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. 595	**)**	**Case No. 22-00270-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	**)**	
Applicant	**)**	

DIRECT TESTIMONY

OF

SABRINA G. GREINEL

December 5, 2022

NMPRC CASE NO. 22-00270-UT
INDEX TO THE DIRECT TESTIMONY OF SABRINA G. GREINEL
WITNESS FOR
PUBLIC SERVICE COMPANY OF NEW MEXICO

DIRECT TESTIMONY OF
SABRINA G. GREINEL
NMPRC CASE NO. 22-00270-UT

I. INTRODUCTION AND PURPOSE

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

A. My name is Sabrina G. Greinel. I am Executive Director of Treasury for PNMR Services Company ("Shared Services"). Shared 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" or "Company"). My address is 414 Silver Avenue, SW, Albuquerque, New Mexico 87102.

Q. PLEASE DESCRIBE YOUR RESPONSIBILITIES AS EXECUTIVE DIRECTOR OF TREASURY.

A. I have responsibility for providing financial support for PNM. My treasury responsibilities include the formulation and implementation of specific financing strategies, direction and management of professional finance staff and external resources, interaction with credit rating agencies, and the management of financial institution relationships for PNM. I perform these same duties for PNMR and its other subsidiaries. A copy of my resume is attached as PNM Exhibit SGG-1, which includes a listing of regulatory cases in which I have submitted pre-filed testimony.

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CASE?

A. The purpose of my testimony is to explain why maintaining PNM's financial health is in the best interest of PNM's customers and how the rate relief requested in this case is an important component in maintaining PNM's financial health. In addition, I present the Company's capital structure and provide support for the Company's average cost of capital. I discuss PNM's request for funding of the Palo Verde Nuclear Decommissioning Trust ("Palo Verde NDT") with respect to Unit 3 of the Palo Verde Nuclear Generating Station ("Palo Verde" or "PVNGS") in the Test Period and address certain issues that PNM was directed to address in the Accounting Order issued by the New Mexico Public Regulation Commission ("Commission") in Case No. 21-00083-UT.[1] Finally, I address certain topics associated with the abandonment of San Juan Generating Station ("San Juan" or "SJGS"), as required by the Show Cause Order.2issued by the Commission in Case No. 19-00018-UT.

My testimony is organized by sections that address:

- the importance of maintaining PNM's credit ratings and sound financial health and PNM's current credit ratings;
- PNM's proposed capital structure and cost of capital;

[1] 1 *Order on Motion for Accounting Order*, Case No. 21-00083-UT (NMPRC Nov. 18, 2022) ("Accounting Order").
2 *Final Order Adopting Recommended Decision with Additions* ("Show Cause Order") issued on June 29, 2022 in Case No. 19-00018-UT.

- PNM's proposal for funding of the Palo Verde NDT in the Test Period and responses to portions of the Accounting Order;
- PNM's San Juan securitization bond issuance as required by the Show Cause Order.

Q. WHAT RULE 530 SCHEDULES ARE YOU SPONSORING?

A. I am sponsoring Rule 530 Schedules G-1 through G-9.

Q. WHAT ARE THE KEY CONCLUSIONS OF YOUR TESTIMONY?

A. I conclude that the approval of the requested rate relief is key to ensuring that PNM maintains strong financial health and investment grade credit ratings, which are needed to attract, on favorable terms, the capital needed to fund PNM's investments in the electric grid. I further conclude that PNM's capital structure in the Test Period, and the resulting cost of capital, is reasonable and reflects the expected costs necessary to operate and support the business in the Test Period. I further conclude that PNM's request for continued recovery of cash contributions to the Palo Verde Unit 3 NDT is allowed per prior NMPRC Order and confirm that the Palo Verde NDTs for PVNGS Units 1 and 2 are currently adequately funded and that no adjustments are warranted with respect to Palo Verde decommissioning costs related to these units. Finally, I conclude that PNM's past and future planned actions related to the San Juan securitization bond issuance are prudent and reasonable.

II. IMPORTANCE OF SOUND FINANCIAL HEALTH AND INVESTMENT GRADE CREDIT RATINGS

Q. HOW DO YOU DEFINE SOUND FINANCIAL HEALTH?

A. Sound financial health for a utility means that it generates 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 access the capital markets, to issue debt at a lower borrowing cost, and to refinance debt when existing debt comes due, resulting in lower costs for customers. Similarly, sound financial health allows the utility or its parent company, as the case may be, to raise equity in capital markets on favorable terms. Parent company access to the equity capital markets is necessary in order for the parent company to provide equity capital to the utility to support a balanced utility capital structure.

Q. PLEASE EXPLAIN HOW SOUND FINANCIAL HEALTH FOR PNM BENEFITS CUSTOMERS.

A. PNM's sound financial health means that its customers can rely on PNM to deliver long-term, high-quality, reliable service, which in turn requires that PNM can raise capital to fund ongoing investments in its electric system. During periods of financial market distress, sound financial health is even more important because it supports PNM's ability to navigate difficult market conditions and continue to access the capital markets.

Q. CAN YOU PROVIDE SOME EXAMPLES OF DIFFICULT MARKET CONDITIONS?

A. Recent examples of financial market distress were seen in early 2020, at the onset of the COVID-19 pandemic, and in 2022, when geopolitical and macroeconomic events created extreme volatility in the market. At the onset of the pandemic, the market was closed for approximately one week, then reopened with tremendous supply but much higher credit spreads. The year 2022 has been marked by consistent volatility in the capital markets and a continuous drift higher in credit spreads. In both years, these conditions affected all issuers, but issuers with investment-grade credit ratings were able to access the market with greater frequency and at a lower cost. These examples illustrate the importance of maintaining sound financial health in order to manage through extreme market conditions. Further, sound financial health supports the ability to raise capital on favorable terms, which ultimately translates into lower financing costs and thus lower rates for PNM's customers.

Q. DOES A UTILITY'S CREDIT RATING PROVIDE AN INDICATION OF THE FINANCIAL HEALTH OF THE COMPANY?

A. Yes, it does. A credit rating is an assessment by a credit rating agency that provides that agency's independent view of a company's creditworthiness, which considers multiple factors. Generally, companies with stronger financial health are considered lower risk and have higher credit ratings.

Q. WHAT IS AN INVESTMENT GRADE RATING?

A. A rating of at least Baa3 from Moody's Investors Services, Inc. ("Moody's") and BBB- from Standard and Poor's Financial Services, LLC ("S&P") are both considered to be an investment grade rating. Investment grade debt 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 FACTORS DO THE RATING AGENCIES CONSIDER WHEN THEY ASSIGN CREDIT RATINGS TO A UTILITY?

A. Both Moody's and S&P take into account factors like the regulatory environment in which the utility operates, the utility's ability to recover its costs and earn its allowed return on a timely and consistent basis, its level of diversification, and its financial strength. For regulated electric and gas utilities, Moody's weights each of these categories as follows:

- Regulatory framework: 25%
- Ability to recover cost and earn returns: 25%
- Diversification of market, generation, and fuel: 10%
- Financial strength: 40%

Q. WHAT IS THE OPTIMAL CREDIT RATING FOR AN ELECTRIC UTILITY?

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. A rating of AAA would provide a utility with the best access to the capital markets at the lowest debt financing cost. However, a utility with a credit rating of AAA would require a much higher proportion of equity in its capital structure, resulting in a higher revenue requirement, which would be more expensive for customers. Based on a recent S&P report dated May 2022, there were no regulated utilities in North America with a rating of AAA. Most utilities in North America have a credit rating of BBB+ or higher, which provides for adequate access to the capital markets.

Q. WHAT ARE PNM'S CURRENT CREDIT RATINGS?

A. Moody's and S&P rate PNM's senior unsecured debt at Baa2 and 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 from Moody's and S&P are contained in PNM Exhibits SGG-2 and SGG-3, respectively.

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

A. Maintaining PNM's current investment grade credit ratings is critical to ensure that PNM can continue to raise capital to fund its ongoing investments in the electric system. During the period 2023 through 2026, the Company anticipates financing and refinancing requirements of approximately $1.2 billion. Investors use PNM's credit ratings to determine their willingness to invest in PNM, and at what price. A lower credit rating directly results in a higher cost of debt for customers and in some cases, less access to the financial markets.

Q. WILL GRANTING PNM'S APPLICATION BE HELPFUL IN MAINTAINING BOTH PNM'S CURRENT CREDIT RATINGS AND REASONABLE FINANCING COSTS?

A. Yes. Timely and positive regulatory outcomes are generally viewed by the rating agencies and providers of debt and equity capital as evidence of lower risk and uncertainty. In granting PNM's rate application, the Commission would provide confirmation to the rating agencies that the regulatory framework is supportive and provides for timely recovery of operating and capital costs – together, these two factors account for 50% of PNM's credit rating as scored by Moody's. Conversely, not allowing for timely recovery of PNM's investments could put PNM at risk of a ratings downgrade. In its September 2022 credit opinion, Moody's stated that, "PNM could be downgraded if the New Mexico regulatory environment becomes more contentious such that the company's ability to earn its allowed return becomes more challenging or its business risk profile becomes elevated because of material cost recovery disallowance." If PNM's credit ratings are downgraded, this would indicate to investors that PNM is a riskier investment. If investors perceive PNM's risk as high (i.e., lower credit ratings), then the cost of the capital is higher than it would be if the risk were lower, because investors require higher compensation for higher risk, in the form of higher interest rates. Strong credit ratings help maintain a reasonable cost of capital for PNM's customers.

III. CAPITAL STRUCTURE AND 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 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 the use of debt. However, if debt is too large a component of 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.

By contrast, the cost of equity is not tax deductible and is generally more expensive than debt because it is a riskier investment. 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 the capital markets when needed. Therefore, an optimal balance of debt and equity is necessary in a company'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. The utility industry is capital intensive, and revenues from customer payments alone are not a sufficient means of funding the investments needed. As a result, PNM and others in the utility industry place a greater reliance on the capital markets as a means to fund their investments. Higher debt levels in a utility's capital structure translates to greater financial risk for investors; conversely, a higher proportion of equity translates to decreased financial risk, which supports increased access to capital markets and an improved ability to raise capital on favorable terms.

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 December 31, 2024, reflecting projected debt issuances and refinancing expected to occur during the Test Period. The projected capital structure utilized in the determination of Test Period revenue requirements consists of 47.72% long-term debt, 0.29% preferred stock, and 52.00% common equity. PNM's actual capital structure as of June 30, 2022, was 47.62% long-term debt, 0.31% preferred stock, and 52.07% common equity.

Q. IS THE TEST PERIOD CAPITAL STRUCTURE THE SAME AS THE ACTUAL CAPITAL STRUCTURE IN THE BASE PERIOD?

A. Yes. PNM, and the utility industry as a whole, is in a period of elevated capital investment. Since 2020, PNM capital structure has been approximately 48% debt / 52% equity to support PNM's capital expenditure program as it transitions to a clean energy portfolio, increases grid resilience, and enhances customer satisfaction. The financial health of a regulated utility is a function of many factors, such as its capital structure, ROE, cash flow, and regulatory environment. Sound financial health results in strong credit ratings that allow the utility access to the capital markets, to issue debt at a lower borrowing cost, and to refinance debt at opportune times, resulting in savings for customers. PNM's sound financial health means that its customers can rely on PNM to deliver long-term, high-quality, reliable service, which requires that PNM can raise capital as needed to support its investments in the electric grid, even during periods of financial market distress and other unanticipated events. Further, PNM's sound financial health supports the Company's ability to raise capital on favorable terms, which ultimately translates into lower financing costs and thus lower rates for PNM's customers.

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

A. Yes. PNM witness McKenzie conducted an analysis of utility capital structures utilizing a proxy group of utilities as shown in PNM Exhibit AMM-12. It is his conclusion that PNM's capital structure is consistent with the proxy companies and reasonable.

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

A. PNM used an ROE of 10.25% in the Test Period, as discussed by PNM witnesses Monroy and McKenzie.

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

A. PNM used its projected cost of 3.72% for the debt component of the capital structure in the development of Test Period revenue requirement.

Q. HAS PNM INCLUDED ANY NEW DEBT ISSUANCES IN THE CALCULATION OF THE TEST PERIOD COST OF DEBT COMPONENT OF THE CAPITAL STRUCTURE?

A. PNM forecasts a new debt issuance of $145 million in 2023, which is included in the calculation of the Test Period debt component. PNM has adjusted the Test Period average cost of debt to account for the Commission-approved mandatory repricing of one series of tax-exempt Pollution Control Revenue Bonds on June 1, 2023, for $130 million, in addition to the anticipated refinancing of one series of Senior Unsecured Notes on May 15, 2023, for $55 million. The Test Period weighted average cost of debt, including these transactions, is 3.72%. These assumptions are detailed in the Rule 530 G Schedules.

Q. HOW WERE THE FINANCING AND REFINANCING ASSUMPTIONS IN THE TEST PERIOD DERIVED?

A. PNM used the published 10-year US Treasury forward rates to estimate interest rates for future financing transactions. These rates are obtained using four prior periods, generally in quarters, of published data in order to mitigate the effects of short-term swings in the Treasury rates. PNM then applied a credit spread that adds additional basis points to the Treasury rate to account for the rate an investor would expect to receive based on PNM's current ratings with S&P and Moody's.

Q. WHAT CRITERIA DID THE COMPANY USE IN DEFINING THE LONG-TERM DEBT INCLUDED IN THE REGULATORY CAPITAL STRUCTURE?

A. The Company used a maturity of longer than eighteen months for purposes of defining long-term debt. This is consistent with NMSA 1978, Section 62-6-8 of the Public Utility Act, as well as the Commission's decision in the 2015 Rate Case.[3]

Q. WHAT CRITERIA DID THE COMPANY USE IN DEFINING SHORT-TERM DEBT AS SHOWN IN RULE 530 SCHEDULE G-4?

A. Short-term debt is defined as debt with a maturity of eighteen months or less. PNM submits an annual filing to the NMPRC, its Statement with Respect to Short-Term Securities (the "Statement"), pursuant to 17.1.2.8(E) NMAC. The Statement sets out PNM's financing plan relating to its issuance, assumptions or guaranty of short-term securities.

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

[3] *See Corrected Recommended Decision* at 30-31, Case No. 15-00261-UT (NMPRC Aug. 15, 2016), adopted in relevant part, *Final Order Partially Adopting Corrected Recommended Decision*, Case No. 15-00261-UT (Sept. 28, 2016).

A. PNM used its actual embedded cost of 4.62% 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 after-tax WACC for the Test Period, which is the return to be applied to rate base, is 7.12% as shown in PNM Table SGG-1 below:

PNM Table SGG-1
PNM TEST PERIOD WACC

Public Service Company of New Mexico					
Schedule G-1					
Capitalization, the Cost of Capital and the Overall Rate of Return (After-Tax)					
Test Period Ending 12/31/2024					
Capital Component	Total Capitalization Linkage (in thousands)	Total Capitalization Test Period (in thousands)	Percentage of Total Capitalization	Capital Component Cost	Weighted Average Cost
Long Term Debt	1,929,345	1,929,345	47.72%	3.72%	1.77%
Preferred Stock	11,529	11,529	0.29%	4.62%	0.01%
Common Equity	2,102,333	2,102,333	52.00%	10.25%	5.33%
Total	4,043,207	4,043,207	100.00%		7.12%

IV. PALO VERDE DECOMMISSIONING ISSUES

Q. WHAT IS THE PURPOSE OF THE PALO VERDE NDT?

A. The purpose of the Palo Verde NDT is to provide funds for the decommissioning of the PVNGS units when the plant ceases operation, as required by the Nuclear

Regulatory Commission ("NRC") and the Arizona Nuclear Power Project Participation Agreement ("ANPP Agreement").

Q. HOW HAVE THE PVNGS OWNERS SATISFIED THEIR FINANCIAL ASSURANCE OBLIGATIONS FOR THE DECOMMISSIONING OF PVNGS?

A. Under requirements imposed by the NRC, owners and operators of nuclear generating facilities, such as PVNGS, are required to provide financial assurance for facility decommissioning. PNM and the other owners of PVNGS decided to meet the financial assurance requirements of the NRC through the establishment of trusts that are funded for the purpose of decommissioning their Generation Entitlement Share.[4] Under the ANPP Agreement, each of the PVNGS owners is required to develop a Funding Plan that provides reasonable assurance that the accumulations in the trusts will meet the decommissioning obligations of the ANPP Agreement. The Funding Plan for each unit establishes the target amount to be in the trust at the end of each year during the period in which the trust is funded. This annual amount is determined from a funding curve for each unit developed based on the latest estimated decommissioning costs.

Q. IS PNM SEEKING RECOVERY IN RATES FOR ANY PALO VERDE NDT CONTRIBUTIONS RELATED TO PVNGS UNITS 1 AND 2?

[4] 10 CFR 50.75.

A. No. At this time, PNM is not seeking recovery in rates for any Palo Verde NDT contributions related to the PVNGS Units 1 and 2 because their trusts are adequately funded. In Case No. 15-00261-UT, after reviewing the status of the nuclear decommissioning trust funds for PVNGS Units 1 and 2, the Hearing Examiner concluded that it was no longer necessary for PNM to collect decommissioning costs through customer rates because the nuclear decommissioning trusts for these units were adequately funded. The Hearing Examiner further recommended that if there is a shortfall in the nuclear decommissioning trust funding for these units, PNM could seek to recover any needed additional funding in rates in a future rate case. The Commission adopted this recommendation in its Final Order on remand, subject to a future review of decommissioning costs associated with the Leased Interests and 64 MW of repurchased capacity in PVNGS Unit 2.

Q. WILL THE EXPIRATION OF PNM'S LEASED INTERESTS IN PVNGS UNITS 1 AND 2 IMPACT PNM'S CURRENT FUNDING LEVELS FOR NUCLEAR DECOMISSIONING COSTS ASSOCIATED WITH THE LEASED INTERESTS?

A. No. There will be no impact on PNM's existing funding levels or obligations for the decommissioning of PVNGS Units 1 and 2 as a result of the expiration of the leases. Under the leases as originally approved, PNM's decommissioning funding obligations for the leased interests remain the same whether the leased interests expire by their terms or are repurchased at the termination of each lease. This is discussed further by PNM witness Miller.

Q. WHAT DOES THE ACCOUNTING ORDER REQUIRE WITH RESPECT TO NUCLEAR DECOMMISSIONING COSTS RELATED TO PVNGS UNITS 1 AND 2?

A. Ordering Paragraph C of the Accounting Order provides that the parties address "the issue of whether PNM's decision to renew the five leases and repurchase 64.1 MW of PVNGS Unit 2 capacity (which were found to be imprudent in Case No. 15-00261-UT) exposed ratepayers to additional financial liability beyond that to which ratepayers would have been exposed had PNM chosen not to renew the leases and not to repurchase the 64.1 MW of PVNGS Unit 2 capacity and whether PNM should be denied recovery of any future decommissioning expense as a remedy for imprudence."

Q. WHAT IS PNM'S POSITION ON THIS ISSUE?

A. It is PNM's position that the extension of the PVNGS leases and the acquisition of the 64.1 MW of PVNGS Unit 2 did not expose PNM customers to any additional financial liability for nuclear decommissioning expense and that there should be no disallowance of any recovery for nuclear decommissioning costs now or in the future. PNM witness Miller addresses this issue in detail in his direct testimony. As he indicates, under the terms of the leases approved by the Commission, PNM ultimately remains responsible for PVNGS decommissioning, regardless of PNM's decision to extend the leases and repurchase the 64.1 MW interest in PVNGS Unit 2.

Q. IN THE EVENT THAT FUNDING IS REQUIRED FOR THE PVNGS UNITS 1 AND 2 NDT IN THE FUTURE, SHOULD PNM BE ABLE TO SEEK RECOVERY FOR THIS NEEDED FUNDING?

A. Yes. Again, the extension of the leases and the repurchase of the 64.1 MW in PVNGS Unit 2 did not expose customers to any additional financial liability for decommissioning expense, as PNM's obligation did not change based on that decision. In addition, customers have used and benefited from the additional carbon-free capacity under the extended leases and will continue to benefit from the capacity from the 64.1 MW in Unit 2 through its useful life. As discussed previously, PNM is not currently seeking recovery in rates for any Palo Verde NDT contributions related to PVNGS Units 1 and 2. PNM should be able to recover any additional reasonable costs from customers in the event the NDTs require additional funding in the future.

Q. HOW IS THE PALO VERDE NDT FOR PVNGS UNIT 3 CURRENTLY FUNDED?

A. PNM's retail apportionment of decommissioning costs for its certificated PVNGS Unit 3 interests are currently included in rates pursuant to the Commission's approvals in Case No. 13-00390-UT. The Final Order in that case provides that, starting in January 2018, "PNM shall be authorized to include in rates additional decommissioning funding amounts for Palo Verde Unit 3 in the amount of $1.3 million annually."[5] PNM has included this amount in its proposed rates. If annual decommissioning funding increases above $1.3 million, PNM is allowed to recover in rates 50% of the additional amount above $1.3 million.[6] No additional amounts are being requested or are necessary at this time.

Q. DID THE FINAL ORDER IN CASE NO. 13-00390-UT REQUIRE PNM SHAREHOLDERS TO CONTRIBUTE AN ADDITIONAL AMOUNT TO THE PALO VERDE NDT FOR PVNGS UNIT 3?

A. Yes. The Final Order in Case No. 13-00390-UT approved the Modified Stipulation that required PNM to contribute an additional $11 million from shareholders into the Unit 3 NDT before December 31, 2017. PNM has satisfied this requirement. Since then, PNM shareholders have made contributions to the Unit 3 NDT of $5.2 million.

Q. WHAT ARE THE CURRENT FUNDING LEVELS OF THE NDTS FOR PVNGS UNITS 1 AND 2?

A. PNM Table SGG-2 below shows the NDTS funding levels as of October 31, 2022.

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[5] *Modified Stipulation* at 10, approved in *Certification of Stipulation* (NMPRC Nov. 16, 2015), as approved in *Final Order* (NMPRC Dec. 16, 2015).
[6] *Modified Stipulation* at 10 Case No. 13-00390-UT.

PNM Table SGG-2
CURRENT FUNDING LEVELS OF THE NDTS

PV 1	83.01%
PV 2	92.05%
PV 3	96.08%
Total Decommissioning Funded	90.51%

V. SAN JUAN SECURITIZATION BOND ISSUANCE

Q. WHAT DOES THE SHOW CAUSE ORDER ISSUED IN CASE NO. 19-00018-UT REQUIRE PNM TO ADDRESS IN THIS RATE CASE?

A. The Commission's Show Cause Order requires PNM to make a compliance filing with a record of its costs incurred in the Show Cause proceeding in that docket, and imposes the following requirements with respect to the timing of PNM's issuance of the energy transition bonds:

> PNM shall include in its next base rate case application filing an explanation and defense of the prudence of delaying its bond issuance beyond the San Juan abandonment dates and what actions PNM may take or has taken to protect customers from interest rate increases incurred as a result of PNM's intended bond issuance delay and to ensure the continued marketability of any energy transition bonds issued by the Company.
>
> …[In] addition the prudency review shall include a compliance filing in this docket to enable a review of the prudence of PNM's new changed plan made after the Financing Order that decided to delay bond issuance beyond the dates of the San Juan abandonment of Units 1 and 4. The two benchmark dates shall establish the interest rates that are in existence at the times of abandonment compared to the dates of actual bond issuance. Benchmark date #1 shall be set at 30 days following the date of abandonment of Unit 1. Benchmark date #2 shall be set at 30 days following the

> abandonment of Unit 4. Such compliance filings shall be filed in this docket no later than October 15, 2022.[7]

Q. DID PNM MAKE THE COMPLIANCE FILINGS WITH THE TWO BENCHMARK DATE INTEREST RATES AS PROVIDED IN THE FINAL ORDER?

A. Yes. PNM made its initial compliance filing with the estimated bond interest rates as of the first benchmark date in Case No. 19-00018-UT on October 14, 2022. In that filing PNM noted that it was not possible to provide the estimated bond interest rates for the second benchmark date of October 28, 2022, because that benchmark date had not yet occurred as of the October 15, 2022 filing deadline. PNM filed its estimated bond interest rates for the second benchmark date on November 15, 2022.

Q. ARE THERE SPECIFIC ACTIONS PNM SHOULD TAKE TO PROTECT CUSTOMERS FROM A POTENTIAL INCREASE IN BOND INTEREST RATES AT THE TIME OF ISSUANCE AS OPPOSED TO AT THE TIMES OF THE ABANDONMENT OF SAN JUAN?

A. No. It would not be prudent for PNM to try to control the interest rates of its future securitization bond issuance. Rate protection in the form of a hedge for a securitization bond issuance is highly complex, would not be perfectly correlated to a future bond issuance, and would come at a cost. To my knowledge, no utility has implemented a hedging strategy for a securitization bond issuance for these

7 *See* Show Cause Order at Ordering Paragraph B, including the adoption of Ordering Para. E of the Recommended Decision.

reasons and PNM does not execute hedging strategies for its corporate bond issuances. At the time of PNM's planned bond issuance, interest rates may be higher than, lower than, or relatively flat to interest rates PNM may have secured on bonds issued at the times of the abandonment of San Juan. Just as with our other debt financing transactions, PNM does not attempt to time the market in an effort to capitalize on lower interest rates or avoid higher interest rates. Rather, the Company times its financing transactions to correspond with its capital and business needs. Further, the Energy Transition Act does not direct the utility to determine the timing of the bond issuance based on interest rate movements in the market, and rather requires the utility to commit to use commercially reasonable efforts to achieve the "lowest cost objective" at the time bonds are priced.[8]

PNM, working with its lead underwriters, will satisfy the "lowest cost objective" standard in fact through developing and refining the bond tranche structure based upon the shape of the yield curve, and investor demand for certain credit spreads, tranche liquidity and specific principal payment windows. The bond structure will be adjusted in real time as required during the transaction marketing period and market-clearing pricing process to take into account shifts in the interest rate environment and investor demand across the bond transaction's 25-year total scheduled principal payment period.

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[8] N. "lowest cost objective" means that the structuring, marketing and pricing of energy transition bonds results in *the lowest energy transition charges consistent with prevailing market conditions at the time of pricing* of energy transition bonds and the structure and terms of energy transition bonds approved pursuant to the financing order (emphasis added).

Q. IS IT APPROPRIATE FOR THE COMMISSION TO ORDER A HINDSIGHT REVIEW ON INTEREST RATES AND HOLD PNM TO A PRUDENCY TEST BASED ON HOW INTEREST RATES MOVED FROM THE TIME OF ABANDONMENT TO THE TIME THE BONDS ARE ISSUED?

A. No. As discussed above, it is not practical or appropriate to time the market and hold the utility accountable for factors that are beyond its control.

Q. ARE THERE SPECIFIC STEPS PNM HAS TAKEN OR MAY TAKE TO ENSURE THE CONTINUED MARKETABILITY OF THE SAN JUAN ENERGY TRANSITION BONDS TO BE ISSUED IN THE FUTURE?

A. PNM believes that the San Juan securitization bond issuance will continue to be marketable in the future. The Energy Transition Act, the Financing Order, the mandatory true-up adjustment process, and the State's non-impairment pledge all remain intact. PNM's AAA-rated securitization bonds will be backed by a highly reliable, non-bypassable Energy Transition Charge. Further, PNM will engage underwriters, counsel, and other subject matter experts as needed to guide the Company through the transaction to ensure the necessary steps are taken to achieve the highest credit ratings for the bonds and meet all legal and regulatory requirements. These factors all contribute to the continued marketability of the bonds, which is not impacted by the timing of issuing the bonds.

Q. CAN YOU COMMENT ON THE SECURITIZATION PROCESS PNM PLANS TO BEGIN IN 2023 TO FACILIATE ISSUANCE OF THE BONDS IN THE FOURTH QUARTER OF 2023?

A. PNM will issue the San Juan securitization bonds following several required pre-issuance steps and an active marketing process conducted by the underwriters PNM selects for the transaction. This process is estimated to take up to 13 weeks to complete but may take longer if delays occur. The energy transition bonds will be issued in the debt capital markets. However, there are known periods when the capital markets, while technically open, may not have adequate demand to support a robust and competitive marketing process. Among other times of year, investors of utility-issued asset-backed securities ("ABS") like PNM's securitization bonds are not typically very active in the ABS market between Thanksgiving and year-end. Further, during periods of extreme market volatility or market distress, the capital markets, including the ABS market, may experience periods of no capital availability.

To ensure access to the ABS market during a period of active investor engagement, PNM plans to begin the broader securitization process in mid-2023 with the goal of completing the pre-marketing transaction execution steps by the end of September. The one-to-two-week marketing process and bond issuance may then take place as early as October 2023, which would provide a six-to-seven-week window to access the market before Thanksgiving, after which there may be less investor engagement. Having this window provides accommodation for a potential delay in the initial transaction execution steps and flexibility to wait out periods of extreme market volatility or market distress. Further, issuing the bonds during that period would align with PNM's stated intent to issue near the time when new base rates go into effect, expected in January 2024.

VI. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

GCG#530106

Statement of Qualifications

PNM Exhibit SGG-1

Is contained in the following 1 page.

SABRINA G. GREINEL
EDUCATIONAL AND PROFESSIONAL SUMMARY

Name: Sabrina G. Greinel

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

Position: Executive Director of Treasury for PNMR Services Company

Education: Bachelor of Business Administration, University of New Mexico, 2005
Master of Business Administration, University of New Mexico, 2009

Employment: Employed by PNM Resources since 2007

Positions held within the Company include:
Senior Manager, Corporate Budget and Enterprise Risk Management
Senior Program Manager, Enterprise Strategy and Risk Management
Project Manager, Enterprise Strategy and Risk Management
Senior Auditor
Assistant Treasurer

Prior Testimony:

- Case No. 20-00071-UT: In the Matter of the Application of Public Service Company of New Mexico for Authorization to Issue up to $200 Million of Senior Unsecured Notes.
- Case No. 21-00101-UT: In the Matter of the Application of Public Service Company of New Mexico for Authorization to Issue up to $350 Million of Senior Unsecured Notes.

GCG#530054

Moody’s Credit Opinion for PNM, September 2022

PNM Exhibit SGG-2

Is contained in the following 13 pages.

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
30 September 2022

Update

Send Your Feedback

RATINGS

Public Service Company of New Mexico

Domicile	Albuquerque, New Mexico, United States
Long Term Rating	Baa2
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Public Service Company of New Mexico

Update to credit analysis

Summary

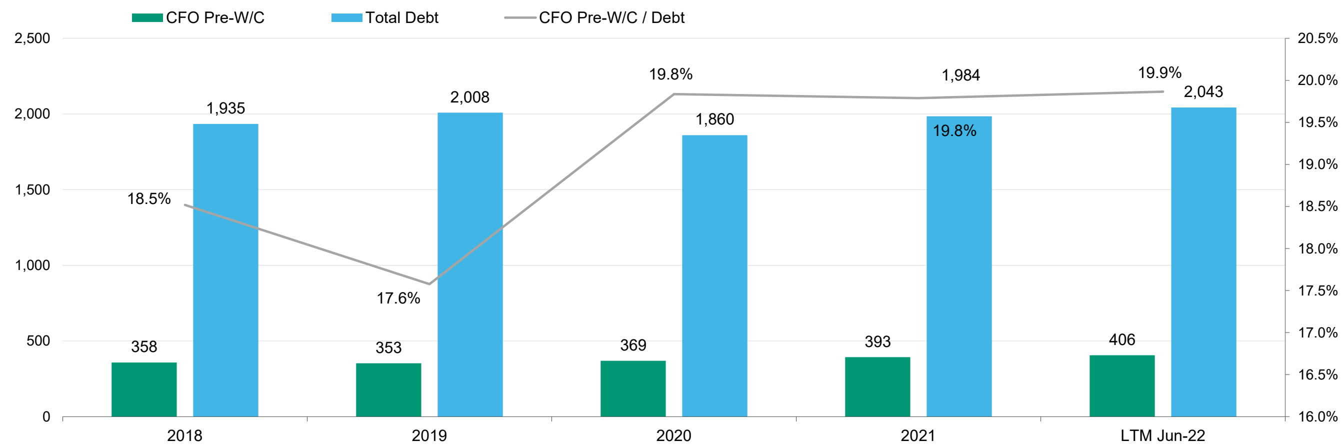
Public Service Company of New Mexico's (PNM) credit profile reflects its business risk as a regulated vertically integrated utility operating in the New Mexico regulatory environment that we consider to be more challenging than most jurisdictions in the US. Historically, decisions by the New Mexico Public Regulation Commission (NMPRC) have demonstrated a level of inconsistency and unpredictability. There have been some positive actions in the state over the last few years including the NMPRC's April 2020 authorization to allow PNM to use securitization bonds to recover San Juan power plant stranded costs, facilitating the transition of PNM's generation fleet to meet New Mexico's renewable portfolio standard (RPS) of 80% by 2040 and be carbon-free by 2045. However, there have also been some negative decisions by the NMPRC including the regulators' decision last December to deny approval of PNM Resources, Inc.'s (PNMR, Baa3 stable) proposed merger with Avangrid, Inc. (AGR, Baa2 stable) after 23 of the 24 intervening parties, including the NM Attorney General, had either supported or did not oppose the merger agreement. That same month, the NMPRC denied PNM's Four Corners abandonment application and the corresponding request for securitization financing.

The credit quality also reflects PNM's relatively strong financial profile. For the 12-months ended 30 June 2022, PNM's ratio of cash flow pre-working capital changes (CFO pre-W/C) to debt was 19.9%; up from 17.6% in 2019, when the company incurred cost recovery disallowances after appealing a prior rate case order. Since 2019, PNM has improved its credit metrics through a gradual increase in cash flow generation while maintaining a relatively stable adjusted debt balance helped by reducing its pension and lease obligations. Going forward, we expect a modest decline in PNM's credit metrics as the company maintains higher capital investment levels to transition its generation portfolio to cleaner energy. However, we anticipate that the company will maintain credit metrics that support its current Baa2 credit rating including a ratio of CFO pre-W/C to debt in the high teens.

Recent developments

On 21 October 2020, PNMR, the parent of PNM and Texas-New Mexico Power Company (TNMP, Baa1 stable), announced an agreement to be acquired by AGR for $7.8 billion, including $4.3 billion in cash and the assumption of approximately $3.5 billion of consolidated debt. In December 2021, the NMPRC rejected a stipulated agreement between parties in the merger after the transaction had received all other necessary regulatory approvals, including the Public Utilities Commission of Texas (PUCT), Federal Energy Regulatory Commission (FERC), and the Nuclear Regulatory Commission (NRC). On 3 January 2022, PNMR and AGR announced an amendment and extension of their merger agreement to 20 April 2023 and an appeal of the NMPRC decision with the New Mexico Supreme Court. There is no statutory deadline for the Court to act.

Exhibit 1
Historical CFO pre-W/C, Total Debt and ratio of CFO pre-W/C to Debt ($ MM)



Source: Moody's Financial Metrics

Credit strengths

» New Mexico's Energy Transition Act (NM ETA) should provide construct for PNM to transition its generation portfolio toward clean energy

» Securitization approved to recover San Juan coal-fired generation station stranded costs

» Solid financial profile expected to continue to support credit quality

» Will become a part of a large diversified family if merger with AGR is approved

Credit challenges

» Regulatory environment in New Mexico is more challenging than most US jurisdictions mainly due to inconsistent and unpredictable regulatory decisions

» Approval to abandon Four Corners coal-fired power plant and cost recovery through securitization has been denied but being appealed

» Capital investments remain elevated which will require additional debt financing

Rating outlook

PNM's stable outlook reflects our expectation that financial metrics will decline modestly but remain supportive of credit quality including a ratio of CFO pre-W/C to debt in the high teens, which helps to mitigate the challenging New Mexico regulatory environment. The stable outlook also incorporates our view that PNM will be able to recover its coal generation stranded asset costs while also integrating the new renewable resources planned over the next few years. Furthermore, the stable outlook incorporates our expectation that elevated capital expenditures will be financed in a balanced manner that is consistent with PNM's current capital structure and that the utility will maintain a solid financial profile.

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

Factors that could lead to an upgrade

PNM could be upgraded if the New Mexico regulatory environment was to exhibit a sustained improvement through credit supportive regulatory decisions that reduce the utility's business and financial risks; and enhance PNM's ability to consistently recover prudently incurred costs and investments and earn its allowed return. Moreover, if financial metrics improve such that PNM's ratio of CFO pre-W/C to debt is sustained above 20%, the rating could be upgraded.

Factors that could lead to a downgrade

PNM could be downgraded if the New Mexico regulatory environment becomes more contentious such that the company's ability to earn its allowed return becomes more challenging or its business risk profile becomes elevated because of material cost recovery disallowance. Moreover, if financial metrics decline such that PNM's ratio of CFO pre-W/C to debt is sustained below 16%, the rating could be downgraded.

Key indicators

Exhibit 2
Public Service Company of New Mexico [1]

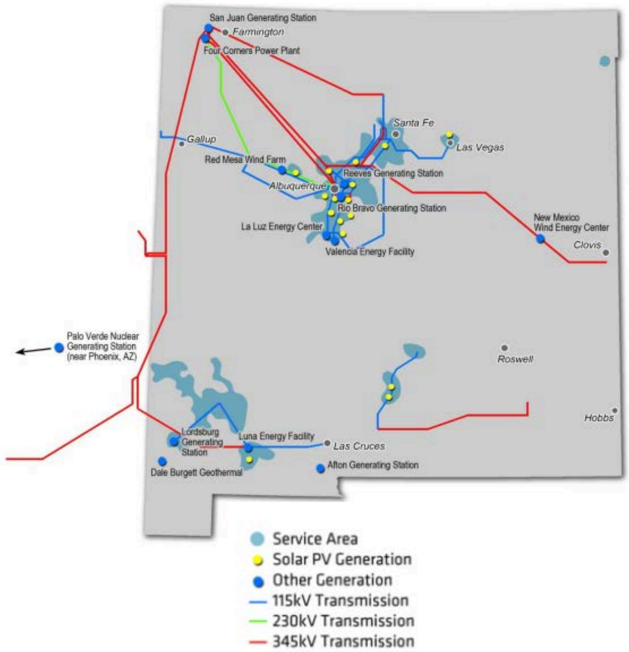
	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
CFO Pre-W/C + Interest / Interest	4.9x	5.1x	6.2x	7.7x	7.6x
CFO Pre-W/C / Debt	18.5%	17.6%	19.8%	19.8%	19.9%
CFO Pre-W/C – Dividends / Debt	14.5%	17.5%	17.6%	16.7%	16.9%
Debt / Capitalization	49.6%	49.6%	43.1%	42.8%	43.5%

[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

Profile

PNM is the principal operating subsidiary of PNM Resources, Inc. (PNMR, Baa3 stable), a regulated utility holding company that also owns Texas-New Mexico Power Company (Baa1 stable) and 50% of New Mexico Renewable Development (NMRD), a joint venture with American Electric Power (AEP, Baa2 stable) that pursues the acquisition, development, and ownership of renewable energy projects in New Mexico. PNM is a regulated vertically integrated electric utility with over 540,000 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 with approximately 2,600 MWs of generation.

Exhibit 3
Service Territory



Source: Company Presentations

Detailed credit considerations

New Mexico regulatory environment remains more challenging than most state jurisdictions

Due to historical regulatory outcomes in the state, we view the New Mexico regulatory framework as less predictable and transparent compared to other US jurisdictions. Some of the more recent regulatory decisions are discussed below.

We do note that the NMPRC will move to a 3-member appointed commission from a 5-member elected commission beginning 1 January 2023. The three new members of the commission will be selected by the NM Governor by the end of 2022. The change adds uncertainty to the regulatory process going forward but could bring more stability to regulatory decisions in the future.

In December 2021, the NMPRC denied PNMR's merger with AGR by rejecting a stipulated agreement between parties after the transaction had received all other necessary regulatory approvals, including the PUCT, FERC, and NRC. This was also after 23 of the 24 intervening parties, including the NM Attorney General, had supported or did not oppose the agreement. On 3 January 2022, PNMR and AGR announced an amendment and extension of their merger agreement to 20 April 2023 and an appeal of the NMPRC decision with the New Mexico Supreme Court. There is no statutory deadline for the Court to act. We expect the merger agreement will be addressed either by the Court or by the state's newly appointed regulatory commission in 2023.

Also in December 2021, the NMPRC issued an order denying the sale and abandonment of PNM's interest in the Four Corners coal-fired plant. The order also denied the use of securitization financing for the remaining book value of those assets. In late December, PNM filed an appeal to the NM Supreme Court claiming that the NMPRC misinterpreted and improperly applied the tenets of the 2019 Energy Transition Act (ETA) in the regulators' decision. There has been no indication as to when the Court will make a final determination on this matter.

The NMPRC order was in response to the company's application filing in January 2021 seeking approval for the abandonment of Four Corners as well as approximately $300 million of securitization financing for the plant's undepreciated investments and other costs as allowed under the ETA. In March 2021, PNM filed an amended application and supplemental testimony as requested by the NMPRC and hearings were held last September. In November 2020, PNM entered into a purchase and sale agreement for Four Corners with Navajo Transitional Energy Company, LLC (NTEC). The agreement includes PNM's sale of its 13% ownership interest in the coal-fired power plant to NTEC. This sale requires NMPRC approval, which is needed prior to PNM's exit of the plant at the end of 2024.

PNM's last general rate case outcome was a multi-party settlement initially approved by the NMPRC in December 2017. However, it was later adversely modified by the commission in January 2018. The original settlement agreement reduced PNM's initially requested rate increase from $99.2 million to $62.3 million. Subsequently, a hearing examiner cited PNM's continued investment in the Four Corners coal fired facility (Four Corners) as imprudent and recommended against PNM's ability to collect a debt or equity return on incremental investments of approximately $148 million in the plant. PNM was granted a rehearing and the NMPRC allowed a debt only return on Four Corners but deferred further consideration of PNM's decision to continue participation in Four Corners until the next general rate case filing. PNM's retail rates are set based on an authorized return on equity (ROE) of 9.575% and equity ratio of 50%.

While the initial settlement provided for the impact of the Tax Cuts and Jobs Act (TCJA) on customer rates to begin in 2019, the final order incorporated the impact of the TCJA beginning in February 2018. This further reduced the proposed rate increase in the settlement from $62.3 million to $10.3 million with approximately 50% of the increase implemented in February 2018 and the remainder in January 2019.

Exhibit 4
PNM's past general rate cases in New Mexico

Rate Case Service Type	Increase Requested					Increase Authorized							Rate Case Duration (months)
	Date	Rate Increase ($M)	Return on Equity (%)	Common Equity to Total Capital (%)	Rate Base ($M)	Date	Decision Type	Rate Increase ($M)	Interim Authorized?	Return on Equity (%)	Common Equity to Total Capital (%)	Rate Base ($M)	
Electric	12/7/2016	99.2	10.13	49.61	2,381.20	12/20/2017	Modified Settlement	10.3	No	9.58	49.61	2,363.89	12
Electric	8/27/2015	123.5	10.50	49.61	2,458.09	9/28/2016	Fully Litigated	61.2	No	9.58	49.61	2,263.00	13
Electric	12/11/2014	107.4	10.50	49.60	2,387.76	5/13/2015	Fully Litigated	NA	No	NA	NA	NA	5
Electric	6/1/2010	165.2	11.75	49.62	1,858.51	8/8/2011	Settled	72.1	No	10.00	51.28	1,802.31	14
Electric	9/22/2008	123.3	11.75	50.47	1,599.19	5/28/2009	Settled	77.1	No	10.50	50.47	1,489.00	8
Electric	2/21/2007	76.8	10.75	51.37	1,230.32	4/24/2008	Fully Litigated	34.4	No	10.10	51.37	1,191.64	14

Note: The December 2017 final order of $10.3 million included impacts of TCJA.
Source: S&P Global Market Intelligence

Regulatory decisions around San Juan power plant closure were largely supportive; however recent decisions have been more contentious

In April 2020, the NMPRC unanimously approved PNM's consolidated application requesting the abandonment of the remaining Units 1 and 4 of the San Juan coal-fired power plant and the use of securitization financing for its unrecovered investment. The application was filed under the construct of the New Mexico ETA. The plan accelerates recovery of undepreciated plant, reduces PNM's carbon transition risk, provides for carbon-free replacement power and improves community relations as PNM works toward meeting New Mexico's clean energy goals. PNM has over $500 million of rate base associated with its coal generation investments, which includes the San Juan and Four Corners plants.

San Juan Unit 1 was closed at the end of June while Unit 4 closed 29 September. The delayed closing of Unit 4 was to ensure reliability is maintained for PNM customers during the 2022 summer peak load. The closing dates largely coincided with the expiration of the plant's participation and coal supply agreements, and was consistent with the company's Integrated Resource Plan (IRP). PNM is moving forward with plans to achieve a zero emissions goal by 2040, facilitated by the ETA. PNM is also seeking renewable replacement power through requests for proposal in order to maintain reliability and affordably priced power for its customers.

The NMPRC approved a financing order that will permit PNM to issue up to $361 million of "energy transition bonds," or securitization bonds. Proceeds from the securitization financing will be used to recover approximately $283 million of the undepreciated San Juan plant, which will be reinvested in integrating replacement power resources, $29 million of reclamation and decommissioning costs and $9 million in financing costs. In addition, $40 million of securitization proceeds will fund community and economic development in San Juan County, including severance and job training for affected employees as well as additional tribal and regional support through state administered programs.

In December 2020, the NMPRC issued an order adopting a hearing examiner's recommended decision for San Juan replacement power resources. The order included a 200 MW solar PPA combined with a 100 MW battery storage agreement and a 100 MW solar PPA combined with a 30 MW battery storage agreement. Since then, PNM has notified the NMPRC that the replacement power resources would not be fully completed in time to serve PNM's load during the summer peak season of 2022 and may not be available for the summer 2023 peak. PNM is looking into alternative sources of power to make sure that demand during this period is met accordingly.

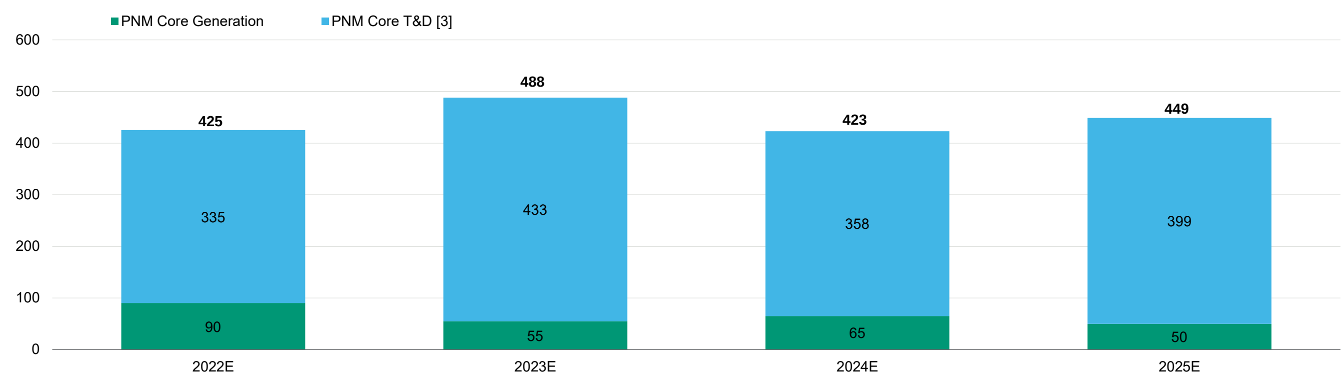
Over the last two years, the NMPRC and PNM had been relatively aligned on their views and decisions around the San Juan plant closure and regulatory cost recovery. However, on 29 June 2022, the NMPRC issued an order that required PNM to begin issuing annual rate credits of $21.1 million to customers beginning 31 July 2022, reflecting the costs associated with San Juan Unit 1, which was closed at the end of June. Similarly, the NMPRC's order required PNM to issue an additional $77.2 million of rate credits on an annual basis to customers beginning 31 October 2022, which reflected the costs associated with San Juan Unit 4 and common facilities. PNM planned to address changes in customer rates and the securitization financing for the undepreciated book value related to the closing of San Juan during a rate case filed in 2023.

During July and August, PNM filed for appeal and an emergency stay on the NMPRC decision, first with the NMPRC; and later with the New Mexico Supreme Court, after the commission denied its appeal. At the same time, the company began issuing the customer rate credits on 31 July as ordered. On 2 September, the Court granted an emergency stay of the NMPRC order pausing further rate credits to customers (that began July) until further action by the Court. A deadline for the Court's ruling on PNM's request for a permanent stay on the NMPRC order has not been established and therefore the timing on further action by the Court on this matter is uncertain.

Financial metrics expected to modestly weaken from currently strong levels but continue to support credit quality

Although the New Mexico regulatory environment has historically been more challenging than other jurisdictions, PNM has historically been able to maintain a relatively stable financial profile that supports its credit quality. PNM's capital investment plan remains elevated although it has moderated from previous plans as the utility will enter into PPAs for San Juan replacement power and does not expect to own any of the replacement generation. However, PNM will continue to invest heavily in T&D infrastructure to integrate additional renewable resources and deploy advanced technologies under its 'wired for the future' capital program announced in July 2020. An indication of this approach was PNM's acquisition of the Western Spirit transmission line, a 153-mile 345-kV transmission line and related facilities, for $285 million in December 2021. The transmission line will transmit approximately 800 MWs of new wind generation in New Mexico.

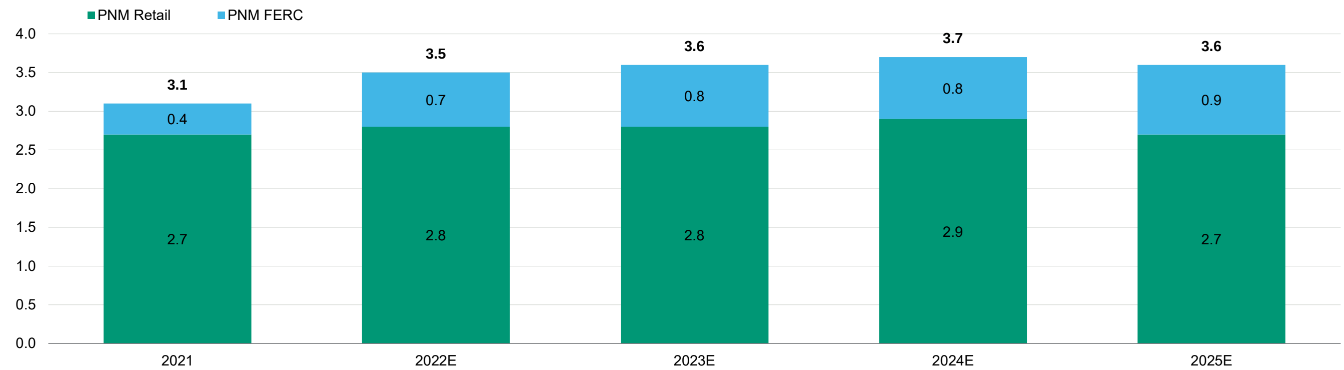
Exhibit 5
PNM projected capital investments



[3] The expected PNM Core T&D (2022E-2025E) includes PNM Wired for the Future
Source: Company Presentations

For the 12-months ended 30 June 2022, PNM's ratio of CFO pre-W/C to debt was 19.9%. We expect the utility's elevated capital expenditures, including associated debt issuances as well as some regulatory lag, will put modest pressure on the company's credit metrics in the near term. However, we expect credit metrics to remain at levels supportive of its current Baa2 credit rating including a ratio of CFO pre-W/C to debt to be in the high teens.

Exhibit 6
PNM's current and projected rate base
($ billions)



Includes FERC Rate Base
Source: Company Presentations

ESG considerations

PNM's ESG Credit Impact Score is CIS-3 (Moderately Negative)

Exhibit 7
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT
POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

PNM's ESG Credit Impact Score is moderately negative (**CIS-3**). Its ESG attributes are considered to be having an overall limited impact on the current rating, with potential for future negative impact over time. PNM's **CIS-3** reflects moderate environmental and social risks, along with neutral-to-low governance risk.

Exhibit 8
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-3	S-3	G-2
Moderately Negative	Moderately Negative	Neutral-to-Low

Source: Moody's Investors Service

Environmental

PNM's moderately negative environmental risk (**E-3** issuer profile score) is driven primarily by its exposure to physical climate risks, mostly in the form of extreme weather patterns including excessive heat. The company has neutral-to-low carbon transition risk as it plans to exit coal generation by 2024 resulting in a generation portfolio of natural gas, nuclear and renewable energy. Operating nuclear generation also exposes the company to moderate waste and pollution risks. Risks in the areas of water management and natural capital are neutral-to-low.

Social

The utility's exposure to social risks is moderately negative (**S-3** issuer profile score) reflecting risks associated with customer relations and demographic and societal trends. These trends could increase public concern over environmental, social, or affordability issues and lead to adverse regulatory or political intervention, particularly in a New Mexico regulatory environment that has been inconsistent and unpredictable at times. These risks are balanced by neutral-to-low risks to health and safety, human capital, and responsible production.

Governance

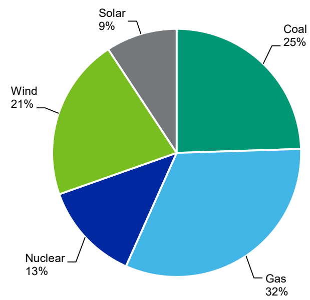
PNM's governance is broadly in line with other utilities and does not pose a particular risk (**G-2** issuer profile). This is supported by neutral-to-low scores on financial strategy and risk management, management credibility and track record, organizational structure, compliance and reporting and board structure policies and procedures.

ESG Issuer Profile Scores and Credit Impact Scores for PNM are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for PNM on MDC and view the ESG Scores section.

ESG additional considerations

Environmental considerations incorporated into our credit analysis for PNM are primarily related to the company's carbon transition as well as physical climate risks such as heat stress. PNM is strongly positioned for carbon transition within the regulated utility sector with strategies and plans in place that substantially mitigate its carbon transition exposure in the near term. At the end of 2021, about 57% of PNM's total generation capacity was from carbon emitting sources, including approximately 25% coal and 32% natural gas, while the remainder was made up of wind (21%), nuclear (13%) and solar (9%). However, the company currently has a plan to produce 100% carbon free energy by 2040.

Exhibit 9
Generation capacity by fuel type, owned, leased and PPAs



As of December 31, 2021
Source: Company Filings

PNM filed its latest IRP in January 2021, which addressed the 20-year planning period from 2020 through 2040. The IRP outlined a 20-year plan to achieve the carbon-free goal and the requirements of the Energy Transition Act (ETA), which requires that all retail sales be supplied by 80% renewable generation by 2040 and that all retail sales be supplied by 100% carbon emissions-free generation by 2045. The plan aims for a carbon-free electricity portfolio by 2040 including the regulatorily approved closing of PNM's 562 MW San Juan coal-fired power plant, or nearly 75%, of its coal generation, by the end of September 2022. PNM also plans to exit its 13% ownership interest or 200 MWs in the Four Corners coal-fired power plant by the end of 2024 but is awaiting regulator approval. The IRP incorporates replacing the power from San Juan and Four Corners with a combination of carbon-free resources such as renewables and energy storage.

Social risks are primarily related to health and safety, demographic and societal trends, as well as customer relations as the company continues to strive to provide reliable and affordable electricity service to customers and safe working conditions for employees. Regarding affordability, we see potential for rising social risks associated with an inflationary environment, higher energy bills stemming from elevated natural gas prices and the potential effect of increasing interest rates longer term. These circumstances, in particular, could limit the amount of timely cost recovery the company receives which could negatively impact the company's financial metrics.

From a governance perspective, financial and risk management policies including a strong financial profile are key to managing the company's environmental and social risks. The governance of PNM is based on that of its parent company, PNMR, which scores highly under our corporate governance assessment criteria. Management has historically generally employed a balanced fiscal policy which is an important consideration. Maintaining strong financial measures and good liquidity improves the company's ability to respond to environmental and socials risks. Additionally, nine PNMR's board directors are considered independent by the company.

Liquidity analysis

PNM has an adequate liquidity profile driven by stable cash flow generation, availability on external credit facilities and typically minimal cash on hand.

For the 12-months ended 30 June 2022, PNM generated cash flow from operations of $424 million, had capital expenditures of $655 million and dividends to its parent of $61 million, resulting in negative free cash flow of $292 million. The shortfall in funding cash outflows through internally generated cash flow was supplemented with short-term borrowings, long-term debt issuances and capital contributions from its parent of $53 million. Going forward, we expect the company will use short and long-term debt borrowings, as well as parent capital contributions, to supplement internal cash flow generation to finance its elevated capital investment program and dividend distributions. We expect any financings will be done in a balanced manner that will maintain its regulated capital structure of around 50% debt and equity.

PNM has a $400 million revolving credit facility that expires in October 2024 and an additional $40 million facility with local New Mexico banks, which expires in May 2026. As of 29 July 2022, PNM had $79.9 million of borrowings outstanding under the $400 million revolving credit facility, no letters of credit outstanding and no cash on hand. Also, as of 29 July 2022, PNM had no availability under the additional $40 million facility. In August 2022, PNM entered into a $225 million delayed-draw term loan, of which $185 million was drawn at closing with the remaining $45 million was drawn on 30 September. Borrowings were used to redeem the company's $75 million term loan due December 2022. The credit facilities do not contain a material adverse change clause for new borrowings and have only one financial maintenance covenant limiting debt to total capitalization to 65%. As of 30 June 2022, PNM was well in compliance with this debt covenant. PNM can also borrow up to $100 million from its parent as part of an inter-company borrowing arrangement. As of 29 July 2022, PNM had no borrowings from its parent company.

PNM's near term debt maturities include the $75 million term loan due December 2022 and $55 million of unsecured notes due May 2023. The company has $130 million of pollution control bonds that have a June 2023 mandatory put.

Rating methodology and scorecard factors

Exhibit 10
Methodology Scorecard Factors
Public Service Company of New Mexico

Regulated Electric and Gas Utilities Industry [1][2]	Current LTM 6/30/2022		Moody's 12-18 Month Forward View As of Date Published [3]	
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)	6.7x	Aa	5.5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	19.2%	Baa	16% - 20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	17.5%	A	14% - 17%	Baa
d) Debt / Capitalization (3 Year Avg)	45.5%	Baa	43% - 47%	Baa
Rating:				
Scorecard-Indicated Outcome Before Notching Adjustment		Baa1		Baa2
HoldCo Structural Subordination Notching	0	0	0	0
a) Scorecard-Indicated Outcome		Baa1		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 6/30/2022(L)
[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.
Source: Moody's Financial Metrics™

Appendix

Exhibit 11

Cash Flow and Credit Metrics [1]

CF Metrics	Dec-18	Dec-19	Dec-20	Dec-21	LTM Jun-22
As Adjusted					
FFO	**289**	**210**	**380**	**399**	**416**
+/- Other	69	143	-11	-7	-10
CFO Pre-WC	**358**	**353**	**369**	**393**	**406**
+/- ΔWC	-55	19	-21	19	38
CFO	**304**	**372**	**348**	**412**	**444**
- Div	78	1	41	61	61
- Capex	276	359	358	622	675
FCF	**-50**	**13**	**-51**	**-271**	**-292**
(CFO Pre-W/C) / Debt	18.5%	17.6%	19.8%	19.8%	19.9%
(CFO Pre-W/C - Dividends) / Debt	14.5%	17.5%	17.6%	16.7%	16.9%
FFO / Debt	14.9%	10.5%	20.4%	20.1%	20.3%
RCF / Debt	10.9%	10.4%	18.2%	17.1%	17.4%
Revenue	1,092	1,094	1,140	1,362	1,482
Interest Expense	92	85	71	59	61
Net Income	64	159	151	157	101
Total Assets	5,171	5,238	5,581	6,057	6,087
Total Liabilities	3,767	3,781	3,765	4,088	4,127
Total Equity	1,404	1,457	1,816	1,968	1,960

[1] All figures and ratios are calculated using Moody's estimates and standard adjustments. Periods are Financial Year-End unless indicated. LTM = Last Twelve Months
Source: Moody's Financial Metrics

Exhibit 12

Peer Comparison Table [1]

	Public Service Company of New Mexico Baa2 (Stable)			Tucson Electric Power Company A3 (Stable)			Evergy Metro, Inc. Baa1 (Stable)			El Paso Electric Company Baa2 (Stable)			Southwestern Public Service Company Baa2 (Stable)		
(In US millions)	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Jun-22	FYE Dec-20	FYE Dec-21	LTM Mar-22	FYE Dec-20	FYE Dec-21	LTM Jun-22
Revenue	1,140	1,362	1,482	1,425	1,593	1,641	1,706	1,914	1,881	918	1,060	1,077	1,870	2,465	2,168
CFO Pre-W/C	369	393	406	452	512	525	685	735	758	224	236	245	564	539	647
Total Debt	1,860	1,984	2,043	2,164	2,219	2,333	3,678	3,499	3,498	1,632	1,765	1,833	3,090	3,283	3,252
CFO Pre-W/C + Interest / Interest	6.2x	7.7x	7.6x	6.0x	6.8x	6.8x	6.0x	6.7x	6.9x	3.4x	3.7x	3.7x	5.6x	5.7x	6.0x
CFO Pre-W/C / Debt	19.8%	19.8%	19.9%	20.9%	23.1%	22.5%	18.6%	21.0%	21.7%	13.7%	13.4%	13.4%	18.3%	16.4%	19.9%
CFO Pre-W/C – Dividends / Debt	17.6%	16.7%	16.9%	17.4%	20.3%	19.8%	15.4%	19.6%	20.3%	10.2%	6.1%	6.3%	8.1%	7.0%	11.0%
Debt / Capitalization	43.1%	42.8%	43.5%	43.4%	41.9%	42.5%	52.6%	49.1%	47.9%	48.4%	48.2%	49.4%	43.5%	43.3%	41.7%

[1] All figures & ratios calculated using Moody's estimates & standard adjustments. FYE = Financial Year-End. LTM = Last Twelve Months. RUR* = Ratings under Review, where UPG = for upgrade and DNG = for downgrade
Source: Moody's Financial Metrics

Ratings

Exhibit 13

Category	Moody's Rating
PUBLIC SERVICE COMPANY OF NEW MEXICO	
Outlook	Stable
Issuer Rating	Baa2
Senior Unsecured	Baa2
PARENT: PNM RESOURCES, INC.	
Outlook	Stable
Issuer Rating	Baa3

Source: Moody's Investors Service

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REPORT NUMBER 1340280

MOODY'S INVESTORS SERVICE

S&P Global Ratings Score Snapshot, July 2022

PNM Exhibit SGG-3

Is contained in the following 9 pages.

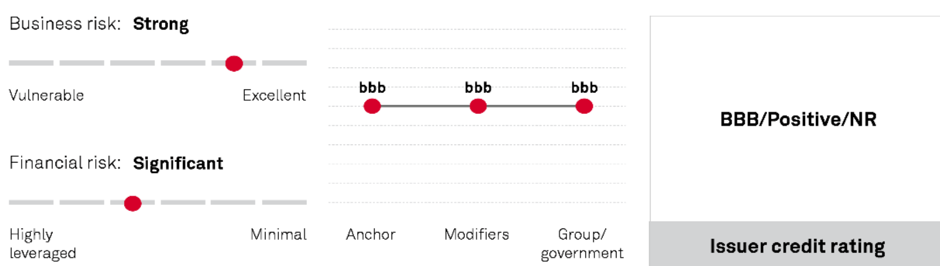
S&P Global
Ratings

Research

Public Service Co. of New Mexico

July 19, 2022

Ratings Score Snapshot



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Credit Highlights

Overview

Key strengths	Key risks
Lower-risk, rate-regulated, vertically integrated electricity utility with a diverse fuel mix.	Historically challenging regulatory environment in New Mexico, with above-average regulatory lag.
Steady revenue from the company's residential customer base supports credit quality.	Robust capital spending and continued negative discretionary cash flow, indicating external funding needs.

We expect Public Service Co. of New Mexico's (PSNM) parent, PNM Resources Inc. (PNMR), will continue with the proposed acquisition by Avangrid Inc. In October 2020, Connecticut-based utility operator Avangrid (BBB+/Stable/A-2) announced it intends to acquire PNMR and its subsidiaries—PSNM and Texas-New Mexico Power Co. (TNMP). In December 2021, the New Mexico Public Regulation Commission (NMPRC) issued an order rejecting the stipulation agreement relating to the pending acquisition due to operational and legal risks. In January 2022, PNM and Avangrid appealed the commission's rejection to the New Mexico Supreme Court and extended their merger agreement until April 20, 2023.

The positive outlook on PSNM reflects the pending acquisition by a higher-rated entity, as well as our expectation that the company will be core to the parent. Upon acquisition completion, we expect to align our ratings on PSNM with the issuer credit rating on the new owner, as per our criteria for core subsidiaries. We continue to monitor developments of the pending acquisition.

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We expect PSNM to manage its regulatory risks surrounding its San Juan Generating Station through appeals and rate case fillings over the outlook period. In June 2022, PSNM filed an appeal and emergency motion for a stay of rate credits following NMPRC's order that PSNM must reduce customer rates once San Juan is retired at the end of September. The NMPRC's order results in a pre-tax, nonrecurring reduction to revenues of about $128 million over 2022 and 2023. PSNM has deferred the new rate implementation since 2020. The company plans to file for a general rate review in December 2022, which could consider the cost reductions from the abandonment, securitization, and replacement of San Juan.

We expect PSNM to continue its efforts to reduce carbon emissions through coal retirement and nuclear abandonment. Under New Mexico's Energy Transition Act (ETA), passed in 2019, the state aims to achieve a 100% carbon-free generation portfolio by 2045. PSNM targets 2040 for a carbon-free generation portfolio. In addition, it plans to abandon leased capacity at the Palo Verde nuclear generation station, with renewable replacement power under consideration. The company also plans to exit from its share of the Four Corners coal plant by the end of 2024 and filed an appeal with the New Mexico Supreme Court following NMPRC's order denying its application to abandon, sell, and securitize its minority interest.

Outlook

The positive outlook reflects the potential for higher ratings following PSNM's acquisition by Avangrid, which is rated one notch higher. After closing, we expect to align our ratings on PSNM with the parent's group credit profile. In addition, we expect PNMR will consistently maintain a funds from operations (FFO)-to-debt ratio of about 15% over the next two years and continue to manage regulatory risk in New Mexico and Texas.

Downside scenario

We could revise the outlook to stable from positive if Avangrid doesn't acquire PSNM. We could lower the ratings on PNMR and PSNM if PNMR's consolidated financial measures continue to weaken, including FFO to debt consistently less than 14%, or PNMR's ability to manage regulatory risk weakens, raising business risk.

Upside scenario

We could raise our ratings on PSNM if the entities are acquired by Avangrid as planned. We could raise the ratings on PNMR and PSNM if PNMR's consolidated financial measures improve, including FFO to debt consistently higher than 17%, without any material weakening in the business risk profile.

Our Base-Case Scenario

Assumptions

- Modest customer growth;
- Use of regulatory mechanisms including general rate case fillings to manage its regulatory risk;
- Annual capital spending averaging about $480 million through 2024; and
- Annual dividend payments averaging about $165 million.

Key metrics

Public Service Co. of New Mexico--Key Metrics*

	2021a	2022e	2023f
FFO to debt (%)	21.6	17.0-19.0	17.0-19.0
Debt to EBITDA (x)	4.3	4.0-4.5	4.5-5.0

*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast. FFO—Funds from operations.

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Company Description

PSNM is a vertically integrated utility company that generates, transmits, and distributes electricity to about 540,000 customers in New Mexico. The company is a wholly owned subsidiary of PNMR and accounts for more than 76% of its parent's revenues.

Business Risk

Our assessment reflects PSNM's lower-risk and vertically integrated, regulated electricity utility operations. It also incorporates the company's mostly residential customer base, diverse fuel mix, limited geographic and regulatory diversity, and management of regulatory risk. It is regulated by the NMPRC, which we view as a challenging regulatory environment. We base this on its history of regulatory decisions, including disallowances, that have challenged the consistency of the regulatory construct in New Mexico and resulted in volatile profit measures for PSNM in recent years despite its stable customer base.

In June 2022, NMPRC's issued an order that PSNM must provide a rate reduction to customers when San Juan is completely retired at the end of September 2022, resulting in a pre-tax non-recurring reduction to revenues of about $128 million over 2022 and 2023. Following the NMPRC's order, PSNM has filed an appeal and emergency motion for a stay of rate credits. The company plans to file for a general rate review in December 2022, which could consider the cost reductions from the abandonment, securitization, and replacement of the San Juan facility. We expect PSNM to manage its regulatory risks through regulatory mechanisms including general rate case fillings to support its credit metrics over the outlook period.

Our assessment also incorporates the company's diverse fuel mix. PSNM owns and leases about 2,800 megawatts (MW) of generation capacity that it derives from a diverse fuel mix, including about 24% of coal, 13% of nuclear, 32% of natural gas, and 31% of renewables. Under New Mexico's ETA, PSNM aims to achieve 100% emissions free by 2040 and to exit all coal generation plants including San Juan (562 MWs) by the end of 2022 and Four Corners (200 MWs) by the end of 2024. In December 2021, the company filed an appeal with the New Mexico Supreme Court in March following NMPRC's decision to deny the company's application to abandon, sell, and securitize its minority interest in Four Corners.

Financial Risk

We assess PSNM's financial measures using our medial volatility financial benchmarks, which reflect the company's lower-risk, regulated electricity utility business and management of regulatory risk. Under our base-case scenario—which assumes average capital spending averaging about $480 million annually through 2024, annual dividends of about $165 million, and potential rate case fillings—we expect the company's FFO-to-debt ratio to be about 17%-19% during forecast period.

Public Service Co. of New Mexico--Financial Summary

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	$	$	$	$	$	$
Revenues	1,036	1,104	1,092	1,094	1,140	1,362
EBITDA	403	444	370	447	456	466
Funds from operations (FFO)	309	379	288	375	388	428
Interest expense	109	104	97	96	84	68
Cash interest paid	95	89	83	76	68	58

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Public Service Co. of New Mexico--Financial Summary

Operating cash flow (OCF)	313	424	300	372	344	406
Capital expenditure	445	309	255	337	332	599
Free operating cash flow (FOCF)	(132)	116	45	35	12	(192)
Discretionary cash flow (DCF)	(136)	55	(33)	35	(29)	(253)
Cash and short-term investments	0	1	0	1	31	0
Gross available cash	0	1	0	1	31	0
Debt	1,924	1,908	1,925	2,000	1,822	1,983
Common equity	1,473	1,494	1,467	1,518	1,870	2,021
Adjusted ratios						
EBITDA margin (%)	38.9	40.2	33.9	40.8	40.0	34.2
Return on capital (%)	7.6	7.5	5.4	7.1	6.8	6.5
EBITDA interest coverage (x)	3.7	4.3	3.8	4.7	5.5	6.9
FFO cash interest coverage (x)	4.3	5.3	4.5	6.0	6.7	8.4
Debt/EBITDA (x)	4.8	4.3	5.2	4.5	4.0	4.3
FFO/debt (%)	16.1	19.8	14.9	18.7	21.3	21.6
OCF/debt (%)	16.3	22.2	15.6	18.6	18.9	20.5
FOCF/debt (%)	(6.8)	6.1	2.3	1.8	0.7	(9.7)
DCF/debt (%)	(7.1)	2.9	(1.7)	1.7	(1.6)	(12.7)

Reconciliation Of Public Service Co. of New Mexico Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Financial year	Dec-31-2021									
Company reported amounts	1,889	1,971	1,362	392	221	51	466	392	61	602
Cash taxes paid	-	-	-	-	-	-	19	-	-	-
Cash interest paid	-	-	-	-	-	-	(50)	-	-	-
Lease liabilities	88	-	-	-	-	-	-	-	-	-
Operating leases	-	-	-	26	4	4	(4)	22	-	-
Intermediate hybrids (equity)	6	(6)	-	-	-	0	(0)	(0)	(0)	-
Capitalized interest	-	-	-	-	-	3	(3)	(3)	-	(3)
Share-based compensation expense	-	-	-	6	-	-	-	-	-	-

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Reconciliation Of Public Service Co. of New Mexico Reported Amounts With S&P Global Adjusted Amounts (Mil. $)

	Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
Asset-retirement obligations	-	-	-	9	9	9	-	-	-	-
Nonoperating income (expense)	-	-	-	-	16	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(5)	-	-
Noncontrolling/ minority interest	-	55	-	-	-	-	-	-	-	-
EBITDA: other income/ (expense)	-	-	-	33	33	-	-	-	-	-
D&A: other	-	-	-	-	(33)	-	-	-	-	-
Total adjustments	94	50	-	75	29	16	(38)	14	(0)	(3)
S&P Global Ratings adjusted	**Debt**	**Equity**	**Revenue**	**EBITDA**	**EBIT**	**Interest expense**	**Funds from Operations**	**Operating cash flow**	**Dividends**	**Capital expenditure**
	1,983	2,021	1,362	466	250	68	428	406	60	599

Liquidity

In our view, PSNM has adequate liquidity and can more than cover its needs for the next 12 months, even if EBITDA declines 10%. We expect sources to be more than 1.1x uses during the next 12 months. Under our stress scenario, we do not expect that PSNM would require access to the capital markets to meet its liquidity needs. In addition, we believe PSNM has sound relationships with its banks, satisfactory standing in the credit markets, and could absorb a high-impact, low-probability event with limited need for refinancing.

Principal liquidity sources

- Credit facility availability of about $440 million;
- Cash FFO of about $350 million; and
- Minimal cash.

Principal liquidity uses

- Debt maturities of about $184 million as of March 2022;
- Maintenance capital spending of about $350 million; and
- Dividend payments of about $140 million.

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Environmental, Social, And Governance

ESG Credit Indicators

E-1	E-2	**E-3**	E-4	E-5	S-1	S-2	**S-3**	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

Environmental	Social	Governance
- Climate transition risks - Waste and pollution	- Health and safety	- N/A

N/A—Not applicable. ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings ' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1 - 5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary " ESG Credit Indicator Definitions And Applications, " published Oct. 13, 2021.

Environmental and social factors are both a moderately negative consideration in our credit rating analysis of PSNM. It derives about 24% of its generation capacity from coal, 32% from natural gas, 13% from nuclear, and 31% from renewables. The company aims to achieve 100% carbon-free generation by 2040. To fully exit from coal by 2024, the company plans to close its San Juan Generation Station in 2022 and to exit the coal-fired Four Corners Power Plant by the end of 2024, with additional plans for seasonal operations at the plant beginning in the fall of 2023. PSNM's environmental risks include the potential ongoing cost of operating fossil units and the possibility for changing environmental regulations, which could require significant capital investments. The company's nuclear power generation also exposes it to potential waste, health, and safety risks.

Group Influence

PSNM is a wholly owned subsidiary of PNMR. We consider PSNM to be core to its parent, which reflects our view that PSNM is highly unlikely to be sold, operates in a line of business integral to the group's overall strategy, has a strong long-term commitment from PNMR senior management, and is closely linked to its parent's name and reputation. Therefore, our issuer credit rating on PSNM reflects our 'bbb' group credit profile on PNMR.

Issue Ratings--Subordination Risk Analysis

Analytical conclusions

- We rate PSNM's senior unsecured debt 'BBB', the same as the issuer credit rating on the company, because we view this instrument as the unsecured debt of a qualifying investment-grade utility.
- We rate PSNM's preferred stock 'BB+', two notches below our issuer credit rating on PSNM, to reflect the deferability and subordination of the hybrid security.

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Rating Component Scores

Foreign currency issuer credit rating	**BBB/Positive/NR**
Local currency issuer 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**
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (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**

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings, March 28, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- Criteria | Corporates | Utilities: Key Credit Factors For The Regulated Utilities Industry, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | Utilities: Collateral Coverage And Issue Notching Rules For '1+' And '1' Recovery Ratings On Senior Bonds Secured By Utility Real Property, Feb. 14, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Ratings Detail (as of July 14, 2022)*

Public Service Co. of New Mexico	
Issuer Credit Rating	BBB/Positive/NR
Preferred Stock	BB+

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Ratings Detail (as of July 14, 2022)*

Issuer Credit Ratings History

21-Sep-2021	BBB/Positive/NR
21-Oct-2020	BBB/Positive/A-2
22-Jun-2020	BBB/Stable/A-2
06-Apr-2020	BBB/Stable/NR
16-Jan-2018	BBB+/Negative/NR

Related Entities

PNM Resources Inc.

Issuer Credit Rating	BBB/Positive/NR

Texas-New Mexico Power Co.

Issuer Credit Rating	BBB+/Positive/--
Senior Secured	A

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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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. 595	)	**Case No. 22-00270-UT**
PUBLIC SERVICE COMPANY OF NEW MEXICO,	)	
Applicant	)	

SELF AFFIRMATION

SABRINA G. GREINEL, Executive Director, Treasury, PNMR Services Company, upon penalty of perjury under the laws of the State of New Mexico, affirm and state: I have read the foregoing **Direct Testimony of Sabrina G. Greinel** and it is true and accurate based on my own personal knowledge and belief.

Dated this 5th day of December, 2022.

/s/ Sabrina G. Greinel
SABRINA G. GREINEL

GCG # 530012