TEXAS NEW MEXICO POWER CO
Form 10-K
March 01, 2013
Table of Contents

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, 2012

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

Table of Contents

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 22, 2013, shares of common stock outstanding were:

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

On June 29, 2012, 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 $19.54 per share reported by The Wall Street Journal, was $1,556,431,813. 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 9, 2013.

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.

Table of Contents

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

Table of Contents

GLOSSARY

Definitions:

ABO	Accumulated Benefit Obligation
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APBO	Accumulated Postretirement Benefit Obligation
APS	Arizona Public Service Company, which is the operator and a co-owner of PVNGS and Four Corners
ARO	Asset Retirement Obligation
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BHP	BHP Billiton, Ltd, the parent of SJCC
Board	Board of Directors of PNMR
BTU	British Thermal Unit
CAA	Clean Air Act
Cascade	Cascade Investment, L.L.C.
CCB	Coal Combustion Byproducts
CO_2	Carbon Dioxide
CTC	Competition Transition Charge
D.C. Circuit	United States Court of Appeals for the District of Columbia Circuit
Delta	Delta-Person Generating Station
DOE	United States Department of Energy
DOI	United States Department of Interior
ECJV	ECJV Holdings, LLC
EIB	New Mexico Environmental Improvement Board
EIP	Eastern Interconnection Project
EPA	United States Environmental Protection Agency
EPE	El Paso Electric
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
First Choice	FCP Enterprises, Inc. and Subsidiaries
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC
FPPAC	Fuel and Purchased Power Adjustment Clause
GAAP	Generally Accepted Accounting Principles in the United States of America
GEaR	Gross Earnings at Risk
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers, Local 611
IRP	Integrated Resource Plan

IRS	Internal Revenue Service
KW	Kilowatt
KWh	Kilowatt Hour

Table of Contents

LIBOR	London Interbank Offered Rate
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody’s	Moody’s Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEC	Navopache Electric Cooperative, Inc.
NERC	North American Electric Reliability Council
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NOx	Nitrogen Oxides
NOI	Notice of Inquiry
NOPR	Notice of Proposed Rulemaking
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
Optim Energy	Optim Energy, LLC, a limited liability company, formerly known as EnergyCo, LLC
OSM	United States Office of Surface Mining Reclamation and Enforcement
PBO	Projected Benefit Obligation
PCRBs	Pollution Control Revenue Bonds
PG&E	Pacific Gas and Electric Co.
PNM	Public Service Company of New Mexico and Subsidiaries
PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PNMR Term Loan Agreement	PNMR’s $100 Million Unsecured Term Loan Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004

REC	Renewable Energy Certificates
REP	Retail Electricity Provider
RMC	Risk Management Committee

Table of Contents

RPS	Renewable Energy Portfolio Standard
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
SPS	Southwestern Public Service Company
SRP	Salt River Project
S&P	Standard and Poor’s Ratings Services
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2011 Term Loan Agreement	TNMP's $50 Million Secured Term Loan
TNMP Revolving Credit Facility	TNMP’s $75 Million Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power System
Valencia	Valencia Energy Facility
VaR	Value at Risk
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
WSPP	Western Systems Power Pool

Table of Contents

PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

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

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

PNMR's success in accomplishing these strategic goals is highly dependent on continued favorable regulatory treatment for its regulated utilities. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. The PUCT has approved mechanisms that allow for recovery of capital invested in transmission and distribution projects without having to file a general rate case. In 2011, PNM and TNMP completed general rate proceedings before their state regulators. In August 2012, PNM implemented a rate rider to collect renewable energy procurement costs that are not otherwise being collected in rates. On January 2, 2013, FERC approved a settlement for an increase in rates PNM charges its transmission customers and, in December 2012, PNM filed for an additional increase in rates charged to those customers based on a formula rate methodology, which is pending before FERC. PNM has also reached a settlement for an increase in rates charged to its largest firm-requirements wholesale customer, which is pending before FERC. In September 2012, TNMP received PUCT approval for an increase in its rates to reflect increases in its transmission cost of service. Additional information about rate filings is provided 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 will use the term “Company” when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP will be indicated as such. A reference to “MD&A” in this report refers to Part II, Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations. A reference to a “Note” refers to the accompanying Notes to Consolidated Financial Statements.

Financial information relating to amounts of sales, 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 Internet addresses are:

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

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

Table of Contents

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

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

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

OPERATIONS AND REGULATION
Regulated Operations
PNM

PNM is an electric utility that provides electric generation, transmission, and distribution service to its rate-regulated customers. In New Mexico, the utility's retail electric service territory covers a large area of north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain other 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, transmission, and distribution facilities, and other matters.

Other services provided by PNM include transmission services to third parties as well as the generation and sale of electricity into the wholesale market, which services are regulated by FERC. The utility owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. The largest retail electric customer served by PNM accounted for 3.6% of the utility's revenues for the year ended December 31, 2012. PNM was incorporated in the State of New Mexico in 1917.

Rate Proceedings

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

- $72.1 million increase in annual non-fuel revenues for all New Mexico retail customers, implemented August 21, 2011
- Customers formerly served by TNMP prior to its acquisition by PNMR (“PNM South”) being covered by the same FPPAC utilized for other retail customers of PNM (“PNM North”)
- Subject to further NMPRC approvals, recovery of costs associated with NMPRC approved renewable energy procurement plans through a rate rider beginning no earlier than August 2012
- No new general rate adjustment effective prior to July 1, 2013, unless PNM needs to file for recovery of costs to comply with any federal or state environmental law or requirement effective after June 30, 2010
- Limit on annual recovery of costs for fuel, renewable energy, and energy efficiency, with recovery of additional amounts deferred for collection to future periods

As permitted by the above NMPRC order, PNM filed an application in January 2012 for a rate rider to collect costs for renewable energy procurements incurred after December 31, 2010 that are not otherwise being collected in rates. These costs include the procurement of solar RECs from customers, wind resource procurements, and the revenue

requirements for PNM-owned solar PV facilities and a solar battery storage demonstration project that went into service during 2011. On August 14, 2012, the NMPRC issued an order approving the rider. PNM implemented the rider on August 20, 2012. The rider will terminate upon a final order in PNM's next general rate case unless that order authorizes a continuation of the rider. Amounts that can be collected under the rider are capped at $18.0 million in 2012 and $24.6 million in 2013. Any amounts above the caps are deferred for future recovery without carrying costs. Collections under the rider during 2012 were below the cap. As a separate component of the rider, if PNM's earned return on jurisdictional equity in 2013, adjusted for weather and other items not representative of normal operation, exceeds 10.5%, it will refund to customers during May through December 2014 the amount over 10.5%.

Table of Contents

PNM has entered into firm-requirements wholesale contracts to provide electricity to various customers. These contracts contain both capacity charges and energy charges. Capacity charges are monthly payments for a commitment of resources to service the contract requirements. Energy charges are payments based on the amount of electricity delivered to the customer and are intended to compensate for the variable costs incurred to provide the energy. PNM's firm-requirements demand was 109 MW in 2012, and is expected, based solely on existing contracts, to be 106 MW in 2013, 106 MW in 2014, and 108 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, 2012.

In September 2011, PNM filed with FERC to increase rates for electric service and ancillary services provided to NEC, PNM's largest firm-requirements wholesale customer. PNM also requested a traditional FPPAC and full recovery of certain third-party transmission charges. FERC issued an order allowing the increased rates to be collected beginning April 14, 2012, subject to refund. The parties agreed to a settlement providing for an increase in rates of $5.3 million, an extension of the contract for 10 years, and an agreement that PNM will be able to file an application for formula based rates to be effective in 2015. The settlement has been filed with FERC and is pending FERC approval. PNM is unable to predict the outcome of this proceeding. PNM provides both energy and power services to the City of Gallup, New Mexico, its second largest firm-requirements wholesale customer, under an electric service agreement that expires June 30, 2013. PNM and the City of Gallup are in discussions regarding PNM continuing to provide services after the current agreement expires.

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. PNM refunded amounts collected in excess of the settled rates in January 2013. In addition, the parties agreed that if PNM files for a formula based rate change within one year from FERC's approval of the settlement agreement, no party will oppose the general principle of a formula rate, although the parties may still object to particular aspects of the formula. The rate increase does not impact PNM's retail customers.

In December 2012, PNM filed a notice with FERC to increase its wholesale electric transmission rates for all of its transmission customers. The proposed increase is $3.2 million annually and is a formula based rate as contemplated by the approved settlement in the case described above. FERC has not taken action on the filing and PNM is unable to predict the outcome of this proceeding.

Operational Information

Weather-normalized retail electric loads decreased by 0.7% in 2012. The system peak demands for retail and firm-requirements customers were:

System Peak Demands

	2012	2011	2010
	(Megawatts)		
Summer	1,948	1,938	1,973
Winter	1,523	1,709	1,551

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow the utility to access public rights-of-way for placement of its electric facilities. Franchise agreements have expired in some areas PNM serves, including Albuquerque, Rio Rancho, and Santa Fe. Because PNM remains obligated under New Mexico state law to provide service to customers in these areas, the expirations should not have a material adverse impact. The Albuquerque, Rio Rancho, and Santa Fe metropolitan

areas accounted for 48.5%, 11.3%, and 9.5% of PNM's 2012 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.

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

Table of Contents

PNM also generates and sells electricity into the wholesale market. Because PNM's 134 MW share of Unit 3 at PVNGS is excluded from retail rates, that unit's power is being sold in the wholesale market. In April 2008, PNM entered into three separate contracts for the sale of capacity and energy related to its entire interest in PVNGS Unit 3 through December 31, 2010. Subsequently, the utility has sold its share of the unit output daily at market prices. PNM has established fixed rates for all of these sales through the end of 2013 through hedging arrangements that are accounted for as economic hedges. PNM is also partially hedged for 2014. Because of lower existing market prices, margins associated with sales subsequent to 2010 were significantly lower than those achieved in the 2008 agreements. Beyond the PVNGS contracts, PNM also engages in activities to optimize its existing jurisdictional assets and long-term purchase power agreements through spot market, hour ahead, day ahead, week ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Revenues from these sales, other than those from PVNGS Unit 3, are credited to retail customers through the FPPAC.

Use of Future Test Year

Senate Bill 477 (“SB 477”) was passed by the New Mexico legislature and became effective in June 2009. SB 477 is designed to promote more timely recovery of reasonable costs of providing utility service in two ways.

- The NMPRC must set rates using the test period that best reflects the conditions the utility will experience when new rates are anticipated to go into effect. The NMPRC is required to consider that a future test period may be the one that best meets this requirement. A future test period is a twelve-month period beginning no later than the date a proposed rate change is expected to take effect.

- The NMPRC must include certain construction work in progress (“CWIP”) for environmental improvement, generation, and transmission projects in rate base, without an offset for AFUDC. With this provision, PNM will be able to collect costs as projects are being built rather than waiting until they are finished to include them in rate base.

The use of a future test year should help PNM mitigate the adverse effects of regulatory lag, which is inherent when using a historical test year. Accordingly, the utility's earnings should more closely reflect the rate of return allowed by the NMPRC. PNMR believes that achieving earnings that approximate its allowed rate of return is an important factor in attracting equity investors, as well as being considered favorably by credit rating agencies and financial analysts. In November 2012, the NMPRC issued an order promulgating rules that clarify the filing requirements for public utility rate applications based on a future test year.

PNM previously announced it anticipated filing a request for a general rate increase with the NMPRC in mid-2013. With the uncertainty related to environmental capital spending described in Note 16 and improved operating results, PNM is re-evaluating when it will file its next general rate case. As with any forward looking financial information, utilizing a future test year in a rate filing presents challenges that exist in the forecasting process. These include forecasts of both operating and capital expenditures that necessitate reliance on many assumptions concerning future conditions and operating results. In the rate making process, PNM's assumptions are subject to challenge by regulators and intervenors who may assert different interpretations or assumptions.

Renewable Portfolio Standard

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

rates. PNM files required renewable energy plans with the NMPRC annually. See Note 17.

TNMP

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

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

Table of Contents

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. ERCOT is the independent system operator that is responsible for maintaining reliable operations for the bulk electric power supply system in its region.

TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. As of December 31, 2012, 89 active REPs receive transmission and distribution services from TNMP. The acquirer of First Choice, including the former First Choice operations, accounted for 19% of TNMP's revenues in 2012. Two other unaffiliated customers of TNMP accounted for operating revenues of 17% in 2012 and 10% in 2012. No other customer accounted for more than 10% of revenues.

Regulatory Activities

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

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

The PUCT approved interim adjustments to TNMP's transmission rates of $5.5 million on May 14, 2010 and $2.5 million on September 27, 2012.

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 on TNMP's business. 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.

Competitive Businesses
First Choice

As discussed in Note 3, PNMR completed the sale of First Choice on November 1, 2011 receiving $270.0 million, plus $59.3 million for estimated working capital. The latter amount was subject to adjustment based on the actual amounts of certain components of working capital at October 31, 2011. PNMR recognized a pre-tax gain of $174.9 million on the sale in 2011. The parties could not agree on the working capital amount and, in accordance with the agreement for the sale, this matter was submitted to an independent party for a decision binding on the parties. A decision was received in August 2012 resulting in an additional pre-tax gain of $1.0 million in 2012. PNMR used the

net proceeds from the sale of First Choice to repurchase some of PNMR's outstanding debt and equity and for other corporate purposes, including repayment of borrowings under the PNMR Revolving Credit Facility.

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

During the period it was a subsidiary of PNMR, First Choice's operating results were pressured by several factors. Due to the competitive nature of the Texas market, First Choice, similar to other REPs, experienced significant turnover in its customer

Table of Contents

base, which along with the impacts of Hurricane Ike and depressed economic conditions resulted in significant increases in the levels of uncollectible accounts and bad debt expense. First Choice's load fluctuated due to customer additions and losses, changes in customer usage, and seasonality of weather. First Choice experienced increased sales and operating revenues during the summer months as a result of increased air conditioner usage. First Choice monitored and revised its load forecast to account for changing customer loads and entered into hedging arrangements to cover forecasted sales.

Optim Energy

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

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

As discussed in Note 21, PNMR determined its investment in Optim Energy was fully impaired at December 31, 2010 and reduced the carrying value of the investment to zero by recording a pre-tax loss of $188.2 million. PNMR, ECJV, and Cascade entered into agreements on September 23, 2011, whereby Optim Energy was restructured and ECJV made an equity contribution to Optim Energy in exchange for an increased ownership interest, which resulted in PNMR's ownership in Optim Energy being reduced from 50% to 1%. On January 4, 2012, ECJV exercised its option to acquire PNMR's remaining 1% ownership interest in Optim Energy at fair market value, which was determined to be zero. PNMR accounted for its investment in Optim Energy using the equity method of accounting through September 23, 2011 and used the cost method thereafter. In accordance with GAAP, PNMR did not record income or losses associated with its investment in Optim Energy in 2011.

Corporate and Other

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

SOURCES OF POWER
PNM
Generation Capacity

As of December 31, 2012, the total net generation capacity of facilities owned or leased by PNM was 2,333 MW. PNM also obtains 204 MW of power under a long-term PPA with the New Mexico Wind Energy Center.

Table of Contents

PNM's owned and leased capacity in electric generating facilities in commercial service as of December 31, 2012 is:

Type	Name	Location	Generation Capacity (MW)
Coal	SJGS	Waterflow, New Mexico	783
Coal	Four Corners	Fruitland, New Mexico	200
Gas	Reeves Station	Albuquerque, New Mexico	154
Gas	Afton (combined cycle)	La Mesa, New Mexico	230
Gas	Lordsburg	Lordsburg, New Mexico	80
Gas	Luna (combined cycle)	Deming, New Mexico	185
Gas/Oil	Delta	Albuquerque, New Mexico	132
Gas	Valencia	Belen, New Mexico	145
Nuclear	PVNGS	Wintersburg, Arizona	402
Solar	PNM-owned solar	Five sites in New Mexico	22
			2,333

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, 496 MW and 507 MW. SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson. SJGS Unit 3 is owned 50% by PNM, 41.8% by SCPPA, and 8.2% by Tri State. SJGS Unit 4 is owned 38.457% by PNM, 28.8% by MSR Public Power Agency, 10.04% by the City of Anaheim, California, 8.475% by the City of Farmington, New Mexico, 7.2% by the County of Los Alamos, New Mexico, and 7.028% by UAMPS. See Note 16 for additional information about SJGS.

Four Corners Units 4 and 5 are 13% owned by PNM. Units 4 and 5 at Four Corners are jointly owned with SCE, APS, SRP, Tucson, and EPE and are operated by APS. PNM has no ownership interest in Four Corners Units 1, 2, or 3. Four Corners and a portion of the facilities adjacent to SJGS are located on land held under easements from the United States and also under leases from the Navajo Nation. APS, on behalf of the Four Corners participants, has negotiated amendments to an existing facility lease with the Navajo Nation that would extend the leasehold interest in the plant to 2041. The amendments have been approved by the Navajo Nation Council and signed by the Nation's President. DOI must also approve the amendments as well as a related federal rights-of-way grant that the Four Corners participants will pursue. A federal environmental review will be conducted as part of the DOI review process. See Note 16 for additional information about Four Corners.

PNM owns 100% of Reeves, Afton, and Lordsburg and 33.3% of Luna. The remaining interests in Luna are owned equally by Tucson and Freeport McMoran. PNM is entitled to the energy and capacity of Delta under a PPA that is deemed to be an operating lease. PNM has a PPA that entitles it to the entire output of Valencia. Valencia is a variable interest entity and is consolidated by PNM as required by GAAP. Therefore, Valencia is reflected in the above table as if it were owned. Reeves, Lordsburg, Delta, and Valencia are used primarily for peaking power and transmission support. See Note 9 for additional information about the Delta operating lease, including the potential purchase of Delta.

Nuclear Plant

PNM is participating in the three units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), Salt River Project, EPE, SCE, SCPPA, and the Department of Water and Power of the City of Los Angeles. PNM is entitled to 10.2% of the power and energy generated by PVNGS. PNM has ownership interests of

2.3% in Unit 1, 4.6% in Unit 2, and 10.2% in Unit 3 and has leasehold interests of 7.9% in Unit 1 and 5.6% in Unit 2. The lease payments for the leased portions of PVNGS are recovered through retail rates approved by the NMPRC. See Note 7 for additional information concerning the PVNGS leases, including notices given to the lessors under the PVNGS Unit 1 leases in 2013 that PNM would renew the leases. See Note 16 for information on other PVNGS matters.

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

Table of Contents

power at plants; and (2) enhancement of spent fuel pool instrumentation. The NRC has issued a series of interim staff guidance documents regarding implementation of these requirements. Due to the developing nature of these requirements, APS and PNM cannot predict the financial or operational impacts on PVNGS; however PVNGS continues to comply with regulatory requirements and related reporting.

Solar

In 2011, PNM completed its first major utility-owned renewable energy project when five utility-scale solar facilities in New Mexico went online. The five solar sites are located in Alamogordo, Deming, Los Lunas, Las Vegas, and Albuquerque. In addition to these facilities, PNM completed its solar-storage demonstration project in Albuquerque, which has a generation capacity of 0.5 MW that is not included in the above table. The NMPRC has approved PNM's 2013 renewable energy procurement strategy that includes an additional 21.5 MW of utility-owned solar capacity.

Plant Operating Statistics

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

Plant	Operator	2012	2011	2010
SJGS	PNM	81.7%	86.9%	73.5%
Four Corners	APS	83.5%	81.5%	75.3%
PVNGS	APS	90.6%	89.1%	88.6%

Joint Projects

SJGS, PVNGS, Four Corners, and Luna are joint projects each owned or leased by several different utilities. Some participants in the joint projects are investor-owned utilities, while others are municipally or co-operatively owned. Furthermore, participants in SJGS and Four Corners may have varying percentage interests in different generating units within the project. The primary operating or participation agreements for the joint projects expire in 2016 for Four Corners, 2022 for SJGS, and 2027 for PVNGS. In addition, SJGS and Four Corners are coal-fired generating plants that obtain their coal requirements from mines near the plants. The agreements for coal supply expire in 2016 for Four Corners and 2017 for SJGS. As described above, Four Corners is situated on land under a lease from the Navajo Nation. Portions of PNM's interests in PVNGS Units 1 and 2 are through leases that expire in 2015 and 2016, but contain certain fixed-rate renewal and fair market value purchase options. As discussed in Note 7, PNM gave notice to the lessors in 2013 that PNM would renew the PVNGS Unit 1 leases and would retain control of the assets subject to the PVNGS Unit 2 leases at the expiration of the leases. Several of the participants in the joint projects are located in California. There are legislative and regulatory mandates in California that prohibit utilities from entering into new, or extending existing, arrangements for coal-fired generation. It is also possible that the participants in the joint projects have changed circumstances and objectives from those existing at the time of becoming participants. The status of these joint projects is further complicated by the uncertainty surrounding the form of potential legislation and/or regulation of GHG, CCBs, and other air emissions, as well as the impacts of the costs of compliance and operational viability of all or certain units within the joint projects. It is unclear how these factors will enter into discussion and negotiations concerning the status of the joint projects as the expiration of basic operational agreements approaches. PNM can provide no assurance that its participation in the joint projects will continue in the manner that currently exists. See Note 16.

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

PNM's 2013 renewable energy procurement plan includes a 20-year agreement to purchase energy from a geothermal facility to be built near Lordsburg. The 10 MW facility will be the first geothermal project for the PNM system and is scheduled to be completed by December 31, 2013.

Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
Purchased under long-term PPAs			
MWh	546,321	794,867	1,360,991
Cost per MWh	$27.25	$29.93	$34.36
Other purchased power			
Total MWh	948,911	988,564	1,083,548
Cost per MWh	$27.30	$31.47	$40.61

TNMP

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

First Choice

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

FUEL AND WATER SUPPLY

PNM

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

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2012	59.2%	$2.99	31.3%	$0.88	9.0%	$3.25
2011	61.8%	$2.79	29.7%	$0.80	8.4%	$4.47
2010	58.9%	$2.49	31.3%	$0.66	9.8%	$4.54

In 2012 and 2011, 0.5% and 0.1% of PNM's generation was from utility owned solar, which has no fuel cost. The generation mix for 2013 is expected to be 60.2% coal, 28.5% nuclear, 10.8% gas and oil, and 0.5% utility owned solar. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits, and the generally adequate supply of nuclear fuel, PNM believes that adequate sources of fuel are available for its generating stations into the foreseeable future. See Sources of Power - PNM - PPAs for information concerning the cost of purchased power.

Coal

The coal supply contracts that provide fuel for SJGS and Four Corners expire in 2017 and 2016. Coal supply has not been arranged for periods after the existing contracts expire. PNM believes there is adequate availability of coal resources to continue to operate these plants although extended or new contracts could result in higher prices. 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.

Table of Contents

Nuclear Fuel and Waste

PNM is one of several participants in PVNGS. The PVNGS participants are continually identifying their future nuclear fuel resource needs and negotiating arrangements to fill those needs. The PVNGS participants have contracted for all of PVNGS's requirements for uranium concentrates through 2016, 95% of its requirements for 2017, and 80% of its requirements for 2018. The participants have contracted for all of PVNGS's conversion services through 2016, 90% of its requirements in 2017, and 95% of its requirements in 2018. All of PVNGS's enrichment services are contracted through 2020 and all of PVNGS's fuel assembly fabrication services through 2016.

In August 2012, one of PVNGS's suppliers that converts uranium concentrates to uranium hexafluoride invoked the force majeure provision in its contract when it shut down its conversion plant due to regulatory compliance issues. The PVNGS participants have sufficient strategic reserves of enriched uranium such that they do not anticipate a short term impact on nuclear fuel supplies as a result of the force majeure declaration. The uranium conversion supplier has undertaken the necessary upgrades to its facility to address the regulatory compliance issues and anticipates resuming operations in a time frame that will not result in an adverse impact on PVNGS's ability to secure long-term conversion services. However, the participants are continuing to evaluate alternate long-term options for securing conversion services.

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 failed to begin accepting spent nuclear fuel by 1998, and APS (on behalf of itself and the other PVNGS participants) filed a lawsuit for DOE's breach in the United States Court of Federal Claims. The Court of Federal Claims ruled in favor of APS and in October 2010 awarded $30.2 million in damages to the PVNGS participants for costs incurred through December 2006. APS filed a subsequent lawsuit against DOE in the Court of Federal Claims on December 19, 2012. The lawsuit alleges that from January 1, 2007, through June 30, 2011, APS, as a co-owner of PVNGS, incurred additional damages due to DOE's continuing failure to remove spent nuclear fuel and high level waste from PVNGS. See Note 16.

The DOE had planned to meet its disposal obligations by designing, licensing, constructing, and operating a permanent geologic repository at Yucca Mountain, Nevada. In March 2010, the DOE filed a motion to dismiss with prejudice its Yucca Mountain construction authorization application that was pending before the NRC. Several interested parties have intervened in the NRC proceeding, but the matter has not been conclusively decided by either the NRC or the courts. 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.

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

Water Supply

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

ENVIRONMENTAL MATTERS

Electric utilities are subject to stringent laws and regulations for protection of the environment by local, state, federal, and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. The liabilities under these laws and regulations can be material. In some instances, liabilities may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. The construction expenditure projection includes environmental upgrades at Four Corners, but does not include any amounts related to environmental upgrades at SJGS that may be required by EPA to address regional haze described in Note 16. See MD&A - Other Issues Facing the Company - Climate Change Issues for information

Table of Contents

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”
- Endangered Species Act
- Cooling Water Intake Structures
- Santa Fe Generating Station
- Environmental Matters under the caption “Coal Combustion Byproducts Waste Disposal”
- Hazardous Air Pollutants (“HAPs”) Rulemaking

COMPETITION

Regulated utilities are generally not subject to competition from other utilities in areas that are under the jurisdiction of state regulatory commissions. In New Mexico, PNM does not have 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 activities and initiatives to utilize alternative energy sources 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 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, 2012:

	PNMR	PNM	TNMP
Corporate [1]	461	—	—
PNM	1,091	1,091	—
TNMP	357	—	357
Total	1,909	1,091	357

(1)Represents employees of PNMR Services Company.

As of December 31, 2012, PNM had 592 employees in its power plant and operations areas that are currently covered by a collective bargaining agreement with the IBEW that was entered into in July 2012 and expires April 30, 2015. PNMR has no other employees represented by unions.

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 flow, 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
- The ability of the Company to successfully forecast and manage its operating and capital expenditures
- State and federal regulatory, legislative, and judicial decisions and actions on ratemaking, tax, and other matters
- State and federal regulation or legislation relating to environmental matters, including the resultant costs of compliance and other impacts on the operations and economic viability of PNM's generating plants
- The risk that recently enacted reliability standards regarding available transmission capacity and other FERC

Table of Contents

rulemakings may negatively impact the operation of PNM's transmission system
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, extreme weather conditions, terrorism, and cybersecurity breaches
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM's coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects resulting from the scheduled expiration of the operational agreements for the projects
- The risks associated with completion of generation, transmission, distribution, and other projects
- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties
- Uncertainty regarding the requirements and related costs of decommissioning power plants and coal mines supplying certain power plants, as well as the ability to recover decommissioning costs from customers
- The impacts on the electricity usage of the Company's customers due to performance of state, regional, and national economies and mandatory energy efficiency measures, weather, seasonality, and other changes in supply and demand
- The Company's ability to access the financial markets, including disruptions in the credit markets, actions by ratings agencies, and fluctuations in interest rates
- The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions
- The impacts of decreases in the values of marketable equity securities maintained to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits
- Commodity and counterparty credit risk transactions and the effectiveness of risk management
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles

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

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.

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 2013-2017 to be $1,781.9 million. See Note 14. The Company anticipates a trend toward increasing costs, for which it will have to seek regulatory recovery. These include or are related to:

- Environmental compliance expenditures
- New asset construction related to generation, transmission, and distribution systems necessary to provide electric service
- The regulatory mandate to generate power from renewable resources

Table of Contents

- Increased regulation related to nuclear safety
- Fuel costs
- Costs related to pension and benefits
- Increased interest costs to finance capital investments
- Depreciation

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

- Adverse economic conditions
- Reductions in costs of energy efficiency technology
- Unpredictable weather patterns
- Reduced new sources of demand
- Changing customer behaviors

The combination of costs increasing relatively rapidly and the slowing of customer demand places upward pressure on the per unit prices that must be charged by the Company to recover its costs. This upward pressure on unit prices results in additional efforts by customers to reduce consumption. Without timely cost recovery and the authorization to earn a reasonable return on invested capital, the Company's liquidity and results of operations could be negatively impacted.

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

PNM recovers the cost of fuel for its generation facilities through its FPPAC. The coal supply contracts that provide fuel for SJGS and Four Corners expire in 2017 and 2016. Coal supply has not been arranged for periods after the existing contracts expire. It is possible that extended contracts with the existing suppliers or new contracts for coal from alternative sources could result in higher prices. Although PNM believes such costs would continue to be recovered through the FPPAC, there can be no assurance that full recovery would continue to be allowed.

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

Compliance with federal, state, and local environmental laws and regulations, including those addressing climate change, air quality, CCBs, discharges of wastewater and streams originating from fly ash and bottom ash handling facilities, cooling water, and other matters, may result in increased capital, operating, and other costs. These costs could include remediation, containment, civil liability, and monitoring expenses. PNMR, PNM, and TNMP cannot predict how they would be affected if existing environmental laws and regulations were to be revised or reinterpreted, or if new environmental statutes and rules were to be adopted. See Note 16.

EPA has issued its BART determinations for both SJGS and Four Corners under the program to address regional haze in the “four corners” area, which would reduce the levels of NOx emitted at both plants. Significant capital expenditures would be required for the installation of SCR technology at both generating stations and operating costs would

increase. On February 15, 2013, PNM, NMED, and EPA agreed to pursue a revised plan regarding SJGS, which is discussed in Note 16.

EPA, environmental advocacy groups, other organizations, and some other federal and state agencies are predicted to focus considerable attention to GHG from power generation facilities, including their role in climate change. PNM depends on fossil-fueled generation for a significant share of its electricity. Therefore, it could be exposed to possible future GHG regulations imposed by New Mexico and/or the federal government. Any such regulations could result in additional operating restrictions on facilities and increased generation and compliance costs.

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

Table of Contents

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.

PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty currently inherent in these factors. Although there is uncertainty about the timing and form of regulations regarding climate change, CCBs, and other power plant emissions, such regulations could have a material impact on operations. It is possible that requirements to comply with the final BART determinations, combined with the financial impact of possible future climate change regulation or legislation, if any, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of Four Corners and/or SJGS or the ability of individual participants to continue participation in those plants. Timely regulatory recovery of costs associated with any environmental-related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company's business, financial position, results of operations, and liquidity.

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

To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT, FERC, NRC, EPA, and NERC. Oversight by these agencies cover many aspects of the Company`s utility operations including: siting, construction, and operation of facilities; the purchase of power under long-term contracts; conditions of service; the issuance of securities; and rates charged to customers.

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

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

Operational Factors

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.

Our 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, other performance problems with the electric generation assets, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, disruptions in the supply and delivery of fuel, and other factors could result in PNM's load requirements being larger than available system generation capacity. In addition, unplanned outages of generating units and extensions of

scheduled outages occur from time to time and are an inherent risk of the Company's business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM`s and TNMP`s ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs.

PNMR, PNM, and TNMP are subject to information security breaches and risks of unauthorized access to their systems.

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 different agencies' laws and rules concerning safeguarding and maintaining the confidentiality of this information.

Table of Contents

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

Customer electricity usage could be reduced by increases in prices we charge 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 thus negatively impacted.

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

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

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

PNM's and TNMP's service territories include several military bases and federally funded national laboratories, as well as large industrial customers that have significant direct and indirect impacts on the local economies where they operate. We do not directly provide service to any of the military bases or national laboratories, but do provide service to large industrial customers. Our 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 us is that initiatives are periodically undertaken in various localities to municipalize or otherwise take over Company facilities. If any such municipalization initiative is successful, the result could be a material reduction in the usage of our facilities.

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

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

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

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

PNM has a 10.2% undivided interest in PVNGS, representing 17.2% of PNM's total owned and leased generating capacity. Portions of the interests in Units 1 and 2 are held under leases. PVNGS is subject to environmental, health, and financial risks,

Table of Contents

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. In the event of noncompliance, the NRC has the authority, depending upon the NRC's assessment of the severity of the situation, to impose monetary civil penalties or a progressively increased inspection regime. This could ultimately result in the shutdown of a unit, the removal of a unit from service until compliance is achieved, or both. 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.

The PVNGS participants have no reason to anticipate a serious nuclear incident at PVNGS. However, if an incident did occur, it could materially and adversely affect the results of operations and financial condition of PNM and PNMR. 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. For example, as a result of the March 2011 earthquake and tsunami that caused significant damage to the Fukushima Daiichi Nuclear Power Plant in Japan, there may be additional regulations or other changes that would affect PVNGS.

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. 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 decommissioning costs for the surface coal mines. In the event any of these costs exceed current estimates and PNM is unsuccessful in recovering the expenses through increased rates, results of operations will be negatively impacted.

General Economic and Weather Factors

General economic conditions of the state, region, and nation can affect our customers and suppliers. Economic recession or downturn may result in decreased consumption and increased bad debt expense, and could also negatively impact our suppliers, all of which could negatively impact us.

Economic activity is a key factor in PNMR subsidiaries' performance. Decreased economic activity can lead to declines in energy consumption, which could adversely affect future revenues, earnings, and growth. Higher unemployment rates both in our service territories and nationwide could result in commercial customers ceasing

operations and lower levels of income for our 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 less revenues resulting in earning less income when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net earnings, and cash flows of the companies.

Table of Contents

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

TNMP`s service areas are exposed to extreme weather, including high winds, drought, flooding, and periodic hurricanes. These severe weather events can physically damage TNMP's owned facilities. Such an 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

Disruption in the credit and capital markets may impact our growth strategy and ability to raise capital.
PNMR and its subsidiaries rely on access to both short-term money markets and longer-term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations, including energy infrastructure investments and new projects. In general, the Company relies on its short-term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years 2013-2017 to be $1,781.9 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 our access to capital, could be caused by:

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

If our cash flow and credit and capital resources are insufficient to fund our capital expenditure plans, we may be forced to delay important capital investments, sell assets, seek additional equity or debt capital, or restructure our debt. In addition, insufficient cash flows and capital resources may result in reductions of our credit ratings. This could harm our ability to incur additional indebtedness on acceptable terms and would result in an increase in the interest rates applicable under our credit facilities. Our cash flow and capital resources may be insufficient to pay interest and principal on our debt in the future. If that should occur, our capital raising or debt restructuring measures may be unsuccessful or inadequate to meet our scheduled debt service obligations. This could cause us to default on our obligations and further impair our liquidity.
Future reduction in our credit ratings or changing rating agency requirements could materially and adversely affect our 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. It also could require the provision of additional support in the form of letters of credit and cash or other collateral to various counterparties.

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.

Table of Contents

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

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

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

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 our business, financial position, liquidity, and results of operations.

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 31% 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.

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

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

pending or being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events. See Note 7.

Governance Factors

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

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

Table of Contents

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
PNMR
The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.
PNM
See Sources of Power in Part I, Item. 1 Business above for information on PNM’s owned and leased capacity in electric generating stations. As of December 31, 2012, PNM owned, jointly owned, or leased, 3,189 circuit miles of electric transmission lines, 5,843 miles of distribution overhead lines, 5,631 cable miles of underground distribution lines (excluding street lighting), and 276 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, Delta, EIP and associated equipment, data processing, communication, office and other equipment, office space, vehicles, and real estate. PNM also owns and leases service and office facilities in Albuquerque and in other areas throughout its service territory. See Note 7 for additional information concerning leases, including notices given to the lessors under the PVNGS Unit 1 leases in 2013 that PNM would renew the leases. See Note 9 for additional information about the Delta operating lease, including the potential purchase of Delta. As discussed in Note 16, PNM has agreed to exercise its option to purchase the leased portion of the EIP at expiration of the lease at fair market value of $7.7 million.
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, 2012, TNMP owned 966 circuit miles of overhead electric transmission lines, 7,060 pole miles of overhead distribution lines, 1,083 circuit miles of underground distribution lines, and 108 substations. Substantially all of TNMP's property is pledged to secure its first mortgage bonds. See Note 6.

ITEM 3. LEGAL PROCEEDINGS
See Note 16 and Note 17 for information related to the following matters for PNMR, PNM, and TNMP, incorporated in this item by reference.
Note 16

- The Clean Air Act - Regional Haze – SJGS
- The Clean Air Act - Regional Haze – Four Corners
- The Clean Air Act - Four Corners BART FIP Challenge
- The Clean Air Act - WildEarth Guardians' Petition for Review of EPA's Approval of New Mexico Regional Haze SIP
- The Clean Air Act - SJGS Operating Permit Challenge

- The Clean Air Act - Citizen Suit Under the Clean Air Act
- The Clean Air Act - Navajo Nation Environmental Issues
- The Clean Air Act - Four Corners New Source Review
- Endangered Species Act

Table of Contents

- Santa Fe Generating Station
- Coal Combustion Byproducts Waste Disposal - Sierra Club Allegations
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Complaint Against Southwestern Public Service Company
- Navajo Nations Allottee Matters
- Transmission Issues

Note 17

- PNM - Renewable Portfolio Standard
- PNM - Renewable Energy Rider
- PNM - Energy Efficiency and Load Management
- PNM-2011 Integrated Resource Plan
- PNM - Emergency FFPAC
- PNM - Transmission Rate Case
- PNM - Application for Approvals to Purchase Delta
- PNM - Formula Transmission Rate Case
- PNM - Firm-Requirements Wholesale Customer Rate Case
- TNMP - Advance Meter System Deployment and Surcharge Request
- TNMP - Remand of ERCOT Transmission Rates for 1999 and 2000
- TNMP - Transmission Cost of Service Rates

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

SUPPLEMENTAL ITEM - EXECUTIVE OFFICERS OF PNM RESOURCES, INC.

All officers are elected annually by the Board of PNMR. Executive officers, their ages as of February 22, 2013 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	54	Chairman, President, and Chief Executive Officer	January 2012
		President and Chief Executive Officer	March 2010
		President and Chief Operating Officer	August 2008
		President, Utilities	June 2007
C. N. Eldred	59	Executive Vice President and Chief Financial Officer	July 2007
P. V. Apodaca	61	Senior Vice President, General Counsel and Secretary	January 2010
		University Counsel, University of New Mexico	May 2006
R. E. Talbot	52	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	55	Senior Vice President, Public Policy	December 2011

		Vice President, Regulatory Affairs	April 2008
		Director, Regulatory Administration South - Xcel Energy	January 2007
T. G. Sategna	59	Vice President and Corporate Controller	October 2003

Table of Contents

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 2012 and 2011, by quarters, are as follows:

Quarter Ended	Range of Sales Prices		Dividends
	High	Low	Per Share
2012			
March 31	$18.94	$17.52	$0.145
June 30	19.54	17.84	0.145
September 30	21.42	19.75	0.145
December 31	22.32	20.05	0.145
Fiscal Year	22.32	17.52	0.580
2011			
March 31	$15.16	$12.96	$0.125
June 30	17.10	14.46	0.125
September 30	17.14	12.75	0.125
December 31	19.17	15.81	0.125
Fiscal Year	19.17	12.75	0.500

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 $0.125 per share in July 2011 and $0.145 per share in July 2012, 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 $0.125 per share in September 2011 and $0.145 per share in September 2012, which are reflected as being in the third quarter above. On December 4, 2012 and February 28, 2013, the Board declared quarterly dividends of $0.145 and $0.165 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 22, 2013, there were 11,469 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 2011 and 2012. PNMR purchased and retired all of its outstanding convertible preferred stock, Series A, effective September 23, 2011. TNMP does not have any preferred stock outstanding.

Sales of Unregistered Securities

None.

A- 21

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics for PNMR should be read in conjunction with the Consolidated Financial Statements and Notes thereto and MD&A. On January 30, 2009, PNM completed the sale of its gas operations, which are considered discontinued operations and excluded from continuing operations information in the table below. PNMR sold First Choice on November 1, 2011. First Choice is included in the following information through October 31, 2011.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2012	2011	2010	2009	2008
	(In thousands except per share amounts and ratios)				
Total Operating Revenues from Continuing Operations	$1,342,403	$1,700,619	$1,673,517	$1,647,744	$1,959,522
Earnings (Loss) from Continuing Operations	$120,125	$190,934	$(31,124)	$65,933	$(297,565)
Net Earnings (Loss)	$120,125	$190,934	$(31,124)	$136,734	$(262,937)
Net Earnings (Loss) Attributable to PNMR	$105,547	$176,359	$(45,215)	$124,316	$(270,644)
Earnings (Loss) from Continuing Operations Attributable to PNMR per Common Share					
Basic	$1.32	$1.98	$(0.49)	$0.58	$(3.66)
Diluted	$1.31	$1.96	$(0.49)	$0.58	$(3.66)
Net Earnings (Loss) Attributable to PNMR per Common Share					
Basic	$1.32	$1.98	$(0.49)	$1.36	$(3.24)
Diluted	$1.31	$1.96	$(0.49)	$1.36	$(3.24)
Cash Flow Data					
Net cash flows from operating activities	$281,349	$292,240	$287,352	$87,706	$88,625
Net cash flows from investing activities	$(285,895)	$19,778	$(275,906)	$379,726	$(320,715)
Net cash flows from financing activities	$(1,560)	$(312,331)	$(10,683)	$(593,435)	$354,943
Total Assets	$5,372,583	$5,204,613	$5,225,083	$5,359,921	$6,147,982
Long-Term Debt, including current installments	$1,672,290	$1,674,013	$1,565,847	$1,567,331	$1,584,705
Common Stock Data					
Market price per common share at year end	$20.51	$18.23	$13.02	$12.65	$10.08
Book value per common share at year end	$20.19	$19.76	$17.90	$19.13	$19.13
Tangible book value per share at year end	$16.70	$16.27	$14.10	$15.33	$15.31
Average number of common shares outstanding - diluted	80,417	89,757	91,557	91,671	83,468
Dividends declared per common share	$0.580	$0.500	$0.500	$0.500	$0.605
Capitalization					
PNMR common stockholders’ equity	48.9 %	48.3 %	47.8 %	49.6 %	49.3 %

Convertible preferred stock	—	—	3.1	3.0	3.0
Preferred stock of subsidiary, without mandatory redemption requirements	0.3	0.3	0.4	0.3	0.3
Long-term debt	50.8	51.4	48.7	47.1	47.4
	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

Note: The book value per common share at year end, tangible book value per share at year end, average number of common shares outstanding, and return on average common equity reflect the Series A convertible preferred stock as if it was converted into common stock at the date of its issuance on November 17, 2008 through September 23, 2011.

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2012	2011	2010	2009	2008
	(In thousands)				
PNM Revenues					
Residential	$409,005	$390,380	$355,905	$320,965	$296,121
Commercial	413,332	386,383	355,699	330,552	326,408
Industrial	103,991	94,883	85,576	79,540	100,665
Public authority	25,495	23,970	21,302	19,770	19,135
Transmission	39,373	43,637	38,667	36,075	33,161
Firm-requirements wholesale	39,390	34,127	31,870	29,048	46,854
Other sales for resale	47,321	69,318	121,729	140,314	345,948
Mark-to-market activity	892	4,214	(3,599)	151	56,560
Other	13,465	10,377	9,979	11,594	18,090
Total PNM Revenues	$1,092,264	$1,057,289	$1,017,128	$968,009	$1,242,942
TNMP Revenues					
Residential	$103,255	$100,290	$83,645	$74,739	$71,673
Commercial	88,258	84,896	77,474	73,346	72,786
Industrial	13,405	13,065	12,342	12,113	13,849
Other	45,222	39,607	39,127	32,434	31,974
Total TNMP Revenues	$250,140	$237,858	$212,588	$192,632	$190,282
First Choice Revenues					
Residential	$—	$260,161	$305,834	$349,629	$407,350
Commercial	—	166,498	159,785	160,998	205,518
Trading gains (losses)	—	—	(4)	14	(49,931)
Other	—	12,791	17,588	18,177	19,287
Total First Choice Revenues	$—	$439,450	$483,203	$528,818	$582,224

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

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

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2012	2011	2010	2009	2008
PNM MWh Sales					
Residential	3,323,544	3,402,842	3,361,472	3,264,378	3,221,894
Commercial	4,022,184	4,043,796	4,015,999	3,899,121	4,029,802
Industrial	1,771,316	1,560,867	1,449,933	1,454,480	1,657,580
Public authority	279,169	282,062	263,424	249,554	253,079
Firm-requirements wholesale	651,972	650,356	677,508	689,740	1,123,539
Other sales for resale	1,652,225	2,076,869	2,203,787	3,996,317	5,095,183
Total PNM MWh Sales	11,700,410	12,016,792	11,972,123	13,553,590	15,381,077
TNMP MWh Sales					
Residential	2,714,511	2,862,337	2,699,601	2,582,555	2,533,025
Commercial	2,353,135	2,360,998	2,260,505	2,216,870	2,206,155
Industrial	2,727,126	2,578,877	2,241,452	1,983,165	2,094,789
Other	103,856	108,664	103,341	107,091	107,524
Total TNMP MWh Sales	7,898,628	7,910,876	7,304,899	6,889,681	6,941,493
First Choice MWh Sales					
Residential	—	2,006,437	2,267,836	2,441,550	2,547,490
Commercial	—	1,538,203	1,363,746	1,218,949	1,471,400
Total First Choice MWh Sales	—	3,544,640	3,631,582	3,660,499	4,018,890

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 MWh reported above for TNMP and First choice include 836,599, 1,012,842, 1,131,907, and 1,563,260 MWh used by consumers of TNMP in 2011, 2010, 2009, and 2008, who chose First Choice as their REP.

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

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

Table of Contents

PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2012	2011	2010	2009	2008
PNM Customers					
Residential	450,507	448,979	447,789	445,637	442,647
Commercial	54,953	54,468	54,005	53,787	53,059
Industrial	251	252	260	270	284
Other sales for resale	36	28	46	44	55
Other	952	983	1,003	991	991
Total PNM Customers	506,699	504,710	503,103	500,729	497,036
TNMP Consumers					
Residential	193,550	192,356	190,809	188,812	187,888
Commercial	36,819	37,208	37,356	37,728	38,548
Industrial	70	73	72	73	74
Other	2,037	2,092	2,099	2,059	2,115
Total TNMP Consumers	232,476	231,729	230,336	228,672	228,625
First Choice Customers					
Residential	—	176,577	172,506	183,605	192,306
Commercial	—	44,485	41,695	41,371	45,125
Total First Choice Customers	—	221,062	214,201	224,976	237,431
PNMR Generation Statistics					
Net Capability - MW, including wind and solar	2,537	2,547	2,631	2,711	2,713
Coincidental Peak Demand - MW	1,948	1,938	1,973	1,866	1,901
Average Fuel Cost per MMBTU	$2.308	$2.267	$2.064	$1.895	$2.404
BTU per KWh of Net Generation	10,289	10,441	10,237	10,277	10,269

Notes: The consumers reported above for TNMP include 64,732, 70,366, 80,718, and 92,090 consumers of TNMP for 2011, 2010, 2009, and 2008, who chose First Choice as their REP. These TNMP customers are also included in the First choice customers.

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

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

Table of Contents

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 739,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. In the latter part of 2011, PNMR exited both of its competitive businesses, First Choice and Optim Energy, and repositioned itself as a holding company solely operating its electric utilities, PNM and TNMP.

Strategic Goals

PNMR is focused on achieving the following strategic goals:

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

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

- Achieving industry-leading safety performance and customer satisfaction
- Maintaining strong plant performance and reliability

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. The Company has multiple strategies to achieve favorable regulatory treatment, all of which have as their foundation a focus on the basics: managing the Company's business and serving our customers well, while engaging stakeholders to build productive relationships.

Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders. The PUCT has approved mechanisms that allow for recovery of capital invested in transmission and distribution projects without having to file a general rate case and allow for more timely recovery of amounts invested in TNMP's systems. In 2011, PNM made significant progress toward the goal of achieving authorized returns for its retail customers. In 2012, PNM saw additional progress toward achieving authorized returns for its transmission and generation customers regulated by FERC.

PNM and TNMP completed several rate proceedings before their state regulators in 2011 and 2012. PNM has two rate cases pending before FERC and one that was completed in early 2013. Additional information about rate filings is provided in Note 17.

PNM previously announced that it intended to file a request for an increase in the rates charged to New Mexico retail customers in mid-2013, but is currently re-evaluating when this filing will occur, partially due to the lack of clarity around the timing and amount of capital that will be required for BART at SJGS, as discussed below, and improved operating results at PNM.

Fair and timely rate treatment from regulators is crucial to achieving PNMR's strategic goals because it leads to PNM and TNMP earning their allowed returns. PNMR believes that if the utilities earn their allowed returns, it would be viewed positively by rating agencies and would further improve credit ratings, which could lower costs to customers. Also, earning allowed returns should result in increased earnings for PNMR, which should lead to increased total returns to investors.

PNM's interest in PVNGS Unit 3 is excluded from NMPRC jurisdictional rates. While PVNGS Unit 3's financial contribution is not calculated in the authorized returns on its regulated business, it impacts PNM's earnings and has demonstrated

Table of Contents

to be a valuable asset. Power generated from PNM's 134 MW interest in PVNGS Unit 3 is currently sold into the wholesale market and any earnings or losses are attributable to shareholders.

Continuing to Improve Credit Ratings

PNM is committed to maintaining investment grade credit ratings. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. On April 13, 2012, S&P raised the corporate credit rating for PNMR as well as the senior debt ratings for PNMR and TNMP and the preferred stock rating for PNM. S&P changed the outlook to stable for all entities.

Providing Top-Quartile Total Returns to Investors

PNMR's strategic goal to provide top quartile total return to investors is based on five-year ongoing EPS growth along with five-year average dividend yield. Top quartile total return currently is equal to an average annual rate of 10 percent to 13 percent. The annual common stock dividend was raised by 16 percent in February 2012 and 14 percent in February 2013.

PNMR's long-term target is a dividend payout ratio of 50 percent to 60 percent of its ongoing earnings. Ongoing earnings, which is a non-GAAP financial measure, excludes certain non-recurring, infrequent, and other items from earnings determined in accordance with GAAP. 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 PNMR board will continue to evaluate the dividend on an annual basis, considering sustainability and growth, capital planning, and industry standards.

Business Focus

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

To accomplish this, PNMR works closely with customers, stakeholders, legislators, and regulators to ensure that our resource plans and infrastructure investments benefit from robust public dialogue and balance the diverse needs of our communities.

Reliable and Affordable Power

PNMR and its utilities are keenly aware of the roles they play in enhancing economic vitality in their New Mexico and Texas service territories. We believe there is a direct connection between electric infrastructure to ensure reliability and economic growth. When considering expanding or relocating to other communities, businesses consider energy affordability and energy reliability to be important factors. PNM and TNMP strive to balance service affordability with infrastructure investment to maintain a high level of electric reliability. 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 ensure reliability and meet future energy needs. Both utilities have long-established records of providing customers with top-tier electric reliability. In September 2011, TNMP began its deployment of smart meters in homes and businesses across its Texas service area. Through the end of 2012, TNMP had completed installation of more than 75,000 smart meters. TNMP's deployment is expected to be completed in 2016.

As part of the State of Texas' long-term initiative to create a smart electric grid, the smart meter rollout will ultimately give consumers more energy consumption data and help them make more informed decisions. In 2013, TNMP will install a new outage management system that will leverage capabilities of the smart meters to enhance the company's responsiveness to outages.

During the 2010 to 2012 period, PNM and TNMP together invested $803.7 million in substations, power plants, and transmission and distribution systems in New Mexico and Texas. In 2012, PNM announced the site for its planned 40

MW natural gas-fired peaking generating station. Construction is expected to begin in 2014, with the facility going into service in 2016. PNM also announced an agreement to purchase Delta, a 132 MW gas-fired peaking facility, which has served PNM jurisdictional needs under a 20-year purchase power agreement since 2000.

Environmentally Responsible Power

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

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

Table of Contents

Renewable Energy

In 2012, PNM filed and the NMPRC approved PNM's 2013 renewable procurement strategy. The approved strategy will almost double PNM's solar capacity with the addition of 21.5 MW of utility-owned solar capacity estimated cost of almost $50 million. In addition to the solar expansion, the 2013 proposal includes a 20-year agreement to purchase energy from a geothermal facility to be built near Lordsburg. The 10 MW facility will be the first geothermal project for the PNM system.

In addition to the 22 MW of solar currently available through the five plants constructed in 2011, PNM also owns a sixth facility, the 500-KW PNM Prosperity Energy Storage Project, which uses advanced batteries to store solar power and dispatch the energy either during high-use periods or when solar production is limited. The project features one of the largest combinations of battery storage and PV energy in the nation and involves extensive research and development of smart grid concepts with the Electric Power Research Institute, East Penn Manufacturing Co., Northern New Mexico College, Sandia National Laboratories, and the University of New Mexico. When the facility went online in September 2011, it was the nation's first solar storage facility fully integrated into a utility's power grid.

PNM's resource portfolio includes the purchase of 204 MW of wind power. PNM also purchases power from a customer-owned distributed solar generation program having an installed capacity of 19.8 MW at the end of 2012.

Distributed generation, wind, and solar power are key means for PNM to meet the RPS established by the REA and related regulations issued by the NMPRC. These rules require a utility to achieve prescribed levels of energy sales from renewable sources within its generation mix, if that can be accomplished without exceeding the RCT cost limit set by the NMPRC, which aims to moderate the cost to consumers when utilities use more renewable resources. PNM sought and received a waiver from the NMPRC excusing it from meeting the RPS in 2012 because the cost to achieve the full RPS would exceed the RCT. The 2013 plan will enable PNM to comply with the statutory RPS amount in 2013, but required a variance from the NMPRC's diversity requirements in 2013 while the proposed geothermal facilities are being constructed. This plan is expected to enable PNM to achieve full RPS quantity and diversity compliance by 2014 without exceeding the RCT. PNM will continue to procure renewable resources while balancing the bill impact to customers in order to meet New Mexico's escalating RPS requirements.

SJGS

PNM continues its efforts to comply with the EPA regional haze rule in a manner that minimizes the cost impact to customers while still achieving broad environmental benefits. The FIP for regional haze requires the installation of SCRs on all four units at SJGS by September 2016. PNM is challenging EPA's proposal in court and administratively within EPA.

In order to keep costs to customers as low as possible while also reducing visibility impairment related to regional haze, PNM has supported the installation of SNCRs at SJGS, a technology proposed by the State of New Mexico to meet the regional haze regulations. Additional information about BART at SJGS is contained in Note 16.

On February 15, 2013, PNM, NMED, and EPA agreed to pursue a revised plan that could provide a new BART path to comply with federal visibility rules at SJGS. The terms of the non-binding agreement would result in the retirement of SJGS Units 2 and 3 by the end of 2017 and the installation of SNCRs on Units 1 and 4 by the later of January 31, 2016 or 15 months after EPA approval of a revised SIP. PNM would also build a natural gas plant in the Four Corners region to partially replace the capacity from the retired coal units. Implementing this plan would include:

- NMED development of a revised SIP
- Approval of the revised SIP by EIB
- EPA approval of the revised SIP
- NMPRC approval of the retirement of Units 2 and 3 and plans to acquire replacement power

The term sheet setting forth the non-binding agreement projects EIB approval for October 2013, with EPA final action in late 2014. Contemporaneously with the signing of the non-binding agreement, EPA indicated in writing that if the above plan does not move forward due to circumstances outside of the control of PNM and NMED, EPA will work with the state and PNM to create a reasonable FIP compliance schedule to reflect the time used to develop the new

state plan. PNM is also exploring potential additional areas of relief, including relief from the Tenth Circuit.

In connection with the implementation of the plan, retirement of SJGS Units 2 and 3 could result in shifts in ownership among SJGS owners as may be agreed upon by the owners of the affected units. Owners of the affected units also may seek approvals of their utility commissions or governing boards.

Table of Contents

On February 25, 2013, the parties filed their status reports with the Tenth Circuit. To demonstrate that progress has been made toward settling the Tenth Circuit litigation, information, including the non-binding agreement and its accompanying timeline, was submitted to the court. Following the parties' submission of their status reports, on February 28, 2013, the Tenth Circuit referred the litigation to the Tenth Circuit Mediation Office, which has authority to require the parties to attend mediation conferences to informally resolve issues in the pending appeals.

This plan would achieve similar visibility improvements as the installation of SCRs on all four units at SJGS. It has the added advantage of reducing other emissions beyond NOx, including SO_2, particulate matter, CO_2, and mercury. Detailed replacement power strategies also would be finalized. PNM believes adequate replacement power alternatives will be available to meet its generation needs and ensure reliability. PNM can provide no assurance that the requirements of this plan will be accomplished at all or within the required timeframes.

In order to be able to install SCRs on all four units of SJGS by the compliance deadline set forth in the FIP, PNM entered into a contract in October 2012 with an engineering, procurement, and construction contractor to install SCRs on behalf of the SJGS owners. The construction contract, which includes termination provisions in the event that SCRs are determined in the future to be unnecessary, has been suspended through November 1, 2014.

In addition to the regional haze rule, SJGS is required to comply with other rules currently being developed or implemented that affect coal-fired generating units. Because of $320 million in 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. PNM's share of the costs of these upgrades was $161 million. Since 2006, SJGS has reduced NOx emissions by 43 percent, SO_2 by 69 percent, particulate matter by 64 percent, and mercury by 99 percent.

Energy Efficiency

Energy efficiency also plays a significant role in helping to keep customers' electricity costs low and meeting their energy needs. PNM's and TNMP's energy efficiency and load management portfolios continue to be robust. In 2012, annual energy saved as a result of PNM's portfolio of energy efficiency programs was approximately 71,000 MWh. This is equivalent to the consumption of approximately 9,600 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 2012 resulted in energy savings totaling an estimated 12,839 MWh.

Creating Value for Customers and Communities

Through outreach, collaboration, and various community-oriented programs, PNMR has a demonstrated commitment to build productive relationships with stakeholders, including customers, regulators, legislators, and intervenors. Building off work that began in 2008, PNM has continued outreach efforts to connect low-income customers with nonprofit community service providers offering support and help with such needs as utility bills, food, clothing, medical programs, services for seniors, and weatherization. In 2012, PNM hosted 23 community events throughout its service territory to assist low-income customers. Furthermore, the PNM Good Neighbor Fund provided $1.0 million of assistance with utility bills to 10,216 families in 2012.

The PNM Resources Foundation helps nonprofits become more energy efficient through Reduce Your Use grants. For 2012, the foundation awarded $0.3 million to support 55 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 $1.1 million of support.

PNM also expanded its environmental stakeholder outreach in 2012, piloting small environmental stakeholder dialogue groups on key issues such as renewable energy and energy efficiency planning. PNM also employed proactive stakeholder outreach in two key projects - the development of the PNM's renewable energy procurement plans that involved distributed solar energy developers early in the conversation and the siting of the planned gas-fired peaking generation facility in Valencia County, which featured in-depth community involvement and education early in the planning stages of the project. In both cases highly favorable outcomes were achieved, and controversial negative media coverage was virtually eliminated.

Economic Factors

In 2012, PNM experienced a decrease in weather-normalized, retail load of 0.7% and TNMP experienced an increase in weather-normalized, retail load of 3.7% compared to 2011. In recent years, New Mexico and Texas have fared better than the national average in unemployment. However, New Mexico's figures may be misleading due to people dropping out of the

Table of Contents

workforce. Employment growth is much more telling, as Texas leads the way with growth rates well above the national rate while New Mexico's employment is relatively flat.

Results of Operations

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

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions, except per share amounts)				
Net earnings (loss)	$105.5	$176.4	$(45.2)	$(70.9)	$221.6
Average common and common equivalent shares	80.4	89.8	91.6	(9.4)	(1.8)
Net earnings (loss) per diluted share	$1.31	$1.96	$(0.49)	$(0.65)	$2.45

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

	Change	
	2012/2011	2011/2010
	(In millions)	
PNM	$37.0	$(2.8)
TNMP	4.4	6.3
First Choice	(24.1)	0.1
Corporate and Other	(88.2)	95.1
Optim Energy, including impairment	—	122.9
Net change	$(70.9)	$221.6

PNMR's operational results were affected by the following:

- Exit from unregulated businesses - As discussed above, PNMR sold First Choice in 2011, resulting in a pre-tax gain of $174.9 million, which was included in the Corporate and Other segment. Additionally, PNMR wrote-off its investment in Optim Energy in 2010, recognizing a pre-tax impairment loss of $188.2 million. In addition to the impacts of these transactions, results of operations only include Optim Energy through December 31, 2010 and First Choice through October 31, 2011.
- Rate increases for PNM and TNMP - Additional information about these rate increases is provided in Note 17
- Decrease in the number of common and common equivalent shares, primarily due to PNMR's purchase of its equity as described in Note 6
- Other factors impacting results of operation for each segment are discussed under Results of Operations below

Liquidity and Capital Resources

The Company has revolving credit facilities that provide capacities for short-term borrowing and letters of credit of $300.0 million for PNMR and $400.0 million for PNM, both of which expire in October 2017. In addition, TNMP has a $75.0 million revolving credit facility, which expires in December 2015. Total availability for PNMR on a consolidated basis was $603.0 million at February 22, 2013. 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 $2,047.4 million for 2013-2017. The construction expenditures include additional renewable resources anticipated to be required to meet the RPS, additional peaking resources needed to meet needs outlined in PNM's

current IRP, and environmental upgrades at Four Corners . This estimate does not include any amounts related to environmental upgrades at SJGS that ultimately may be required by EPA to address regional haze (Note 16) or expenditures that could be required to replace capacity should environmental control at SJGS involve shutdown of one or more SJGS units. 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 2013-2017 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.

Table of Contents

RESULTS OF OPERATIONS

Segment Information

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes thereto. Trends and contingencies of a material nature are discussed to the extent known. Refer also to Disclosure Regarding Forward Looking Statements in Part I, Item 1 and to Part II, Item 7A. Risk Factors.

PNM

The table below summarizes operating results for PNM:

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions)				
Total revenues	$1,092.3	$1,057.3	$1,017.1	$35.0	$40.2
Cost of energy	353.6	362.2	352.3	(8.6)	9.9
Margin	738.6	695.1	664.9	43.5	30.2
Operating expenses	435.4	438.8	424.5	(3.4)	14.3
Depreciation and amortization	97.3	94.8	92.3	2.5	2.5
Operating income	205.9	161.4	148.1	44.5	13.3
Other income (deductions)	26.5	19.9	31.6	6.6	(11.7)
Net interest charges	(76.1)	(75.3)	(72.4)	(0.8)	(2.9)
Earnings before income taxes	156.3	106.0	107.3	50.3	(1.3)
Income (taxes)	(50.7)	(37.4)	(36.4)	(13.3)	(1.0)
Valencia non-controlling interest	(14.1)	(14.0)	(13.6)	(0.1)	(0.4)
Preferred stock dividend requirements	(0.5)	(0.5)	(0.5)	—	—
Segment earnings	$91.0	$54.0	$56.8	$37.0	$(2.8)

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

	2012/2011 Change			2011/2010 Change		
	Total Revenues	Cost of Energy	Margin	Total Revenues	Cost of Energy	Margin
	(In millions)					
Retail rate increases	$40.3	$—	$40.3	$32.1	$—	$32.1
Retail load, fuel, and transmission	(15.9)	(10.6)	(5.4)	28.3	10.7	17.5
Wholesale rate increase	4.0	—	4.0			
Unregulated margins	(5.9)	1.1	(7.0)	(41.0)	0.9	(41.9)
Energy efficiency rider	8.9	—	8.9	13.0	—	13.0
Renewable rider	6.9	2.0	4.9	—	—	—
Net unrealized economic hedges	(3.3)	(1.1)	(2.2)	7.8	(1.7)	9.5
Total increase (decrease)	$35.0	$(8.6)	$43.5	$40.2	$9.9	$30.2

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

Table of Contents

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions, except customers)				
Residential	$409.0	$390.4	$355.9	$18.6	$34.5
Commercial	413.3	386.4	355.7	26.9	30.7
Industrial	104.0	94.9	85.6	9.1	9.3
Public authority	25.5	24.0	21.3	1.5	2.7
Transmission	39.4	43.6	38.7	(4.2)	4.9
Firm-requirements wholesale	39.4	34.1	31.9	5.3	2.2
Other sales for resale	47.4	69.3	121.7	(21.9)	(52.4)
Mark-to-market activity	0.9	4.2	(3.6)	(3.3)	7.8
Other	13.4	10.4	9.9	3.0	0.5
	$1,092.3	$1,057.3	$1,017.1	$35.0	$40.2
Average retail customers (thousands)	505.6	503.9	501.7	1.7	2.2

The following table shows PNM GWh sales by customer class:

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(Gigawatt hours)				
Residential	3,323.5	3,402.8	3,361.5	(79.3)	41.3
Commercial	4,022.2	4,043.8	4,016.0	(21.6)	27.8
Industrial	1,771.3	1,560.9	1,449.9	210.4	111.0
Public authority	279.2	282.1	263.4	(2.9)	18.7
Firm-requirements wholesale	652.0	650.4	677.5	1.6	(27.1)
Other sales for resale	1,652.2	2,076.8	2,203.8	(424.6)	(127.0)
	11,700.4	12,016.8	11,972.1	(316.4)	44.7

On August 21, 2011, PNM implemented a $72.1 million annual non-fuel rate increase for its retail customers. This rate increase, combined with a base rate increase in April 2010, improved 2012 and 2011 revenues and margins by $40.3 million and $32.1 million. In 2012, lower retail loads, primarily in the residential and commercial customer classes, reflecting lower average usage per customer and milder weather, decreased revenues and margins by $7.8 million. The increase in industrial revenue is primarily due to providing economy energy service to one customer. The only impact in margin for this customer is from minor ancillary services and other changes in revenues and cost of energy are a pass-through with no impact to margin. Higher transmission rates as a result of the June 1, 2011 rate increase, approved by FERC on January 2, 2013, also improved revenues and margins in 2012 and 2011. In 2011, increases in retail loads were primarily driven by cooler temperatures in the first quarter and warmer weather in the third quarter, improving revenue and margins by $12.0 million.

Increases in fuel costs and the reduction in off-system sales volumes resulting from the fire incident at the mine providing coal to SJGS are recovered through PNM's FPPAC and did not negatively impact 2012 or 2011 results. See Note 16 for more discussion on the SJGS mine fire incident.

PNM implemented new rates, approved by FERC, subject to refund, for one of its firm wholesale requirements customers in April 2012, which improved revenues and margins by $4.0 million. See Note 17.

PNM offers several energy efficiency programs and initiatives to its retail customers regulated by the NMPRC. In addition, PNM is allowed to earn adders on these programs based on energy savings. PNM recovers the energy efficiency program costs via a rate rider. Revenues and margins were higher by $8.9 million and $13.0 million in 2012

and 2011, offset with an increase in operating expense for the energy efficiency program costs.

On August 20, 2012, PNM implemented its renewable energy rider, a mechanism approved by NMPRC, which will allow PNM to recover renewable energy investments, including a return on its investments, and procurement costs incurred in meeting the state-mandated RPS. See Note 17. In 2012, PNM revenues increased by $6.9 million and cost of energy, reflecting the purchase

Table of Contents

cost of RECs, increased $2.0 million. Included in revenues is the earned return component on its investment of $1.2 million and the remaining revenues are offset by increases in operating and depreciation expenses associated with the PNM-owned PV solar facilities.

In 2012, lower unregulated revenues of $5.9 million and lower margin of $7.0 million associated with sales of power from PVNGS Unit 3 were a result of lower market power prices and increases in nuclear fuel costs. In 2011, lower unregulated revenues and margins were the result of the December 31, 2010 expiration of a long-term tolling arrangement for PVNGS Unit 3, which contained favorable pricing terms compared to 2011 market prices.

Changes in unrealized mark-to-market gains and losses are based on economic hedges for sales and fuel costs not covered under the FPPAC, primarily associated with PVNGS Unit 3. Unrealized gains of $1.6 million for 2012 compared to unrealized gains of $3.8 million for 2011 decreased margin by $2.2 million. Unrealized gains of $3.8 million for 2011 compared to unrealized losses of $5.7 million for 2010 increased margin by $ 9.5 million.

In 2012, operating expenses decreased by $2.1 million due to improved availability at PVNGS and $4.2 million resulting from process improvement initiatives implemented during 2011. In addition, retiree medical and employee health care costs were $1.2 million lower. These reductions in operating expenses were offset by higher expenses associated with planned maintenance outages at SJGS of $7.3 million and union labor negotiation expenses of $1.0 million. Operating expenses also increased in 2012 due to higher energy efficiency expenses and renewable expenses of $11.4 million and $1.0 million, which are offset in revenues as discussed above. As discussed in Note 7, PNM recorded a lease abandonment loss of $6.2 million in operating expenses in 2012. In addition, property taxes were higher by $2.2 million as the result of increased plant additions, higher property tax rates, and a settlement with a Native American pueblo.

Operating expenses reflect a regulatory disallowance of $17.5 million recorded in 2011 resulting from PNM's 2010 Electric Rate Case. No regulatory disallowances were recorded in 2012 or in 2010. In 2011, PNM incurred operating expenses of $6.7 million to implement process improvement initiatives related to reducing future costs. In addition, increases in taxes other than income due to additional New Mexico gross receipts tax on prior year billings and other expenses increased operating expenses by $5.0 million in 2011 and reduced operating expenses by $0.4 million in 2012. Lower expense for injuries and damages improved operating expenses in 2011 by $2.9 million.

Depreciation and amortization expense increased in 2012 and 2011 due to additions to utility plant, including PNM-owned solar PV facilities. Depreciation on the PNM-owned solar PV facilities is recovered through a rate rider as discussed above.

For 2012, other income (deductions) was $6.6 million higher, primarily related to improved performance of the NDT of $5.9 million. PNM incurred less impairments of NDT investments in 2012 compared to 2011. In addition, higher equity AFUDC of $3.3 million improved other income, offset by lower interest income on the PVNGS lessor notes of $2.8 million due to lower outstanding balances. In 2011, lower interest income on the PVNGS lessor notes, lower equity portion of AFUDC were partially offset with increased realized gains on the NDT assets. A pre-tax gain of $8.5 million due to settlement of the Republic Savings Bank litigation increased other income in 2010.

Interest expense increased $8.8 million and $1.8 million in 2012 and 2011 due to the issuance of $160.0 million of long-term debt in October 2011. In 2012, the higher interest expense was partially offset by $5.6 million for the debt portion of AFUDC and $0.9 million of interest charges on PNM's investment in renewable resources that are deferred for recovery through the renewable energy rider.

A- 33

Table of Contents

TNMP

The table below summarizes the operating results for TNMP:

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions)				
Total revenues	$250.1	$237.9	$212.6	$12.2	$25.3
Cost of energy	46.2	41.2	37.1	5.0	4.1
Margin	203.9	196.7	175.5	7.2	21.2
Operating expenses	87.1	88.2	77.4	(1.1)	10.8
Depreciation and amortization	49.3	44.6	41.7	4.7	2.9
Operating income	67.5	63.8	56.4	3.7	7.4
Other income (deductions)	2.7	1.6	0.8	1.1	0.8
Net interest charges	(28.2)	(29.3)	(31.2)	1.1	1.9
Earnings before income taxes	42.1	36.1	26.0	6.0	10.1
Income (taxes)	(15.4)	(13.9)	(10.0)	(1.5)	(3.9)
Segment earnings	$26.7	$22.3	$16.0	$4.4	$6.3

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

	2012/2011 Change			2011/2010 Change		
	Total Revenues	Cost of Energy	Margin	Total Revenues	Cost of Energy	Margin
	(In millions)					
Rate increases	$1.4	$—	$1.4	$8.7	$—	$8.7
Customer usage/load	(2.1)	—	(2.1)	5.5	—	5.5
Transmission cost recovery factor	4.9	5.0	(0.1)	6.8	4.1	2.7
AMS surcharge	6.9	—	6.9	1.6		1.6
1999 rate settlement	1.6	—	1.6	—	—	—
Other	(0.5)	—	(0.5)	2.7	—	2.7
Total increase	$12.2	$5.0	$7.2	$25.3	$4.1	$21.2

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

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions, except customers)				
Residential	$103.3	$100.3	$83.6	$3.0	$16.7
Commercial	88.3	84.9	77.5	3.4	7.4
Industrial	13.4	13.1	12.3	0.3	0.8
Other	45.1	39.6	39.2	5.5	0.4
	$250.1	$237.9	$212.6	$12.2	$25.3
Average consumers (thousands) [1]	233.0	231.3	229.4	1.7	1.9

(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 average consumers reported above include 67,268 and 75,220 consumers of TNMP for 2011 and 2010 that chose First Choice as their REP. These consumers are also included in the First Choice segment.

A- 34

Table of Contents

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

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(Gigawatt hours)[1]				
Residential	2,714.5	2,862.3	2,699.6	(147.8)	162.7
Commercial	2,353.1	2,361.0	2,260.5	(7.9)	100.5
Industrial	2,727.1	2,578.9	2,241.5	148.2	337.4
Other	103.9	108.7	103.3	(4.8)	5.4
	7,898.6	7,910.9	7,304.9	(12.3)	606.0

(1) The GWh sales reported above include 836.6 and 1,012.8 GWhs for 2011 and 2010 used by consumers of TNMP who have chosen First Choice as their REP. These GWhs are also included below in the First Choice segment.

Implementation of rate increases in late September 2012 and February 2011 increased revenues and margins by $1.4 million in 2012. See Note 17. Higher usage per customer, after adjusting for weather impacts, and growth in the number of consumers in TNMP's service areas were more than offset with milder weather compared to 2011, reducing revenues and margins by $2.1 million. In 2012, TNMP received a $1.6 million settlement related to ERCOT transmission rates charged from the fourth quarter of 1999. Differences between revenues and costs charged by transmission providers are deferred and recovered through a transmission cost recovery factor, resulting in no impact to margin in 2012. On August 11, 2011, TNMP implemented a surcharge for its AMS deployment. The surcharge will recover TNMP's investment in AMS over a 12 year period. The surcharge has a true-up mechanism, which allows TNMP to match revenues collected against the expenses incurred and allows for a return to be earned on its investments. Revenues increased by $6.9 million in 2012 and $1.6 million in 2011, which offset increases in operating expenses and depreciation. Other changes in revenue include an increase for energy efficiency programs, which was more than offset by lower revenues associated with recovery of CTC, Hurricane Ike, and rate case expenses.

In 2011, a rate increase implemented in May 2010 increased revenues and margins by $8.7 million. In addition, weather impacts on customer usage and load, as well as moderate customer growth improved revenues and margins by $5.5 million. In 2011, changes to Texas retail electric rules that allow distribution providers to defer and recover differences between revenues and costs charged by transmission providers improved margins by $2.7 million, reflecting the elimination of the regulatory lag. Higher revenues associated with recovery of the CTC, Hurricane Ike, rate case expenses, and energy efficiency programs were offset with increases in operating expenses.

Increases in vegetation management expenses of $1.7 million, higher energy efficiency program expenses of $0.8 million, higher expenses for injuries and damages of $0.9 million, and $2.6 million higher administrative and general and customer related expenses associated with the AMS deployment increased operating expenses in 2012. As discussed in Note 7, TNMP recorded a lease abandonment loss of $1.2 million in operating expenses in 2012. These increases were offset by lower maintenance expenses of $1.1 million related to extreme drought conditions experienced in 2011 in the Gulf Coast region, lower administrative and general expenses of $1.9 million based on process improvements initiated in 2011, and higher capitalization of administrative and general expenses related to construction projects of $1.3 million, which improved operating expenses in 2012.

In 2011, operating expenses increased due to a regulatory disallowance of $3.9 million, regarding retroactive application of the interest rate used to calculate the return on TNMP's CTC regulatory assets. See Note 17. In 2011, TNMP incurred operating expenses of $1.5 million to implement process improvement initiatives related to reducing future costs. Higher allocation of corporate overhead and incentive compensation and higher street rental and property taxes, and energy efficiency and rate case amortizations also increased operating expenses in 2011.

Deployment of AMS on TNMP's system increased depreciation and amortization by $3.1 million in 2012. In addition, increased investment in plant increased depreciation by $ 1.8 million. In 2011, depreciation and amortization expense increased due to higher transmission plant and the AMS deployment.

An increase in contributions in aid of construction of $0.7 million and a gain on the sale of property of $0.3 million, improved other income in 2012. The refinancing of TNMP's revolving credit facility in 2010 resulted in a write-off of

unamortized debt issuances costs that did not recur in 2011.

On September 30, 2011, TNMP replaced its 2009 Term Loan Agreement, at lower interest rates, which reduced interest expense in 2012 and 2011. In addition, an increase in allowance for funds used during construction further reduced interest expense in 2012. In 2010, a TNMP credit facility was amended, which resulted in lower fees and more favorable interest rates in 2011.

Table of Contents

First Choice

As discussed in Note 3, PNMR sold First Choice on November 1, 2011. The table below summarizes the operating results for First Choice from January 1, 2011 through October 31, 2011 compared to a full year of operations for 2010:

	Ten Months Ended October 31, 2011	Year Ended December 31, 2010	Change 2011/2010
	(In millions)		
Total revenues	$439.5	$483.2	$(43.8)
Cost of energy	323.3	350.5	(27.1)
Margin	116.1	132.7	(16.6)
Operating expenses	76.0	92.1	(16.1)
Depreciation and amortization	1.1	0.9	0.2
Operating income	39.1	39.8	(0.7)
Other income (deductions)	(0.6)	(0.4)	(0.2)
Net interest charges	(0.6)	(1.3)	0.7
Earnings before income taxes	37.9	38.1	(0.2)
Income (taxes)	(13.8)	(14.1)	0.3
Segment earnings	$24.1	$24.1	$0.1

The changes to total revenues, cost of energy, and margin in 2011 compared to 2010 are primarily due to ten months of operations in 2011 compared to twelve months in 2010.

The following table shows First Choice operating revenues by customer class and the actual number of customers:

	Ten Months Ended October 31, 2011	Year Ended December 31, 2010	Change 2011/2010
	(In millions, except customers)		
Residential	$260.2	$305.8	$(45.6)
Commercial	166.5	159.8	6.7
Other	12.8	17.6	(4.9)
	$439.5	$483.2	$(43.8)
Actual customers (thousands) [1,2]	221.1	214.2	6.9

(1) See note above in the TNMP segment discussion about the impact of TECA.

(2) Due to the competitive nature of First Choice's business, actual customer count at the end of the period is a more representative business indicator than average customers.

The following table shows First Choice GWh electric sales by customer class:

	Ten Months Ended October 31, 2011	Year Ended December 31, 2010	Change 2011/2010
	(Gigawatt hours[1])		
Residential	2,006.4	2,267.8	(261.4)
Commercial	1,538.2	1,363.8	174.4
	3,544.6	3,631.6	(87.0)

(1) See note above in the TNMP segment discussion about the impact of TECA.

A- 36

Table of Contents

Total revenues decreased in 2011, primarily due to the ten months of operations in 2011 versus twelve months in 2010. Prior to the sale, total revenues increased in 2011 compared to the same period in 2010 due to favorable weather and an increase in both MWh sales and number of customers, which were partially offset by a decrease in the average revenue rates. First Choice incurred significantly higher purchased power costs per MWh due to extreme summer temperatures in 2011. These higher energy costs more than offset the increase in revenues. First Choice managed its exposure to fluctuations in market energy prices by matching sales contracts with supply instruments designed to preserve targeted margins. Accordingly, First Choice had forward contracts for the purchase of energy to cover the future load requirements for most of its fixed price sales contracts. Changes in the fair value of supply contracts that were not designated or were not eligible for hedge or normal purchase or sales accounting were marked to market through current period earnings as required by GAAP. During 2010, market energy prices decreased significantly, which resulted in GAAP losses on certain of First Choice's forward supply contracts. During 2011, market energy prices increased, which resulted in unrealized mark-to-market gains on certain of First Choice's forward supply contracts. First Choice was not required to mark the related fixed price sales contracts to market, which would likely offset the supply contracts. Gains on unrealized economic hedges increased segment earnings by $4.9 million in 2011 compared with losses of $22.4 million in 2010.

The allowance for uncollectible accounts and related bad debt expense was based on collections and write-off experience. Bad debt expense decreased $16.2 million in 2010 due to lower customer departures, lower default rates, and an increase in commercial customers. In 2011, bad debt expense decreased by $4.6 million, primarily due to the ten months of operations in 2011 versus twelve months in 2010. Initiatives to reduce bad debts included efforts to reduce the default rate experienced for customers switching to another REP and increased focus on identifying new customer prospects that are more likely to demonstrate desired payment behavior. First Choice focused its marketing efforts on commercial customers and customers with established payment patterns, increased the required credit score, and expanded advance deposits requirements.

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

Corporate and Other

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

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
		(In millions)			
Total revenues	$—	$(34.0)	$(39.4)	$34.0	$5.4
Cost of energy	—	(33.8)	(39.1)	33.8	5.3
Margin	—	(0.2)	(0.3)	0.2	0.2
Operating expenses	(17.9)	(9.7)	(12.3)	(8.2)	2.6
Depreciation and amortization	17.5	16.5	16.8	1.0	(0.3)
Operating income (loss)	0.3	(7.0)	(4.9)	7.3	(2.2)
Gain on sale of First Choice	1.0	174.9	—	(173.9)	174.9
Optim Energy loss and impairment	—	—	(203.4)	—	203.4
Other income (deductions)	(8.1)	(15.8)	(6.0)	7.7	(9.8)
Net interest charges	(16.6)	(19.6)	(20.5)	3.0	0.9
Earnings (loss) before income taxes	(23.4)	132.5	(234.8)	(155.9)	367.3
Income (taxes) benefit	11.2	(56.5)	92.8	67.7	(149.3)
Segment earnings (loss)	$(12.2)	$76.0	$(142.0)	$(88.2)	$218.1

The Corporate and Other segment includes consolidation eliminations of revenues and cost of energy between business segments, primarily related to TNMP's sale of transmission services to First Choice prior to November 1, 2011, when PNMR sold First Choice. Accordingly, there was no elimination of intersegment revenue in 2012. Operating expenses decreased in 2012 and increased in 2011 primarily due to legal and consulting expenses of $4.6 million incurred in 2011 related to assessment of strategic alternatives for PNMR's competitive businesses. Other changes in operating

Table of Contents

expenses are offset as a result of allocation of depreciation and amortization and items within other income (deductions) to other business segments.

Depreciation expense increased in 2012 due to accelerated amortization of leasehold improvements for part of its corporate headquarters that was abandoned during 2012. This increase was partially offset by lower depreciation on software applications compared to 2011. Changes in depreciation and amortization are offset in operating expenses as a result of allocation of these costs to other business segments. PNM and TNMP defer their allocations of the accelerated amortization of leasehold improvements as regulatory assets to be recovered through rates.

Corporate and Other results include the gain on the sale of First Choice. Results of operations of First Choice are discussed above. The sale of First Choice is discussed in Note 3.

Corporate and Other results also include losses associated with Optim Energy. Further information regarding Optim Energy is shown below. The 2010 loss due to the impairment of PNMR's investment in Optim Energy, which is discussed above and in Note 21, is also reflected in the Corporate and Other segment.

Other income and deductions decreased in 2011 and increased in 2012 primarily due to a $9.2 million loss on the repurchase of $50.0 million of PNMR's 9.25% senior unsecured notes in November 2011 (Note 6). This was offset by lower performance on other investments. Net interest charges decreased in 2012 and 2011, primarily due to the re-acquisition.

In 2010 and 2012, income tax benefit was reduced by $2.6 million and $0.7 million due to the impairment of New Mexico wind energy production tax credit carry forwards. These credits were not expected to be utilized prior to their expiration due to the Company's net operating loss position. On January 3, 2013, the American Taxpayer Relief Act of 2012, which extended fifty percent bonus depreciation, was signed into law. Due to provisions in the act, taxes payable to the state of New Mexico for 2013 will be reduced and PNMR anticipates that it will be required to impair an additional $1.5 million of New Mexico wind energy production tax credits in the first quarter of 2013.

Optim Energy

As described above and in Note 21, PNMR reduced its investment in Optim Energy to zero at December 31, 2010 due to the determination that the investment was fully impaired, resulting in a pre-tax impairment loss of $188.2 million ($113.7 million after-tax). In accordance with GAAP, PNMR did not record income or losses associated with its investment in Optim Energy in 2011 as PNMR had no contractual requirement or agreement to provide Optim Energy with additional financial resources. Accordingly, Optim Energy had no impact on PNMR's 2011 balance sheet, statement of earnings, and statement of cash flows. Summarized financial information for Optim Energy is not presented. PNMR entered into agreements on September 23, 2011 that reduced PNMR's ownership in Optim Energy from 50% to 1%. On January 4, 2012, ECJV exercised its option to acquire PNMR's remaining 1% ownership interest in Optim Energy at fair market value, which was determined to be zero. PNMR accounted for its investment in Optim Energy using the equity method of accounting until September 23, 2011 and used the cost method thereafter.

In 2010, Optim Energy's strategy and near-term focus was on utilizing cash flow from operations to reduce debt and optimizing its generation assets as a stand-alone independent power producer. Optim Energy's results of operations were primarily determined by the prices at which its power was sold and its fuel to generate power, principally natural gas, was procured. Power prices in the ERCOT market are directly correlated to natural gas prices. The markets for power and natural gas were depressed in 2010. Optim Energy had net earnings (loss) of $(25.1) million for the year ended December 31, 2010. PNMR recognized net earnings (loss) from Optim Energy of $(15.2) million for the year ended December 31, 2010. Such amounts include amortization of a basis difference between PNMR's recorded investment in Optim Energy and 50 percent of Optim Energy's equity.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows

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

	Year Ended December 31,			Change	
	2012	2011	2010	2012/2011	2011/2010
	(In millions)				
Net cash flows from:					
Operating activities	$281.3	$292.2	$287.4	$(10.9)	$4.8
Investing activities	(285.9)	19.8	(275.9)	(305.7)	295.7
Financing activities	(1.6)	(312.3)	(10.7)	310.7	(301.6)
Net change in cash and cash equivalents	$(6.1)	$(0.3)	$0.8	$(5.9)	$(1.1)

The changes in PNMR's cash flows from operating activities relate primarily to improved results of operations at PNM and TNMP, primarily due to rate increases, as well as PNM's receipt of $21.6 million for governmental grants related to renewable energy initiatives in 2012 compared to $2.1 million in 2011. Increases were mostly offset by gains related to the sale of First Choice of $1.0 million in 2012 compared to $174.9 million in 2011. Contributions to the PNM and TNMP pension and other postretirement benefit plans of $89.2 million in 2012 compared to $48.3 million in 2011 and income taxes paid of $5.3 million in 2012 compared to refunds of $5.5 million in 2011 and $99.3 million in 2010 also offset the increases.

The changes in PNMR's cash flows from investing activities relate primarily to proceeds from the sale of First Choice of $4.0 in 2012 compared to $329.3 million offset by related transaction costs of $10.9 million in 2011. Utility plant additions decreased $18.0 million in 2012 and increased $45.4 million in 2011. At PNM, total utility plant additions in 2012 decreased by $54.5 million and increased by $45.4 million in 2011. PNM's 2011 additions included $59.2 million related to solar projects, which were completed by the end of 2011. TNMP utility plant additions increased $25.6 million in 2012 compared to 2011, including increases of $12.9 million in distribution projects, $13.8 million in transmission projects, and a decrease of $2.8 million related to the deployment of advanced meters. Plant additions at the Corporate and Other segment also increased $13.4 million in 2012 primarily related to improvements to the Company's corporate headquarters building. Construction expenditures were funded primarily through cash flows from operating activities and short-term borrowings. In addition, PNMR made equity contributions of $20.3 million to Optim Energy in 2010.

The changes in cash flows from financing activities relate primarily to the use of proceeds from the sale of First Choice in 2011 to purchase PNMR common stock for $125.7 million, PNMR's convertible preferred stock, Series A, for $73.5 million, and long-term debt for $58.5 million. In 2012, PNMR obtained $100.0 million in new short-term borrowings, and used the proceeds to repay borrowings under the PNMR Revolving Credit Facility. In 2012, PNM refinanced $20.0 million of PCRBs. In 2011, PNM obtained $160.0 million in new long-term borrowings, using the proceeds to reduce short-term borrowings. Also in 2011, TNMP replaced $50.0 million in long-term debt with a new term loan agreement for $50.0 million. In addition, payments received on PVNGS firm-sales contract arrangements were $2.6 million in 2011 compared to $30.5 million in 2010 as those contract expired at December 31, 2010. In 2010, PNM refinanced the $403.8 million of PCRBs.

Financing Activities

See Note 6, for additional information concerning the Company’s financing activities. In May 2012, PNM received NMPRC approval to participate in the refunding of $20.0 million of PCRBs. PNM also received NMPRC authority to exercise the two one-year extension options under the PNM Revolving Credit Facility. The PNMR Revolving Credit Facility also provides for two one-year extension options although NMPRC authority to exercise them is not required. In October 2012, the first of the one-year extension options for the PNMR Revolving Credit Facility and the PNM Revolving Credit Facility were exercised extending the expiration of both facilities to October 31, 2017.

In September 2012, PNM participated in the issuance of $20.0 million of new PCRBs by the City of Farmington, New Mexico, which bear interest at 2.54% and mature September 1, 2042 with a mandatory tender on June 1, 2017. The new PCBRs refunded a $20.0 million series of PCRBs, which bore interest at 5.15% and matured in 2037, that were redeemed at par and retired.

Table of Contents

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 those for renewable energy
- Expanding the electric transmission and distribution systems
- Purchasing nuclear fuel

Projected capital requirements for 2013-2017 are:

	2013	2014-2017	Total
	(In millions)		
Construction expenditures	$372.8	$1,409.1	$1,781.9
Dividends on PNMR common stock	52.6	210.3	262.9
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	$425.9	$1,621.5	$2,047.4

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 additional renewable resources anticipated to be required to meet the RPS, additional peaking resources needed to meet needs outlined in PNM's current IRP, and environmental upgrades at Four Corners of $71.9 million estimated to be expended through 2017. The construction expenditures above do not include any amounts related to environmental upgrades at SJGS that ultimately may be required by EPA to address regional haze or expenditures that could be required to replace capacity should environmental control at SJGS involve shutdown of one or more SJGS units. 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, 2012, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements.

In addition to the capital requirements for construction expenditures and dividends, the Company has long-term debt that must be paid or refinanced at maturity. Note 6 contains information about the maturities on long-term debt. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility and the PNM Revolving Credit Facility that both expire in October 2017 and the TNMP Revolving Credit Facility that expires in December 2015. On October 31, 2011, PNMR entered into the PNMR Revolving Credit Facility, which has a financing capacity of $300.0 million, and PNM entered into the PNM Revolving Credit Facility, which has a financing capacity of $400.0 million. The new credit facilities replaced existing facilities. The terms and conditions of the new facilities are substantially similar to the prior facilities and the Company believes the terms and conditions are consistent with those of other investment grade revolving credit facilities in the utility industry. On December 14, 2012, PNMR entered into the PNMR Term Loan Agreement. On December 27, 2012, PNMR borrowed $100.0 million under the PNMR Term Loan Agreement and used the funds to repay $100.0 million in borrowings made under the PNMR Revolving Credit Facility. Each of these facilities contains one financial covenant that requires the maintenance of debt-to-capital ratios of less than or equal to 65%. These ratios reflect the present value of payments under the PVNGS and EIP leases as debt.

The revolving credit facilities provide short-term borrowing capacity and also allow letters of credit to be issued. Letters of credit reduce the available capacity under the facilities. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational expenditures. The Company's business is seasonal with more revenues and cash flows from operations being generated in the summer months. In general, the

Company relies on the credit facilities to be the initial funding source for construction expenditures. Accordingly, borrowings under the facilities increase over time. Depending on market and other conditions, the Company will periodically sell long-term debt and use the proceeds to reduce the borrowings under the credit facilities. Short-term borrowings at PNMR ranged from $14.0 million to $141.0 million during the year ended December 31, 2012 and from $101.0 million to $129.0 million during the three months ended December 31, 2012. PNM short-term borrowings ranged from zero to $168.0 million during the year ended December 31, 2012 and from zero to $35.0 million during the three months ended December 31, 2012. PNMR short-term borrowings ranged from zero to $106.0 million during the year ended December 31, 2011. PNM short-term borrowings ranged from zero to $298.0 million during the year ended

Table of Contents

December 31, 2011. There were no borrowings under the TNMP Revolving Credit Facility during 2012 and 2011. At December 31, 2012, average interest rates were 1.96% for the PNMR Revolving Credit Facility, 1.335% for the PNMR Term Loan Agreement, and 1.71% for the PNM Revolving Credit Facility.

The Company currently believes that its capital requirements can be met through internal cash generation, existing credit arrangements, and access to public and private capital markets. To cover the difference in the amounts and timing of internal cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements. However, if difficult market conditions experienced during the recent recession return, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives. Also, PNM may consider seeking authorization for the issuance of first mortgage bonds to improve access to the capital markets.

In addition to its internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements during the 2013-2017 period. This could include debt refinancing, new debt issuances, and/or new equity.

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 April 13, 2012, S&P raised the corporate credit rating for PNMR as well as the senior debt ratings for PNMR and TNMP and the preferred stock rating for PNM. S&P changed the outlook to stable for all entities. As of February 22, 2013, ratings on the Company's debt securities were as follows:

	PNMR	PNM	TNMP
S&P			
Senior secured	*	*	BBB+
Senior unsecured	BB+	BBB-	*
Preferred stock	*	BB	*
Moody’s			
Senior secured	*	*	A3
Senior unsecured	Ba1	Baa3	*
Preferred stock	*	Ba2	*

* Not applicable

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

A summary of liquidity arrangements, which do not include the PNMR Term Loan Agreement, as of February 22, 2013 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
Amounts outstanding as of February 22, 2013:				
Revolving credit facility	24.2	107.7	25.0	156.9
Letters of credit	11.3	3.5	0.3	15.1
Total short term-debt and letters of credit	35.5	111.2	25.3	172.0
Remaining availability as of February 22, 2013	$264.5	$288.8	$49.7	$603.0
Invested cash as of February 22, 2013	$2.8	$—	$—	$2.8

A- 41

Table of Contents

The above table excludes intercompany debt. The remaining availability under the revolving credit facilities at any point in time varies based on a number of factors, including the timing of collections of accounts receivables and payments for construction and operating expenditures.

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

Off-Balance Sheet Arrangements

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

In 1985 and 1986, PNM consummated sale and leaseback transactions for its interest in PVNGS Units 1 and 2. The original purpose of the sale-leaseback financing was to lower revenue requirements and to levelize the ratemaking impact of PVNGS being placed in-service. The lease payments reflected lower capital costs as the equity investors were able to capitalize the investment with greater leverage than PNM and because the sale transferred tax benefits that PNM could not fully utilize. Under traditional ratemaking, the capital costs of ownership of a major rate base addition, such as a nuclear plant, are front-end loaded. The revenue requirements are high in the initial years and decline over the life of the plant as depreciation occurs. By contrast, the lease payments are level over the lease term. The leases, which expire in 2015 and 2016, contain options to renew the leases at a fixed price or to purchase the property for fair market value. See discussion below and Note 7 regarding the status of these alternatives.

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

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. The EIP line is a 216 mile, 345 kilovolt line with a capacity of 200 MW. PNM currently owns 60% and operates the other 40% of the EIP line under the terms of a lease agreement. The lease expires in 2015 with fixed-rate and fair market value renewal options and a fair market value purchase option. PNM has agreed to exercise its option to purchase the leased assets at expiration of the lease at fair market value of $7.7 million. See Note 16.

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

	PVNGS Units 1&2	EIP	Delta	Total
	(In thousands)			
2013	$27,427	$—	$5,956	$33,383
2014	32,236	4,267	5,956	42,459
2015	17,082	—	5,956	23,038
2016	3,270	—	5,956	9,226
2017	—	—	5,956	5,956
Thereafter	—	—	15,385	15,385
Total	$80,015	$4,267	$45,165	$129,447

The above table includes payments under the PVNGS leases through their existing expiration. As discussed in Note 7, PNM gave notice to the lessors under the PVNGS Unit 1 leases in 2013 that PNM would renew the leases. The renewal payments under the PVNGS Unit 1 leases are $16.5 million, which are not included above. The renewal period is yet to be determined, but will be between two and eight years. See Sources of Power in Part I, Item 1, Investments in Note 1, and Note 7 for additional information.

A- 42

Table of Contents

Commitments and Contractual Obligations

The following table sets forth PNMR's long-term contractual obligations as of December 31, 2012. See Note 7 for further details about the Company's significant leases:

	Payments Due				
Contractual Obligations	2013	2014-2015	2016-2017	2018 and Thereafter	Total
	(In thousands)				
Long-term debt (a)	$2,530	$231,892	$57,000	$1,385,070	$1,676,492
Interest on long-term debt (b)	116,377	227,180	198,033	606,679	1,148,269
Operating leases (c)	44,040	83,525	28,309	94,883	250,757
Transmission reservation payments	13,443	14,859	11,276	19,667	59,245
Coal contracts (d)	61,809	125,687	101,853	—	289,349
Coal mine decommissioning (e)	3,907	1,327	2,928	72,983	81,145
Nuclear decommissioning funding requirements (f)	2,600	5,200	5,200	60,812	73,812
Outsourcing	5,573	7,771	3,629	—	16,973
Pension and retiree medical (g)	64,542	35,719	8,274	—	108,535
Construction expenditures (h)	372,807	827,969	581,114	—	1,781,890
Total (i)	$687,628	$1,561,129	$997,616	$2,240,094	$5,486,467

(a) Represents total long-term debt excluding unamortized discounts of $4.2 million.

(b) Represents interest payments during the period.

(c) The operating lease amounts include amounts due to Delta. The amounts include payments under the PVNGS leases through their existing expiration. As discussed in Note 7, PNM gave notice to the lessors under the PVNGS Unit 1 leases in 2013 that PNM would renew the leases. The renewal payments under the PVNGS Unit 1 leases are $16.5 million, which are not included in the above table. The renewal period is yet to be determined, but will be between two and eight years. The amounts in the above table are net of amounts to be returned to PNM as payments on its investments in related PVNGS lessor notes. See Investments in Note 1 and Note 7. See Note 9 for additional information about the Delta operating lease, including the potential purchase of Delta.

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

(e) Includes funding of the trust established for post-term reclamation related to the mines serving SJGS. See Note 16.

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

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

(h) Represents forecasted construction expenditures, including nuclear fuel, under which substantial commitments have been made. See Note 14. The Company only forecasts capital expenditures for the next five years. The construction expenditures include the purchase of the leased portion of the EIP at the expiration of the lease. See Capital Requirements above and Note 16.

(i) PNMR is unable to reasonably estimate the timing of liability and interest payments for uncertain income tax positions in individual years due to uncertainties in the timing of the effective settlement of tax positions. Therefore, PNMR's liability of $19.2 million and interest payable of $1.1 million are 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. See Note 9. No amounts are included above for the New Mexico Wind Energy PPA since there are no minimum payments required under that agreement.

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, 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

Table of Contents

result would be an increase or decrease in interest cost. In addition, the revolving credit facilities, as well as the PNMR Term Loan Agreement and TNMP 2011 Term Loan, each contain a covenant requiring the maintenance of debt-to-capital ratios of less than 65%. In the calculation of debt for PNMR and PNM, the present value of payments under the PVNGS and EIP leases are considered debt. If that ratio were to exceed 65%, the entity could be required to repay all borrowings under its facility, be prevented from borrowing on the unused capacity under the facility, and be required to provide collateral for all outstanding letters of credit issued under the facility.

If a contingent requirement were to be triggered under the PNM Revolving Credit Facility resulting in an acceleration of the repayment of outstanding loans under the PNM Revolving Credit Facility, 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 PNMR Term Loan Agreement also includes a cross-default provision.

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

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

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

Capital Structure

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

	December 31,			
PNMR	2012		2011	
PNMR common equity	48.9	%	48.3	%
Preferred stock of subsidiary	0.3	%	0.3	%
Long-term debt	50.8	%	51.4	%
Total capitalization	100.0	%	100.0	%
PNM				
PNM common equity	50.5	%	49.7	%
Preferred stock	0.5	%	0.5	%
Long-term debt	49.0	%	49.8	%
Total capitalization	100.0	%	100.0	%
TNMP				
Common equity	59.8	%	59.8	%
Long-term debt	40.2	%	40.2	%
Total capitalization	100.0	%	100.0	%

OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

In 2012, PNM's generating plants emitted approximately 6.7 million metric tons of CO_2, which comprises the vast majority of its GHG. By comparison, the total GHG in the United States in 2010, the latest year for which EPA has

published this data, were approximately 6.8 billion metric tons, of which approximately 5.7 billion metric tons were CO_2. According to EPA data, electricity generation accounted for approximately 2.3 billion metric tons, or 40%, of the CO_2 emissions.

Table of Contents

PNM has several programs underway to reduce GHG from its generating plants, thereby reducing its exposure to climate change regulation. See Note 17. In 2011, PNM completed construction of 22 MW of utility-scale solar generation located at five sites on PNM's system throughout New Mexico. In 2013, PNM will be expanding its renewable energy portfolio by constructing 21.5 MW of utility-scale solar generation that will be on-line by the end of the year and has signed a 20 year PPA for the output of a 10 MW geothermal facility to be in service by January 1, 2014. Additionally, PNM has a customer distributed solar generation program that is expected to grow distributed solar from almost 20 MW installed at the end of 2012 to over 44 MW by the end of 2014. Once fully subscribed, the distributed solar programs will reduce PNM's production from fossil-fueled electricity generation by 116 GWh per year. PNM offers its customers a comprehensive portfolio of energy efficiency and load management programs, with a 2012 budget of over $17 million, that PNM estimates saved approximately 71 GWh of electricity in 2012. Over the next 18 years, PNM projects the expanded energy efficiency and load management programs will provide the equivalent of approximately 12,185 GWh of electricity, which will avoid at least 6.1 million metric tons of CO_2 based upon projected emissions from PNM's system-wide portfolio with and without these programs. These estimates are subject to change given that it is difficult to accurately estimate avoidance because of the high uncertainty of many of the underlying variables and complex interrelationships between those variables, including changes in demand for electricity.

Management periodically updates the Board on implementation of corporate environmental policy and the Company's environmental management systems, promotion of energy efficiency, and use of renewable resources. The Board is also advised of the Company's practices and procedures to assess the sustainability impacts of operations on the environment. The Board regularly considers associated issues around climate change, the Company's GHG exposures, and potential financial consequences that might result from potential federal and/or state regulation of GHG.

Approximately 81.8% of PNM's owned and leased generating capacity at December 31, 2012 consisted of coal or gas-fired generation that produces GHG, all of which is located within the United States. The Company does not anticipate any direct impact from any near-term international accords. 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, including plant performance. For example, if PVNGS experienced prolonged outages, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG. 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. As described in Note 16, on February 15, 2013, PNM, NMED, and EPA agreed to pursue a strategy to address the regional haze requirements of the CAA at the coal-fired SJGS, which would include the shutdown of SJGS Units 2 and 3. If implemented, shutdown of those units would reduce PNM's GHG. That agreement also contemplates that gas-fired generation would be built to partially replace the retired capacity. Although replacement power strategies have not been finalized, the reduction in GHG from the retirement of coal-fired generation would be greater than the increase in GHG from replacement with gas-fired generation.

Because of PNM's dependence on fossil-fueled generation, any legislation that imposes a limit or cost on GHG will impact the cost at which electricity is produced. While PNM expects to be entitled to recover that cost through rates, the timing and outcome of proceedings for cost recovery is uncertain. In addition, to the extent that any additional costs are recovered through rates, customers may reduce their demand, 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 possible exception of periodic drought conditions. Climate changes are generally not expected to have material consequences in the near-term. Drought conditions in northwestern New Mexico could impact the availability of water for cooling coal-fired generating plants. Water shortage sharing agreements have been in place since 2004, although no shortage has been declared due to sufficient precipitation in the San Juan River basin. PNM also has a supplemental water contract in place with the Jicarilla Tribe to help address any water shortages from primary sources. The contract expires on December 31, 2016. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic

hurricanes and drought conditions. In addition to potentially causing physical damage to TNMP owned facilities, which disrupt the ability to transmit and/or distribute energy, hurricanes can temporarily reduce customers' usage and demand for energy.

EPA Regulation

In April 2007, the United States Supreme Court held that EPA has the authority to regulate GHG under the CAA. This decision heightened the importance of this issue for the energy industry. In December 2009, EPA released its endangerment finding stating that the atmospheric concentrations of six key greenhouse gases (CO_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 is to “tailor” the applicability of two programs, PSD and

Table of Contents

Title V operating permit programs, to avoid impacting millions of small GHG emitters. The rule focuses on the largest sources of GHG, including fossil-fueled electric generating units. This program currently covers new construction projects that emit GHG of at least 100,000 tons per year (even if PSD is not triggered for other pollutants). In addition, modifications at existing facilities that increase GHG by at least 75,000 tons per year will be subject to PSD permitting requirements, even if they do not significantly increase emissions of any other pollutant. EPA had indicated in its original Tailoring Rule that it might extend PSD regulation to smaller emission sources. However, on July 3, 2012, EPA finalized the third phase of the rule by keeping the permitting thresholds where they are. All of PNM's fossil-fueled generating plants are potentially subject to the Tailoring Rule because of the magnitude of non-GHG, but the existing plants do not have any currently planned projects that would trigger PSD permitting for GHG. Any newly constructed power plant would likely be subject to the Tailoring Rule.

On June 26, 2012, the D.C. Circuit rejected challenges to EPA's 2009 GHG endangerment finding, GHG emission standards for light-duty vehicles, PSD Interpretive Memorandum (EPA's so-called GHG "Timing Rule"), and Tailoring Rule. The Court found that EPA's endangerment finding and its light-duty vehicle rule "are neither arbitrary nor capricious," that "EPA's interpretation of the governing CAA provisions is unambiguously correct," and that "no petitioner has standing to challenge the Timing and Tailoring Rules."

On March 27, 2012, EPA issued its proposed carbon pollution standards for the emission of GHG from new fossil-fueled electric generating units ("EGUs"). The proposed NSPS sets a limit of 1,000 lb CO_2/MWh and covers newly constructed fossil-fueled EGUs that are larger than 25 MW. The proposed limit is based on the performance of natural gas combined cycle technology. Therefore, coal-fired power plants would likely only be able to comply with the standard by using carbon capture and sequestration technology. The proposed rule includes an exemption for simple cycle EGUs. However, during the comment period, EPA solicited comments on whether to drop the exemption and instead exempt any fossil-fueled EGU that limits electric generation to one-third of its annual generating capacity. The proposed rule, as written, does not include limits that apply to existing power plants, or proposed plants that already have a complete preconstruction permit and commence construction within 12 months of the issuance of the proposed rule. The proposal is the first NSPS issued for CO_2, and although it is limited to new sources, it has potential far-reaching implications for the utility industry. When finalized, the standard could serve as the floor for BACT analysis for PSD permitting for new GHG sources under the Tailoring Rule. The proposed rule was published in the Federal Register on April 13, 2012. EPA accepted comment on the proposed rule through June 25, 2012.

Completion of the proposed NSPS for new EGUs is a prerequisite for EPA to promulgate GHG standards for existing sources. An EPA proposal to establish a GHG NSPS for existing sources is expected sometime in 2013. In setting the standards, EPA has historically used technology-based performance standards on emission rates, but currently there are no GHG control technologies in existence that can provide a basis for an existing source NSPS.

EPA regulation of GHG from large stationary sources will impact PNM's operations due to its reliance on fossil-fueled electric generation. The impact to PNM is unknown because the regulatory requirements, including BACT implications and NSPS requirements, are still developing. Impacts could involve investments in efficiency improvements and/or control technologies at the fossil-fueled generating plants. Currently, there are no commercially viable GHG control technologies although such technologies may become viable in the future. It is also possible that the costs of such improvements or technologies could impact the economic viability of some plants.

Federal Legislation

Prospects for enactment of legislation imposing a new or enhanced regulatory program to address climate change in the new Congress are unlikely in 2013, although there is growing interest among some policymakers in addressing climate change and there may be legislation in the future. Instead, EPA is the primary venue for GHG regulation in the near future, especially for coal-fired units. PNM has assessed, and continues to assess, the impacts of potential climate change legislation or regulation on its business. This assessment is preliminary, and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding the specific GHG limits, the timing of implementation of these limits, the level of emissions

allowances allocated and the level that must be purchased, the development of technologies for renewable energy and to reduce emissions, the cost of emissions allowances, the degree to which offsets may be used for compliance, and provisions for cost containment. Moreover, the assessment assumes various market reactions such as with respect to 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 would likely, among other things, result in significant compliance costs, including significant capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Note 16. In turn, these consequences would lead to increased costs to customers and could 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 demand for electricity. PNM's assessment process is ongoing, but too preliminary and speculative at this time for the meaningful prediction of financial impact.

Table of Contents

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 issued an order in June 2007, requiring 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. However, PNM is required to use these prices for purposes of its IRP, and the prices may not reflect the costs that it ultimately will incur. PNM's IRP filed with the NMPRC on July 18, 2011 (Note 17) showed that while consideration of the NMPRC required carbon emissions costs did not significantly change the resource decisions regarding future facilities over the next 20 years, it did slightly impact the projected in-service dates of some of the identified resources. Much higher GHG costs than assumed in the NMPRC analysis are necessary to impact future resource decisions. The primary consequence of the standardized cost of carbon emissions was an increase to generation portfolio costs. In recent years, New Mexico also adopted regulations to directly limit GHG from larger sources, including electric generation units. However, these regulations were recently repealed. In November 2010, the EIB adopted a regional GHG cap and trade program proposed by the NMED. The NMED GHG program was intended to implement, in New Mexico, the regional cap and trade program developed by the Western Climate Initiative (“WCI) which is an organization formerly comprised of seven western states, including New Mexico, and three Canadian provinces. The NMED GHG regulation would have capped GHG emissions based on a 2011 emission baseline. Thereafter, NMED would grant GHG allowances to covered sources based on their individual emission baseline. The available allowances would decline by 2% each succeeding year requiring sources to either reduce GHG emissions by the requisite amount or purchase emission allowances from a yet-to-be established regional trading market. The required GHG reductions under the NMED program were not to be triggered until the available trading market for GHG allowances consisted of 100 million metric tons or more. New Mexico, by itself, had insufficient regulated GHG emissions to establish the requisite trading market.

PNM and other public utilities and industry groups challenged the NMED GHG cap and trade program in the New Mexico Court of Appeals. During the pendency of these appeals, the EIB agreed to consider a petition for the repeal of the NMED GHG cap and trade regulation. PNM and the other appellants filed a petition to repeal the New Mexico GHG cap and trade regulation, and in February 2012, the EIB voted unanimously to repeal the GHG cap and trade regulation. The NMED supported the repeal of its GHG cap and trade regulation. The repeal of the GHG cap and trade regulation has now been challenged by two environmental advocacy organizations and is currently pending before the New Mexico Court of Appeals.

In a separate rulemaking proceeding filed in December 2008, New Energy Economy (“NEE”) petitioned the EIB for the adoption of a regulation that would cap GHG from larger sources such as electric generation units. The EIB adopted the NEE GHG regulation, in a modified form, in December 2010 as a “backstop” to the NMED GHG cap and trade regulation. The effective date of the NEE GHG regulation was delayed until the later of January 1, 2013 or six months after NMED's cap-and-trade regulation described above is no longer in force. Under the NEE GHG regulation, covered sources would have to reduce GHG emissions by 3% per year, subject to a specified cost cap.

The NEE GHG regulation was challenged in the New Mexico Court of Appeals by PNM and the same groups that challenged the NMED cap and trade regulation. Again, during the pendency of the appeals, the EIB agreed to consider a petition for the repeal of the NEE GHG regulation. In March 2012, the EIB voted unanimously to repeal the NEE GHG regulation. The NMED supported the repeal of the NEE GHG regulation. The repeal of the NEE GHG regulation has been challenged in the Court of Appeals by the same environmental organizations that have challenged the repeal of the NMED cap and trade regulation.

The Court of Appeals conditionally dismissed the challenges to the adoption of the NMED GHG cap and trade and NEE GHG regulations because of the repeal of those regulations. The challenges are subject to reinstatement in the event of a successful challenge to the repeal of the NMED GHG cap and trade or NEE GHG regulation and reinstatement of either of those regulations.

At present it is difficult to assess whether the pending challenges to the repeals of the NMED GHG cap and trade regulation and the NEE GHG regulation will be successful. PNM's analysis of these regulations is that both would increase environmental compliance costs for its fossil fueled generation facilities. It appears that New Mexico is reassessing whether a single-state or regional approach to the regulation of GHG is appropriate public policy. New Mexico is no longer a member-participant in the WCI, but remains involved as an observer. However, PNM cannot rule out future state legislative or regulatory initiatives to regulate GHGs.

Table of Contents

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 asks 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. There has been no further action on this matter and it remains pending before the NMPRC.

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 there is no specific time frame in which action must be taken or a docket will be 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. The Company monitors and often submits comments taking a position in such notices and rulemaking dockets or may join in larger group responses. The Company often cannot determine the full impact of a proposed rule and policy change until the final determination is made by FERC and the Company 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 they have delayed the implementation of portions of the MOD-029 methodology for "Flow Limited" paths 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 and are waiting for the request to be processed through NERC's standards development.

In July 2011, FERC issued Order 1000 adopting new requirements for transmission planning, cost allocation, and development. Order 1000 calls for significant changes to the transmission process of WestConnect, an organization of utility companies providing transmission of electricity, in the western region that includes PNM. On October 11, 2012, PNM and other WestConnect participants filed modified versions of Attachment K to their transmission tariffs to meet Order 1000 regional compliance requirements. Thirteen intervention motions were filed, with several objecting to and/or protesting various provisions of the filings submitted by WestConnect participants. On December 17, 2012, the WestConnect participants filed responses to the issues raised by the intervenors. FERC has not responded to the filing and protests raised by intervenors. A second compliance filing will be made in April 2013 to address the planning and cost allocation between WestConnect and other regions.

Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Reform Act”), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and recordkeeping and may impose margin requirements on swaps that are not centrally cleared.

Although several of the rules required to implement the legislation have not yet been finalized, the United States Commodity Futures Trading Commission ("CFTC") has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge or mitigate commercial risk. PNM expects to qualify for this exception. PNM also expects to be able to comply with its requirements under the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of the Dodd-Frank Reform Act and related rules, PNM's swap activities could be subject to increased costs, including from higher margin requirements. In addition, implementation of, and compliance with, the swaps provisions of the Dodd-Frank Reform Act and related rules by PNM's swap counterparties could result in increased costs. At this time, PNM cannot predict the ultimate impact the Dodd-Frank Reform Act may have on PNM's financial condition, results of operations, cash flows, or liquidity.

Table of Contents

Other Matters

See Notes 16 and 17 for a discussion of commitments and contingencies and rate and regulatory matters. See Note 20 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. Management estimates unbilled revenues based on historical sales recorded in the billing system, taking into account weather impacts. The method is consistent with the approach to normalization employed for rate case billing determinants and the load forecast. To the extent the estimated amount differs from the amount subsequently billed, revenues will be affected.

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.

The Company 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.

Impairments

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

Goodwill and non-amortizable other intangible assets are evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill and intangible assets might be impaired. Note 22 contains information on the impairment testing performed by the Company on goodwill and intangible assets. No impairments were indicated in the Company’s annual goodwill testing, which was performed as of April 1, 2012. Since the annual evaluation, there have been no indications that the fair values of the reporting units with recorded goodwill have decreased below the carrying values. The annual testing was based on certain critical estimates and assumptions. Changes in the estimates or the use of different assumptions could affect the determination of fair value and the conclusion of impairment for each reporting unit.

Application of the impairment test requires judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units and determination of the fair value of each reporting unit. A discounted cash flow methodology is primarily used to estimate the fair value of each 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 each reporting unit, 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,

Table of Contents

and the borrowing rate appropriate for each 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 each reporting unit is the estimation of future cash flows. The Company considers budgets, long-term forecasts, historical trends, and expected growth rates in order to estimate future cash flows. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For the PNM and TNMP reporting units, which are subject to rate-regulation, a fair recovery of and return on costs prudently incurred to serve customers is assumed. Should the regulators not allow recovery of certain costs or not allow these reporting units to earn a fair rate of return on invested capital, the fair value of the reporting units could decrease. For the First Choice unregulated reporting unit, which PNMR sold on November 1, 2011 (Note 3), assumptions regarding customer usage, pricing, retention, and payment behavior, in addition to fluctuations in the cost of energy, significantly impacted estimates of future cash flows.

The Company believes that the WACCs and cash flow projections utilized in the 2012 testing appropriately reflected the fair value of each reporting unit. Since any cash flow projection contains uncertainty, the Company adjusted the WACCs used to reflect that uncertainty. The Company does not believe that there are indications of goodwill impairment in any of its reporting units, but this analysis is highly subjective. As of the impairment testing for April 1, 2012, the fair value of the PNM reporting unit, which had goodwill of $51.6 million, exceeded its carrying value by approximately 15%. The 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.

PNMR had an investment in Optim Energy, which was accounted for using the equity method of accounting up to September 23, 2011. On September 23, 2011, PNMR's ownership in Optim Energy was reduced from 50% to 1%. Beginning in 2009 and continuing throughout 2010, Optim Energy was affected by adverse market conditions, primarily low natural gas and power prices. These factors were indicators of impairment that required an impairment analysis to be performed by PNMR of its investment in Optim Energy as of December 31, 2010. PNMR's analysis indicated that its entire investment in Optim Energy was impaired and PNMR reduced the carrying value of its investment in Optim Energy to zero at December 31, 2010, resulting in a pre-tax loss of $188.2 million in 2010. Accordingly and because PNMR had no further financial commitment to Optim Energy, no additional impairment analysis was performed in 2012. See Note 21.

Decommissioning Costs

Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Changes in these estimates could significantly impact PNMR’s and PNM’s financial position, results of operations and cash flows. PNM owns and leases nuclear and fossil-fuel generation facilities. In accordance with GAAP, PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists. Nuclear decommissioning costs are based on site-specific estimates of the costs for removing all radioactive and other structures at PVNGS and are dependent upon numerous assumptions. PVNGS Unit 3 is excluded from PNM’s retail rates while PVNGS Units 1 and 2 are included. PNM collects a provision for ultimate decommissioning of PVNGS Units 1 and 2 and its fossil-fuel generation facilities in its rates and recognizes a corresponding expense and liability for these amounts. PNM believes that it will continue to be able to collect in rates for its legal asset retirement obligations for nuclear generation activities included in the ratemaking process. Asset retirement obligations and nuclear decommissioning costs are discussed in Note 15.

In connection with both the SJGS coal agreement and the Four Corners fuel agreement, the owners are required to reimburse the mining companies for the cost of contemporaneous reclamation as well as the costs for final reclamation of the coal mines. The reclamation costs are based on site-specific studies that estimate the costs to be incurred in the

future and are dependent upon numerous assumptions. PNM considers the contemporaneous reclamation costs part of the cost of its delivered coal costs. See Note 16 for discussion of the final reclamation costs.

Derivatives

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

Table of Contents

Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimate technique. Changes in the assumptions used in the fair value determinations could have significant impacts. See Note 8.

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 investment performance, the level of contributions made to the plans, and employee demographics. They both require the use of a number of actuarial assumptions and estimates. The most critical of the actuarial assumptions are the expected long-term rate of return, the discount rate, and projected health care cost trend rates. The Company reviews and evaluates its actuarial assumptions annually and adjusts them as necessary. See Note 12.

Accounting for Contingencies

The financial results of the Company may be affected by judgments and estimates related to loss contingencies. Losses associated with uncollectible trade accounts receivable was a significant contingency for First Choice, which PNMR sold on November 1, 2011. The determination of bad debt expense is based on factors such as historical write-off experience, aging of accounts receivable balances, general economic conditions, and customer behavior. Contingencies related to litigation and claims, as well as environmental and regulatory matters, also require the use of significant judgment and estimation. The Company attempts to take into account all known factors when determining the proper accrual, however the actual outcomes can vary from any amounts accrued. See Note 16.

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. Actual income taxes could vary from estimated amounts due to the future impacts of various items, including changes in income tax laws, the Company's forecasted financial condition and results of operations in future periods, and the final review from taxing authorities. See Note 11.

Market Risk

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

MD&A FOR PNM

RESULTS OF OPERATIONS

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

MD&A FOR TNMP

RESULTS OF OPERATIONS

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

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

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

- Establishment of policies regarding risk exposure levels and activities in each of the business segments
- Approval of the types of derivatives entered into for hedging
- Review and approval of hedging risk activities
- Establishment of policies regarding counterparty exposure and limits
- Authorization and delegation of transaction limits
- Review and approval of controls and procedures for derivative activities
- Review and approval of models and assumptions used to calculate mark-to-market and market risk exposure
- Proposing risk limits to the Board's Finance Committee for its approval
- Quarterly reporting to the Board's Audit and Finance Committees on these activities.

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

Commodity Risk

Information concerning accounting for derivatives and the risks associated with commodity contracts is set forth in Note 8, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Consolidated Balance Sheets. At December 31, 2012 and 2011, PNMR and PNM had no commodity derivative instruments designated as cash flow hedging instruments.

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

	Economic Hedges	
	PNMR	PNM
	(In thousands)	
Sources of fair value gain (loss):		
Net fair value at December 31, 2010	$(22,975)	$(3,676)
Amount realized on contracts delivered during period	5,232	(802)
Changes in fair value	3,481	4,624
Net mark-to-market change recorded in earnings	8,713	3,822
Net change recorded as regulatory liability	(502)	(502)
Unearned/prepaid option premiums	1,793	—
Settlement of de-designated cash flow hedges	423	—
Sale of First Choice	12,192	—
Net fair value at December 31, 2011	(356)	(356)
Amount realized on contracts delivered during period	(4,110)	(4,110)
Changes in fair value	5,708	5,708
Net mark-to-market change recorded in earnings	1,598	1,598
Net change recorded as regulatory liability	(38)	(38)

Net fair value at December 31, 2012	$1,204	$1,204

Table of Contents

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, 2012

	2013	2014	2015	2016
PNMR and PNM	(In thousands)			
Economic hedges				
Prices actively quoted	$—	$—	$—	$—
Prices provided by other external sources	2,785	(585)	(669)	(327)
Prices based on models and other valuations	—	—	—	—
Total	$2,785	$(585)	$(669)	$(327)

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 and 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 CarloVaR 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, 2012, the high, low, and average VaR amounts were $1.4 million, $0.25 million, and $0.60 million. For the year ended December 31, 2011, the high, low and average VaR amounts were $1.6 million, $0.5 million, and $1.1 million. At December 31, 2012 and December 31, 2011, the VaR amounts for the PNM wholesale portfolio were $0.50 million and $1.1 million.

Because of its obligation to serve customers, First Choice was required to take certain contracts to settlement and evaluated the settlement of its positions against earnings using a GEaR calculation with a hold-to-maturity at risk of 12 months. Management believed the GEaR results were a reasonable approximation of the potential variability of earnings against forecasted earnings. First Choice also utilized a VaR measure to measure short term market price impacts, which was intended to capture the effects of changes in market prices for a holding period of three days over the life of the total portfolio. The GEaR and VaR calculations utilized the same Monte Carlo simulation approach and confidence level described above. For the ten months ended October 31, 2011, the high, low and average amounts were $2.4 million, $4.6 million, and $0.9 million for GEaR and $1.1 million, less than $0.1 million and $0.4 million for VaR.

The VaR and GEaR limits, which were not exceeded during 2012 or 2011, represent an estimate of the potential gains or losses that could be recognized on the Company’s portfolios, subject to market risk, given current volatility in the market, and are not necessarily indicative of actual results that may occur, since actual future gains and losses will differ from those estimated. Actual gains and losses may differ due to actual fluctuations in market prices, operating exposures, and the timing thereof, as well as changes to the underlying portfolios during the year.

Credit Risk

The Company is exposed to credit risk from its retail and wholesale customers, as well as the counterparties to derivative instruments. The Company conducts counterparty risk analysis across business segments and uses a credit management process to assess the financial conditions of counterparties.

Table of Contents

The following table provides information related to credit exposure by the credit worthiness (credit rating) of the counterparties and concentration of credit risk to counterparties. All credit exposures at December 31, 2012 will mature in less than two years.

Schedule of Credit Risk Exposure
December 31, 2012

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	$6,117	3	$3,345
Non-investment grade	—	—	—
Internal ratings:			
Investment grade	121	—	—
Non-investment grade	33	—	—
Total	$6,271		$3,345

(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 full-requirements customers), forward sales, and short-term sales. The exposure captures the amounts from receivables/payables for realized transactions, delivered and unbilled revenues, and mark-to-market gains/losses. Gross exposures can be offset according to legally enforceable netting arrangements but are not reduced by posted credit collateral. At December 31, 2012, PNMR and PNM held no credit collateral to offset their credit exposure.

Net credit risk for PNMR's and PNM's largest counterparty as of December 31, 2012 was $6.7 million, which is due from a full requirements customer.

The PVNGS lessor notes are not exposed to credit risk, since the notes are repaid as PNM makes payments on the underlying leases. Other investments have no significant counterparty credit risk.

Interest Rate Risk

The majority of the Company's long-term debt is fixed-rate debt and does not expose earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of long-term debt instruments for PNMR, PNM, and TNMP would increase by 2.4%, 2.6%, and 2.3%, if interest rates were to decline by 50 basis points from their levels at December 31, 2012. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if all or a portion of debt instruments were acquired in the open market prior to their maturity. As described in Note 6, TNMP has long-term debt of $50.0 million that bears interest at a variable rate. However, TNMP has also entered into a hedging arrangement that effectively results in this debt bearing interest at a fixed rate, thereby eliminating interest rate risk. At February 22, 2013, PNMR, PNM, and TNMP had $24.2 million, $107.7 million, and $25.0 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. The revolving credit facilities and the $100.0 million PNMR Term Loan Agreement bear interest at variable rates, which averaged 1.96% for the PNMR Revolving Credit Facility, 1.34% for the PNMR Term Loan Agreement, 1.71% for PNM Revolving Credit Facility, and 1.83% for the TNMP Revolving Credit Facility on

February 22, 2013 borrowings, and the Company is exposed to interest rate risk to the extent of future increases in variable interest rates.

The investments held by PNM in trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits had an estimated fair value of $775.3 million at December 31, 2012, of which 49.5% 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, 2012, the decrease in the fair value of the fixed-rate securities would be 6.1%, or $23.4 million. The securities held by TNMP in trusts for pension and other post-employment benefits had an estimated fair value of

Table of Contents

$75.2 million at December 31, 2012, of which 45.1% 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, 2012, the decrease in the fair value of the fixed-rate securities would be 7.1%, or $2.4 million. PNM and TNMP do not directly recover or return through rates any losses or gains on the securities, including equity and alternative investments discussed below, in the trusts for decommissioning, reclamation, pension benefits, and other post-employment benefits. However, the overall performance of these trusts does enter into the periodic determinations of expense and funding levels, which are factored into the rate making process to the extent applicable to regulated operations. 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

PNM's NDT and trusts established for PNM’s and TNMP's pension and post-employment benefits plans hold certain equity securities at December 31, 2012. These equity securities expose PNM and TNMP to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 37.9% and 34.6%of the securities held by the various PNM and TNMP trusts as of December 31, 2012. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $29.4 million for PNM and $2.6 million for TNMP.

There was a significant decline in the general price levels of marketable equity securities in late 2008 and in early 2009. The impacts of these declines were considered in the funding and expense valuations performed for 2011 and 2012, which resulted in reduced income or increased expense related to the pension plans being recorded and required increased levels of funding beginning in 2010. See Note 12.

Alternatives Investment Risk

The Company had 16.0% of its pension assets invested in the alternatives asset class as of December 31, 2012. The Company has changed the target for this class to 16%. This includes real estate, private equity, and hedge funds. These investments are limited partner structures that are multi-manager multi-strategy funds. This investment approach gives broad diversification and minimizes risk compared to a direct investment in any one component of the funds. The general partner oversees the selection and monitoring of the underlying managers. The Company’s Corporate Investment Committee, assisted by its investment consultant, monitors the performance of the funds and general partner’s investment process. There is risk associated with these funds due to the nature of the strategies and techniques and the use of investments that do not have readily determinable fair value. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $9.3 million. The valuation of the alternative asset class was also impacted by the significant decline in the general price levels of marketable equity securities in 2008 and 2009.

Table of Contents

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
INDEX

Table of Contents

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 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, 2012.

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

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

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

Table of Contents

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 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, 2012.

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

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

Table of Contents

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 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, 2012.

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

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

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of PNM Resources, Inc. and subsidiaries (the "Company") as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and 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 by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2012 of the Company and our reports dated March 1, 2013 expressed an unqualified opinion on those consolidated

financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 1, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of PNM Resources, Inc. and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of earnings (loss), comprehensive income (loss), cash flows, and changes in equity for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PNM Resources, Inc. and subsidiaries as of December 30, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 1, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Public Service Company of New Mexico and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, cash flows, and changes in equity for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Public Service Company of New Mexico and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 1, 2013

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Texas-New Mexico Power Company and subsidiaries (the "Company") as of December 31, 2012 and 2011, and the related consolidated statements of earnings, comprehensive income, cash flows, and changes in common stockholder's equity for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Texas-New Mexico Power Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

/s/ DELOITTE & TOUCHE LLP

Phoenix, Arizona
March 1, 2013

Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
	(In thousands, except per share amounts)		
Electric Operating Revenues	$1,342,403	$1,700,619	$1,673,517
Operating Expenses:			
Cost of energy	399,850	692,922	700,727
Administrative and general	187,740	257,774	264,556
Energy production costs	185,417	180,850	195,919
Regulatory disallowances	—	21,402	—
Depreciation and amortization	164,173	157,047	151,704
Transmission and distribution costs	71,125	69,693	63,421
Taxes other than income taxes	60,377	63,632	57,738
Total operating expenses	1,068,682	1,443,320	1,434,065
Operating income	273,721	257,299	239,452
Other Income and Deductions:			
Interest income	13,072	15,515	18,896
Gains on investments held by NDT	13,015	8,985	4,868
Other income	12,746	5,309	14,837
Gain on sale of First Choice	1,012	174,925	—
Equity in net earnings (loss) of Optim Energy	—	—	(15,223)
Impairment of equity investment in Optim Energy	—	—	(188,176)
Other deductions	(17,686)	(24,715)	(12,660)
Net other income (deductions)	22,159	180,019	(177,458)
Interest Charges	120,845	124,849	125,373
Earnings (Loss) before Income Taxes	175,035	312,469	(63,379)
Income Taxes (Benefit)	54,910	121,535	(32,255)
Net Earnings (Loss)	120,125	190,934	(31,124)
(Earnings) Attributable to Valencia Non-controlling Interest	(14,050)	(14,047)	(13,563)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Net Earnings (Loss) Attributable to PNMR	$105,547	$176,359	$(45,215)
Net Earnings (Loss) Attributable to PNMR per Common Share:			
Basic	$1.32	$1.98	$(0.49)
Diluted	$1.31	$1.96	$(0.49)
Dividends Declared per Common Share	$0.58	$0.50	$0.50

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

Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net Earnings (Loss)	$120,125	$190,934	$(31,124)
Other Comprehensive Income (Loss):			
Unrealized Gain (Loss) on Investment Securities:			
Unrealized holding gains arising during the period, net of income tax (expense) benefit of $(15,262), $(13,577), and $(6,643)	23,286	20,718	10,136
Reclassification adjustment for (gains) included in net earnings (loss), net of income tax expense of $14,755, $13,956, and $3,070	(22,514)	(21,295)	(4,684)
Pension Liability Adjustment:			
Experience gain (loss), net of income tax (expense) benefit of $11,910, $1,187 and $6,328	(18,174)	(1,771)	(9,670)
Reclassification adjustment for amortization of experience (gain) loss recognized as net periodic benefit cost, net of income tax (expense) of $(1,825), $(1,699) and $(1,217)	2,786	2,593	1,857
Fair Value Adjustment for Designated Cash Flow Hedges:			
Change in fair market value, net of income tax (expense) benefit of $153, $349, and $(4,839)	(275)	(653)	7,065
Reclassification adjustment for (gains) losses included in net earnings (loss), net of income tax expense (benefit) of $(65), $(1,230), and $18,120	117	2,218	(27,313)
Total Other Comprehensive Income (Loss)	(14,774)	1,810	(22,609)
Comprehensive Income (Loss)	105,351	192,744	(53,733)
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(14,050)	(14,047)	(13,563)
Preferred Stock Dividend Requirements of Subsidiary	(528)	(528)	(528)
Comprehensive Income (Loss) Attributable to PNMR	$90,773	$178,169	$(67,824)

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

Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings (loss)	$120,125	$190,934	$(31,124)
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:			
Depreciation and amortization	206,499	195,366	186,067
PVNGS firm-sales contracts revenue	—	(2,558)	(58,289)
Bad debt expense	3,367	24,116	27,566
Deferred income tax expense	56,243	124,424	35,674
(Gain) on sale of First Choice	(1,012)	(174,925)	—
Equity in net (earnings) loss of Optim Energy	—	—	15,223
Impairment of equity investment in Optim Energy	—	—	188,176
Net unrealized (gains) losses on derivatives	(1,598)	(8,713)	29,303
Realized (gains) on investments held by NDT	(13,015)	(8,985)	(4,868)
Loss on reacquired debt	—	9,209	—
Abandonment of leased premises	7,411	—	—
Stock based compensation expense	3,585	6,556	2,894
Regulatory disallowances	—	21,402	—
Other, net	(4,115)	(939)	(1,719)
Changes in certain assets and liabilities:			
Accounts receivable and unbilled revenues	(2,547)	(70,734)	(11,398)
Materials, supplies, and fuel stock	(5,412)	(2,200)	(1,848)
Other current assets	(2,598)		