 both expire on June 30, 2022. PNM has the option to extend the CSA, subject to negotiation of the term of the extension and compensation to the miner. In order to extend, PNM must give written notice of that intent by July 1, 2018 and the parties must agree to the terms of the extension by January 1, 2019. Failure to obtain NMPRC approval to continue including SJGS as a resource to serve PNM's retail customers after June 30, 2022 would likely lead to the early retirement of SJGS at that date, as would failure to extend the SJPPA or to enter into an arrangement for coal supply after June 30, 2022.

A restructuring of SJGS ownership and obtaining a new coal supply for SJGS were integral components of the process to achieve compliance with the CAA at SJGS. The effectiveness of the new CSA was dependent on the closing of the purchase of the existing coal mine operation by a new mine operator. In support of the closing of the mine purchase, NM Capital provided a loan of $125.0 million to the purchaser, which has been organized to be a bankruptcy-remote entity. In addition, PNMR used $40.0 million of the available capacity under its revolving credit facility to support a bank letter of credit arrangement with a surety in order for the surety to post reclamation bonds that are required under

the mine’s operating permit. PNMR is also obligated to provide the surety with additional collateral in support of the reclamation bonds within 180 days. PNMR is exposed to credit risk in the event the purchaser of the mining operation cannot meet the scheduled repayment obligations under the loan and to a reduction in its financing capability if the required additional collateral cannot be obtained from other sources. See Note 16.

The inability to operate SJGS or the early retirement of SJGS would require PNM to obtain power from other sources in order to serve the needs of its customers. There can be no assurance that adequate sources of power would be available, that adequate transmission capabilities would be available to bring that power in to PNM’s service territory, or whether the cost of obtaining those resources would be reasonable. Any such events would negatively impact PNM’s financial position, results of operation, and cash flows unless the NMPRC authorized the collection from customers of any un-recovered costs related to SJGS as well as costs of obtaining replacement power.

It is also possible that unsatisfactory outcomes of these matters, the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other busine

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ss considerations, could jeopardize the economic viability of the plant or the ability of individual participants to continue participation in SJGS.

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

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

EPA, other federal and state agencies, environmental advocacy groups, and other organizations are focusing 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. As discussed in the Climate Change Issues subsection of Other Issues Facing the Company section of MD&A, this generation is subject to EPA's regulations requiring GHG reductions. This includes new, existing and modified or reconstructed EGUs. These regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

CCBs from the operation of SJGS are currently being used in the reclamation of a surface coal mine. These CCBs consist of fly ash, bottom ash, and gypsum. Any new regulation that would affect the reclamation process, including mine use of CCBs being classified as hazardous waste, could significantly increase the costs of the disposal of CCBs and the costs of mine reclamation. See Note 16.

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

BART determinations have been made for both SJGS and Four Corners under the program to address regional haze in the "four corners" area, which would reduce the levels of NOx emitted at both plants. Significant capital expenditures have been made or will be required for the installation of control technology at both generating stations and operating costs will increase. PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of the implementation of EPA's regulations regarding climate change, including the Clean Power Plan, how CCBs used for mine reclamation will be regulated, and regulation of other power plant emissions, including changes to the ambient air quality standards, such regulations could have a material impact on operations. Timely regulatory recovery of costs associated with any environmental-related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company's business, financial position, results of operations, and liquidity.

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

To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT, FERC, NRC, EPA, and NERC. Oversight by these agencies covers many aspects of the Company's utility operations including: location, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers. FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards.

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

Operational Factors

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

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

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

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

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

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

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

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

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

PNM has interests in a nuclear power plant, two coal-fired power plants, and several natural gas-fired power plants. PNM is obligated to pay for the costs of decommissioning its share of the power plants. PNM is also obligated to pay for its share of the costs of decommissioning the mines that supply coal to the coal-fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning obligations and it is important to PNM

that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, and restoration. The NMPRC has established a cap on the amount of decommissioning costs for the final reclamation of the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal obligations for decommissioning and reclamation. These estimates include many assumptions about future events and are inherently imprecise. In the event any of these costs exceed current estimates, results of operations could be negatively impacted.

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

The Company’s financial performance depends on the successful operation of PNM’s generation assets, as well as the transmission and distribution systems of PNM and TNMP. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the electric generation assets, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, disruptions in the supply, quality, and delivery of fuel and water supplies, and other

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factors could result in PNM's load requirements being larger than available system generation capacity. Assured supplies of water are important for PNM's generating plants. Water in the southwestern United States is limited and there are conflicting claims regarding water rights. In addition, the "four corners" region where two of PNM's power plants are located is prone to drought conditions, which could potentially affect the plants' water supplies. Unplanned outages of generating units and extensions of scheduled outages occur from time to time and are an inherent risk of the Company's business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM's and TNMP's ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs.

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

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

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

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

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

PNM has a 10.2% undivided interest in PVNGS, including interests in Units 1 and 2 held under leases. PVNGS represents 16.2% 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 which impact 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 powe

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r 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. As a result of the Fukushima Daiichi event, the NRC has directed nuclear power plants to implement the first tier recommendations of the NRC's near term task force. In response to these recommendations, PVNGS expects to spend approximately $0.5 million for capital enhancements to the plant over the next year in addition to the approximate $125 million that has already been spent on capital enhancements as of December 31, 2015 (PNM's share is 10.2%). PNM cannot predict whether these amounts will increase or whether additional financial and/or operational requirements on PVNGS and APS 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 shutdown of a unit or civil penalties, or both, depending upon the NRC's assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and/or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM. Although PNM has no reason to anticipate a serious nuclear incident at PVNGS, if an incident did occur, it could materially and adversely affect PNM's results of operations and financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and/or increase operating costs.

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

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

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General Economic and Weather Factors

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

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

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

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

Drought conditions in New Mexico, especially in the "four corners" region, where SJGS and Four Corners are located, may affect the water supply for PNM's generating plants. If inadequate precipitation occurs in the watershed that supplies that region, PNM may have to decrease generation at these plants. This would require PNM to purchase power to serve customers and/or reduce the ability to sell excess power on the wholesale market and reduce revenues. Drought conditions or actions taken by regulators or legislators could limit PNM's supply of water, which would adversely impact PNM'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, ice storms, and periodic hurricanes. Extreme weather conditions, particularly high winds and severe thunderstorms, also occur periodically in PNM's service areas. These severe weather events can physically damage facilities owned by TNMP and PNM. Any such occurrence both disrupts the ability to deliver energy and increases costs. Extreme weather can also reduce customers' usage and demand for energy. These factors could negatively impact results of operations and cash flows.

Financial Factors

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

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

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

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

- The extent to which cash flows will support dividends
- The Company's financial circumstances and performance
- NMPRC's and PUCT's decisions in various regulatory cases currently pending and which may be docketed in the future
- Conditions imposed by the NMPRC or PUCT
- The effect of federal regulatory decisions and legislative acts

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- Economic conditions in the United States and in the Company's service areas
- Future growth plans and the related capital requirements
- Other business considerations

Disruption in the credit and capital markets may impact the Company's strategy and ability to raise capital. PNMR and its subsidiaries rely on access to both short-term and longer-term capital markets as sources of liquidity for any capital requirements, as discussed in MD&A – Liquidity and Capital Resources, not satisfied by cash flow from operations. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2016-2020 to be $2,037.0 million. If PNMR or its operating subsidiaries are not able to access capital at competitive rates, or at all, PNMR's ability to finance capital requirements and implement its strategy will be limited. Disruptions in the credit markets, which could negatively impact the Company's access to capital, could be caused by:

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

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

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

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

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

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

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

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

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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. PUCT approval is required for changes to the ownership of TNMP or its parent and certain other transactions relating to TNMP. Certain acquisitions of PNMR’s outstanding voting securities also require FERC approval.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
PNMR
The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.
PNM

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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, 2015, PNM owned, jointly owned, or leased, 3,199 circuit miles of electric transmission lines (including the EIP), 6,067 miles of distribution overhead lines, 5,759 cable miles of underground distribution lines (excluding street lighting), and 274 substations. PNM's electric transmission and distribution lines are generally located within easements and rights-of-way on public, private, and Native American lands. PNM leases interests in PVNGS Units 1 and 2 and related property, 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 PNM's renewal of certain of the PVNGS leases and exercise of its option to purchase the assets underlying certain other leases at the expiration of the original lease terms. As discussed in Note 7, PNM exercised its option to purchase the leased portion of the EIP at expiration of the lease at fair market value. See Note 9 for additional information about Valencia, including the potential purchase of 50% of Valencia.

TNMP

TNMP's facilities consist primarily of transmission and distribution facilities located in its service areas. TNMP also owns and leases service and office facilities in other areas throughout its service territory. As of December 31, 2015, TNMP owned 966 circuit miles of overhead electric transmission lines, 7,087 pole miles of overhead distribution lines, 1,167 circuit miles of underground distribution lines, and 110 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 – Citizen Suit Under the Clean Air Act
- The Clean Air Act – Four Corners Clean Air Act Lawsuit
- Four Corners Coal Mine
- WEG v. OSM NEPA Lawsuit
- Navajo Nation Environmental Issues
- Santa Fe Generating Station
- Continuous Highwall Mining Royalty Rate
- Four Corners Severance Tax Assessment
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Complaint Against Southwestern Public Service Company
- Navajo Nations Allottee Matters

Note 17

- PNM – New Mexico General Rate Case
- PNM – Proceeding Regarding Definition of Future Test Year
- PNM – Renewable Portfolio Standard
- PNM – Renewable Energy Rider
- PNM – Energy Efficiency and Load Management
- PNM – FPPAC Continuation Application

- PNM – Integrated Resource Plan
- PNM – San Juan Generating Station Units 2 and 3 Retirement
- PNM – Application for Certificate of Convenience and Necessity
- PNM – Transmission Rate Case
- PNM – Formula Transmission Rate Case
- PNM – Firm-Requirements Wholesale Customers – Navopache Electric Cooperative, Inc.
- TNMP – Advanced Meter System Deployment
- TNMP – Energy Efficiency
- TNMP – Transmission Cost of Service Rates

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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 19, 2016 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	57	Chairman, President, and Chief Executive Officer	January 2012
		President and Chief Executive Officer	March 2010
C. N. Eldred	62	Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	64	Senior Vice President, General Counsel, and Secretary	January 2010
R. E. Talbot	55	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	58	Senior Vice President, Public Policy	January 2012
		Vice President, Regulatory Affairs	April 2008
J.D. Tarry [(1)]	45	Vice President, Corporate Controller, and Chief Information Officer	April 2015
		Vice President, Customer Service and Chief Information Officer	May 2012
		Executive Director, Financial Planning and Business Analysis	January 2010

[(1)] On December 9, 2014, T. G. Sategna notified the Company that he intended to retire as the Company's principal accounting officer effective as of March 31, 2015. On December 11, 2014, the Company appointed J. D. Tarry as its Vice President and Controller, effective as of April 1, 2015. His appointment was approved by the Board on February 26, 2015.

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PART II

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

PNMR's common stock is traded on the New York Stock Exchange (Symbol: PNM). Ranges of sales prices of PNMR's common stock, reported as composite transactions, and dividends declared on the common stock for 2015 and 2014, by quarters, are as follows:

Quarter Ended	Range of Sales Prices		Dividends Declared Per Share
	High	Low	
2015			
March 31	$31.18	$27.06	$0.200
June 30	29.78	24.49	0.200
September 30	28.17	24.42	0.200
December 31	31.23	26.56	0.220
Fiscal Year	31.23	24.42	0.820
2014			
March 31	$27.15	$23.53	$0.185
June 30	29.33	26.28	0.185
September 30	29.80	24.27	0.185
December 31	31.39	25.18	0.200
Fiscal Year	31.39	23.53	0.755

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 $0.185 per share in July 2014 and $0.200 per share in July 2015, 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 $0.185 per share in September 2014 and $0.200 per share in September 2015, which are reflected as being in the third quarter above. On February 25, 2016, the Board declared a quarterly dividend of $0.22 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 19, 2016, there were 11,057 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 2015 and 2014. PNMR and TNMP do not have any preferred stock outstanding.

Sales of Unregistered Securities

None.

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ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A. PNMR sold First Choice on November 1, 2011. First Choice is included in the following information through October 31, 2011.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2015	2014	2013	2012	2011
	(In thousands except per share amounts and ratios)				
Total Operating Revenues	$1,439,082	$1,435,853	$1,387,923	$1,342,403	$1,700,619
Net Earnings	$31,078	$130,909	$115,556	$120,125	$190,934
Net Earnings Attributable to PNMR	$15,640	$116,254	$100,507	$105,547	$176,359
Net Earnings Attributable to PNMR per Common Share					
Basic	$0.20	$1.46	$1.26	$1.32	$1.98
Diluted	$0.20	$1.45	$1.25	$1.31	$1.96
Cash Flow Data					
Net cash flows from operating activities	$386,874	$414,876	$386,587	$281,349	$292,240
Net cash flows from investing activities	$(544,528)	$(485,329)	$(331,446)	$(285,895)	$19,778
Net cash flows from financing activities	$175,431	$96,194	$(61,593)	$(1,560)	$(312,331)
Total Assets	$6,009,328	$5,790,237	$5,426,858	$5,356,411	$5,185,931
Long-Term Debt, including current installments	$2,091,948	$1,962,385	$1,730,749	$1,656,118	$1,655,331
Common Stock Data					
Market price per common share at year end	$30.57	$29.63	$24.12	$20.51	$18.23
Book value per common share at year end	$20.78	$21.61	$21.01	$20.19	$19.76
Tangible book value per share at year end	$17.28	$18.12	$17.52	$16.70	$16.27
Average number of common shares outstanding – diluted	80,139	80,279	80,431	80,417	89,757
Dividends declared per common share	$0.820	$0.755	$0.680	$0.580	$0.500
Capitalization					
PNMR common stockholders' equity	44.0 %	46.6 %	49.0 %	49.1 %	48.6 %
Preferred stock of subsidiary, without mandatory redemption requirements	0.3	0.3	0.3	0.3	0.3
Long-term debt	55.7	53.1	50.7	50.6	51.1
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

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

As discussed in Note 6, the Company adopted a new accounting standard during 2015 that required debt issuance costs, which were previously included in other deferred charges on the Consolidated Balance Sheets, to be reclassified as a reduction of the related long-term debt. As discussed in Note 11, the Company adopted a new accounting standard during 2015 to present all deferred taxes as non-current rather than classifying deferred tax assets and liabilities as non-current or current. These changes were applied retroactively to all years shown above. Total assets, long-term debt, and capitalization presented in the above table have been changed from the presentation of those items in prior years to reflect the retroactive application of the changes in accounting standards.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2015	2014	2013	2012	2011
	(In thousands)				
PNM Revenues					
Residential	$427,958	$411,412	$411,579	$409,005	$390,380
Commercial	437,279	428,085	415,621	413,332	386,383
Industrial	75,308	73,002	74,552	78,637	73,742
Public authority	26,202	25,278	25,745	25,495	23,970
Economy service	35,132	39,123	32,909	25,354	21,141
Transmission	33,216	38,284	38,228	39,373	43,637
Firm-requirements wholesale	31,263	38,313	42,370	39,390	34,127
Other sales for resale	63,195	82,508	67,538	47,321	69,318
Mark-to-market activity	(5,270)	5,996	293	892	4,214
Other	6,912	5,913	7,477	13,465	10,377
Total PNM Revenues	$1,131,195	$1,147,914	$1,116,312	$1,092,264	$1,057,289
TNMP Revenues					
Residential	$120,771	$114,826	$111,373	$103,255	$100,290
Commercial	102,956	99,701	95,098	88,258	84,896
Industrial	16,316	15,049	13,084	13,405	13,065
Other	67,844	58,363	52,056	45,222	39,607
Total TNMP Revenues	$307,887	$287,939	$271,611	$250,140	$237,858
First Choice Revenues					
Residential	$—	$—	$—	$—	$260,161
Commercial	—	—	—	—	166,498
Other	—	—	—	—	12,791
Total First Choice Revenues	$—	$—	$—	$—	$439,450

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 received from First Choice in 2011.

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2015	2014	2013	2012	2011
PNM MWh Sales					
Residential	3,185,363	3,169,071	3,304,350	3,323,544	3,402,842
Commercial	3,800,472	3,874,292	3,954,774	4,022,184	4,043,796
Industrial	957,308	984,130	1,041,160	1,136,011	1,132,110
Public authority	246,496	251,187	266,368	279,169	282,062
Economy service	796,430	758,629	719,342	635,305	428,757
Firm-requirements wholesale	444,495	527,597	654,135	651,972	650,356
Other sales for resale	2,110,947	2,271,480	2,061,851	1,652,225	2,076,869
Total PNM MWh Sales	11,541,511	11,836,386	12,001,980	11,700,410	12,016,792
TNMP MWh Sales					
Residential	2,912,019	2,802,768	2,796,661	2,714,511	2,862,337
Commercial	2,654,102	2,583,664	2,472,979	2,374,805	2,381,872
Industrial	2,804,919	2,708,151	2,576,762	2,705,456	2,558,003
Other	100,999	102,118	104,516	103,856	108,664
Total TNMP MWh Sales	8,472,039	8,196,701	7,950,918	7,898,628	7,910,876
First Choice MWh Sales					
Residential	—	—	—	—	2,006,437
Commercial	—	—	—	—	1,538,203
Total First Choice MWh Sales	—	—	—	—	3,544,640

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

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

The MWh reported above for TNMP for 2011 through 2014 reflect a reclassification from industrial to commercial to be consistent with current year presentation.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2015	2014	2013	2012	2011
PNM Customers					
Residential	459,353	455,907	453,218	450,507	448,979
Commercial	56,107	55,853	55,447	54,953	54,468
Industrial	250	249	251	250	251
Economy service	1	1	1	1	1
Other sales for resale	39	39	34	36	28
Other	908	911	928	952	983
Total PNM Customers	516,658	512,960	509,879	506,699	504,710
TNMP Consumers					
Residential	202,359	199,963	196,799	193,550	192,356
Commercial	39,014	38,033	37,460	36,819	37,208
Industrial	70	70	70	70	73
Other	2,018	2,044	2,070	2,037	2,092
Total TNMP Consumers	243,461	240,110	236,399	232,476	231,729
First Choice Customers					
Residential	—	—	—	—	176,577
Commercial	—	—	—	—	44,485
Total First Choice Customers	—	—	—	—	221,062
PNMR Generation Statistics					
Net Capability – MW, including PPAs	2,787	2,707	2,572	2,537	2,547
Coincidental Peak Demand – MW	1,889	1,878	2,008	1,948	1,938
Average Fuel Cost per MMBTU	$2.168	$2.415	$2.237	$2.308	$2.267
BTU per KWh of Net Generation	10,456	10,422	10,308	10,289	10,441

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

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

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

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

MD&A FOR PNMR

EXECUTIVE SUMMARY

Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 760,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

Strategic Goals

PNMR is focused on achieving the following strategic goals:

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

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

- Maintaining strong plant performance, system reliability, and employee safety
- Delivering a superior customer experience
- Environmental leadership in their business operations
- Supporting the communities in their service territories

Earning Authorized Returns on Regulated Businesses

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

PNM filed a general rate case with the NMPRC in December 2014. PNM's application proposed a revenue increase of $107.4 million, effective January 1, 2016, based on a calendar 2016 future test year ("FTY"). On April 17, 2015, the Hearing Examiner in the case issued an Initial Recommended Decision to the NMPRC recommending that the NMPRC find PNM's application incomplete, primarily due to procedural defects, and reject it. PNM disagreed with the Hearing Examiner's Initial Recommended Decision and filed exceptions. On May 13, 2015, the NMPRC voted to accept the Initial Recommended Decision and dismissed PNM's application.

On August 27, 2015, PNM filed a new application with the NMPRC for a general increase in retail electric rates. The application proposes a revenue increase of $123.5 million, including base fuel revenues. The application is based on a FTY beginning October 1, 2015, which met the NMPRC's May 2015 interpretation of the FTY statute discussed below, and a ROE of 10.5%. The primary drivers of PNM's identified revenue deficiency are infrastructure investments and declines in forecasted energy sales as a result of PNM's successful energy efficiency programs and

other economic factors. The application includes several proposed changes to rate design to establish fair and equitable pricing across rate classes and to better align cost recovery with cost causation. Specific rate design proposals include increased customer and demand charges, a revenue decoupling pilot program applicable to residential and small power customers, a re-allocation of revenue among PNM's customer classes, a new economic development rate, and continuation of PNM's renewable energy rider. New rates are expected to become effective in the third quarter of 2016.

On May 27, 2015, the NMPRC approved an order that defines a FTY as a period that begins no later than 45 days following the filing of an application to increase rates. PNM believes that the correct interpretation of the New Mexico FTY statute allows

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a FTY to begin up to 13 months after the filing of an application. On June 25, 2015, PNM filed a Notice of Appeal to the NMSC, challenging the NMPRC's order. The NMSC remanded this matter back to the NMPRC. On November 30, 2015, the NMPRC modified its previous order to provide for a FTY to begin up to 13 months after the filing of a rate case application and the NMPRC filed its revised order with the NMSC on December 9, 2015. On January 20, 2016, PNM and the NMPRC filed an unopposed stipulation of voluntary dismissal of the appeal and the NMSC dismissed the appeal on February 15, 2016.

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 allow for more timely recovery of investments and improve PNM's ability to earn its authorized return.

In early 2013, PNM completed rate proceedings for all of its FERC regulated transmission customers and for NEC, its largest generation services customer, which improved PNM's returns for providing those services. PNM has allocated a portion of its generation assets to serve FERC wholesale generation services customers for a number of years. Recently, the low natural gas price environment has caused market prices for power to be substantially lower than what PNM is able to offer customers under the cost of service model that FERC requires PNM to use. As a result of this change in market conditions, PNM has not been earning an adequate return on the assets required to serve wholesale contracts and has decided to stop pursuing wholesale contracts that are served with the same generation assets that serve retail customers.

PNM had a PSA to supply power to NEC through 2035, which was approved by FERC in April 2013. On April 8, 2015, NEC filed a petition for a declaratory order requesting that FERC find that NEC can purchase an unlimited amount of power and energy from third party supplier(s) under the PSA. PNM intervened, requesting that FERC deny NEC's petition. On July 16, 2015, FERC set the matter for a public hearing concerning the parties' intent with regard to certain provisions of the PSA and held the hearing in abeyance to provide time for settlement judge procedures.

On October 29, 2015, PNM and NEC entered into, and filed with FERC, a settlement agreement that includes amendments to the PSA and related contracts, subject to FERC approval. Under the agreement, PNM would continue to serve all of NEC's load through December 31, 2015 at rates that are substantially consistent with those currently provided under the PSA. In 2016, PNM would serve all of NEC's load at reduced demand and energy rates from those under the PSA. Beginning January 1, 2016, NEC would also pay certain third-party transmission costs that it did not pay in 2014 and only partially paid in 2015. The PSA would terminate on December 31, 2016. In 2017, PNM would continue to serve 10 MW of NEC's load under a short-term coordination tariff at a rate lower than provided under the PSA, but higher than prices currently available under short-term market rates. FERC approved the settlement on January 21, 2016. In 2015 and 2014, monthly billing demand for power supplied to NEC averaged approximately 54 MW and 55 MW and revenues were $27.1 million and $28.4 million under the PSA. Although the settlement agreement will negatively impact results of operations in 2016 and 2017, PNM expects to be able to mitigate these impacts through market sales of power that would have been sold to NEC, reductions in fuel and transmission expenses, and other measures. PNM anticipates that, in future general rate cases, assets and costs previously assigned to serve NEC will be reassigned, primarily to retail customers.

On June 29, 2014, the contract to provide power to Gallup, previously PNM's second largest customer for wholesale generation services expired. PNM's general rate case application discussed above includes a reallocation of costs among regulatory jurisdictions reflecting the termination of the contract to serve Gallup.

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. On March 20, 2015, PNM along with five other parties entered into a

settlement agreement, which was filed at FERC. The settlement reflects a ROE of 10% and results in an annual increase of $1.3 million above the rates approved in the previous rate case. The FERC ALJ authorized the settled rates to be implemented beginning April 1, 2015, subject to refund. There is no required time frame for FERC to act upon the settlement.

Currently, PNM's 134 MW interest in PVNGS Unit 3 is excluded from NMPRC jurisdictional rates. The power generated from that interest is sold into the wholesale market and any earnings or losses are realized by shareholders. As part of compliance with the requirements for BART at SJGS discussed below, the NMPRC approved including PVNGS Unit 3 as a jurisdictional resource in the determination of rates charged to customers in New Mexico beginning in 2018.

Fair and timely rate treatment from regulators is crucial to PNM and TNMP earning their allowed returns, which is critical for PNMR's ability to achieve its strategic goals. 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 growth in EPS.

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Additional information about rate filings is provided in Note 17.

Delivering Above Industry-Average Earnings and Dividend Growth

PNMR's strategic goal to deliver above industry-average earnings and dividend growth enables investors to realize the value in the Company's business. PNMR's current target is seven to nine percent earnings growth through 2019. Earnings growth is based on ongoing earnings, which is a non-GAAP financial measure that excludes certain non-recurring, infrequent, and other items from earnings determined in accordance with GAAP.

PNMR targets a dividend payout ratio of 50% to 60% of its ongoing earnings. 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. The Board approved the following increases in the indicated annual common stock dividend:

Approval Date	Percent Increase
February 2012	16%
February 2013	14%
December 2013	12%
December 2014	8%
December 2015	10%

Maintaining Solid Investment Grade Credit Ratings

The Company is committed to maintaining investment grade credit ratings in order to reduce the cost of debt financing and to help ensure access to credit markets, when required. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. On December 21, 2015, S&P raised by one notch the issuer credit ratings for PNMR, PNM, and TNMP and the debt ratings for PNM and TNMP, with a stable outlook. Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade.

Business Focus

PNMR strives to create enduring value for customers, communities, and stockholders. PNMR's strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power. 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. Equally important are PNMR's utilities' focus on customer satisfaction and community engagement.

Reliable and Affordable Power

PNMR and its utilities are aware of the important roles they play in enhancing economic vitality in their 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 reliable electric service. Through 2014, both PNM and TNMP ranked in the top quartile nationally for reliability for three out of the previous five years. In 2014, PNM delivered its best reliability performance in the past seven years and TNMP's reliability was its best in a decade. PNM anticipates again being in the top quartile for 2015 despite 2015 being one of the wettest years on record in New

Mexico, whereas TNMP's reliability was more negatively impacted by violent weather events accompanied with record amounts of rain in certain areas of Texas.

In September 2011, TNMP began its deployment of advanced meters for homes and businesses across its Texas service area. Through the end of 2015, TNMP had completed installation of more than 218,000 advanced meters, which is approximately 91% 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 an advanced electric grid, installation of advanced meters will ultimately give consumers more data about their energy consumption and help them make more informed decisions. In addition,

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TNMP recently completed installation of a new outage management system that will leverage capabilities of the advanced metering infrastructure to enhance TNMP's responsiveness to outages.

During the 2013 to 2015 period, PNM and TNMP together invested $1,302.4 million in utility plant, including substations, power plants, nuclear fuel, 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. Construction began in April 2015 and the facility went into service in December 2015. In addition, in January 15, 2016, PNM completed the $163.3 million acquisition of 64 MW of capacity in PVNGS Unit 2 that had previously been leased to PNM.

NMPRC rules require that investor owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period. PNM filed its 2014 IRP on July 1, 2014. The four-year action plan was consistent with the replacement resources identified in PNM's application to retire SJGS Units 2 and 3. PNM indicated that it planned to meet its anticipated energy demand with a combination of additional renewable energy resources, energy efficiency, and natural gas-fired facilities.

Environmentally Responsible Power

PNMR has a long-standing record of environmental stewardship. PNM's 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 that also demonstrate progress in addressing new federal regulations for CO_2 emissions from existing power plants
- Preparing to meet New Mexico's increasing renewable energy requirements as cost-effectively as possible
- Increasing energy efficiency participation

PNM continues its efforts to reduce the amount of fresh water used to make electricity (about 25% more efficient than in 2002). Continued growth in PNM's fleet of solar, wind, and geothermal energy sources, energy efficiency programs, and innovative uses of gray water and air-cooling technology have contributed to this reduction. Water usage will continue to decline as PNM substitutes less fresh-water-intensive generation resources for SJGS Units 2 and 3 starting in 2018 (reducing water consumption at that plant by around 50%). Focusing on responsible stewardship of New Mexico's scarce water resources improves PNM's water-resilience in the face of persistent drought and ever-increasing demands for water to spur the growth of New Mexico's economy. In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. The Company has performed well in this area in the past and expects to continue to do so in the future.

Renewable Energy

PNM's renewable procurement strategy includes utility-owned solar capacity, as well as wind and geothermal energy purchased under PPAs. As of December 31, 2015, PNM had 107 MW of utility-owned solar capacity, including 40 MW completed in 2015. The application for a general rate increase discussed above includes recovery of the costs associated with the new 40 MW solar facilities. In addition, PNM purchases power from a customer-owned distributed solar generation program that had an installed capacity of 49.5 MW at December 31, 2015. 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 advanced grid concepts. The facility was the nation's first solar storage facility fully integrated into a utility's power grid. Since 2003, PNM has purchased the output from a 204 MW wind facility and began purchasing the output of another existing 102 MW wind energy center on January 1, 2015. PNM has 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 capacity of the facility is 4 MW and future expansion may result in up to 9 MW of generation capacity. PNM also purchases RECs as necessary to meet the RPS.

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 limit set by the NMPRC. PNM makes renewable procurements consistent with the plans approved by the NMPRC. PNM's 2016 renewable energy procurement plan meets RPS and diversity requirements within the RCT in 2016 and 2017. PNM will continue to procure renewable resources while balancing the impact to customers' bills in order to meet New Mexico's escalating RPS requirements.

SJGS

In December 2015, PNM received NMPRC approval for the plan to comply with the EPA regional haze rule at SJGS in a manner that minimizes the cost impact to customers while still achieving broad environmental benefits.

Additional information

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about BART at SJGS is contained in Note 16.
In August 2011, EPA issued a FIP for regional haze that would have required the installation of SCRs on all four units at SJGS by September 2016. However, 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 RSIP from the State of New Mexico. A RSIP was approved by the EIB and EPA. Installation of SNCRs and related BDT equipment has been completed within the timeframe contained in the RSIP.

The RSIP provides for similar visibility improvements as the installation of SCRs on all four units at SJGS at a lower cost to PNM customers. It has the added advantage of reducing other emissions beyond NOx, including SO_2, particulate matter, CO_2, and mercury, as well as reducing water usage.

In December 2013, PNM made a filing with the NMPRC requesting certain approvals necessary to effectuate the RSIP. In October 2014, PNM filed a stipulation with the NMPRC that, if approved, would have settled the case. A public hearing in the NMPRC case was held in January 2015. On April 8, 2015, the Hearing Examiner in the case issued a Certification of Stipulation, which recommended that the NMPRC reject the stipulation as proposed. Among other things, the certification cited the lack of final restructuring and post-2017 coal supply agreements for SJGS. PNM filed final executed restructuring and post-2017 coal supply agreements for SJGS in July 2015.

Following a NMPRC ordered facilitation process, PNM and several intervenors in the case agreed to a settlement agreement, which was filed with the NMPRC in August 2015. NEE filed in opposition to the agreement. The stipulating parties agreed that the October 2014 stipulation should be approved, as modified by the settlement agreement (collectively, the “Stipulated Settlement”). Under the terms of the Stipulated Settlement, PNM will:

- Retire SJGS Units 2 and 3 (PNM’s current ownership interest totals 418 MW) at December 31, 2017 and recover, over 20 years, 50% (currently estimated to be approximately $127.6 million) of their undepreciated net book value at that date and earn a regulated return on those costs
- Be granted a CCN for 132 MW in SJGS Unit 4, with an initial book value of zero, plus SNCR costs and whatever portion of BDT costs the NMPRC determines to be reasonable and prudent to be allowed for recovery in rates
- Be granted a CCN for 134 MW of PVNGS Unit 3 with an initial rate base value equal to the book value as of December 31, 2017 (estimated to be approximately $150 million)
- Be authorized to acquire 65 MW of SJGS Unit 4 as merchant utility plant, which would not be included in rates charged to retail customers
- Accelerate recovery of SNCR costs on SJGS Units 1 and 4 so that the costs are fully recovered by July 1, 2022 (cost recovery for PNM’s BDT project on those units will be determined in PNM’s next general rate case)
- Make a NMPRC filing in 2018 to determine the extent that SJGS should continue serving PNM’s customers’ needs after mid-2022
- Retire one MWh of RECs that include a zero-CO_2 emission attribute beginning January 1, 2020 for every MWh produced by 197 MW of coal-fired generation from PNM’s ownership share of SJGS (the cost of these RECs would be capped at $7.0 million per year and recovered in rates)
- Not recover approximately $20 million of increased operations and maintenance expenses and other costs incurred in connection with CAA compliance

A hearing on the Stipulated Settlement was held from October 13, 2015 through October 20, 2015. On November 16, 2015, the Hearing Examiner issued a Certification of Stipulation, essentially adopting the Stipulated Settlement. On December 16, 2015, following oral argument, the NMPRC issued a final order adopting the Certification of Stipulation issued by the Hearing Examiner. The Hearing Examiner’s certification included a non-substantive change,

which the signatories subsequently approved.

At December 31, 2015, PNM recorded a $127.6 million regulatory disallowance to reflect the write-off of the 50% of the estimated December 31, 2017 net book value that will not be recovered. A regulatory disallowance of $21.6 million was also recorded at December 31, 2015 for other unrecoverable costs based on the approved Stipulated Settlement. The new coal mine reclamation arrangement entered into in conjunction with the new coal supply agreement (“CSA”), discussed below and further described under Coal Supply in Note 16, resulted in a $16.5 million increase in the estimated liability recorded for coal mine reclamation. The expense recorded for this increase and the above disallowances are included in regulatory disallowances and restructuring costs on the Consolidated Statements of Earnings (Loss).

On January 14, 2016, NEE filed, with the NMSC, a Notice of Appeal of the NMPRC’s December 16, 2016 final order. In addition, on February 5, 2016, NEE filed, with the NMPRC, a motion for reconsideration of that final order based on recent developments related to the loan made by NM C

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apital to facilitate the sale of SJCC, which is discussed below. NEE alleges the loan is a transaction that, under the New Mexico Public Utility Act, requires prior NMPRC approval. PNM filed its response to NEE's motion for reconsideration on February 18, 2016.

In connection with the implementation of the RSIP and the proposed retirement of SJGS Units 2 and 3, some of the SJGS participants expressed a desire to exit their ownership in the plant. As a result, the SJGS participants began negotiating 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 future operating costs, among other items.

In June 2014, non-binding arrangements were reached among the SJGS owners that identified the participants who would be exiting active participation in SJGS effective December 31, 2017 and participants, including PNM, who would retain an interest in the ongoing operation of one or more units of SJGS. These arrangements provided the essential terms of restructured ownership of SJGS. These arrangements recognized the need to have greater certainty in regard to the economic cost and availability of fuel for SJGS for the period after December 31, 2017. See Coal Supply in Note 16.

The San Juan Project Restructuring Agreement ("RA") sets forth the agreement among the SJGS owners regarding ownership restructuring and contains many of the provisions of the June 2014 arrangements. On December 31, 2017, PNM will acquire 132 MW of the capacity in SJGS Unit 4 from the California owners and PNMR Development will acquire 65 MW of such capacity. It is currently anticipated that PNMR Development will transfer the rights and obligations related to the 65 MW to PNM prior to December 31, 2017 in order to facilitate dispatch of power from that capacity. The Stipulated Settlement provides that PNM would treat the 65 MW as merchant utility plant that would be excluded from retail rates. The RA also sets forth the terms under which PNM would acquire the coal inventory of the exiting SJGS participants as of January 1, 2016 and will provide coal supply to the exiting participants during the period from January 1, 2016 through December 31, 2017, which arrangement PNM believes will provide economic benefits that will be passed on to PNM's customers through the FPPAC.

The RA became effective contemporaneously with the effectiveness of the new CSA for SJGS. The effectiveness of the new CSA was dependent on the closing of the purchase of the existing coal mine operation by a new mine operator, which as discussed in Note 16 occurred on January 31, 2016. In support of the closing of the mine purchase and to facilitate PNM customer savings, NM Capital, a wholly owned subsidiary of PNMR, provided funding of $125.0 million to a ring-fenced, bankruptcy-remote, special-purpose entity that is a subsidiary of Westmoreland Coal Company (the "Purchaser") to finance the purchase price. NM Capital was able to provide the $125.0 million financing to the Purchaser by first entering into a $125.0 million term loan agreement with a commercial bank. PNMR guarantees the obligations of NM Capital. The Westmoreland loan has a maturity date of February 1, 2021 and initially bears interest at a 7.25% rate plus LIBOR and escalates over time. The Purchaser must pay principal and interest quarterly to NM Capital in accordance with an amortization schedule. The Westmoreland loan has been structured to encourage prepayments and early retirement of the debt.

Under the terms of the CSA, PNM and the other SJGS owners are obligated to compensate SJCC for all reclamation liabilities associated with the supply of coal from the San Juan mine. In connection with certain mining permits relating to the operation of the San Juan mine, SJCC is required to post reclamation bonds of $161.6 million with the New Mexico Mining and Minerals Division. In order to facilitate the posting of reclamation bonds, PNMR, Westmoreland, and SJCC entered into a Reclamation Bond Agreement (the "Reclamation Bond Agreement") with a surety. In connection with the Reclamation Bond Agreement, PNMR used $40.0 million of the available capacity under the PNMR Revolving Credit Facility to support a bank letter of credit arrangement with the surety. See Note 16.

The NM Capital loan and the letter of credit appear to result in PNMR being considered to have a variable interest in the Purchaser, including its subsidiary, SJCC. Both of those entities would likely be considered to be variable interest entities ("VIEs"). Under GAAP an enterprise that has the power to direct the activities that most significantly impact the economic performance of a VIE is considered to be the VIE's primary beneficiary and is required to consolidate the VIE. Although PNMR has not completed its analysis of these arrangements, PNMR's preliminary conclusion is that Westmoreland, as the parent of the Purchaser, has the ability to direct the SJCC mining operations, which will be the factor that most significantly impacts the economic performance of the Purchaser. Accordingly, PNMR currently believes Westmoreland, and not PNMR, is the primary beneficiary of the Purchaser and that PNMR would not consolidate the Purchaser.

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 also were not approved by the participants. PNM is authorized and obligated under the SJPPA to take reasonable and prudent actions necessary for the successful and proper operation of SJGS pending resolution by the participants. Accordingly, PNM has requested that the owners of Unit 4 approve expenditures critical to being able to comply with the time frame in the RSIP with respect to Unit 4 project. The Unit 4 owners did not approve the requests.

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Therefore, PNM issued several "Prudent Utility Practice" notices that, under the SJPPA, PNM was continuing certain critical activities to keep the Unit 4 project on schedule.

In addition to the regional haze rule, SJGS is required to comply with other rules currently being developed or implemented that affect coal-fired generating units, including rules regarding GHG under Section 111(d) of the CAA. 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 NOx, SO_2, particulate matter, and mercury. Since 2006, SJGS has reduced NOx emissions by 49%, SO_2 by 77%, particulate matter by 78%, and mercury by 98%.

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 2015, annual energy saved as a result of PNM's portfolio of energy efficiency programs was approximately 79 GWh. This is equivalent to the annual consumption of approximately 10,900 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 2015 resulted in energy savings totaling an estimated 18 GWh. This is equivalent to the annual consumption of approximately 1,660 homes in TNMP's service territory.

Customer, Stakeholder, and Community Engagement

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. Beginning 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, including billing and payment options, and strategic customer and stakeholder engagement.

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. 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 proactively communicates with communities about its efforts and plans related to environmental stewardship. Customers take 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.

PNM expanded its integrated communication efforts with the launch of a new customer information website focused on PNM's major regulatory filings, including BART at SJGS and PNM's general rate case. The website, www.PowerforProgress.com, provides the details of current requests, as well as the background on PNM's efforts to maintain reliability, keep prices affordable, and protect the environment. The website is designed to be a resource for the facts about PNM's operations and community support efforts, including plans for building a sustainable energy future for New Mexico.

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. PNM continues its 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 2015, PNM hosted 38 community events throughout its service territory to assist low-income customers. Furthermore, the PNM Good Neighbor Fund provided $0.4 million of assistance with utility bills to 3,554

families in 2015. In 2015, PNM committed funding of $0.6 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 2015, the foundation awarded $0.3 million to support 54 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 $1.9 million of support. In 2014, the PNM Resources Foundation launched a new grant program designed to help nonprofit organizations build more vibrant communities. In 2014 and 2015, Power Up Grants in the aggregate amount of $0.5 million and $0.5 million were awarded to 24 and 34 nonprofits in New Mexico and Texas for projects ranging from creating community gathering spaces to revitalizing neighborhood parks to building a youth sports field.

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In Texas, community outreach is centered first on local relationships, specifically with community leaders, nonprofit organizations and key customers in areas served by TNMP. Community liaisons serve in each of TNMP's three geographic business areas, reaching out and ensuring productive lines of communication between TNMP and its customer base.

TNMP maintains long-standing relationships with several key nonprofit organizations, including agencies that support children and families in crisis, food banks, environmental organizations, and educational nonprofits, through employee volunteerism and corporate support. TNMP also actively participates in safety fairs and demonstrations in addition to supporting local chambers of commerce in efforts to build their local economies.

TNMP's energy efficiency program discussed above provides unique offers to multiple customer groups, including residential, commercial, government, education, and nonprofit customers. These programs not only enable peak load and consumption reductions, particularly important when extreme weather affects Texas' electric system, but also demonstrate TNMP's commitment to more than just delivering electricity by partnering with customers to optimize their energy usage.

Economic Factors

In 2015 and 2014, PNM experienced decreases in weather-normalized retail load of 1.4% and 1.7%. PNM has been impacted by a sluggish economy in New Mexico, particularly the Albuquerque metropolitan area, which has lagged the nation in economic recovery. The economy in New Mexico continues to have mixed indicators. The employment growth recently in the Albuquerque metro area has been improving. New Mexico overall continues to experience softness that is driven primarily by low oil and natural gas prices. Although PNM does not serve the regions of the state that produce oil and gas, it is anticipated that the impacts of layoffs and the decrease in state royalty revenues will further soften the economies in PNM's service territory to some degree, particularly in the Albuquerque metro area and Santa Fe, as the state deals with budget shortfalls. TNMP experienced increases in weather normalized retail load of 2.6% and 3.2% in 2015 and 2014. Since the recent recession, Texas has fared better than the national average in job growth and unemployment although there has been some recent softening in job growth, particularly in the Houston area that appears to be related to lower oil prices.

Results of Operations

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

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(In millions, except per share amounts)				
Net earnings	$15.6	$116.3	$100.5	$(100.7)	$15.8
Average diluted common and common equivalent shares	80.1	80.3	80.4	(0.2)	(0.1)
Net earnings per diluted share	$0.20	$1.45	$1.25	$(1.25)	$0.20

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

	Change	
	2015/2014	2014/2013
	(In millions)	
PNM	$(102.6)	$(0.8)
TNMP	4.2	8.7

Corporate and Other	(2.2)	7.8
Net change	$(100.7)	$15.8

PNMR's operational results were affected by the following:

- The $165.7 million pre-tax write-off recorded for regulatory disallowances and restructuring costs due to agreements among the owners of SJGS necessary to bring SJGS into compliance with the CAA and PNM's related regulatory proceedings (Note 16)
- Lower retail load at PNM, partially offset by higher retail load at TNMP
- Rate increases for PNM and TNMP – additional information about these rate increases is provided in Note 17
- Weather

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- Reduced rent payments upon renewal of leases for PVNGS Unit 1
- A refund of amounts previously paid under the FERC tariff for gas transportation agreements and settlement of a complaint filed at FERC against SPS Note 16)
- Net unrealized gains and losses on mark-to-market economic hedges for sales and fuel costs not recoverable under PNM's FPPAC
- Changes in other income (deductions), primarily related to gains and losses on available-for-sale securities, a third-party pre-treatment process for coal at SJGS, and equity AFUDC
- Increased income tax expense due to impairments of state tax credit, state net operating loss, and charitable contribution carryforwards, as well as a tax rate change in New Mexico Note 11
- Fluctuations in prices for sales of power from PVNGS Unit 3
- Other factors impacting results of operation for each segment are discussed under Results of Operations below

Liquidity and Capital Resources

PNMR has a $300.0 million revolving credit facility and PNM has a $400.0 million revolving credit facility, both of which have been extended to expire in October 2020. Both facilities provide capacities for short-term borrowing and letters of credit. 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 $598.2 million at February 19, 2016. 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 $2,390.1 million for 2016-2020. The construction expenditures include estimated amounts related to the identified sources of replacement capacity under the revised plan for compliance described in Note 16, environmental upgrades at SJGS and Four Corners, and the purchase of the assets underlying three of the PVNGS Unit 2 leases at the expiration of those leases. 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 2016-2020 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.

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. Also, refer to Disclosure Regarding Forward Looking Statements in Part I, Item 1 and to Risk Factors in Part I, Item 1A.

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PNM

The table below summarizes operating results for PNM:

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(In millions)				
Electric operating revenues	$1,131.2	$1,147.9	$1,116.3	$(16.7)	$31.6
Cost of energy	391.1	403.6	374.7	(12.5)	28.9
Margin	740.1	744.3	741.6	(4.2)	2.7
Operating expenses	591.0	422.1	428.6	168.9	(6.5)
Depreciation and amortization	115.7	109.5	103.8	6.2	5.7
Operating income	33.4	212.7	209.2	(179.3)	3.5
Other income (deductions)	33.5	20.8	21.5	12.7	(0.7)
Interest charges	(80.0)	(79.4)	(79.2)	(0.6)	(0.2)
Segment earnings (loss) before income taxes	(13.1)	154.1	151.5	(167.2)	2.6
Income (taxes) benefit	12.8	(52.6)	(48.8)	65.4	(3.8)
Valencia non-controlling interest	(14.9)	(14.1)	(14.5)	(0.8)	0.4
Preferred stock dividend requirements	(0.5)	(0.5)	(0.5)	—	—
Segment earnings (loss)	$(15.8)	$86.8	$87.6	$(102.6)	$(0.8)

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

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(In millions, except customers)				
Residential	$428.0	$411.4	$411.6	$16.6	$(0.2)
Commercial	437.3	428.1	415.6	9.2	12.5
Industrial	75.3	73.0	74.6	2.3	(1.6)
Public authority	26.2	25.3	25.7	0.9	(0.4)
Economy energy service	35.1	39.1	32.9	(4.0)	6.2
Transmission	33.2	38.3	38.2	(5.1)	0.1
Firm-requirements wholesale	31.3	38.3	42.4	(7.0)	(4.1)
Other sales for resale	63.2	82.5	67.5	(19.3)	15.0
Mark-to-market activity	(5.3)	6.0	0.3	(11.3)	5.7
Other	6.9	5.9	7.5	1.0	(1.6)
	$1,131.2	$1,147.9	$1,116.3	$(16.7)	$31.6
Average retail customers (thousands)	514.9	511.2	508.2	3.7	3.0

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The following table shows PNM GWh sales by customer class:

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(Gigawatt hours)				
Residential	3,185.4	3,169.1	3,304.3	16.3	(135.2)
Commercial	3,800.5	3,874.3	3,954.8	(73.8)	(80.5)
Industrial	957.3	984.1	1,041.2	(26.8)	(57.1)
Public authority	246.5	251.2	266.4	(4.7)	(15.2)
Economy energy service [1]	796.4	758.6	719.3	37.8	39.3
Firm-requirements wholesale	444.5	527.6	654.1	(83.1)	(126.5)
Other sales for resale	2,110.9	2,271.5	2,061.9	(160.6)	209.6
	11,541.5	11,836.4	12,002.0	(294.9)	(165.6)

(1) PNM purchases energy for a major customer on the customer's behalf and delivers the energy to the customer's location through PNM's transmission system. PNM charges the customer for the cost of the energy as a direct pass through to the customer with no impact to PNM's margin so there is only a minor impact in margin resulting from providing ancillary services. Although KWh sales to this customer increased in 2015, revenue decreased due to lower market prices.

Operating Results – 2015 Compared to 2014

Operating Revenues, Cost of Energy and Margin – The table below summarizes the significant changes to total revenues, cost of energy, and margin:

	2015/2014 Change		
	Total Revenues	Cost of Energy	Margin
	(In millions)		
Weather normalized customer usage/load	$(8.7)	$—	$(8.7)
Impacts of weather	2.1	—	2.1
Lower transmission margin, primarily resulting from expiration of long-term contracts	(5.4)	(0.3)	(5.1)
Higher FPPAC billings (Note 17)	10.1	10.1	—
Wholesale contracts, primarily due to the expiration of Gallup contract (Note 17)	(6.1)	(2.7)	(3.4)
Rio Bravo purchase and termination of PPA on July 17, 2014 (Note 9)	—	(3.6)	3.6
Renewable energy rider rate increase, partially offset by the purchase of REC's and renewable power (Note 17)	10.0	3.7	6.3
Lower market prices of unrealized economic hedges, primarily associated with PVNGS Unit 3	(11.2)	0.5	(11.7)
Refund under FERC tariff for gas transportation agreement and SPS settlement (Note 16)	—	(5.4)	5.4
Off-system and economy energy sales (not included in the FPPAC)	(11.1)	(10.6)	(0.5)
Other	3.6	(4.2)	7.8
Net change	$(16.7)	$(12.5)	$(4.2)

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Changes in total revenues, cost of energy, and margin are primarily due to:

- PNM's weather normalized retail KWh sales were 1.4% lower in 2015 compared to 2014, primarily resulting from a sluggish economy in New Mexico, particularly in the Albuquerque metropolitan area, which has lagged the nation in economic recovery
- Warmer summer weather and colder winter weather increased revenue in 2015; cooling degree days were 5.7% higher and heating degree days were 2.9% higher in 2015 than in 2014
- The June 29, 2014 expiration of PNM's contract with Gallup, its second largest wholesale generation customer, reduced revenues, cost of energy, and margin; these decreases were partially offset by an increase in off-system sales and lower fuel expenses that would have otherwise been used to serve Gallup
- In January 2015, PNM increased the rate charged under the renewable rider to include PNM-owned solar facilities completed in 2014; cost of energy, which reflects the purchase of RECs and renewable power under PPAs increased in 2015, primarily due to the addition of Red Mesa Wind; increases in revenues and margin for PNM's renewable rider are partially offset by increases in operating expenses and depreciation
- In 2015, PNM negotiated new gas transportation agreements with EPNG, resulting in the refund of previously paid gas fixed-transportation costs under the EPNG FERC tariff and establishing new reduced rates through October 31, 2022; this refund decreased the cost of energy and increased margin $4.0 million in 2015; the newly established rates are anticipated to decrease gas transportation costs approximately $0.8 million on an annual basis

Operating expenses – Changes in operating expenses are primarily due to:

- 2015 pre-tax write-off of $165.7 million associated with the BART determination and the ownership restructuring of SJGS discussed in Note 16
- Higher plant maintenance costs of $8.9 million primarily at SJGS and PVNGS
- Higher employee medical expenses of $4.6 million, primarily due to unfavorable claims experience, including an unusually high number of large dollar claims
- Higher costs associated with exploring alternative fuel supply for SJGS of $2.2 million
- Higher energy efficiency rider program costs and renewable rider costs of $2.3 million and $0.4 million, which are offset in revenues
- Lower rentals of $16.0 million related to renewal of the PVNGS Unit 1 leases (See Note 7) on January 15, 2015
- Lower costs of $2.1 million associate with the termination of the EIP lease on April 1, 2015

Depreciation and amortization – The increase in depreciation and amortization expense is primarily due to additions of utility plant in service, including PNM-owned solar PV facilities and the Rio Bravo purchase.

Other income (deductions) – Changes in other income (deductions) are primarily due to:

- Higher pre-tax gains, net of impairments, of $5.5 million on available-for-sale securities, reflecting performance of the NDT and the trust for coal mine reclamation, partially offset by higher fees and taxes on the NDT of $2.0 million
- Higher income of $4.0 million from refined coal (a third-party pre-treatment process, which began November 2014) at SJGS
- Higher equity AFUDC of $5.0 million due to increased levels of construction

Interest charges – Interest charges increased in 2015 compared to 2014 primarily due to higher costs of borrowing for the $250.0 million Senior Unsecured Notes issued on August 11, 2015 Note 6 compared to the debt paid off with the proceeds of that offering, partially offset by higher debt AFUDC.

Income taxes – Income taxes decreased primarily due to the effects of the pretax loss in 2015. The extension of bonus depreciation for income tax purposes reduces anticipated future taxable income, which resulted in impairments of New Mexico net operating loss carryforwards of $3.6 million in 2015 and $2.1 million in 2014. Income tax expense in 2015 also includes $1.8 million due to the reversal of certain deferred tax items related to the BART determination for SJGS. See Note 11. Equity AFUDC is recorded in other income (deductions), but is not included in income for income tax purposes. The impacts of this permanent difference reduced income tax expense by $1.7 million in 2015 compared to 2014.

Operating Results – 2014 Compared to 2013

Operating Revenues, Cost of Energy and Margin – The table below summarizes the significant changes to total revenues, cost of energy, and margin:

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	2014/2013 Change		
	Total Revenues	Cost of Energy	Margin
Weather normalized customer usage/load	$(10.9)	$—	$(10.9)
Impacts of weather	(11.0)	—	(11.0)
Transmission rate increases in August 2013 and May 2014 (Note 17)	2.0	0.9	1.1
FPPAC billings (Note 17)	23.0	23.0	—
Wholesale contracts, primarily due to the expiration of Gallup contract (Note 17)	(1.2)	(1.6)	0.4
Rio Bravo purchase and termination of PPA on July 17, 2014 (Note 9)	—	(3.3)	3.3
Renewable energy rider rate increase, partially offset by the purchase of REC's and renewable power (See Note 17)	10.2	3.7	6.5
Higher market prices of unrealized economic hedges, primarily associated with PVNGS Unit 3	5.7	1.1	4.6
Off-system and economy energy sales (not included in the FPPAC)	2.1	4.7	(2.6)
Higher unregulated margin	5.3	(1.8)	7.1
Other	6.4	2.2	4.2
Net change	$31.6	$28.9	$2.7

Changes in total revenues, cost of energy, and margin are primarily due to:

- PNM's weather normalized retail KWh sales were 1.7% lower in 2014 compared to 2013, primarily due to New Mexico's sluggish economy
- Milder weather decreased revenue in 2014; cooling degree days were 7.4% lower and heating degree days were 12.7% lower in 2014 than in 2013
- The expiration of PNM's contract with Gallup on June 29, 2014 reduced revenues, cost of energy, and margin; these decreases were partially offset by an increase in off-system sales and lower fuel expenses that would have otherwise been used to serve Gallup; a new wholesale contract with the Jicarilla Apache Nation increased revenues and margin in 2014 by $1.0 million
- In January 2014, PNM increased the rate charged under the renewable rider to include PNM-owned solar facilities completed in 2013; cost of energy reflects increased purchase of RECs and renewable power under PPAs; increases in revenues and margin for PNM's renewable rider are partially offset by increases in operating expenses and depreciation
- Higher market prices combined with higher available generation associated with PVNGS Unit 3 increased unregulated revenues by $5.3 million in 2014; gas imbalance settlements in 2014, which did not occur in 2013, lowered cost of energy $2.1 million

Operating expenses – Changes in operating expenses are primarily due to:

- PNM recorded a $10.5 million regulatory disallowance of the FPPAC under-collected balance in 2013, which did not occur in 2014 (See Note 17)
- PNM made contributions of $3.3 million in 2013 to the PNM Resources Foundation and Good Neighbor Fund, which did not occur in 2014
- Lower labor and employee benefit costs of $2.4 million and $0.6 million
- Higher capitalization of administrative and general expenses, which decreases operating expenses, of $2.7 million due to higher capital spending in 2014.
- Increase plant maintenance costs of $6.1 million, primarily at Four Corners, PVNGS, and PNM's natural gas plants

- Higher energy efficiency rider program costs and higher renewable rider costs of $3.2 million and $0.4 million, which are offset in revenue.
- Higher property taxes of $2.4 million due to increased plant in service and higher assessed values

Depreciation and amortization – Depreciation and amortization expense increased primarily due to additions to utility plant in service, including PNM-owned solar PV facilities and the Rio Bravo purchase.

Other income (deductions) – Other income (deductions) decreased primarily due to lower interest income on the PVNGS lessor notes reflecting lower outstanding balances.

Interest charges – Interest charges increased primarily due to interest costs associated with the construction of PNM-owned solar PV facilities.

Income taxes – Income taxes increased primarily due to the effects of higher pretax income in 2014. The Company also settled an IRS examination in 2014, which resulted in PNM recording an additional income tax expense of $1.1 million. An income tax benefit of $1.3 million reflected in the Corporate and Other segment offsets this amount.

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TNMP

The table below summarizes the operating results for TNMP:

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(In millions)				
Electric operating revenues	$307.9	$287.9	$271.6	$20.0	$16.3
Cost of energy	73.5	67.9	57.6	5.6	10.3
Margin	234.4	220.0	214.0	14.4	6.0
Operating expenses	88.1	84.4	91.6	3.7	(7.2)
Depreciation and amortization	56.3	50.1	50.2	6.2	(0.1)
Operating income	90.0	85.6	72.2	4.4	13.4
Other income (deductions)	3.7	2.1	1.9	1.6	0.2
Interest charges	(27.7)	(27.4)	(27.4)	(0.3)	—
Segment earnings before income taxes	66.1	60.3	46.7	5.8	13.6
Income (taxes)	(24.1)	(22.5)	(17.6)	(1.6)	(4.9)
Segment earnings	$42.0	$37.8	$29.1	$4.2	$8.7

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

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
	(In millions, except customers)				
Residential	$120.8	$114.8	$111.3	$6.0	$3.5
Commercial	103.0	99.7	95.1	3.3	4.6
Industrial	16.3	15.0	13.1	1.3	1.9
Other	67.8	58.4	52.1	9.4	6.3
	$307.9	$287.9	$271.6	$20.0	$16.3
Average consumers (thousands) [1]	241.6	238.2	235.1	3.4	3.1

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

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

	Year Ended December 31,			Change	
	2015	2014 [1]	2013 [1]	2015/2014	2014/2013
	(Gigawatt hours)				
Residential	2,912.0	2,802.8	2,796.7	109.2	6.1
Commercial	2,654.1	2,583.7	2,472.9	70.4	110.8
Industrial	2,804.9	2,708.2	2,576.8	96.7	131.4
Other	101.0	102.1	104.5	(1.1)	(2.4)
	8,472.0	8,196.7	7,950.9	275.2	245.9

(1) The 2014 and 2013 GWh amounts reflect a reclassification of 18.9 GWh and 21.7 GWh from industrial to commercial to be consistent with the current year presentation.

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Operating results – 2015 compared to 2014

Operating Revenues, Cost of Energy and Margin – The table below summarizes the significant changes to total revenues, cost of energy, and margin:

	2015/2014 Change		
	Total Revenues	Cost of Energy	Margin
	(In millions)		
Transmission cost of service rate increases in March and September of 2015 and 2014 (See Note 17)	$8.0	$—	$8.0
Weather normalized customer usage/load	2.0	—	2.0
Customer growth of 1.5% in 2015	1.0	—	1.0
Impacts of weather	(0.2)	—	(0.2)
Recovery of third-party transmission costs	5.6	5.6	—
Higher AMS surcharge revenues due to increased AMS deployment which are offset in O&M (See Note 17)	4.9	—	4.9
Lower energy efficiency incentive in 2015 (See Note 17)	(0.8)	—	(0.8)
Other	(0.5)	—	(0.5)
Net change	$20.0	$5.6	$14.4

Changes in total revenues, cost of energy, and margin are primarily due to:

- The Texas economy has fared better than the national average in job growth and unemployment growth, increasing weather normalized retail KWh sales 2.6% in 2015; the weather normalized load impacts are primarily related to the residential class
- Weather had minimal impacts on margin as heating degree days were 12.2% lower and cooling degree days were 6.4% higher than in 2014; due to the climate in TNMP's service territories, variances in cooling degree days have a much larger impact than variances in heating degree days
- Changes in costs charged by third-party transmission providers are deferred and recovered through a transmission cost recovery factor; higher third party transmission costs of energy resulted in, and are offset by, TNMP rate increases for the recovery of these costs

Operating expenses – Changes in operating expenses are primarily due to:

- Increased employee medical expenses of $2.4 million, due primarily to unfavorable claims experience, including an unusually high number of large dollar claims
- Increased property taxes of $1.4 million, due primarily to increases in utility plant in service and higher assessed values
- Higher operating expenses of $1.1 million associated with the AMS deployment, which are recovered through the AMS surcharge
- Higher capitalization of administrative and general expenses of $0.9 million decreased operating expenses due to the mix of transmission and distribution construction expenditures

Depreciation and amortization – Depreciation and amortization expense increased in 2015 primarily due to $2.9 million from greater AMS deployment, $2.5 million from other increases in utility plant in service, and $0.8 million from increased amortization of the CTC regulatory asset.

Other income (deductions) – Other income (deductions) increased in 2015 due primarily to an increase in contributions in aid of construction.

Interest charges – Interest charges increased in 2015 primarily due to the issuance of $80.0 million of long-term debt on June 27, 2014, partially offset by the maturity of $50.0 million of long-term debt on June 30, 2014.

Income taxes – Income taxes increased in 2015 primarily due to higher pretax income in 2015.

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Operating results – 2014 compared to 2013

Operating Revenues, Cost of Energy and Margin – The table below summarizes the significant changes to total revenues, cost of energy, and margin:

	2014/2013 Change		
	Total Revenues	Cost of Energy	Margin
Transmission cost of service rate increases in March and September of 2014 and 2013 (See Note 17)	$6.3	$—	$6.3
Weather normalized customer usage/load	0.5	—	0.5
Customer growth of 1.3% in 2014	1.7	—	1.7
Impacts of weather	(2.0)	—	(2.0)
Recovery of third-party transmission costs	10.3	10.3	—
Higher AMS surcharge revenues due to increased AMS deployment (See Note 17)	4.0	—	4.0
Lower Hurricane Ike surcharge revenues due to termination of surcharge upon full recovery of associated costs in November 2013	(4.8)	—	(4.8)
Higher energy efficiency incentive in 2014 (See Note 17)	0.8	—	0.8
Other	(0.5)	—	(0.5)
Net change	$16.3	$10.3	$6.0

Changes in total revenues, cost of energy, and margin are primarily due to:

- A strong Texas economy helped increase weather normalized retail KWh sales 3.2% in 2014, primarily related to the commercial class
- Milder weather in the summer decreased revenues as cooling degree days were 2.2% lower and heating degree days were 2.0% higher than in 2014
- Higher costs charged by third-party transmission providers, which are deferred and recovered through a transmission cost recovery factor
- Changes in AMS and Hurricane Ike surcharge revenues are offset in operating expenses and depreciation and amortization

Operating expenses – Changes in operating expenses are primarily due to:

- Higher capitalization of administrative and general expenses, which decreases operating expenses, of $2.9 million due higher capital spending in 2014
- Lower employee healthcare costs of $2.1 million primarily due to lower claims experience
- 2013 write-off of $0.5 million in costs incurred in an effort to securitize the remaining CTC costs
- 2013 contributions to the PNM Resources Foundation of $0.7 million
- Lower energy efficiency program expenses of $0.3 million and lower rate case expense amortization of $0.7 million

Depreciation and amortization – Depreciation and amortization expense decreased primarily due to $4.7 million lower amortization of the Hurricane Ike regulatory asset, which was offset by higher depreciation expense of $1.6 million due to an increase in utility plant in service, $2.2 million increase from greater AMS deployment, and $0.7 million from higher CTC amortization.

Other income (deductions) – Other income (deductions) increased primarily due to an increase in contributions in aid of construction.

Income taxes – Income taxes increased primarily to higher pretax income in 2014.

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Corporate and Other

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

	Year Ended December 31,			Change	
	2015	2014	2013	2015/2014	2014/2013
		(In millions)			
Electric operating revenues	$—	$—	$—	$—	$—
Cost of energy	—	—	—	—	—
Margin	—	—	—	—	—
Operating expenses	(14.9)	(14.5)	(18.3)	(0.4)	3.8
Depreciation and amortization	13.9	13.1	12.8	0.8	0.3
Operating income	0.9	1.4	5.5	(0.5)	(4.1)
Other income (deductions)	(0.6)	(2.4)	(13.7)	1.8	11.3
Interest charges	(7.2)	(12.8)	(14.9)	5.6	2.1
Segment earnings (loss) before income taxes	(6.9)	(13.8)	(23.1)	6.9	9.3
Income (taxes) benefit	(3.7)	5.4	6.9	(9.1)	(1.5)
Segment earnings (loss)	$(10.6)	$(8.4)	$(16.2)	$(2.2)	$7.8

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP under shared services agreements. The amounts allocated include certain expenses shown as depreciation and amortization and other income (deductions) in the table above. Depreciation expense increases are primarily due to additions of computer software. Substantially all depreciation and amortization expense is offset in operating expenses as a result of allocation of these costs to other business segments.

Operating results – 2015 compared to 2014

Other income (deductions) – Other income (deductions) increases primarily due to the $3.1 million impact of PNMR Development's share of the fee resulting from the ownership restructuring of SJGS, which was recorded at December 31, 2015 (Note 16. This was partially offset by the 2015 write off of $1.1 million for investments related to a former PNMR subsidiary, which ceased operations in 2008.

Interest charges – Interest charges decreased in 2015 primarily due to the maturity of PNMR's $118.8 million of 9.25% Senior Unsecured Notes Series A on May 15, 2015 partially offset by PNMR's new $150.0 million Term Loan Agreement entered into on March 9, 2015. A decrease in overall short-term borrowings and lower interest rates also reduced interest expense.

Income taxes – The increase in income taxes (benefit) reflects changes in income before income taxes. The extension of bonus depreciation for income tax purposes reduces anticipated future taxable income, which resulted in impairments of the deferred tax assets recorded for New Mexico net operating loss, New Mexico wind energy production tax credit, and charitable contribution carryforwards aggregating $6.8 million and $1.9 million in 2015 and 2014 Note 11. The settlement of an IRS examination in 2014 which resulted in an income tax benefit of $1.3 million also contributed to the increase.

Operating results – 2014 compared to 2013

Operating expenses - Operating expenses decreased in 2014 primarily due to the allocation of $4.0 million of the Company's 2013 contributions to the PNM Resources Foundation and financial support to the PNM Good Neighbor Fund, recorded in other income (deductions), which did not recur in 2014.

Other income (deductions) – Changes in other income (deductions) are primarily due to:

- Increase due to the $4.0 million contribution in 2013 to the PNM Resources Foundation and financial support to the PNM Good Neighbor Fund, which were allocated to PNM and TNMP reducing operating expenses as discussed above
- Increase due to 2013 losses of $3.3 million on the repurchase of $23.8 million of PNMR's 9.25% senior unsecured notes (Note 6)
- Increase due to $3.6 million lower amortization related to corporate investments that became fully amortized in 2013

Interest charges – Interest charges decreased in 2014 primarily due to the repurchase of $23.8 million of 9.25% senior unsecured notes in 2013, as well as a decrease in overall short-term borrowings and lower interest rates.

Income taxes – Income taxes decreased in 2014 compared to 2013 primarily due to the settlement of an IRS examination in 2014 which resulted in an income tax benefit of $1.3 million. An additional income tax expense of $1.1 million reflected in the PNM segment offsets this amount.

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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	
	2015	2014	2013	2015/2014	2014/2013
	(In millions)				
Net cash flows from:					
Operating activities	$386.9	$414.9	$386.6	$(28.0)	$28.3
Investing activities	(544.5)	(485.3)	(331.4)	(59.2)	$(153.9)
Financing activities	175.4	96.2	(61.6)	79.2	157.8
Net change in cash and cash equivalents	$17.8	$25.7	$(6.5)	$(8.0)	$32.2

Changes in PNMR's cash flows from operating activities result from net earnings, adjusted for items impacting earnings that do not provide or use cash. See Results of Operations above. Certain changes in assets and liabilities resulting from normal operations also impact operating cash flows. Cash flows from operating activities also increased $55.4 million in 2015 compared to 2014 related to the collection of amounts under PNM's FPPAC, primarily resulting from the cap on amounts passed through to ratepayers prior to June 30, 2014. In addition, PNMR received income tax refunds of $1.9 million in 2015 and $2.6 million in 2014 compared to refunds received of $95.3 million in 2013. PNMR made contributions to the PNM and TNMP pension and other postretirement benefit plans of $35.5 million in 2015 compared to $5.4 million in 2014 and $66.5 million in 2013. 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.

The changes in PNMR's cash flows from investing activities relate primarily to increases in plant additions of $97.9 million in 2015 compared to 2014 and $112.6 million in 2014 compared to 2013. At PNM, total utility plant additions were $88.0 million higher in 2015 compared to 2014, including increased generation additions of $47.0 million, renewable additions of $34.4 million, transmission and distribution additions of $3.8 million, and nuclear fuel purchases of $2.8 million. PNM total utility plant additions were $76.9 million higher in 2014 compared to 2013, including increases in generation additions of $40.0 million, transmission and distribution additions of $33.5 million and nuclear fuel purchases of $4.8 million offset by a decrease in renewable additions of $1.4 million. TNMP utility plant additions decreased $2.6 million in 2015 compared to 2014, including decreases in transmission additions of $17.6 million and AMS additions of $4.9 million offset by an increase in distribution additions of $16.1 million. TNMP utility plant additions increased by $38.1 million in 2014 compared to 2013, including increases in distribution additions of $18.7 million, transmission additions of $17.8 million and AMS additions of $1.6 million. Corporate and other plant additions were $12.5 million higher in 2015 compared to 2014, including PNMR Development utility plant additions of $8.2 million and computer hardware and software additions of $4.3 million. Corporate and other plant additions decreased by $2.3 million in 2014 compared to 2013 related to computer hardware and software additions. Construction expenditures were funded primarily through cash flows from operating activities and short-term borrowings. Investing activities includes $2.6 million from the sale of Gallup assets in 2015 and $36.2 million for the acquisition of Rio Bravo in 2014 as discussed in Note 9.

The changes in PNMR's cash flows from financing activities include an increase in net short-term borrowings of $188.6 million in 2015 compared to 2014. Long-term borrowings in 2015 include the $150.0 million PNMR 2015 Term Loan Agreement and $25.0 million of additional long-term borrowings under the PNM Multi-draw Term Loan. PNMR used portions of the proceeds to repay $118.8 million of 9.25% Senior Unsecured Notes, Series A, that matured on May 15, 2015. In addition, PNM issued $250.0 million aggregate principal amounts of its 3.850% Senior Unsecured Notes due 2025. PNM used the proceeds to repay the $175.0 million PNM 2014 Term Loan Agreement and other outstanding short-term borrowings, including PNM's intercompany loan from PNMR. In 2015, PNM also successfully remarketed $39.3 million of PCRBs. In 2014, PNMR's cash flows from financing activity also include a

reduction in net short-term borrowings of $34.1 million compared to 2013. Long-term borrowings in 2014 include the $175.0 million PNM 2014 Term Loan agreement and $100.0 million of the $125.0 million PNM Multi-draw Term Loan, which were used to repay amounts under the existing PNM 2013 Term Loan Agreement and other short-term borrowings. In addition, 2014 includes the issuance of $80.0 million in long-term debt at TNMP, which was used to repay amounts under the existing TNMP 2011 Term Loan Agreement and other short-term borrowings. Long-term borrowings in 2013 include the $75.0 PNM 2013 Term Loan Agreement. 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.

Financing Activities

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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
- Conditions in the financial markets
- Credit ratings

On March 9, 2015, PNMR entered into the $150.0 million PNMR 2015 Term Loan Agreement. The PNMR 2015 Term Loan Agreement bears interest at a variable rate, which was 1.22% at December 31, 2015, and must be repaid on or before March 9, 2018. The PNMR 2015 Term Loan Agreement includes customary covenants and conditions. PNMR utilized a portion of the proceeds from the PNMR 2015 Term Loan Agreement and borrowings under the PNMR Revolving Credit Facility to retire the $118.8 million of 9.25% Senior Unsecured Notes, Series A when they matured on May 15, 2015. In September 2015, PNMR entered into a hedging agreement whereby it effectively established a fixed interest rate of 1.927% for borrowings under the PNMR 2015 Term Loan Agreement for the period from January 11, 2016 through March 9, 2018.

On August 11, 2015, PNM issued $250.0 million aggregate principal amount of its 3.850% Senior Unsecured Notes due 2025. The notes will mature on August 1, 2025. Portions of the proceeds from the offering were used to repay the existing $175.0 million PNM 2014 Term Loan Agreement and to repay outstanding borrowings under the PNM Revolving Credit Facility, the PNM New Mexico Credit Facility, and PNM's intercompany loan from PNMR.

On December 17, 2015 TNMP entered into an agreement, which provided that TNMP would issue $60.0 million aggregate principal amount of 3.53% first mortgage bonds, due 2026, on or about February 10, 2016. TNMP issued the Series 2016A Bonds on February 10, 2016 and used the proceeds to reduce short-term debt and intercompany debt.

On December 21, 2015, PNMR amended and restated the $100.0 million PNMR Term Loan Agreement by entering into the PNMR Third Amended and Restated Term Loan Agreement that increased the amount of the loan to $150.0 million and extended its maturity to December 21, 2016.

PNMR, PNM, and TNMP are subject to debt-to-capital ratio requirements of less than or equal to 65%. These ratios for PNMR and PNM include the present value of payments under the PVNGS leases as debt. At December 31, 2015, interest rates on outstanding borrowings were 1.26% for the PNMR Term Loan Agreement, 1.22% for the PNMR 2015 Term Loan Agreement, and 0.99% for the PNM Multi-draw Term Loan.

As discussed in Note 16, NM Capital, a wholly owned subsidiary of PNMR, entered into a $125.0 million term loan agreement (the "BTMU Term Loan Agreement"), among NM Capital, The Bank of Tokyo-Mitsubishi UFJ, Ltd. ("BTMU"), as lender, and BTMU, as Administrative Agent, as of February 1, 2016. The BTMU Term Loan Agreement has a maturity date of February 1, 2021 and bears interest at a rate based on LIBOR plus a customary spread. PNMR, as parent company of NM Capital, has guaranteed NM Capital's obligations. NM Capital utilized the proceeds of the BTMU Term Loan Agreement to provide funding of $125.0 million to a ring-fenced, bankruptcy-remote, special-purpose entity that is a subsidiary of Westmoreland Coal Company to finance the purchase price of the stock of SJCC.

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

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Projected capital requirements for 2016-2020 are:

	2016	2017-2020	Total
	(In millions)		
Construction expenditures	$546.8	$1,490.2	$2,037.0
Dividends on PNMR common stock	70.1	280.4	350.5
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	$617.4	$1,772.7	$2,390.1

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 $100.8 million related to the identified sources of replacement capacity under the revised plan for compliance described in Note 16, environmental upgrades of $3.0 million at SJGS and $88.7 million at Four Corners, and the January 2016 purchase of the assets underlying three of the PVNGS Unit 2 leases at the expiration of those leases for $163.3 million. Expenditures for environmental upgrades are estimated to be $46.9 million in 2016. 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.

During the year ended December 31, 2015, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements and the additional borrowings described under Financing Activities above.

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. PNMR's $118.8 million of 9.25% Senior Unsecured Notes, Series A matured and were repaid on May 15, 2015; $39.3 million of PNM's PCRBs were subject to mandatory tender for remarketing on June 1, 2015 (the bonds were remarketed on that date and are next subject to mandatory tender for remarketing on June 1, 2020); the $175.0 million PNM 2014 Term Loan Agreement was repaid on August 12, 2015; and the $125.0 million PNM Multi-draw Term Loan matures on June 21, 2016. Note 6 contains additional information about the maturities of long-term debt. Also, the one-year $150.0 million PNMR Term Loan Agreement matures on December 21, 2016. PNMR and PNM anticipate that funds to repay the long-term debt maturities and term loans will come from entering into new arrangements similar to the existing agreements, borrowing under their revolving credit facilities, issuance of new long-term debt, or a combination of these sources. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility and the PNM Revolving Credit Facility both of which have been extended to expire in October 2020 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. PNM also has 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.

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 may increase over time. Depending on market and other conditions, the Company will periodically sell long-term debt and use the

proceeds to reduce the borrowings under the credit facilities. Borrowings under the PNMR Revolving Credit Facility ranged from zero to $45.3 million during the year ended December 31, 2015, zero to $21.1 million during the year ended December 31, 2014, and zero to $84.0 million during the year ended December 31, 2013. Such borrowings ranged from zero to $45.3 million during the three months ended December 31, 2015. Borrowings under the PNM Revolving Credit Facility ranged from zero to $48.4 million during the year ended December 31, 2015, zero to $82.0 million during the year ended December 31, 2014, and zero to $130.8 million during the year ended December 31, 2013. Such borrowings ranged from zero to $32.2 million during the three months ended December 31, 2015. Borrowings under the PNM New Mexico Credit Facility ranged from zero to $20.0 million during the year ended December 31, 2015 and zero to $25.0 million during the year ended December 31, 2014. There were no such borrowings in 2013 or during the three months ended December 31, 2015. Borrowings under the TNMP Revolving Credit Facility ranged from zero to $64.0 million during the year ended December 31, 2015,

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from zero to $30.0 million during the year ended December 31, 2014, and from zero to $40.0 million during the year ended December 31, 2013. Such borrowings ranged from $12.0 million to $64.0 million during the three months ended December 31, 2015. At December 31, 2015, the interest rates on outstanding borrowings were 1.67% for the PNMR Revolving Credit Facility and 1.29% for the TNMP Revolving Credit Facility. The PNM Revolving Credit Facility and the PNM New Mexico Credit Facility had no borrowings outstanding at December 31, 2015.

The Company currently believes that its capital requirements can be met through internal cash generation, existing or new 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 could 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 2016-2020 period. This could include new debt issuances and/or new equity.

As discussed above, PNMR retired the 9.25% Senior Unsecured Notes, Series A when they matured on May 15, 2015, which results in PNMR having no senior unsecured notes outstanding. Following this repayment, Moody’s and S&P withdrew their ratings of PNMR senior unsecured debt. On June 22, 2015, Moody’s assigned an issuer rating of Baa3 to PNMR, upgraded the issuer rating of TNMP to A3 from Baa1, upgraded the senior secured debt rating of TNMP to A1 from A2, and changed the outlook for PNMR, PNM, and TNMP to stable from positive. On December 21, 2015, S&P raised by one notch the issuer credit ratings for PNMR, PNM, and TNMP and the debt ratings for PNM and TNMP, with a stable outlook. Currently, all of the credit ratings issued by both Moody’s and S&P on the Company’s debt are investment grade. As of February 19, 2016, ratings on the Company’s securities were as follows:

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

* 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 19, 2016 is as follows:

	PNMR Separate	PNM Separate	TNMP Separate	PNMR Consolidated
		(In millions)		
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 19, 2016:				
Revolving credit facility	$66.1	$46.2	$15.0	$127.3
PNM New Mexico Credit Facility	—	50.0	—	50.0
Letters of credit	46.2	3.2	0.1	49.5
Total short term-debt and letters of credit	112.3	99.4	15.1	226.8
Remaining availability as of February 19, 2016	$187.7	$350.6	$59.9	$598.2
Invested cash as of February 19, 2016	$1.9	$—	$—	$1.9

The above table includes a $40.0 million letter of credit issued under the PNMR Revolving Credit Facility to facilitate the posting of reclamation bonds by a surety in connection with the purchase of SJCC by a subsidiary of Westmoreland from BHP. See Note 16. The above table excludes intercompany debt. As of February 19, 2016, TNMP had $15.1 million in intercompany borrowings from PNMR. The remaining availability under the revolving credit facilities at any point in time varies based on a number of factors, including the timing of collections of accounts receivables and payments for construction and operating expenditures.

PNMR can offer new shares of common stock through the PNM Resources Direct Plan under a SEC shelf registration statement that expires in August 2018. PNM has a shelf registration statement for up to $250.0 million of senior unsecured notes that expires in May 2017.

Off-Balance Sheet Arrangements

PNMR’s off-balance sheet arrangements include PNM’s operating leases for portions of PVNGS Units 1 and 2 and, until April 1, 2015, the EIP transmission line.

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, contained options to renew the leases at a fixed price or to purchase the property for fair market value.

As discussed in Note 7, PNM and the lessors under each of the PVNGS Unit 1 leases entered into amendments to those leases that extended the leases through January 15, 2023 from their original expiration on January 15, 2015. In addition, PNM entered into an amendment with the lessor under one of the PVNGS Unit 2 leases that extended that lease through January 15, 2024 from its original expiration on January 15, 2016. PNM entered into agreements with the lessors under the other three PVNGS Unit 2 leases under which PNM exercised its option to purchase the assets underlying the leases at the agreed to fair market values aggregating $163.3 million at the expiration of the leases on January 15, 2016. The semiannual 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. See Sources of Power in Part I, Item 1, Investments in Note 1, and Note 7 for additional information.

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The future lease payments for 2016 shown below for the PVNGS leases have been reduced by $9.0 million returned to PNM through its ownership in related lessor notes and include the renewals described above.

	PVNGS Units 1&2
	(In thousands)
2016	$20,589
2017	18,139
2018	18,139
2019	18,139
2020	18,139
Thereafter	46,985
Total	$140,130

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. Prior to April 1, 2015, PNM owned 60% and operated the other 40% of the EIP line under the terms of a lease agreement. The lease, which contained fixed-rate and fair market value renewal options and a fair market value purchase option, expired on April 1, 2015. PNM exercised its option to purchase the leased assets at expiration of the lease at the agreed to fair market value of $7.7 million. See Note 7.

Commitments and Contractual Obligations

The following table sets forth PNMR's long-term contractual obligations as of December 31, 2015. See Note 7 for further details about the Company's significant leases:

	Payments Due				
Contractual Obligations	2016	2017-2018	2019-2020	2021 and Thereafter	Total
	(In thousands)				
Long-term debt (a)	$125,000	$657,025	$272,647	$1,031,698	$2,086,370
Interest on long-term debt (b)	113,556	214,133	115,973	637,407	1,081,069
Operating leases (c)	29,825	51,311	50,387	108,990	240,513
Transmission reservation payments	14,166	23,408	6,171	11,084	54,829
Coal contracts (d)	74,243	101,026	67,514	409,351	652,134
Coal mine decommissioning (e)	9,674	15,640	7,229	184,627	217,170
Nuclear decommissioning funding requirements (f)	2,637	5,274	5,274	8,614	21,799
Outsourcing	4,947	3,527	—	—	8,474
Pension and retiree medical (g)	5,452	10,842	10,736	—	27,030
Construction expenditures (h)	546,818	812,744	677,395	—	2,036,957
Total (i)	$926,318	$1,894,930	$1,213,326	$2,391,771	$6,426,345

(a) Represents total long-term debt, excluding unamortized discounts, premiums, and issuance costs (Note 6); does not include NM Capital's $125.0 million BTMU Term Loan Agreement entered into on February 1, 2016 and TNMP's $60.0 million of 3.53% first mortgage bonds issued on February 10, 2016, as discussed above

(b) Represents interest payments during the period

(c) The operating lease amounts include payments under the PVNGS leases through the expiration of the leases, including renewal periods for leases for which PNM has renewed; the amounts in the above table are net of amounts returned to PNM in 2016 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 in effect on December 31, 2015 if no deliveries are made; under the CSA to supply coal to SJGS, which became effective at 11:59 PM on January 31, 2016, the minimum payments increased by between $76 million and $96 million per year in 2016

through 2020 and by a total of $84 million for 2021 through 2032

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(e) Includes funding of trusts for post-term reclamation related to the mines serving SJGS and Four Corners (Note 16)
(f) These obligations represent funding based on the current rate of return on investments
(g) The Company only forecasts funding for its pension and retiree medical plans for the next five years
(h) Represents forecasted construction expenditures, including nuclear fuel, under which substantial commitments have been made (Note 14); the Company only forecasts capital expenditures for the next five years; the construction expenditures include the purchase of the assets underlying three of the PVNGS Unit 2 leases at the expiration of those leases on January 15, 2016 for $163.3 million; see Capital Requirements above and Note 7
(i) PNMR is unable to reasonably estimate the timing of liability for uncertain income tax positions (Note 11) in individual years due to uncertainties in the timing of the effective settlement of tax positions and, therefore, PNMR's liability of $6.5 million is not reflected in this table; amounts PNM is obligated to pay Valencia are not included above since Valencia is consolidated by PNM in accordance with GAAP, as discussed in Note 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.

The PNMR Revolving Credit Facility, PNM Revolving Credit Facility, PNM New Mexico Credit Facility, and TNMP Revolving Credit Facility contain "ratings triggers," for pricing purposes only. If PNMR, PNM, or TNMP is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost. In addition, these facilities, as well as the Company's term loans, each contain a covenant requiring the maintenance of debt-to-capital ratios of not more than 65%. For PNMR and PNM, the present value of payments under the PVNGS 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. Note 16 discusses circumstances under the Bond Reclamation Agreement that could obligate PNMR to provide additional collateral to the surety in connection with the reclamation bonds posted by the surety in connection with the purchase of SJCC by Westmoreland.

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.

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Capital Structure

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

	December 31,			
PNMR	2015		2014	
PNMR common equity	44.0	%	46.6	%
Preferred stock of subsidiary	0.3	%	0.3	%
Long-term debt	55.7	%	53.1	%
Total capitalization	100.0	%	100.0	%
PNM				
PNM common equity	45.3	%	45.8	%
Preferred stock	0.4	%	0.4	%
Long-term debt	54.3	%	53.8	%
Total capitalization	100.0	%	100.0	%
TNMP				
Common equity	59.6	%	59.2	%
Long-term debt	40.4	%	40.8	%
Total capitalization	100.0	%	100.0	%

As discussed in Note 6, the Company adopted a new accounting standard during 2015 that required debt issuance costs, which were previously included in other deferred charges on the Consolidated Balance Sheets, to be reclassified as a reduction of the related long-term debt. The change was applied retroactively, which reduced the long-term debt portion of capitalization in 2014. The above table reflects changes to increase the common equity percentage and decrease the long-term percentage by 0.2% for PNMR, 0.1% for PNM, and 0.3% for TNMP from those previously shown for 2014.

OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

In 2015, GHG associated with PNM's interests in its generating plants included approximately 6.4 million metric tons of CO_2, which comprises the vast majority of PNM's GHG. By comparison, the total GHG in the United States in 2013, the latest year for which EPA has published this data, were approximately 6.7 billion metric tons, of which approximately 5.5 billion metric tons were CO_2.

PNM has several programs underway to reduce or offset GHG from its resource portfolio, thereby reducing its exposure to climate change regulation. See Note 17. In 2015, PNM completed construction of 40 MW of utility-scale solar generation, bringing its total solar generation capacity to 107 MW. Since 2003, PNM has purchased the entire output of New Mexico Wind, which has an aggregate capacity of 204 MW, and began purchasing the full output of Red Mesa Wind, which has an aggregate capacity of 102 MW, in January 2015. PNM has a 20-year PPA for the output of Lightning Dock Geothermal, which began providing power to PNM in January 2014. The current capacity of the geothermal facility is 4 MW and future expansion may result in up to 9 MW of generation capacity. Additionally, PNM has a customer distributed solar generation program that represented 49.5 MW at December 31, 2015. PNM's distributed solar programs will reduce PNM's annual production from fossil-fueled electricity generation by about 120 GWh. PNM offers its customers a comprehensive portfolio of energy efficiency and load management programs, with a budget of $25.8 million for the program year beginning in June 2015. PNM estimates these programs saved approximately 79 GWh of electricity in 2015. Over the next 18 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 9,000 GWh of electricity, which will avoid at

least 5.5 million metric tons of CO_2 based upon projected emissions from PNM's system-wide resources. These estimates are subject to change because of the uncertainty of many of the underlying variables, including changes in demand for electricity, and complex relationships between those variables.

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

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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 the financial consequences that might result from potential federal and/or state regulation of GHG.

As of December 31, 2015, approximately 70.2% 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, PNM received approval to shutdown SJGS Units 2 and 3 on December 31, 2017 as part of its strategy to address the regional haze requirements of the CAA. The shutdown of Units 2 and 3 would result in a reduction of GHG for the entire station of approximately 50%, including a reduction of approximately 28% for the Company's ownership interests. Although replacement power strategies include some gas-fired generation, the reduction in GHG from the retirement of the coal-fired generation would be far greater than the increase in GHG from replacement generation.

Because of PNM's dependence on fossil-fueled generation, legislation or regulation that imposes a limit or cost on GHG could impact the cost at which electricity is produced. While PNM expects to recover any such costs through rates, the timing and outcome of proceedings for cost recovery are uncertain. In addition, to the extent that any additional costs are recovered through rates, customers may reduce their usage, relocate facilities to other areas with lower energy costs, or take other actions that ultimately 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. Drought conditions in northwestern New Mexico could impact the availability of water for cooling coal-fired generating plants. Water shortage sharing agreements are in place with the more senior water rights holders to mutually share the impacts of water shortages although no shortage has been declared due to sufficient precipitation in the San Juan River basin. These agreements have been extended through 2016. PNM's service areas also experience periodic high winds, forest fires, and severe thunderstorms. 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. Climate changes are generally not expected to have material consequences to the Company in the near-term.

EPA Regulation

In April 2007, the USSC 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_2, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final PSD and Title V Greenhouse Gas Tailoring Rule (the "Tailoring Rule") to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, PSD and Title V operating permit programs, to avoid impacting millions of small GHG emitters. The rule focused on the largest sources of GHG, including fossil-fueled electric generating units. This program covered the construction of new emission units that emit GHG of at least 100,000 tons per year in CO_2 equivalents (even if PSD is not triggered for other pollutants). In addition, modifications at existing

major-emitting facilities that increase GHG by at least 75,000 tons per year in CO_2 equivalents would be subject to PSD permitting requirements, even if they did not significantly increase emissions of any other pollutant. As a result, PNM's fossil-fueled generating plants were more likely to trigger PSD permitting requirements because of the magnitude of GHG. However as discussed below, a court case in 2014 now limits the extent of 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 the 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 USSC granted a petition for a Writ of Certiorari regarding the permitting of stationary sources that emit GHG. The USSC limited the question that it would review 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 dealt 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

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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 June 23, 2014, the USSC issued its opinion on the above case. The USSC largely reversed the D.C. Circuit. First, the USSC found the CAA does not compel or permit EPA to adopt an interpretation of the act that requires a source to obtain a PSD or Title V permit on the sole basis of its potential GHG. Second, EPA had argued that even if it was not required to regulate GHGs under the PSD and Title V programs, the Tailoring Rule was nonetheless justified on the grounds that it was a reasonable interpretation of the CAA. The USSC rejected this argument. Third, the USSC found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year. Fourth, the USSC found that it would be reasonable for EPA to interpret the CAA to limit the PSD program for GHGs to "anyway" sources - those sources that have to comply with the PSD program for other non-GHG pollutants. The USSC said that EPA needed to establish a de minimis level below which BACT would not be required for "anyway" sources.

On June 25, 2013, President Obama announced his 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 under Section 111(d) of the CAA. 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 met the President's timeline for issuance of carbon pollution standards for new sources under Section 111(b) and for existing sources under Section 111(d) of the CAA. On August 3, 2015, EPA issued its final standards to limit CO_2 emissions from power plants. The final rule was published on October 23, 2015. Three separate but related actions took place: (1) the final Carbon Pollution Standards for new, modified, and reconstructed power plants were established (under Section 111(b)); (2) the final Clean Power Plan was issued to set standards for carbon emission reductions from existing power plants (under Section 111(d)); and (3) a proposed federal plan associated with the final Clean Power Plan was released.

EPA's final rule to limit GHG emissions from new, modified, and reconstructed power establishes standards based upon certain, specific conditions. For newly constructed and reconstructed base load natural gas-fired stationary combustion turbines, the EPA finalized a standard of 1,000 lb CO_2/MWh-gross based on efficient natural gas combined cycled technology as the best system of emissions reductions ("BSER"). Alternatively, owners and operators of base load natural gas-fired combustion turbines may elect to comply with a standard based on an output of 1,030 lb CO_2/MWh-net. A new source is any newly constructed fossil fuel-fired power plant that commenced construction after January 8, 2014.

The final standards for coal-fired power plants vary depending on whether the unit is new, modified, or reconstructed. The BSER for new steam units is a supercritical pulverized coal unit with partial carbon capture and storage. Based on that technology, new coal-fired units will be required to meet an emissions standard equal to 1,400 lbs CO_2/MWh from the beginning of the power plant's life. The BSER for modified units is based on each affected unit's own best potential performance. Standards will be in the form of an emission limit in pounds of CO_2 per MWh, which will

apply to units with modifications resulting in an increase of hourly CO_2 emissions of more than 10% relative to the emissions of the most recent five years from that unit. The BSER for reconstructed coal-fired power units is the performance of the most efficient generating technology for these types of units. Final emissions standards depend on heat input. Sources with heat input greater than 2,000 MMBTU/hour would be required to meet an emission limit of 1,800 lbs CO_2/MWh-gross, and sources with a heat input of less than or equal to 2,000 MMBTU/hour would be required to meet an emission limit of 2,000 lbs CO_2/MWh-gross.

The final Clean Power Plan rule changed significantly in structure from the proposed rule that was released in June 2014. Changes include delaying the first compliance date by two years from 2020 to 2022; adopting a new approach to calculating the emission targets which resulted in different state goals than those originally proposed; adding a reliability safety valve; and proposing rewards for early reductions. The rule establishes two numeric “emission standards” - one for “fossil-steam” units (coal- and oil-fired units) and one for natural gas-fired units (combined cycle only). The emission standards are based on emission reduction opportunities that EPA deemed achievable using technical assumptions for three “building blocks:” efficiency improvements at coal-fired EGUs, displacement of affected EGUs with renewable energy, and displacement of coal-fired generation with natural gas-fired generation. The final standards are 1,305 lb/MWH for fossil-steam units and 771 lb/MWH for gas units, both of which

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phase in over the period 2022-2030. To facilitate implementation, EPA converted the emission standards into state goals. Each state's goal reflects the average state-wide emission rate that all of the state's affected EGUs would meet in the aggregate if each one achieved the emission standards alone based upon a weighted average of each state's unique mix of affected units.

Under the final rule, states are required to make initial plan submissions to EPA by September 6, 2016. EPA will grant up to a two-year extension provided that the initial plan meets certain specified criteria for progress and consultation. States receiving an extension must submit an update to EPA in 2017. All final state plans are due by 2018. State plans can be based on either an emission standards (rate or mass) approach or a state measures approach. Under an emission standards approach, federally enforceable emission limits are placed directly on affected units in the state. A state measures approach must meet equivalent rates statewide, but may include some elements, such as renewable energy or energy efficiency requirements, that are not federally enforceable. Plans using state measures may only be used with mass-based goals and must include "backstop" federally enforceable standards for EGUs that will become effective if the state measures fail to achieve the expected level of emission reductions.

The Clean Power Plan also proposes a Clean Energy Incentive Program designed to award credits for early development of certain renewable energy and energy efficiency programs that displace fossil generation in 2020 and 2021 prior to the compliance obligation taking effect in 2022. In addition, the Clean Power Plan contains a reliability safety valve for individual power plants. The reliability safety valve allows for a 90-day relief from CO_2 emissions limits if generating units need to continue to operate and release excess emissions during emergencies that could compromise electric system reliability.

As discussed above, EPA issued a proposed Federal Plan in association with the Clean Power Plan. Under Section 111(d), EPA is authorized to issue a federal plan for states that do not submit an approvable state plan. EPA indicates that states may voluntarily adopt the Federal Plan in whole or in part as its state plan. EPA explains in its communications that the proposed Federal Plan will be released in advance of the deadline for submission of state plans to provide regulatory certainty to states that fail to submit approvable plan. The proposed Federal Plan will apply emission reduction obligations directly on affected EGUs. The plan presents two approaches: a rate-based emissions trading program and a mass-based emissions trading program. EPA indicates that it will choose only one of these approaches in the final Federal Plan. However, the proposed rule will offer both approaches for states to use as models in their own plans. EPA asked for comments on the proposed Federal Plan by January 21, 2016. PNM submitted comments in response. EPA intends to finalize both the rate-based and mass-based model trading rules in summer 2016.

Multiple states, utilities, and trade groups have filed petitions for review and motions to stay in the D.C. Circuit. On January 21, 2016, the D.C. Circuit denied the motions to stay the EPA's section 111(d) rule (the Clean Power Plan). It did, however, expedite briefing in the case and set it for oral argument on June 2, 2016. Under the court's order, the parties were required to submit a proposed briefing format to the court by January 27, 2016, which ensures that briefing on all issues is completed by April 22, 2016. Petitioners had asked for bifurcated briefing that would allow the core legal issues to be litigated first and the programmatic issues related to the rule to be litigated later depending on the outcome of the litigation. The court denied that request.

On January 26, 2016, 29 states and state agencies filed a petition to the USSC asking the court to reverse the D.C. Circuit's decision and stay the implementation of the Clean Power Plan. On February 9, 2016, the USSC granted the applications to stay the Clean Power Plan pending judicial review of the rule. The USSC issued a one-page order that stated, "The EPA rule to have states cut power sector carbon dioxide (CO_2) emissions 32% by 2030 is stayed pending disposition of the applicants' petitions for review in the United States Court of Appeals for the District of Columbia Circuit." The vote was 5-4 among the USSC Justices. The decision means the Clean Power Plan is not in effect and

states are not obliged to comply with its requirements. If the rule prevails through the legal challenges, states will be able to resume preparing state plans where they left off and should still have six more months to prepare initial plans and two-and- a-half years for final plans. The D.C. Circuit will hear oral arguments on the merits of the states' case on June 2, 2016. A final ruling from that court might not come for months. The stay will remain in effect pending USSC review if such review is sought.

If the Clean Power Plan prevails, the rule will impact PNM's existing and future fossil-fueled EGUs. The Carbon Pollution Standards covering new sources will also impact PNM's generation fleet. Impacts could involve investments in additional renewables and energy efficiency programs, efficiency improvements, and/or control technologies at the fossil-fueled EGUs. Under an emissions rate or mass based trading program, PNM may be required to purchase credits or allowances to comply with New Mexico's final state plan. 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. The only 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. Additional GHG control technologies for existing EGUs may become viable in the future. The costs of purchasing carbon credits or allowances, making improvements, or installing new technology could impact the economic viability of some plants. PNM estimates that implementation of the RSIP for BART at SJGS that required the installation of SNCRs on Units 1 and 4 by early 2016, which has been completed, and the retirement of SJGS Units 2 and 3 by the end of 2017

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as described in Note 16, should provide a significant step for New Mexico to meet its ultimate compliance with Section 111(d). PNM is unable to predict the impact of this rule on its fossil-fueled generation.

Federal Legislation

Prospects for enactment of legislation imposing a new or enhanced regulatory program to address climate change in Congress are unlikely in 2016. Instead, EPA continues to be the primary venue for GHG regulation in the near future, especially for coal-fired EGUs. The USSC's decision to stay the Clean Power Plan does put into question the viability of the rule, but EPA is encouraging states to continue to develop plans for compliance even during the stay. In addition, while there are legislative proposals to limit or block implementation of the Clean Power Plan once it is finalized, enactment of such legislation appears unlikely.

PNM has assessed, and continues to assess, the impacts of climate change legislation or regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding the specific GHG limits, the timing of implementation of these limits, the possibility of a cap-and-trade or tax 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_2 emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the developing nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. PNM's IRP filed with the NMPRC on July 1, 2014 showed that consideration of carbon emissions costs impacted the projected in-service dates of some of the identified resources.

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_2 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 28, 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_2 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_2 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.

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International Accords

The United Nations Framework Convention on Climate Change ("UNFCCC") is an international environmental treaty that was negotiated at the 1992 United Nations Conference on Environment and Development (informally known as the Earth Summit) and entered into force in March 1994. The objective of the treaty is to "stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system." Parties, including the United States, have been meeting annually in Conferences of the Parties ("COP") to assess progress in meeting the objectives of the UNFCCC. This assessment process led to the negotiation of the Kyoto Protocol in the mid-1990s. The Protocol, which was agreed to in 1997 and established legally binding obligations for developed countries to reduce their GHG emissions, was never ratified by the United States. PNM monitors the proceedings of the UNFCCC, including the annual COP meetings, to determine potential impacts to its business activities. At the COP meeting in 2011, participating nations, including the United States, agreed that in 2015, they would sign an international agreement involving commitment by all nations to begin reducing carbon emissions by 2020. On December 12, 2015, the Paris Agreement was negotiated during the 2015 COP. The agreement signed by more than 190 countries includes Intended Nationally Determined Contributions ("INDCs"), which are national targets and actions that arise out of national polices, and elements relating to oversight, guidance and coordination of actions to reduce emissions by all countries. In November 2014, President Obama announced the United States' commitment to reduce greenhouse gas emissions by 26%-28% from 2005 levels by the year 2025, which would put the United States on a path to achieve economy-wide reductions of around 80% by 2050. As part of the process for developing the new global climate agreement, the United States formally submitted its INDC to the UNFCCC Secretariat on March 31, 2015, which reflected no change from the November 2014 announcement. To date, INDCs have been submitted by 186 nations, including the United States and the European Union. PNM will continue to monitor the United States participation in international accords. The Obama administration's GHG emissions reduction target for the electric utility industry is based on EPA's final GHG regulations for new, existing, and modified and reconstructed sources. With the stay of the Clean Power Plan that covers existing sources, it is uncertain how the Obama administration plans to meet its commitments under the UNFCCC. PNM believes that implementation of the RSIP for BART at SJGS should provide a significant step towards compliance with the Clean Power Plan, should it prevail, or other GHG emission reduction requirements.

Transmission Issues

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

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

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

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

A final ballot for MOD-001-2 concluded on December 20, 2013 and received sufficient affirmative votes for approval. On February 10, 2014, NERC filed with FERC a petition for approval of MOD-001-2 and retirement of reliability standards MOD-001-1a, MOD-004-1, MOD-008-1, MOD-028-2, MOD-029-1a, and MOD-030-2. On June 19, 2014, FERC issued a NOPR to approve a new reliability standard. The MOD-001-2 standard will become effective on the first day of the calendar quarter that

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is 18 months after the date the standard is approved by FERC. MOD-001-2 will replace multiple existing reliability standards and will remove the risk of reduced TTC for PNM and other western utilities.

In July 2011, FERC issued Order 1000 adopting new requirements for transmission planning, cost allocation, and development for significant transmission planning related changes. In response, PNM and WestConnect (an organization of utility companies providing transmission of electricity in the western region that includes PNM) participants filed modified versions to the Attachment K (Transmission Planning Process) of their respective Open Access Transmission Tariff ("OATT"). In March 2013, FERC issued its order regarding PNM's and six other WestConnect FERC jurisdictional utilities' compliance filings partially accepting many aspects of the filings. 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. On September 20, 2013, PNM and the other WestConnect FERC jurisdictional entities submitted their revised regional compliance filings to address and comply with the March 2013 FERC order.

In September 2014, FERC issued an additional order concerning the regional planning process and cost allocation in response to the September 2013 compliance filings. The FERC order required the WestConnect entities to make another compliance filing to hold a single year "abbreviated planning process for year 2015." The order also required the entities to file the WestConnect "Planning Participation Agreement." Of significant concern to FERC jurisdictional entities in this order was FERC's ruling that the non-jurisdictional entities would not be required to participate in cost allocation on regional projects, which the WestConnect FERC jurisdictional entities believe does not comport with FERC's Order 1000 position on the "cost causation principle" and could create a "free rider-ship" issue for certain participants in the planning process. Due to the cost allocation issue, FERC-regulated entities jointly filed a request for re-hearing or clarification of the FERC order in October 2014. The FERC-regulated entities filed compliance filings regarding the September 2014 FERC order in November 2014, making several adjustments to the language in their respective Attachment Ks, as well as a separate unsigned version of the proposed final version of the Planning Participation Agreement. In May 2015, FERC conditionally accepted the November 2014 filings, but denied the re-hearing request filed in October 2014. The WestConnect FERC jurisdictional entities made compliance filings regarding the May 2015 FERC order on June 16, 2015, making several adjustments to the language in their respective Attachment K. In October 2015, FERC accepted the compliance filings, subject to making two further procedural modifications. On November 19, 2015, the FERC jurisdictional entities filed revisions to Attachment K of their respective OATT. On January 21, 2016, FERC accepted PNM's November 2015 filing with an effective date of January 1, 2016.

In July 2013, the WestConnect participants submitted their cost allocation and inter-regional coordination plan between WestConnect and three other planning regions. In December 2014, FERC issued an order conditionally accepting the WestConnect compliance filing including the California Independent System Operator Corporation ("CAISO"), Northern Tier Transmission Group Applicants, and Columbia Grid (collectively the "Western Filing Parties"). The order required the Western Filing Parties to use the same method for determining the regional benefits of a proposed interregional transmission facility through revisions to the common tariff language. Without requiring modification to the common tariff language for all four Western planning regions, CAISO would tender revised tariff sheets to address the Western Filing Parties compliance condition. The WestConnect entities and the other Western Filing Parties submitted a common compliance filing on February 17, 2015, stating that CAISO had agreed to change its OATT language and, therefore, the other entities would not have to change the common OATT language.

As of January 2015, all of the WestConnect jurisdictional entities have executed the Planning Participation Agreement and some of the non-jurisdictional entities have also signed. A 2015 study plan has been completed and committee activities are currently focused on establishing the data for the technical models, production cost models and base system to be used as the reference for the 2015 study work. WestConnect has hired a consultant to complete the single

year planning study for 2015 as required in the September 2014 FERC order.

Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Reform Act"), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and record keeping and may impose margin requirements on swaps that are not centrally cleared. The United States Commodity Futures Trading Commission ("CFTC") has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge or mitigate commercial risk. PNM has elected the end-user exception to the mandatory clearing requirement. PNM expects to be in compliance with the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of implementing and complying with the Dodd-Frank Reform Act and related rules, PNM's swap activities could be subject

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to increased costs, including from higher margin requirements. At this time, PNM cannot predict the ultimate impact the Dodd-Frank Reform Act may have on PNM's financial condition, results of operations, cash flows, or liquidity.

Other Matters

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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. Unbilled revenues are estimated 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.

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

Impairments

Tangible long-lived assets are evaluated for impairment when events and circumstances indicate that the assets might be impaired in accordance with GAAP. These potential impairment indicators include management's assessment of fluctuating market conditions as a result of planned and scheduled customer purchase commitments; future market penetration; changing environmental requirements; fluctuating market prices resulting from factors including changing fuel costs and other economic conditions; 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 is evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill might be impaired. GAAP allows impairment testing to be performed based on either a qualitative

analysis or quantitative analysis. Note 19 contains information on the impairment testing performed by the Company on goodwill. For 2015, 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, 2015. 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 valu

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es. 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 2015 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 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.

PNM believes that the WACC and cash flow projections utilized in the 2015 quantitative testing appropriately reflected the fair value of the PNM reporting unit. Since any cash flow projection contains uncertainty, the WACC used by PNM was adjusted 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, 2015, the fair value of the PNM reporting unit, which had goodwill of $51.6 million, exceeded its carrying value by approximately 25%. 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 18% at April 1, 2015. 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

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. Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Decommissioning costs are based on site-specific estimates, which are updated periodically and involve numerous judgments and assumptions, including estimates of future decommissioning costs at current price levels, inflation rates, and discount rates. Changes in these estimates could significantly impact PNMR's and PNM's financial position, results of operations and cash flows. Nuclear decommissioning costs are based on estimates of the costs for removing all radioactive and other structures at PVNGS. AROs, including nuclear decommissioning costs, are discussed in Note 15. Nuclear de

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commissioning costs represent approximately 85% 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 $13.1 million at December 31, 2015. PVNGS Units 1 and 2 are included in PNM's retail rates while PVNGS Unit 3 is currently excluded, but will be included beginning in 2018. 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 periodic site-specific studies that estimate the costs to be incurred in the future and are dependent upon numerous assumptions, including estimates of future reclamation costs at current price levels, inflation rates, and discount rates. A 10% increase in the estimates of future reclamation costs at current price levels would have increased the mine reclamation liability by $5.0 million at December 31, 2015. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. The NMPRC has capped the amount that can be collected from ratepayers for final reclamation of the surface mines. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. See Note 16 for discussion of the final reclamation costs.

Pension and Other Postretirement Benefits

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

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MD&A FOR PNM
RESULTS OF OPERATIONS
PNM operates in only one reportable segment, as presented above in Results of Operations for PNMR.
MD&A FOR TNMP
RESULTS OF OPERATIONS
TNMP operates in only one reportable segment, as presented above in Results of Operations for PNMR.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
The Company manages the scope of its various forms of risk through a comprehensive set of policies and procedures with oversight by senior level management through the RMC. The Board's Finance Committee sets the risk limit parameters. The RMC has oversight over the risk control organization. The RMC is assigned responsibility for establishing and enforcing the policies, procedures, and limits and evaluating the risks inherent in proposed transactions on an enterprise-wide basis. The RMC's responsibilities include:
• Establishing policies regarding risk exposure levels and activities in each of the business segments
• Approving the types of derivatives entered into for hedging
• Reviewing and approving hedging risk activities
• Establishing policies regarding counterparty exposure and limits
• Authorizing and delegating transaction limits
• Reviewing and approving controls and procedures for derivative activities
• Reviewing and approving models and assumptions used to calculate mark-to-market and market risk exposure
• 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. During the years ended December 31, 2015 and 2014, PNMR and PNM had no commodity derivative instruments designated as cash flow hedging instruments.

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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 Sheets. 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, 2013	$3,273
Amount realized on contracts delivered during period	1,420
Changes in fair value	5,084
Net mark-to-market change recorded in earnings	6,504
Net change recorded as regulatory liability	(231)
Net fair value at December 31, 2014	9,546
Amount realized on contracts delivered during period	(12,050)
Changes in fair value	6,863
Net mark-to-market change recorded in earnings	(5,187)
Net change recorded as regulatory liability	217
Net fair value at December 31, 2015	$4,576

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, 2015

	Settlement Dates	
	2016	2017
PNMR and PNM	(In thousands)	
Economic hedges		
Prices actively quoted	$—	$—
Prices provided by other external sources	1,954	2,622
Prices based on models and other valuations	—	—
Total	$1,954	$2,622

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, 2015, the high, low, and average VaR amounts were $2.6 million, $0.5 million, and $1.4 million. For the year ended December 31, 2014, the high, low and average VaR amounts were $2.1 million, $0.6 million, and $0.9 million. At December 31, 2015 and December 31, 2014, the VaR amounts for the PNM wholesale portfolio were $1.2 million and $1.3 million.

The VaR represents 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 is 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

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market prices, operating exposures, and the timing thereof, as well as changes to the underlying portfolios during the year. VaR limits were not exceeded during 2015 or 2014.

Credit Risk

The Company is exposed to credit risk from its retail and wholesale customers, as well as the counterparties to derivative instruments. The Company conducts counterparty risk analysis across business segments and uses a credit management process to assess the financial conditions of counterparties. The following table provides information related to credit exposure by the credit worthiness (credit rating) and concentration of credit risk for counterparties to derivative transactions. All credit exposures at December 31, 2015 will mature in less than two years.

Schedule of Credit Risk Exposure
December 31, 2015

Rating [1]	Credit Risk Exposure[2]	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
	(Dollars in thousands)		
PNMR and PNM			
External ratings:			
Investment grade	$1,211	—	$—
Non-investment grade	1	—	—
Internal ratings:			
Investment grade	6,601	1	5,722
Non-investment grade	8	—	—
Total	$7,821		$5,722

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

(2) The Credit Risk Exposure is the gross credit exposure, including long-term contracts (other than firm-requirements wholesale customers), 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, 2015, PNMR and PNM held $0.1 million of cash collateral to offset their credit exposure.

Net credit risk for PNMR’s and PNM’s largest counterparty as of December 31, 2015 was $7.9 million, which is due from a firm-requirements wholesale 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 1.9%, 1.7%, and 3.7%, if interest rates were to decline by 50 basis points from their levels at December 31, 2015. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if all or a portion of debt instruments were acquired in the open market prior to their maturity. At February 19, 2016, PNMR, PNM, and TNMP had $66.1 million, $46.2 million, and $15.0 million of short-term debt outstanding under their revolving credit facilities, which allow for a maximum aggregate borrowing

capacity of $300.0 million for PNMR, $400.0 million for PNM, and $75.0 million for TNMP. PNM also had borrowings of $50.0 million under the $50.0 million PNM New Mexico Credit Facility at February 19, 2016. The revolving credit facilities, the PNM New Mexico Credit Facility, the $125.0 million PNM Multi-draw Term Loan, the $100.0 million PNMR Term Loan Agreement, the $150.0 million PNMR 2015 Term Loan Agreement, the $150.0 million PNMR Term Loan Agreement, and the $125.0 million BTMU Term Loan Agreement bear interest at variable rates. On February 19, 2016, interest rates on borrowings averaged 1.68% for the PNMR Revolving Credit Facility, 1.33% for the PNMR

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2015 Term Loan Agreement, 1.28% for the PNMR Term Loan Agreement, 3.37% for the BTMU Term Loan Agreement, 1.01% for the PNM Multi-draw Term Loan, 1.56% for the PNM Revolving Credit Facility, 1.56% for the PNM New Mexico Credit Facility, and 1.43% for the TNMP Revolving Credit Facility. 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 $891.5 million at December 31, 2015, of which 54.4% 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, 2015, the decrease in the fair value of the fixed-rate securities would be 5.6%, or $27.2 million. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of $71.4 million at December 31, 2015, of which 57.7% 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, 2015, the decrease in the fair value of the fixed-rate securities would be 6.3%, or $2.6 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, 2015. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 34.0% and 26.0% of the securities held by the various PNM and TNMP trusts as of December 31, 2015. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $30.3 million for PNM and $1.9 million for TNMP.

Alternatives Investment Risk

The Company had 14.3% of its pension assets invested in the alternatives asset class as of December 31, 2015. The Company’s target for this class is 14%. 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 $8.8 million.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Management assessed the effectiveness of PNMR's internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNMR's internal control over financial reporting was effective as of December 31, 2015.

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

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Public Service Company of New Mexico and subsidiaries ("PNM") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.
Management assessed the effectiveness of PNM's internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that PNM's internal control over financial reporting was effective as of December 31, 2015.

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

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

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MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of Texas-New Mexico Power Company and subsidiaries ("TNMP") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.
Management assessed the effectiveness of TNMP's internal control over financial reporting based on the Internal Control – Integrated Framework (2013) set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that TNMP's internal control over financial reporting was effective as of December 31, 2015.

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

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

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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, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). PNM Resources, Inc. and subsidiaries 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, 2015, based on criteria established in Internal Control - Integrated Framework (2013) 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 sheets of PNM Resources, Inc. and subsidiaries as of December 31, 2015 and 2014, the related consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated February 26, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Albuquerque, New Mexico
February 26, 2016

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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 sheets of PNM Resources, Inc. and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We 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, 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, 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, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2016 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Albuquerque, New Mexico
February 26, 2016

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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 sheets of Public Service Company of New Mexico and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings (loss), consolidated statements of comprehensive income (loss), consolidated statements of changes in equity, and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We 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, 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Albuquerque, New Mexico
February 26, 2016

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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 sheets of Texas-New Mexico Power Company and subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of earnings, consolidated statements of comprehensive income, consolidated statements of changes in common stockholder's equity, and consolidated statements of cash flows for each of the years in the three-year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We 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, 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, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP
Albuquerque, New Mexico
February 26, 2016

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2015	2014	2013
	(In thousands, except per share amounts)		
Electric Operating Revenues	$1,439,082	$1,435,853	$1,387,923
Operating Expenses:			
Cost of energy	464,649	471,556	432,316
Administrative and general	179,100	171,111	179,210
Energy production costs	176,752	185,638	175,819
Regulatory disallowances and restructuring costs	167,471	1,062	12,235
Depreciation and amortization	185,919	172,634	166,881
Transmission and distribution costs	69,157	66,571	70,124
Taxes other than income taxes	71,684	67,584	64,496
Total operating expenses	1,314,732	1,136,156	1,101,081
Operating income	124,350	299,697	286,842
Other Income and Deductions:			
Interest income	6,498	8,483	10,043
Gains on available-for-sale securities	16,060	10,527	10,612
Other income	26,833	12,048	10,572
Other (deductions)	(12,728)	(10,481)	(21,552)
Net other income and deductions	36,663	20,577	9,675
Interest Charges	114,860	119,627	121,448
Earnings before Income Taxes	46,153	200,647	175,069
Income Taxes	15,075	69,738	59,513
Net Earnings	31,078	130,909	115,556
(Earnings) Attributable to Valencia Non-controlling Interest	(14,910)	(14,127)	(14,521)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Net Earnings Attributable to PNMR	$15,640	$116,254	$100,507
Net Earnings Attributable to PNMR per Common Share:			
Basic	$0.20	$1.46	$1.26
Diluted	$0.20	$1.45	$1.25

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

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Net Earnings	$31,078	$130,909	$115,556
Other Comprehensive Income:			
Unrealized Gains on Available-for-Sale Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) of $(4,310), $(6,812), and $(10,855)	6,688	10,661	16,564
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $11,181, $5,461, and $4,734	(17,350)	(8,401)	(7,222)
Pension Liability Adjustment:			
Experience gains (losses), net of income tax (expense) benefit of $1,726, $6,024 and $(6,781)	(2,679)	(9,258)	10,355
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(2,332), $(2,032) and $(2,524)	3,620	3,120	3,840
Fair Value Adjustment for Designated Cash Flow Hedges:			
Change in fair market value, net of income tax (expense) benefit of $(28), $53, and $98	44	(100)	(181)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $0, $(195), and $(73)	—	363	134
Total Other Comprehensive Income (Loss)	(9,677)	(3,615)	23,490
Comprehensive Income	21,401	127,294	139,046
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,910)	(14,127)	(14,521)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Comprehensive Income Attributable to PNMR	$5,963	$112,639	$123,997

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

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	$31,078	$130,909	$115,556
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	222,861	209,867	208,173
Deferred income tax expense	16,451	72,481	60,430
Net unrealized (gains) losses on commodity derivatives	5,188	(6,504)	(1,866)
Realized (gains) on available-for-sale securities	(16,060)	(10,527)	(10,612)
Loss on reacquired debt	—	—	3,253
Stock based compensation expense	4,863	5,931	5,320
Regulatory disallowances and restructuring costs	167,471	1,062	12,235
Allowance for equity funds used during construction	(10,430)	(5,563)	(4,382)
Other, net	3,934	4,045	2,735
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(3,298)	(4,975)	(7,562)
Materials, supplies, and fuel stock	(180)	5,504	(7,580)
Other current assets	29,370	(30,436)	8,577
Other assets	2,369	290	(12,801)
Accounts payable	(32,269)	(2,311)	4,484
Accrued interest and taxes	4,957	2,040	91,537
Other current liabilities	2,633	(2,453)	(19,648)
Other liabilities	(42,064)	45,516	(61,262)
Net cash flows from operating activities	386,874	414,876	386,587
Cash Flows From Investing Activities:			
Additions to utility and non-utility plant	(558,589)	(460,658)	(348,039)
Proceeds from sales of available-for-sale securities	252,174	117,989	271,140
Purchases of available-for-sale securities	(262,548)	(127,016)	(282,000)
Return of principal on PVNGS lessor notes	21,694	20,758	23,357
Purchase of Rio Bravo	—	(36,235)	—
Other, net	2,741	(167)	4,096
Net cash flows from investing activities	(544,528)	(485,329)	(331,446)

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

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

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Cash Flows From Financing Activities:			
Short-term loan	50,000	—	—
Revolving credit facilities borrowings (repayments), net	95,000	(43,600)	(9,500)
Long-term borrowings	463,605	355,000	75,000
Repayment of long-term debt	(333,066)	(125,000)	(29,468)
Cash paid in debt exchange	—	—	(13,048)
Proceeds from stock option exercise	5,619	6,999	4,618
Purchases to satisfy awards of common stock	(17,720)	(17,319)	(13,807)
Dividends paid	(64,251)	(59,468)	(51,508)
Valencia's transactions with its owner	(17,049)	(17,610)	(18,335)
Other, net	(6,707)	(2,808)	(5,545)
Net cash flows from financing activities	175,431	96,194	(61,593)
Change in Cash and Cash Equivalents	17,777	25,741	(6,452)
Cash and Cash Equivalents at Beginning of Year	28,274	2,533	8,985
Cash and Cash Equivalents at End of Year	$46,051	$28,274	$2,533
Supplemental Cash Flow Disclosures:			
Interest paid, net of amounts capitalized	$103,382	$108,741	$110,768
Income taxes paid (refunded), net	$(1,890)	$(2,597)	$(95,327)
Supplemental schedule of noncash investing and financing activities:			
Changes in accrued plant additions	$(19,080)	$(3,089)	$(6,006)
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.

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	2014
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$46,051	$28,274
Accounts receivable, net of allowance for uncollectible accounts of $1,397 and $1,466	98,699	87,038
Unbilled revenues	52,012	63,719
Other receivables	28,590	39,857
Materials, supplies, and fuel stock	67,386	63,628
Regulatory assets	1,070	47,855
Commodity derivative instruments	3,813	11,232
Income taxes receivable	5,845	6,360
Other current assets	82,104	58,471
Total current assets	385,570	406,434
Other Property and Investments:		
Investment in PVNGS lessor notes	—	9,538
Available-for-sale securities	259,042	250,145
Other investments	604	1,762
Non-utility property	3,404	3,406
Total other property and investments	263,050	264,851
Utility Plant:		
Plant in service, held for future use, and to be abandoned	6,307,261	5,941,581
Less accumulated depreciation and amortization	2,058,772	1,939,760
	4,248,489	4,001,821
Construction work in progress	204,766	190,389
Nuclear fuel, net of accumulated amortization of $44,455 and $44,507	82,117	77,796
Net utility plant	4,535,372	4,270,006
Deferred Charges and Other Assets:		
Regulatory assets	470,664	491,007
Goodwill	278,297	278,297
Commodity derivative instruments	2,622	—
Other deferred charges	73,753	79,642
Total deferred charges and other assets	825,336	848,946
	$6,009,328	$5,790,237

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	2014
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$250,600	$105,600
Current installments of long-term debt	124,979	332,871
Accounts payable	100,419	110,029
Customer deposits	12,216	12,555
Accrued interest and taxes	58,306	53,863
Regulatory liabilities	15,591	1,703
Commodity derivative instruments	1,859	1,209
Dividends declared	17,656	16,063
Other current liabilities	59,494	70,194
Total current liabilities	641,120	704,087
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,966,969	1,629,514
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	877,393	864,728
Regulatory liabilities	467,413	466,143
Asset retirement obligations	111,895	104,170
Accrued pension liability and postretirement benefit cost	73,097	110,738
Commodity derivative instruments	—	477
Other deferred credits	133,692	103,759
Total deferred credits and other liabilities	1,663,490	1,650,015
Total liabilities	4,271,579	3,983,616
Commitments and Contingencies (See Note 16)		
Cumulative Preferred Stock of Subsidiary without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,166,465	1,173,845
Accumulated other comprehensive income (loss), net of income taxes	(71,432)	(61,755)
Retained earnings	559,780	609,456
Total PNMR common stockholders' equity	1,654,813	1,721,546
Non-controlling interest in Valencia	71,407	73,546
Total equity	1,726,220	1,795,092
	$6,009,328	$5,790,237

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

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

	Attributable to PNMR					
	PNMR Common Stockholders' Equity					
	Common Stock	AOCI	Retained Earnings	Total	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2012	$1,182,819	$(81,630)	$506,998	$1,608,187	$80,843	$1,689,030
Proceeds from stock option exercise	4,618	—	—	4,618	—	4,618
Purchases to satisfy awards of common stock	(13,807)	—	—	(13,807)	—	(13,807)
Excess tax (shortfall) from stock-based payment arrangements	(581)	—	—	(581)	—	(581)
Stock based compensation expense	5,320	—	—	5,320	—	5,320
Valencia's transactions with its owner	—	—	—	—	(18,335)	(18,335)
Net earnings before subsidiary preferred stock dividends	—	—	101,035	101,035	14,521	115,556
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Total other comprehensive income	—	23,490	—	23,490	—	23,490
Dividends declared on common stock	—	—	(54,165)	(54,165)	—	(54,165)
Balance at December 31, 2013	1,178,369	(58,140)	553,340	1,673,569	77,029	1,750,598
Proceeds from stock option exercise	6,999	—	—	6,999	—	6,999
Purchases to satisfy awards of common stock	(17,319)	—	—	(17,319)	—	(17,319)
Excess tax (shortfall) from stock-based payment arrangements	(135)	—	—	(135)	—	(135)
Stock based compensation expense	5,931	—	—	5,931	—	5,931
Valencia's transactions with its owner	—	—	—	—	(17,610)	(17,610)
Net earnings before subsidiary preferred stock dividends	—	—	116,782	116,782	14,127	130,909
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Total other comprehensive income (loss)	—	(3,615)	—	(3,615)	—	(3,615)
Dividends declared on common stock	—	—	(60,138)	(60,138)	—	(60,138)
Balance at December 31, 2014	1,173,845	(61,755)	609,456	1,721,546	73,546	1,795,092
Proceeds from stock option exercise	5,619	—	—	5,619	—	5,619
	(17,720)	—	—	(17,720)	—	(17,720)

Purchases to satisfy awards of common stock						
Excess tax (shortfall) from stock-based payment arrangements	(142)	—	—	(142)	—	(142)
Stock based compensation expense	4,863	—	—	4,863	—	4,863
Valencia's transactions with its owner	—	—	—	—	(17,049)	(17,049)
Net earnings before subsidiary preferred stock dividends	—	—	16,168	16,168	14,910	31,078
Subsidiary preferred stock dividends	—	—	(528)	(528)	—	(528)
Total other comprehensive income (loss)	—	(9,677)	—	(9,677)	—	(9,677)
Dividends declared on common stock	—	—	(65,316)	(65,316)	—	(65,316)
Balance at December 31, 2015	$					