PNM EXHIBIT TRH-3

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Research Update:

PNM Resources And Subsidiary Corporate Credit Ratings Raised To 'BBB'; Outlook Stable

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Research Update:

PNM Resources And Subsidiary Corporate Credit Ratings Raised To 'BBB'; Outlook Stable

Overview

- PNM Resources Inc. has benefitted from more favorable regulatory relationships in New Mexico and Texas.
- We are raising our corporate credit ratings to 'BBB' from 'BBB-' on PNM Resources Inc. and its utility subsidiaries, Texas-New Mexico Power Co. and Public Service Co. of New Mexico. The outlook is stable. We are also raising our issue-level ratings on PNM Resources Inc.'s senior unsecured notes to 'BBB-' from 'BB+', Texas-New Mexico Power Co.'s senior secured notes to 'A-' from 'BBB+', and Public Service Co. of New Mexico's senior unsecured notes to 'BBB' from 'BBB-'.
- The financial risk profile is sufficient to sustain the higher rating, owing to better cash flows in recent years due to the divestiture of unregulated businesses.
- The stable outlook reflects our expectation that the company will continue to maintain financial stability, including executing its capital program without increasing leverage, and achieve steady progress in improving regulatory relationships in New Mexico.

Rating Action

On April 5, 2013, Standard & Poor's Ratings Services raised its corporate credit rating on PNM Resources Inc., Texas-New Mexico Power Co., and Public Service Co. of New Mexico to 'BBB' from 'BBB-'. The outlook is stable. We also raised our issue-level ratings on PNM Resources Inc.'s senior unsecured notes to 'BBB-' from 'BB+', Texas-New Mexico Power Co.'s senior secured notes to 'A-' from 'BBB+', and Public Service Co. of New Mexico's senior unsecured notes to 'BBB' from 'BBB-'.

Rationale

The "excellent" business risk profile reflects our view of stable regulatory operations tempered by challenges managing regulatory relationships in New Mexico, which has historically been considered one of the least credit-supportive jurisdictions for utilities. Recent rate cases between 2008 and 2011, however, have been much more favorable, and have allowed more timely recovery of relevant costs; in addition, the state's cap-and-trade law, which was to have taken effect in 2013, was overturned in February 2012. While we still consider New Mexico to be one of the least credit-supportive regulatory environments, we view the company's ability to manage regulatory risks as a key factor in the business risk assessment, in addition to other factors that influence business risk. Texas-New Mexico Power's regulated transmission and distribution operations are stable and also support the business risk profile, but they continue to constitute a smaller part of the company.

Public Service Co. of New Mexico's latest rate case, completed in 2011, yielded a $72 million increase. However, the elimination of a phase-in delay and a reduced case stay-out period offset this impact, and we expect this will lead to improved financial measures. This followed previous settlements that also improved financial measures and included a permanent power cost adjustment (PCA) mechanism, a provision that we view as supportive to credit quality because it mitigates exposure to fuel costs and power purchase costs.

In February 2013, the company, the U.S. Environmental Protection Agency, and the governor of New Mexico agreed to a revised environmental plan for San Juan Generating Station, which will result in the retirement of units 2 and 3 by the end of 2017, as well as the installation of selective noncatalytic reduction technology on units 1 and 4 by early 2016. This agreement is currently nonbinding, subject to development of a state implementation plan and other approvals. We consider this to be an effective compromise, capping what was at times a somewhat contentious debate.

We score PNM Resources' management and governance as "satisfactory". In our opinion, the company's management has consistently effected positive regulatory outcomes in recent years and has been proactive in its effort to divest unregulated businesses. The company has been able to effectively plan for future capital expenditures, which could become significant.

We consider the financial risk profile to be "aggressive" based on consolidated financial results. Under our base-case forecast, on a consolidated basis, we expect adjusted funds from operations (FFO) to debt of 20% and debt to capital of 55%. Consolidated adjusted FFO to debt was 18.4% for the 12 months ended Dec. 31, 2012. This coverage is in line with what we expect for the aggressive financial risk profile. The consolidated adjusted leverage was 55.9% as of Dec. 31, 2012. PNM Resources must keep its adjusted FFO to debt at more than 12% to maintain the aggressive financial risk profile.

PNM Resources' consolidated liquidity is "strong" under our corporate liquidity methodology, which categorizes liquidity under five standard descriptors. Under our analysis, projected sources of liquidity (mainly operating cash flow and available bank lines) exceed projected uses (mainly necessary capital spending, debt maturities, and common dividends), absent access to capital markets, by more than 1.5x for the upcoming 12 months and by more than 1x over the next 24 months. As of Feb. 22, 2013, available consolidated liquidity (including reductions for letters of credit) was $603 million compared with a capacity of $775 million. The $300 million revolving credit facility at PNM Resources and the $400 million revolving facility at Public Service Co. of New Mexico will expire in October 2017. A $75 million secured revolving credit facility at Texas-New Mexico Power will expire in December 2015. Consolidated capital spending for the 12 months ended Dec. 31, 2012, was $310 million, which was more than covered by net cash flow. However, periods of higher spending or decreased net cash flows may require increased borrowing. No significant maturities of long-term debt will occur until 2014.

PNM Resources' credit agreements include a financial covenant stipulating that debt to total capitalization be no greater than 65%. As of Dec. 31, 2012, the company was complying with this covenant, and we expect it to remain in compliance for subsequent reporting periods.

Recovery Analysis

We assign recovery ratings to first mortgage bonds (FMBs) issued by U.S. utilities, which can result in issue ratings being notched above a utility's corporate credit rating (CCR) depending on the rating category and the extent of the collateral coverage. The FMBs issued by U.S. utilities are a form of "secured utility bond" (SUB) that qualify for a recovery rating as defined in our criteria (see "Collateral Coverage and Issue Notching Rules for '1+' and '1' Recovery Ratings on Senior Bonds Secured by Utility Real Property,", published Feb. 14, 2013)

The recovery methodology is supported by the ample historical record of 100% recovery for secured bondholders in utility bankruptcies in the U.S. and our view that the factors that enhanced those recoveries (limited size of the creditor class and the durable value of utility rate-based assets during and after a reorganization given the essential service provided and the high replacement cost) will persist in the future.

Under our SUB criteria, we calculate a ratio of our estimate of the value of the collateral pledged to bondholders relative to the amount of FMBs outstanding. FMB ratings can exceed a utility's CCR by up to one notch in the 'A' category, two notches in the 'BBB' category, and three notches in speculative-grade categories depending on the calculated ratio.

TNMP's FMBs benefit from a first-priority lien on substantially all of the utility's real property owned or subsequently acquired. Collateral coverage of more than 1.5x supports a recovery rating of '1+' and an issue rating two notches above the CCR.

Outlook

The stable outlook reflects our expectation that the company will continue to maintain financial stability, including executing its capital program without increasing leverage, and achieve steady progress in improving regulatory relationships in New Mexico. The outlook also reflects our expectation that cash flow protection and debt leverage measures will be in line with the rating. Specifically, our baseline forecast includes adjusted FFO to total debt of about 21%, total debt to EBITDA of 4.5x, and debt to total capital of

55%, even during periods of large construction projects when regulatory lag may occur.

An upgrade is possible, if the company can attain positive regulatory outcomes that lead to adjusted FFO to debt consistently at, or exceeding, 25% and adjusted debt to capital of less than 52%. This would likely stem from favorable regulatory outcomes, as well as decreases in expected capital spending related to environmental remediation.

We consider a downgrade unlikely, but we could lower the rating if adjusted financial measures materially weaken (with adjusted FFO to debt of less than 15%, debt to EBITDA of more than 5x, and debt to capital of more than 60%) or if management fails to execute its regulated strategy while managing regulatory risks. The company's financial performance may deteriorate due to rising debt leverage if it externally finances elevated capital spending primarily with debt. Failure to adequately manage regulatory risks could result in lower ratings before any deterioration in credit measures.

Related Criteria And Research

- Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011
- Business Risk/Financial Risk Matrix Expanded, Sept. 18, 2012
- Key Credit Factors: Business And Financial Risks In The Investor-Owned Utilities Industry, Nov. 26, 2008
- Corporate Ratings Criteria 2008, April 15, 2008

Ratings List

Upgraded; Recovery rating unchanged

	To	From
PNM Resources Inc.		
Public Service Co. of New Mexico		
Texas-New Mexico Power Co.		
Corporate Credit Rating	BBB/Stable/--	BBB-/Stable/--
PNM Resources Inc.		
Senior Unsecured	BBB-	BB+
Public Service Co. of New Mexico		
Senior Unsecured	BBB	BBB-
Preferred Stock	BB+	BB
Texas-New Mexico Power Co.		
Senior Secured	A-	BBB+
Recovery Rating	1+	1+

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.