BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF NEW MEXICO FOR REVISION OF ITS RETAIL ELECTRIC RATES PURSUANT TO ADVICE NOTICE NO. 513	)	**Case No. 15-00261-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

DIRECT TESTIMONY AND EXHIBITS

OF

ELISABETH A. EDEN

August 27, 2015

NMPRC CASE NO. 15-00261-UT
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WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

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DIRECT TESTIMONY OF
ELISABETH A. EDEN
NMPRC CASE NO. 15-00261-UT

I. INTRODUCTION AND PURPOSE

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Elisabeth Eden. I am the Vice President and Treasurer for PNMR Services Company ("PNMR Services"). PNMR Services provides corporate services through shared services agreements to its parent company, PNM Resources, Inc. ("PNMR"), and all of PNMR's subsidiaries, including Public Service Company of New Mexico ("PNM"). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS TREASURER.

A. As Vice President and Treasurer, I have responsibility for providing financial support for PNMR and its subsidiaries, including PNM. My responsibilities include the formulation of strategies and plans to accomplish finance objectives, implementation of specific financing strategies, direction and management of professional finance staff and external resources, interaction with credit rating agencies, management of financial institution relationships for PNMR and its subsidiaries, and management of corporate and trust investments. My educational background and experience is summarized in PNM Exhibit EAE-1.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN UTILITY REGULATION PROCEEDINGS OR SUBMITTED WRITTEN TESTIMONY?

A. Yes I have testified before the New Mexico Public Regulation Commission ("Commission" or "NMPRC") in Case Nos. 10-00029-UT, 10-00629-UT, 12-00096-UT, and filed written testimony in Case No. 14-00332-UT. I have also filed written testimony with the Public Utility Commission of Texas.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to explain why maintaining PNM's financial health is in the best interests of PNM's customers and how the requested rate relief is an important component in maintaining PNM's financial health. I present the Company's capitalization. In addition, I discuss the purchase and extension of Palo Verde Nuclear Generating Station ("PVNGS" or "Palo Verde") leases and the PNM pension plan, including the elimination of the need to apportion costs that result from PNM's annuitization of gas pension benefits. My testimony is organized by sections that address:

- the importance of maintaining PNM's credit ratings and sound financial health;
- PNM's proposed capital structure and cost of capital;
- the purchase and extension of 8 PVNGS Unit 1 and 2 leases; and
- PNM's pension contributions and expense assumptions, as well as the proposed annuitization of pension participant benefits related to the 2009 sale of PNM's natural gas operations.

Q. PLEASE DESCRIBE THE RULE 530 SCHEDULES THAT YOU ARE SPONSORING.

A. I am sponsoring the following Rule 530 Schedules: G-01 through G-10 (These Rule 530 schedules are being provided electronically on a DVD, but are not fully functional and are not required to be provided as fully functional under NMAC Rule 17.1.3 ("FTY Rule").), and Q-03 through Q-05.

II. SUMMARY OF KEY CONCLUSIONS

Q. WHAT ARE THE KEY CONCLUSIONS OF YOUR TESTIMONY?

A. First, maintaining PNM's sound financial health is very important because it means that our customers can rely on PNM to deliver long-term, high quality, reliable service while allowing PNM to raise necessary capital on favorable terms. This ultimately translates into lower financing costs and thus lower rates for customers, which is particularly important at this time given PNM's planned capital investments of approximately $1.6 billion between 2015 and 2019.

Second, PNM should maintain a properly balanced capital structure comprised of debt and equity in order to minimize the long-term after-tax cost of capital for the benefit of customers. The capital structure utilized by PNM in the determination of the Test Period revenue requirements consists of 50.0 percent long-term debt, 0.39 percent preferred stock and 49.61 percent common equity.

Third, PNM has developed a strategy to retain its capacity at PVNGS, which continues to serve customers reliably and economically. PNM's strategy to extend or purchase its existing PVNGS leases preserves ongoing generating capacity and diversifies purchase price risk by securing the leases with very short extension options today, while maintaining the option to purchase the leases with longer extension options in the future.

Finally, in order to mitigate its ongoing former gas utility pension liability, for which PNM does not recover any costs from customers, PNM intends to purchase annuities from an insurance company for the remaining share of costs related to the former gas utility operations. The consequence will be to eliminate the need to apportion the utility pension liability and expense. There is no impact to customers above and beyond the existing liability and pension expense.

III. IMPORTANCE OF CREDIT RATINGS AND FINANCIAL HEALTH

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my direct testimony, I address the benefits to customers of maintaining PNM's good credit ratings and sound financial health.

Q. WHAT DO YOU MEAN BY SOUND FINANCIAL HEALTH?

A. To a utility, sound financial health means that it has sufficient revenues from its utility operations to meet its ongoing costs of doing business, so that it may attract and maintain needed capital on favorable terms, including paying reasonable dividends to its shareholders. The financial health of a regulated utility is a function of many factors, such as its capital structure, return on equity ("ROE"), cash flow, and regulatory environment. Sound financial health results in strong credit ratings that allow the utility to issue debt at a lower borrowing cost, and refinance debt at opportune times, resulting in savings for customers. Similarly, it results in a strong common stock price that allows the utility or its parent, as the case may be, to access the equity capital markets on favorable terms, thereby maximizing sales proceeds without undue dilution of existing shareholders' equity.

Q. PLEASE EXPLAIN WHY SOUND FINANCIAL HEALTH IS IMPORTANT TO THE CUSTOMERS OF A UTILITY.

A. PNM's sound financial health means that its customers can rely on PNM to deliver long-term, high quality, reliable service while allowing PNM to raise capital on favorable terms. This ultimately translates into lower financing costs and thus lower rates for customers because of the significant capital requirements of electric utilities.

Q. HOW DOES PNM FUND ITS CAPITAL AND OPERATIONAL EXPENDITURES?

A. PNM utilizes the cash flow from operations to provide funds for both capital construction and operational expenditures ("O&M"). If cash flow from operations is insufficient to fund its ongoing capital and O&M needs, PNM typically finances that shortfall through its revolving credit facilities, which currently total $450 million ("Revolvers"). Once there is a sufficient amount of short-term debt (typically $150-$300 million) on the Revolvers, PNM will issue long-term bonds in the capital markets to more closely match the long-term nature of the assets being financed and restore liquidity under the Revolvers. In addition to PNM using cash flow from operations, PNMR contributes equity, as necessary, to ensure that the capital structure remains properly balanced to maintain an investment grade credit rating and stay in line with PNM's approved regulatory capital structure, which I address in this testimony.

Q. WHY IS IT IMPORTANT TO MATCH LONG-TERM ASSETS WITH LONG-TERM FINANCING?

A. A general principle of financing is to match the term or length of the financing with the useful life of the asset being financed. For example, one should pay cash for a meal since it is an immediately consumed asset under this principle. The purchase of a car that is expected to be utilized for 5-10 years should be financed with a loan of no more than ten years. There are more considerations that a corporate entity takes into account when making financing decisions, but generally there is consistency between the useful life of the assets and the underlying financing. Although assets such as generation plants have useful lives spanning several decades, PNM typically issues long-term debt with 10-year maturities, which are then refinanced for additional 10-year terms as needed, because this is generally the most liquid and cost-effective segment of the long-term debt capital markets.

Q. WHAT ARE CREDIT RATINGS AND HOW ARE THEY USED?

A. Credit ratings are assigned to a company's debt by credit rating agencies such as Moody's Investors Services ("Moody's") and Standard & Poor's Rating Services ("S&P"). The ratings reflect the agencies' assessment of the risk that a company will be unable to make interest and principal payments, and thereby default on its debts. Potential lenders use credit ratings as a measure of the risk of default and charge a lower interest rate to borrowers with higher credit ratings. Conversely, borrowers with lower credit ratings are perceived to be riskier, and must pay a higher interest rate on debt. Equity investors also consider credit ratings and typically require higher equity returns on investments in firms that have lower credit ratings.

Q. WHAT ARE THE CATEGORIES OF CREDIT RATINGS?

A. Moody's and S&P use similar categories of credit ratings as shown in the table below, with Aaa or AAA representing the highest credit ratings:

	Moody's Category	S&P Category
Investment Grade Ratings	Aaa	AAA
	Aa	AA
	A	A
	Baa	BBB
Below Investment Grade Ratings	Ba	BB
	B	B
	Caa	CCC
	Ca	CC
	C	C
	--	D

Within each rating category, Moody's assigns a number between 1 and 3 while S&P assigns a "+" or "-" to further distinguish ratings within that category. For example a rating from Moody's of Baa1 is higher than Baa2 or Baa3, and a rating from S&P of BBB+ is higher than BBB or BBB–. In addition, the rating agencies assign a Positive, Negative or Stable outlook to the credit rating, which indicates whether their next action is likely to be an upgrade, downgrade or no change to the existing rating.

Q. WHAT IS AN INVESTMENT GRADE RATING?

A. A rating of at least Baa3 from Moody's or BBB– from S&P is considered to be an investment grade rating. Debt that is rated investment grade can be held by a larger universe of investors and generally has a lower interest rate because it is considered less risky than debt that is rated below investment grade. Companies that are rated below investment grade may not be able to access capital in capital-constrained market conditions, except possibly under onerous terms and conditions. A common colloquialism for non-investment grade bonds is "junk bonds."

Q. WHAT IS THE OPTIMAL CREDIT RATING FOR AN ELECTRIC UTILITY IN ORDER TO ACHIEVE THE MOST INVESTOR DEMAND AT THE BEST MARKET PRICES?

A. Market perceptions of the investment risk of a utility vary over time, so there is not a single optimal credit rating for a utility under all economic conditions. While a AAA rating would provide a utility with the best access to the capital markets at the lowest debt financing cost, most utilities in the United States have a credit rating of BBB+ or higher, which provides for adequate access to the capital markets while needing lower revenue requirements to support the rating when compared to the revenue requirement that would be needed to maintain a AAA credit rating. Earning an AAA credit rating would require a much higher proportion of equity in the capital structure, which would be significantly more expensive for customers.

Q. WHAT ARE PNM'S CURRENT CREDIT RATINGS?

A. Moody's and S&P rate PNM's senior unsecured debt at Baa2 / BBB, respectively, which are both investment grade ratings. In addition, the "outlook" for PNM from Moody's is Stable and from S&P is Positive. PNM's most recent published credit rating reports are contained in Exhibits EAE-3 and EAE-4.

Q. HOW CRITICAL IS IT FOR PNM TO MAINTAIN ITS INVESTMENT GRADE CREDIT RATINGS?

A. Maintaining an investment grade credit rating is especially critical at this juncture because of PNM's financing and re-financing requirements during the next five years. Investors use PNM's credit ratings to determine their willingness to invest in PNM, and at what price. The rating agencies typically will formally reassess a company's credit ratings annually. Investors commonly rely on the credit ratings published by the rating agencies to determine whether they will invest in a company and the return that they require on their investment. A lower credit rating directly results in a higher cost of debt and less access to the financial markets.

Q. WHAT IMPACT DOES A UTILITY'S CREDIT RATING HAVE ON ACCESS TO CAPITAL?

A. Given the global financial uncertainty that has existed over the last few years, and still exists, if PNM's credit ratings were to again fall below investment grade, as occurred during the 2007-2008 period discussed later in my testimony, investors will require a higher return on their capital or could decide not to invest in PNM. Credit ratings therefore impact not only the cost of PNM's capital, but may also have a direct impact on PNM's *access* to capital. Under severe economic conditions, this could affect PNM's liquidity and its ability to reliably and affordably serve its customers.

Q. DO THE RATING AGENCIES PERIODICALLY REVIEW FACTORS AFFECTING PNM'S FINANCIAL HEALTH IN DETERMINING WHETHER IT MAY BE POSITIVELY OR NEGATIVELY IMPACTED?

A. The rating agencies continually review PNM's current and projected financial health, which is materially affected by regulatory recovery, cash flow, capital investments and the financing for those investments. Regulatory risk is also a critical factor in determining a utility's credit rating. A regulatory environment that allows for timely cost recovery of prudent expenditures is a large consideration for a utility achieving and maintaining an investment grade rating. Therefore, for PNM to maintain its access to capital and issue debt on favorable terms, it needs to maintain its current ratings. This will ensure that PNM will continue to have access to favorably priced capital, even in the face of some adverse or unpredictable event or some structural shift in capital markets. Any delays, uncertainties or denials in the recovery of prudent expenditures could hurt PNM's credit quality.

Q. HAS PNM'S ACCESS TO THE CAPITAL MARKETS BEEN ADVERSELY IMPACTED IN THE PAST DUE TO ITS CREDIT RATINGS?

A. Yes. In late-2007 to mid-2008, PNM was downgraded three times in a very short period of time to a below investment grade rating of BB+ by S&P and to Baa3 by Moody's, its lowest investment grade rating, while placing PNM on review for possible further downgrade. These actions resulted from the credit rating agencies' concerns about PNM's deteriorating credit metrics at the time and their reactions to a Recommended Decision in PNM's 2007 rate case (Case No. 07-00077-UT) which recommended approving only about 30 percent of PNM's requested revenue increase and denial of a fuel and purchased power cost adjustment clause ("FPPCAC"). S&P noted in its March 10, 2008 report titled "PNM Resources' And Subs' Outlook Is Revised to Negative", PNM Exhibit EAE-2:

> The negative outlook reflects our perception of increased regulatory risk at PNM that, if not managed or mitigated, could harm credit quality and lead to lower ratings for PNMR and its subsidiaries.... The hearing examiner's recommendation in PNM's pending electric rate case... could lead to weaker credit metrics than previously expected if adopted by the New Mexico Public Service [sic] Commission.... In addition, the company's liquidity position is stretched and maturities coming due in 2008 will necessitate access to markets.

In addition, the global financial crisis that began in 2008 impaired access to the capital markets for all but the highest rated borrowers.

Moody's removed the potential for a further downgrade as a result of the Final Order in that case, which improved the rate relief slightly, to about 44 percent of the initial request, and postponed the decision on a FPPCAC. Moody's deferred further action while awaiting the Commission's decision on a FPPCAC. The Commission ultimately approved a FPPCAC for PNM, significantly improving cash flows, and resulting in no further adverse credit action by Moody's or S&P.

Q. HOW DID PNM'S NEGATIVE FINANCIAL CONDITION AND RESULTING CREDIT RATINGS SPECIFCALLY IMPACT PNM'S ABILITY TO BORROW?

A. Prior to the Commission's action authorizing a FPPCAC, PNM had been advised by debt underwriters that PNM's deteriorating financial condition and the uncertainty about the outcome of the FPPCAC and the 2007 rate case would prevent PNM from issuing long-term debt, at any cost, in the then-existing capital-constrained market.

When PNM was finally able to access the capital markets, it had to pay an interest rate of 7.95 percent on $350 million of 10-year fixed rate bonds, which was significantly higher than the rate of approximately six percent that it would have paid had it been investment grade at the time. This difference translates into an additional $6.8 million of annual interest, or $68 million over the 10-year term of the bonds. In the best of times, PNM must maintain investment grade credit ratings to minimize financing costs. But as demonstrated by PNM's past experience, investment grade ratings are especially important when capital markets are volatile and there is uncertainty in the market. Although capital markets today are not in the crisis mode that existed in 2008, there remains a considerable level of uncertainty and volatility.

Q. WHAT FACTORS COULD CAUSE A DOWNGRADE IN PNM'S CREDIT RATINGS?

A. PNM's credit ratings or outlooks could be revised downward if adverse rate case rulings or cost recovery disallowances result in a deterioration of cash flow, or if there is uncertainty regarding the adequate and timely recovery of significant costs. In its report on June 23, 2015, PNM Exhibit EAE-3, Moody's stated that PNM's rating could be adjusted downward "if we observe that the New Mexico regulatory framework has become less credit supportive or more unpredictable which results in unexpectedly adverse regulatory decisions or cost recovery disallowances; or if PNM's financial metrics deteriorated .... In addition, negative rating pressure could occur if the San Juan environmental implementation plan were to be modified even further beyond the latest hearing examiner's recommendation in an adverse manner such that PNM's cost recovery is delayed or uncertain that would prevent PNM from maintaining its current financial position."

In its report on May 4, 2015, PNM Exhibit EAE-4, S&P cited similar factors that could cause a rating downgrade and noted that PNM's current positive outlook reflects the probability that the company "will continue to effectively manage regulatory risk, resulting in longer-term consistent improvement to the company's business risk profile."

Q. COULD ADEQUATE AND TIMELY COST RECOVERY CONTRIBUTE TO A FAVORABLE OUTLOOK FOR PNM'S CREDIT RATING?

A. Yes. Granting adequate and timely cost recovery will be viewed favorably by the rating agencies and will contribute to maintaining and possibly improving PNM's credit rating. On June 23, 2015, when Moody's changed PNM's rating outlook from Positive to Stable, PNM Exhibit EAE-3, it stated that, "Although unlikely in the near-term, PNM's rating could be upgraded if we observe a sustained improvement in the credit supportiveness of the New Mexico regulatory environment that includes greater predictability, timeliness and/or sufficiency of rates such that PNM's financial metrics would be expected to improve on a sustained basis …."

Clearly, the credit rating agencies are monitoring the Commission's decisions and their impact on PNM's financial health. Therefore, granting PNM's application in this case would strengthen the rationale for an upgrade in its credit rating from the mid-BBB range to the high-BBB range in line with the majority of regulated U.S. electric utilities.

Q. HOW WOULD A CREDIT RATING DOWNGRADE AFFECT PNM'S FINANCING COST?

A. A one-notch downgrade in PNM's credit ratings could result in an increase in its borrowing cost on new 10-year debt of approximately 0.25 percent while a two-notch downgrade could increase its borrowing cost by an additional 0.50 percent, or a total of 0.75 percent from its current cost, based on current market conditions and as shown in PNM Exhibit EAE-5. The table below summarizes the estimated effects of a one-notch or two-notch downgrade on PNM's borrowing cost based on indicative levels from several banks and $557 million of debt issuances that PNM anticipates over the next five years to fund new capital expenditures and refinance maturing long-term debt. A 10-year maturity is assumed because it is the most common maturity for a utility debt financing and, therefore, the most liquid and cost-effective form of long-term financing available.

PNM Indicative Borrowing Costs	Moody's / S&P Ratings	Interest Rate	Annual Interest Expense	Total Interest for 10 Years
Current rating	Baa2 / BBB	3.85%	$21.4 MM	$214 MM
One-notch downgrade	Baa3 / BBB –	4.10%	$22.8 MM	$228 MM
Two-notch downgrade	Ba1 / BB+	4.60%	$25.6 MM	$256 MM

Over 10 years, the impact of a one-notch downgrade on this long-term debt would be approximately $14 million in today's low interest rate environment, while the impact of a two-notch downgrade would be approximately $42 million. This represents a significant cost to customers. This is based on today's interest rate differential of approximately 0.75 percent between BBB and BB+ spreads. However, as shown in PNM Exhibit EAE-5, this differential reached almost 5 percent in 2009 or *five times greater* than current spreads and interest costs. Under those conditions, the impact of a one-notch downgrade on all of this debt would be $150 million, while the impact of a two-notch downgrade would be $375 million over 10 years, which is a very significant cost to ratepayers. And these are only the debt costs. The equity return required by shareholders to compensate for the risk of investing in a company with deteriorating credit ratings would also go up substantially.

Q. ARE THERE OTHER POTENTIAL COSTS ASSOCIATED WITH BELOW-INVESTMENT GRADE RATINGS?

A. Yes. As seen in prior periods when PNM was rated below investment grade, counterparties to transactions with PNM (for example, off-system electricity trading, natural gas purchases for gas plants, or electricity and natural gas hedging activities) demand higher compensation or guarantees to protect themselves from the greater risk PNM might not be able to pay its bills in full or in a timely fashion. Either higher compensation or guarantees increases the cost of these transactions. Falling below investment grade can be very costly and last for many years.

Q. WHAT IMPACT WOULD A CREDIT DOWNGRADE HAVE ON PNM'S EXISTING CREDIT LINES?

A. In addition to the increased long-term debt costs quantified above, PNM would incur additional short-term borrowing costs resulting from a downgrade on PNM's $450 million Revolvers. Under the terms of the Revolver agreements, the impact of a one-notch downgrade on the Revolvers would be an increase in the interest rate by 25 basis points ("bps") (0.25 percent) and the impact of a two-notch downgrade would be an increase of 50 bps (0.50 percent).

Q. WILL GRANTING PNM'S APPLICATION AS REQUESTED BE HELPFUL IN KEEPING FINANCING COSTS DOWN?

A. Yes. The cost of capital, both debt and equity, is directly related to the risk of repayment. If the perceived risk of repayment is high, then the cost of the capital is higher than it would be if the risk of repayment and corresponding uncertainty were lower. As indicated in the reports cited above, rating agencies, and ultimately potential lenders and investors, place substantial weight on their assessment of the regulatory environment in which the utility operates in assessing the risk of repayment for a regulated utility. New Mexico has not historically been considered a credit supportive regulatory environment. Even with the constructive NMPRC orders in recent years, applying credit agency criteria in assessing regulatory environments indicates that New Mexico lacks key credit supportive regulatory characteristics (See PNM Exhibit EAE-6) . Granting PNM's Application will be viewed by the rating agencies and providers of debt and equity capital as evidence of lower risk and uncertainty resulting from a more constructive regulatory environment. Therefore, the cost of the capital will be lower, creating savings for customers, and necessary access to the capital markets will be facilitated to help assure continued reliability of service.

IV. PROPOSED CAPITAL STRUCTURE AND COST OF CAPITAL

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my direct testimony, I address PNM's proposed capital structure and average cost of capital.

Q. WHAT IS A PROPERLY BALANCED CAPITAL STRUCTURE?

A. A properly balanced utility capital structure is one that is comprised of debt and equity in proportions that are balanced so as to minimize the long-term after-tax cost of capital for the benefit of customers. Interest paid on debt is tax deductible, contributing to a lower cost for debt than equity, so generally a corporation benefits from its use. However, if too much debt is in the capital structure, the risk of default increases, credit ratings deteriorate, and the cost of debt and consequently equity increases, offsetting any tax benefits, and the availability of financing becomes less certain. The cost of equity is not tax deductible and is generally more expensive than debt because it is a riskier investment, but in spite of this, equity is required to balance the debt in a capital structure. Greater amounts of equity in a capital structure reduce default risk for debt holders, resulting in higher credit ratings, a lower cost of debt and better access to debt financing when needed. Therefore, an optimal balance of debt and equity is necessary in a firm's capital structure to minimize the long-term after-tax cost of capital.

Q. WHAT IS THE OPTIMAL BALANCE OF DEBT AND EQUITY?

A. An optimal balance of debt and equity differs by industry, and often by company within an industry. Industries with more business risk, such as high-tech, have less debt, whereas industries with less business risk, like regulated utilities, can support more financial risk and therefore, more debt. Generally, an appropriate range for electric utilities is an approximate mix of 50 percent debt and 50 percent equity, plus or minus 5 percent, which corresponds to the 45 percent to 55 percent debt range that Moody's considers appropriate for Baa-rated utilities[1].

Q. WHAT CAPITAL STRUCTURE WAS USED IN THE DETERMINATION OF THE TEST PERIOD REVENUE REQUIREMENTS?

A. The capital structure utilized in the determination of Test Period revenue requirements is based on PNM's projected capital structure at September 30, 2016, reflecting projected debt issuances and refinancing expected to occur during the test period. The projected capital structure consists of 50.0 percent long-term debt, 0.39 percent preferred stock, and 49.61 percent common equity, which is utilized in the determination of Test Period revenue requirements. PNM's actual capital structure as of March 31, 2015 was 48.6 percent long-term debt, 0.4 percent preferred stock, and 51.0 percent common equity.

[1] "Proposed Refinements to the Regulated Utilities Rating Methodology and our Evolving View of US Utility Regulation," Moody's Investors Service, September 23, 2013.

Q. HAS PNM HAD ITS PROPOSED TEST PERIOD CAPITAL STRUCTURE INDEPENDENTLY ANALYZED?

A. Yes. PNM Witness Hevert conducted an analysis of utility capital structures utilizing a proxy group of utilities as shown in PNM Exhibit RBH-10. It is his conclusion that PNM's proposed capital structure is consistent with the proxy companies and reasonable for purposes of determining PNM's rate of return.

Q. WHAT RETURN ON EQUITY ("ROE") DID PNM USE IN THE DEVELOPMENT OF TEST PERIOD REVENUE REQUIREMENTS?

A. PNM used an ROE of 10.50 percent in the Test Period, which is PNM's cost of equity capital as determined by PNM Witness Hevert.

Q. WHAT COST OF DEBT DID PNM USE IN THE DEVELOPMENT OF TEST PERIOD REVENUE REQUIREMENTS?

A. PNM used its projected cost of 5.87 percent for the debt component of the capital structure in the development of test period revenue requirements.

Q. HOW DID PNM CALCULATE THE COST OF DEBT USED IN THE DEVELOPMENT OF TEST PERIOD REVENUE REQUIREMENTS?

A. PNM adjusted the base period average cost of debt to account for the issuance of $250 million of Senior Unsecured Notes ("SUNs") on August 11, 2015, which was approved in Case No. 15-00203-UT. PNM's interest rate on these notes is 3.85 percent. The inclusion of the new SUNs results in a test period weighted average cost of debt of 2.94 percent. The support for the cost of debt calculation is included in Rule 530 Schedule G-3. Additional information requirements for the cost of capital as defined in Rule 17.1.3.16(D) are provided in Rule 530 Schedules G-1 through G-10.

Q. WHAT COST OF PREFERRED STOCK DID PNM USE IN THE DEVELOPMENT OF TEST PERIOD REVENUE REQUIREMENTS?

A. PNM used its actual embedded cost of 4.62 percent for the preferred stock component of the capital structure in both the Base Period and Test Period. The support for the cost of preferred stock is included in Rule 530 Schedule G-5.

Q. WHAT IS THE WEIGHTED AVERAGE COST OF CAPITAL ("WACC") FOR THE TEST PERIOD?

A. The WACC for the test period, which is the return to be applied to rate base, is 8.17 percent as shown in the table below:

PNM Capital Structure and Weighted Average Cost of Capital			
Class of Capital	**% of Total**	**% Cost**	**Weighted Average Cost**
Long-Term Debt	50.00%	5.87%	2.94%
Preferred Stock	0.39%	4.62%	0.02%
Common Equity	49.61%	10.50%	5.21%
Total	**100.00%**		**8.17%**

V. PURCHASE AND EXTENSION OF PVNGS LEASES AND PVNGS NUCLEAR DECOMMISSIONING TRUSTS ("NDT")

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my direct testimony, I address PNM's extensions and purchases of eight PVNGS Unit 1 and 2 leases as well as the obligations and funded status of the PVNGS NDT.

Q. PLEASE DESCRIBE PNM'S PARTICIPATION IN PVNGS.

A. PNM is a participant in the three units of PVNGS, also known as the Arizona Nuclear Power Project ("ANPP"). PNM is entitled to 10.2 percent of the power and energy generated by PVNGS, which equates to 402 MW of generation capacity equally split among Units 1, 2 and 3. PNM's 10.2 percent ownership is comprised of a combination of direct ownership and leasing arrangements. Currently, PNM has ownership interests of 2.3 percent in Unit 1, 4.6 percent in Unit 2 and 10.2 percent in Unit 3 and has leasehold interests of 7.9 percent in Unit 1 and 5.6 percent in Unit 2. In the approval of the leasehold transactions in Case Nos. 1995 and 2019, Phase I, the NMPRC also granted authority to exercise options to renew the leases and to repurchase all or any portion of the facilities in accordance with the terms of the leases at fair market value of the facilities at the time of such renewal or repurchase.

Q. PLEASE DESCRIBE PNM'S RECENT STRATEGY AND RATIONALE FOR EXTENDING OR PURCHASING ITS PVNGS UNIT 1 AND UNIT 2 LEASES.

A. As discussed in the direct testimony of PNM Witness Olson, PNM relies on the capacity from its leasehold interests in PVNGS Units 1 and 2 to serve customers reliably and economically. In order to retain this capacity at the most reasonable cost upon lease expiration, PNM developed a strategy that has involved exercising renewal options to extend the terms of five PVNGS Unit 1 and 2 leases representing 114 MW for an additional eight years from the end of their original lease terms, while purchasing the three remaining Unit 2 leases representing 64 MW at fair market value. The three remaining leases were purchased because they only had extension options for an additional two years.

Q. WHAT IS THE BENEFIT OF THIS STRATEGY?

A. This strategy preserves ongoing generating capacity at PVNGS and diversifies purchase price risk by securing the leases with very short extension options today through the purchases, while maintaining the option to purchase the leases being renewed that had longer extension options into the future. PNM has irrevocably agreed to purchase three leases at current market prices, and can assess market conditions between now and 2024 to determine the optimal strategy for the additional leases that have been renewed. The table below summarizes the PNM's Unit 1 and 2 leases:

PVNGS Unit	Capacity (MW)	Initial Lease Term	Maximum Renewal Term	Status
Unit 1	15	2015	2023	Extended to 2023
Unit 1	18	2015	2023	Extended to 2023
Unit 1	22	2015	2023	Extended to 2023
Unit 1	49	2015	2023	Extended to 2023
Unit 2	10	2016	2024	Extended to 2024
Unit 2	15	2016	2018	Agreement to Purchase
Unit 2	18	2016	2018	Agreement to Purchase
Unit 2	31	2016	2018	Agreement to Purchase

Q. WHAT ARE PNM'S LEASING ARRANGEMENTS FOR PVNGS UNIT 1?

A. PNM has four remaining facility leases for PVNGS Unit 1 representing 104 MW of generation capacity. On January 6, 2012, PNM provided the lessors of each lease with irrevocable notices that it would retain control of the lease interests upon expiration of the initial lease terms in January 2015. On January 9, 2013, PNM notified each of the lessors that it would renew the PVNGS Unit 1 leases at 50 percent of current lease payments for an additional eight years to January 2023. These renewals reduced PNM's annual lease payments by approximately $16.5 million beginning January 15, 2015.

Q. DO THE PVNGS UNIT 1 LEASE RENEWALS REQUIRE ADDITIONAL NMPRC APPROVAL?

A. No. The exercise of the lease renewals under the provisions of each lease was approved as part of the approval for the original leases in Case No. 1995. Even though no additional approval was required, PNM made the Commission aware of these decisions in a presentation at the Commission's open meeting on October 30, 2013.

Q. WHAT ARE PNM'S LEASING ARRANGEMENTS FOR PVNGS UNIT 2?

A. PNM has four remaining facility leases for PVNGS Unit 2 representing 74 MW of generation capacity. Sixty-four MW of these leases have an option to extend the leases for only two years, or until 2018. The remaining 10 MW lease has an option to extend the lease for additional eight years expiring in 2024. On January 9, 2013, PNM provided irrevocable notices to each of the lessors that it will retain control of the lease interests upon expiration of the initial lease terms in 2016. On December 30, 2013, PNM notified the lessor of the 10 MW Unit 2 lease that it would renew the lease at 50 percent of current lease payments for an additional eight years to January 2024.

On January 13, 2014, PNM notified the lessors of the other three Unit 2 leases (totaling 64 MW) that it would exercise the fair market value purchase options specified in the leases, and has since negotiated agreements with each lessor regarding the purchase price for each lease. On February 25, 2014, PNM entered into a letter agreement with CGI Capital, Inc. ("CGI") specifying a fair market value for 31.25 MW of generating capacity at Unit 2 of $78.2 million or $2,500/kW as of the end of the original lease term, January 15, 2016. On May 1, 2014, PNM entered into a letter agreement with Cypress Verde LLC and Cypress Second PV Partnership (together, the "Cypress Entities") specifying a fair market value for 32.76 MW of generating capacity at Unit 2 of $85.2 million or $2,600/kW as of the end of the original lease term, January 15, 2016.

Q. PLEASE EXPLAIN WHY PNM CHOSE TO EXERCISE THE PURCHASE OPTIONS OF THE THREE PVNGS UNIT 2 LEASES (TOTALING 64 MW) IN JANUARY 2016 RATHER THAN EXERCISING THE TWO-YEAR EXTENSION OPTIONS AND PURCHASING THE LEASES IN 2018.

A. In the late fall of 2013, when the irrevocable decision needed to be made regarding purchasing the Palo Verde Unit 2 leases or renewing the leases for two years, the fair market value of zero emission nuclear generation assets appeared to be trending higher in the future due to the closing of coal plants and more EPA regulations, rather than trending downward from low gas prices.

During this time, natural gas prices were at historic lows driven by additional gas supplies that were available due to the practice of hydraulic fracking. These low gas prices were contributing to very low electric power prices, putting downward pressure on the fair market values of electric generation assets such as the Palo Verde leases. It was not clear for how long this trend would continue especially since there were environmental concerns putting pressure on the natural gas industry to curtail the practice of hydraulic fracking. At the same time, coal fired electric generation plants were being closed around the country and the overhang of potential future EPA regulations was continuing to put further pressure on coal fired generation. Significant reductions of coal generation could be expected to drive electric power prices higher. The decision was therefore made by PNM to negotiate the purchase of the three Unit 2 leases totaling 64 MW while there was still downward pressure on the power prices, rather than waiting until the leases expired in 2018 and hoping the fair market value of zero emission nuclear generation would not go up significantly by then.

Q. DOES THE LEASE RENEWAL OR EXERCISE OF THE PURCHASE OPTION UNDER EACH PVNGS UNIT 2 LEASE REQUIRE ADDITIONAL NMPRC APPROVAL?

A. No. The exercise of either the lease renewal or the fair market value purchase option under the provisions of each lease was approved as part of the approval for the original leases in Case No. 2019, Phase I. Nonetheless, PNM advised the Commission of its intentions in a presentation on October 30, 2013 and in letters dated January 13, 2014, February 28, 2014 and May 2, 2014.

Q. PLEASE DISCUSS PNM'S OTHER RECENT ATTEMPTS TO PURCHASE PVNGS LEASES.

A. PNMR purchased 29.79 MW of PVNGS lease interests in Unit 2 in a 2007 auction process at a capital cost of approximately $2,850/kW. Because this purchase did not occur pursuant to the terms of the lease, Commission approval was required to transfer the asset to PNM. The purchase was approved by the NMPRC in Case No. 08-00305-UT and, pursuant to the stipulation adopted in that case, the asset was transferred to PNM in 2008, and the value for ratemaking purposes was established at $2,549/kW.

More recently, PNM attempted to purchase another PVNGS Unit 2 lease in 2011. In August of 2011, one of the lessors contacted PNM regarding an auction process it was initiating to sell its 14.89 MW PVNGS Unit 2 lease interest. PNM submitted, subject to regulatory approval, an offer of approximately $37.3 million or $2,505/kW. The lessor advised PNM that there were two higher bids and PNM was provided the opportunity to increase its bid. PNM raised its bid to a total consideration of $2,578/kW. PNM's bid was not accepted and the PVNGS Unit 2 lease was sold to another bidder, presumably at a higher price.

Q. PLEASE COMPARE THE AMOUNTS TO PURCHASE THESE LEASES WITH THE BOOK VALUE OF $1,100/KW OF PNM'S 10.2 PERCENT INTEREST IN PVNGS UNIT 3 WHICH PNM IS SEEKING COMMISSION APPROVAL TO INCLUDE AS A JURISDICTIONAL RESOURCE IN A SEPARATE PROCEEDING .

A. The $1,100/kW is the book value for PNM's 10.2 percent interest in PVNGS Unit 3 is not indicative or comparable to fair value. The Commission's order in Case No. 1995 granted PNM authority to exercise its lease options to renew or repurchase Palo Verde facilities at the fair market value at the time of such renewal or repurchase. The book value is based on the original cost net of depreciation and an accounting write-down which was recognized in 1992 for

GAAP accounting purposes. The book value does not reflect fair market value and is not comparable to the values of \$2,500/kW to \$2,600/kW that were required to purchase three of the PVNGS Unit 2 leases on the open market through arms-length negotiations, and is not a precedent for valuing the converted leasehold interests into ownership interests. As demonstrated by PNM's prior attempts to purchase PVNGS leases, lessors have not been willing to sell ownership interests at lower valuations.

Q. HAS PNM ALSO USED OTHER METHODS OF VALUING ITS PVNGS INTEREST?

A. Yes. In NMPRC Case No. 13-00390-UT, PNM filed an expert appraisal that demonstrated that the actual market value of its interest in PVNGS Unit 3 is \$2,500/kW, which is entirely consistent with prices for the leasehold interests in PVNGS Units 1 and 2.

Q. WHAT IS THE PURPOSE OF THE PVNGS NDT?

A. The purpose of the NDT is to provide funds for the decommissioning of the PVNGS nuclear units, as required by the Nuclear Regulatory Commission ("NRC") and the ANPP Participation Agreement, at the end of their useful lives.

Q. IS THERE MORE THAN ONE NDT TO WHICH PNM CONTRIBUTES?

A. PNM has established a Master Trust for the collective investment of the assets of the tax qualified and tax non-qualified nuclear decommissioning reserve funds for the PVNGS. The Master Trust has been divided into funds as follows: Palo Verde Unit 1 Qualified Fund, Palo Verde Unit 1 Non-qualified Fund, Palo Verde Unit 2 Qualified Fund, Palo Verde Unit 2 Non-qualified Fund, Palo Verde Unit 3 Qualified Fund, and Palo Verde Unit 3 Non-qualified Fund. The Qualified trusts were established to take advantage of favorable tax treatment for contributions; however, contributions to qualified trusts are limited by the Internal Revenue Code and carry other restrictions. The Non-qualified trusts are used to hold additional required contributions above the Internal Revenue Service ("IRS") limitations, in order to meet financial assurance requirements.

Q. WILL THE PURCHASE OR EXTENSION OF ANY OF THE PVNGS UNIT 1 OR 2 LEASES INCREASE PNM'S OBLIGATION FOR DECOMMISSIONING OF THOSE UNITS?

A. No. PNM will not assume any additional decommissioning liabilities with respect to the purchase or extension of the PVNGS Unit 1 and 2 leases. Specifically, there will be no impact to PNM's existing obligation for decommissioning of those units as a result of these extensions and purchases. PNM's obligation for the decommissioning of those units would also remain the same if the leases were allowed to expire.

Q. HOW IS THE NDT FOR PVNGS CURRENTLY FUNDED AND MANAGED?

A. Funding for the NDT for Palo Verde Units 1 and 2 is included in rates for electric service that are paid by PNM's customers. Currently, PNM funds $2.6 million annually for PVNGS Unit 1 and 2 decommissioning based on IRS dictated methodology. The accumulated contributions and respective earnings on those funding amounts are segregated into separate trust accounts for each PVNGS unit. Although they are legally and financially separated by unit, they are managed in a combined manner to optimize investment efficiencies.

Q. WHAT IS THE CURRENT NDT FUNDING STATUS OF EACH OF THE PVNGS UNITS?

A. As of June 30, 2015, PNM's PVNGS Unit 1 NDT is funded on a pre-tax basis at 94.6 percent, while Unit 2 is at 105.3 percent of the latest cost study by TLG Services, Inc. ("TLG"), a consulting firm that provides a wide range of decommissioning services including cost estimating, program planning, mechanical and structural engineering, waste management, radiological engineering, health physics and quality assurance support for commercial nuclear power plant decommissioning projects. Each unit of PVNGS has a different estimate of its ultimate decommissioning obligation. TLG's most recent cost report, in 2015 dollars, estimates that PNM's share of decommissioning Unit 1 will cost $83.2 million and Unit 2 is at $80.9 million. As of June 30, 2015, Unit 1 had $78.7 million accumulated and Unit 2 had $85.2 million accumulated in their respective NDTs.

VI. PENSION PLAN AND ANNUITIZATION OF GAS PENSION BENEFITS

Q. WHAT TOPICS DO YOU ADDRESS IN THIS SECTION OF YOUR DIRECT TESTIMONY?

A. In this section of my direct testimony, I address PNM's pension contributions and expense assumptions, as well as the impact on PNM's reporting of the expense from PNM's annuitization of pension participant benefits related to the 2009 sale of PNM's natural gas operations to New Mexico Gas Company.

Q. HOW IS PNM'S PENSION, RETIREE MEDICAL, AND NON-QUALIFIED RETIREMENT PLAN EXPENSE DETERMINED?

A. PNM's pension, retiree medical, and non-qualified retirement plan expense is based on actuarial calculations prepared by PNM's actuary, Towers Watson & Co. ("Towers Watson") which is then reviewed by PNM's Treasury and Financial Planning and Business Analysis Departments. PNM has provided the Actuary Study for 2015 and an estimate of 2016 expense (see PNM Exhibits EAE-7 through EAE-10).

Q. HOW ARE REQUIRED CONTRIBUTIONS TO THE PNM PENSION FUNDS DETERMINED EACH YEAR?

A. Towers Watson annually calculates what contribution, if any, is required under the Pension Protection Act of 2006. The Towers Watson determination of a required contribution is reviewed by PNM's Treasury and Financial Planning and Business Analysis Departments.

Q. HOW ARE THE REQUIRED CONTRIBUTIONS TO THE PNM PENSION FUNDS SATISFIED?

A. The minimum contributions required in a plan year may be met by contributing cash to the plan or by using credit balances, if available, to offset the required contribution. Credit balances are created if there are contributions in excess of minimum required contributions. PNM has until September 15th of the following calendar year to make deductible contributions or to elect to use credit balances to satisfy the contribution requirements for a given plan year. If cash contributions are to be made, those contributions are reflected in PNM's Annual Operating Plan, which is reviewed by PNM's senior management and ultimately approved by the PNM Resources' Board of Directors.

Q. HOW ARE REQUIRED CONTRIBUTIONS TO PNM'S NON-QUALIFIED RETIREMENT PLAN DETERMINED?

A. Contributions to the non-qualified retirement plan are equal to the expected monthly benefit payments for that plan.

Q. PLEASE DESCRIBE THE CURRENT TREATMENT OF THE GAS PORTION OF PNM'S PENSION LIABILITY.

A. When PNM sold its natural gas operations in 2009, PNM retained the gas portion of the pension liability. PNM agreed in a Commission-approved Amended Stipulation in Case 08-00078-UT that in all future rate cases it would agree to a 58 percent electric and 42 percent gas company allocation of pension costs, making the 42 percent gas portion the responsibility of shareholders. Paragraph 12 of the Amended Stipulation provides:

> In all future electric rate cases, PNM will freeze the allocation percentage of pension costs revenues and prepaid pension assets used to develop its revenue requirement at fifty-eight percent (58%), the level identified in PNM's last electric rate case.

Q. WHAT IS PNM PROPOSING FOR THE ELECTRIC PORTION OF THE PENSION LIABILITY?

A. Because PNM intends to purchase annuities from an insurance company for the gas portion of its pension obligations, there would no longer be pension costs revenues and prepaid pension assets associated with that obligation. Therefore, in future rate case filings made by PNM, 100 percent of the remaining liability and pension expense will be entirely attributable to the electric portion of the pension plan, and will be included in the development of electric rates.

Q. WILL PNM STILL MEET ITS OBLIGATIONS FOR THE GAS PORTION OF THE PENSION LIABILITY?

A. Yes. Participants comprising the gas portion of the liability will continue to receive the same retirement benefit; however, it would be provided by a highly rated insurance company selected by an independent fiduciary, rather than PNM. Purchasing annuities for the 42 percent gas share of costs allows PNM to mitigate future costs and future risks associated with the ongoing gas pension liability, for which PNM does not recover any costs from customers.

Q. WOULD CUSTOMERS BE RESPONSIBLE FOR ANY PORTION OF THE COSTS ASSOCIATED WITH THE PURCHASE OF ANNUITIES TO MEET PNM'S GAS COMPANY PENSION LIABILITY?

A. No. The responsibility for any funding required to complete the transaction is the responsibility of shareholders.

Q. IS THERE ANY OTHER IMPACT TO CUSTOMERS?

A. No. There would be no impact to customers compared to existing liability and pension expense. The only result is that the entirety of the amount of pension costs revenues and prepaid pension assets remaining will be the electric allocated share as established in Case 08-00078-UT, which is currently recovered through rates.

Q. IS PNM SEEKING ANY NEW APPROVALS IN THIS CASE RELATING TO ITS ONGOING TREATMENT OF PENSION COSTS REVENUES AND PREPAID PENSION ASSETS?

A. No. PNM is not proposing to change its treatment of pension costs revenues and prepaid pension assets associated with its electric portion of the pension plan as previously approved and, therefore, is not seeking any new approvals associated with the pension plan. Rather, PNM is seeking confirmation that PNM's annuitization of the gas portion of its pension obligations will result in eliminating the need to allocate pension expense between electric and gas in future rate cases because 100 percent of the remaining pension expense will be attributable to PNM's electric operations.

Q. WOULD THE REMAINING PARTICIPANTS IN THE ELECTRIC PORTION OF THE PENSION PLAN BE AFFECTED?

A. No. There would be no impact to participants remaining in the electric portion of the pension plan since the benefits that will be paid and the options available will not change.

Q. DOES PNM RECOMMEND ANNUITIZING THE ELECTRIC PORTION OF THE PENSION PLAN?

A. No. If PNM were to annuitize the remaining electric portion, it would also seek to recover the associated transaction costs. There can be significant incremental costs associated with annuitizing the pension plan. Annuitizing the electric portion of the pension plan would involve commensurately greater costs, and would require customers to: fully fund the electric portion; pay the incremental premium required by an insurance company to assume the liability; and reimburse PNM for pre-paid pension contributions made by PNM to the electric portion of the plan. While annuitizing the gas portion has no impact on customers, annuitizing the electric portion would result in a substantial increase in the revenue requirement related to the pension plan. Therefore, PNM is not recommending an annuitization of the electric portion of the plan at this time.

VII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR KEY CONCLUSIONS.

A. First, granting PNM's application in this case will allow PNM to maintain sound financial health, which translates into lower rates for customers by allowing PNM access to capital at favorable terms. Second, the capital structure utilized in the development of the Test Period revenue requirements is properly balanced and is within the appropriate range for electric utilities. Third, PNM's strategy to retain its capacity at PVNGS through the extension and purchase of existing leases diversifies price risk to customers by securing ownership of three of the existing leases while taking advantage of the favorable longer-term reduced lease expense terms allowed for in the remaining five leases. Finally, PNM's mitigation of future gas pension costs and risks through the annuitization of the gas portion of the pension plan will have no financial impact to participants in the electric portion of the plan nor to electric customers.

Q. PLEASE SUMMARIZE THE SPECIFIC APPROVALS REQUESTED BY PNM THAT ARE SUPPORTED BY YOUR DIRECT TESTIMONY.

A. In addition to supporting the reasonableness of various inputs used in development of the revenue requirements included in this case, my testimony specifically supports PNM's request for confirmation that when PNM makes rate case filings in the future, 100 percent of the remaining liability and pension expense would be entirely attributable to the electric portion of the pension plan, and will be included in the development of electric rates.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GCG#520340

Resume of Elisabeth A. Eden

PNM Exhibit EAE-1

Is contained in the following 2 pages.

ELISABETH A. EDEN
<u>EDUCATIONAL AND PROFESSIONAL SUMMARY</u>

Name: Elisabeth A. Eden

Address: PNM Resources, Inc.
MS 0915
414 Silver SW
Albuquerque, NM 87102

Position: Vice President and Treasurer

Education: Bachelor of Business Administration, University of New Mexico, 1989
Master of Business Administration, University of New Mexico, 1992
Chartered Financial Analyst charter holder, 2005

Employment: Employed by PNM Resources/Public Service Company of New Mexico since 2001

Positions held within the Company include:
- Executive Director, Financial Planning and Business Analysis
- Assistant Treasurer
- Director, Corporate Strategy
- Senior Manager, Corporate Strategy
- Project Manager, Investor Relations
- Senior Investment Analyst, Treasury
- Planner, Gas Supply

Testimony Filed:

- In the Matter of the Application of Public Service Company of New Mexico for Revision of its Retail Electric Rates Pursuant to Advice No. 507 – NMPRC – Case No. 14-003332-UT, filed December 11, 2014.

- In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to the Issuance of up to $403,845,000 of Pollution Control Revenue Refunding Bonds – NMPRC – Case No. 10-00029-UT, filed February 10, 2010.

- Application of Texas-New Mexico Power Company for Authority to Change Rates – PUCT – Docket No. 38480, (SOAH Docket No. 473-10-6053) filed August 26, 2010.

- In the Matter of the Application of Public Service Company of New Mexico for Authorizations Pertaining to the (1) Issuance of up to $20,000,000 of Pollution Control Revenue Refunding Bonds, and (2) Exercise of Extension Options Under Its $400 Million Credit Facility, NMPRC – Case No. 12-00096-UT, filed April 4, 2012.

Standard & Poor's Research Update, March 10, 2008, "PNM Resources' and Subs' Outlook is Revised to Negative"

PNM Exhibit EAE-2

Is contained in the following 4 pages.

STANDARD
&POOR'S

RATINGSDIRECT®

March 10, 2008

Research Update:

PNM Resources' And Subs' Outlook Is Revised To Negative

Primary Credit Analyst:
Antonio Bettinelli, San Francisco (1) 415-371-5067;antonio_bettinelli@standardandpoors.com

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Research Update:

PNM Resources' And Subs' Outlook Is Revised To Negative

Rationale

On March 10, 2008, Standard & Poor's Ratings Services revised its outlook to negative from stable on the credit ratings of PNM Resources Inc. (PNMR) and electric utility subsidiaries Public Service Co. of New Mexico (PNM) and Texas-New Mexico Power Co. (TNMP).

The negative outlook reflects our perception of increased regulatory risk at PNM that, if not managed or mitigated, could harm credit quality and lead to lower ratings for PNMR and its subsidiaries. Consolidated ratings are underpinned by utility operations, which are the primary source of cash flow. The hearing examiner's recommendation in PNM's pending electric rate case for a $24 million (4.4%) increase, which compares to the company's request of $82 million (14.7 %.), could lead to weaker credit metrics than previously expected if adopted by the New Mexico Public Service Commission. The examiner also rejected the company's request for a fuel clause in its tariff that would improve the utility's cash flow stability by more closely matching fuel and purchase power revenues with actual expenses. In addition, the company's liquidity position is stretched and maturities coming due in 2008 will necessitate access to markets. The pending rate case should be finalized by May 2008 and the commission is not required to adopt the hearing examiner's recommendation.

We do not expect PNM's plans to sell its natural gas utility operations to a subsidiary of Continental Energy Systems for $620 million and purchase regulated electric utility Cap Rock Energy in Texas for $202.5 million to have a net impact on the company's credit quality if the company uses a considerable portion of the proceeds to reduce debt. Unstable margins at competitive retail energy provider First Choice Power and growth of nonregulated EnergyCo, which is a joint venture between PNMR and ECJV (a subsidiary of Cascade Investment LLC), are ongoing rating consideration, with the parent relying on distributions from unregulated operations to service debt.

Short-term credit factors

PNMR's and PNM's short-term rating is 'A-3', but the company's liquidity position is under pressure. Lines of credit for PNM and PNMR are $1 billion combined, with total combined availability as of Feb. 18, 2008 of $355 million. Cash balances stood at $18 million as of Dec. 31, 2008. Short-term debt balances are high due to acquisitions and ongoing capital needs in the absence of strong cash flows.

The company's $450 million (about a 27% of its consolidated long-term debt) in scheduled maturities this year will need to be financed. About $300 is due at PNM and $150 million due at the TNMP. These amounts do not include obligations of about $347 million in equity-linked units at parent PNMR, subject to remarketing in 2008, because we expect corresponding equity purchases to offset these obligations if the remarketing is not successful. Maturities are scheduled for May and September and because of their size and the line balances on the company's revolvers, access to the capital markets will be critical this year. Free cash flows after capital expenditures is expected to remain negative, therefore we do not expect that a significant level of operating cash flow will be available for financing activities.

Outlook

The negative outlook reflects our assessment that credit metrics may not return to levels needed to maintain an investment-grade rating. If the decision in PNM's pending electric rate case does not support credit ratings and future cash flow, a downgrade is possible if the company cannot demonstrate the ability to adequately manage its financial and business profile to maintain a 'BBB-' rating. Our outlook also reflects the company's currently stretched liquidity position. A return to stable may require consistent plant performance, solid performance in nonregulated investments, and a regulatory environment that allows PNM to reasonably collect its costs. Upside rating potential is limited at this time.

Ratings List

Outlook Revised To Negative

	To	From
PNM Resources Inc		
Corp. Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3
Texas-New Mexico Power Co.		
Corp. Credit Rating	BBB-/Negative/--	BBB-/Stable/--
Public Service Co. of New Mexico		
Corp. Credit Rating	BBB-/Negative/A-3	BBB-/Stable/A-3

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

Moody's Credit Opinion, June 23, 2015, "Public Service Company of New Mexico"

PNM Exhibit EAE-3

Is contained in the following 8 pages.

MOODY'S
INVESTORS SERVICE

Credit Opinion: Public Service Company of New Mexico

Global Credit Research - 23 Jun 2015

Albuquerque, New Mexico, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
Parent: PNM Resources, Inc.	
Outlook	Stable
Issuer Rating	Baa3

Contacts

Analyst	Phone
Jeffrey F. Cassella/New York City	212.553.1665
William L. Hess/New York City	212.553.3837

Key Indicators

[1]Public Service Company of New Mexico

	3/31/2015(L)	12/31/2014	12/31/2013	12/31/2012	12/31/2011
CFO pre-WC + Interest / Interest	5.3x	5.2x	4.2x	4.5x	4.8x
CFO pre-WC / Debt	22.4%	22.2%	19.4%	21.2%	21.5%
CFO pre-WC - Dividends / Debt	20.7%	20.5%	10.2%	19.0%	18.7%
Debt / Capitalization	47.3%	47.6%	46.1%	45.4%	48.0%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. Source: Moody's Financial Metrics

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Rating Drivers

Regulatory environment in New Mexico has demonstrated signs of inconsistency and unpredictability with recent events indicating a less constructive regulatory environment, a credit negative

Lack of true future test year in upcoming rate case could cause additional and more frequent rate cases over the next few years

Solid financial metrics expected to continue and support the rating

San Juan Generating Station (SJGS) environment compliance implementation plan dragging on and likely resulting in less favorable cost recovery than originally intended

Corporate Profile

The Public Service Company of New Mexico (PNM) is a vertically integrated electric utility with approximately 513,000 electricity customers in north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. PNM also provides electricity to wholesale customers in New Mexico and Arizona. PNM is the principal operating subsidiary of PNM Resources, Inc. (PNMR: Baa3 Stable), a utility holding company that also owns Texas-New Mexico Power Company (TNMP: A3 Stable). In 2014, PNM accounted for about 80% of PNMR's total revenues and about 68% of earnings, while TNMP essentially accounts for the remainder. PNM is regulated by the New Mexico Public Regulation Commission (NMPRC).

SUMMARY RATING RATIONALE

PNM's Baa2 senior unsecured rating reflects solid financial metrics including cash flow from operations pre-working capital (CFO pre-W/C) to debt in the mid-to-high teens range and a view that capital expenditures will be funded in a balanced manner consistent with PNM's current financial position. The rating also incorporates a regulatory environment in New Mexico that has demonstrated signs of inconsistency and unpredictability with recent events resulting in increased regulatory lag.

DETAILED RATING CONSIDERATIONS

THE NEW MEXICO REGULATORY ENVIRONMENT HAS DEMONSTRATED SIGNS OF INCONSISTENCY AND UNPREDICTABILITY WITH RECENT EVENTS, A CREDIT NEGATIVE

We view several recent regulatory events in New Mexico as indicative of a regulatory framework that is less predictable and transparent than we had previously expected. For example, on May 27, 2015, the NMPRC recently changed its definition of a future test year (FTY). For PNM, the future test year will be defined as the period beginning 45 days after the rate case application. In our view, the test period as defined by the NMPRC resembles a "current test year" more than a future test year, which should lengthen the timeliness of cost recovery. While the use of a "current test year" improves on the regulatory lag associated with rate recovery compared to the use of a historical test year in a rate case proceeding, it is not as credit positive as originally intended by an actual future test period.

As a result of an earlier recommendation by an independent hearing examiner, the NMPRC rejected PNM's rate increase application filed in December 2014 and PNM must re-file its rate case application using the NMPRC's newly defined FTY. PNM stated it intends to refile its rate case application by September 1, 2015, which will result in a delay in the implementation of new customer rates until mid-2016, at the earliest, rather than the initial expectation that rates would go into effect at the beginning of 2016. This will result in increased regulatory lag of prudently incurred costs and investments, which is credit negative. In addition, PNM has stated that without the use of a true future test year, the utility would likely need to file additional rate cases in 2018 and 2020 in order to minimize regulatory lag.

PNM's December 2014 rate case application proposed a revenue increase of $107.4 million based on a 2016 future test year and a ROE of 10.5% with rates effective January 1, 2016. The requested revenue increase is to account for new infrastructure and reliability investments made since its last rate case in 2011 and made over the next two years. In the filing PNM also requested several changes to rate design to establish fair cost allocation across customer rate classes including a monthly access charge of $6 per kW to residential customers installing rooftop solar photovoltaic (PV) systems on their homes after December 31, 2015.

Since the future test year rule for rate case filings has only been allowed since 2013 and PNM is just the second utility in the state to apply, we expected learning curves associated with the new filing procedures until all parties reach a common understanding of what is required. A delay in the rate case filing results in increased regulatory lag of otherwise prudently incurred costs and investments, which is a credit negative. The decision to reject PNM's application for the use of a future test year after Southwestern Public Service Company's (SPS: Baa1 stable) 2014 rate case already utilized a future test year demonstrates inconsistent and unpredictable treatment consistent with a less constructive regulatory environment.

PNM's last rate case was implemented in August 2011 resulting in a 10% allowed ROE and $72.1 million single-step increase rather than a two-step increase of $85 million that was originally agreed upon. The final rate order also included a renewable energy rider and continued the fuel and purchased power costs (FPPCAC) recovery mechanism, albeit with some limitations. Although a reasonable rate increase was allowed, we believe that rejecting a settlement reached between opposing parties is another indication that there was not adequate communication on key priorities amongst the NMPRC, Staff, intervenors, and PNM. Additionally the 15 months it took the commission to complete PNM's rate case as well as SPS's 2014 rate case is longer than the roughly one year average across most US jurisdictions.

Including the new future test year rule established by the NMPRC in 2012, we viewed several events that occurred that year as credit positive for the New Mexico regulatory framework. New Mexico voters passed measures to reduce the NMPRC's responsibilities of non-utility tasks, which allows the Commission to focus primarily on the state's utilities and utility related matters. Voters also have elected qualification requirements, based on educational background and experience, for new commissioners elected to the NMPRC. The qualification standard applied to new elected commissioners beginning with the November 2014 general election.

SOLID FINANCIAL METRICS CONTINUE TO SUPPORT THE RATING

PNM's financial metrics are expected to continue to support the current rating. For the twelve months ended March 31, 2015, CFO pre-W/C to debt was 20% and cash flow interest coverage of 4.6x is comparable to rated regulated US vertically integrated electric utilities in the Baa1 rating category. However, PNM's recent financial performance was enhanced by the tax benefits associated with accelerated bonus depreciation. Over the past couple of years PNM has not been able to earn its allowed ROE, partly attributed to regulatory lag. After adjusting for goodwill, PNM's earned GAAP ROE in 2014 was 7.1%, which was slightly lower than the three year average of 7.4%. Due to delays in the filing of its upcoming rate case application and the associated regulatory lag, we expect PNM will continue to earn below its allowed ROE. With that said, over the next three years, we expect PNM's financial metrics will continue to support its rating including CFO pre-W/C to debt in the mid-to-high teens range and cash flow interest coverage in the low-to-mid 4x range.

SAN JUAN ENVIRONMENTAL COMPLIANCE PLAN CONTINUES TO DRAG ON AND COST RECOVERY IS EXPECTED TO BE LESS THAN ORIGINALLY INTENDED

In April 2015, a different independent hearing examiner recommended that the NMPRC reject PNM's latest revised implementation plan to retrofit the SJGS coal-fired plant to meet the Best Available Retrofit Technology (BART) standards and comply with federal visibility rules. In May 2015, the NMPRC issued an order allowing PNM until July 1, 2015 (or August 1, 2015 if an extension is granted) to execute its restructuring and coal supply agreements associated with its revised implementation plan. PNM has filed for the extension and is working with all parties involved to file the required agreements in time to meet this deadline. Once the signed agreements are filed, the matter will be set to hearing by the NMPRC. At which time, the NMPRC will issue its final ruling on the SJGS retro-fit plan taking into consideration PNM's revised implementation plan as well as the recommendations made by the independent hearing examiner earlier this year. We expect PNM's revised implementation plan will likely be modified further with the NMPRC's final order.

On February 15, 2013, PNM, the New Mexico Environment Department (NMED), and the United States Environmental Protection Agency (EPA) entered into a non-binding agreement on a revised plan that would allow the SJGS to meet the BART standards and comply with federal visibility rules. The agreement would result in the retirement of the San Juan Units 2 and 3 by the end of 2017 and the installation of Selective Non-Catalytic Reduction (SNCRs) technology on Units 1 and 4 by the later of January 31, 2016 or 15 months after EPA approval of a New Mexico revised State Implementation Plan (RSIP). In addition, PNM would also build a natural gas-fired peaking generating plant at the San Juan site to partially replace the capacity lost from the retired coal units. Considering that PNM's current generation mix is approximately 54% coal-fired generation and 31% nuclear, albeit both considered low cost, we view the additional gas-fired capacity to diversify the utility's generation mix as credit positive.

PNM currently owns 50% of Units 1 - 3 and about 38.5% of Unit 4. Under the revised plan, PNM's share of the estimated costs to install SNCRs and the additional equipment to comply with air quality standards on San Juan's Units 1 and 4 would be approximately $81 million. The estimated cost of building a natural gas-fired peaking generating plant at the San Juan site as well as 40 MW of utility scale solar capacity to replace some of the lost generating capacity would cost about $270 million. This revised plan is a departure from the more expensive previously issued ruling by the EPA in August 2011, which required the installation of Selective Catalytic Reduction (SCR) technology on all four units of the San Juan station by September 2016. The estimated cost to install SCRs on all four units of the San Juan plant would have been between approximately $824 million and $910 million, of which PNM would have been responsible for approximately half. Under the revised plan, PNM may need to put in additional base load generating capacity, which could be addressed with the inclusion of PNM's ownership of 134MW in the Palo Verde Nuclear Generating Station (PVNGS) Unit 3 into rate base or additional gas-fired generation.

On April 1, 2013, PNM filed a BART analysis with NMED, which included the installation of SNCRs on Units 1 and

4 and the retirement of Units 2 and 3. NMED developed a revised SIP and submitted it to the New Mexico Environmental Improvement Board (NMEIB) for approval in May 2013. After public hearings, the NMEIB approved the revised SIP in September 2013 and it was submitted to EPA for approval on October 18, 2013. The SIP application was considered complete by the EPA on December 17, 2013 and the EPA announced its approval of the plan on April 30, 2014.

On October 1, 2014, PNM filed a settlement with the NMPRC agreeing to retire Units 2 and 3 of the SJGS on December 31, 2017. In the settlement, PNM is seeking approval to recover 50% of the estimated $230 million undepreciated book value in SJGS Units 2 and 3 at December 31, 2017. PNM is also requesting certificates of convenience and necessity (CCN) to include PNM's ownership interest of 134 MW of PVNGS Unit 3 valued at $221.1 million ($1,650 per KW) along with a CCN for an additional 132 MW of SJGS Unit 4 capacity with a rate base value of $26 million. If the settlement is approved as filed, PNM anticipates recording a regulatory disallowance, which will include the 50% write-off of the under depreciated SJGS book value offset by the value of including the investment in PVNGS Unit 3 in rate base at the stipulated value.

On April 8, 2015 the independent hearing examiner recommended that the NMPRC reject the settlement citing it is not in the best interest of the public. The hearing examiner suggested amendments to the settlement including reduced recovery of certain costs associated with abandoned assets and a lower value to move PNM's ownership of 134MW in PVNGS Unit 3 into rate base. The hearing examiner recommended that the initial rate base value of PNM's ownership stake in PVNGS should be $143.4 million and not the $221 million value that was agreed upon in the settlement. Additionally, the hearing examiner recommended denial of the CCN for the additional 132 MW of Unit 4 of SJGS, stating PNM may re-apply after it has presented final restructuring and coal supply agreements. On April 20, 2015, PNM filed an exceptions report largely objecting to the recommended decision. If the NMPRC agrees with the recommendation PNM estimates the net pre-tax regulatory disallowance would total an amount between $145 million and $155 million.

If the NMPRC agrees with the hearing examiner's recommendation PNM will see a reduction in the recovery of costs and investments related to the SJGS revised implementation plan. We believe the recovery disallowance along with the regulatory lag associated with the delays in PNM's rate case application will prevent PNM from improving its financial metrics over the next few years that would support a higher rating.

Liquidity

PNM's liquidity profile driven by stable cash flow generation and external availability appropriately supports its planned capital expenditures and dividends. We anticipate PNM's core maintenance capital expenditures to be about $150-250 million annually over the next several years. As such, we expect PNM's cash flow from operations will cover maintenance capital expenditures and dividend distributions to PNMR. We expect PNM's total capex, maintenance and growth, should total over $1.1 billion over the next three years or average about $375 million annually, which is higher than the approximately $250 million invested annually for the last five years. The increase in capital expenditures is mainly attributed to additional San Juan compliance spending, investments in additional generation capacity including the $163 million purchase of certain PVNGS Unit 2 leases in January 2016 as well as renewable energy resources.

Over the last few years, PNM's dividends distributed to its parent have been extremely lumpy. PNM's dividend payout ratio was approximately 8%, 50%, 176% and 35% for 2011, 2012, 2013 and 2014, respectively. The average payout over those four years was approximately 70%, which is consistent with the industry average of between 60% - 70%. The significant dividend distribution of $156 million in 2013 was a higher than normal distribution amount due to a catch up of dividends not paid in 2012. The dividends were not paid because an expected tax refund of around $95 million was delayed and ultimately received in Q2 of 2013, at which time PNM started distributing the catch up dividends. The significant dividend payout in 2013 allowed PNM to only have to distribute $31 million in 2014 and retain cash to help fund an increase in capex related to generation, transmission and distribution investments. We anticipate the payout ratio to revert back to more normalized levels of over 90% going forward. Given the high capital expenditures and dividend payout ratio, we expect PNM to incur additional debt as well as issue equity to fund these activities but also maintain its overall capital structure at a level of around a 50% debt to capitalization.

PNM has a $400 million revolving credit facility that expires in October 2019 and a $50 million revolving credit facility with local New Mexico banks, which expires in January 2018. As of April 24, 2015, PNM had no borrowings on its credit facilities, $3.2 million of letters of credit outstanding, and no cash on hand. The credit facility's only financial covenant limits debt to total capitalization of 65%. As of March 31, 2015, PNM's debt to total capitalization was approximately 54%. PNM can also borrow up to $100 million from its parent as part of an inter-company borrowing arrangement, which they have drawn $26.4 million as of April 24, 2015. PNM's upcoming debt maturities include a $175 million term loan due September 2015 and a $125 million term loan due June 2016.

Rating Outlook

PNM's stable rating outlook reflects our expectation that PNM's solid financial metrics will continue including CFO pre-W/C to debt in the mid-to-high teens range that helps mitigate the less constructive New Mexico regulatory framework, which has recently exhibited signs of less consistency and less predictability given recent events that have caused an increase in regulatory lag. The stable outlook also incorporates our expectation that the SJGS environmental compliance plan is not delayed or revised further beyond what is recommended by the independent hearing examiner that will prove to be materially detrimental to PNM's current financial position and that planned capital expenditures will be financed in a balanced manner that is consistent with PNM's current capital structure.

What Could Change the Rating - Up

Although unlikely in the near-term, PNM's rating could be upgraded if we observe a sustained improvement in the credit supportiveness of the New Mexico regulatory environment that includes greater predictability, timeliness and/or sufficiency of rates such that PNM's financial metrics would be expected to improve on a sustained basis including CFO pre-W/C to debt in the low 20% range.

What Could Change the Rating - Down

PNM's rating could be downgraded if we observe that the New Mexico regulatory framework has become less credit supportive or more unpredictable which results in unexpectedly adverse regulatory decisions or cost recovery disallowances; or if PNM's financial metrics deteriorated such that CFO pre-W/C to debt were to decline to the low-to-mid teens on a sustained basis. In addition, negative rating pressure could occur if the San Juan environmental implementation plan were to be modified even further beyond the latest hearing examiner's recommendation in an adverse manner such that PNM's cost recovery is delayed or uncertain that would prevent PNM from maintaining its current financial position.

Rating Factors

Public Service Company of New Mexico

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current LTM 3/31/2015		[3]Moody's 12-18 Month Forward ViewAs of June 2015	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	Baa	Baa	Baa	Baa
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Baa	Baa	Baa	Baa
b) Sufficiency of Rates and Returns	Ba	Ba	Ba	Ba
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	Baa	Baa	Baa	Baa
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	4.6x	A	3.7x - 4.2x	Baa
b) CFO pre-WC / Debt (3 Year Avg)	20.2%	Baa	14% - 19%	Baa
c) CFO pre-WC - Dividends / Debt (3 Year Avg)	16.0%	Baa	11% - 16%	Baa
d) Debt / Capitalization (3 Year Avg)	47.1%	Baa	45% - 50%	Baa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		Baa2		Baa2

HoldCo Structural Subordination Notching		0	0	0
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa2		Baa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 3/31/2015(L); Source: Moody's Financial Metrics [3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on http://www.moodys.com for the most updated credit rating action information and rating history.

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Standard & Poor's Research, May 4, 2015, "Public Service Co. of New Mexico"

PNM Exhibit EAE-4

Is contained in the following 6 pages.

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Public Service Co. of New Mexico

Business Risk: STRONG

Vulnerable — Excellent

Financial Risk: SIGNIFICANT

Highly leveraged — Minimal

Anchor	Modifiers	Group/Gov't
bbb	bbb	bbb

CORPORATE CREDIT RATING

BBB/Positive/NR

Rationale

Business Risk: Strong	Financial Risk: Significant
• Mostly rate regulated lower-risk electric utility. • A relatively challenging regulatory jurisdiction in New Mexico. • More recent gradual improvement of regulatory risk. • Greater volatility of profitability compared with the regulated utility industry average.	• Use of the medial volatility table, reflecting the regulated utility business model that includes the higher operating risk of regulated generation. • Core financial measures that are consistent with the significant financial risk profile category. • High capital spending necessary to meet environmental compliance and renewable standards.

Outlook: Positive

The positive rating outlook on Public Service Co. of New Mexico reflects the increased probability that parent PNM Resources Inc. (PNMR) will continue to effectively manage regulatory risk, resulting in longer-term consistent improvement to the company's business risk profile. At the same time, we expect the consolidated company will maintain financial measures that are consistent with the significant financial risk profile category, despite its high capital spending program. Specifically, we expect consolidated funds from operations (FFO) to debt of about 17% and consolidated debt to EBITDA of about 4x.

Downside scenario

We could affirm the ratings and revise the outlook to stable if there is no definitive improvement to the consolidated company's business risk profile. This would most likely occur if the regulatory lag persists and there is only minimal improvement to the consolidated company's longer-term volatility of profitability.

Upside scenario

We could raise the rating if parent PNMR demonstrates consistent and effective management of regulatory risk so that there is longer-term improvement to the company's consolidated volatility of profitability, leading to an overall improvement of the consolidated company's business risk profile. At the same time, the consolidated company maintains financial measures consistent with the middle of the range for the "significant" financial risk profile.

Business Risk: Strong

The "strong" business risk profile reflects the company's lower-risk regulated utility operations offset by the company's higher volatility of profitability compared with the utility industry average. Public Service Co. of New Mexico (PNM) serves more than 500,000 customers in New Mexico and has about 2,700 megawatts of generating capacity. Despite the historically challenging difficulties of managing regulatory risk in New Mexico, the company has gradually demonstrated improved management of regulatory risk. This has resulted in more timely recovery of relevant costs and higher probability of earning its allowed return on equity. Under our base-case scenario we expect that the company will continue to demonstrate gradual improvement to managing regulatory risk and that the outcomes of the both the Revised State Implementation Plan for the San Juan Generating Station and its New Mexico rate case will be credit supportive.

Financial Risk: Significant

For PNM, we use the medial volatility table, reflecting the company's lower-risk regulated utility business model that includes the higher operating risk of regulated generation.

Under our base-case scenario of higher capital spending and rate case increases over the next two years, we expect funds FFO to debt of about 18% and debt to EBITDA of about 4x. We expect that the company will be able to maintain its financial measures despite its higher capital spending partially through the use of riders and rate case increases.

Liquidity: Adequate

We based our analysis of PNM's liquidity on its group's liquidity. Consolidated PNMR has "adequate" liquidity, in our view, and can more than cover its needs for the next 12 months, even if EBITDA declines by 10%. We expect the company's liquidity sources over the next 12 months will exceed its uses by more than 1.1x. Under our stress scenario, we do not expect that PNMR would require access to the capital markets during that period to meet its liquidity needs.

Principal Liquidity Sources	Principal Liquidity Uses
• Consolidated FFO of more than $450 million. • Consolidated credit facility availability of more than $700 million. • Minimal cash assumed.	• Consolidated maintenance capital spending of about $450 million. • Consolidated long-term debt maturities of more than $300 million in 2015. • Consolidated dividend payments of about $70 million.

Other Modifiers

All modifiers are neutral and have no effect on the stand-alone credit profile (SACP).

Group Influence

PNM is a wholly owned subsidiary of PNMR. We consider PNM as "core" to its parent, reflecting our view that PNM is highly unlikely to be sold and has a strong long-term commitment from senior management.

Issue Ratings

PNM's senior unsecured debt is rated the same as our issuer credit rating on the company.

Ratings Score Snapshot

Corporate Credit Rating

BBB/Positive/NR

Business risk: Strong

- **Country risk:** Very low
- **Industry risk:** Very low
- **Competitive position:** Satisfactory

Financial risk: Significant

- **Cash flow/Leverage:** Significant

Anchor: bbb

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Positive (no impact)
- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Satisfactory (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile : bbb

- **Group credit profile:** bbb
- **Entity status within group:** Core (no impact)

Related Criteria And Research

Related Criteria

- Methodology And Assumptions: Liquidity Descriptors for Global Corporate Issuers, Dec. 16, , 2014
- Corporate Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Business And Financial Risk Matrix

	Financial Risk Profile					
Business Risk Profile	Minimal	Modest	Intermediate	**Significant**	Aggressive	Highly leveraged
Excellent	aaa/aa+	aa	a+/a	a-	bbb	bbb-/bb+
Strong	aa/aa-	a+/a	a-/bbb+	**bbb**	bb+	bb
Satisfactory	a/a-	bbb+	bbb/bbb-	bbb-/bb+	bb	b+
Fair	bbb/bbb-	bbb-	bb+	bb	bb-	b
Weak	bb+	bb+	bb	bb-	b+	b/b-
Vulnerable	bb-	bb-	bb-/b+	b+	b	b-

Evolution of Credit Spread Differentials

PNM Exhibit EAE-5

Is contained in the following 1 page.

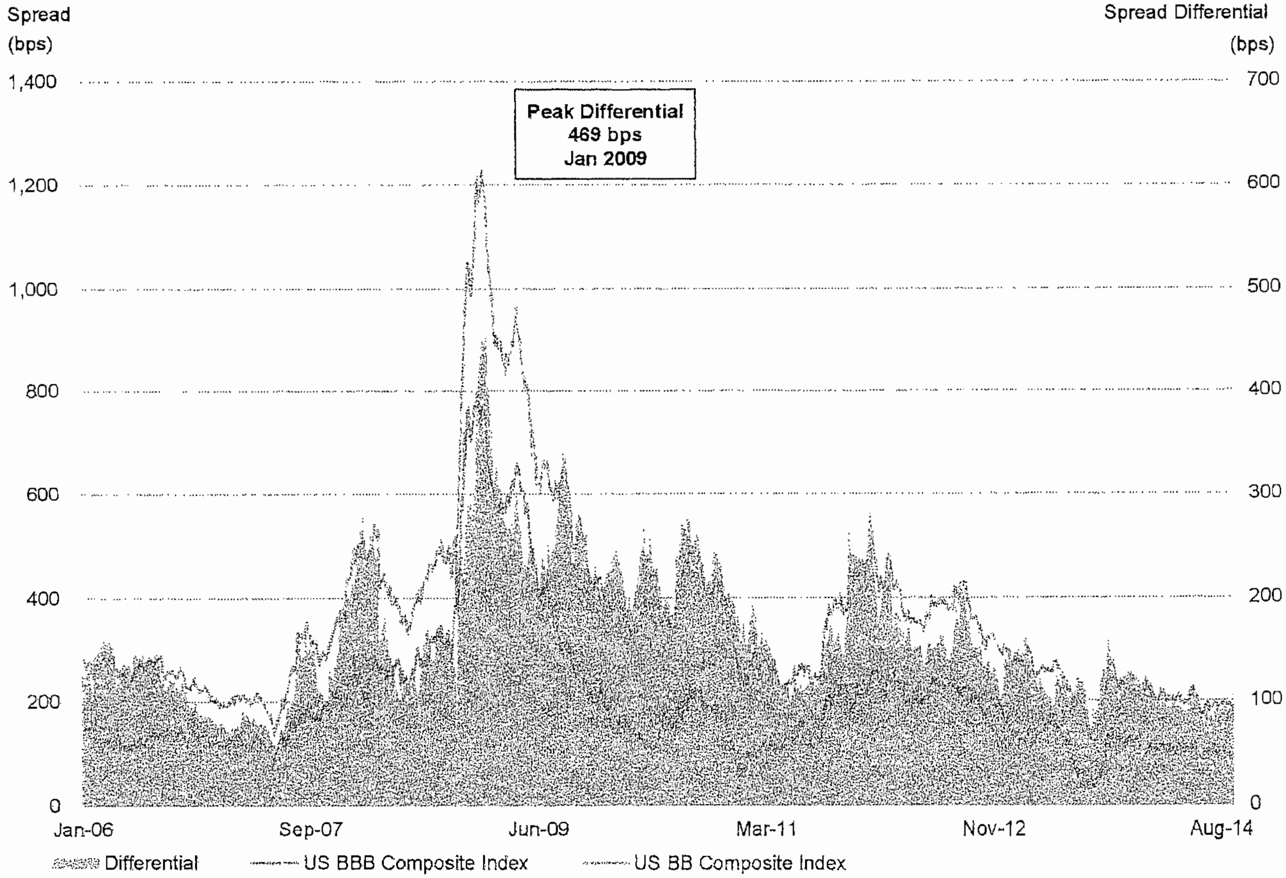
PNM Resources

Evolution of Credit Spread Differentials

BBB / BB Indices | As of September 9, 2014

- USD BBB Composite Index has traded on average 165 bps tighter than USD BB Composite Index since 2006
  - Since the crisis, the differential between the BB and BBB indices has tightened significantly, as spreads compress across the credit spectrum
  - Currently the BBB index is trading 96 bps through the BB index

Differential between USD Composite BBB and BB Index Spreads Tightens Post-Crisis



Source Bloomberg, Morgan Stanley

Morgan Stanley

Standard & Poor's Rating Services, May 18, 2015, "Assessing U.S. Investor-Owned Utility Regulatory Environments"

PNM Exhibit EAE-6

Is contained in the following 9 pages.

STANDARD & POOR'S
RATINGS SERVICES
McGRAW HILL FINANCIAL

Research

Assessing U.S. Investor-Owned Utility Regulatory Environments

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Assessing U.S. Investor-Owned Utility Regulatory Environments

Regulatory advantage is the most heavily weighted factor when Standard & Poor's Ratings Services analyzes a regulated utility's business risk profile. One significant aspect of regulatory risk that influences credit quality is the regulatory environment in the jurisdictions where a utility operates. A utility management team's skill in dealing with regulatory risk can sometimes overcome a difficult regulatory environment. Conversely, companies' regulatory risk can increase even with supportive regulatory regimes if management fails to devote the necessary time and resources to the important task of managing regulatory risk. We modify our assessment of regulatory advantage to account for this dynamic in our ratings methodology (for the criteria we use to rate utilities, see "Corporate Methodology," and "Key Credit Factors For The Regulated Utilities Industry," published Nov. 19, 2013, on RatingsDirect.)

There are specific factors we use in the U.S. to assess the credit implications of the numerous regulatory jurisdictions here that help us determine the "preliminary regulatory advantage" in our credit analysis of each investor-owned regulated utility. We organize the subfactors of regulatory advantage into four categories:

- Regulatory stability,
- Tariff-setting procedures and design,
- Financial stability, and
- Regulatory independence and insulation.

Regulatory Stability

The foundation of our opinion of a jurisdiction is the stability of its approach to regulating utilities, encompassing transparency, predictability, and consistency. Given the maturity of the U.S. investor-owned utility industry, the long history of utility regulation (going back to the early 20th century) and the well-established constitutional protections accorded to utility investments, we emphasize the principle of consistency when weighing regulatory stability. We also incorporate the degree to which the regulatory framework either explicitly or implicitly considers credit quality in its design.

Durability of regulatory system

An established, dependable approach to regulating utilities is a hallmark of a credit-supportive jurisdiction. Bondholders lend capital to utilities over long periods to fund the development of long-lived assets. A firm understanding of the basic "rules" that will govern how the utility will recover its costs, including servicing its debt and the return on its capital over an extended period, is essential to accurately assess credit risk. Major or frequent changes to the regulatory model invariably raise risk due to the possibility of future changes. Steady application of transparent, comprehensible policies and practices lowers risk.

How long a regulatory framework has been in place is the most important factor in this area. We view jurisdictions as most supportive when there have been no major changes or where the approach has been consistent for a long time and is not prone to further changes. Jurisdictions that have undergone a major, fundamental change in the regulatory paradigm that seems to be working well are a little less supportive, and less so a jurisdiction that is transitioning to a new regulatory approach. Credit risk rises if the transition attracts negative political attention. The less-supportive jurisdictions are those that frequently alter the basic regulatory approach. We also view less favorably the framework's development if policy disputes or legal actions cause contention, indicating that the political consensus regarding utility regulation is fragile.

Some jurisdictions permit competitive markets to prevail for some important functions of the delivery of utility services, notably wholesale markets for electricity and retail markets for electric or gas service. In others, vertical integration is the norm. A jurisdiction's credit-supportiveness can suffer if market forces directly influence major cost items that utilities could otherwise control through cost-based regulation because of the potential volatility it creates. The risk inherent in a market-based model is straightforward: utility rates are more volatile when markets influence them rather than fully embedded costs, and regulators are apt to resist full and timely recovery when market price changes are abrupt and substantial (and perhaps misunderstood). We observe less support for credit quality in jurisdictions that are in the midst of deregulating important parts of the utility framework. The uncertainty of the timing of reaching the outcome--and what the result will be--is a negative factor from a credit perspective. Utilities are also prone to financial stress when the transition to competition causes potential "rate shock" for customers that regulators could resist.

Transparency of regulatory framework and attitude toward credit quality

We believe regulation works best when it is rule-based. Bondholder interests are better protected by the presence of and adherence to a pre-set code of rules and procedures that we can look to when assessing risk. Risk is lower when the rules are more transparent and when they take into account utilities' financial integrity. We regard jurisdictions that require regulators to protect utilities' financial soundness and have transparent policies and procedures as the most credit-supportive. We ascribe higher risk in jurisdictions where policies and procedures support financial integrity, but where inconsistency can selectively arise. We believe a jurisdiction provides even less support when transparency merely exists. We see less support when any of these credit factors are absent, or if the regulator's record on following precedent is poor.

Tariff-Setting Procedures

We review rate decisions as part of our surveillance on each U.S. utility. We focus on the jurisdiction's overall approach to setting rates and the process it uses to establish base rates (practices pertaining to separate tariff provisions for large expenses are in the "Financial Stability" part of our analysis). We focus on whether base rates, over time, fairly reflect a utility's cost structure and allow its managers an opportunity to earn a compensatory return that provides bondholders with a financial cushion that supports credit quality. If the process is geared toward an incentive-based system, our analysis centers on the risks related to the incentive mechanisms. If the jurisdiction has vertically integrated utilities, we review the resource procurement process and assess how it affects regulatory risk.

Ability to timely recover costs

We review authorized returns and capital structures in our analysis, but we focus mainly on actual earned returns. Examples abound of utilities with healthy authorized returns that have no meaningful expectation of earning those returns due to, for example, rate case lag (i.e., the relationship between approved rates and the age of the costs used to set those rates) or expense disallowances. Also, the absolute level of financial returns is less important in our analysis than that return's stability, and we note the equity component in the capital structure used to generate the revenue requirement in rate proceedings. Higher authorized and earned returns and thicker equity ratios translate into better credit measures and a more comfortable equity cushion for bondholders. We consider a regulatory approach that allows utilities the opportunity to consistently earn a reasonable return as a positive credit factor.

A very credit-supportive jurisdiction is one in which all of the utilities it regulates consistently earn above-average returns. We assess jurisdictions lower if only some of them do, and lower still if the earnings records are below average or highly variable from year to year. We deem jurisdictions as weaker when all utilities earn well-below-average returns, and we consider jurisdictions where all utilities consistently earn exceedingly poor returns, including years with negative returns, as weakest.

We examine "regulatory lag" along with the record of earned returns to assess timeliness. Credit-supportive jurisdiction typically have a track record of little regulatory lag, indicating that responsibility for a poor or uneven earnings history lies more with management than its regulators. In addition to the regulator's efficiency in completing rate cases, we consider the obsolescence of the costs on which the rates are based, the timing of interim rates, and other practices (such as allowing rates to automatically change in a future period based on inflation) that affect a utility's ability to earn its authorized return.

If a jurisdiction uses incentives as the primary ratemaking tool and institutes a comprehensive incentive program that allows revenues and costs to diverge, we evaluate the incentive mechanisms' effect on a utility's earnings capability and stability. A common approach features an extended period between base rate reviews, during which rates change according to a formula based on inflation, a predetermined productivity factor, and capital spending. An incentive-based program can be close to credit-neutral compared with systems that permit more frequent and dynamic rate changes if the risk is symmetrical (i.e., an equal opportunity to earn over or under the authorized return and equivalent reward or penalty for doing so) and limited (a maximum or minimum earnings band). The effect on regulatory risk depends on whether we believe the efficiency targets are realistic and achievable, the regulator's treatment of disparities in actual versus authorized spending, and the framework's flexibility to adjust returns for capital market conditions. If there are operating standards, we determine whether they fairly reward or punish utilities if performance deviates from expectations.

There is a muted effect on regulatory risk in jurisdictions where incentives are not central, but are instead used only to augment cost-of-service regulation. A moderate amount of incentives that carry symmetrical risks can even modestly support better credit quality. For example, a fuel-adjustment and purchased-power clause with a sharing mechanism that affects less than 10% of the total fuel costs and cuts both ways when commodity markets change can modestly reduce risk by offering the utility a mild incentive for effective procurement and efficient operations, without unduly exposing it to commodity price risk.

We typically view jurisdictions as credit-supportive if regulators use symmetrical incentive mechanisms sparingly in the rate-setting process. When incentives play a larger role in the rate-setting approach, but are well-designed to evenly allocate risk, we see less support for credit quality. We regard still lower jurisdictions where incentives dominate and are poorly designed. Jurisdictions where incentives significantly degrade risk and are part of a comprehensive incentive regime harbor the most risk for creditors.

Oversight of resource procurement

When applicable, a resource-procurement process that uses objective guidelines to evaluate competing proposals to meet service obligations and keeps the regulator informed and involved in the decisions can, in our view, help to reduce the risk of subsequent disallowances. If the jurisdiction has an "Integrated Resource Plan" or similar mechanism that includes the participation of many parties and it uses it to definitively establish the need for new generation, it diminishes credit risk further.

We typically view the resource-procurement process more favorably if it's competitive, overseen by the regulator, and the regulator must validate the results. A jurisdiction is weaker when the process only features some of those elements. We deem jurisdictions with no regulator involvement in the process--other than to later disallow some cost recoveries based on perfect hindsight--as even less credit-supportive.

Another key issue that can fall under this part of our analysis is the regulatory oversight of large capital projects with long lead times that carry out-sized risks to a utility and its bondholders. Practices such as legislative or regulatory recognition of the need for preapproval of such endeavors, periodic reviews that substantively involve the regulator in the project's progress, and rolling prudence determinations during construction can reduce the general level of risk associated with a utility committing substantial capital well in advance of the rate proceeding that results in the project's placement into the rate base.

We view jurisdictions more favorably when they have an oversight process that includes the regulator's preapproval, ongoing regulatory oversight of a project, and provisions for rolling prudence determinations that improve the chances that all project costs will eventually be reflected in rates. We deem jurisdictions weaker when the process only features some of those elements. We consider jurisdictions even weaker when they don't have any regulatory involvement in the process and have a track record of significant post hoc disallowances of capital costs.

Financial Stability

When we evaluate U.S utility regulatory environments, we consider financial stability to be of substantial importance. Cash takes precedence in credit analysis. A regulatory jurisdiction that recognizes the significance of cash flow in its decision-making is one that will appeal to bondholders.

Treatment of significant expenses

When utilities have major expenses such as fuel and purchased power/gas/water, the presence of separate tariff provisions to facilitate full and contemporaneous recovery is the most prominent factor in this part of our analysis. The timely adjustment of rates in response to changing commodity prices and other expenses that are largely out of management's control is a key feature of a credit-supportive regulatory jurisdiction. The analysis centers on the special tariff mechanisms to determine their effectiveness in producing the cash flow stability they are designed to achieve. The frequency of rate adjustments, the ability to quickly react to unusual market volatility, and the control of opportunities to engage in hindsight disallowances of costs could affect our analysis almost as much as whether the tariff provisions exist at all. The record of disallowances plays a part when we assess regulatory advantage.

We consider jurisdictions to be very credit-supportive if utilities can recover all high-expense items through an automatic tariff clause that is based on projected costs, adjusts frequently, and has no record of any significant disallowances. We see more risk if separate mechanisms exist, but lack some of the above features. We view jurisdictions that lack independent rate mechanisms for large expenses and have a record of significant disallowances as weakest.

Treatment of capital spending

When applicable, a jurisdiction's willingness to support large capital projects with cash during construction is an important aspect of our analysis. This is especially true when the project represents a major addition to rate base and entails long lead times and technological risks that make it susceptible to construction delays. Broad support for all capital spending is the most credit-sustaining. Support for only specific types of capital spending, such as specific environmental projects or system integrity plans, is less so, but still favorable for bondholders. Allowance of a cash return on construction work-in-progress or similar ratemaking methods historically were extraordinary measures for use in unusual circumstances, but when construction costs are rising, cash flow support could be crucial to maintain credit quality through the spending program. Even more favorable are those jurisdictions that present an opportunity for a higher return on capital projects as an incentive to investors.

Very supportive jurisdictions offer a separate recovery mechanism for all capital spending, a mandated current cash return during construction, and a bonus return for some or all capital projects. We deem a jurisdiction weaker if there is a separate mechanism for only certain kinds of spending and the cash return and higher return are subject to the regulator's discretion. We view jurisdictions that don't allow separate recovery or a current return as being lower on the scale. We assess a jurisdiction as weaker still when it doesn't have independent rate mechanisms for capital projects, and we view it as most risky when full recovery occurs only after a utility's assets become operational.

Cash-smoothing mechanisms

We have a more positive view of jurisdictions that use innovative regulatory provisions that help to smooth cash flow from period to period. For a jurisdiction that focuses on incentives in its basic approach to ratemaking, through multiyear rate plans or a formula rate plan, we view the availability of "reopeners" (to adjust rates for unexpected events out of the utility's control) as key to this part of our analysis. The utility's ability to petition for a rate increase when unexpected or uncontrollable costs arise in the midst of a long-term rate plan is a critical risk mitigant.

Other examples of risk-dampening regulatory policies include hedging program approvals, and decoupling (the separation of a utility's profits from sales) or weather-related mechanisms. If a utility seeks approval of a hedging program to manage exposure to commodity prices, it can reduce risk if there's a clearly stated hedging policy that its regulator has endorsed, and a track record of activity that conforms to the policy that has not been subject to regulatory second-guessing. A well-designed decoupling or weather-normalization mechanism that efficiently adjusts rates to offset the sales effect of economic conditions, customer usage trends, or weather will soften earnings and cash flow volatility to the benefit of bondholders. If applicable, we view a record of regulatory responsiveness to extreme events for utilities that are prone to violent or disruptive weather (like hurricanes) as favorable for credit quality.

A jurisdiction is more credit-supportive if it makes extensive use of extraordinary and credit-supportive rate mechanisms. Also favorable are jurisdictions that use innovative mechanisms selectively, or have regulators that are receptive to reopeners where incentives are the main ratemaking method.

Regulatory Independence And Insulation

The role of politics in U.S. utility regulation is often misunderstood. In most jurisdictions, the regulator's function is to set and regulate rates and service standards with due regard not only for the interests of those who advance the capital needed to provide safe and reliable utility service, but for other constituents as well. Bondholders should recognize that utility regulation harbors political as well as economic risks. Therefore, how politics could influence regulation helps us evaluate a regulatory environment.

Political independence of regulator

The primary factor in this part of our analysis is the regulators' (and, when relevant, the judicial body that reviews the regulators' decisions) political independence. We think it's more credit-supportive when the regulator is substantially independent of the political process. Jurisdictions are somewhat less favorable when insulation is strong, such as when the executive branch of government appoints regulators subject to legislative approval. We consider jurisdictions to be further down the scale when the same voters who pay utility bills directly elect the regulators, but institutional efforts have been made to erect some shield for regulators from transient political concerns. We view jurisdictions that arrange for direct political accountability of regulators that persistently influences regulatory decisions as less supportive.

Record of direct political intervention

The overall atmosphere that a regulator operates in can affect its ability to deliver sound, fair, and timely rate decisions and set prudent regulatory policies that assist utilities in managing business and financial risk. In this part of our evaluation, we may consider the tone that politicians set, the history of political insulation given to the regulatory body, and the behavior of important constituencies that intervene in utility proceedings. We also track the public visibility of utility issues, because we believe that the likelihood of constructive regulatory behavior increases with the comparative obscurity of utility issues.

We view a jurisdiction as having a lower risk if the regulatory environment is marked by cooperative attitudes and constructive interventions in important matters before the regulator. We assess a jurisdiction lower when the atmosphere is more combative and restricts the regulator's ability to act in the long-term best interests of all parties. We consider jurisdictions as weaker if the regulatory environment is so infused with short-term political influence over regulatory decisions that the regulator can't effectively consider investor interests in its decisions.

Related Criteria And Research

Related Criteria

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit

Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

Tower's Watson Estimated FY2016 Pension and Retiree Medical Expense Memo

PNM Exhibit EAE-7

Is contained in the following 1 page.

TOWERS WATSON

Memo

Date: July 21, 2015

To: Ed Jeung, *PNM Resources, Inc.*

From: Phil Allen & Brian Arnell, *Towers Watson*

Subject: **Estimated FY2016 Pension and Retiree Medical Expense**

PNM Resources, Inc. (PNM) has requested that Towers Watson provide estimated FY2016 pension and retiree medical expense for the PNM Resources, Inc. Employees' Retirement Plan (PNM Pension), PNM Resources, Inc. Post-Retirement Healthcare Plan (PNM Medical), and PNM Resources, Inc. Non-Qualified Retirement Plan (PNM Non-Qualified). The results of our analysis are below:

Plan	Estimated FY2016 Expense (Income)
PNM Pension	$6,226,540
PNM Medical	($81,083)
PNM Non-Qualified	$1,044,136

It is assumed that in 2016 PNM will make no contributions to the PNM Pension plan, will make contributions of $3,500,000 to the PNM Medical plan, and will pay PNM Non-Qualified benefit payments out of corporate assets. It is also assumed that actual asset returns in 2015 equal the 1/1/2015 FAS Expected Return on Asset assumption (6.80% in the PNM Pension plan and 7.70% in the PNM Medical plan).

Additionally, these calculations reflect Expected Return on Asset assumptions for 2016 of 6.10% for the PNM Pension plan and 7.50% for the PNM Medical plan. This assumption is based on the results of the Towers Watson April 1, 2015 Expected Return Estimator using the target asset allocations for each plan plus the five year expected manager alpha calculated as of March 31, 2015.

Except as otherwise provided herein, the results above are based on the data, assumptions, methods, plan provisions and other information, outlined in the actuarial valuation report to determine accounting requirements for the fiscal year beginning January 1, 2015 dated February 4, 2015 for the pension plans and February 19, 2015 for the retiree medical plan. Therefore, such information, and the reliances and limitations of the valuation reports and their use, should be considered part of this email. Any rounding (or lack thereof) used for displaying numbers in this memo is not intended to imply a degree of precision, which is not a characteristic of actuarial calculations. The consulting actuaries above are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension and postretirement welfare plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Towers Watson.

Tower's Watson Actuarial Valuation Report, Qualified Retirement Plan, February 4, 2015

PNM Exhibit EAE-8

Is contained in the following 37 pages.

PNM Resources, Inc. Employees' Retirement Plan

Actuarial Valuation Report
Disclosure for Fiscal Year Ending December 31, 2014 and 2015 Benefit Cost under US GAAP

February 4, 2015

TOWERS WATSON

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Purposes of valuation

PNM Resources, Inc. engaged Towers Watson Delaware Inc. ("Towers Watson") to value the Company's pension plan.

As requested by PNM Resources, Inc. (the Company), this report provides information for year-end financial reporting purposes required by FASB Accounting Standards Codification Topic 715-20-50 (ASC 715) for your fiscal year ending December 31, 2014 for the PNM Resources, Inc. Employees' Retirement Plan (the Plan).

The exhibits present year-end financial reporting information in accordance with ASC 715-20-50, including net balance sheet position of the Plan, cash flow, plan asset information, amortization amounts during the fiscal year, participant information, the provisions on which the valuation is based, and the actuarial assumptions and methods used in the calculations. Additional input is required (as described below) by the Company in relation to the asset disclosures specified in ASC 715-20-50-1(d) (public entities) or ASC 715-20-50-5(c) (nonpublic entities).

In addition, this report presents the Net Periodic Benefit Cost/(Income) (Benefit Cost), in accordance with ASC 715, for the fiscal year beginning January 1, 2015. Both year-end financial reporting and benefit cost results are based on a valuation of the Plan as of December 31, 2014.

Limitations

This valuation has been conducted for the purposes described above and may not be suitable for any other purpose. In particular, please note the following:

1. As discussed above, certain year-end financial reporting information in accordance with ASC 715-20-50 is not included in this report and must be provided by PNM Resources, Inc., as follows:

   - Categorization of assets, actual asset allocation at December 31, 2014 and December 31, 2013, and the target asset allocation for 2015.

   - A description of PNM Resources, Inc.'s investment policy for the assets held by the pension plan.

   - A description of the basis used to determine the expected long-term rate of return on plan assets.

2. The expected contributions to the qualified pension plan were set at $30M, which was contributed on January 2, 2015.

   Note that any significant change in the amounts contributed or expected to be contributed in 2015 will require disclosure in the interim financial statements.

3. There may be certain events that have occurred since the valuation date that are not reflected in the current valuation. See Subsequent Events in the Basis for Valuation section below for more information.

4. This report is not intended to constitute a certification of the Adjusted Funding Target Attainment Percentage (AFTAP) under IRC §436 for any plan year.
5. This report does not determine funding requirements under IRC §430.
6. This report does not provide information for plan reporting under ASC 960.
7. This report does not determine liabilities on a plan termination basis, for which a separate extensive analysis would be required. No funded status measure included in this report is intended to assess, and none may be appropriate for assessing, the sufficiency of plan assets to cover the estimated cost of settling benefit obligations, as all such measures differ in some way from plan termination obligations. In addition, funded status measures shown in this report do not reflect the current costs of settling obligations by offering immediate lump sum payments to participants and/or purchasing annuity contracts for the remaining participants (e.g., insurer profit, insurer pricing of contingent benefits and/or provision for anti-selection in the choice of a lump sum vs. an annuity).
8. The comparisons of accounting obligations to assets presented in this report cannot be relied upon to determine the need for nor the amount of required future plan contributions. Nevertheless, such comparisons may be useful to assess the need for future contributions because they reflect current interest rates at the measurement date in determining benefit obligations. However, asset gains and losses, demographic experience different from assumed, changes in interest rates, future benefit accruals, if any, and other factors will all affect the need for and amount of future contributions. In addition, if a plan is not required by law to be funded, benefit payments may also be paid directly as they come due.

Section 1: Summary of key results

Benefit cost, assets & obligations

All monetary amounts shown in US Dollars

Fiscal Year Beginning		01/01/2015	01/01/2014
Benefit Cost/ (Income)	Net Periodic Benefit Cost/(Income)	2,785,884	4,174,089
	Immediate Recognition of Benefit Cost/(Income) due to Special Events	0	0
	Total Benefit Cost/(Income)	2,785,884	4,174,089
Measurement Date		**12/31/2014**	**12/31/2013**
Plan Assets	Fair Value of Assets (FVA)	587,909,165	556,353,264
	Market Related Value of Assets (MRVA)	575,238,093	555,569,941
	Return on Fair Value Assets during Prior Year	14.273%	3.512%
Benefit Obligations	Accumulated Benefit Obligation (ABO)	(657,556,711)	(599,536,576)
	Projected Benefit Obligation (PBO)	(657,556,711)	(599,536,576)
Funded Ratios	Fair Value of Assets to ABO	89.4%	92.8%
	Fair Value of Assets to PBO	89.4%	92.8%
Accumulated Other Comprehensive (Income)/Loss	Net Prior Service Cost/(Credit)	(5,381,039)	(6,346,324)
	Net Loss/(Gain)	352,886,397	331,561,537
	Total Accumulated Other Comprehensive (Income)/Loss	347,505,358	325,215,213
Assumptions	Discount Rate	4.480%	5.270%
	Expected Long-term Rate of Return on Plan Assets	6.800%	7.200%
Participant Data	Census Date	01/01/2014	01/01/2013

Comments on results

The actuarial gain/(loss) due to demographic experience, including any assumption changes, and investment return different from assumed during the prior year was $(72,523,769) and $38,178,608 respectively.

Change in net periodic cost and funded position

The net periodic cost decreased from $4,174,089 in fiscal 2014 to $2,785,884 in fiscal 2015 and the funded position declined from $(43,183,312) to $(69,647,546).

Significant reasons for these changes include the following:

- The return on the fair value of plan assets since the prior measurement date was greater than expected, which improved the funded position.
- The discount rate declined 79 basis points compared to the prior year which reduced the net periodic cost and caused the funded position to deteriorate.
- The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95, which increased the net periodic cost and caused the funded position to deteriorate.

Basis for valuation

Appendix A summarizes the assumptions and methods used in the valuation. Appendix B summarizes our understanding of the principal provisions of the plan being valued. The most recent plan change reflected in this valuation was effective on January 1, 2014. Unless otherwise described below under Subsequent Events, assumptions were selected based on information known as of the measurement date.

Changes in assumptions

The discount rate was updated which increased the PBO by $50.6M and the mortality assumption was changed which increased the PBO by $21.9M.

Changes in methods

There have been no changes in methods since the prior valuation.

Changes in benefits valued

There have been no changes in benefits valued since the prior valuation.

Subsequent events

No material events occurred after the measurement date.

Additional information

None.

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Actuarial certification

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. However, please note the information discussed below regarding this valuation.

Reliances

In preparing the results presented in this report, we have relied upon information regarding plan provisions, participants, assets, and sponsor accounting policies and methods provided by PNM Resources, Inc. and other persons or organizations designated by PNM Resources, Inc. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by PNM Resources, Inc., may produce materially different results that could require that a revised report be issued.

Except as otherwise provided herein, the results presented are based on the data, assumptions, methods, plan provisions and other information outlined in the actuarial valuation report to determine funding requirements for the plan year beginning January 1, 2014 dated October 10, 2014. Therefore, such information, and the reliances and limitations of the valuation report and its use, should be considered part of this report for purposes of year-end financial reporting.

Measurement of benefit obligations, plan assets and balance sheet adjustments

Census date/measurement date

The measurement date is December 31, 2014. The benefit obligations were measured as of the Company's December 31, 2014 fiscal year end and are based on participant data as of the census date, January 1, 2014. We have projected forward benefit obligations to the end of the year, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year.

This is the same data that was used for the calculation of the Net Periodic Benefit Cost/(Income) for the fiscal year ending December 31, 2015.

Plan assets and balance sheet adjustments

Information about the fair value of plan assets was furnished to us by the Company. The Company also provided information about the general ledger account balances for the pension plan cost at December 31, 2014, which reflect the expected funded status of the plans before adjustment to reflect the funded status based on the year-end measurements. Towers Watson used information supplied by the Company regarding amounts recognized in accumulated other comprehensive income as of December 31, 2014. This data was reviewed for reasonableness and consistency, but no audit was performed.

Accumulated other comprehensive (income)/loss amounts shown in the report are shown prior to adjustment for deferred taxes. Any deferred tax effects in AOCI should be determined in consultation with the Company's tax advisors and auditors.

Assumptions and methods under U.S. GAAP

As required by U.S. GAAP, the actuarial assumptions and methods employed in the development of the pension cost and other financial reporting have been selected by the Company. Towers Watson has concurred with these assumptions and methods. U.S. GAAP requires that each significant assumption "individually represent the best estimate of a particular future event."

The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated by Towers Watson, we consider to be reasonable. Other actuarial assumptions could also be considered to be reasonable. Thus, reasonable results differing from those presented in this report could have been developed by selecting different reasonable assumptions.

A summary of the assumptions and methods used is provided in Appendix A. Note that any subsequent changes in methods or assumptions for the December 31, 2014 measurement date will change the results shown in this report.

Nature of actuarial calculations

The results shown in this report are estimates based on data that may be imperfect and on assumptions about future events that cannot be predicted with any certainty. The effects of certain plan provisions may be approximated, or determined to be insignificant and therefore not valued. Reasonable efforts were made in preparing this valuation to confirm that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and are not excluded or included inappropriately. Any rounding (or lack thereof) used for displaying numbers in this report is not intended to imply a degree of precision, which is not a characteristic of actuarial calculations.

If overall future plan experience produces higher benefit payments or lower investment returns than assumed, the relative level of plan costs reported in this valuation will likely increase in future valuations (and vice versa). Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for the measurements (such as the end of an amortization period), and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

See Basis for Valuation in Section 1 above for a discussion of any material events that have occurred after the valuation date that are not reflected in this valuation.

Limitations on use

This report is provided subject to the terms set out herein and in our engagement letter dated May 8, 2014 and any accompanying or referenced terms and conditions.

The information contained in this report was prepared for the internal use of the Company and its auditors in connection with our actuarial valuation of the pension plan as described in Purposes of Valuation above. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. The Company may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require the Company to provide them this report, in which case the Company will use best efforts to notify Towers Watson in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Watson's prior written consent. Towers Watson accepts no responsibility for any consequences arising from any other party relying on this report or any advice relating to its contents.

Professional qualifications

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Towers Watson Delaware Inc.

Philip M. Allen

Philip M. Allen, ASA
Senior Consulting Actuary
14-07323
February 4, 2015

Brian M. Arnell

Brian M. Arnell, FSA
Consulting Actuary
14-07764
February 4, 2015

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Section 2: Accounting exhibits

2.1 Disclosed benefit cost

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2014	12/31/2013
A	**Disclosed Benefit Cost**			
	1	Employer service cost	0	0
	2	Interest cost	30,163,306	28,141,612
	3	Expected return on assets	(38,044,233)	(41,929,638)
	4	Subtotal	(7,880,927)	(13,788,026)
	5	Net prior service cost/(credit) amortization	(965,285)	76,022
	6	Net loss/(gain) amortization	13,020,301	14,840,238
	7	Amortization subtotal	12,055,016	14,916,260
	8	Net periodic benefit cost/(income)	4,174,089	1,128,234
	9	Curtailments	0	0
	10	Settlements	0	0
	11	Special/contractual termination benefits	0	0
	12	Disclosed benefit cost	4,174,089	1,128,234
B	**Assumptions Used to Determine Benefit Cost[1]**			
	1	Discount rate	5.270%	4.300%
	2	Long-term rate of return on assets	7.200%	7.650%

1 These assumptions were used to calculate Net Periodic Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. See Appendix A for interim measurements, if any.

2.2 Balance sheet asset/(liability)

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Development of Balance Sheet Asset/(Liability)**		
	1 Projected benefit obligation (PBO)	(657,556,711)	(599,536,576)
	2 Fair value of assets (FVA)[1]	587,909,165	556,353,264
	3 Net balance sheet asset/(liability)	(69,647,546)	(43,183,312)
B	**Current and Noncurrent Allocation**		
	1 Noncurrent assets	0	0
	2 Current liabilities	0	0
	3 Noncurrent liabilities	(69,647,546)	(43,183,312)
	4 Net balance sheet asset/(liability)	(69,647,546)	(43,183,312)
C	**Reconciliation of Net Balance Sheet Asset/(Liability)**		
	1 Net balance sheet asset/(liability) at end of prior fiscal year	(43,183,312)	(157,454,042)
	2 Employer service cost	0	0
	3 Interest cost	(30,163,306)	(28,141,612)
	4 Expected return on assets	38,044,233	41,929,638
	5 Plan amendments	0	6,346,324
	6 Actuarial gain/(loss)	(34,345,161)	34,136,380
	7 Employer contributions	0	60,000,000
	8 Benefits paid directly by the Company	0	0
	9 Transfer payments	0	0
	10 Acquisitions/divestitures	0	0
	11 Curtailments	0	0
	12 Settlements	0	0
	13 Special/contractual termination benefits	0	0
	14 Net balance sheet asset /(liability) at end of current fiscal year	(69,647,546)	(43,183,312)
D	**Assumptions and Dates Used at Disclosure**		
	1 Discount rate	4.480%	5.270%
	2 Census date	01/01/2014	01/01/2013

[1] Excludes receivable contributions.

2.3 Accumulated other comprehensive (income)/loss

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2014	12/31/2013
A	**Accumulated Other Comprehensive (Income)/Loss**			
	1	Net prior service cost/(credit)	(5,381,039)	(6,346,324)
	2	Net loss/(gain)	352,886,397	331,561,537
	3	Accumulated other comprehensive (income)/loss[1]	347,505,358	325,215,213
B	**Development of Accumulated Other Comprehensive (Income)/Loss (AOCI)**			
	1	AOCI at prior fiscal year end	325,215,213	380,614,177
	2	Amounts amortized during the year		
		a Net prior service (cost)/credit	965,285	(76,022)
		b Net (loss)/gain	(13,020,301)	(14,840,238)
	3	Occurring during the year		
		a Net prior service cost/(credit)	0	(6,346,324)
		b Net loss/(gain)	34,345,161	(34,136,380)
	4	AOCI at current fiscal year end	347,505,358	325,215,213

[1] Amount shown is pre-tax and should be adjusted by plan sponsor for tax effects.

2.4 Additional disclosure information

All monetary amounts shown in US Dollars

A	**Accumulated Benefit Obligation (ABO)**	
	1 ABO at current fiscal year end	(657,556,711)
	2 ABO at prior fiscal year end	(599,536,576)
B	**Expected Future Benefit Payments**	
	1 During fiscal year ending 12/31/2015	53,742,329
	2 During fiscal year ending 12/31/2016	53,468,034
	3 During fiscal year ending 12/31/2017	51,241,259
	4 During fiscal year ending 12/31/2018	49,639,712
	5 During fiscal year ending 12/31/2019	48,559,696
	6 During fiscal year ending 12/31/2020 through 12/31/2024	213,759,253
C	**Expected Contributions during fiscal year ending December 31, 2015**	
	1 Employer	30,000,000
	2 Plan participants	0
D	**Expected Amortization Amounts during fiscal year ending December 31, 2015**[1]	
	1 Amortization of net prior service cost/(credit)	(965,285)
	2 Amortization of net loss/(gain)	14,819,737
	3 Total	13,854,452

[1] These amounts have been determined assuming there are no special events, plan amendments, assumption changes, or actuarial losses/(gains) during the upcoming fiscal year.

2.5 Changes in disclosed liabilities and assets

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Change in Projected Benefit Obligation (PBO)**		
1	PBO at prior fiscal year end	599,536,576	675,548,987
2	Employer service cost	0	0
3	Interest cost	30,163,306	28,141,612
4	Actuarial loss/(gain)	72,523,769	(56,532,531)
5	Plan participants' contributions	0	0
6	Benefits paid from plan assets	(44,666,940)	(41,275,168)
7	Benefits paid from the Company	0	0
8	Transfers from (to) other plans	0	0
9	Administrative expenses paid	0	0
10	Plan change	0	(6,346,324)
11	Acquisitions/divestitures	0	0
12	Curtailments	0	0
13	Settlements	0	0
14	Special/contractual termination benefits	0	0
15	PBO at current fiscal year end	657,556,711	599,536,576
B	**Change in Plan Assets**		
1	Fair value of assets at prior fiscal year end	556,353,264	518,094,945
2	Actual return on assets	76,222,841	19,533,487
3	Employer contributions	0	60,000,000
4	Plan participants' contributions	0	0
5	Benefits paid	(44,666,940)	(41,275,168)
6	Transfer payments	0	0
7	Administrative expenses paid	0	0
8	Acquisitions/divestitures	0	0
9	Settlements	0	0
10	Special/contractual termination benefits	0	0
11	Fair value of assets at current fiscal year end	587,909,165	556,353,264

2.6 Reconciliation of net balances

All monetary amounts shown in US Dollars

A Reconciliation of Net Prior Service Cost/(Credit)

Measurement Date Established	Original Amount	Net Amount at 12/31/2013	Amortization Amount in 2014	Effect of Curtailments	Other Events	Net Amount at 12/31/2014	Remaining Amortization Period	Amortization Amount in 2015
12/31/2013	(6,346,324)	(6,346,324)	965,285	0	0	(5,381,039)	5.57456	965,285
Total		(6,346,324)	965,285	0	0	(5,381,039)		965,285

All monetary amounts shown in US Dollars

B Reconciliation of Net Loss/(Gain)[1]

	Net Amount at 12/31/2013	Amortization Amount in 2014	Experience Loss/(Gain)	Effect of Curtailments	Effect of Settlements	Net Amount at 12/31/2014	Amortization Amount in 2015
	331,561,537	(13,020,301)	34,345,161	0	0	352,886,397	(14,819,737)

1 See Appendix A for description of amortization method.

2.7 Reconciliation with prior year's disclosure

All monetary amounts shown in US Dollars

		Projected Benefit Obligation (i)	Fair Value of Assets (ii)	Net Balance Sheet Asset / (Liability) (i+ii) (iii)	Net Prior Service Cost / (Credit) (iv)	Net Loss / (Gain) (v)	Accumulated Other Comprehensive (Income)/Loss (iv+v) (vi)
1	At December 31, 2013	(599,536,576)	556,353,264	(43,183,312)	(6,346,324)	331,561,537	325,215,213
2	Employer service cost	0		0			
3	Interest cost	(30,163,306)		(30,163,306)			
4	Expected asset return		38,044,233	38,044,233			
5	Amortizations				965,285	(13,020,301)	(12,055,016)
6	Experience loss/gain	(72,523,769)	38,178,608	(34,345,161)		34,345,161	34,345,161
7	Employer contributions		0	0			
8	Plan participants' contributions	0	0	0			
9	Benefits paid	44,666,940	(44,666,940)	0			
10	Administrative expenses paid	0	0	0			
11	Plan changes	0		0	0		0
12	Acquisitions/divestitures	0	0	0			
13	Curtailments	0		0	0	0	0
14	Settlements	0	0	0		0	0
15	Special/contractual termination benefits	0		0			
16	Transfer payments	0	0	0			
17	At December 31, 2014	(657,556,711)	587,909,165	(69,647,546)	(5,381,039)	352,886,397	347,505,358

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2.8 Development of assets for benefit cost

All monetary amounts shown in US Dollars

		Fair Value	Market-Related Value
A	**Reconciliation of Assets**		
	1 Plan assets at 12/31/2013	556,353,264	555,569,941
	2 Investment return	76,222,841	64,335,092
	3 Employer contributions	0	0
	4 Plan participants' contributions	0	0
	5 Benefits paid	(44,666,940)	(44,666,940)
	6 Administrative expenses paid	0	0
	7 Acquisitions/divestitures	0	0
	8 Settlements	0	0
	9 Special/contractual termination benefits	0	0
	10 Plan assets at 12/31/2014	587,909,165	575,238,093
B	**Rate of Return on Invested Assets**		
	1 Weighted invested assets	534,019,794	
	2 Rate of return	14.273%	
C	**Investment Loss/(Gain)**		
	1 Actual return	76,222,841	
	2 Expected return	38,044,233	
	3 Loss/(Gain)	(38,178,608)	
D	**Market-Related Value of Assets**		
	1 Fair value of assets at 12/31/2013	556,353,264	
	2 Contributions	0	
	3 Benefit payments	(44,666,940)	
	4 Fair value of assets at 12/31/2014	587,909,165	
	5 Actual return	76,222,841	
	6 Expected return at 7.20% minus 4.00%	17,088,633	
	7 Expected return at 7.20% plus 4.00%	59,810,217	
	8 Deferred gain/(loss)[1]	16,412,624	

	Measurement Year Ending In (i)	Gain/(Loss) (ii)	Percent Recognized (iii)	Percent Deferred (iv)	Deferred Amount (v) = (ii) × (iv)
	2011	0	80.00%	20.00%	0
	2012	0	60.00%	40.00%	0
	2013	(765,045)	40.00%	60.00%	(459,027)
	2014	16,412,624	20.00%	80.00%	13,130,099
9	Total	15,647,579			12,671,072
10	Market-related value of assets as of 12/31/2014 (Item 4 – Item 9)				575,238,093

[1] Deferred amount is the excess/(shortfall) of actual return above or below a 4.00% corridor around expected return.

2.9 Summary and comparison of benefit cost and cash flows

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2015	12/31/2014
A	**Total Benefit Cost**		
1	Employer service cost	0	0
2	Interest cost	28,254,712	30,163,306
3	Expected return on assets	(39,323,280)	(38,044,233)
4	Subtotal	(11,068,568)	(7,880,927)
5	Net prior service cost/(credit) amortization	(965,285)	(965,285)
6	Net loss/(gain) amortization	14,819,737	13,020,301
7	Amortization subtotal	13,854,452	12,055,016
8	Net periodic benefit cost/(income)	2,785,884	4,174,089
9	Curtailments	0	0
10	Settlements	0	0
11	Special/contractual termination benefits	0	0
12	Total benefit cost	2,785,884	4,174,089
B	**Assumptions**[1]		
1	Discount rate	4.480%	5.270%
2	Rate of return on assets	6.800%	7.200%
3	Census date	01/01/2014	01/01/2013
C	**Assets at Beginning of Year**		
1	Fair market value	587,909,165	556,353,264
2	Market-related value	575,238,093	555,569,941
D	**Cash Flow**	**Expected**	**Actual**
1	Employer contributions	30,000,000	0
2	Plan participants' contributions[2]	0	0
3	Benefits paid from the Company	0	0
4	Benefits paid from plan assets[2]	53,742,329	44,666,940

1 These assumptions were used to calculate Net Periodic Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. For assumptions used for interim measurement periods, if any, refer to Appendix A.

2 Over the fiscal year.

2.10 Year over year comparison

All amounts shown in US Dollars

Fiscal Year Beginning	01/01/2015	01/01/2014	Variance	Primary Cause
Service Cost	0	0	0	
Interest Cost	28,254,712	30,163,306	(1,908,594)	Liability losses due to change in discount rate and mortality offset by decrease in discount rate.
Expected Return	(39,323,280)	(38,044,233)	(1,279,047)	Decrease in expected return on assets offset by gain in market related value of assets and increase in expected contributions.
PSC Amortization	(965,285)	(965,285)	0	
(Gain)/Loss Amortization	14,819,737	13,020,301	1,799,436	Liability loss due to change in discount rate and mortality.
Expense/(Income)	2,785,884	4,174,089	(1,388,205)	

Section 3: Data exhibits

3.1 Plan participant data

All monetary amounts shown in US Dollars

Census Date		01/01/2014	01/01/2013
A	**Participating Employees**		
	1 Number	526	571
	2 Average age	55.65	54.91
	3 Average credited service	17.34	17.64
	4 Total accrued benefits	7,908,078	8,725,305
	5 Average accrued benefits	15,034	15,281
B	**Participants with Deferred Benefits**		
	1 Number	318[1]	435
	2 Total annual pension	2,117,705	2,508,025
	3 Average annual pension	6,659	5,766
	4 Average age	55.93	53.87
	5 Distribution at January 1, 2014		

Age	Number	Annual Pension
Under 40	6	2,397
40-44	17	16,143
45-49	25	73,262
50-54	91	557,351
55-59	94	578,317
60-64	63	508,634
65 and over	22	227,772

		01/01/2014	01/01/2013
C	**Participants Receiving Benefits**		
	1 Number	2,949[2]	2,890
	2 Total annual pension	40,882,611	40,264,563
	3 Average annual pension	13,863	13,932
	4 Average age	66.91	66.19
	5 Distribution at January 1, 2014		

Age	Number	Annual Pension
Under 55	216	1,701,765
55-59	451	5,813,477
60-64	654	9,488,401
65-69	651	10,076,540
70-74	424	6,473,432
75-79	268	3,523,125
80-84	170	2,346,707
85 and over	116	1,459,164

1 Of the 318 participants, 1 participant is an Alternate Payees due to a QDRO, 4 participants are beneficiaries with deferred benefits.

2 Of the 2,949 participants, 167 participants are Alternate Payees due to a QDRO.

3.2 Age and service distribution of participating employees

All monetary amounts shown in US Dollars

Attained Age	Attained Years of Credited Service													
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
35-39	2	6	2	0	2	0	0	0	0	0	0	0	0	12
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
40-44	0	7	2	4	8	2	0	0	0	0	0	0	0	23
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
45-49	2	5	5	4	9	4	4	8	0	0	0	0	0	41
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
50-54	2	9	2	2	7	12	9	26	56	9	0	0	0	134
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
55-59	0	4	2	4	8	16	10	16	80	43	12	0	0	195
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
60-64	0	2	1	0	5	5	3	12	25	22	13	6	0	94
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
65-69	0	0	0	0	0	3	2	0	4	9	3	3	1	25
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
70 & over	0	0	0	0	1	0	0	0	0	0	1	0	0	2
	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	6	33	14	14	40	42	28	62	165	83	29	9	1	526[1]
	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Average:	Age	56	Number of Participants:	Fully vested	526	Males	397
	Service	17		Partially vested	0	Females	129

Census data as of January 1, 2014

[1] Ages and service totals for purposes of determining category are based on exact (not rounded) values.

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Appendix A- Statement of actuarial assumptions and methods

Plan Sponsor

PNM Resources, Inc.

Statement of Assumptions

The assumptions disclosed in this Appendix are for the fiscal year ending December 31, 2014 financial reporting and the fiscal year 2015 benefit cost.

Assumptions and methods for pension cost purposes

Actuarial Assumptions and Methods — Pension Cost	
Economic Assumptions	
Discount rate	4.480%
Pre-tax rate of return on assets for 2015	6.800%
Annual rates of increase	
• Prices	Not applicable
• Compensation	Not applicable
• Social Security wage base	Not applicable
• Statutory limits on compensation and benefits	3.500%
Lump sum interest rate	4.480%

The return on assets shown above is net of investment expenses and administrative expenses assumed to be paid from the trust.

Demographic and Other Assumptions	
Inclusion date	The valuation date coincident with or next following the date on which the employee becomes a participant.
New or rehired employees	It was assumed there will be no new or rehired employees.

Benefit commencement dates

- Preretirement death benefit — Upon death if 30 years of service, age 55 otherwise.
- Deferred vested benefit — Upon termination of employment.
- Retirement benefit — Upon termination of employment.

Form of payment — 100% of active participants are assumed to elect a lump sum form of payment under the plan upon termination. Lump sums were valued by multiplying the normal retirement benefit by a deferred annuity factor. Current terminated vested participants are assumed to elect a life annuity if single and a 50% J&S if married.

Percent married — 85% of males; 85% of females. Used to value pre-retirement surviving spouse benefits and in determining the optional forms expected to be elected at commencement.

Spouse age — Wife four years younger than husband.

Demographic Assumptions

Mortality:

- Healthy mortality rates — RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.
- Disabled life mortality rates — Not applicable.
- Healthy non-active service mortality rates — RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.

Disability rates — Not applicable.

Termination (not due to retirement) rates — The rates at which participants are assumed to leave the Company by age are shown below:

Attained Age	Percent
25	16.1%
30	11.4%
35	8.1%
40	5.6%
45	3.8%
50	2.5%
55	1.5%

Retirement rates

Rates at which participants are assumed to retire by age and service are shown below:

Attained Age	With Less Than 30 Years of Service	With More Than 30 Years of Service
50-54	0%	10%
55-61	2%	10%
62	10%	50%
63-64	5%	30%
65	100%	100%

Additional Assumptions

Administrative expenses

The assumed interest rate is the assumed net rate of return after payment of any expenses or fees charged to the plan. It is assumed that expenses charged to the plan will reduce the rate of return on investments by no more than 1.00% per annum.

Cash flow

- Timing of benefit payments: Annuity payments are payable monthly at the beginning of the month and lump sum payments are payable on date of decrement.
- Amount and timing of contributions: The contribution for 2015 is assumed to be made on January 2, 2015.

Funding policy

PNM Resources, Inc.'s funding policy is to contribute an amount equal to the minimum required contribution. PNM Resources, Inc. considers each year whether to contribute additional amounts (e.g., to reach certain funded status thresholds to avoid benefit restrictions, at-risk status, ERISA 4010 filings or other requirements).

Methods – Pension Cost and Funded Position

Census date

January 1, 2014.

Measurement date

December 31, 2014.

The benefit obligations are based on census data collected as of January 1, 2014. We have projected forward the benefit obligations to December 31, 2014, adjusting for benefit payments, expected growth in the benefit obligations, changes in key assumptions, and plan provisions, and any significant changes in the plan population. We are not aware of any significant changes in the plan demographics since the census date. Therefore, there were no gains or losses assumed during the year.

Service cost and projected benefit obligation

The Projected Unit Credit Cost Method is used to determine the present value of the Projected Benefit Obligation and related current service cost. Under this method, the accrued benefit is calculated based upon service as of the measurement date. In normal circumstances the "accrued benefit" is based upon the Plan's accrual formula. However, if service in later years leads to a materially higher level of benefit than in earlier years, the "accrued benefit" is calculated by attributing benefits on a straight-line basis over the relevant period.

The benefits described above are used to determine both ABO and PBO.

Market-related value of assets

The market-related value of assets is equal to the prior year's market-related value of assets adjusted for contributions, benefit payments and investment gains and losses that lie within a corridor of plus or minus 4% around the expected return on market value. Gains and losses which lie outside the corridor are amortized over 5 years.

Amortization of unamortized amounts:

- Recognition of past service cost/(credit)

Amortization of net prior service cost/(credit) resulting from a plan change is included as a component of Net Periodic Benefit Cost/(Income) in the year first recognized and every year thereafter until such time as it is fully amortized. The annual amortization payment is determined in the first year as the increase in Projected Benefit Obligation due to the plan change divided by the average remaining service period of participating employees expected to receive benefits under the plan.

However, when the plan change reduces the Projected Benefit Obligation, existing positive prior service costs are reduced or eliminated starting with the earliest established before a new prior service credit base is established.

- Recognition of gains or losses

Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of Net Periodic Benefit Cost/(Income) for a year.

If, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation and the market-related value of plan assets, the amortization is that excess divided by the average expected remaining lifetime of participants assumed to receive an annuity (20.9205 for 2014 and 20.2299 for 2015).

The plan sponsor considers participants whose benefits are frozen to be inactive participants and therefore considers the plan to be "all or almost all" inactive participants.

	Under this methodology, the gain/loss amounts recognized in AOCI are not expected to be fully recognized in benefit cost until the plan is terminated (or an earlier event, like a settlement, triggers recognition) because the average expected remaining lifetime of participants assumed to receive an annuity over which the amounts are amortized is redetermined each year and amounts that fall within the corridor described above are not amortized.
Benefits not valued	All benefits described in the Plan Provisions section of this report were valued. Towers Watson has reviewed the plan provisions with PNM Resources, Inc. and, based on that review, is not aware of any other significant benefits required to be valued that were not.

Data Sources

PNM Resources, Inc. furnished participant data as of January 1, 2014. Data were reviewed for reasonableness and consistency, but no audit was performed. Based on discussions with the plan sponsor, assumptions or estimates were made when data were not available, and the data was adjusted to reflect any significant events that occurred between the date the data was collected and the measurement date.

We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

Assumptions Rationale - Significant Economic Assumptions

Discount rate	As required by U.S. GAAP the discount rate was chosen by the plan sponsor based on market information on the measurement date using Towers Watson proprietary tool, BOND:Link.
Expected return on plan assets	We understand that the expected return on assets assumption reflects the plan sponsor's estimate of future experience for trust asset returns, reflecting the plan's current asset allocation and any expected changes during the current plan year, current market conditions and the plan sponsor's expectations for future market conditions.
Lump sum conversion rate	Lump sum benefits are valued using a long term assumption for the plan's lump sum conversion rate equal to the discount rate. We believe this assumption is not significantly inconsistent with what would be reasonable and consistent with other economic assumptions used.

Assumptions Rationale - Significant Demographic Assumptions

Healthy Mortality	Assumptions were selected by the plan sponsor and, as required by U.S. GAAP represents a best estimate of future experience.
Termination	Assumed termination rates are a function of age and decrease as the participant ages.

Retirement

Retirement rates are based on plan sponsor expectations for the future reflecting plan changes and current economic conditions with periodic monitoring of observed gains and losses caused by retirement patterns different than assumed.

Benefit commencement date for deferred benefits:

- Preretirement death benefit

  Surviving spouses are assumed to begin benefits at the earliest permitted commencement date because ERISA requires benefits to start then unless the spouse elects to defer. If the spouse elects to defer, actuarial increases from the earliest commencement date must be given, so that a later commencement date is expected to be of approximately equal value, and experience indicates that most spouses do take the benefit as soon as it is available.

- Deferred vested benefit

  Deferred vested participants are assumed to begin benefits at age 60 (or current age if later) because the plan's experience is not considered to be credible, but deferred vested early commencement factors are not subsidized so that the difference between this approach and using assumed commencement rates at earlier ages is not expected to be significant.

Form of payment

Due to a recent plan amendment allowing for unlimited lump sums at retirement, the percentage of retiring participants assumed to take lump sums is estimated based on other plan experience when an unlimited lump sum is available. Actual experience will be monitored and this assumption will be modified if necessary.

Marital Assumptions:

- Percent married

  The assumed percentage married is based on general population statistics on the marital status of individuals of retirement age.

- Spouse age

  The assumed age difference for spouses is based on general population statistics of the age difference for married individuals of retirement age.

Source of Prescribed Methods

Accounting methods

The methods used for accounting purposes as described in Appendix A, including the method of determining the market-related value of plan assets, are "prescribed methods set by another party", as defined in the actuarial standards of practice (ASOPs). As required by U.S. GAAP, these methods were selected by the plan sponsor.

Changes in Assumptions and Methods

Change in assumptions since prior valuation	The discount rate was changed from 5.27% to 4.48%. The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.
Change in methods since prior valuation	None.

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Appendix B - Summary of principal pension plan provisions

Plan Provisions

The most recent amendment reflected in the following plan provisions was effective January 1, 2014.

Coverage and participation

The plan was partially frozen as of January 1, 1998 and no new entrants are allowed on or after that date.

Definitions

Vesting service

An employee will receive one year of vesting service for each computation period during which he completes 1,000 hours. A computation period is a plan year.

Pension service

An employee will receive one year of credited service for each computation period during which he completes 1,000 hours. A computation period is a plan year. Credited service cannot be earned after December 31, 2007 and may be further limited by participants' age and service on January 1, 1998.

Average earnings

The Average Earnings of an employee are the average of the 3 highest consecutive base rates of pay in effect on the last day of each Plan Year. Only Compensation earned up to and including December 31, 1997 is used in the calculation of Average Earnings.

Normal retirement date (NRD)

Age at Employment Commencement Date	Normal Retirement Age
Age 32 or before	62
Age 33	63
Age 34	64
Age 35	65

Monthly pension benefit

For participants who were hired by PNM, the lesser of (1) and (2) below:

1. 2% of Average Earnings multiplied by Credited Service.
2. The sum of (a) and (b)
   a. 65% of the Participant's Average Earnings
   b. For Participants with at least 32.5 years Credited Service at age 62 an additional 1% of Average Earnings for each year of Credited Service between age 62 and the earlier of retirement and age 65.

	For participants who were acquired with the Gas Company of New Mexico the benefits are the sum of (1) and (2) below: 1. The greater of a. The accrued benefit at acquisition converted to a single life annuity and increased by 5%. b. 1.6% of the Participant's Average Earnings multiplied by years of service under the Southern Union Plan. 2. The lesser of a. 2% of Average Earnings multiplied by Credited Service after acquisition. b. 65% of Average Earnings multiplied by the ratio of post-acquisition service to the sum of pre-acquisition and post-acquisition service.
Monthly preretirement death benefit	50% of the monthly pension benefit as of the date of death, reduced for the 50% joint and survivor election and reduced for payment as early as the participant's 55th birthday

Eligibility for Benefits

Normal retirement	Retirement on NRD.
Early retirement	Retirement before NRD and age 55 with 10 years of service, age 45 and 20 years of service or any age with 30 or more years of service.
Postponed retirement	Retirement after NRD.
Deferred vested termination	Termination for reasons other than death or retirement after completing five years of vesting service.
Preretirement death benefit	Death while eligible for normal, early, postponed, or deferred vested retirement benefits, with a surviving spouse.

Benefits Paid Upon the Following Events

Normal retirement	The monthly pension benefit determined as of NRD.
Early retirement	For participants age 55 with 10 years of service or age 45 with 20 years of service, the accrued Normal Retirement Benefit reduced by 2.4% for each year by which the participant's Early Retirement Date precedes his Normal Retirement Date. This reduction is pro-rated for partial years. For participants with 30 years of service, the Normal Retirement Benefit based on the actual years of Total Service at time of retirement. No reduction is applied.

Postponed retirement

Greater of:

1) Actuarial Equivalent of Accrued Benefit at age 65.
2) Accrued Benefit at date of determination.

Deferred vested termination

The monthly pension benefit determined as of the termination date payable at NRD.

Preretirement death

Monthly annuity payable to spouse, deferred to participant's earliest retirement date if later than date of death. Benefit is amount payable if participant ceased to be an employee (on the date of his death), survived to his earliest retirement date, retired with a joint and 50% survivor annuity in effect, and then died the next day. Participants not eligible for this benefit receive employee contributions plus interest thereon for contributions made after June 1, 1962 plus $5,000.

Other Plan Provisions

Forms of payment

Preretirement death benefits are payable only as described above. Monthly pension benefits are paid as described above as a life annuity, if the participant has no spouse as of the date payments begin, or if the participant so elects. Otherwise, benefits are paid in the form of a 50% joint and survivor annuity option or, if the participant elects and the spouse consents, another actuarially equivalent optional form offered by the plan. Optional forms are life annuity with 5, 10, 15 or 20 years certain; 10, 15 or 20 year certain only; joint and survivor annuity (50%, 75%, 100%); or lump sum. Actuarial equivalence is based on 8% interest and UP84 mortality table for conversion to all forms except lump sum. For the lump sum, the mortality defined in §417(e)(3) is used to calculate the deferred annuity factor.

Pension Increases

None.

Plan participants' contributions

None.

Limits on benefits and pay

All benefits and pay for any calendar year may not exceed the maximum limitations for that year as defined in the Internal Revenue Code. The plan provides for increasing the dollar limits automatically as such changes become effective. Increases in the dollar limits are assumed for determining pension cost.

Future Plan Changes

No future plan changes were recognized in determining pension cost.

Changes in Benefits Valued Since Prior Year

There have been no changes in benefits valued since the prior year.

Tower's Watson Actuarial Valuation Report, Non-Qualified Retirement Plan, February 4, 2015

PNM Exhibit EAE-9

Is contained in the following 32 pages.

PNM Resources, Inc. Non-Qualified Retirement Plan

Actuarial Valuation Report
Disclosure for Fiscal Year Ending December 31, 2014 and 2015 Benefit Cost under US GAAP

February 4, 2015

TOWERS WATSON

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Purposes of valuation

PNM Resources, Inc. engaged Towers Watson Delaware Inc. ("Towers Watson") to value the Company's pension plan.

As requested by PNM Resources, Inc. (the Company), this report provides information for year-end financial reporting purposes required by FASB Accounting Standards Codification Topic 715-20-50 (ASC 715) for your fiscal year ending December 31, 2014 for the PNM Resources, Inc. Non-Qualified Retirement Plan (the Plan).

The exhibits present year-end financial reporting information in accordance with ASC 715-20-50, including net balance sheet position of the Plan, cash flow, plan asset information, amortization amounts during the fiscal year, participant information, the provisions on which the valuation is based, and the actuarial assumptions and methods used in the calculations.

In addition, this report presents the Net Periodic Benefit Cost/(Income) (Benefit Cost), in accordance with ASC 715, for the fiscal year beginning January 1, 2015. Both year-end financial reporting and benefit cost results are based on a valuation of the Plan as of December 31, 2014.

Limitations

This valuation has been conducted for the purposes described above and may not be suitable for any other purpose. In particular, please note the following:

1. There may be certain events that have occurred since the valuation date that are not reflected in the current valuation. See Subsequent Events in the Basis for Valuation section below for more information.

2. This report is not intended to constitute a certification of the Adjusted Funding Target Attainment Percentage (AFTAP) under IRC §436 for any plan year.

3. This report does not determine funding requirements under IRC §430.

4. This report does not provide information for plan reporting under ASC 960.

5. This report does not determine liabilities on a plan termination basis, for which a separate extensive analysis would be required. No funded status measure included in this report is intended to assess, and none may be appropriate for assessing, the sufficiency of plan assets to cover the estimated cost of settling benefit obligations, as all such measures differ in some way from plan termination obligations. In addition, funded status measures shown in this report do not reflect the current costs of settling obligations by offering immediate lump sum payments to participants and/or purchasing annuity contracts for the remaining participants (e.g., insurer profit, insurer pricing of contingent benefits and/or provision for anti-selection in the choice of a lump sum vs. an annuity).

6. The comparisons of accounting obligations to assets presented in this report cannot be relied upon to determine the need for nor the amount of required future plan contributions. Nevertheless, such comparisons may be useful to assess the need for future contributions because they reflect current interest rates at the measurement date in determining benefit obligations. However, asset gains and losses, demographic experience different from assumed, changes in interest rates, future benefit accruals, if any, and other factors will all affect the need for and amount of future contributions. In addition, if a plan is not required by law to be funded, benefit payments may also be paid directly as they come due.

Section 1: Summary of key results

Benefit cost, assets & obligations

All monetary amounts shown in US Dollars

Fiscal Year Beginning		01/01/2015	01/01/2014
Benefit Cost/ (Income)	Net Periodic Benefit Cost/(Income)	1,084,653	1,031,514
	Immediate Recognition of Benefit Cost/(Income) due to Special Events	0	0
	Total Benefit Cost/(Income)	1,084,653	1,031,514
Measurement Date		**12/31/2014**	**12/31/2013**
Plan Assets	Fair Value of Assets (FVA)	0	0
	Market Related Value of Assets (MRVA)	0	0
	Return on Fair Value Assets during Prior Year	N/A	N/A
Benefit Obligations	Accumulated Benefit Obligation (ABO)	(17,729,455)	(16,362,525)
	Projected Benefit Obligation (PBO)	(17,729,455)	(16,362,525)
Funded Ratios	Fair Value of Assets to ABO	0.0%	0.0%
	Fair Value of Assets to PBO	0.0%	0.0%
Accumulated Other Comprehensive (Income)/Loss	Net Prior Service Cost/(Credit)	0	0
	Net Loss/(Gain)	6,194,420	4,364,067
	Total Accumulated Other Comprehensive (Income)/Loss	6,194,420	4,364,067
Assumptions	Discount Rate	4.480%	5.270%
	Expected Long-term Rate of Return on Plan Assets	N/A	N/A
Participant Data	Census Date	01/01/2014	01/01/2013

Comments on results

The actuarial gain/(loss) due to demographic experience, including any assumption changes, during the prior year was $(2,040,011).

Change in net periodic cost and funded position

The net periodic cost increased from $1,031,514 in fiscal 2014 to $1,084,653 in fiscal 2015 and the funded position declined from $(16,362,525) to $(17,729,455).

Significant reasons for these changes include the following:

- The discount rate declined 79 basis points compared to the prior year which increased the net periodic cost and caused the funded position to deteriorate.

- The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with generational projection using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95, which increased the net periodic cost and caused the funded position to deteriorate.

Basis for valuation

Appendix A summarizes the assumptions and methods used in the valuation. Appendix B summarizes our understanding of the principal provisions of the plan being valued. Unless otherwise described below under Subsequent Events, assumptions were selected based on information known as of the measurement date.

Changes in assumptions

The discount rate was updated which increased the PBO by $1.1M and the mortality assumption was changed which increased the PBO by $0.9M.

Changes in methods

There have been no changes in methods since the prior valuation.

Changes in benefits valued

There have been no changes in benefits valued since the prior valuation.

Subsequent events

No material events occurred after the measurement date.

Additional information

None.

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Actuarial certification

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. However, please note the information discussed below regarding this valuation.

Reliances

In preparing the results presented in this report, we have relied upon information regarding plan provisions, participants, assets, and sponsor accounting policies and methods provided by PNM Resources, Inc. and other persons or organizations designated by PNM Resources, Inc. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by PNM Resources, Inc., may produce materially different results that could require that a revised report be issued.

Measurement of benefit obligations and balance sheet adjustments

Census date/measurement date

The measurement date is December 31, 2014. The benefit obligations were measured as of the Company's December 31, 2014 fiscal year end and are based on participant data as of the census date, January 1, 2014. We have projected forward benefit obligations to the end of the year, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year.

This is the same data that was used for the calculation of the Net Periodic Benefit Cost/(Income) for the fiscal year ending December 31, 2015.

Balance sheet adjustments

The Company provided information about the general ledger account balances for the pension plan cost at December 31, 2014, which reflect the expected funded status of the plans before adjustment to reflect the funded status based on the year-end measurements. Towers Watson used information supplied by the Company regarding amounts recognized in accumulated other comprehensive income as of December 31, 2014. This data was reviewed for reasonableness and consistency, but no audit was performed.

Accumulated other comprehensive (income)/loss amounts shown in the report are shown prior to adjustment for deferred taxes. Any deferred tax effects in AOCI should be determined in consultation with the Company's tax advisors and auditors.

Assumptions and methods under U.S. GAAP

As required by U.S. GAAP, the actuarial assumptions and methods employed in the development of the pension cost and other financial reporting have been selected by the Company. Towers Watson has concurred with these assumptions and methods. U.S. GAAP requires that each significant assumption "individually represent the best estimate of a particular future event."

The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated by Towers Watson, we consider to be reasonable. Other actuarial assumptions could also be considered to be reasonable. Thus, reasonable results differing from those presented in this report could have been developed by selecting different reasonable assumptions.

A summary of the assumptions and methods used is provided in Appendix A. Note that any subsequent changes in methods or assumptions for the December 31, 2014 measurement date will change the results shown in this report.

Nature of actuarial calculations

The results shown in this report are estimates based on data that may be imperfect and on assumptions about future events that cannot be predicted with any certainty. The effects of certain plan provisions may be approximated, or determined to be insignificant and therefore not valued. Reasonable efforts were made in preparing this valuation to confirm that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and are not excluded or included inappropriately. Any rounding (or lack thereof) used for displaying numbers in this report is not intended to imply a degree of precision, which is not a characteristic of actuarial calculations.

If overall future plan experience produces higher benefit payments or lower investment returns than assumed, the relative level of plan costs reported in this valuation will likely increase in future valuations (and vice versa). Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for the measurements (such as the end of an amortization period), and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements.

See Basis for Valuation in Section 1 above for a discussion of any material events that have occurred after the valuation date that are not reflected in this valuation.

Limitations on use

This report is provided subject to the terms set out herein and in our engagement letter dated May 8, 2014 and any accompanying or referenced terms and conditions.

The information contained in this report was prepared for the internal use of the Company and its auditors in connection with our actuarial valuation of the pension plan as described in Purposes of Valuation above. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. The Company may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require the Company to provide them this report, in which case the Company will use best efforts to notify Towers Watson in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Watson's prior written consent. Towers Watson accepts no responsibility for any consequences arising from any other party relying on this report or any advice relating to its contents.

Professional qualifications

The undersigned consulting actuaries are members of the Society of Actuaries and meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to pension plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Towers Watson Delaware Inc.

Philip M. Allen

Philip M. Allen, ASA
Senior Consulting Actuary
14-07323
February 4, 2015

Brian M. Arnell

Brian M. Arnell, FSA
Consulting Actuary
14-07764
February 4, 2015

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Section 2: Accounting exhibits

2.1 Disclosed benefit cost

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Disclosed Benefit Cost**		
1	Employer service cost	0	0
2	Interest cost	821,856	719,863
3	Expected return on assets	0	0
4	Subtotal	821,856	719,863
5	Net prior service cost/(credit) amortization	0	0
6	Net loss/(gain) amortization	209,658	232,471
7	Amortization subtotal	209,658	232,471
8	Net periodic benefit cost/(income)	1,031,514	952,334
9	Curtailments	0	0
10	Settlements	0	0
11	Special/contractual termination benefits	0	0
12	Disclosed benefit cost	1,031,514	952,334
B	**Assumptions Used to Determine Benefit Cost[1]**		
1	Discount rate	5.270%	4.300%
2	Long-term rate of return on assets	N/A	N/A

[1] These assumptions were used to calculate Net Periodic Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. See Appendix A for interim measurements, if any.

2.2 Balance sheet asset/(liability)

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Development of Balance Sheet Asset/(Liability)**		
1	Projected benefit obligation (PBO)	(17,729,455)	(16,362,525)
2	Fair value of assets (FVA)[1]	0	0
3	Net balance sheet asset/(liability)	(17,729,455)	(16,362,525)
B	**Current and Noncurrent Allocation**		
1	Noncurrent assets	0	0
2	Current liabilities	(1,527,862)	(1,535,081)
3	Noncurrent liabilities	(16,201,593)	(14,827,444)
4	Net balance sheet asset/(liability)	(17,729,455)	(16,362,525)
C	**Reconciliation of Net Balance Sheet Asset/(Liability)**		
1	Net balance sheet asset/(liability) at end of prior fiscal year	(16,362,525)	(17,466,788)
2	Employer service cost	0	0
3	Interest cost	(821,856)	(719,863)
4	Expected return on assets	0	0
5	Plan amendments	0	0
6	Actuarial gain/(loss)	(2,040,011)	330,143
7	Employer contributions	0	0
8	Benefits paid directly by the Company	1,494,937	1,493,983
9	Transfer payments	0	0
10	Acquisitions/divestitures	0	0
11	Curtailments	0	0
12	Settlements	0	0
13	Special/contractual termination benefits	0	0
14	Net balance sheet asset /(liability) at end of current fiscal year	(17,729,455)	(16,362,525)
D	**Assumptions and Dates Used at Disclosure**		
1	Discount rate	4.480%	5.270%
2	Census date	01/01/2014	01/01/2013

1 Excludes receivable contributions.

2.3 Accumulated other comprehensive (income)/loss

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2014	12/31/2013
A	**Accumulated Other Comprehensive (Income)/Loss**			
	1	Net prior service cost/(credit)	0	0
	2	Net loss/(gain)	6,194,420	4,364,067
	3	Accumulated other comprehensive (income)/loss[1]	6,194,420	4,364,067
B	**Development of Accumulated Other Comprehensive (Income)/Loss (AOCI)**			
	1	AOCI at prior fiscal year end	4,364,067	4,926,681
	2	Amounts amortized during the year		
		a Net prior service (cost)/credit	0	0
		b Net (loss)/gain	(209,658)	(232,471)
	3	Occurring during the year		
		a Net prior service cost/(credit)	0	0
		b Net loss/(gain)	2,040,011	(330,143)
	4	AOCI at current fiscal year end	6,194,420	4,364,067

1 Amount shown is pre-tax and should be adjusted by plan sponsor for tax effects.

2.4 Additional disclosure information

All monetary amounts shown in US Dollars

A	**Accumulated Benefit Obligation (ABO)**	
	1 ABO at current fiscal year end	(17,729,455)
	2 ABO at prior fiscal year end	(16,362,525)
B	**Expected Future Benefit Payments**	
	1 During fiscal year ending 12/31/2015	1,527,862
	2 During fiscal year ending 12/31/2016	1,510,124
	3 During fiscal year ending 12/31/2017	1,490,118
	4 During fiscal year ending 12/31/2018	1,467,643
	5 During fiscal year ending 12/31/2019	1,444,494
	6 During fiscal year ending 12/31/2020 through 12/31/2024	6,721,653
C	**Expected Contributions during fiscal year ending December 31, 2015**	
	1 Employer	1,527,862
	2 Plan participants	0
D	**Expected Amortization Amounts during fiscal year ending December 31, 2015[1]**	
	1 Amortization of net prior service cost/(credit)	0
	2 Amortization of net loss/(gain)	324,598
	3 Total	324,598

[1] These amounts have been determined assuming there are no special events, plan amendments, assumption changes, or actuarial losses/(gains) during the upcoming fiscal year.

2.5 Changes in disclosed liabilities and assets

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Change in Projected Benefit Obligation (PBO)**		
1	PBO at prior fiscal year end	16,362,525	17,466,788
2	Employer service cost	0	0
3	Interest cost	821,856	719,863
4	Actuarial loss/(gain)	2,040,011	(330,143)
5	Plan participants' contributions	0	0
6	Benefits paid from plan assets	(1,494,937)	(1,493,983)
7	Benefits paid from the Company	0	0
8	Transfers from (to) other plans	0	0
9	Administrative expenses paid	0	0
10	Plan change	0	0
11	Acquisitions/divestitures	0	0
12	Curtailments	0	0
13	Settlements	0	0
14	Special/contractual termination benefits	0	0
15	PBO at current fiscal year end	17,729,455	16,362,525
B	**Change in Plan Assets**		
1	Fair value of assets at prior fiscal year end	0	0
2	Actual return on assets	0	0
3	Employer contributions	1,494,937	1,493,983
4	Plan participants' contributions	0	0
5	Benefits paid	(1,494,937)	(1,493,983)
6	Transfer payments	0	0
7	Administrative expenses paid	0	0
8	Acquisitions/divestitures	0	0
9	Settlements	0	0
10	Special/contractual termination benefits	0	0
11	Fair value of assets at current fiscal year end	0	0

2.6 Reconciliation of net balances

All monetary amounts shown in US Dollars

A Reconciliation of Net Prior Service Cost/(Credit)

Measurement Date Established	Original Amount	Net Amount at 12/31/2013	Amortization Amount in 2014	Effect of Curtailments	Other Events	Net Amount at 12/31/2014	Remaining Amortization Period	Amortization Amount in 2015
Total		0	0	0	0	0		0

All monetary amounts shown in US Dollars

B Reconciliation of Net Loss/(Gain)[1]

	Net Amount at 12/31/2013	Amortization Amount in 2014	Experience Loss/(Gain)	Effect of Curtailments	Effect of Settlements	Net Amount at 12/31/2014	Amortization Amount in 2015
	4,364,067	(209,658)	2,040,011	0	0	6,194,420	(324,598)

1 See Appendix A for description of amortization method.

2.7 Reconciliation with prior year's disclosure

All monetary amounts shown in US Dollars

		Projected Benefit Obligation (i)	Fair Value of Assets (ii)	Net Balance Sheet Asset / (Liability) (i+ii) (iii)	Net Prior Service Cost / (Credit) (iv)	Net Loss / (Gain) (v)	Accumulated Other Comprehensive (Income)/Loss (iv+v) (vi)
1	At December 31, 2013	(16,362,525)	0	(16,362,525)	0	4,364,067	4,364,067
2	Employer service cost	0		0			
3	Interest cost	(821,856)		(821,856)			
4	Expected asset return		0	0			
5	Amortizations				0	(209,658)	(209,658)
6	Experience loss/gain	(2,040,011)	0	(2,040,011)		2,040,011	2,040,011
7	Employer contributions		1,494,937	1,494,937			
8	Plan participants' contributions	0	0	0			
9	Benefits paid	1,494,937	(1,494,937)	0			
10	Administrative expenses paid	0	0	0			
11	Plan changes	0		0	0		0
12	Acquisitions/divestitures	0	0	0			
13	Curtailments	0		0	0	0	0
14	Settlements	0	0	0		0	0
15	Special/contractual termination benefits	0		0			
16	Transfer payments	0	0	0			
17	At December 31, 2014	(17,729,455)	0	(17,729,455)	0	6,194,420	6,194,420

2.8 Development of assets for benefit cost

All monetary amounts shown in US Dollars

		Fair Value	Market-Related Value
A	**Reconciliation of Assets**		
1	Plan assets at 12/31/2013	0	0
2	Investment return	0	0
3	Employer contributions	1,494,937	1,494,937
4	Plan participants' contributions	0	0
5	Benefits paid	(1,494,937)	(1,494,937)
6	Administrative expenses paid	0	0
7	Acquisitions/divestitures	0	0
8	Settlements	0	0
9	Special/contractual termination benefits	0	0
10	Plan assets at 12/31/2014	0	0

2.9 Summary and comparison of benefit cost and cash flows

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2015	12/31/2014
A	**Total Benefit Cost**		
1	Employer service cost	0	0
2	Interest cost	760,055	821,856
3	Expected return on assets	0	0
4	Subtotal	760,055	821,856
5	Net prior service cost/(credit) amortization	0	0
6	Net loss/(gain) amortization	324,598	209,658
7	Amortization subtotal	324,598	209,658
8	Net periodic benefit cost/(income)	1,084,653	1,031,514
9	Curtailments	0	0
10	Settlements	0	0
11	Special/contractual termination benefits	0	0
12	Total benefit cost	1,084,653	1,031,514
B	**Assumptions**[1]		
1	Discount rate	4.480%	5.270%
2	Rate of return on assets	N/A	N/A
3	Census date	01/01/2014	01/01/2013
C	**Assets at Beginning of Year**		
1	Fair market value	0	0
2	Market-related value	0	0
D	**Cash Flow**	Expected	Actual
1	Employer contributions	1,527,862	1,494,937
2	Plan participants' contributions[2]	0	0
3	Benefits paid[2]	1,527,862	1,494,937

[1] These assumptions were used to calculate Net Periodic Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. For assumptions used for interim measurement periods, if any, refer to Appendix A.

[2] Over the fiscal year.

2.10 Year over year comparison

All amounts shown in US Dollars

Fiscal Year Beginning	01/01/2015	01/01/2014	Variance	Primary Cause
Service Cost	0	0	0	
Interest Cost	760,055	821,856	(61,801)	Liability losses due to change in discount rate and mortality offset by decrease in discount rate.
Expected Return	0	0	0	
PSC Amortization	0	0	0	
(Gain)/Loss Amortization	324,598	209,658	114,940	Liability losses due to change in discount rate and mortality.
Expense/(Income)	1,084,653	1,031,514	53,139	

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Section 3: Data exhibits

3.1 Plan participant data

All monetary amounts shown in US Dollars

Census Date		01/01/2014	01/01/2013
A	**Participating Employees**		
	1 Number	0	0
	2 Average age	N/A	N/A
	3 Average credited service	N/A	N/A
B	**Participants with Deferred Benefits**		
	1 Number	1	1
	2 Average annual deferred benefits	62,803	62,803
C	**Participants Receiving Benefits**		
	1 Number	66	67
	2 Average annual benefit payments	22,539	22,317

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Appendix A - Statement of actuarial assumptions and methods

Plan Sponsor

PNM Resources, Inc.

Statement of Assumptions

The assumptions disclosed in this Appendix are for the fiscal year ending December 31, 2014 financial reporting and the fiscal year 2015 benefit cost.

Assumptions and methods for pension cost purposes

Actuarial Assumptions and Methods — Pension Cost	
Economic Assumptions	
Discount rate	4.480%
Pre-tax rate of return on assets for 2015	Not applicable
Annual rates of increase	
• Prices	Not applicable
• Compensation	Not applicable
• Social Security wage base	Not applicable
• Statutory limits on compensation and benefits	Not applicable

Demographic and Other Assumptions	
Inclusion date	The valuation date coincident with or next following the date on which the employee becomes a participant.
New or rehired employees	It was assumed there will be no new or rehired employees.

Demographic Assumptions	
Mortality:	
• Healthy mortality rates	RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.

• Disabled life mortality rates	Not applicable.
• Healthy non-active service mortality rates	RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.
Disability rates	Not applicable.
Termination rates	Not applicable.
Retirement rates	All participants, except the deferred vested, are currently in payment status. The deferred vested participant is assumed to commence benefits at age 60 (or current age, if later).

Additional Assumptions

Administrative expenses	Not applicable.
Cash flow	
• Timing of benefit payments	Annuity payments are payable monthly at the beginning of the month.

Methods – Pension Cost and Funded Position

Census date	January 1, 2014.
Measurement date	December 31, 2014. The benefit obligations are based on census data collected as of January 1, 2014. We have projected forward the benefit obligations to December 31, 2014, adjusting for benefit payments, expected growth in the benefit obligations, changes in key assumptions, and plan provisions, and any significant changes in the plan population.
Service cost and projected benefit obligation	The Projected Unit Credit Cost Method is used to determine the present value of the Projected Benefit Obligation and the related current service cost. Under this method, a "projected accrued benefit" is calculated based upon service as of the measurement date and projected future compensation and social security levels at the age at which the employee is assumed to leave active service. In normal circumstances the "projected accrued benefit" is based upon the Plan's accrual formula. However, if service in later years leads to a materially higher level of benefit than in earlier years, the "projected accrued benefit" is calculated by attributing benefits on a straight-line basis over the relevant period. The benefits described above are used to determine both ABO and PBO.
Market-related value of assets	Since this is an unfunded plan, the asset method is not applicable.

Amortization of unamortized amounts:

- Recognition of past service cost/(credit)

  Amortization of net prior service cost/(credit) resulting from a plan change is included as a component of Net Periodic Benefit Cost/(Income) in the year first recognized and every year thereafter until such time as it is fully amortized. The annual amortization payment is determined in the first year as the increase in Projected Benefit Obligation due to the plan change divided by the average remaining service period of participating employees expected to receive benefits under the plan.

  However, when the plan change reduces the Projected Benefit Obligation, existing positive prior service costs are reduced or eliminated starting with the most recently established before a new prior service credit base is established.

- Recognition of gains or losses

  Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of Net Periodic Benefit Cost/(Income) for a year.

  If, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit obligation and the market-related value of plan assets, the amortization is that excess divided by the average expected remaining lifetime of inactive participants expected to receive benefits under the plan (13.0108 for 2014 and 13.6214 for 2015).

  Under this methodology, the gain/loss amounts recognized in AOCI are not expected to be fully recognized in benefit cost until the plan is terminated (or an earlier event, like a settlement, triggers recognition) because the average expected remaining lifetime of inactive participants over which the amounts are amortized is redetermined each year and amounts that fall within the corridor described above are not amortized.

Benefits not valued

All benefits described in the Plan Provisions section of this report were valued. Towers Watson has reviewed the plan provisions with PNM Resources, Inc. and, based on that review, is not aware of any other significant benefits required to be valued that were not.

Data Sources

PNM Resources, Inc. furnished participant data as of January 1, 2014. Data were reviewed for reasonableness and consistency, but no audit was performed. Based on discussions with the plan sponsor, assumptions or estimates were made when data were not available, and the data was adjusted to reflect any significant events that occurred between the date the data was collected and the measurement date.

We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

Assumptions Rationale - Significant Economic Assumptions

Discount rate	As required by U.S. GAAP the discount rate was chosen by the plan sponsor based on market information on the measurement date.

Assumptions Rationale - Significant Demographic Assumptions

Healthy Mortality	Assumptions were selected by the plan sponsor and, as required by U.S. GAAP represents a best estimate of future experience.
Retirement	Retirement rates are based on plan sponsor expectations for the future reflecting plan changes and current economic conditions with periodic monitoring of observed gains and losses caused by retirement patterns different than assumed.
Benefit commencement date for deferred benefits:	
• Deferred vested benefit	Deferred vested participants are assumed to begin benefits at age 60 (or current age if later) because the plan's experience is not considered to be credible, but deferred vested early commencement factors are not subsidized so that the difference between this approach and using assumed commencement rates at earlier ages is not expected to be significant.

Source of Prescribed Methods

Accounting methods	The methods used for accounting purposes as described in Appendix A are "prescribed methods set by another party", as defined in the actuarial standards of practice (ASOPs). As required by U.S. GAAP, these methods were selected by the plan sponsor.

Changes in Assumptions and Methods

Change in assumptions since prior valuation	The discount rate was changed from 5.27% to 4.48%. The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.
Change in methods since prior valuation	None.

Appendix B - Summary of principal pension plan provisions

Plan Provisions	
Coverage and participation	The Plan covers former PNM Resources, Inc. employees entitled to non-qualified benefits under various plans including, but not limited to: **Accelerated Management Performance (AMP) Plan** The AMP Plan was established January 14, 1981 for the benefit of certain executives as specified by the Board of Directors of PNM Resources, Inc. The Plan provided for an acceleration of retirement by granting additional "Performance Credits" based upon the executive's Pay Group. The Plan was substantially curtailed by amendment effective November 20, 1985. That amendment "phased out" the earning of additional credits over the next four years, so that by 1990 no additional credits would be earned. The AMP Plan was initially a deferred compensation arrangement providing benefits over a limited period of time until the benefits under the Employees' Retirement Plan (Qualified Plan) were sufficient to provide the full benefit. As a result of the Tax Reform Act of 1986 the nature of the AMP Plan had to be altered. For participants retiring after January 1, 1987 the AMP Plan provides a lifetime benefit which when combined with the benefit payable under the Qualified Plan equals the total benefit required. As a result of the restructuring of the AMP Plan, eligible participants will also be protected against the loss of benefits due to the application of the limits of Section 415 of the Internal Revenue Code. **Service Bonus (SB) Plan** The SB Plan was established January 14, 1981 for the benefit of those members of the AMP Plan who reached their maximum number of Performance Credits and were asked by the Board to continue their employment with PNM. The Plan provided a lifetime income after retirement equal to a specified percentage of pay for each year that the participant continued his employment with PNM. The benefits earned under the SB Plan were "frozen" by amendment effective November 20, 1985. No additional credits are earned under this Plan for service after 1985.

Supplemental Executive Retirement Plan (SERP)

A group SERP was adopted on July 23, 1985 for the benefit of six named individuals. This Plan was intended to provide the payment of benefits as specified by the Qualified Plan which could not be paid from the Plan due to the 415 Limitations. This type of Plan was necessary at that time since when deferred compensation granted under the AMP Plan ceased, the Qualified Plan would have been limited. With the amendment of the AMP Plan, that Plan will automatically provide these benefits for future retirees.

Supplemental Benefits

Some retired participants are receiving supplemental benefits and/or 415 excess benefits resulting from Early Retirement Windows. We are not aware of any formal written program that documents this arrangement. The amounts are payable for the life of the participant and in some cases to their spouses as well.

Future Plan Changes

No future plan changes were recognized in determining pension cost.

Changes in Benefits Valued Since Prior Year

There have been no changes in benefits valued since the prior year.

Tower's Watson Actuarial Valuation Report, Retiree Medical, February 4, 2015

PNM Exhibit EAE-10

Is contained in the following 39 pages.

PNM Resources, Inc. Post-Retirement Healthcare Plan

Actuarial Valuation Report
Disclosure for Fiscal Year Ending December 31, 2014 and 2015 Benefit Cost under US GAAP

February 4, 2015

TOWERS WATSON

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Purposes of valuation

PNM Resources, Inc. engaged Towers Watson Delaware Inc. ("Towers Watson") to value the Company's other postretirement benefit plan.

As requested by PNM Resources, Inc. (the Company), this report provides information for year-end financial reporting purposes required by FASB Accounting Standards Codification Topic 715-20-50 (ASC 715) for your fiscal year ending December 31, 2014 for the PNM Resources, Inc. Post-Retirement Healthcare Plan (the Plan).

The exhibits present year-end financial reporting information in accordance with ASC 715-20-50 and 715-60-50, including net balance sheet position of the Plan, cash flow, plan asset information, amortization amounts during the fiscal year, participant information, the provisions on which the valuation is based, and the actuarial assumptions and methods used in the calculations. Additional input is required (as described below) by the Company in relation to the asset disclosures specified in ASC 715-20-50-1(d) (public entities) or ASC 715-20-50-5(c) (nonpublic entities).

In addition, this report presents the Net Periodic Postretirement Benefit Cost/(Income) (Benefit Cost), in accordance with ASC 715, for the fiscal year beginning January 1, 2015. Both year-end financial reporting and benefit cost results are based on a valuation of the Plan as of December 31, 2014.

Limitations

This valuation has been conducted for the purposes described above and may not be suitable for any other purpose. In particular, please note the following:

1. As discussed above, certain year-end financial reporting information in accordance with ASC 715-20-50 and 715-60-50 is not included in this report and must be provided by PNM Resources, Inc., as follows:

    - Categorization of assets, actual asset allocation at December 31, 2014 and December 31, 2013, and the target asset allocation for 2015.

    - A description of PNM Resources, Inc.'s investment policy for the assets held by the other postretirement benefit plan.

    - A description of the basis used to determine the expected long-term rate of return on plan assets.

2. The expected contribution to the other postretirement benefits plan has been set at $3,450,000.

    Note that any significant change in the amounts contributed or expected to be contributed in 2015 will require disclosure in the interim financial statements.

3. There may be certain events that have occurred since the valuation date that are not reflected in the current valuation. See Subsequent Events in the Basis for Valuation section below for more information.

4. This report is not intended to constitute a certification of the Adjusted Funding Target Attainment Percentage (AFTAP) under IRC §436 for any plan year.

5. This report does not determine funding requirements under IRC §430.

6. This report does not provide information for plan reporting under ASC 960 or ASC 965.

Section 1: Summary of key results

Benefit cost, assets & obligations

All monetary amounts shown in US Dollars

Fiscal Year Beginning		01/01/2015	01/01/2014
Benefit Cost/ (Income)	Net Periodic Postretirement Benefit Cost/(Income)	7,065	54,777
	Immediate Recognition of Benefit Cost/(Income) due to Special Events	0	0
	Total Benefit Cost/(Income)	7,065	54,777
Measurement Date		**12/31/2014**	**12/31/2013**
Plan Assets	Fair Value of Assets (FVA)	78,175,094	73,564,911
	Market Related Value of Assets (MRVA)	74,418,197	67,901,362
	Return on Fair Value Assets during Prior Year	10.16%	20.41%
Benefit Obligations	Accumulated Postretirement Benefit Obligation (APBO)	(95,175,057)	(92,165,223)
Funded Ratios	Fair Value of Assets to APBO	82.1%	79.8%
Accumulated Other Comprehensive (Income)/Loss	Net Prior Service Cost/(Credit)	(671,216)	(2,014,669)
	Net Loss/(Gain)	18,083,149	17,549,540
	Total Accumulated Other Comprehensive (Income)/Loss	17,411,933	15,534,871
Assumptions	Discount Rate	4.45%	5.21%
	Expected Long-term Rate of Return on Plan Assets	7.70%	8.50%
	Current Health Care Cost Trend Rate	7.00%	7.50%
	Ultimate Health Care Cost Trend Rate	5.00%	5.00%
	Year of Ultimate Trend Rate	2023	2019
Participant Data	Census Date	01/01/2014	01/01/2013

Comments on results

The actuarial gain/(loss) due to demographic experience, including any assumption changes, and investment return different from assumed during the prior year was $(4,454,616) and $1,695,798 respectively.

Change in net periodic cost and funded position

The net periodic cost decreased from $54,777 in fiscal 2014 to $7,065 in fiscal 2015 and the funded position improved from $(18,600,312) to $(16,999,963).

Significant reasons for these changes include the following:

- The return on the fair value of plan assets since the prior measurement date was greater than expected, which improved the funded position.
- The discount rate declined 76 basis points compared to the prior year which reduced the net periodic cost and caused the funded position to deteriorate.
- The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95, which increased the net periodic cost and caused the funded position to deteriorate.
- Assumed claims and contributions were updated to reflect recent retiree experience and was changed to an age based table.
- The year of ultimate trend rate assumption was changed from 2019 to 2023.
- The plan election assumptions were updated to reflect recent experience.
- The expected return on assets was lowered from 8.50% for 2014 to 7.70% for 2015.

Effects of Health Care Reform

In March 2010, the Patient Protection and Affordable Care Act (PPACA) was enacted. The key aspect of the Act affecting PNM Resources, Inc.'s cost of providing retiree medical benefits is the Excise ("Cadillac") tax on high-cost plans beginning in 2018. The excise tax is valued directly based on expected future claims costs.

The PPACA change to the taxation of the Medicare Part D subsidy did not impact the results since PNM has opted not to apply for the subsidy. Increases in expected costs from the addition of age 26 dependents are assumed to be reflected in the expected premium costs for 2014. Note the plans did not have lifetime maximums prior to PPACA.

Basis for valuation

Appendix A summarizes the assumptions and methods used in the valuation. Appendix B summarizes our understanding of the principal provisions of the plan being valued. Unless otherwise described below under Subsequent Events, assumptions were selected based on information known as of the measurement date.

Changes in assumptions

The discount rate was updated which increased the APBO by $6.7M, the mortality assumption was changed which increased the APBO by $3.2M, the assumed claims and contributions were updated which decreased the APBO by $3.1M, the trend assumption was changed which increased the APBO by $1.0M and the plan election assumption was updated which increased the APBO by $1.8M.

Changes in methods

There have been no changes in methods since the prior valuation.

Changes in benefits valued

There have been no changes in benefits valued since the prior valuation.

Subsequent events

No material events occurred after the measurement date.

Additional information

None.

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Actuarial certification

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. However, please note the information discussed below regarding this valuation.

Reliances

In preparing the results presented in this report, we have relied upon information regarding plan provisions, participants, assets, and sponsor accounting policies and methods provided by PNM Resources, Inc. and other persons or organizations designated by PNM Resources, Inc. We have relied on all the data and information provided as complete and accurate. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. Based on discussions with and concurrence by the plan sponsor, assumptions or estimates may have been made if data were not available. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations. The results presented in this report are directly dependent upon the accuracy and completeness of the underlying data and information. Any material inaccuracy in the data, assets, plan provisions or other information provided to us may have produced results that are not suitable for the purposes of this report and such inaccuracies, as corrected by PNM Resources, Inc., may produce materially different results that could require that a revised report be issued.

Measurement of benefit obligations, plan assets and balance sheet adjustments

Census date/measurement date

The measurement date is December 31, 2014. The benefit obligations were measured as of the Company's December 31, 2014 fiscal year end and are based on participant data as of the census date, January 1, 2014. We have projected forward benefit obligations to the end of the year, adjusting for benefit payments, expected growth in benefit obligations, changes in key assumptions and plan provisions, and any significant changes in plan demographics that occurred during the year

This is the same data that was used for the calculation of the Net Periodic Postretirement Benefit Cost/(Income) for the fiscal year ending December 31, 2015.

Plan assets and balance sheet adjustments

Information about the fair value of plan assets was furnished to us by the Company. The Company also provided information about the general ledger account balances for the other postretirement benefit plan cost at December 31, 2014, which reflect the expected funded status of the plans before adjustment to reflect the funded status based on the year-end measurements. Towers Watson used information supplied by the Company regarding postretirement benefit asset, postretirement benefit liability and amounts recognized in accumulated other comprehensive income as of December 31, 2014. This data was reviewed for reasonableness and consistency, but no audit was performed.

Accumulated other comprehensive (income)/loss amounts shown in the report are shown prior to adjustment for deferred taxes. Any deferred tax effects in AOCI should be determined in consultation with the Company's tax advisors and auditors.

Assumptions and methods under U.S. GAAP

As required by U.S. GAAP, the actuarial assumptions and methods employed in the development of the other postretirement benefit cost and other financial reporting have been selected by the Company. Towers Watson has concurred with these assumptions and methods. U.S. GAAP requires that each significant assumption "individually represent the best estimate of a particular future event."

The results shown in this report have been developed based on actuarial assumptions that, to the extent evaluated by Towers Watson, we consider to be reasonable. Other actuarial assumptions could also be considered to be reasonable. Thus, reasonable results differing from those presented in this report could have been developed by selecting different reasonable assumptions.

A summary of the assumptions and methods used is provided in Appendix A. Note that any subsequent changes in methods or assumptions for the December 31, 2014 measurement date will change the results shown in this report.

Nature of actuarial calculations

The results shown in this report are estimates based on data that may be imperfect and on assumptions about future events that cannot be predicted with any certainty. The effects of certain plan provisions may be approximated, or determined to be insignificant and therefore not valued. Reasonable efforts were made in preparing this valuation to confirm that items that are significant in the context of the actuarial liabilities or costs are treated appropriately, and are not excluded or included inappropriately. Any rounding (or lack thereof) used for displaying numbers in this report is not intended to imply a degree of precision, which is not a characteristic of actuarial calculations.

If overall future plan experience produces higher benefit payments or lower investment returns than assumed, the relative level of plan costs reported in this valuation will likely increase in future valuations (and vice versa). Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for the measurements (such as the end of an amortization period), and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of such future measurements. Retiree group benefits models necessarily rely on the use of approximations and estimates, and are sensitive to changes in these approximations and estimates. Small variations in these approximations and estimates may lead to significant changes in actuarial measurements.

See Basis for Valuation in Section 1 above for a discussion of any material events that have occurred after the valuation date that are not reflected in this valuation.

Limitations on use

This report is provided subject to the terms set out herein and in our engagement letter dated May 8, 2014 and any accompanying or referenced terms and conditions.

The information contained in this report was prepared for the internal use of the Company and its auditors in connection with our actuarial valuation of the other postretirement benefit plan as described in Purposes of Valuation above. It is not intended for and may not be used for other purposes, and we accept no responsibility or liability in this regard. The Company may distribute this actuarial valuation report to the appropriate authorities who have the legal right to require the Company to provide them this report, in which case the Company will use best efforts to notify Towers Watson in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Watson's prior written consent. Towers Watson accepts no responsibility for any consequences arising from any other party relying on this report or any advice relating to its contents.

Professional qualifications

The undersigned consulting actuaries meet the "Qualification Standards for Actuaries Issuing Statements of Actuarial Opinion in the United States" relating to other postretirement benefit plans. Our objectivity is not impaired by any relationship between the plan sponsor and our employer, Towers Watson Delaware Inc.

Jim Camann, EA
Valuation Actuary
14-06896
February 04, 2015

Cindy Somer-Larsen, ASA, MAAA
Senior Consulting Actuary
February 04, 2015

Eric Sock, FSA, MAAA
Pricing Specialist
February 04, 2015

The Pricing Specialist is responsible for developing and/or determining the reasonableness of retiree welfare plan trend and participation assumptions as well as assumed per capita claims costs (including the aging/morbidity assumption if applicable). The Valuation Actuary is responsible for other aspects of the valuation (e.g., developing and/or reviewing the reasonableness of other valuation assumptions and methods, ensuring that the valuation model reasonably reflects the substantive plan and actual plan operation, preparing demographic data, performing the valuation, implementing the correct accounting or funding calculations, etc.).

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Section 2: Accounting exhibits

2.1 Disclosed benefit cost

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2014	12/31/2013
A	**Disclosed Benefit Cost**			
	1	Employer service cost	181,115	260,154
	2	Interest cost	4,630,243	4,113,112
	3	Expected return on assets	(5,638,337)	(5,043,200)
	4	Subtotal	(826,979)	(669,934)
	5	Net prior service cost/(credit) amortization	(1,343,453)	(1,343,453)
	6	Net loss/(gain) amortization	2,225,209	4,242,024
	7	Amortization subtotal	881,756	2,898,571
	8	Net periodic postretirement benefit cost/(income)	54,777	2,228,637
	9	Curtailments	0	0
	10	Settlements	0	0
	11	Special/contractual termination benefits	0	0
	12	Disclosed benefit cost	54,777	2,228,637
B	**Assumptions Used to Determine Benefit Cost**[1]			
	1	Discount rate	5.21%	4.26%
	2	Long-term rate of return on assets	8.50%	8.50%
	3	Current health care cost trend rate	7.50%	7.00%
	4	Ultimate health care cost trend rate	5.00%	5.00%
	5	Year of ultimate trend rate	2019	2017
C	**Effect of 1% Increase in Health Care Cost Trend Rates**			
	1	Employer service cost	226,766	307,529
	2	Interest cost	4,935,500	4,388,054
	3	Total	5,162,266	4,695,583
	4	Amount change	350,908	322,317
	5	Percentage change	7.29%	7.37%

[1] These assumptions were used to calculate Net Periodic Postretirement Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. See Appendix A for interim measurements, if any.

Fiscal Year Ending		12/31/2014	12/31/2013
D	**Effect of 1% Reduction in Health Care Cost Trend Rates**		
	1 Employer service cost	151,197	222,173
	2 Interest cost	4,378,783	3,876,696
	3 Total	4,529,980	4,098,869
	4 Amount change	(281,378)	(274,397)
	5 Percentage change	(5.85%)	(6.27%)

2.2 Balance sheet asset/(liability)

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Development of Balance Sheet Asset/(Liability)**		
1	Accumulated postretirement benefit obligation (APBO)	(95,175,057)	(92,165,223)
2	Fair value of assets (FVA)	78,175,094	73,564,911
3	Net balance sheet asset/(liability)	(16,999,963)	(18,600,312)
B	**Current and Noncurrent Allocation**		
1	Noncurrent assets	0	0
2	Current liabilities	0	0
3	Noncurrent liabilities	(16,999,963)	(18,600,312)
4	Net balance sheet asset/(liability)	(16,999,963)	(18,600,312)
C	**Reconciliation of Net Balance Sheet Asset/(Liability)**		
1	Net balance sheet asset/(liability) at end of prior fiscal year	(18,600,312)	(35,149,162)
2	Employer service cost	(181,115)	(260,154)
3	Interest cost	(4,630,243)	(4,113,112)
4	Expected return on assets	5,638,337	5,043,200
5	Plan amendments	0	0
6	Actuarial gain/(loss)	(2,758,818)	12,303,719
7	Employer contributions	3,532,188	3,575,197
8	Benefits paid directly by the Company[1]	0	0
9	Medicare Part D subsidy	0	0
10	Acquisitions/divestitures	0	0
11	Curtailments	0	0
12	Settlements	0	0
13	Special/contractual termination benefits	0	0
14	Net balance sheet asset /(liability) at end of current fiscal year	(16,999,963)	(18,600,312)
D	**Assumptions and Dates Used at Disclosure**		
1	Discount rate	4.45%	5.21%
2	Current health care cost trend rate	7.00%	7.50%
3	Ultimate health care cost trend rate	5.00%	5.00%
4	Year of ultimate trend rate	2023	2019
5	Census date	01/01/2014	01/01/2013

1 Net of retiree contributions.

Fiscal Year Ending		12/31/2014	12/31/2013
E	**Effect of 1% Increase in Health Care Cost Trend Rates**		
	1 Accumulated postretirement benefit obligation (APBO)	100,479,850	98,024,278
	2 Amount change	5,304,793	5,859,055
	3 Percentage change	5.57%	6.36%
F	**Effect of 1% Reduction in Health Care Cost Trend Rates**		
	1 Accumulated postretirement benefit obligation (APBO)	90,552,551	87,338,729
	2 Amount change	4,622,506	(4,826,494)
	3 Percentage change	4.86%	(5.24%)

2.3 Accumulated other comprehensive (income)/loss

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2014	12/31/2013
A	**Accumulated Other Comprehensive (Income)/Loss**			
	1	Net prior service cost/(credit)	(671,216)	(2,014,669)
	2	Net loss/(gain)	18,083,149	17,549,540
	3	Accumulated other comprehensive (income)/loss[1]	17,411,933	15,534,871
B	**Development of Accumulated Other Comprehensive (Income)/Loss (AOCI)**			
	1	AOCI at prior fiscal year end	15,534,871	30,737,161
	2	Amounts amortized during the year		
		a Net prior service (cost)/credit	(1,343,453)	(1,343,453)
		b Net (loss)/gain	2,225,209	4,242,024
	3	Occurring during the year		
		a Net prior service cost/(credit)	0	0
		b Net loss/(gain)	2,758,818	(12,303,719)
	4	AOCI at current fiscal year end	17,411,933	15,534,871

[1] Amount shown is pre-tax and should be adjusted by plan sponsor for tax effects.

2.4 Additional disclosure information

All monetary amounts shown in US Dollars

A Accumulated Postretirement Benefit Obligation (APBO)

	12/31/2014	12/31/2013
1 Fully eligible actives	36,123,646	31,445,379
2 Other actives	5,377,603	3,097,287
3 Retirees, dependents and surviving spouses	53,673,808	57,622,557
4 Accumulated postretirement benefit obligation	95,175,057	92,165,223

	Benefit Payments[1] net of Medicare Part D Subsidy	Medicare Part D Subsidy
B Expected Future Benefit Payments and Medicare Part D Subsidies		
1 During fiscal year ending 12/31/2015	6,559,882	N/A
2 During fiscal year ending 12/31/2016	6,634,863	N/A
3 During fiscal year ending 12/31/2017	6,718,213	N/A
4 During fiscal year ending 12/31/2018	6,875,203	N/A
5 During fiscal year ending 12/31/2019	6,950,456	N/A
6 During fiscal year ending 12/31/2020 through 12/31/2024	34,585,092	N/A

C Expected Contributions during fiscal year ending December 31, 2015

1 Employer	3,450,000
2 Plan participants	2,600,000

D Expected Amortization Amounts during fiscal year ending December 31, 2015[2]

1 Amortization of net prior service cost/(credit)	(641,711)
2 Amortization of net loss/(gain)	1,965,499
3 Total	1,323,788

1 Net of retiree contributions.

2 These amounts have been determined assuming there are no special events, plan amendments, assumption changes, or actuarial losses/(gains) during the upcoming fiscal year.

2.5 Changes in disclosed liabilities and assets

All monetary amounts shown in US Dollars

Fiscal Year Ending		12/31/2014	12/31/2013
A	**Change in Accumulated Postretirement Benefit Obligation (APBO)**		
1	APBO at prior fiscal year end	92,165,223	99,613,410
2	Employer service cost	181,115	260,154
3	Interest cost	4,630,243	4,113,112
4	Actuarial loss/(gain)	4,454,616	(4,566,548)
5	Plan participants' contributions	2,581,846	2,536,733
6	Benefits paid from plan assets[1]	(8,837,986)	(9,791,638)
7	Benefits paid from the Company	0	0
8	Medicare Part D subsidy	0	0
9	Administrative expenses paid	0	0
10	Plan change	0	0
11	Acquisitions/divestitures	0	0
12	Curtailments	0	0
13	Settlements	0	0
14	Special/contractual termination benefits	0	0
15	APBO at current fiscal year end	95,175,057	92,165,223
B	**Change in Plan Assets**		
1	Fair value of assets at prior fiscal year end	73,564,911	64,464,248
2	Actual return on assets	7,334,135	12,780,371
3	Employer contributions	3,532,188	3,575,197
4	Plan participants' contributions	2,581,846	2,536,733
5	Benefits paid[1]	(8,837,986)	(9,791,638)
6	Administrative expenses paid	0	0
7	Acquisitions/divestitures	0	0
8	Settlements	0	0
9	Special/contractual termination benefits	0	0
10	Fair value of assets at current fiscal year end	78,175,094	73,564,911

[1] Includes payments made for key employees from company assets

2.6 Reconciliation of net balances

All monetary amounts shown in US Dollars

A Reconciliation of Net Prior Service Cost/(Credit)

Measurement Date Established	Original Amount	Net Amount at 12/31/2013	Amortization Amount in 2014	Effect of Curtailments	Other Events	Net Amount at 12/31/2014	Remaining Amortization Period	Amortization Amount in 2015
01/01/2011	(4,171,463)	(1,247,540)	974,641	0	0	(272,899)	0.28000	272,899
12/31/2011	(1,504,753)	(767,129)	368,812	0	0	(398,317)	1.08000	368,812
Total		(2,014,669)	1,343,453	0	0	(671,216)		641,711

All monetary amounts shown in US Dollars

B Reconciliation of Net Loss/(Gain)[1]

	Net Amount at 12/31/2013	Amortization Amount in 2014	Experience Loss/(Gain)	Effect of Curtailments	Effect of Settlements	Net Amount at 12/31/2014	Amortization Amount in 2015
	17,549,540	(2,225,209)	2,758,818	0	0	18,083,149	(1,965,499)

[1] See Appendix A for description of amortization method.

2.7 Reconciliation with prior year's disclosure

All monetary amounts shown in US Dollars

		Accumulated Postretirement Benefit Obligation (i)	Fair Value of Assets (ii)	Net Balance Sheet Asset / (Liability) (i+ii) (iii)	Net Prior Service Cost / (Credit) (iv)	Net Loss / (Gain) (v)	Accumulated Other Comprehensive (Income)/Loss (iv+v) (vi)
1	At December 31, 2013	(92,165,223)	73,564,911	(18,600,312)	(2,014,669)	17,549,540	15,534,871
2	Employer service cost	(181,115)		(181,115)			
3	Interest cost	(4,630,243)		(4,630,243)			
4	Expected asset return		5,638,337	5,638,337			
5	Amortizations				1,343,453	(2,225,209)	(881,756)
6	Experience loss/gain	(4,454,616)	1,695,798	(2,758,818)		2,758,818	2,758,818
7	Employer contributions		3,532,188	3,532,188			
8	Plan participants' contributions	(2,581,846)	2,581,846	0			
9	Benefits paid	8,837,986	(8,837,986)	0			
10	Medicare Part D subsidy	0		0			
11	Administrative expenses paid	0	0	0			
12	Plan changes	0		0	0		0
13	Acquisitions/divestitures	0	0	0			
14	Curtailments	0		0	0	0	0
15	Settlements	0	0	0		0	0
16	Special/contractual termination benefits	0		0			
17	Other disbursements	0	0	0			
18	At December 31, 2014	(95,175,057)	78,175,094	(16,999,963)	(671,216)	18,083,149	17,411,933

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2.8 Development of assets for benefit cost

All monetary amounts shown in US Dollars

		Fair Value	Market-Related Value
A	**Reconciliation of Assets**		
	1 Plan assets at 12/31/2013	73,564,911	67,901,362
	2 Investment return	7,334,135	9,240,787
	3 Employer contributions	3,532,188	3,532,188
	4 Plan participants' contributions	2,581,846	2,581,846
	5 Benefits paid	(8,837,986)	(8,837,986)
	6 Administrative expenses paid	0	0
	7 Acquisitions/divestitures	0	0
	8 Settlements	0	0
	9 Special/contractual termination benefits	0	0
	10 Plan assets at 12/31/2014	78,175,094	74,418,197
B	**Rate of Return on Invested Assets**		
	1 Weighted invested assets	72,202,935	
	2 Rate of return	10.16%	
C	**Investment Loss/(Gain)**		
	1 Actual return	7,334,135	
	2 Expected return	5,638,337	
	3 Loss/(Gain)	(1,695,798)	
D	**Market-Related Value of Assets**		
	1 Fair value of assets at 12/31/2013	73,564,911	
	2 Contributions	6,114,034	
	3 Benefit payments	(8,837,986)	
	4 Fair value of assets at 12/31/2014	78,175,094	
	5 Actual return	7,334,135	
	6 Expected return at 8.50% minus 4.00%	3,249,132	
	7 Expected return at 8.50% plus 4.00%	9,025,367	
	8 Deferred gain/(loss)[1]	0	

	Measurement Year Ending (i)	(Gain)/Loss (ii)	Percent Recognized (iii)	Percent Deferred (iv)	Deferred Amount (v) = (ii) × (iv)
	2011	(397,257)	80.00%	20.00%	(79,451)
	2012	2,162,388	60.00%	40.00%	864,955
	2013	4,952,322	40.00%	60.00%	2,971,393
	2014	0	20.00%	80.00%	0
9	Total				3,756,897
10	Market-related value of assets as of 12/31/2014 (Item 4 – Item 9)				74,418,197

1 Deferred amount is the excess/(shortfall) of actual return above or below a 4.00% corridor around expected return.

2.9 Summary and comparison of benefit cost and cash flows

All monetary amounts shown in US Dollars

Fiscal Year Ending			12/31/2015	12/31/2014
A		**Total Benefit Cost**		
	1	Employer service cost	204,415	181,115
	2	Interest cost	4,089,332	4,630,243
	3	Expected return on assets	(5,610,470)	(5,638,337)
	4	Subtotal	(1,316,723)	(826,979)
	5	Net prior service cost/(credit) amortization	(641,711)	(1,343,453)
	6	Net loss/(gain) amortization	1,965,499	2,225,209
	7	Amortization subtotal	1,323,788	881,756
	8	Net periodic postretirement benefit cost/(income)	7,065	54,777
	9	Curtailments	0	0
	10	Settlements	0	0
	11	Special/contractual termination benefits	0	0
	12	Total benefit cost	7,065	54,777
B		**Assumptions**[1]		
	1	Discount rate	4.45%	5.21%
	2	Rate of return on assets	7.70%	8.50%
	3	Current health care cost trend rate	7.00%	7.50%
	4	Ultimate health care cost trend rate	5.00%	5.00%
	5	Year of ultimate trend rate	2023	2019
	6	Census date	01/01/2014	01/01/2013
C		**Assets at Beginning of Year**		
	1	Fair market value	78,175,094	73,564,911
	2	Market-related value	74,418,197	67,901,362
D		**Cash Flow**[2]	Expected	Actual
	1	Employer contributions	3,450,000	3,532,188
	2	Plan participants' contributions[3]	2,600,000	2,581,846
	3	Benefits paid from the Company	0	0
	4	Benefits paid from plan assets[3]	9,159,895	8,837,986

1 These assumptions were used to calculate Net Periodic Postretirement Benefit Cost/(Income) as of the beginning of the year. Rates are expressed on an annual basis where applicable. For assumptions used for interim measurement periods, if any, refer to Appendix A.

2 Net of Medicare Part D subsidy.

3 Over the fiscal year.

2.10 Year over year comparison

All amounts shown in US Dollars

Fiscal Year Beginning	01/01/2015	01/01/2014	Variance	Primary Cause
Service Cost	181,115	204,415	23,300	Decrease in the discount rate.
Interest Cost	4,630,243	4,089,332	(540,911)	Decrease in the discount rate.
Expected Return	(5,638,337)	(5,610,470)	27,867	Increase in Market Related Value of Assets was offset by the lower EROA assumption.
PSC Amortization	(1,343,453)	(641,711)	701,742	A 2011 PSC base was exhausted.
(Gain)/Loss Amortization	2,225,209	1,965,499	(259,710)	2014 liability and asset gains.
Expense/(Income)	54,777	7,065	(47,712)	

Section 3: Data exhibits

3.1 Plan participant data

All monetary amounts shown in US Dollars

Census Date				01/01/2014	01/01/2013
A	**Participating Employees**				
	1	Number			
		a	Fully eligible	446	485
		b	Other	80	86
		c	Total participating employees	526	571
	2	Average age		55.65	54.91
	3	Average credited service		29.40	28.57
	4	Average future working life			
		a	to full retirement age	6.26942	6.29000
		b	to full eligibility age	3.23894	3.22000
B	**Retirees, Dependents and Surviving Spouses**				
	1	Retirees			
		a	Number	1,896	1,912
		b	Average age	69.52	69.04

3.2 Age and service distribution of participating employees

Attained Age	Attained Years of Credited Service and Number													
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & Over	Total
Under 25	0	0	0	0	0	0	0	0	0	0	0	0	0	0
25-29	0	0	0	0	0	0	0	0	0	0	0	0	0	0
30-34	0	0	0	0	0	0	0	0	0	0	0	0	0	0
35-39	0	0	0	0	0	0	0	11	1	0	0	0	0	12
40-44	0	0	0	0	0	0	0	18	5	0	0	0	0	23
45-49	0	0	0	0	0	0	0	24	5	11	1	0	0	41
50-54	0	0	0	0	0	0	0	21	11	21	73	8	0	134
55-59	0	0	0	0	0	0	0	16	20	15	93	46	5	195
60-64	0	0	0	0	0	0	0	13	0	12	36	21	12	94
65-69	0	0	0	0	0	0	0	2	2	1	10	5	5	25
70 & over	0	0	0	0	0	0	0	1	0	0	0	1	0	2
Total	0	0	0	0	0	0	0	106	44	60	213	81	22	526 [1]

Average:	Age	56	Number of Participants:	Fully eligible	446	Males	397
	Service	29		Other	80	Females	129
Census data as of January 1, 2014							

1 Ages and service totals for purposes of determining category are based on exact (not rounded) values.

Appendix A- Statement of actuarial assumptions and methods

Plan Sponsor

PNM Resources, Inc.

Statement of Assumptions

The assumptions disclosed in this Appendix are for the fiscal year ending December 31, 2014 financial reporting and the fiscal year 2015 benefit cost.

Assumptions and methods for other postretirement benefit cost purposes

Actuarial Assumptions and Methods — Other Postretirement Benefit Cost	
Economic Assumptions	
Discount rate	4.45%
Pre-tax rate of return on assets for 2015	7.70%

The return on assets shown above is net of investment expenses. Administrative expenses are accounted for as an addition to per capita claims costs.

Demographic and Other Assumptions	
Inclusion date	The valuation date coincident with or next following the date on which the employee becomes a participant. Participation is closed to those hired after 1998.
New or rehired employees	It was assumed there will be no new or rehired employees.

Participation Assumptions for Plan	Current Retirees	Future Retirees
Participation	Based on valuation census data.	20% of active employees are assumed to waive coverage at retirement. All retirees waiving coverage at January 1, 2014 are assumed to continue to waive coverage. All other active employees are assumed to participate as follows for pre-65 coverage at retirement: Premium 30% Standard 50% Value 20%
Percentage of retirees covering a spouse	Based on valuation census data.	85% of retirees.
Spouse age	Based on valuation census data. Female spouse four years younger than male spouse when actual age not available.	Female spouse four years younger than male spouse.

Demographic Assumptions

Mortality:

- Healthy mortality rates: RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95.
- Disabled life mortality rates: Not applicable.
- Healthy non-active service mortality rates: Not applicable.

Disability rates

None assumed. Current employees on Long Term Disability are assumed to have become disabled on the valuation date.

Termination (not due to retirement) rates

The rates at which participants are assumed to leave the Company by age are shown below:

Attained Age	Percent
25	16.1%
30	11.4%
35	8.1%
40	5.6%
45	3.8%
50	2.5%
55	1.5%

Retirement rates

Rates at which participants are assumed to retire by age and service are shown below:

Attained Age	With Less Than 30 Years of Service	With More Than 30 Years of Service
50-54	0%	10%
55-61	2%	10%
62	10%	50%
63-64	5%	30%
65	100%	100%

Participants at least age 45 with 20 years of service are assumed to retire at a rate of 2% from age 45 to 55, but their benefits are not assumed to commence until age 55.

Trend Rates

Medical plan trend rate:

Plan trend rates are the annual rates of increase expected for benefits payable from the Plan; these rates include Health Care Cost Trend plus the leveraging effect of Plan design. Assumed plan trend rates are shown below:

- Medical costs for retirees: 7.0% in 2015 reducing .25% per year for 8 years, reaching 5.0% in 2023 and after.
- Dental plan trend rate: 4.50%.

Per Capita Claims Costs and Retiree Contributions

Basis for per capita claim cost assumptions

Retiree claim experience was utilized to set the premium rates. Assumed 2015 monthly claim costs are shown below for pre-65 medical coverage (age graded). When both the retiree and covered spouse are over 65, Post-65 benefits for post 1987 retirees are equal to a fixed subsidy amount as shown below:

Premium/Presbyterian Plan		
Age	Retiree	Spouse
<30	$257	$322
30-34	288	360
35-39	311	388
40-44	352	440
45-49	428	535
50-54	500	625
55-60	557	696
60-65	757	947
65-70	324	405

Standard Plan		
Age	Retiree	Spouse
<30	$246	$308
30-34	275	344
35-39	297	371
40-44	337	421
45-49	409	512
50-54	478	598
55-60	532	665
60-65	724	905
65-70	310	388

Value Plan		
Age	Retiree	Spouse
<30	$226	$283
30-34	253	316
35-39	273	341
40-44	309	387
45-49	376	470
50-54	439	549
55-60	489	611
60-65	665	832
65-70	285	356

Dental and Post-65 Coverage		
Plan Option	Retiree	Spouse
Dental	37	30
Post-65 Coverage – post 1987 Retirees	135	135
Post-65 Coverage – pre 1988 Retirees	251	268

Retiree Contributions

All monetary amounts shown in US Dollars

		Presbyterian		BCBS & Lovelace Premium		BCBS, Lovelace & Presbyterian Standard		BCBS, Lovelace & Presbyterian Value	
		Single	Double	Single	Double	Single	Double	Single	Double
		Retiree Contributions		Retiree Contributions		Retiree Contributions		Retiree Contributions	
1/1/1988 & Prior		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1/2/1988 - 1/1/1993		209.25	469.03	209.25	469.03	114.31	259.17	61.61	136.83
1/2/1993 & Later									
Years of Service	25	267.85	600.35	267.85	600.35	169.16	383.56	103.51	229.87
	24	267.85	600.35	267.85	600.35	169.16	383.56	103.51	229.87
	23	267.85	600.35	267.85	600.35	169.16	383.56	103.51	229.87
	22	267.85	600.35	267.85	600.35	169.16	383.56	103.51	229.87
	21	346.00	775.46	346.00	775.46	242.30	549.42	159.37	353.93
	20	346.00	775.46	346.00	775.46	242.30	549.42	159.37	353.93
	19	346.00	775.46	346.00	775.46	242.30	549.42	159.37	353.93
	18	346.00	775.46	346.00	775.46	242.30	549.42	159.37	353.93
	17	424.14	950.56	424.14	950.56	315.43	715.27	215.23	477.98
	16	424.14	950.56	424.14	950.56	315.43	715.27	215.23	477.98
	15	424.14	950.56	424.14	950.56	315.43	715.27	215.23	477.98
	14	424.14	950.56	424.14	950.56	315.43	715.27	215.23	477.98
	13	502.29	1,125.66	502.29	1,125.66	388.57	881.13	271.10	602.04
	12	502.29	1,125.66	502.29	1,125.66	388.57	881.13	271.10	602.04
	11	502.29	1,125.66	502.29	1,125.66	388.57	881.13	271.10	602.04
	10	502.29	1,125.66	502.29	1,125.66	388.57	881.13	271.10	602.04
	9	599.97	1,344.54	599.97	1,344.54	479.99	1,088.45	340.93	757.11
	8	599.97	1,344.54	599.97	1,344.54	479.99	1,088.45	340.93	757.11
	7	599.97	1,344.54	599.97	1,344.54	479.99	1,088.45	340.93	757.11
	6	599.97	1,344.54	599.97	1,344.54	479.99	1,088.45	340.93	757.11
	5	599.97	1,344.54	599.97	1,344.54	479.99	1,088.45	340.93	757.11

2015 monthly retiree dental contributions for post 1987 retirees age 55 and older are $18.28 for single coverage and $33.17 for joint coverage. Pre1988 do not pay for dental coverage. Retirees pay the full cost of dental coverage prior to age 55.

Additional Assumptions

Administrative expenses

Administrative expenses related to medical and dental claim payments are included in the premium amounts.

Cash flow

- Timing of benefit payments: Claims are assumed to be made uniformly throughout the year and, on average, at mid-year.
- Amount and timing of contributions: Contributions are assumed to be made uniformly throughout the year and, on average, at mid-year.

Funding policy

PNM Resources, Inc.'s funding policy is to contribute amounts as dictated by rate case requirements, not to exceed the maximum tax-deductible limit. PNM Resources, Inc. will contribute to the non-union VEBA in 2015. The sponsor may deviate from this policy, as permitted by its terms, based on cash, tax or other considerations.

Methods – Other Postretirement Benefit Cost and Funded Position

Census date	January 1, 2014.
Measurement date	December 31, 2014. The benefit obligations are based on census data collected as of January 1, 2014. We have projected forward the benefit obligations to December 31, 2014, adjusting for benefit payments, expected growth in the benefit obligations, changes in key assumptions, and plan provisions, and any significant changes in the plan population.
Service cost and accumulated postretirement benefit obligation	Costs are determined using the Projected Unit Credit Cost Method. The annual service cost is equal to the present value of the portion of the projected benefit attributable to service during the upcoming year, and the Accumulated Postretirement Benefit Obligation (APBO) is equal to the present value of the portion of the projected benefit attributable to service before the measurement date. Service from hire date through the expected full eligibility date is counted in allocating costs.
Market-related value of assets	The market-related value of assets is equal to the prior years' market-related value of assets adjusted for contributions, benefit payments and investment gains and losses that lie within a corridor of plus or minus 4% around the expected return on market value. Gains and losses that lie outside the corridor are amortized over 5 years.
Amortization of unamortized amounts:	
• Recognition of past service cost/(credit)	Amortization of net prior service cost/(credit) resulting from a plan change is included as a component of Net Periodic Postretirement Benefit Cost/(Income) in the year first recognized and every year thereafter until such time as it is fully amortized. The annual amortization payment is determined in the first year as the increase in Accumulated Postretirement Benefit Obligation due to the plan change divided by the average remaining service period to full eligibility for participating employees expected to receive benefits under the plan. However, when the plan change reduces the Accumulated Postretirement Benefit Obligation, existing positive prior service costs are reduced or eliminated starting with the earliest established before a new prior service credit base is established.
• Recognition of gains or losses	Amortization of the net gain or loss resulting from experience different from that assumed and from changes in assumptions (excluding asset gains and losses not yet reflected in market-related value) is included as a component of Net Periodic Postretirement Benefit Cost/(Income) for a year. If, as of the beginning of the year, that net gain or loss exceeds 10% of the greater of the projected benefit

obligation and the market-related value of plan assets, the amortization is that excess divided by the average remaining service period of participating employees expected to receive benefits under the plan (see Section 3.1 for information regarding the amortization period).

Under this methodology, the gain/loss amounts recognized in AOCI are not expected to be fully recognized in benefit cost until the plan is terminated (or an earlier event, like a settlement, triggers recognition) because the average expected remaining service of active participants expected to benefit under the plan over which the amounts are amortized is redetermined each year and amounts that fall within the corridor described above are not amortized.

Benefits not valued

Benefits paid for through retiree contributions are not included in this valuation, but any implicit subsidies associated with these benefits are included.

Data Sources

PNM Resources, Inc. furnished participant data and claims data as of January 1, 2014. Data were reviewed for reasonableness and consistency, but no audit was performed. Based on discussions with the plan sponsor, assumptions or estimates were made when data were not available, and the data was adjusted to reflect any significant events that occurred between the date the data was collected and the measurement date. The following assumptions were made for missing or apparently inconsistent data elements:

- Service was estimated for retirees based on estimated or actual termination dates and hire dates.
- When the retiree's covered spouse date of birth is not available, it is assumed that female spouses are four years younger than male spouses.

Assumptions Rationale - Significant Economic Assumptions

Discount rate

As required by U.S. GAAP the discount rate was chosen by the plan sponsor based on market information on the measurement date.

Expected return on plan assets

We understand that the expected return on assets assumption reflects the plan sponsor's estimate of future experience for trust asset returns, reflecting the plan's current asset allocation and any expected changes during the current plan year, current market conditions and the plan sponsor's expectations for future market conditions.

Claims cost trend rates	The initial trend rate of 7.00% in 2015 is based on a combination of historical company experience and external market conditions. The ultimate trend rate has been maintained at 5.00% as the rate includes a component of inflation, which has not changed significantly since the prior year-end. The ultimate trend rate is assumed to be reached in 2023, recognizing the period of time which the national health system is expected to take to adopt meaningful change that might truly abate trend and reach a point where health care costs stabilize as a percentage of GDP.
Participant contribution trend rates	Specific participant contribution trend rates are not used as contributions are expected to increase in proportion to claims.
Per capita claims costs	Towers Watson uses various rating methods to develop the per capita costs for Medicare eligible and non-Medicare eligible retirees. For the PNM retiree groups, per capita claims costs are developed based on multiple years of claims experience of the self-funded plans, and/or the fully-insured premium rates provided by various vendors. Towers Watson reviews the demographic changes and analyzes the claims costs. One of Towers Watson's experience rating methods is used to determine a projected rate base. The associated underwriting assumptions are applied. Relative benefit ratios for the different plan designs, the expected cost impact due to the proposed benefit changes are also adjusted. The final employer per capita costs used in the valuation are then derived based on the projected rate base, and morbidity adjustments are applied to derive an age-curve for the retiree group being valued.

Assumptions Rationale - Significant Demographic Assumptions

Healthy Mortality	Assumptions were selected by the plan sponsor and, as required by U.S. GAAP represents a best estimate of future experience.
Termination	Assumed termination rates are a function of age and decrease as the participant ages.
Retirement	Retirement rates are based on plan sponsor expectations for the future reflecting plan changes and current economic conditions with periodic monitoring of observed gains and losses caused by retirement patterns different than assumed.
Participation:	
• Participation and covered spouses	Assumed participation and coverage rates for spouses reflect historical experience as well as anticipated future experience.
Marital Assumptions:	
• Percent married	The assumed percentage married is based on general population statistics on the marital status of individuals of retirement age.

• Spouse age	The assumed age difference for spouses is based on general population statistics of the age difference for married individuals of retirement age.

Source of Prescribed Methods

Accounting methods	The methods used for accounting purposes as described in Appendix A, including the method of determining the market-related value of plan assets, are "prescribed methods set by another party", as defined in the actuarial standards of practice (ASOPs). As required by U.S. GAAP, these methods were selected by the plan sponsor.

Changes in Assumptions and Methods

Change in assumptions since prior valuation	The discount rate was changed from 5.21% to 4.45%. The mortality assumption was changed from PR-2000 projected to 2018 with Scale AA for males and females to RP-2014 with improvements beyond 2007 backed out, projected generationally using the RPEC model with 10 year convergence to a 1% long term improvement rate and declining to zero between 85 and 95. The year of ultimate trend rate was changed from 2019 to 2023. Assumed claims, retiree contributions, and plan election percentages were updated.
Change in methods since prior valuation	None.

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Appendix B - Summary of principal other postretirement benefit plan provisions

Substantive Plan Provisions

Coverage and participation	All employees hired prior to January 1, 1998.

Medical Benefits

Eligibility	Retirement on or after age 55 and 10 years of service, age 45 and 20 years of service, any age and 30 years of service, or upon disability. Retirees must be in receipt of Company pension. After January 1, 1998, those retiring before age 55 for reasons other than disability are excluded, unless they pay the required premiums. These retirees can opt out and then opt back in at a future date.
Survivor eligibility	A retiree's surviving spouse may continue coverage until death. If an active employee was eligible to retire at date of death, the surviving spouse and/or dependents are eligible to participate.
Retiree contributions	Retirees contribute based on service and date of retirement.

Dental Benefits

Eligibility	Retirement on or after age 55 and 10 years of service, age 45 and 20 years of service, any age and 30 years of service, or upon disability. Retirees must be in receipt of Company pension. After January 1, 1998, those retiring before age 55 for reasons other than disability are excluded, unless they pay the required premiums.
Survivor eligibility	A retiree's surviving spouse may continue coverage until death. If an active employee was eligible to retire at date of death, the surviving spouse and/or dependents are eligible to participate.

Future Plan Changes

No future plan changes were recognized in determining postretirement welfare cost.

Changes in Benefits Valued Since Prior Year

There have been no changes in benefits valued since the prior year.

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
OF PUBLIC SERVICE COMPANY OF NEW	)	
MEXICO FOR REVISION OF ITS RETAIL	)	**Case No. 15-00261-UT**
ELECTRIC RATES PURSUANT TO ADVICE	)	
NOTICE NO. 513,	)	
	)	
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant.	)	
	)	

AFFIDAVIT

STATE OF NEW MEXICO)
) ss
COUNTY OF BERNALILLO)

ELISABETH A. EDEN, Vice President and Treasurer for PNMR Services Company, upon being duly sworn according to law, under oath, deposes and states: I have read the foregoing **Direct Testimony and Exhibits of Elisabeth A. Eden** and it is true and accurate based on my own personal knowledge and belief.

SIGNED this 17th day of August, 2015.

ELISABETH A. EDEN

SUBSCRIBED AND SWORN to before me this 17th day of August, 2015.

NOTARY PUBLIC IN AND FOR
THE STATE OF NEW MEXICO

My Commission Expires:

12/1/15