PNM EXHIBIT TRH-2

Consisting of 6 pages

PNM Exhibit TRH-2
Consisting of 6 Pages

MOODY'S
INVESTORS SERVICE

Credit Opinion: Public Service Company of New Mexico

Global Credit Research - 24 Jun 2013

Albuquerque, New Mexico, United States

Ratings

Category	Moody's Rating
Outlook	Positive
Issuer Rating	Baa3
Senior Unsecured	Baa3
Parent: PNM Resources, Inc.	
Outlook	Positive
Senior Unsecured	Ba1

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**

ACTUALS	1Q13 LTM	2012	2011	2010
(CFO Pre-W/C + Interest) / Interest Expense	4.4x	4.6x	5.0x	4.5x
(CFO Pre-W/C) / Debt	19.5%	21.2%	21.5%	17.9%
(CFO Pre-W/C - Dividends) / Debt	17.4%	19.0%	18.7%	16.2%
Debt / Book Capitalization	46.1%	45.4%	48.3%	50.5%

[1] All ratios are calculated in accordance with the Regulated Electric and Gas Utilities Rating Methodology using Moody's standard adjustments

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

Opinion

Rating Drivers

New Mexico regulatory framework improving although challenges exist

Moderately strong financial metrics help offset weaker regulatory framework

Environment compliance costs and investment recovery will impact financial metrics over next few years

Corporate Profile

Public Service Company of New Mexico (PNM) is a vertically integrated electric utility with approximately 505,000 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: Ba1, positive), a utility holding company that also owns Texas-New Mexico Power Company (TNMP: Baa2, positive). PNM accounts for about 80% of PNMR's operating assets, while TNMP accounts for essentially the remainder. PNM is regulated by the New Mexico Public Regulation Commission (NMPRC).

SUMMARY RATING RATIONALE

PNM's Baa3 senior unsecured rating reflects an improving although somewhat challenging regulatory environment; reasonable operating cost recovery mechanisms; and financial metrics that are consistent with regulated US electric utilities rated in the high Baa range.

DETAILED RATING CONSIDERATIONS

REGULATORY ENVIRONMENT IS IMPROVING

We view the New Mexico Regulatory environment is improving as we have seen signs of improved coordination between regulators, PNM, and intervenors, particularly with the finalization of the future test year rule, which helps reduce regulatory lag. In addition, PNM has reasonable cost recovery mechanisms, which include a fuel and purchased power clause and a renewable energy rider which helps streamline regulatory proceedings for renewable spending resulting in more timely recovery of some of its costs outside of a general rate case.

The New Mexico regulatory framework, historically, has not been as constructive as most US state regulatory jurisdictions in terms of predictability and timeliness of rate decisions and overall supportiveness to credit quality, but has recently shown signs of improvement. In November 2012, New Mexico voters passed measures to reduce the NMPRC's responsibilities of non-utility tasks, which allow 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 applies to new commissioners elected in the 2014 general election or if commissioners were appointed to fill a vacancy after July 1, 2013. We believe these changes to the Commission are credit positive.

In November 2012, the NMPRC finalized its rule that established the use of a future test year by utilities filing rate cases. The use of the historical test year had been the norm in New Mexico and combined with any lengthy duration of rate case decision process, such as PNM's last rate case settled in 15 months, created a regulatory lag such that PNM had been unable to earn its allowed ROE over a multi-year time period.

In PNM's last rate case decided and implemented in August 2011, the NMPRC's final order modified a previous stipulation agreed upon by major parties, including Staff and several intervenors, in February 2011. The approved rate increase by the NMPRC was for a $72.1 million single-step increase rather than the stipulated two-step increase of $85 million originally agreed upon in February 2011. In its final rate order, the NMPRC also reduced the allowed ROE to 10% from the 10.25% included in the proposed stipulation. In addition, the NMPRC rejected the capital additions rider. However, the final rate order did include a renewable energy rider and continued the fuel and purchased power costs (FPPCAC) recovery mechanism, albeit with some limitations. Although the NMPRC ordered a reasonable rate increase, we believe that rejecting a settlement reached between opposing parties indicated there was not adequate communication on key priorities amongst the NMPRC, Staff, intervenors, and PNM. Furthermore, PNM's recent rate case completed in 15 months was is longer than the roughly one year average across most US jurisdictions and longer than the approximate 11 month average for the NMPRC's rate cases decided over the last decade.

SOLID FINANCIAL METRICS OFFSET WEAKER REGULATORY ENVIRONMENT

PNM's moderately strong financial metrics are expected to continue and provide an offset to its below average credit supportive regulatory environment. For the twelve months ended March 31, 2013, cash flow from operations pre-working capital changes (CFO pre-W/C) to debt of 19.5%, although slightly less than the 21% averaged over the past two years, is similar to regulated US electric utilities in the high Baa range. Even excluding the tax benefits related to bonus depreciation, cash flow pre-W/C would have averaged in the high teens over the last two years, which is consistent with Baa2 rated US regulated electric utilities. In addition, for the twelve months ended March 31, 2013, PNM's cash flow interest coverage of 4.4%, again slightly below the 4.8% average over the past two years, is comparable to high Baa rated regulated US electric utilities. Again, excluding the tax benefits related to bonus depreciation, cash flow interest coverage would have been in the low 4x range which is similar to Baa2 rated US regulated electric utilities. Assuming adequate regulatory relief, we anticipate PNM's cash flow to debt and cash flow interest coverage to be at or above the current levels for the foreseeable future, which remains moderately strong for its rating.

CAPITAL SPENDING TO COMPLY WITH ENVIRONMENTAL REGULATION AND ABILITY TO RECOVER THESE INVESTMENTS WILL IMPACT FINANCIAL METRICS

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 coal-fired San Juan generating station to meet the Best Available Retrofit Technology (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. 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 56% coal-fired generation and 30% nuclear, albeit both considered low cost, we view the additional gas-fired capacity to diversify the utility's generation mix is 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 $63 million. The estimated cost of building a natural gas-fired peaking generating plant at the San Juan site to replace some of the lost generating capacity would approximate $280 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 the Palo Verde nuclear plant into rate base or additional gas-fired generation.

On April 1, 2013, PNM filed a BART analysis with New Mexico, and the NMED will need to submit a revised implementation plan to the New Mexico Environmental Improvement Board (NMEIB) for approval, which is projected to be in Q4 2013. After approval, the NMEIB will submit the revised implementation plan to the EPA, which will likely take about a year to review. While the EPA is reviewing the implementation plan, PNM would apply for regulatory approval by the NMPRC to retire Units 2 and 3 and obtain certificates of convenience and necessity (CCNs) for the proposed replacement resources that are needed. The timing of the regulatory filing will likely be in early 2014, which will take about a year to resolve. As such, the installation of the SNCRs on Units 1 and 4 is not expected to begin until Q1 2015.

Although the revised plan calls for a reduced level of additional invested capital, PNM's capital expenditure budget would increase by approximately $345 million through 2017. However, the reduced spending level will also coincide with a lower potential rate impact on rate payers. We believe PNM will not file a rate case in 2013 even though it is allowed to do so. Rather, PNM will likely wait until late 2014 or early 2015 to file its rate case in order to include the investments made for the San Juan environmental compliance. PNM's ability to recover and earn a return on these investments in a timely manner is critical to maintain its financial metrics at current levels.

Liquidity

PNM's liquidity profile appropriately supports its planned capital expenditures and dividends. We anticipate PNM's core maintenance capital expenditures to be about $150-175 million annually over the next several years. As such, we expect PNM's cash flow from operations to cover maintenance capital expenditures and dividend distributions to PNMR. We expect PNM's total capex, maintenance and growth, should total about $1.3 billion over the next five years or average about $250 million annually, which is higher than the $197 million of capital spend in 2012, but consistent with the approximate $240 million invested annually for the last five years. In 2012, PNM distributed dividends to its parent of $35 million, which reflects a lower than normal payout ratio of only 38%. However, 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 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 2017. As of May 1, 2013, PNM had $16.2 million drawn under its credit facility, $3.5 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, 2013, PNM's debt to total capitalization was approximately 52%. PNM can also borrow up to $100 million from its parent as part of an inter-company borrowing arrangement which was undrawn as of March 31, 2013. PNM has no debt maturing until 2018 but it has $39 million of tax-exempt debt putable in 2015 and $57 million of tax-exempt debt putable in 2017.

Rating Outlook

The positive outlook reflects our expectation that the New Mexico regulatory environment continues to improve, financial metrics will remain consistent with US regulated electric utilities in the upper end of the Baa range and that the timeline for the San Juan environmental compliance requirements plays out such that PNM is able to recover prudently incurred costs and investments in a timely manner. The outlook also assumes that planned capital expenditures will be financed in a manner that is consistent with the entities' current financial position.

What Could Change the Rating - Up

PNM's rating could be upgraded if financial metrics remain at levels consistent with US regulated electric utilities in the high Baa rating category such that cash flow pre-W/C to debt is sustained in the high teens (excluding bonus depreciation) and we continue to observe sustained improvement in the credit supportiveness of the New Mexico regulatory environment including rate case results which allow the utility to earn an appropriate return.

What Could Change the Rating - Down

PNM's rating outlook could be stabilized or rating downgraded if we believe the New Mexico regulatory framework has become less supportive or predictable such that there is an adverse rate case ruling or cost recovery disallowances; or if there was deterioration in financial metrics including cash flow pre-W/C to debt sustained in the low teens.

Rating Factors

Public Service Company of New Mexico

Regulated Electric and Gas Utilities Industry [1][2]	**LTM 3/31/13**		**Moody's 12-18 Month Forward View As of June 2013**	
Factor 1: Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Regulatory Framework		Ba		Baa
Factor 2: Ability To Recover Costs And Earn Returns (25%)				
a) Ability To Recover Costs And Earn Returns		Baa		Baa
Factor 3: Diversification (10%)				
a) Market Position (5%)		Baa		Baa
b) Generation and Fuel Diversity (5%)		Baa		Baa
Factor 4: Financial Strength, Liquidity And Key Financial Metrics (40%)				
a) Liquidity (10%)		Baa		Baa
b) CFO pre-WC + Interest/ Interest (3 Year Avg) (7.5%)	4.8x	A	4.5x-5.0x	A
c) CFO pre-WC / Debt (3 Year Avg) (7.5%)	21%	Baa	19-24%	Baa
d) CFO pre-WC - Dividends / Debt (3 Year Avg) (7.5%)	19%	A	14-18%	Baa
e) Debt/Capitalization (3 Year Avg) (7.5%)	48%	Baa	45-49%	Baa
Rating:				
a) Indicated Rating from Grid		Baa2		Baa2
b) Actual Rating Assigned		Baa3		Baa3

* THIS REPRESENTS MOODY'S FORWARD VIEW; NOT THE VIEW OF THE ISSUER; AND UNLESS NOTED IN THE TEXT DOES NOT INCORPORATE SIGNIFICANT ACQUISITIONS OR DIVESTITURES

[1] All ratios are calculated using Moody's Standard Adjustments. [2] As of 3/31/2013; Source: Moody's Financial Metrics