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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

PUBLIC UTILITY COMMISSION OF TEXAS
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(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2020

Name of Registrant, State of Incorporation, Address Of Principal Executive Offices, Telephone Number, Commission File No., IRS Employer Identification No.

PNM Resources, Inc.
(A New Mexico Corporation)
414 Silver Ave. SW
Albuquerque, New Mexico 87102-3289
Telephone Number - (505) 241-2700
Commission File No. - 001-32462
IRS Employer Identification No. - 85-0468296

Public Service Company of New Mexico
(A New Mexico Corporation)
414 Silver Ave. SW
Albuquerque, New Mexico 87102-3289
Telephone Number - (505) 241-2700
Commission File No. - 001-06986
IRS Employer Identification No. - 85-0019030

Texas-New Mexico Power Company
(A Texas Corporation)
577 N. Garden Ridge Blvd.
Lewisville, Texas 75067
Telephone Number - (972) 420-4189
Commission File No. - 002-97230
IRS Employer Identification No. - 75-0204070

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Trading Symbol(s)	Name of exchange on which registered
PNM Resources, Inc.	Common Stock, no par value	PNM	New York Stock Exchange

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PNM Resources, Inc. ("PNMR")	Yes ☑	No ☐
Public Service Company of New Mexico ("PNM")	Yes ☑	No ☐
Texas-New Mexico Power Company ("TNMP")	Yes ☐	No ☑

(NOTE: As a voluntary filer, not subject to the filing requirements, TNMP filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

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Indicate by check mark whether each registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

PNMR	Yes	☑	No	☐
PNM	Yes	☑	No	☐
TNMP	Yes	☑	No	☐

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
PNMR	☑	☐	☐	☐	☐
PNM	☐	☐	☑	☐	☐
TNMP	☐	☐	☑	☐	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether any of the registrants is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

As of May 1, 2020, 79,653,624 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of common stock of PNM, no par value per share, outstanding as of May 1, 2020 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP, $10 par value per share, outstanding as of May 1, 2020 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

PNM AND TNMP MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H) (1) (a) AND (b) OF FORM 10-Q AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (H) (2).

This combined Form 10-Q is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. When this Form 10-Q is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-Q that relate to each other registrant are not incorporated by reference therein.

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

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GLOSSARY

Definitions:

2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
AEP OnSite Partners	AEP OnSite Partners, LLC, a subsidiary of American Electric Power, Inc.
Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
AMI	Advanced Metering Infrastructure
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, the operator and a co-owner of PVNGS and Four Corners
ASU	Accounting Standards Update
August 2016 RD	Recommended Decision in PNM's NM 2015 Rate Case issued by the Hearing Examiner on August 4, 2016
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
Board	Board of Directors of PNMR
BSER	Best System of Emissions Reduction Technology
CAA	Clean Air Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
Casa Mesa Wind	Casa Mesa Wind Energy Center
CCN	Certificate of Convenience and Necessity
CCR	Coal Combustion Residuals
CFRE	Citizens for Fair Rates and the Environment
CIAC	Contributions in Aid of Construction
CO_2	Carbon Dioxide
CSA	Coal Supply Agreement
CTC	Competition Transition Charge
DC Circuit	United States Court of Appeals for the District of Columbia Circuit
DOE	United States Department of Energy
DOI	United States Department of Interior
EGU	Electric Generating Unit
EIM	California Independent System Operator Western Energy Imbalance Market
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species Act
ETA	The New Mexico Energy Transition Act
Exchange Act	Securities Exchange Act of 1934
Farmington	The City of Farmington, New Mexico
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Power Plant
FPPAC	Fuel and Purchased Power Adjustment Clause
FTY	Future Test Year

GAAP	Generally Accepted Accounting Principles in the United States of America
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IRC	Internal Revenue Code
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
kV	Kilovolt
KW	Kilowatt
KWh	Kilowatt Hour
La Luz	La Luz Generating Station
LIBOR	London Interbank Offered Rate

Lightning Dock Geothermal	Lightning Dock geothermal power facility, also known as the Dale Burgett Geothermal Plant
Lordsburg	Lordsburg Generating Station
Los Alamos	The Incorporated County of Los Alamos, New Mexico
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million British Thermal Units
Moody's	Moody's Investor Services, Inc.
MW	Megawatts
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act
NDT	Nuclear Decommissioning Trusts for PVNGS
NEE	New Energy Economy
NEPA	National Environmental Policy Act
NERC	North American Electric Reliability Corporation
New Mexico Wind	New Mexico Wind Energy Center
NM 2015 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on August 27, 2015
NM 2016 Rate Case	Request for a General Increase in Electric Rates Filed by PNM on December 7, 2016
NM AREA	New Mexico Affordable Reliable Energy Alliance, formerly New Mexico Industrial Energy Consumers Inc.
NM Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR, now known as New Mexico PPA Corporation
NM District Court	United States District Court for the District of New Mexico
NM Supreme Court	New Mexico Supreme Court
NMED	New Mexico Environment Department
NMMMD	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
NMRD	NM Renewable Development, LLC, owned 50% each by PNMR Development and AEP OnSite Partners, LLC
NOx	Nitrogen Oxides
NOPR	Notice of Proposed Rulemaking
NPDES	National Pollutant Discharge Elimination System
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NTEC	Navajo Transitional Energy Company, LLC, an entity owned by the Navajo Nation
OCI	Other Comprehensive Income
OPEB	Other Post-Employment Benefits
OSM	United States Office of Surface Mining Reclamation and Enforcement
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries
PNM 2017 New Mexico Credit Facility	PNM's $40.0 Million Unsecured Revolving Credit Facility
PNM 2017 Term Loan	PNM's $200.0 Million Unsecured Term Loan
PNM 2019 $40.0 Million Term Loan	PNM's $40.0 Million Unsecured Term Loan
PNM 2019 $250.0 Million Term Loan	PNM's $250.0 Million Unsecured Term Loan, which was repaid on April 15, 2020

PNM 2020 Note Purchase Agreement	PNM's Agreement for the sale of PNM 2020 SUNs
PNM 2020 SUNs	PNM's $200.0 million Senior Unsecured Notes issued on April 30, 2020
PNM 2020 Term Loan	PNM's $250.0 million Unsecured Term Loan issued on April 15, 2020, of which $100.0 million was repaid on April 30, 2020

PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2018 One-Year Term Loan	PNMR's $150.0 Million One-Year Unsecured Term Loan
PNMR 2018 SUNS	PNMR's $300.0 Million Senior Unsecured Notes issued on March 9, 2018
PNMR 2018 Two-Year Term Loan	PNMR's $50.0 Million Two-Year Unsecured Term Loan
PNMR 2019 Term Loan	PNMR's $150.0 Million Two-Year Unsecured Term Loan
PNMR 2020 Forward Equity Sale Agreements	PNMR's Block Equity Sale of 6.2 million Shares of PNMR Common Stock with Forward Equity Sales Agreements
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Development Revolving Credit Facility	PNMR Development's $40.0 Million Unsecured Revolving Credit Facility
PNMR Development Term Loan	PNMR Development's $90.0 Million Unsecured Term Loan
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act, as amended by the ETA
REC	Renewable Energy Certificates
Red Mesa Wind	Red Mesa Wind Energy Center
REP	Retail Electricity Provider
Rio Bravo	Rio Bravo Generating Station
RMC	Risk Management Committee
ROE	Return on Equity
RPS	Renewable Energy Portfolio Standard
S&P	Standard and Poor's Ratings Services
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SJGS Abandonment Application	PNM's July 1, 2019 consolidated application seeking NMPRC approval to retire PNM's share of SJGS in 2022, for related replacement generating resources, and for the issuance of securitized bonds under the ETA
SJGS CSA	San Juan Generating Station Coal Supply Agreement
SJGS RA	San Juan Project Restructuring Agreement
SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
Tax Act	Federal tax reform legislation enacted on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act
TECA	Texas Electric Choice Act

Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNMP 2018 Rate Case	TNMP's General Rate Case Application Filed May 30, 2018
TNMP 2019 Bonds	TNMP's First Mortgage Bonds issued under the TNMP 2019 Bond Purchase Agreement
TNMP 2020 Bond Purchase Agreement	An agreement under which TNMP agreed to issue an aggregate of $185.0 Million of First Mortgage Bonds in 2020
TNMP 2020 Bonds	TNMP's First Mortgage Bonds issued under the TNMP 2020 Bond Purchase Agreement

TNMP Revolving Credit Facility	TNMP's $75.0 Million Secured Revolving Credit Facility
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UAMPS	Utah Associated Municipal Power Systems
U.S	The United States of America
US Supreme Court	United States Supreme Court
Valencia	Valencia Energy Facility
VIE	Variable Interest Entity
Western Spirit Line	A 165-mile 345-kV transmission line that PNM has agreed to purchase, subject to certain conditions being met prior to closing
Westmoreland	Westmoreland Coal Company
WSJ	Westmoreland San Juan, LLC, formerly an indirect wholly-owned subsidiary of Westmoreland, and former owner of SJCC
WSJ LLC	Westmoreland San Juan Mining, LLC, a subsidiary of Westmoreland Mining Holdings, LLC, and current owner of SJCC

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands, except per share amounts)	
Electric Operating Revenues:		
Contracts with customers	$ 322,983	$ 315,698
Alternative revenue programs	426	636
Other electric operating revenue	10,213	33,311
Total electric operating revenues	333,622	349,645
Operating Expenses:		
Cost of energy	98,710	121,626
Administrative and general	46,032	52,336
Energy production costs	33,618	35,072
Regulatory disallowances and restructuring costs	—	1,345
Depreciation and amortization	68,973	65,356
Transmission and distribution costs	17,286	16,678
Taxes other than income taxes	21,265	20,509
Total operating expenses	285,884	312,922
Operating income	47,738	36,723
Other Income and Deductions:		
Interest income	3,423	3,588
Gains (losses) on investment securities	(32,849)	14,014
Other income	2,316	3,446
Other (deductions)	(3,473)	(3,252)
Net other income and deductions	(30,583)	17,796
Interest Charges	30,434	31,634
Earnings (Loss) before Income Taxes	(13,279)	22,885
Income Taxes (Benefits)	(1,880)	1,223
Net Earnings (Loss)	(11,399)	21,662
(Earnings) Attributable to Valencia Non-controlling Interest	(3,729)	(2,830)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)
Net Earnings (Loss) Attributable to PNMR	$ (15,260	$ 18,700
Net Earnings (Loss) Attributable to PNMR per Common Share:		
Basic	$ (0.19	$ 0.23
Diluted	$ (0.19	$ 0.23
Dividends Declared per Common Share	$ 0.3075	$ 0.2900

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

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

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Net Earnings (Loss)	$ (11,399	$ 21,662
Other Comprehensive Income:		
Unrealized Gains on Available-for-Sale Debt Securities:		
Net change in unrealized holding gains arising during the period, net of income tax (expense) benefit of $1,088 and $(1,798)	(3,195)	5,280
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $301 and $172	(884)	(504)
Pension Liability Adjustment:		
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(527) and $(470)	1,548	1,381
Fair Value Adjustment for Cash Flow Hedges:		
Change in fair market value, net of income tax benefit of $507 and $311	(1,491)	(914)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $10 and $(68)	(28)	202
Total Other Comprehensive Income (Loss)	(4,050)	5,445
Comprehensive Income (Loss)	(15,449)	27,107
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,729)	(2,830)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)
Comprehensive Income (Loss) Attributable to PNMR	$ (19,310	$ 24,145

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31, 2020	2019
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings (loss)	$ (11,399	$ 21,662
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:		
Depreciation and amortization	77,535	73,946
Deferred income tax expense (benefit)	(1,826)	1,122
(Gains) losses on investment securities	32,849	(14,014)
Stock based compensation expense	3,801	3,257
Regulatory disallowances and restructuring costs	—	1,345
Allowance for equity funds used during construction	(1,195)	(2,049)
Other, net	776	444
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	14,027	15,842
Materials, supplies, and fuel stock	3,806	3,826
Other current assets	105	(1,778)
Other assets	7,429	13,463
Accounts payable	(1,224)	(7,642)
Accrued interest and taxes	(10,830)	6,443
Other current liabilities	(3,570)	2,060
Other liabilities	(16,485)	(13,243)
Net cash flows from operating activities	93,799	104,684
Cash Flows From Investing Activities:		
Additions to utility plant and non-utility plant	(140,208)	(141,986)
Proceeds from sales of investment securities	149,355	74,460
Purchases of investment securities	(152,108)	(77,363)
Investments in NMRD	(10,000)	(7,000)
Other, net	122	(13)
Net cash flows from investing activities	(152,839)	(151,902)

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	115,500	(12,100)
Long-term borrowings	—	475,000
Repayment of long-term debt	—	(200,000)
Proceeds from stock option exercise	24	930
Awards of common stock	(11,498)	(8,936)
Dividends paid	(24,625)	(23,232)
Valencia's transactions with its owner	(6,434)	(4,263)
Transmission interconnection and security deposit arrangements	370	—
Refunds paid under transmission interconnection arrangements	(1,744)	—
Debt issuance costs and other, net	(137)	(2,215)
Net cash flows from financing activities	71,456	225,184
Change in Cash, Restricted Cash, and Equivalents	12,416	177,966
Cash, Restricted Cash, and Equivalents at Beginning of Period	3,833	2,122
Cash, Restricted Cash, and Equivalents at End of Period	$ 16,249	$ 180,088

Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 26,658	$ 20,518
Income taxes paid (refunded), net	$ (131	$ (235
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ 6,699	$ 26,636

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 16,249	$ 3,833
Accounts receivable, net of allowance for credit losses of $1,414 and $1,163	83,089	85,889
Unbilled revenues	45,379	57,416
Other receivables	13,954	12,165
Materials, supplies, and fuel stock	74,124	77,929
Regulatory assets	7,355	7,373
Income taxes receivable	4,856	4,933
Other current assets	42,956	44,472
Total current assets	287,962	294,010
Other Property and Investments:		
Investment securities	353,268	388,832
Equity investment in NMRD	75,203	65,159
Other investments	234	356
Non-utility property, net	16,177	12,459
Total other property and investments	444,882	466,806
Utility Plant:		
Plant in service, held for future use, and to be abandoned	7,957,079	7,918,601
Less accumulated depreciation and amortization	2,755,566	2,713,503
	5,201,513	5,205,098
Construction work in progress	240,002	161,106
Nuclear fuel, net of accumulated amortization of $48,278 and $42,354	102,768	99,805
Net utility plant	5,544,283	5,466,009
Deferred Charges and Other Assets:		
Regulatory assets	590,330	556,930
Goodwill	278,297	278,297
Operating lease right-of-use assets, net of accumulated amortization	124,717	131,212
Other deferred charges	104,648	105,510
Total deferred charges and other assets	1,097,992	1,071,949
	$ 7,375,119	$ 7,298,774

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$ 300,600	$ 185,100
Current installments of long-term debt	539,555	490,268
Accounts payable	95,194	103,118
Customer deposits	10,470	10,585
Accrued interest and taxes	65,908	76,815
Regulatory liabilities	2,916	505
Operating lease liabilities	29,693	29,068
Dividends declared	24,625	24,625
Other current liabilities	45,959	47,397
Total current liabilities	1,114,920	967,481
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,468,720	2,517,449
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	630,844	626,058
Regulatory liabilities	867,803	866,243
Asset retirement obligations	184,951	181,962
Accrued pension liability and postretirement benefit cost	91,146	95,037
Operating lease liabilities	95,573	105,512
Other deferred credits	222,064	185,753
Total deferred credits and other liabilities	2,092,381	2,060,565
Total liabilities	5,676,021	5,545,495
Commitments and Contingencies (Note 11)		
Cumulative Preferred Stock of Subsidiary without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock (no par value; 120,000,000 shares authorized: issued and outstanding 79,653,624 shares)	1,142,879	1,150,552
Accumulated other comprehensive income (loss), net of income taxes	(103,427)	(99,377)
Retained earnings	587,770	627,523
Total PNMR common stockholders' equity	1,627,222	1,678,698
Non-controlling interest in Valencia	60,347	63,052
Total equity	1,687,569	1,741,750
	$ 7,375,119	$ 7,298,774

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

PNM RESOURCES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNMR				Non-controlling Interest in Valencia	
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity		Total Equity
	(In thousands)					
Balance at December 31, 2019	$ 1,150,552	$ (99,377	$ 627,523	$ 1,678,698	$ 63,052	$ 1,741,750
Net earnings (loss) before subsidiary preferred stock dividends	—	—	(15,128)	(15.128)	3.729	(11,399)
Total other comprehensive income (loss)	—	(4,050)	—	(4,050)	—	(4,050)
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(24,493)	(24,493)	—	(24,493)
Proceeds from stock option exercise	24	—	—	24	—	24
Awards of common stock	(11,498)	—	—	(11,498)	—	(11,498)
Stock based compensation expense	3.801	—	—	3.801	—	3,801
Valencia's transactions with its owner	—	—	—	—	(6.434)	(6,434)
Balance at March 31. 2020	$ 1.142.879	$ (103.427	$ 587.770	$ 1.627.222	$ 60.347	$ 1.687.569

Balance at December 31, 2018	$ 1,153,113	$ (108,684	$ 643,953	$ 1,688,382	$ 64,212	$ 1,752,594
Net earnings before subsidiary preferred stock dividends	—	—	18,832	18,832	2,830	21,662
Total other comprehensive income	—	5,445	—	5,445	—	5,445
Subsidiary preferred stock dividends	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(23,099)	(23,099)	—	(23,099)
Proceeds from stock option exercise	930	—	—	930	—	930
Awards of common stock	(8,936)	—	—	(8,936)	—	(8,936)
Stock based compensation expense	3,257	—	—	3,257	—	3,257
Valencia's transactions with its owner	—	—	—	—	(4,263)	(4,263)
Balance at March 31, 2019	$ 1,148,364	$ (103,239	$ 639,554	$ 1,684,679	$ 62,779	$ 1,747,458

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Electric Operating Revenues:		
Contracts with customers	$ 235,759	$ 235,941
Alternative revenue programs	2,161	66
Other electric operating revenue	10,213	33,311
Total electric operating revenues	248,133	269,318
Operating Expenses:		
Cost of energy	74,524	99,339
Administrative and general	41,668	47,402
Energy production costs	33,618	35,072
Regulatory disallowances and restructuring costs	—	1,345
Depreciation and amortization	41,449	39,224
Transmission and distribution costs	10,915	10,633
Taxes other than income taxes	12,354	12,010
Total operating expenses	214,528	245,025
Operating income	33,605	24,293
Other Income and Deductions:		
Interest income	3,496	3,656
Gains (losses) on investment securities	(32,849)	14,014
Other income	1,509	2.632
Other (deductions)	(2,687)	(2,288)
Net other income and deductions	(30,531)	18,014
Interest Charges	17,629	18,360
Earnings (Loss) before Income Taxes	(14,555)	23,947
Income Taxes (Benefits)	(2,359)	1,973
Net Earnings (Loss)	(12,196)	21,974
(Earnings) Attributable to Valencia Non-controlling Interest	(3,729)	(2,830)
Net Earnings (Loss) Attributable to PNM	(15,925)	19,144
Preferred Stock Dividends Requirements	(132)	(132)
Net Earnings (Loss) Available for PNM Common Stock	$ (16,057	$ 19,012

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Net Earnings (Loss)	$ (12,196	$ 21,974
Other Comprehensive Income:		
Unrealized Gains on Available-for-Sale Debt Securities:		
Net change in unrealized holding gains arising during the period, net of income tax (expense) benefit of $1,088 and $(1,798)	(3,195)	5,280
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of $301 and $172	(884)	(504)
Pension Liability Adjustment:		
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(527), and $(470)	1,548	1,381
Total Other Comprehensive Income (Loss)	(2,531)	6,157
Comprehensive Income (Loss)	(14,727)	28,131
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,729)	(2,830)
Comprehensive Income (Loss) Attributable to PNM	$ (18,456	$ 25,301

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

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PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings (loss)	$ (12,196	$ 21,974
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:		
Depreciation and amortization	49,422	47,218
Deferred income tax expense (benefit)	(2,141)	2,063
(Gains) losses on investment securities	32,849	(14,014)
Regulatory disallowances and restructuring costs	—	1,345
Allowance for equity funds used during construction	(1,044)	(1,807)
Other, net	811	432
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	11,927	15,212
Materials, supplies, and fuel stock	4,340	3,671
Other current assets	(393)	(4,098)
Other assets	4,612	10,399
Accounts payable	(260)	(8,257)
Accrued interest and taxes	5,917	14,764
Other current liabilities	746	32,683
Other liabilities	(12,588)	(13,524)
Net cash flows from operating activities	82,002	108,061
Cash Flows From Investing Activities:		
Utility plant additions	(70,586)	(75,876)
Proceeds from sales of investment securities	149,355	74,460
Purchases of investment securities	(152,108)	(77,363)
Other, net	122	(48)
Net cash flows from investing activities	(73,217)	(78,827)

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	2,000	(42,400)
Short-term borrowings (repayments) – affiliate, net	—	(19,800)
Long-term borrowings	—	250,000
Repayment of long-term debt	—	(200,000)
Dividends paid	(132)	(132)
Valencia's transactions with its owner	(6,434)	(4,263)
Transmission interconnection and security deposit arrangements	370	—
Refunds paid under transmission interconnection arrangements	(1,744)	—
Debt issuance costs and other, net	(81)	(635)
Net cash flows from financing activities	(6,021)	(17,230)
Change in Cash, Restricted Cash, and Equivalents	2,764	12,004
Cash, Restricted Cash, and Equivalents at Beginning of Period	1,001	85
Cash, Restricted Cash, and Equivalents at End of Period	$ 3,765	$ 12,089
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 9,397	$ 9,070
Income taxes paid (refunded), net	$ —	$ —
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ (2,366	$ 11,407

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,765	$ 1,001
Accounts receivable, net of allowance for credit losses of $1,414 and $1,163	58,360	60,447
Unbilled revenues	35,951	46,602
Other receivables	13,001	11,039
Affiliate receivables	8,819	8,825
Materials, supplies, and fuel stock	67,886	72,225
Regulatory assets	7,331	7,373
Income taxes receivable	15,340	15,122
Other current assets	35,302	36,561
Total current assets	245,755	259,195
Other Property and Investments:		
Investment securities	353,268	388,832
Other investments	56	178
Non-utility property, net	5,687	4,470
Total other property and investments	359,011	393,480
Utility Plant:		
Plant in service, held for future use, and to be abandoned	5,767,449	5,753,267
Less accumulated depreciation and amortization	2,103,398	2,076,291
	3,664,051	3,676,976
Construction work in progress	152,488	108,787
Nuclear fuel, net of accumulated amortization of $48,278 and $42,354	102,768	99,805
Net utility plant	3,919,307	3,885,568
Deferred Charges and Other Assets:		
Regulatory assets	474,152	435,467
Goodwill	51,632	51,632
Operating lease right-of-use assets, net of accumulated amortization	114,829	120,585
Other deferred charges	95,842	97,064
Total deferred charges and other assets	736,455	704,748
	$ 5,260,528	$ 5,242,991

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 60,000	$ 58,000
Current installments of long-term debt	100,308	350,268
Accounts payable	68,852	66,746
Affiliate payables	10,202	12,524
Customer deposits	10,470	10,585
Accrued interest and taxes	49,753	43,617
Regulatory liabilities	2,451	371
Operating lease liabilities	26,727	25,927
Dividends declared	40,785	132
Other current liabilities	26,776	25,066
Total current liabilities	396,324	593,236
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,648,093	1,397,752
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	525,590	521,990
Regulatory liabilities	679,743	683,398
Asset retirement obligations	184,052	181,081
Accrued pension liability and postretirement benefit cost	84,293	87,838
Operating lease liabilities	88,686	97,992
Other deferred credits	191,734	155,744
Total deferred credits and liabilities	1,754,098	1,728,043
Total liabilities	3,798,515	3,719,031
Commitments and Contingencies (Note 11)		
Cumulative Preferred Stock		
without mandatory redemption requirements ($100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,264,918	1,264,918
Accumulated other comprehensive income (loss), net of income taxes	(101,586)	(99,055)
Retained earnings	226,805	283,516
Total PNM common stockholder's equity	1,390,137	1,449,379
Non-controlling interest in Valencia	60,347	63,052
Total equity	1,450,484	1,512,431
	$ 5,260,528	$ 5,242,991

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

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNM					
	Common Stock	AOCI	Retained Earnings	Total PNM Common Stockholder's Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2019	$ 1,264,918	$ (99,055)	$ 283,516	$ 1,449,379	$ 63,052	$ 1,512,431
Net earnings (loss)	—	—	(15,925)	(15,925)	3,729	(12,196)
Total other comprehensive income (loss)	—	(2,531)	—	(2,531)	—	(2,531)
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Dividends declared on common stock	—	—	(40,654)	(40,654)	—	(40,654)
Valencia's transactions with its owner	—	—	—	—	(6,434)	(6,434)
Balance at March 31, 2020	$ 1,264,918	$ (101,586)	$ 226,805	$ 1,390,137	$ 60,347	$ 1,450,484
Balance at December 31, 2018	$ 1,264,918	$ (110,422)	$ 242,863	$ 1,397,359	$ 64,212	$ 1,461,571
Net earnings	—	—	19,144	19,144	2,830	21,974
Total other comprehensive income	—	6,157	—	6,157	—	6,157
Dividends declared on preferred stock	—	—	(132)	(132)	—	(132)
Valencia's transactions with its owner	—	—	—	—	(4,263)	(4,263)

Balance at March 31. 2019	$ 1,264.918	$ (104,265	$ 261.875	$ 1,422,528	$ 62,779	$ 1,485.307

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Electric Operating Revenues:		
Contracts with customers	$ 87,224	$ 79,757
Alternative revenue programs	(1,735)	570
Total electric operating revenues	85,489	80,327
Operating Expenses:		
Cost of energy	24,186	22,287
Administrative and general	10,773	11,558
Depreciation and amortization	21,836	20,214
Transmission and distribution costs	6,371	6,045
Taxes other than income taxes	7,978	7,638
Total operating expenses	71,144	67,742
Operating income	14,345	12,585
Other Income and Deductions:		
Other income	670	748
Other (deductions)	(109)	(163)
Net other income and deductions	561	585
Interest Charges	7,172	8,800
Earnings before Income Taxes	7,734	4,370
Income Taxes	642	272
Net Earnings	$ 7,092	$ 4,098

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$ 7,092	$ 4,098
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	22,117	20,514
Deferred income tax expense (benefit)	(2,090)	(4,343)
Other, net	(141)	(231)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	2,099	630
Materials and supplies	(534)	155
Other current assets	939	581
Other assets	2,310	2,712
Accounts payable	(1,828)	1,075
Accrued interest and taxes	(11,376)	(990)
Other current liabilities	(2,681)	3,190
Other liabilities	(700)	(1,536)
Net cash flows from operating activities	15,207	25,855
Cash Flows From Investing Activities:		
Utility plant additions	(60,419)	(58,624)
Net cash flows from investing activities	(60,419)	(58,624)
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	55,000	(17,500)
Short-term borrowings (repayments) – affiliate, net	—	(100)
Long-term borrowings	—	225,000
Dividends paid	—	(10,713)
Debt issuance costs and other, net	(53)	(1,561)
Net cash flows from financing activities	54,947	195,126
Change in Cash and Cash Equivalents	9,735	162,357
Cash and Cash Equivalents at Beginning of Period	1,000	—
Cash and Cash Equivalents at End of Period	$ 10,735	$ 162,357
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$ 9,452	$ 3,829
Income taxes paid (refunded), net	$ (131	$ (235
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$ 2,839	$ 10,646

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 10,735	$ 1,000
Accounts receivable	24,729	25,442
Unbilled revenues	9,428	10,814
Other receivables	2,553	2,713
Affiliate receivables	846	—
Materials and supplies	6,238	5,704
Regulatory assets	24	—
Other current assets	564	1,280
Total current assets	55,117	46,953
Other Property and Investments:		
Other investments	178	178
Non-utility property, net	9,196	6,684
Total other property and investments	9,374	6,862
Utility Plant:		
Plant in service and plant held for future use	1,939,935	1,919,256
Less accumulated depreciation and amortization	526,060	516,795
	1,413,875	1,402,461
Construction work in progress	78,390	42,554
Net utility plant	1,492,265	1,445,015
Deferred Charges and Other Assets:		
Regulatory assets	116,178	121,463
Goodwill	226,665	226,665
Operating lease right-of-use assets, net of accumulated amortization	9,271	9,954
Other deferred charges	4,400	3,527
Total deferred charges and other assets	356,514	361,609
	$ 1,913,270	$ 1,860,439

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	March 31, 2020	December 31, 2019
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 70,000	$ 15,000
Accounts payable	15,931	20,598
Affiliate payables	3,013	5,419
Accrued interest and taxes	30,692	42,068
Dividends declared	11,347	—
Regulatory liabilities	465	134
Operating lease liabilities	2,624	2,753
Other current liabilities	6,903	3,565
Total current liabilities	140,975	89,537
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	670,626	670,691
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	139,449	140,151
Regulatory liabilities	188,060	182,845
Asset retirement obligations	899	881
Accrued pension liability and postretirement benefit cost	6,853	7,199
Operating lease liabilities	6,459	7,039
Other deferred credits	9,577	7,469
Total deferred credits and other liabilities	351,297	345,584
Total liabilities	1,162,898	1,105,812
Commitments and Contingencies (Note 11)		
Common Stockholder's Equity:		
Common stock ($10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	614,166	614,166
Retained earnings	136,142	140,397
Total common stockholder's equity	750,372	754,627
	$ 1,913,270	$ 1,860,439

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

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY-OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDER'S EQUITY
(Unaudited)

	Common Stock	Paid-in Capital	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)			
Balance at December 31, 2019	$ 64	$ 614,166	$ 140,397	$ 754,627
Net earnings	—	—	7,092	7,092
Dividends declared on common stock	—	—	(11,347)	(11,347)
Balance at March 31, 2020	$ 64	$ 614,166	$ 136,142	$ 750,372
Balance at December 31, 2018	$ 64	$ 534,166	$ 139,863	$ 674,093
Net earnings	—	—	4,098	4,098
Dividends declared on common stock	—	—	(10,713)	(10,713)
Balance at March 31, 2019	$ 64	$ 534,166	$ 133,248	$ 667,478

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

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at March 31, 2020 and December 31, 2019, and the consolidated results of operations, comprehensive income, and cash flows for the three months ended March 31, 2020 and 2019. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could ultimately differ from those estimated. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2019 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2020 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2019 Annual Reports on Form 10-K.

GAAP defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. Based on their nature, magnitude, and timing, certain subsequent events may be required to be reflected at the balance sheet date and/or required to be disclosed in the financial statements. The Company has evaluated subsequent events as required by GAAP.

Principles of Consolidation

The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM also consolidates Valencia. See Note 6. PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

PNMR shared services' expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost and are reflected as general and administrative expenses in the business segments. Other significant intercompany transactions between PNMR, PNM, and TNMP include interest and income tax sharing payments, as well as equity transactions, and interconnection billings. See Note 15. All intercompany transactions and balances have been eliminated.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by the Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. The Board declared dividends on common stock of $0.29 per share in February 2019 and $0.3075 per share in February 2020, which are reflected as "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings.

PNM declared cash dividends on its common stock to PNMR of $40.7 million in the three months ended March 31, 2020 that were subsequently paid on April 6, 2020. TNMP declared cash dividends on common stock to PNMR of $11.3

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

million in the three months ended March 31, 2020 that were subsequently paid on April 1, 2020. TNMP declared and paid cash dividends on its common stock to PNMR of $10.7 million in the three months ended March 31, 2019.

New Accounting Pronouncements

Information concerning recently issued accounting pronouncements that have not been adopted by the Company is presented below. The Company does not expect difficulty in adopting these standards by their required effective dates.

Accounting Standards Update 2018-14 – Compensation – Retirement Benefits – Defined Benefit Plans (Topic 715) Disclosure Framework: Changes to the Disclosure Requirements for Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14 to improve benefit plan sponsors' disclosures for defined benefit pension and other post-employment benefit plans. ASU 2018-14 removes the requirement to disclose the amounts in other comprehensive income expected to be recognized as benefit cost over the next fiscal year and the requirement to disclose the impact of a one-percentage-point change in the assumed health care cost trend rate; clarifies the disclosure requirements for plans with assets that are less than their projected benefit, or accumulated benefit obligation; and requires significant gains and losses affecting benefit obligations during the period be disclosed. ASU 2018-14 is effective for the Company on December 31, 2020, although early adoption is permitted, and requires retrospective application. As discussed in Note 11 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K and in Note 10, PNM and TNMP maintain qualified defined benefit, other postretirement benefit plans providing medical and dental benefits, and executive retirement programs. The Company is in the process of evaluating the requirements of ASU 2018-14 but does not anticipate these changes will have a significant impact on the Company's defined benefit and other postretirement benefit plan disclosures.

Accounting Standards Update 2019-12 – Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued ASU 2019-12 as part of its initiative to reduce complexity in accounting standards. The amendments in ASU 2019-12 simplify accounting for income taxes by removing several accounting exceptions to accounting for income taxes. ASU 2019-12 also eliminates or simplifies other income tax accounting requirements, including a requirement that entities recognize franchise tax (or similar tax) that is partially based on income as an income-based tax. ASU 2019-12 is effective for the Company beginning on January 1, 2021 and allows for early adoption. ASU 2019-12 is to be applied prospectively or retrospectively in the period of adoption depending on the type of amendment. The Company is in the process of analyzing the impacts of this new standard.

(2) Segment Information

The following segment presentation is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. A reconciliation of the segment presentation to the GAAP financial statements is provided.

PNM

PNM includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM also includes the generation and sale of electricity into the wholesale market, as well as providing transmission services to third parties. The sale of electricity includes the asset optimization of PNM's jurisdictional capacity, as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale power and transmission rates.

TNMP

TNMP is an electric utility providing services in Texas under the TECA. TNMP's operations are subject to traditional rate regulation by the PUCT. TNMP provides transmission and distribution services at regulated rates to various REPs that, in turn, provide retail electric service to consumers within TNMP's service area. TNMP also provides transmission services at regulated rates to other utilities that interconnect with TNMP's facilities.

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Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. The activities of PNMR Development, NM Capital, and the equity method investment in NMRD are also included in Corporate and Other. Eliminations of intercompany transactions are reflected in the Corporate and Other segment.

The following tables present summarized financial information for PNMR by segment. PNM and TNMP each operate in only one segment. Therefore, tabular segment information is not presented for PNM and TNMP.

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
Three Months Ended March 31, 2020				
Electric operating revenues	$ 248,133	$ 85,489	$ —	$ 333,622
Cost of energy	74,524	24,186	—	98,710
Utility margin	173,609	61,303	—	234,912
Other operating expenses	98,555	25,122	(5,476)	118,201
Depreciation and amortization	41,449	21,836	5,688	68,973
Operating income (loss)	33,605	14,345	(212)	47,738
Interest income	3,496	—	(73)	3,423
Other income (deductions)	(34,027)	561	(540)	(34,006)
Interest charges	(17,629)	(7,172)	(5,633)	(30,434)
Segment earnings (loss) before income taxes	(14,555)	7,734	(6,458)	(13,279)
Income taxes (benefit)	(2,359)	642	(163)	(1,880)
Segment earnings (loss)	(12,196)	7,092	(6,295)	(11,399)
Valencia non-controlling interest	(3,729)	—	—	(3,729)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$ (16,057	$ 7,092	$ (6,295	$ (15,260

At March 31, 2020:

Total Assets	$	5,260,528	$	1,913,270	$	201,321	$	7,375,119
Goodwill	$	51,632	$	226,665	$	—	$	278,297

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	PNM	TNMP	Corporate and Other	PNMR Consolidated
	(In thousands)			
Three Months Ended March 31, 2019				
Electric operating revenues	$ 269,318	$ 80,327	$ —	$ 349,645
Cost of energy	99,339	22,287	—	121,626
Utility margin	169,979	58,040	—	228,019
Other operating expenses	106,462	25,241	(5,763)	125,940
Depreciation and amortization	39,224	20,214	5,918	65,356
Operating income (loss)	24,293	12,585	(155)	36,723
Interest income	3,656	—	(68)	3,588
Other income (deductions)	14,358	585	(735)	14,208
Interest charges	(18,360)	(8,800)	(4,474)	(31,634)
Segment earnings (loss) before income taxes	23,947	4,370	(5,432)	22,885
Income taxes (benefit)	1,973	272	(1,022)	1,223
Segment earnings (loss)	21,974	4,098	(4,410)	21,662
Valencia non-controlling interest	(2,830)	—	—	(2,830)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$ 19,012	$ 4,098	$ (4,410	$ 18,700
At March 31, 2019:				
Total Assets	$ 5,202,039	$ 1,871,780	$ 176,939	$ 7,250,758
Goodwill	$ 51,632	$ 226,665	$ —	$ 278,297

The Company defines utility margin as electric operating revenues less cost of energy. Cost of energy consists primarily of fuel and purchase power costs for PNM and costs charged by third-party transmission providers for TNMP. The Company believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all such costs are offset in revenues as fuel and purchase power costs are passed through to customers under PNM's FPPAC and third-party transmission costs are passed on to customers through TNMP's transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

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(3) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the three months ended March 31, 2020 and 2019 is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			PNMR	
	Unrealized Gains on Available-for-Sale Debt Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
Balance at December 31, 2019	$ 10,638	$ (109,693)	$ (99,055)	$ (322)	$ (99,377)
Amounts reclassified from AOCI (pre-tax)	(1,185)	2,075	890	(38)	852
Income tax impact of amounts reclassified	301	(527)	(226)	10	(216)
Other OCI changes (pre-tax)	(4,283)	—	(4,283)	(1,998)	(6,281)
Income tax impact of other OCI changes	1,088	—	1,088	507	1,595
Net after-tax change	(4,079)	1,548	(2,531)	(1,519)	(4,050)
Balance at March 31, 2020	$ 6,559	$ (108,145)	$ (101,586)	$ (1,841)	$ (103,427)

Balance at December 31, 2018	$ 1,939	$ (112,361)	$ (110,422)	$ 1,738	$ (108,684)
Amounts reclassified from AOCI (pre-tax)	(676)	1,851	1,175	270	1,445
Income tax impact of amounts reclassified	172	(470)	(298)	(68)	(366)
Other OCI changes (pre-tax)	7,078	—	7,078	(1,225)	5,853
Income tax impact of other OCI changes	(1,798)	—	(1,798)	311	(1,487)

Net after-tax change	4,776	1,381	6,157	(712)	5,445
Balance at March 31, 2019	$ 6,715	$ (110,980)	$ (104,265)	$ 1,026	$ (103,239)

The Condensed Consolidated Statements of Earnings include pre-tax amounts reclassified from AOCI related to Unrealized Gains on Available-for-Sale Debt Securities in gains (losses) on investment securities, related to Pension Liability Adjustment in other (deductions), and related to Fair Value Adjustment for Cash Flow Hedges in interest charges. The income tax impacts of all amounts reclassified from AOCI are included in income taxes in the Condensed Consolidated Statements of Earnings.

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(4) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. PNMR's potentially dilutive shares consist of restricted stock and PNMR common stock issuable under the PNMR 2020 Forward Equity Sale Agreements, which are calculated under the treasury stock method. See Notes 8 and 9. Information regarding the computation of earnings per share is as follows:

	Three Months Ended March 31,	
	2020	2019
	(In thousands, except per share amounts)	
Net Earnings (Loss) Attributable to PNMR	$ (15,260)	$ 18,700
Average Number of Common Shares:		
Outstanding during period	79,654	79,654
Vested awards of restricted stock	217	239
Average Shares – Basic	79,871	79,893
Dilutive Effect of Common Stock Equivalents:		
Restricted stock	—	78
Average Shares – Diluted(1)	79,871	79,971
Net Earnings (Loss) Per Share of Common Stock:		
Basic	$ (0.19)	$ 0.23
Diluted	$ (0.19)	$ 0.23

(1) No potentially dilutive restricted stock or PNMR common stock under the PNMR 2020 Forward Equity Sale Agreements have been included in the computation of Average Shares – Diluted for the three months ended March 31, 2020 since the effect would be anti-dilutive.

(5) Electric Operating Revenues

PNMR is an investor-owned holding company with two regulated utilities providing electricity and electric services in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.

Additional information concerning electric operating revenue is contained in Note 4 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Accounts Receivable and Allowance for Credit Losses

Accounts receivable consists primarily of trade receivables from customers. In the normal course of business, credit is extended to customers on a short-term basis. The Company estimates the allowance for credit losses on trade receivables based on historical experience and estimated default rates. Accounts receivable balances are reviewed monthly and adjustments to the allowance for credit losses are made as necessary and amounts that are deemed uncollectible are written off. On January 1, 2020, the Company adopted *Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. As a result of the adoption of the new standard, PNM updated its allowance for accounts receivable balances and recorded incremental credit losses of $0.3 million in the three months ended March 31, 2020. See additional discussion of ASU 2016-13 in Note 7.

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Disaggregation of Revenues

A disaggregation of revenues from contracts with customers by the type of customer is presented in the table below. The table also reflects alternative revenue program revenues ("ARP") and other revenues.

Three Months Ended March 31, 2020	PNM	TNMP	PNMR Consolidated
		(In thousands)	
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 102,809	$ 31,898	$ 134,707
Commercial	86,349	28,685	115,034
Industrial	19,466	6,533	25,999
Public authority	4,347	1,423	5,770
Economy energy service	5,253	—	5,253
Transmission	14,167	18,012	32,179
Miscellaneous	3,368	673	4,041
Total revenues from contracts with customers	235,759	87,224	322,983
Alternative revenue programs	2,161	(1,735)	426
Other electric operating revenues	10,213	—	10,213
Total Electric Operating Revenues	$ 248,133	$ 85,489	$ 333,622

Three Months Ended March 31, 2019			
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$ 107,302	$ 30,432	$ 137,734
Commercial	85,233	27,429	112,662
Industrial	14,747	5,616	20,363
Public authority	4,711	1,374	6,085
Economy energy service	6,922	—	6,922
Transmission	13,385	14,003	27,388
Miscellaneous	3,641	903	4,544
Total revenues from contracts with customers	235,941	79,757	315,698
Alternative revenue programs	66	570	636
Other electric operating revenues	33,311	—	33,311
Total Electric Operating Revenues	$ 269,318	$ 80,327	$ 349,645

Contract Balances

Performance obligations related to contracts with customers are typically satisfied when the energy is delivered and the customer or end-user utilizes the energy. Accounts receivable from customers represent amounts billed, including amounts under ARPs. For PNM, accounts receivable reflected on the Condensed Consolidated Balance Sheets, net of allowance for credit losses, includes $56.7 million at March 31, 2020 and $59.3 million at December 31, 2019 resulting from contracts with customers. All of TNMP's accounts receivable results from contracts with customers.

Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance). The Company has no contract assets as of March 31, 2020 or December 31, 2019. Contract liabilities arise when consideration is received in advance from a customer before satisfying the performance obligations. Therefore, revenue

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is deferred and not recognized until the obligation is satisfied. Under its OATT, PNM accepts upfront consideration for capacity reservations requested by transmission customers, which requires PNM to defer the customer's transmission capacity rights for a specific period of time. PNM recognizes the revenue of these capacity reservations over the period it defers the customer's capacity rights. Other utilities pay PNM and TNMP in advance for the joint-use of their utility poles. These revenues are recognized over the period of time specified in the joint-use contract, typically for one calendar year. Deferred revenues on these arrangements are recorded as contract liabilities. PNMR's, PNM's, and TNMP's contract liabilities and related revenues are insignificant for all periods presented. The Company has no other arrangements with remaining performance obligations to which a portion of the transaction price would be required to be allocated.

(6) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity ("VIE"). GAAP also requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM's VIEs is contained in Note 10 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three months ended March 31, 2020 and 2019, PNM paid $5.0 million and $4.9 million for fixed charges and $0.4 million and less than $0.1 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM's assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

PNM sources fuel for the plant, controls when the facility operates through its dispatch, and receives the entire output of the plant, which factors directly and significantly impact the economic performance of Valencia. Therefore, PNM has concluded that the third-party entity that owns Valencia is a VIE and that PNM is the primary beneficiary of the entity under GAAP since PNM has the power to direct the activities that most significantly impact the economic performance of Valencia and will absorb the majority of the variability in the cash flows of the plant. As the primary beneficiary, PNM consolidates Valencia in its financial statements. Accordingly, the assets, liabilities, operating expenses, and cash flows of Valencia are included in the Condensed Consolidated Financial Statements of PNM although PNM has no legal ownership interest or voting control of the VIE. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

	Results of Operations	
	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Operating revenues	$ 5,353	$ 4,952
Operating expenses	1,624	2,122
Earnings attributable to non-controlling interest	$ 3,729	$ 2,830

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Financial Position

	March 31, 2020	December 31, 2019
	(In thousands)	
Current assets	$ 3,297	$ 5,094
Net property, plant, and equipment	57,871	58,581
Total assets	61,168	63,675
Current liabilities	821	623
Owners' equity – non-controlling interest	$ 60,347	$ 63,052

Westmoreland San Juan Mining, LLC

As discussed in the subheading Coal Supply in Note 11, PNM purchases coal for SJGS under the SJGS CSA. On October 9, 2018, Westmoreland filed a Current Report on Form 8-K with the SEC announcing it had filed voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. On March 15, 2019, Westmoreland emerged from Chapter 11 bankruptcy as a privately held company owned and operated by a group of its former creditors. Under the reorganization, the assets of SJCC were sold to Westmoreland San Juan Mining, LLC ("WSJ LLC"), a subsidiary of Westmoreland Mining Holdings, LLC. As successor entity to SJCC, WSJ LLC assumed all rights and obligations of WSJ including obligations to PNM under the SJGS CSA and to PNMR under letter of credit support agreements.

PNMR issued $30.3 million in letters of credit to facilitate the issuance of reclamation bonds required in order for SJCC to mine coal to be supplied to SJGS. As discussed above, WSJ LLC assumed the rights and obligations of SJCC, including obligations to PNMR for the letters of credit. The letters of credit support results in PNMR having a variable interest in WSJ LLC since PNMR is subject to possible loss in the event performance by PNMR is required under the letters of credit support. PNMR considers the possibility of loss under the letters of credit support to be remote since the purpose of posting the bonds is to provide assurance that WSJ LLC performs the required reclamation of the mine site in accordance with applicable regulations and all reclamation costs are reimbursable under the SJGS CSA. Also, much of the mine reclamation activities will not be performed until after the expiration of the SJGS CSA. In addition, each of the SJGS participants has established and actively fund trusts to meet future reclamation obligations.

WSJ LLC is considered to be a VIE. PNMR's analysis of its arrangements with WSJ LLC concluded that WSJ LLC has the ability to direct its mining operations, which is the factor that most significantly impacts the economic performance of WSJ LLC. Other than PNM being able to ensure that coal is supplied in adequate quantities and of sufficient quality to provide the fuel necessary to operate SJGS in a normal manner, the mining operations are solely under the control of WSJ LLC, including developing mining plans, hiring of personnel, and incurring operating and maintenance expenses. Neither PNMR nor PNM has any ability to direct or influence the mining operation. PNM's involvement through the SJGS CSA is a protective right rather than a participating right and WSJ LLC has the power to direct the activities that most significantly impact the economic performance of WSJ LLC. The SJGS CSA requires WSJ LLC to deliver coal required to fuel SJGS in exchange for payment of a set price per ton, which is escalated over time for inflation. If WSJ LLC is able to mine more efficiently than anticipated, its economic performance will be improved. Conversely, if WSJ LLC cannot mine as efficiently as anticipated, its economic performance will be negatively impacted. Accordingly, PNMR believes WSJ LLC is the primary beneficiary and, therefore, WSJ LLC is not consolidated by either PNMR or PNM. The amounts outstanding under the letters of credit support constitute PNMR's maximum exposure to loss from the VIE at March 31, 2020.

(7) Fair Value of Derivative and Other Financial Instruments

Additional information concerning energy related derivative contracts and other financial instruments is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Fair value is defined under GAAP as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value is based on current market quotes as available and is supplemented by modeling techniques and assumptions made by the Company to the extent quoted market prices or volatilities are not available. External pricing input availability varies based on commodity location, market liquidity, and term of the agreement. Valuations of derivative assets and liabilities take into account nonperformance risk, including the effect of counterparties' and the Company's credit risk. The Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimation technique.

Energy Related Derivative Contracts

Overview

The primary objective for the use of commodity derivative instruments, including energy contracts, options, swaps, and futures, is to manage price risk associated with forecasted purchases of energy and fuel used to generate electricity, as well as managing anticipated generation capacity in excess of forecasted demand from existing customers. PNM's energy related derivative contracts manage commodity risk. PNM is required to meet the demand and energy needs of its customers. PNM is exposed to market risk for the needs of its customers not covered under a FPPAC.

Beginning January 1, 2018, PNM is exposed to market risk for its 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC. PNM has entered into agreements to sell power from 36 MW of that capacity to a third party at a fixed price for the period January 1, 2018 through May 31, 2022, subject to certain conditions. Under these agreements, PNM is obligated to deliver 36 MW of power only when SJGS Unit 4 is operating. These agreements are not considered derivatives because there is no notional amount due to the unit-contingent nature of the transactions.

PNM and Tri-State have a hazard sharing agreement that expires in May 2022. Under this agreement, each party sells the other party 100 MW of capacity and energy from a designated generation resource on a unit contingent basis, subject to certain performance guarantees. Both the purchases and sales are made at the same market index price. This agreement serves to reduce the magnitude of each party's single largest generating hazard and assists in enhancing the reliability and efficiency of their respective operations. PNM passes the sales and purchases through to customers under PNM's FPPAC.

PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases. TNMP does not enter into energy related derivative contracts.

Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing positions in the energy markets, primarily on a short-term basis. PNM routinely enters into various derivative instruments such as forward contracts, option agreements, and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the effect of market fluctuations. PNM monitors the market risk of its commodity contracts in accordance with approved risk and credit policies.

Accounting for Derivatives

Under derivative accounting and related rules for energy contracts, PNM accounts for its various instruments for the purchase and sale of energy, which meet the definition of a derivative, based on PNM's intent. During the three months ended March 31, 2020 and the year ended December 31, 2019, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The derivative contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. PNM has no trading transactions.

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Commodity Derivatives

PNM's commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges and considered Level 2 fair value measurements, are presented in the following line items on the Condensed Consolidated Balance Sheets:

	Economic Hedges	
	March 31, 2020	December 31, 2019
	(In thousands)	
Other current assets	$ 1,095	$ 1,089
Other deferred charges	1,275	1,507
	2,370	2,596
Other current liabilities	(1,095)	(1,089)
Other deferred credits	(1,275)	(1,507)
	(2,370)	(2,596)
Net	$ —	$ —

PNM's commodity derivative instruments in the above table are subject to master netting agreements whereby assets and liabilities could be offset in the settlement process. PNM does not offset fair value and cash collateral for derivative instruments under master netting arrangements and the above table reflects the gross amounts of fair value assets and liabilities for commodity derivatives. All of the assets and liabilities in the table above at March 31, 2020 and December 31, 2019 result from PNM's hazard sharing arrangements with Tri-State. The hazard sharing arrangements are net-settled upon delivery.

At March 31, 2020 and December 31, 2019, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at March 31, 2020 and December 31, 2019, amounts posted as cash collateral under margin arrangements were $0.5 million. At March 31, 2020 and December 31, 2019, obligations to return cash collateral were $0.9 million. Cash collateral amounts are included in other current assets and other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has a NMPRC-approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. There were no amounts hedged under this plan as of March 31, 2020 or December 31, 2019.

The effects of mark-to-market commodity derivative instruments on PNM's revenues and cost of energy during the three months ended March 31, 2020 and 2019 were less than $0.1 million. Commodity derivatives had no impact on OCI for the periods presented.

PNM's energy and gas commodity volume positions at March 31, 2020 and December 31, 2019 net to zero.

PNM has contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. In connection with managing its commodity risks, PNM enters into master agreements with certain counterparties. If PNM is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral if PNM's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that PNM will perform; and others have no provision for collateral. At March 31, 2020 and December 31, 2019, PNM had no such contracts in a net liability position.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Investment securities are carried at fair value. Investment securities consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and trusts for PNM's share of final reclamation costs related to the coal mines serving SJGS and Four Corners. See Note 11. At March 31, 2020 and December 31, 2019, the fair value of investment securities included $299.9 million and $336.0 million for the NDT and $53.4 million and $52.8 million for the mine reclamation trusts.

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In June 2016, the FASB issued *Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which changes the way entities recognize impairments of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over the remaining lives of the assets. The majority of the amendments made by the new standard are required to be applied using a modified retrospective approach. The amendments in ASU 2016-13 also require entities to separately measure and realize an impairment for credit losses on available-for-sale debt securities for which carrying value exceeds fair value, unless such securities have been determined to be other than temporarily impaired and the entire decrease in value has been realized as an impairment. The amendments relating to available-for-sale debt securities are required to be applied prospectively on the date of adoption. PNM records a realized loss as an impairment for any available-for-sale debt security that has a fair value that is less than its carrying value. As a result, the Company has no available-for-sale debt securities for which carrying value exceeds fair value and there are no impairments considered to be "other than temporary" that are included in AOCI and not recognized in earnings. The Company adopted ASU 2016-13 on January 1, 2020, its required effective date. Adoption of the standard did not result in the Company recording a cumulative effect adjustment or impact the Company's accounting for its available-for-sale debt securities. All gains and losses resulting from sales and changes in the fair value of equity securities are recognized immediately in earnings.

Gains and losses recognized on the Condensed Consolidated Statements of Earnings related to investment securities in the NDT and reclamation trusts are presented in the following table:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Equity securities:		
Net gains (losses) from equity securities sold	$ (1,315)	$ 1,387
Net gains (losses) from equity securities still held	(18,931)	9,602
Total net gains (losses) on equity securities	(20,246)	10,989
Available-for-sale debt securities:		
Net gains (losses) on debt securities	(12,603)	3,025
Net gains (losses) on investment securities	$ (32,849)	$ 14,014

The proceeds and gross realized gains and losses on the disposition of securities held in the NDT and coal mine reclamation trusts are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold. Gross realized losses shown below exclude the (increase)/decrease in realized impairment losses of $(12.7) million and $3.4 million for the three months ended March 31, 2020 and 2019.

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Proceeds from sales	$ 149,355	$ 74,460
Gross realized gains	$ 5,825	$ 4,189
Gross realized (losses)	$ (7,035)	$ (3,170)

At March 31, 2020, the available-for-sale debt securities held by PNM, had the following final maturities:

	Fair Value
	(In thousands)
Within 1 year	$ 22,001
After 1 year through 5 years	71,816
After 5 years through 10 years	75,923
After 10 years through 15 years	12,345
After 15 years through 20 years	12,220
After 20 years	39,047
	$ 233,352

Fair Value Disclosures

The Company determines the fair values of its derivative and other financial instruments based on the hierarchy established in GAAP, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

For investment securities, Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For Level 2 fair values, the pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company's long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. The valuation of Level 3 investments, when applicable, requires significant judgment by the pricing provider due to the absence of quoted market values, changes in market conditions, and the long-term nature of the assets. The Company has no Level 3 investments as of March 31, 2020 and December 31, 2019. Management of the Company independently verifies the information provided by pricing services.

In August 2018, the FASB issued *Accounting Standards Update 2018-13 – Fair Value Measurements (Topic 820) Disclosure Framework: Changes to the Disclosure Requirements for Fair Value Measurements,* to improve fair value disclosures. ASU 2018-13 eliminates certain disclosure requirements related to transfers between Levels 1 and 2 of the fair value hierarchy and the requirement to disclose the valuation process for Level 3 fair value measurements. ASU 2018-13 also amends certain disclosure requirements for investments measured at net asset value and requires new disclosures for Level 3 investments, including a new requirement to disclose changes in unrealized gains or losses recorded in OCI related to Level 3 fair value measurements. The Company adopted ASU 2018-13 on January 1, 2020, its required effective date. The Company applied the requirements of the new standard using retrospective application, except for the new disclosures related to Level 3 investments, which are to be applied prospectively. Adoption of the standard did not have a material impact on the Company's disclosures.

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Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy along with gross unrealized gains on investments in available-for-sale debt securities:

		GAAP Fair Value Hierarchy		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unrealized Gains
		(In thousands)		
March 31, 2020				
Cash and cash equivalents	$ 17,252	$ 17,252	$ —	
Equity securities:				
Corporate stocks, common	49,838	49,838	—	
Corporate stocks, preferred	7,974	2,365	5,609	
Mutual funds and other	44,852	44,852	—	
Available-for-sale debt securities:				
U.S. government	46,450	30,630	15,820	$ 2,636
International government	12,802	—	12,802	236
Municipals	45,115	—	45,115	1,518
Corporate and other	128,985	403	128,582	4,420
	$ 353,268	$ 145,340	$ 207,928	$ 8,810
December 31, 2019				
Cash and cash equivalents	$ 15,606	$ 15,606	$ —	
Equity securities:				
Corporate stocks, common	64,527	64,527	—	
Corporate stocks, preferred	9,033	2,212	6,821	
Mutual funds and other	49,848	49,786	62	
Available-for-sale debt securities:				
U.S. government	48,439	31,389	17,050	$ 535
International government	15,292	—	15,292	1,193
Municipals	46,642	—	46,642	1,768
Corporate and other	139,445	187	139,258	10,801
	$ 388,832	$ 163,707	$ 225,125	$ 14,297

The carrying amounts and fair values of long-term debt, all of which are considered Level 2 fair value measurements and are not recorded at fair value on the Condensed Consolidated Balance Sheets, are presented below:

Carrying Amount Fair Value

March 31, 2020		(In thousands)		
PNMR	$	3,008,275	$	3,060,098
PNM	$	1,748,401	$	1,763,727
TNMP	$	670,626	$	727,222
December 31, 2019				
PNMR	$	3,007,717	$	3,142,704
PNM	$	1,748,020	$	1,795,149
TNMP	$	670,691	$	753,317

The carrying amount and fair value of the Company's other investments presented on the Condensed Consolidated Balance Sheets are not material and not shown in the above table.

(8) Stock-Based Compensation

PNMR has various stock-based compensation programs, including stock options, restricted stock, and performance shares granted under the Performance Equity Plan ("PEP"). Although certain PNM and TNMP employees participate in the PNMR plans, PNM and TNMP do not have separate employee stock-based compensation plans. The Company has not awarded stock options since 2010 and all employee stock options expired or were exercised in February 2020. Certain restricted stock awards are subject to achieving performance or market targets. Other awards of restricted stock are only subject to time vesting requirements. Additional information concerning stock-based compensation under the PEP is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Restricted stock under the PEP refers to awards of stock subject to vesting, performance, or market conditions rather than to shares with contractual post-vesting restrictions. Generally, the awards vest ratably over three years from the grant date of the award. However, awards with performance or market conditions vest upon satisfaction of those conditions. In addition, plan provisions provide that upon retirement, participants become 100% vested in certain stock awards. The vesting period for awards of restricted stock to non-employee members of the Board is one-year.

The stock-based compensation expense related to restricted stock awards without performance or market conditions to participants that are retirement eligible on the grant date is recognized immediately at the grant date and is not amortized. Compensation expense for other such awards is amortized to compensation expense over the shorter of the requisite vesting period or the period until the participant becomes retirement eligible. Compensation expense for performance-based shares is recognized ratably over the performance period as required service is provided and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At March 31, 2020, PNMR had unrecognized expense related to stock awards of $6.5 million, which is expected to be recognized over an average of 2.1 years.

PNMR receives a tax deduction for certain stock option exercises during the period the options are exercised, generally for the excess of the price at which the options are sold over the exercise prices of the options, and a tax deduction for the value of restricted stock at the vesting date. GAAP requires that all excess tax benefits and deficiencies be recorded to tax expense and classified as operating cash flows when used to reduce income taxes payable. See Note 14.

The grant date fair value for restricted stock and stock awards with Company internal performance targets is determined based on the market price of PNMR common stock on the date of the agreements reduced by the present value of future dividends that will not be received prior to vesting. The grant date fair value is applied to the total number of shares that are anticipated to vest, although the number of performance shares that ultimately vest cannot be determined until after the performance periods end. The grant date fair value of stock awards with market targets is determined using Monte Carlo simulation models, which provide grant date fair values that include an expectation of the number of shares to vest at the end of the measurement period.

The following table summarizes the weighted-average assumptions used to determine the awards grant date fair value:

	Three Months Ended March 31,	
Restricted Shares and Performance Based Shares	2020	2019
Expected quarterly dividends per share	$ 0.3075	$ 0.2900
Risk-free interest rate	0.72 %	2.50 %
Market-Based Shares		
Dividend yield	2.51 %	2.59 %
Expected volatility	19.41 %	19.55 %
Risk-free interest rate	0.72 %	2.51 %

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The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the three months ended March 31, 2020:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2019	161,542	$ 38.21	2,000	$ 12.22
Granted	217,913	36.88	—	—
Exercised	(225,925)	34.28	(2,000)	12.22
Outstanding at March 31, 2020	153,530	$ 42.10	—	$ —

PNMR's current stock-based compensation program provides for performance and market targets through 2022. Included in the above table are 122,277 previously awarded shares that were earned for the 2017-2019 performance measurement period and ratified by the Board in February 2020 (based upon achieving market and performance targets at near "maximum" levels). Excluded from the table above are 150,543, 142,080 and 142,047 shares for the three-year performance periods ending in 2020, 2021 and 2022 that will be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

In 2015, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive a total of 53,859 shares of PNMR's common stock if PNMR meets certain performance targets at the end of 2017 and 2019 and she remained an employee of the Company. The retention award was made under the PEP and was approved by the Board on February 26, 2015. Under the agreement, she was to receive 17,953 of the total shares if PNMR achieved specific performance targets at the end of 2017. The specified performance target was achieved at the end of 2017 and the Board ratified her receiving 17,953 shares in February 2018. The second portion of the agreement of 35,906 shares was achieved at the end of 2019 and the Board ratified her receiving the shares in February 2020 and such shares are included in the above table.

The following table provides additional information concerning restricted stock activity, including performance-based and market-based shares, and stock options:

	Three Months Ended March 31,	
Restricted Stock	2020	2019
Weighted-average grant date fair value	$ 36.88	$ 36.48
Total fair value of restricted shares that vested (in thousands)	$ 11,269	$ 5,314
Stock Options		
Total intrinsic value of options exercised (in thousands)	$ 84	$ 2,582

(9) Financing

The Company's financing strategy includes both short-term and long-term borrowings. The Company utilizes short-term revolving credit facilities, as well as cash flows from operations, to provide funds for both construction and operating expenditures. Depending on market and other conditions, the Company will periodically sell long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under the revolving credit facilities or refinance other debt. Each of the Company's revolving credit facilities and term loans contain a single financial covenant that requires the maintenance of a debt-to-capitalization ratio. For the PNMR and PNMR Development agreements this ratio must be maintained at less than or equal to 70%, and for the PNM and TNMP agreements this ratio must be maintained at less than or equal to 65%. The Company's revolving credit facilities and term loans generally also contain customary covenants, events of default, cross-default provisions, and change-of-control provisions. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. Additional information concerning financing activities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Financing Activities

In October 2016, PNMR entered into letter of credit arrangements with JPMorgan Chase Bank N.A. (the "JPM LOC Facility") under which letters of credit aggregating $30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC was required to post in connection with permits relating to the operation of the San Juan mine. On March 15, 2019, WSJ LLC acquired the assets of SJCC following the bankruptcy of Westmoreland. WSJ LLC assumed all obligations of SJCC, including under the letter of credit support arrangements. See Note 10.

On January 7, 2020, PNMR entered into forward sale agreements with each of Citibank N.A., and Bank of America N.A., as forward purchasers and an underwriting agreement with Citigroup Global Markets Inc., and BofA Securities, Inc. as representatives of the underwriters named therein, relating to an aggregate of approximately 6.2 million shares of PNMR common stock (including 0.8 million shares of PNMR common stock pursuant to the underwriters' option to purchase additional shares) with each of Citibank N.A., and Bank of America N.A., as forward purchasers (the "PNMR 2020 Forward Equity Sale Agreements"). On January 8, 2020, the underwriters exercised in full their option to purchase the additional 0.8 million shares of PNMR common stock and PNMR entered into separate forward sales agreements with respect to the additional shares. The initial forward sale price of $47.21 per share is subject to adjustments based on a net interest rate factor and by expected future dividends paid on PNMR common stock as specified in the forward sale agreements. PNMR did not initially receive any proceeds upon the execution of these agreements and, except in certain specified circumstances, has the option to elect physical, cash, or net share settlement on or before the date that is 12 months from their effective dates.

PNMR expects to physically settle all shares under the PNMR 2020 Forward Equity Sale Agreements by delivering newly issued shares to the forward purchasers on or before January 7, 2021 in exchange for cash at the then applicable forward sales price. PNMR also has the option to net settle the agreement in cash or shares of PNMR common stock. Under a net cash settlement, under which no PNMR common stock would be issued, PNMR would receive net proceeds for a decrease in the market value of PNMR's common stock relative to the then applicable forward sales price per share, or would owe cash in the event of an increase in the market value of PNMR common stock. Under a net share settlement, PNMR would not receive any cash proceeds and may be required to deliver a sufficient number of shares of PNMR common stock to satisfy its obligation to the forward purchasers. The number of shares to be delivered to the forward purchasers would be based on the increase in the PNMR's common stock price relative to the then applicable forward sales price per share. The forward sale agreements meet the derivative scope exception requirements for contracts involving an entity's own equity. Until settlement of the forward sale agreements, PNMR's EPS dilution resulting from the agreements, if any, will be determined using the treasury stock method, which will result in dilution during periods when the average market price of PNMR stock during the reporting period is higher than the applicable forward sales price as of the end of that period. See Note 4.

On April 24, 2020, TNMP entered into the TNMP 2020 Bond Purchase Agreement with institutional investors for the sale of $185.0 million aggregate principal amount of four series of TNMP first mortgage bonds (the "TNMP 2020 Bonds") offered in private placement transactions. TNMP issued $110.0 million of TNMP 2020 Bonds on April 24, 2020 and used the proceeds to repay borrowings under the TNMP Revolving Credit Facility and for other corporate purposes. TNMP will issue the remaining $75.0 million of TNMP 2020 Bonds on or before July 15, 2020 and will use the proceeds from that issuance to repay borrowings under the TNMP Revolving Credit facility and for other corporate purposes. The issuance of the remaining TNMP 2020 Bonds is subject to the satisfaction of customary conditions, and the TNMP 2020 Bonds are subject to continuing compliance with the representations, warranties and covenants of the TNMP 2020 Bond Purchase Agreement. The terms of the TNMP 2020 Bond Purchase Agreement include customary covenants, including a covenant that requires TNMP to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, a cross-default provision, and a change-of-control provision. TNMP will have the right to redeem any or all of the TNMP 2020 Bonds prior to their respective maturities, subject to payment of a customary make-whole premium.

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Information concerning the funding dates, maturities and interest rates on the TNMP 2020 Bonds issued in April 2020 and to be issued on or before July 15, 2020 is as follows:

Funding Date	Maturity Date	Principal Amount	Interest Rate
		(In millions)	
April 24, 2020	April 24, 2030	$ 85.0	2.73 %
April 24, 2020	April 24, 2050	25.0	3.36 %
		110.0	
July 15, 2020	July 15, 2035	25.0	2.93 %
July 15, 2020	July 15, 2050	50.0	3.36 %
		$ 185.0	

On April 15, 2020, PNM entered into a $250.0 million term loan agreement (the "PNM 2020 Term Loan"), between PNM, the lenders party thereto, and U.S. Bank, as administrative agent. Proceeds from the PNM 2020 Term Loan were used to prepay the PNM 2019 $250.0 million Term Loan due July 2020, without penalty. The PNM 2020 Term Loan bears interest at a variable rate, which was 2.70% at May 1, 2020, and matures on June 15, 2021. In accordance with GAAP, borrowings under the PNM 2019 $250.0 million Term Loan are reflected as long-term in the Condensed Consolidated Balance Sheets at March 31, 2020 since PNM demonstrated its intent and ability to refinance this agreement on a long-term basis. As discussed below, on April 30, 2020, PNM used $100.0 million of proceeds from the PNM 2020 SUNs to prepay without penalty an equal amount of the PNM 2020 Term Loan.

On April 30, 2020, PNM entered into an agreement (the "PNM 2020 Note Purchase Agreement") with institutional investors for the sale of $200.0 million aggregate principal amount of senior unsecured notes offered in private placement transactions. Under the agreement, PNM issued $150.0 million aggregate principal amount of its 3.21% senior unsecured notes, Series A, due April 30, 2030, and $50.0 million of its aggregate principal amount of its 3.57% senior unsecured notes, Series B, due April 29, 2039 (the "PNM 2020 SUNs"). The PNM 2020 SUNs were issued on April 30, 2020. PNM used $100.0 million of proceeds from the PNM 2020 SUNs to repay an equal amount of the PNM 2020 Term Loan. The remaining $100.0 million of the PNM 2020 SUNs were used to repay borrowings on the PNM Revolving Credit Facility and for other corporate purposes. The PNM 2020 SUNs agreement includes customary covenants, including a covenant that requires PNM to maintain a debt-to-capitalization ratio of less than or equal to 65%, customary events of default, including a cross-default provision, and covenants regarding parity of financial covenants, liens and guarantees with respect to PNM's material credit facilities. In the event of a change of control, PNM will be required to offer to prepay the PNM 2020 SUNs at par. PNM has the right to redeem any or all of the PNM 2020 SUNs prior to their maturities, subject to payment of a customary make-whole premium.

At March 31, 2020, variable interest rates were 1.79% on the $50.0 million PNMR 2018 Two-Year Term Loan that matures in December 2020, 1.75% on the PNMR 2019 Term Loan that matures in June 2021, 1.59% on the PNM 2019 $250.0 million Term Loan, which was repaid on April 15, 2020, 1.26% on the PNM 2019 $40.0 million Term Loan that matures in June 2020, and 1.79% on the $90.0 million PNMR Development Term Loan that matures in November 2020.

On April 1, 2020, the NMPRC approved PNM's request to issue approximately $361 million of Securitized Bonds upon the retirement of SJGS in 2022. The NMPRC's approval of the issuance of these Securitized Bonds is currently being appealed to the NM Supreme Court. See SJGS Abandonment Application in Note 12.

Short-term Debt and Liquidity

Currently, the PNMR Revolving Credit Facility has a financing capacity of $300.0 million and the PNM Revolving Credit Facility has a financing capacity of $400.0 million. Both facilities currently expire on October 31, 2023 and contain options to be extended through October 2024, subject to approval by a majority of the lenders. PNM also has the $40.0 million PNM 2017 New Mexico Credit Facility that expires on December 12, 2022. The TNMP Revolving Credit Facility is a $75.0 million revolving credit facility secured by $75.0 million aggregate principal amount of TNMP first mortgage bonds and matures on September 23, 2022. PNMR Development has a $40.0 million revolving credit facility that expires on February 23,

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2021. PNMR Development has the option to further increase the capacity of this facility to $50.0 million upon 15-days advance notice. The PNMR Development Revolving Credit Facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development uses the facility to finance its participation in NMRD and for other activities. Variable interest rates under these facilities are based on LIBOR but contain provisions which allow for the replacement of LIBOR with other widely accepted interest rates.

Short-term debt outstanding consists of:

Short-term Debt	March 31, 2020	December 31, 2019
	(In thousands)	
PNM:		
PNM Revolving Credit Facility	$ 30,000	$ 48,000
PNM 2017 New Mexico Credit Facility	30,000	10,000
	60,000	58,000
TNMP Revolving Credit Facility	70,000	15,000
PNMR Revolving Credit Facility	170,600	112,100
	$ 300,600	$ 185,100

At March 31, 2020, the weighted average interest rate was 2.15% for the PNMR Revolving Credit Facility, 2.35% for the PNM Revolving Credit Facility, 2.12% for the PNM 2017 New Mexico Credit Facility, and 1.74% for the TNMP Revolving Credit Facility. There were no borrowings outstanding under the PNMR Development Revolving Credit Facility at March 31, 2020.

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of $4.7 million, $2.5 million, and $0.1 million at March 31, 2020 that reduce the available capacity under their respective revolving credit facilities. The above table excludes intercompany debt. As of March 31, 2020, and December 31, 2019, each of PNM, TNMP, and PNMR Development had zero intercompany borrowings from PNMR.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR for three separate tranches, each of $50.0 million, of its variable rate debt. These hedge agreements are accounted for as cash flow hedges and had fair values of $2.5 million and $0.4 million at March 31, 2020 and December 31, 2019 that are included in other current liabilities on the Condensed Consolidated Balance Sheets. As discussed in Note 3, changes in the fair value of the cash flow hedges are deferred in AOCI and amounts reclassified to the Condensed Consolidated Statement of Earnings are recorded in interest charges. The fair values were determined using Level 2 inputs under GAAP, including using forward LIBOR curves under the mid-market convention to discount cash flows over the remaining term of the agreement.

At May 1, 2020, PNMR, PNM, TNMP, and PNMR Development had availability of $162.6 million, $382.5 million, $74.9 million, and $40.0 million under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit, and PNM also had $10.0 million of availability under the PNM 2017 New Mexico Credit Facility. Total availability at May 1, 2020, on a consolidated basis, was $670.0 million for PNMR. As of May 1, 2020, PNM, TNMP, and PNMR Development had no borrowings from PNMR under their intercompany loan agreements. At May 1, 2020, PNMR, PNM, and TNMP had invested cash of $0.9 million, $1.9 million, and $21.9 million.

The Company's debt arrangements have various maturities and expiration dates. PNM has $100.3 million of long-term debt that must be repriced by June 2020. In addition, the $90.0 million PNMR Development Term Loan matures in November 2020, the $50.0 million PNMR 2018 Two-Year Term Loan matures in December 2020, and the $300.0 million PNMR 2018 SUNs mature on March 9, 2021. Additional information on debt maturities is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

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(10) Pension and Other Postretirement Benefit Plans

PNMR and its subsidiaries maintain qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs (collectively, the "PNM Plans" and "TNMP Plans"). PNMR maintains the legal obligation for the benefits owed to participants under these plans. The periodic costs or income of the PNM Plans and TNMP Plans are included in regulated rates to the extent attributable to regulated operations. In accordance with GAAP, the Company presents the service cost component of its net periodic benefit costs in administrative and general expenses and the non-service costs components in other income (deductions), net of amounts capitalized or deferred to regulatory assets and liabilities, on the Condensed Consolidated Statements of Earnings. PNM and TNMP receive a regulated return on the amounts funded for pension and OPEB plans in excess of accumulated periodic cost or income to the extent included in retail rates (a "prepaid pension asset").

Additional information concerning pension and OPEB plans is contained in Note 11 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. Annual net periodic benefit cost for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year.

PNM Plans

The following table presents the components of the PNM Plans' net periodic benefit cost:

	Three Months Ended March 31,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 10	$ 13	$ —	$ —
Interest cost	4,985	6,294	613	829	122	162
Expected return on plan assets	(7,363)	(8,527)	(1,387)	(1,318)	—	—
Amortization of net (gain) loss	4,465	3,880	87	169	101	79
Amortization of prior service cost	(138)	(241)	—	(99)	—	—
Net Periodic Benefit Cost (Income)	$ 1,949	$ 1,406	$ (677	$ (406	$ 223	$ 241

PNM did not make any contributions to its pension plan trust in the three months ended March 31, 2020 and 2019 and does not anticipate making any contributions to the pension plan in 2020 or 2021, but expects to contribute $4.6 million in 2022 and $19.1 million in 2023, and $19.0 million in 2024 based on current law, funding requirements, and estimates of portfolio performance. Funding assumptions were developed using discount rates of 3.4% to 3.5%. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM made no cash contributions to the OPEB trust in the three months ended March 31, 2020 and 2019, however, a portion of the disbursements attributable to the OPEB trust are paid by PNM and are therefore considered to be contributions to the OPEB plan. Payments by PNM on behalf of the PNM OPEB plan were $1.1 million and $0.8 million in the three months ended March 31, 2020 and 2019 and are expected to total $3.7 million in 2020 and $13.5 million for 2021-2024. Disbursements under the executive retirement program, which are funded by PNM and considered to be contributions to the plan, were $0.3 million and $0.4 million in the three months ended March 31, 2020 and 2019 and are expected to total $1.5 million during 2020 and $5.4 million for 2021-2024.

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TNMP Plans

The following table presents the components of the TNMP Plans' net periodic benefit cost:

	Three Months Ended March 31,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2020	2019	2020	2019	2020	2019
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$ —	$ —	$ 12	$ 13	$ —	$ —
Interest cost	544	672	93	113	6	8
Expected return on plan assets	(821)	(967)	(134)	(129)	—	—
Amortization of net (gain) loss	315	235	(81)	(110)	6	4
Net Periodic Benefit Cost (Income)	$ 38	$ (60	$ (110	$ (113	$ 12	$ 12

TNMP did not make any contributions to its pension plan trust in the three months ended March 31, 2020 and 2019 and does not anticipate making any contributions to the pension plan in 2020 - 2022, but expects to contribute $1.1 million in 2023 and $2.8 million in 2024, based on current law, funding requirements, and estimates of portfolio performance. Funding assumptions were developed using discount rates of 3.4% to 3.5%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP made no contributions to the OPEB trust in the three months ended March 31, 2020 and 2019 and does not expect to make contributions to the OPEB trust during the period 2020-2024. Disbursements under the executive retirement program, which are funded by TNMP and considered to be contributions to the plan, were zero and less than $0.1 million in the three months ended March 31, 2020 and 2019 and are expected to total $0.1 million during 2020 and $0.3 million in 2021-2024.

(11) Commitments and Contingencies

There are various claims and lawsuits pending against the Company. In addition, the Company is subject to federal, state, and local environmental laws and regulations and periodically participates in the investigation and remediation of various sites. In addition, the Company periodically enters into financial commitments in connection with its business operations. Also, the Company is involved in various legal and regulatory proceedings in the normal course of its business. See Note 12. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

With respect to some of the items listed below, the Company has determined that a loss is not probable or that, to the extent probable, cannot be reasonably estimated. In some cases, the Company is not able to predict with any degree of certainty the range of possible loss that could be incurred. The Company assesses legal and regulatory matters based on current information and makes judgments concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of any damages sought, and the probability of success. Such judgments are made with the understanding that the outcome of any litigation, investigation, or other legal proceeding is inherently uncertain. In accordance with GAAP, the Company records liabilities for matters where it is probable a loss has been incurred and the amount of loss is reasonably estimable. The actual outcomes of the items listed below could ultimately differ from the judgments made and the differences could be material. The Company cannot make any assurances that the amount of reserves or potential insurance coverage will be sufficient to cover the cash obligations that might be incurred as a result of litigation or regulatory proceedings. Except as otherwise disclosed, the Company does not expect that any known lawsuits, environmental costs, and commitments will have a material effect on its financial condition, results of operations, or cash flows.

Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Commitments and Contingencies Related to the Environment

Nuclear Spent Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE that require the DOE to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE announced that it would not be able to open the repository by 1998 and sought to excuse its performance of these requirements. In November 1997, the DC Circuit issued a decision preventing the DOE from excusing its own delay but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE's delay, a number of utilities, including APS (on behalf of itself and the other PVNGS owners, including PNM), filed damages actions against the DOE in the Court of Federal Claims. The lawsuits filed by APS alleged that damages were incurred due to DOE's continuing failure to remove spent nuclear fuel and high-level waste from PVNGS. In August 2014, APS and the DOE entered into a settlement agreement that establishes a process for the payment of claims for costs incurred through December 31, 2019. Under the settlement agreement, APS must submit claims annually for payment of allowable costs. PNM records estimated claims on a quarterly basis. The benefit from the claims is passed through to customers under the FPPAC to the extent applicable to NMPRC regulated operations. The DOE is reviewing a possible three year extension of the settlement agreement. PNM cannot predict the timing of the DOE's decision on the extension.

PNM estimates that it will incur approximately $57.7 million (in 2016 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the nuclear fuel is consumed. At March 31, 2020 and December 31, 2019, PNM had a liability for interim storage costs of $12.8 million and $12.7 million, which is included in other deferred credits.

PVNGS has sufficient capacity at its on-site Independent Spent Fuel Storage Installation ("ISFSI") to store all of the nuclear fuel that will be irradiated during the initial operating license period, which ends in December 2027. Additionally, PVNGS has sufficient capacity at its on-site ISFSI to store a portion of the fuel that will be irradiated during the period of extended operation, which ends in November 2047. If uncertainties regarding the U.S. government's obligation to accept and store spent fuel are not favorably resolved, APS will evaluate alternative storage solutions that may obviate the need to expand the ISFSI to accommodate all of the fuel that will be irradiated during the period of extended operation.

The Clean Air Act

Regional Haze

In 1999, EPA developed a regional haze program and regional haze rules under the CAA. The rule directs each of the 50 states to address regional haze. Pursuant to the CAA, states have the primary role to regulate visibility requirements by promulgating SIPs. States are required to establish goals for improving visibility in national parks and wilderness areas (also known as Class I areas) and to develop long-term strategies for reducing emissions of air pollutants that cause visibility impairment in their own states and for preventing degradation in other states. States must establish a series of interim goals to ensure continued progress by adopting a new SIP every ten years. In the first SIP planning period, states were required to conduct BART determinations for certain covered facilities, including utility boilers, built between 1962 and 1977 that have the potential to emit more than 250 tons per year of visibility impairing pollution. If it was demonstrated that the emissions from these sources caused or contributed to visibility impairment in any Class I area, then BART must have been installed by the beginning of 2018. For all future SIP planning periods, states must evaluate whether additional emissions reduction measures may be needed to continue making reasonable progress toward natural visibility conditions.

On January 10, 2017, EPA published in the Federal Register revisions to the regional haze rule. EPA also provided a companion draft guidance document for public comment. The new rule delayed the due date for the next cycle of SIPs from 2019 to 2021, altered the planning process that states must employ in determining whether to impose "reasonable progress" emission reduction measures, and gave new authority to federal land managers to seek additional emission reduction measures outside of the states' planning process. Finally, the rule made several procedural changes to the regional haze program, including changes to the schedule and process for states to file 5-year progress reports. EPA's new rule was challenged by numerous parties. On January 19, 2018, EPA filed a motion to hold the case in abeyance in light of several letters issued by

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EPA on January 17, 2018 to grant various petitions for reconsideration of the 2017 rule revisions. EPA's decision to revisit the 2017 rule is not a determination on the merits of the issues raised in the petitions.

On December 20, 2018, EPA released a new guidance document on tracking visibility progress for the second planning period. EPA is allowing states discretion to develop SIPs that may differ from EPA's guidance as long as they are consistent with the CAA and other applicable regulations. On August 20, 2019, EPA finalized the draft guidance that was released in 2016 as a companion to the regional haze rule revisions. The final guidance differs from the draft in several ways. For example, the final guidance recognizes that sources already subject to BART may not need to be re-evaluated under the full four-factor analysis whereas the draft guidance encouraged states to evaluate all sources regardless of whether they were previously subject to BART. In addition, the final guidance recognizes that states may consider both visibility benefits and the cost of different control options when applying the four-factor analysis whereas the draft guidance recommended states require any control measures identified to be reasonable after considering the four-factor analysis alone. SIPs for the second compliance period are due in July 2021. NMED is currently preparing its SIP for the second compliance period and has notified PNM that it will not require a regional haze four-factor analysis for SJGS since PNM will retire its share of SJGS in 2022. PNM cannot predict the outcome of these matters with respect to Four Corners.

Four Corners

Four Corners Federal Agency Lawsuit – On April 20, 2016, several environmental groups filed a lawsuit against OSM and other federal agencies in the U.S. District Court for the District of Arizona in connection with their issuance of the approvals that extended the life of Four Corners and the adjacent mine. The lawsuit alleges that these federal agencies violated both the ESA and NEPA in providing the federal approvals necessary to extend operations at Four Corners and the adjacent mine past July 6, 2016. The court granted an APS motion to intervene in the litigation. NTEC, the current owner of the mine providing coal to Four Corners, filed a motion to intervene for the limited purpose of seeking dismissal of the lawsuit based on NTEC's tribal sovereign immunity. The court granted NTEC's motion and dismissed the case with prejudice, terminating the proceedings. In November 2017, the environmental group plaintiffs filed a Notice of Appeal of the dismissal in the U.S. Court of Appeals for the Ninth Circuit, and the court granted their subsequent motion to expedite the appeal. The Ninth Circuit issued a decision affirming the District Court's dismissal of the case. In September 2019, the environmental groups filed a motion for reconsideration, which was denied in December 2019. On March 24, 2020, the environmental groups filed a petition for *writ of certiorari* in the U.S. Supreme Court seeking review of the Ninth Circuit's decision. PNM cannot predict the outcome of this matter.

Carbon Dioxide Emissions

On August 3, 2015, EPA established standards to limit CO_2 emissions from power plants. EPA took three separate but related actions in which it: (1) established the Carbon Pollution Standards for new, modified, and reconstructed power plants; (2) established the Clean Power Plan to set standards for carbon emission reductions from existing power plants; and (3) released a proposed federal plan associated with the final Clean Power Plan. The Clean Power Plan was published on October 23, 2015.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. On January 21, 2016, the DC Circuit denied petitions to stay the Clean Power Plan, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. The decision meant that the Clean Power Plan was not in effect and neither states nor sources were obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a ten judge *en banc* panel. However, before the DC Circuit could issue an opinion, the Trump Administration asked that the case be held in abeyance while the rule was being re-evaluated, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss cases challenging the Clean Power Plan as moot due to EPA's issuance of the Affordable Clean Energy rule, which repealed the Clean Power Plan.

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On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order put forth two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order directed the EPA Administrator to review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Clean Power Plan, (2) the New Source Performance Standards ("NSPS") for GHG from new, reconstructed, or modified electric generating units, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response to the Executive Order, EPA filed a petition with the DC Circuit requesting the cases challenging the Clean Power Plan be held in abeyance until after the conclusion of EPA's review and any subsequent rulemaking, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance. On September 17, 2019, the DC Circuit issued an order that granted motions by various petitioners, including industry groups and EPA, to dismiss the cases challenging the Clean Power Plan as moot due to EPA's issuance of the Affordable Clean Energy rule.

EPA's efforts to replace the Clean Power Plan with the Affordable Clean Energy rule began on October 10, 2017, when EPA issued a NOPR proposing to repeal the Clean Power Plan and filed its status report with the court requesting the case be held in abeyance until the completion of the rulemaking on the proposed repeal. The NOPR proposed a legal interpretation concluding that the Clean Power Plan exceeded EPA's statutory authority. On August 31, 2018, EPA published a proposed rule, known as the Affordable Clean Energy rule, to replace the Clean Power Plan. On June 19, 2019, EPA released the final version of the Affordable Clean Energy rule. EPA takes three actions in the final rule: (1) repealing of the Clean Power Plan; (2) promulgating the Affordable Clean Energy rule; and (3) revising the implementing regulations for all emission guidelines issued under Clean Air Act Section 111(d), which, among other things, extends the deadline for state plans and the timing for EPA's approval process. The final rule is very similar to the August 2018 proposed rule. EPA set the Best System of Emissions Reduction ("BSER") for existing coal-fired power plants as heat rate efficiency improvements based on a range of "candidate technologies" that can be applied inside the fence-line. Rather than setting a specific numerical standard of performance, EPA's rule directs states to determine which of the candidate technologies to apply to each coal-fired unit and establish standards of performance based on the degree of emission reduction achievable based on the application of BSER. The final rule requires states to submit a plan to EPA by July 8, 2022 and then EPA has one year to approve the plan. If states do not submit a plan or their submitted plan is not acceptable, EPA will have two years to develop a federal plan. The Affordable Clean Energy rule is not expected to impact SJGS since EPA's final approval of a state SIP would occur after PNM retires its share of SJGS in 2022.

Since the Navajo Nation does not have primacy over its air quality program, EPA would be the regulatory authority responsible for implementing the Affordable Clean Energy rule on the Navajo Nation. PNM is unable to predict the potential financial or operational impacts on Four Corners.

While corresponding NSR reform regulations were proposed as part of the proposed Affordable Clean Energy rule, the final rule did not include such reform measures. EPA has indicated that it plans to finalize the proposed NSR reform in 2020. Unrelated to the Affordable Clean Energy rule, EPA issued a proposed rule on August 1, 2019 to clarify one aspect of the pre-construction review process for evaluating whether the NSR permitting program would apply to a proposed project at an existing source of emissions. The proposed rule clarifies that both emissions increases and decreases resulting from a project are to be considered in determining whether the proposed project will result in an increase in air emissions.

On December 20, 2018, EPA published in the Federal Register a proposed rule that would revise the Carbon Pollution Standards rule published in October 2015 for new, reconstructed, or modified coal-fired EGUs. The proposed rule would revise the standards for new coal-fired EGUs based on the revised BSER as the most efficient demonstrated steam cycle (e.g., supercritical steam conditions for large units and subcritical steam conditions for small units), instead of partial carbon capture and sequestration. As a result, the proposed rule contains less stringent CO_2 emission performance standards for new units. EPA has also proposed revisions to the standards for reconstructed and modified fossil-fueled power plants to align with the proposed standards for new units. EPA is not proposing any changes nor reopening the standards of performance for newly constructed or reconstructed stationary combustion turbines. A final rule is expected in 2020.

PNM's review of the GHG emission reductions standards under the Affordable Clean Energy rule and the revised proposed Carbon Pollution Standards rule is ongoing. The Affordable Clean Energy rule has been challenged by several parties and may be impacted by further litigation. PNM cannot predict the impact these standards may have on its operations or a range of the potential costs of compliance, if any.

National Ambient Air Quality Standards ("NAAQS")

The CAA requires EPA to set NAAQS for pollutants reasonably anticipated to endanger public health or welfare. EPA has set NAAQS for certain pollutants, including NOx, SO_2, ozone, and particulate matter. In 2010, EPA updated the primary NOx and SO_2 NAAQS to include a 1-hour standard while retaining the annual standards for NOx and SO_2 and the 24-hour SO_2 standard. EPA also updated the final particulate matter standard in 2012 and updated the ozone standard in 2015.

NOx Standard – On April 18, 2018, EPA published the final rule to retain the current primary health-based NOx standards of which NO_2 is the constituent of greatest concern and is the indicator for the primary NAAQS. EPA concluded that the current 1-hour and annual primary NO_2 standards are requisite to protect public health with an adequate margin of safety. The rule became effective on May 18, 2018.

SO_2 Standard – On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO_2 NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO_2 sources to identify maximum 1-hour SO_2 concentrations. This characterization requires areas be designated as attainment, nonattainment, or unclassifiable for compliance with the 1-hour SO_2 NAAQS.

On August 11, 2015, EPA released the Data Requirements Rule for SO_2, telling states how to model or monitor to determine attainment or nonattainment with the new 1-hour SO_2 NAAQS. On June 3, 2016, NMED notified PNM that air quality modeling results indicated that SJGS was in compliance with the standard. In January 2017, NMED submitted its formal modeling report regarding attainment status to EPA. The modeling indicated that no area in New Mexico exceeds the 1-hour SO_2 standard. NMED submitted the first annual report for SJGS as required by the Data Requirements Rule in June 2018. That report recommended that no further modeling was warranted due to decreased SO_2 emissions. NMED submitted the second annual modeling report to EPA in July 2019. That report retained the recommendation that no further modeling is needed at this time and is subject to EPA review.

On February 25, 2019, EPA announced its final decision to retain without changes the primary health-based NAAQS for SOx. Specifically, EPA will retain the current 1-hour standard for SO_2, which is 75 parts per billion, based on the 3-year average of the 99th percentile of daily maximum 1-hour SO_2 concentrations. SO_2 is the most prevalent SOx compound and is used as the indicator for the primary SOx NAAQS.

On May 14, 2015, PNM received an amendment to its NSR air permit for SJGS, which reflects the revised state implementation plan for regional haze BART and required the installation of SNCRs. The revised permit also required the reduction of SO_2 emissions to 0.10 pound per MMBTU on SJGS Units 1 and 4 and the installation of BDT equipment modifications for the purpose of reducing fugitive emissions, including NOx, SO_2 and particulate matter. These reductions help SJGS meet the NAAQS for these constituents. The BDT equipment modifications were installed at the same time as the SNCRs, in order to most efficiently and cost effectively conduct construction activities at SJGS. See a discussion of the regulatory treatment of BDT in Note 12.

Ozone Standard – On October 1, 2015, EPA finalized the new ozone NAAQS and lowered both the primary and secondary 8-hour standard from 75 to 70 parts per billion. With ozone standards becoming more stringent, fossil-fueled generation units will come under increasing pressure to reduce emissions of NOx and volatile organic compounds since these are the pollutants that form ground-level ozone.

On November 10, 2015, EPA proposed a rule revising its Exceptional Events Rule, which outlines the requirements for excluding air quality data (including ozone data) from regulatory decisions if the data is affected by events outside an area's control. The proposed rule is important in light of the more stringent ozone NAAQS final rule since western states like New Mexico and Arizona are subject to elevated background ozone transport from natural local sources, such as wildfires and stratospheric inversions, and transported via winds from distant sources in other regions or countries. EPA finalized the rule on October 3, 2016 and released related guidance in 2018 and 2019 to help implement its new exceptional events policy.

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During 2017 and 2018, EPA released rules establishing area designations for ozone. In those rules, San Juan County, New Mexico, where SJGS and Four Corners are located, is designated as attainment/unclassifiable and only a small area in Doña Ana County, New Mexico is designated as marginal non-attainment. The final rule also establishes the timing of attainment dates for each non-attainment area classification, which are marginal, moderate, serious, severe, or extreme. The rule became effective May 8, 2018. Attainment plans for nonattainment areas are due in August 2021.

NMED has responsibility for bringing the small area in Doña Ana County designated as marginal/non-attainment for ozone into compliance and will look at all sources of NOx and volatile organic compounds. On November 22, 2019, EPA issued findings that several states, including New Mexico, had failed to submit SIPs for the 8-hour ozone NAAQS. In response, in December 2019, NMED published the Public Review Draft of the New Mexico 2013 NAAQS Good Neighbor SIP that outlines the strategies and emissions control measures that are expected to improve air quality in the area by May 8, 2021. These strategies and measures would aim to reduce the amount of NOx and volatile organic compounds emitted to the atmosphere and will rely upon current or upcoming federal rules, new or revised state rules, and other programs. Comments or requests for a public hearing were required by January 21, 2020.

PNM does not believe there will be material impacts to its facilities as a result of NMED's non-attainment designation of the small area within Doña Ana County. Until EPA approves attainment designations for the Navajo Nation and releases a proposal to implement the revised ozone NAAQS, PNM is unable to predict what impact the adoption of these standards may have on Four Corners. PNM cannot predict the outcome of this matter.

PM Standard – On January 30, 2020, EPA published in the Federal Register a notice announcing the availability of its final Policy Assessment for the Review of the National Ambient Air Quality Standards for Particulate Matter (the "Final PA"). The final assessment was prepared as part of the review of the primary and secondary PM NAAQS. In the assessment, EPA recommend lowering the primary annual PM2.5 standard to between 8 µg/m3 and 10 µg/m3. However, EPA signed a proposed rule on April 14, 2020 to retain the current standards for PM due to uncertainties in the data relied upon in the Final PA. Once the proposed rule is published in the Federal Register, EPA will accept comments for 60 days and anticipates issuing a final rulemaking in late 2020. PNM cannot predict the outcome of this matter or whether it will have a material impact on its financial position, results of operations, or cash flows.

Navajo Nation Environmental Issues

Four Corners is located on the Navajo Nation and is held under easements granted by the federal government, as well as agreements with the Navajo Nation which grant each of the owners the right to operate on the site. The Navajo Acts purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners. In October 1995, the Four Corners participants filed a lawsuit in the District Court of the Navajo Nation challenging the applicability of the Navajo Acts to Four Corners. In May 2005, APS and the Navajo Nation signed an agreement resolving the dispute regarding the Navajo Nation's authority to adopt operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. As a result of this agreement, APS sought, and the court granted, dismissal of the pending litigation in the Navajo Nation Supreme Court and the Navajo Nation District Court, to the extent the claims relate to the CAA. The agreement does not address or resolve any dispute relating to other aspects of the Navajo Acts. PNM cannot currently predict the outcome of these matters or the range of their potential impacts.

Cooling Water Intake Structures

In 2014, EPA issued a rule establishing national standards for certain cooling water intake structures at existing power plants and other facilities under the Clean Water Act to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens) and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures).

To minimize impingement mortality, the rule provides operators of facilities, such as SJGS and Four Corners, seven options for meeting Best Technology Available ("BTA") standards for reducing impingement. SJGS has a closed-cycle recirculating cooling system, which is a listed BTA and may also qualify for the "*de minimis* rate of impingement" based on the design of the intake structure. The permitting authority must establish the BTA for entrainment on a site-specific basis, taking into consideration an array of factors, including endangered species and social costs and benefits. Affected sources must submit source water baseline characterization data to the permitting authority to assist in the determination. Compliance deadlines under the rule are tied to permit renewal and will be subject to a schedule of compliance established by the permitting authority.

The rule is not clear as to how it applies and what the compliance timelines are for facilities like SJGS that have a cooling water intake structure and only a multi-sector general stormwater permit. However, EPA has indicated that it is contemplating a December 31, 2023 compliance deadline. PNM is working with EPA regarding this issue and does not expect material changes as a result of any requirements that may be imposed upon SJGS, particularly given the NMPRC's April 1, 2020 approval for PNM to retire its share of SJGS by June 2022.

On May 23, 2018, several environmental groups sued EPA Region IX in the U.S. Court of Appeals for the Ninth Circuit Court over EPA's failure to timely reissue the Four Corners NPDES permit. The petitioners asked the court to issue a *writ of mandamus* compelling EPA Region IX to take final action on the pending NPDES permit by a reasonable date. EPA subsequently reissued the NPDES permit on June 12, 2018. The permit did not contain conditions related to the cooling water intake structure rule as EPA determined that the facility has achieved BTA for both impingement and entrainment by operating a closed-cycle recirculation system. On July 16, 2018, several environmental groups filed a petition for review with EPA's Environmental Appeals Board concerning the reissued permit. The environmental groups alleged that the permit was reissued in contravention of several requirements under the Clean Water Act and did not contain required provisions concerning certain revised effluent limitation guidelines, existing-source regulations governing cooling-water intake structures, and effluent limits for surface seepage and subsurface discharges from coal-ash disposal facilities. On December 19, 2018, EPA withdrew the Four Corners NPDES permit in order to examine issues raised by the environmental groups. Withdrawal of the permit moots the appeal pending before the Environmental Appeals Board. EPA's Environmental Appeals Board thereafter dismissed the environmental groups' appeal. EPA issued an updated NPDES permit on September 30, 2019. The permit has been stayed pending an appeal filed by several environmental groups on November 1, 2019 to EPA's Environmental Appeals Board. PNM cannot predict the outcome of this matter or whether it will have a material impact on PNM's financial position, results of operations or cash flows.

Effluent Limitation Guidelines

On June 7, 2013, EPA published proposed revised wastewater effluent limitation guidelines establishing technology-based wastewater discharge limitations for fossil fuel-fired electric power plants. EPA's proposal offered numerous options that target metals and other pollutants in wastewater streams originating from fly ash and bottom ash handling activities, scrubber activities, and non-chemical metal cleaning waste operations. All proposed alternatives establish a "zero discharge" effluent limit for all pollutants in fly ash transport water. Requirements governing bottom ash transport water differ depending on which alternative EPA ultimately chooses and could range from effluent limits based on Best Available Technology Economically Achievable to "zero discharge" effluent limits.

EPA signed the final Steam Electric Effluent Guidelines rule on September 30, 2015. The final rule, which became effective on January 4, 2016, phases in the new, more stringent requirements in the form of effluent limits for arsenic, mercury, selenium, and nitrogen for wastewater discharged from wet scrubber systems and zero discharge of pollutants in ash transport water that must be incorporated into plants' NPDES permits. Each plant must comply between 2018 and 2023 depending on when it needs a new or revised NPDES permit.

The Effluent Limitations Guidelines rule was challenged in the U.S. Court of Appeals for the Fifth Circuit by numerous parties. On April 12, 2017, EPA signed a notice indicating its intent to reconsider portions of the rule, and on August 22, 2017, the Fifth Circuit issued an order severing the issues under reconsideration and holding the case in abeyance as to those issues. However, the court allowed challenges to other portions of the rule to proceed. On April 12, 2019, the Fifth Circuit granted those challenges and issued an opinion vacating several portions of the rule, specifically those related to legacy wastewater and leachate, for which the court deemed the standards selected by EPA arbitrary and capricious.

On September 18, 2017, EPA published a final rule for postponement of certain compliance dates. The rule postponed the earliest date on which compliance with the effluent limitation guidelines for these waste streams would be required from

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November 1, 2018 until November 1, 2020. Although the new deadlines were challenged in court, the Fifth Circuit rejected those challenges on August 28, 2019. On November 22, 2019, EPA published a proposed rule revising the original Effluent Limitation Guidelines while maintaining the compliance dates. Comments were due January 21, 2020.

Because SJGS is zero discharge for wastewater and is not required to hold a NPDES permit, it is expected that minimal to no requirements will be imposed. Reeves Station, a PNM-owned gas-fired generating station, discharges cooling tower blowdown to a publicly owned treatment plant and holds an NPDES permit. It is expected that minimal to no requirements will be imposed at Reeves Station.

EPA reissued an NPDES permit for Four Corners on June 12, 2018. Since that time, the NPDES permit at Four Corners has been subject to various challenges by environmental groups. See Cooling Water Intake Structures above for additional discussion of Four Corners' current NPDES permit. Four Corners may be required to change equipment and operating practices affecting boilers and ash handling systems, as well as change its waste disposal techniques during the next NPDES permit renewal in 2023. PNM is unable to predict the outcome of these matters or a range of the potential costs of compliance.

Santa Fe Generating Station

PNM and NMED are parties to agreements under which PNM has installed a remediation system to treat water from a City of Santa Fe municipal supply well and an extraction well to address gasoline contamination in the groundwater at the site of PNM's former Santa Fe Generating Station and service center. A 2008 NMED site inspection report states that neither the source nor extent of contamination at the site has been determined and that the source may not be the former Santa Fe Generating Station. During 2013 and 2014, PNM and NMED collected additional samples that showed elevated concentrations of nitrate and volatile organic compounds in some of the monitoring wells at the site. In addition, one monitoring well contained free-phase hydrocarbon products. PNM collected a sample of the product for "fingerprint" analysis. The results of this analysis indicated the product was a mixture of older and newer fuels. The presence of newer fuels in the sample suggests the hydrocarbon product likely originated from off-site sources. In December 2015, PNM and NMED entered into a memorandum of understanding to address changing groundwater conditions at the site under which PNM agreed to continue hydrocarbon investigation under the supervision of NMED. Qualified costs are eligible for payment through the New Mexico Corrective Action Fund ("CAF"), which is administered by the NMED Petroleum Storage Tank Bureau. In March 2019, PNM received notice from NMED that an abatement plan for the site is required to address concentrations of previously identified compounds, unrelated to those discussed above, found in the groundwater. NMED approved PNM's abatement plan proposal, which covers field work and reporting.

Field work related to the investigation under both the CAF and abatement plan requirements was completed in October 2019. Activities and findings associated with the field work will be presented in two separate reports, which were released to stakeholders in early 2020. The reports' conclusions support PNM's contention that off-site sources have impacted, and are continuing to impact, the local groundwater in the vicinity of the former Santa Fe Generating Station.

The City of Santa Fe has stopped operating its well at the site, which is needed for PNM's groundwater remediation system to operate. As a result, PNM has stopped performing remediation activities at the site. However, PNM's monitoring and other abatement activities at the site are ongoing and will continue until the groundwater meets applicable federal and state standards or until the NMED determines remediation is not required, whichever is earlier. PNM is not able to assess the duration of this project or estimate the impact on its obligations if PNM is required to resume groundwater remediation activities at the site. PNM is unable to predict the outcome of these matters.

Coal Combustion Residuals Waste Disposal

CCRs consisting of fly ash, bottom ash, and gypsum generated from coal combustion and emission control equipment at SJGS are currently disposed of in the surface mine pits adjacent to the plant. SJGS does not operate any CCR impoundments or landfills. The NMMMD currently regulates mine reclamation activities at the San Juan mine, including placement of CCRs in the surface mine pits, with federal oversight by the OSM. APS disposes of CCRs in ponds and dry storage areas at Four Corners. Ash management at Four Corners is regulated by EPA and the New Mexico State Engineer's Office.

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EPA's final coal ash rule, which became effective on October 19, 2015, included a non-hazardous waste determination for coal ash. The rule was promulgated under Subtitle D of RCRA and sets minimum criteria for existing and new CCR landfills and surface impoundments. On December 16, 2016, the Water Infrastructure Improvements for the Nation Act (the "WIIN Act") was signed into law to address critical water infrastructure needs in the U.S. and contains a number of provisions related to the CCR rules. Among other things, the WIIN Act allows, but does not require, states to develop and submit CCR permit programs for EPA approval, provides flexibility for states to incorporate EPA's final rule for CCRs or develop other criteria that are at least as protective as EPA's final rule, and requires EPA to approve state permit programs within 180 days of submission by the state. Because states are not required to implement their own CCR permit programs, EPA will implement the permit program in states that choose not to implement a program, subject to Congressional funding. Until permit programs are in effect, EPA has authority to directly enforce the CCR rule. For facilities located within the boundaries of Native American reservations, such as the Navajo Nation where Four Corners is located, EPA is required to develop a federal permit program regardless of appropriated funds. There is no timeline for establishing either state or federal permitting programs.

On July 30, 2018, EPA published a rule that constitutes "Phase One, Part One" of its ongoing reconsideration and revision of the April 17, 2015 coal ash rule. The final rule includes two types of revisions. The first revision extended the deadline to allow EGUs with unlined impoundments or that fail to meet the uppermost aquifer requirement to continue to receive coal ash until October 31, 2020. The rule also authorized a "Participating State Director" or EPA to approve suspension of groundwater monitoring and to issue certifications related to the location restrictions, design criteria, groundwater monitoring, remedy selection and implementation. The revisions also modify groundwater protection standards for certain constituents, which include cobalt, molybdenum, lithium, and lead without a maximum contamination level. EPA intends to issue multiple proposed rulemakings with a final rule expected in 2020 that will include the following: (1) deadlines for unlined surface impoundments to cease receiving waste; (2) a "Phase Two" rule to address amendments to the national minimum criteria; and (3) rulemaking for alternative demonstration for unlined surface impoundments with a request for comment on inclusion of legacy units. On August 14, 2019, the "Phase Two" proposed rule was published in the Federal Register with comments due on October 15, 2019. This rule proposes revisions to reporting and accessibility to public information, the definition of CCR piles, the definition of beneficial use, and the requirements for management of CCR piles. A final rule is expected in mid to late 2020. On November 4, 2019, EPA proposed a change to the CCR rule that, subject to EPA authorization for each facility, would allow facilities that have committed to cease burning coal in the near-term to qualify for alternative closure. CCR disposal units at such plants could continue operating even though they would otherwise have been subject to forced closure. On December 2, 2019, EPA published the proposed Part A CCR rule requiring a new date of August 31, 2020 for companies to initiate closure of unlined CCR impoundments and changing the classification of compacted soil-lined or clay-lined surface impoundments from "lined" to "unlined". On February 20, 2020, EPA published a proposed rule establishing a federal permitting program for the handling of CCR within the boundaries of Native American reservations and in states without their own federally authorized state programs. Permits for units within the boundaries of Native American reservations would be due 18 months after the effective date of the rule. Comments are due on May 20, 2020. The final rule is expected in mid to late 2020. PNM cannot predict the outcome of EPA's rule making activity or the outcome of any related litigation, and whether or how such a ruling would affect operations at Four Corners.

The CCR rule does not cover mine placement of coal ash. OSM is expected to publish a proposed rule covering mine placement in the future and will likely be influenced by EPA's rule and the determination by EPA that CCRs are non-hazardous. PNM cannot predict the outcome of OSM's proposed rulemaking regarding CCR regulation, including mine placement of CCRs, or whether OSM's actions will have a material impact on PNM's operations, financial position, or cash flows. Based upon the requirements of the final rule, PNM conducted a CCR assessment at SJGS and made minor modifications at the plant to ensure that there are no facilities that would be considered impoundments or landfills under the rule. PNM would seek recovery from its ratepayers of all CCR costs for retail jurisdictional assets that are ultimately incurred. PNM does not expect the rule to have a material impact on operations, financial position, or cash flows.

As indicated above, CCRs at Four Corners are currently disposed of in ash ponds and dry storage areas. The CCR rule requires ongoing, phased groundwater monitoring. Utilities that own or operate CCR disposal units, such as those at Four Corners were required to collect sufficient groundwater sampling data to initiate a detection monitoring program. Four Corners completed the analysis for its CCR disposal units, which identified several units that will need corrective action or will need to cease operations and initiate closure by October 31, 2020 under current regulations. As part of this assessment, Four Corners will continue to gather additional groundwater data and perform remedial evaluations. At this time, PNM does not anticipate its share of the cost to complete these corrective actions, to close the CCR disposal units, or to gather and perform remedial evaluations on groundwater at Four Corners will have a significant impact on its operations, financial position, or cash flows.

Other Commitments and Contingencies

Coal Supply

SJGS

The coal requirements for SJGS are supplied by WSJ LLC. WSJ LLC holds certain federal, state, and private coal leases. In addition to coal delivered to meet the current needs of SJGS, PNM has prepaid the current San Juan mine owner and operator, WSJ LLC, for certain coal mined but not yet delivered to the plant site. At both March 31, 2020 and December 31, 2019, prepayments for coal, which are included in other current assets, amounted to $26.3 million. Additional information concerning the coal supply for SJGS is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

In conjunction with the activities undertaken to comply with the CAA for SJGS, PNM and the other owners of SJGS evaluated alternatives for the supply of coal to SJGS. On July 1, 2015, PNM and Westmoreland entered into a new coal supply agreement (the "SJGS CSA"), pursuant to which Westmoreland, through its indirectly wholly-owned subsidiary SJCC, agreed to supply all of the coal requirements of SJGS through June 30, 2022. PNM and Westmoreland also entered into agreements under which CCR disposal and mine reclamation services for SJGS would be provided. As discussed in Note 6, with the closing of the sale of the assets of SJCC on March 15, 2019, WSJ LLC assumed the rights and obligations of SJCC under the SJGS CSA and the agreements for CCR disposal and mine reclamation services. Pricing under the SJGS CSA is primarily fixed, with adjustments to reflect changes in general inflation. The pricing structure takes into account that WSJ LLC has been paid for coal mined but not delivered.

PNM had the option to extend the SJGS CSA, subject to negotiation of the term of the extension and compensation to the miner. In 2018, PNM, Los Alamos, UAMPS, and Tucson provided notice of their intent to exit SJGS in 2022 and Farmington gave notice that it wishes to continue SJGS operations and to extend the terms of both agreements. On November 30, 2018, PNM provided notice to Westmoreland that PNM does not intend to extend the term of the SJGS CSA or to negotiate a new coal supply agreement for SJGS, which will result in the current agreement expiring on its own terms on June 30, 2022. See additional discussion of PNM's SJGS Abandonment Application in Note 12.

In connection with certain mining permits relating to the operation of the San Juan mine, the San Juan mine owner was required to post reclamation bonds of $118.7 million with the NMMMD. In order to facilitate the posting of reclamation bonds by sureties on behalf of the San Juan mine owner, PNMR entered into letter of credit arrangements with a bank under which letters of credit aggregating $30.3 million have been issued. As discussed in Note 6, on March 15, 2019, the assets owned by SJCC were sold to WSJ LLC, a subsidiary of Westmoreland Mining Holdings, LLC. Under the sale agreement, WSJ LLC assumed the rights and obligations of SJCC, including obligations to PNMR under the outstanding letters of credit.

Four Corners

APS purchases all of Four Corners' coal requirements from NTEC, an entity owned by the Navajo Nation, under a coal supply contract (the "Four Corners CSA") that expires in 2031. The coal comes from reserves located within the Navajo Nation. NTEC has contracted with Bisti Fuels Company, LLC, a subsidiary of The North American Coal Corporation, for management and operation of the mine. The contract provides for pricing adjustments over its term based on economic indices. PNM's share of the coal costs is being recovered through the FPPAC. See additional discussion of the Four Corners CSA in Note 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

Coal Mine Reclamation

As indicated under Coal Combustion Residuals Waste Disposal above, SJGS currently disposes of CCRs in the surface mine pits adjacent to the plant and Four Corners disposes of CCRs in ponds and dry storage areas. As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, in conjunction with the proposed shutdown of SJGS Units 2 and 3 to comply with the BART requirements of the CAA, periodic updates to the coal mine reclamation study were requested by the SJGS participants. These updates have generally increased PNM's share of the estimated cost of mine reclamation and have included adjustments to reflect the December 2017 shutdown of SJGS Units 2 and 3, the terms of the reclamation services agreement with WSJ LLC, and changes to reflect the requirements of the 2015 San Juan mine permit plan.

In December 2018, PNM remeasured its liability for coal mine reclamation for the mine that serves SJGS to reflect that reclamation activities may occur beginning in 2022, rather than in 2053 as previously anticipated. This estimate resulted in an increase in overall reclamation costs of $39.2 million due to an increase in the amount of fill dirt required to remediate the mine areas and the timing of activities necessary to reclaim the mine that serves SJGS. The increase includes costs for both the underground and surface mines that serve SJGS. PNM recovers from retail customers reclamation costs associated with the underground mine. However, the NMPRC has capped the amount that can be collected from retail customers for final reclamation of the surface mines at $100.0 million. As a result, PNM recorded $9.4 million of the increase in the liability related to the underground mine in regulatory assets on the Condensed Consolidated Balance Sheets and received recovery for such costs in its SJGS Abandonment Application. See Note 12. PNM's estimate of the costs necessary to reclaim the mine that serves SJGS is subject to many assumptions, including the timing of reclamation, generally accepted practices at the time reclamation activities occur, and then current inflation and discount rates. PNM cannot predict the ultimate cost to reclaim the mine that serves SJGS and would seek to recover all costs related to reclaiming the underground mine from its customers but could be exposed to additional loss related to surface mine reclamation.

A draft coal mine reclamation study for the mine that serves Four Corners was issued in July 2019. The study reflected operation of the mine through 2031, the term of the Four Corners CSA. In June 2019, the draft study resulted in a net decrease in PNM's share of the coal mine reclamation obligation of $0.3 million, which was primarily driven by lower overhead costs offset by an increase driven by a reduction in the discount rate used by PNM to measure the liability. In September 2019, the study was finalized and included the same assumptions used in the draft study with limited modifications. PNM updated its liability using the final study and to reflect the appropriate discount rates, which had decreased since PNM's prior measurement. These updates resulted in an increase to PNM's share of the coal mine reclamation obligation for the mine that serves Four Corners of $1.1 million during the three months ended September 30, 2019.

Based on the most recent estimates and PNM's ownership share of SJGS, PNM's remaining payments as of March 31, 2020 for mine reclamation, in future dollars, are estimated to be $91.6 million for the surface mines at both SJGS and Four Corners and $40.0 million for the underground mine at SJGS. At March 31, 2020 and December 31, 2019, liabilities, in current dollars, of $70.1 million and $70.3 million for surface mine reclamation and $25.8 million and $25.3 million for underground mine reclamation were recorded in other deferred credits.

Under the terms of the SJGS CSA, PNM and the other SJGS owners are obligated to compensate WSJ LLC for all reclamation costs associated with the supply of coal from the San Juan mine. The SJGS owners entered into a reclamation trust funds agreement to provide funding to compensate WSJ LLC for post-term reclamation obligations. As discussed in Note 16 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, as part of the restructuring of SJGS ownership the SJGS owners negotiated the terms of an amended agreement to fund post-term reclamation obligations under the CSA. The trust funds agreement requires each owner to enter into an individual trust agreement with a financial institution as trustee, create an irrevocable reclamation trust, and periodically deposit funds into the reclamation trust for the owner's share of the mine reclamation obligation. Deposits, which are based on funding curves, must be made on an annual basis. As part of the restructuring of SJGS ownership discussed above, the SJGS participants agreed to adjusted interim trust funding levels. PNM funded $5.5 million in December 2019. Based on PNM's reclamation trust fund balance at March 31, 2020, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be $10.0 million in 2020, $10.9 million in 2021, and $11.7 million in 2022.

Under the Four Corners CSA, which became effective on July 7, 2016, PNM is required to fund its ownership share of estimated final reclamation costs in annual installments into an irrevocable escrow account solely dedicated to the final reclamation cost of the surface mine at Four Corners. PNM contributed $2.3 million in July 2019 and anticipates providing additional funding of $1.9 million in each of the years from 2020 through 2024.

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If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. The impacts of changes in New Mexico state law as a result of the enactment of the ETA and regulatory determinations made by the NMPRC may also affect PNM's financial position, results of operations, and cash flows. See additional discussion regarding PNM's SJGS Abandonment Application in Note 12. PNM is currently unable to determine the outcome of these matters or the range of possible impacts.

Continuous Highwall Mining Royalty Rate

In August 2013, the DOI Bureau of Land Management ("BLM") issued a proposed rulemaking that would retroactively apply the surface mining royalty rate of 12.5% to continuous highwall mining ("CHM"). Comments regarding the rulemaking were due on October 11, 2013 and PNM submitted comments in opposition to the proposed rule. There is no legal deadline for adoption of the final rule.

SJCC, as former owner and operator of San Juan mine, utilized the CHM technique from 2000 to 2003, and with the approval of the Farmington, New Mexico Field Office of BLM to reclassify the final highwall as underground reserves, applied the 8.0% underground mining royalty rate to coal mined using CHM and sold to SJGS. In March 2001, SJCC learned that the DOI Minerals Management Service ("MMS") disagreed with the application of the underground royalty rate to CHM. In August 2006, SJCC and MMS entered into an agreement tolling the statute of limitations on any administrative action to recover unpaid royalties until BLM issued a final, non-appealable determination as to the proper rate for CHM-mined coal. The proposed BLM rulemaking has the potential to terminate the tolling provision of the settlement agreement. Underpaid royalties of approximately $5 million for SJGS would become due if the proposed BLM rule is adopted as proposed. PNM's share of any amount that is ultimately paid would be approximately 46.3%, none of which would be passed through PNM's FPPAC. PNM is unable to predict the outcome of this matter.

PVNGS Liability and Insurance Matters

Public liability for incidents at nuclear power plants is governed by the Price-Anderson Nuclear Industries Indemnity Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both commercial sources and an industry-wide retrospective payment plan. In accordance with this act, the PVNGS participants are insured against public liability exposure for a nuclear incident up to $13.9 billion per occurrence. PVNGS maintains the maximum available nuclear liability insurance in the amount of $450 million, which is provided by American Nuclear Insurers. The remaining $13.5 billion is provided through a mandatory industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, PNM could be assessed retrospective premium adjustments. Based on PNM's 10.2% interest in each of the three PVNGS units, PNM's maximum potential retrospective premium assessment per incident for all three units is $42.1 million, with a maximum annual payment limitation of $6.2 million, to be adjusted periodically for inflation.

The PVNGS participants maintain insurance for damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.8 billion, a substantial portion of which must first be applied to stabilization and decontamination. These coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). The primary policy offered by NEIL contains a sublimit of $2.25 billion for non-nuclear property damage. If NEIL's losses in any policy year exceed accumulated funds, PNM is subject to retrospective premium adjustments of $5.4 million for each retrospective premium assessment declared by NEIL's Board of Directors due to losses. The insurance coverages discussed in this and the previous paragraph are subject to certain policy conditions, sublimits, and exclusions.

Water Supply

Because of New Mexico's arid climate and periodic drought conditions, there is concern in New Mexico about the use of water, including that used for power generation. Although PNM does not believe that its operations will be materially affected by drought conditions at this time, it cannot forecast long-term weather patterns. Public policy, local, state and federal regulations, and litigation regarding water could also impact PNM operations. To help mitigate these risks, PNM has secured permanent groundwater rights for the existing plants at Reeves Station, Rio Bravo, Afton, Luna, Lordsburg, and La Luz. Water availability is not an issue for these plants at this time. However, prolonged drought, ESA activities, and a federal lawsuit by

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the State of Texas (suing the State of New Mexico over water deliveries) could pose a threat of reduced water availability for these plants.

For SJGS and Four Corners, PNM and APS have negotiated an agreement with senior water rights holders (tribes, municipalities, and agricultural interests) in the San Juan basin to mutually share the impacts of water shortages through 2021.

In April 2010, APS signed an agreement on behalf of the PVNGS participants with five cities to provide cooling water essential to power production at PVNGS for 40 years.

PVNGS Water Supply Litigation

In 1986, an action commenced regarding the rights of APS and the other PVNGS participants to the use of groundwater and effluent at PVNGS. APS filed claims that dispute the court's jurisdiction over PVNGS' groundwater rights and their contractual rights to effluent relating to PVNGS and, alternatively, seek confirmation of those rights. In 1999, the Arizona Supreme Court issued a decision finding that certain groundwater rights may be available to the federal government and Native American tribes. In addition, the Arizona Supreme Court issued a decision in 2000 affirming the lower court's criteria for resolving groundwater claims. Litigation on these issues has continued in the trial court. No trial dates have been set in these matters. PNM does not expect that this litigation will have a material impact on its results of operation, financial position, or cash flows.

San Juan River Adjudication

In 1975, the State of New Mexico filed an action in NM District Court to adjudicate all water rights in the San Juan River Stream System, including water used at Four Corners and SJGS. PNM was made a defendant in the litigation in 1976. In March 2009, then President Obama signed legislation confirming a 2005 settlement with the Navajo Nation. Under the terms of the settlement agreement, the Navajo Nation's water rights would be settled and finally determined by entry by the court of two proposed adjudication decrees. The court issued an order in August 2013 finding that no evidentiary hearing was warranted in the Navajo Nation proceeding and, on November 1, 2013, issued a Partial Final Judgment and Decree of the Water Rights of the Navajo Nation approving the proposed settlement with the Navajo Nation. A number of parties subsequently appealed to the New Mexico Court of Appeals. PNM entered its appearance in the appellate case and supported the settlement agreement in the NM District Court. On April 3, 2018, the New Mexico Court of Appeals issued an order affirming the decision of the NM District Court. Several parties filed motions requesting a rehearing with the New Mexico Court of Appeals seeking clarification of the order, which were denied. The State of New Mexico and various other appellants filed a *writ of certiorari* with the NM Supreme Court. The NM Supreme Court granted the State of New Mexico's petition and denied the other parties' requests. The issues regarding the Navajo Nation settlement have been briefed and are awaiting a decision by the NM Supreme Court. Adjudication of non-Indian water rights is ongoing.

PNM is participating in this proceeding since PNM's water rights in the San Juan Basin may be affected by the rights recognized in the settlement agreement and adjudicated to the Navajo Nation, which comprise a significant portion of water available from sources on the San Juan River and in the San Juan Basin and which have priority in times of shortages. PNM is unable to predict the ultimate outcome of this matter or estimate the amount or range of potential loss and cannot determine the effect, if any, of any water rights adjudication on the present arrangements for water at SJGS and Four Corners. Final resolution of the case cannot be expected for several years. An agreement reached with the Navajo Nation in 1985, however, provides that if Four Corners loses a portion of its rights in the adjudication, the Navajo Nation will provide, for an agreed upon cost, sufficient water from its allocation to offset the loss.

Rights-of-Way Matter

On January 28, 2014, the County Commission of Bernalillo County, New Mexico passed an ordinance requiring utilities to enter into a use agreement and pay a yet-to-be-determined fee as a condition to installing, maintaining, and operating facilities on county rights-of-way. The fee is purported to compensate the county for costs of administering and maintaining the rights-of-way, as well as for capital improvements. After extensive challenges to the validity of the ordinance, the utilities filed a *writ of certiorari* with the NM Supreme Court, which was denied. The utilities and Bernalillo County had reached a standstill agreement whereby the county would not take any enforcement action against the utilities pursuant to the ordinance during the pendency of then pending litigation, but not including any period for appeal of a judgment, or upon 30 days written notice by either the county or the utilities of their intention to terminate the agreement. After court-ordered settlement discussions, PNM and Bernalillo County executed a franchise fee agreement with a term of 15 years. Under the agreement, PNM will pay franchise fees to the county at an amount similar to those paid by PNM in other jurisdictions. PNM will recover the cost of the franchise fees as a direct pass-through to customers located in Bernalillo County. The agreement is subject to approval by the New Mexico Second District Court in Bernalillo County. PNM cannot predict the outcome of this matter.

Navajo Nation Allottee Matters

In September 2012, 43 landowners filed a notice of appeal with the Bureau of Indian Affairs ("BIA") appealing a March 2011 decision of the BIA Regional Director regarding renewal of a right-of-way for a PNM transmission line. The landowners claim to be allottees, members of the Navajo Nation, who pursuant to the Dawes Act of 1887, were allotted ownership in land carved out of the Navajo Nation and allege that PNM is a rights-of-way grantee with rights-of-way across the allotted lands and are either in trespass or have paid insufficient fees for the grant of rights-of-way or both. The allottees generally allege that they were not paid fair market value for the right-of-way, that they were denied the opportunity to make a showing as to their view of fair market value, and thus denied due process. The allottees filed a motion to dismiss their appeal with prejudice, which was granted in April 2014. Subsequent to the dismissal, PNM received a letter from counsel on behalf of what appears to be a subset of the 43 landowner allottees involved in the appeal, notifying PNM that the specified allottees were revoking their consents for renewal of right of way on six specific allotments. On January 22, 2015, PNM received a letter from the BIA Regional Director identifying ten allotments with rights-of-way renewals that were previously contested. The letter indicated that the renewals were not approved by the BIA because the previous consent obtained by PNM was later revoked, prior to BIA approval, by the majority owners of the allotments. It is the BIA Regional Director's position that PNM must re-obtain consent from these landowners. On July 13, 2015, PNM filed a condemnation action in the NM District Court regarding the approximately 15.49 acres of land at issue. On September 18, 2015, the allottees filed a separate complaint against PNM for federal trespass. On December 1, 2015, the court ruled that PNM could not condemn two of the five allotments at issue based on the Navajo Nation's fractional interest in the land. PNM filed a motion for reconsideration of this ruling, which was denied. On March 31, 2016, the Tenth Circuit granted PNM's petition to appeal the December 1, 2015 ruling. Both matters have been consolidated. Oral argument before the Tenth Circuit was heard on January 17, 2017. On May 26, 2017, the Tenth Circuit affirmed the district court. On July 8, 2017, PNM filed a Motion for Reconsideration *en banc* with the Tenth Circuit, which was denied. The NM District Court stayed the case based on the Navajo Nation's acquisition of interests in two additional allotments and the unresolved ownership of the fifth allotment due to the owner's death. On November 20, 2017, PNM filed its petition for *writ of certiorari* with the US Supreme Court, which was denied. The underlying litigation continues in the NM District Court. On March 27, 2019, several individual allottees filed a motion for partial summary judgment on the issue of trespass. The Court held a hearing on the motion on June 18, 2019 and took the motion under advisement. Mediation on the matter is ongoing and parties are continuing to discuss a potential settlement. PNM cannot predict the outcome of these matters.

(12) Regulatory and Rate Matters

The Company is involved in various regulatory matters, some of which contain contingencies that are subject to the same uncertainties as those described in Note 11. Additional information concerning regulatory and rate matters is contained in Note 17 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

PNM

New Mexico General Rate Cases

New Mexico 2015 General Rate Case ("NM 2015 Rate Case")

On August 27, 2015, PNM filed an application with the NMPRC for a general increase in retail electric rates. The application proposed a revenue increase of $123.5 million, including base non-fuel revenues of $121.7 million, and proposed that new rates become effective beginning in July 2016. The NMPRC ordered PNM to file additional testimony regarding

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PNM's interests in PVNGS, including the 64.1 MW of PVNGS Unit 2 that PNM repurchased in January 2016 pursuant to the terms of the initial sales-leaseback transactions.

In August 2016, the Hearing Examiner in the case issued a recommended decision (the "August 2016 RD"). The August 2016 RD, among other things, recommended that the NMPRC find PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing the BDT equipment on SJGS Units 1 and 4. As a result, the August 2016 RD recommended the NMPRC disallow recovery of the entire $163.3 million purchase price for the January 15, 2016 purchases of the assets underlying three leases aggregating 64.1 MW of PVNGS Unit 2, the undepreciated capital improvements made during the period the 64.1 MW of purchased capacity was leased, rent expense aggregating $18.1 million annually for leases aggregating 114.6 MW of capacity that were extended through January 2023 and 2024 (Note 13), and recovery of the costs of converting SJGS Units 1 and 4 to BDT.

On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in non-fuel rates of $61.2 million, effective for bills sent to customers after September 30, 2016. The order generally approved the August 2016 RD, but with certain significant modifications. The modifications to the August 2016 RD included:

- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, aggregating 64.1 MW, of PVNGS Unit 2 at an initial rate base value of $83.7 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which aggregated $43.8 million when the order was issued
- Recovery of annual rent expenses associated with the 114.6 MW of capacity under the extended leases
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity purchased in January 2016 and the 114.6 MW of capacity under the extended leases

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. Specifically, PNM appealed the NMPRC's determination that PNM was imprudent in certain matters in the case, including the NMPRC's disallowance of the full purchase price of the 64.1 MW of capacity in PVNGS Unit 2, the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM, the cost of converting SJGS Units 1 and 4 to BDT, and future contributions for PVNGS decommissioning attributable to the 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases. NEE, NM AREA, and ABCWUA filed notices of cross-appeal to PNM's appeal. The issues appealed by the various cross-appellants included, among other things, the NMPRC allowing PNM to recover any of the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and the purchase price for the 64.1 MW in PVNGS Unit 2, the costs incurred under the Four Corners CSA, and the inclusion of the "prepaid pension asset" in rate base.

During the pendency of the appeal, PNM evaluated the consequences of the order in the NM 2015 Rate Case and the related appeals to the NM Supreme Court as required under GAAP. These evaluations indicated that it was reasonably possible that PNM would be successful on the issues it was appealing but would not be provided capital costs recovery until the NMPRC acted on a decision of the NM Supreme Court. PNM also evaluated the accounting consequences of the issues being appealed by the cross-appellants and concluded that the issues raised in the cross-appeals did not have substantial merit.

In accordance with GAAP, PNM periodically updated its estimate of the amount of time necessary for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. As a result of those evaluations, through March 31, 2019, PNM had recorded accumulated pre-tax impairments of its capital investments subject to the appeal in the amount of $19.7 million.

On May 16, 2019, the NM Supreme Court issued its decision on the matters that had been appealed in the NM 2015 Rate Case. The NM Supreme Court rejected the matters appealed by the cross-appellants and affirmed the NMPRC's disallowance of a portion of the purchase price of the 64.1 MW of capacity in PVNGS Unit 2; the undepreciated costs of capital improvements made during the time the 64.1 MW capacity was leased by PNM; and the costs to install BDT at SJGS Units 1 and 4. The NM Supreme Court also ruled that the NMPRC's decision to permanently disallow recovery of future decommissioning costs related to the 64.1 MW of PVNGS Unit 2 and the 114.6 MW of PVNGS Units 1 and 2 deprived PNM of its rights to due process of law and remanded the case to the NMPRC for further proceedings consistent with the court's

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findings. On January 8, 2020, the NMPRC issued its order on remand, which reaffirmed its September 2016 order except for the decision to permanently disallow recovery of certain future decommissioning costs related to PVNGS Units 1 and 2. The NMPRC indicated that PNM's ability to recover these costs will be addressed in a future proceeding and closed the NM 2015 Rate Case docket.

As a result of the NM Supreme Court's ruling, as of June 30, 2019, PNM recorded pre-tax impairments of $150.6 million, which included $1.3 million recorded in the three months ended March 31, 2019, and is reflected as regulatory disallowances and restructuring costs on the Condensed Consolidated Statements of Earnings. The impairment includes $73.2 million for a portion of the purchase price for 64.1 MW in PVNGS Unit 2, $39.7 million of undepreciated capitalized improvements made during the period the 64.1 MW was being leased by PNM, and $37.7 million for BDT on SJGS Units 1 and 4. The impairment was offset by tax impacts of $45.7 million.

New Mexico 2016 General Rate Case ("NM 2016 Rate Case")

On December 7, 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates. PNM did not include any of the costs disallowed in the NM 2015 Rate Case that were at issue in its then pending appeal to the NM Supreme Court. PNM's original application used a FTY beginning January 1, 2018 and requested an increase in base non-fuel revenues of $99.2 million based on a ROE of 10.125%. The primary drivers of PNM's revenue deficiency included implementation of modifications to PNM's resource portfolio, which were approved by the NMPRC in December 2015 as part of the SJGS regional haze compliance plan, infrastructure investments, including environmental upgrades at Four Corners, declines in forecasted energy sales due to successful energy efficiency programs and other economic factors, and updates to FERC/retail jurisdictional allocations.

After extensive settlement negotiations and public proceedings, the NMPRC issued a Revised Order Partially Adopting Certification of Stipulation dated January 10, 2018 (the "Revised Order"). The key terms of the Revised Order include:

- An increase in base non-fuel revenues totaling $10.3 million, which includes a reduction to reflect the impact of the decrease in the federal corporate income tax rate and updates to PNM's cost of debt (aggregating an estimated $47.6 million annually)
- A ROE of 9.575%
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM's retail operations (Note 14)
- Disallowing PNM's ability to collect an equity return on certain investments aggregating $148.1 million at Four Corners, but allowing recovery with a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM's rate riders, with an effective date prior to January 1, 2020
- A requirement to consider the prudency of PNM's decision to continue its participation in Four Corners in PNM's next general rate case filing

In accordance with the settlement agreement and the NMPRC's final order, PNM implemented 50% of the approved increase for service rendered beginning February 1, 2018 and implemented the rest of the increase for service rendered beginning January 1, 2019.

Renewable Portfolio Standard

As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, the ETA was enacted in June 2019. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also removes diversity requirements and certain customer caps and exemptions relating to the application of the RPS under the REA.

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The REA provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures that utilities recover costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. The ETA sets a RCT of $60 per MWh using an average annual levelized resource cost basis. PNM makes renewable procurements consistent with the NMPRC approved plans. PNM recovers certain renewable procurement costs from customers through a rate rider. See Renewable Energy Rider below.

Included in PNM's approved procurement plans are the following renewable energy resources:

- 157 MW of PNM-owned solar-PV facilities
- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 204 MW, and a PPA through 2035 for the output of Red Mesa Wind, having an aggregate capacity of 102 MW
- A PPA through 2040 for 140 MW of output from La Joya Wind, which is expected to be operational by December 31, 2020
- A PPA through 2042 for the output of the Lightning Dock Geothermal facility with a current capacity of 15 MW
- Solar distributed generation, aggregating 133.0 MW at March 31, 2020, owned by customers or third parties from whom PNM purchases any net excess output and RECs

Renewable Energy Rider

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. In its 2019 renewable energy procurement plan case, which was approved by the NMPRC on November 28, 2018, PNM proposed to collect $49.6 million for the year. The 2019 renewable energy procurement plan became effective on January 1, 2019. PNM recorded revenues from the rider of $15.1 million and $12.7 million in the three months ended March 31, 2020 and 2019. In its 2020 renewable energy procurement plan case, PNM proposed to collect $58.9 million through a revised rate rider beginning in 2020. In addition, PNM proposed that its FPPAC be reset from a July 1 through June 30 fiscal year to a calendar year. The NMPRC approved PNM's 2020 renewable energy procurement plan on January 29, 2020. The revised rate rider became effective on February 1, 2020.

Under the renewable rider, if PNM's earned rate of return on jurisdictional equity in a calendar year, adjusted for items not representative of normal operations, exceeds the NMPRC-approved rate by 0.5%, PNM is required to refund the excess to customers during May through December of the following year. PNM did not exceed such limitation in 2019.

Energy Efficiency and Load Management

Program Costs and Incentives/Disincentives

The New Mexico Efficient Use of Energy Act ("EUEA") requires public utilities to achieve specified levels of energy savings and to obtain NMPRC approval to implement energy efficiency and load management programs. The EUEA requires the NMPRC to remove utility disincentives to implementing energy efficiency and load management programs and to provide incentives for such programs. The NMPRC has adopted a rule to implement this act. PNM's costs to implement approved programs and incentives are recovered through a rate rider. During the 2019 New Mexico legislative session, the EUEA was amended to, among other things, include a decoupling mechanism for disincentives, preclude a reduction to a utility's ROE based on approval of disincentive or incentive mechanisms, establish energy savings targets for the period 2021 through 2025, and require that annual program funding be 3% to 5% of an electric utility's annual customer bills excluding gross receipt taxes, franchise and right-of-way access fees, provided that a customer's annual cost not exceed seventy-five thousand dollars.

In 2019, PNM submitted a filing to address incentives to be earned in 2020. PNM's proposed incentive mechanism is similar to that approved for 2018 and 2019 with minor modifications to reflect input from interested parties. The proposed incentive mechanism includes a base incentive of 7.1% of program costs, or approximately $1.8 million, based on savings of 59 GWh in 2020 with a sliding scale that provides for additional incentive if savings exceed 68 GWh. No hearings were considered necessary and PNM's 2020 energy efficiency rider reflecting the 2020 incentive became effective beginning December 30, 2019.

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On April 15, 2020, PNM filed an application for energy efficiency and load management programs to be offered in 2021, 2022, and 2023. The proposed program portfolio consists of twelve programs with a total annual budget of $31.4 million in 2021, $31.0 million in 2022, and $29.6 million in 2023. The application also seeks approval of an annual base incentive of 7.1% of the portfolio budget if PNM achieves energy savings of at least 80 GWh in a year. The proposed incentive would increase if PNM is able to achieve savings greater than 80 GWh in a year. The application also proposes an advanced metering infrastructure ("AMI") pilot program, which includes the installation of 5,000 AMI meters at a cost of $2.9 million. PNM is proposing the pilot program to comply with an NMPRC order denying PNM's February 2016 application to replace its existing customer metering equipment with AMI. PNM cannot predict the outcome of this matter.

Integrated Resource Plans

NMPRC rules require that investor owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period.

2017 IRP

PNM filed its 2017 IRP on July 3, 2017. The 2017 IRP addresses the 20-year planning period from 2017 through 2036 and includes an action plan describing PNM's plan to implement the 2017 IRP in the four-year period following its filing. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP included, among other things, that retiring PNM's share of SJGS in 2022 and existing ownership in Four Corners in 2031 would provide long-term cost savings for PNM's customers and that the best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity as well as energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available. The 2017 IRP also indicated that PNM should retain the currently leased capacity in PVNGS. See additional discussion of PNM's leased capacity in PVNGS below and in Note 13. PNM's 2017 IRP was subject to extensive hearings and legal challenges and was accepted as compliant with the applicable statute and rules by the NMPRC on December 19, 2018, with further consideration being denied.

As discussed below, on July 1, 2019, PNM submitted its SJGS Abandonment Application with the NMPRC requesting approval to retire SJGS in 2022, for replacement resources, and for issuance of Securitized Bonds under the ETA. Many of the assumptions and findings included in PNM's July 1, 2019 filing were consistent with those identified in PNM's 2017 IRP. The SJGS Abandonment Application and the 2017 IRP are not final determinations of PNM's future generation portfolio. PNM will also be required to obtain NMPRC approval of an exit from Four Corners, which PNM will seek at an appropriate time in the future. Likewise, NMPRC approval of new generation resources through CCNs, PPAs, or other applicable filings will be required.

2020 IRP

In the third quarter of 2019, PNM initiated its 2020 IRP process which will cover the 20-year planning period from 2019 through 2039. Consistent with historical practice, PNM has provided notice to various interested parties and has hosted a series of public advisory presentations. PNM will continue to seek input from interested parties as a part of this process. NMPRC rules require PNM to file its 2020 IRP in July 2020. On March 16, 2020, PNM filed a motion to extend the deadline to file its 2020 IRP to six months after the NMPRC issues a final order approving a replacement resource portfolio and closes the docket in the bifurcated SJGS Abandonment Application and replacement resource proceedings. On April 8, 2020, the NMPRC approved PNM's motion to extend the deadline to file its 2020 IRP as requested.

SJGS Abandonment Application

As discussed in Note 16 of the Notes to the Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K, on March 22, 2019, the Governor signed into New Mexico state law Senate Bill 489, known as the Energy Transition Act ("ETA"). The ETA became effective as of June 14, 2019 and sets a statewide standard that requires investor-owned electric utilities to have specified percentages of their electric-generating portfolios be from renewable and zero-carbon generating resources. Prior to the enactment of the ETA, the REA established a mandatory RPS requiring utilities to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. The ETA amends the REA and

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requires utilities operating in New Mexico to have renewable portfolios equal to 20% by 2020, 40% by 2025, 50% by 2030, 80% by 2040, and 100% zero-carbon energy by 2045. The ETA also provides for a transition from fossil-fuel generation resources to renewable and other carbon-free resources through certain provisions relating to the abandonment of coal-fired generating facilities. These provisions include the use of "energy transition bonds," which are designed to be highly rated bonds that can be issued to finance certain costs of abandoning coal-fired facilities that are retired prior to January 1, 2023 for facilities operated by a "qualifying utility," or prior to January 1, 2032 for facilities that are not operated by the qualifying utility.

On July 1, 2019, PNM filed a Consolidated Application for the Abandonment and Replacement of SJGS and Related Securitized Financing Pursuant to the ETA (the "SJGS Abandonment Application"). The SJGS Abandonment Application seeks NMPRC approval to retire PNM's share of SJGS after the existing coal supply and participation agreements end in June 2022, for approval of replacement resources, and for the issuance of "energy transition bonds," as provided by the ETA. PNM's application proposes several replacement resource scenarios including PNM's recommended replacement scenario, which would provide cost savings to customers compared to continued operation of SJGS, preserves system reliability, and is consistent with PNM's plan to have an emissions-free generation portfolio by 2040. This plan would provide PNM authority to construct and own a 280 MW natural gas-fired peaking plant to be located on the existing SJGS facility site, and 70 MW of battery storage facilities. In addition, PNM's recommended replacement resource scenario would allow PNM to execute PPAs to procure renewable energy from a total of 350 MW of solar-PV generating facilities and for energy from a total of 60 MW of battery storage facilities. PNM's application included three other replacement resource scenarios that would place a greater amount of resources in the San Juan area, or result in no new fossil-fueled generating facilities, or no battery storage facilities being added to PNM's portfolio. When compared to PNM's recommended replacement resource scenario, the three alternative resource scenarios are expected to result in increased costs to customers and the two alternative resource scenarios that result in no new fossil-fueled generating facilities are expected to not provide adequate system reliability. The SJGS Abandonment Application also includes a request to issue approximately $361 million of energy transition bonds (the "Securitized Bonds"). PNM's request for the issuance of Securitized Bonds includes approximately $283 million of forecasted undepreciated investments in SJGS at June 30, 2020, an estimated $28.6 million for plant decommissioning and coal mine reclamation costs, approximately $9.6 million in upfront financing costs, and approximately $20.0 million for job training and severance costs for affected employees. Proceeds from the Securitization Bonds would also be used to fund approximately $19.8 million for economic development in the four corners area.

On July 10, 2019, the NMPRC issued an order requiring the SJGS Abandonment Application be considered in two proceedings: one addressing SJGS abandonment and related financing, and the other addressing replacement resources. The NMPRC indicated that PNM's July 1, 2019 filing is responsive to the January 30, 2019 order but did not definitively indicate if the abandonment and financing proceedings will be evaluated under the requirements of the ETA. The NMPRC's July 10, 2019 order also extended the deadline to issue the abandonment and financing order to nine months and to issue the replacement resources order to 15 months.

After several requests for clarification and legal challenges and following oral argument on January 29, 2020, the NM Supreme Court issued a ruling requiring the NMPRC to apply the ETA to all aspects of PNM's SJGS Abandonment Application, indicating any previous NMPRC orders inconsistent with the ruling should be vacated, and denying parties' request for stay. Hearings on the abandonment and securitized financing proceedings were held in December 2019 and hearings on replacement resources were held in January 2020.

On February 21, 2020, the Hearing Examiners issued two recommended decisions recommending approval of PNM's proposed abandonment of SJGS, subject to approval of replacement resources, and approval of PNM's proposed financing order to issue Securitized Bonds. The Hearing Examiners recommended that PNM be authorized to abandon SJGS by June 30, 2022, and to record regulatory assets for certain other abandonment costs that are not specifically addressed under the provisions of the ETA. The Hearing Examiners also recommended PNM be authorized to issue Securitized Bonds of up to $361 million and establish a rate rider to collect non-bypassable customer charges for repayment of the bonds and be subject to bi-annual adjustments (the "Energy Transition Charge"). The Hearing Examiners recommended an interim rate rider adjustment upon the start date of the Energy Transition Charge to provide immediate credits to customers for the full value of PNM's revenue requirement related to SJGS until those reductions are reflected in base rates. In addition, the Hearing Examiners recommended PNM be granted authority to establish regulatory assets to recover costs that PNM will pay prior to the issuance of the Securitized Bonds, including costs associated with the bond issuances as well as for severances, job training, economic development, and workforce training. On April 1, 2020, the NMPRC unanimously approved the Hearing Examiners' recommended decisions regarding the abandonment of SJGS and the related securitized financing under the ETA. On April 10, 2020, CFRE and NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's approval of PNM's request to issue securitized financing under the ETA. Pursuant to NM Supreme Court rules, CFRE and NEE must file their statement of issues by May 10, 2020.

On March 27, 2020, the Hearing Examiners issued a partial recommended decision on PNM's request for approval of replacement resources recommending that the NMPRC bifurcate consideration of PNM's requested replacement resources. The Hearing Examiners recommend that the NMPRC approve two of PNM's requested replacement resources, including the 300 MW solar PPA combined with a 40 MW battery storage agreement and the 50 MW solar PPA combined with a 20 MW battery storage agreement. The Hearing Examiners recommended that the two solar and battery procurements be approved first because they are the most cost-effective resources proposed in the case, are supported by the majority of parties, and the economics of the projects will be in jeopardy if approval is delayed past April 30, 2020. The Hearing Examiners recommended that PNM be permitted to recover the energy costs of these PPAs through its FPPAC, and that PNM should recover the demand cost of the energy storage agreements in base rates in a future general rate case. The Hearing Examiners indicated they will issue a separate order addressing the remainder of PNM's requested replacement resource approvals. On April 29, 2020, the NMPRC issued an order declining to bifurcate a determination on replacement resources and deferring final consideration until the issuance of a comprehensive recommended decision addressing the entire portfolio of replacement resources. The NMPRC is required to issue an order on the SJGS replacement resources by September 2020.

PNM evaluated the consequences of the NMPRC's April 1, 2020 orders approving the abandonment of SJGS and the related issuance of Securitized Bonds under GAAP. This evaluation indicated that it is probable that PNM will be required to fund severances for PNM employees at the facility upon its retirement in 2022 and for PNMR shared services employees providing administrative and other support services to SJGS. In addition, the evaluation indicated that it is probable PNM will be obligated to fund severances and other costs for the WSJ LLC employees and to fund certain state agencies for economic development and workforce training upon the issuance of the Securitized Bonds. PNM believes these obligations can be reasonably estimated as of March 31, 2020 and, pursuant to the NMPRC's April 1, 2020 orders and the requirements of the ETA, are recoverable from New Mexico retail customers. As a result, as of March 31, 2020, PNMR and PNM recorded obligations of $9.4 million and $8.1 million for estimated severances, $8.9 million for obligations to fund severances and other costs of WSJ LLC employees, and to fund $19.8 million to state agencies for economic development and workforce training upon the issuance of the Securitized Bonds. The total amount recorded for these estimates of $38.1 million and $36.8 million is reflected in other deferred credits and as a corresponding deferred regulatory asset on PNMR's and PNM's Condensed Consolidated Balance Sheets as of March 31, 2020. These estimates may be adjusted in future periods as the Company refines its expectations. In addition, as discussed above these costs may be challenged by parties pursuant to the notices of appeal filed with the NM Supreme Court on April 10, 2020.

The financial impact of an early retirement of SJGS and the NMPRC approval process are influenced by many factors outside of PNM's control, including the economic impact of the SJGS abandonment on the area surrounding the plant and the related mine, as well as the overall political and economic conditions of New Mexico. See additional discussion of the ETA and SJGS Abandonment Application in Note 16 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. PNM cannot predict the outcome of these matters.

Joint Petition to Investigate PNM's Option to Purchase Assets Underlying Certain Leases in PVNGS

On April 22, 2019, NEE and other parties, which consist primarily of environmental not-for-profit organizations, filed a joint petition for expedited investigation with the NMPRC. The joint petition requested the NMPRC open an investigation regarding PNM's option to purchase the assets underlying the PVNGS Unit 1 and 2 leases that will expire in January 2023 and 2024. Various parties filed to participate in the request. On May 8, 2019, the NMPRC issued an order requiring a response from both PNM and NMPRC staff. PNM filed responses indicating, among other things, that the joint petition should be denied, and that PNM has not yet made a decision to purchase or return the assets underlying the leases that expire in January 2023 and 2024. On September 16, 2019, NEE and the other parties filed a motion reiterating their initial petition and seeking the appointment of a hearing examiner to preside over the requested proceeding. On September 30, 2019, PNM filed its response in opposition stating that PNM had previously refuted NEE's arguments and that there is no need for a hearing examiner to be assigned to this matter. The NMPRC subsequently issued an order denying the petition for investigation. On January 3, 2020, PNM filed notice with the NMPRC of 60-day waivers of the deadline to provide notice to purchase or return the assets underlying the PVNGS Unit 1 leases. On April 10, 2020, PNM filed additional notices of waivers. The deadline for PNM to provide irrevocable notice of its intent to purchase or return the PVNGS Unit 1 lease interests is now June 15, 2020. PNM has committed to provide the NMPRC with timely updates on any decisions related to these interests and will file any necessary requests for approval associated with its decision.

PNM Solar Direct

On May 31, 2019, PNM filed an application with the NMPRC for approval of a program under which qualified governmental and large commercial customers could participate in a voluntary renewable energy procurement program. PNM proposed to recover costs of the program directly from subscribing customers through a rate rider. Under the rider, PNM would procure renewable energy from 50 MW of solar-PV facilities under a 15-year PPA. PNM had fully subscribed the entire output of the 50 MW facilities at the time of the filing. Hearings on the application concluded on January 9, 2020. On March 11, 2020, the hearing examiner issued a recommended decision recommending approval of PNM's application. The hearing examiner's recommended decision was approved by the NMPRC on March 25, 2020. These facilities are expected to begin commercial operations on March 31, 2021. This matter is now concluded.

COVID-19 Regulatory Matters

In March 2020, PNM and other utilities voluntarily implemented a temporary suspension of disconnections and late payment fees for non-payment of utility bills in response to the impacts of COVID-19. On March 18, 2020, the NMPRC conducted an emergency open meeting for the purpose of adopting emergency amendments to its rules governing service to residential customers. The NMPRC's emergency order is applicable during the duration of the Governor of New Mexico's emergency executive order and allows for the closure of payment centers, prohibits the discontinuance of a residential customer's service for non-payment, and suspends the expiration of medical certificates for certain customers. On April 27, 2020, PNM, El Paso Electric Company, New Mexico Gas Company, and Southwestern Public Service Company filed a joint motion with the NMPRC requesting authorization to track costs resulting from each utility's response to the COVID-19 outbreak. The utilities propose these incremental costs and uncollected customer accounts receivable resulting from COVID-19 during the period March 11, 2020 through December 31, 2020 be recorded as a regulatory asset. If approved by the NMPRC, the utilities would seek recovery of the regulatory asset in a future rate case. PNM cannot predict the outcome of this matter.

TNMP

TNMP 2018 Rate Case

On May 30, 2018, TNMP filed a general rate proceeding with the PUCT (the "TNMP 2018 Rate Case") requesting an annual increase to base rates of $25.9 million based on a ROE of 10.5%, a cost of debt of 7.2%, and a capital structure comprised of 50% debt and 50% equity. As part of the application, TNMP proposed to return the regulatory liability related to federal tax reform to customers and to reduce the federal corporate income tax rate to 21%. On December 20, 2018, the PUCT approved an unopposed settlement agreement in the case. The PUCT's final order results in a $10.0 million annual increase to base rates. The key elements of the approved settlement include a ROE of 9.65%, a cost of debt of 6.44%, and a capital structure comprised of 55% debt and 45% equity. As stated by the settlement agreement, the PUCT's final order excludes certain items from rate base that were requested in TNMP's original filing, including approximately $10.6 million of transmission investments that TNMP included in its January 2019 transmission cost of service filing, which was approved by the PUCT in March 2019. In addition, the PUCT's final order requires TNMP to reflect the lower federal income tax rate of 21% in rates and refund approximately $37.8 million of the regulatory liability recorded at December 31, 2017 related to federal tax reform to customers over a period of five years and the remaining amount over the estimated useful lives of plant in service as of December 31, 2017; approves TNMP's request to integrate revenues historically recorded under TNMP's AMS rider, as well as other unrecovered AMS investments, into base rates; approves TNMP's request for new depreciation rates; and approves a new rider to recover Hurricane Harvey restoration costs, net of amounts to be refunded to customers resulting from the reduction in the federal income tax rate in 2018. See Note 14. The new rider is being charged to customers over a period of approximately three years beginning on the effective date of new base rates. New rates under the TNMP 2018 Rate Case were effective beginning on January 1, 2019.

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Recovery of TNMP Rate Case Costs

Recovery of the cost of TNMP's rate case was moved into separate proceedings to begin after the conclusion of TNMP 2018 Rate Case. TNMP sought recovery of costs incurred through August 2019 in the amount of $3.8 million and proposed these costs be collected from customers over a three-year period. In October 2019, TNMP and other parties to the proceedings filed an unopposed settlement stipulation that reduced TNMP's cost recovery to $3.3 million and provide for recovery over a period not to exceed three-years beginning on March 1, 2020. On January 16, 2020, the PUCT approved the settlement. As a result of the PUCT's order, TNMP recorded a pre-tax write-off of $0.5 million in December 2019.

Transmission Cost of Service Rates

TNMP can update its transmission cost of service ("TCOS") rates twice per year to reflect changes in its invested capital although updates are not allowed while a general rate case is in process. Updated rates reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, and the approved rate of return on such facilities.

The following sets forth TNMP's recent interim transmission cost rate increases:

Effective Date	Approved Increase in Rate Base	Annual Increase in Revenue
	(In millions)	
March 21, 2019	$ 111.8	$ 14.3
September 19, 2019	21.9	3.3
March 27, 2020	59.2	7.8

Periodic Distribution Rate Adjustment

PUCT rules permit interim rate adjustments to reflect changes in investments in distribution assets. Distribution utilities may file for a periodic rate adjustment between April 1 and April 8 of each year as long as the electric utility is not earning more than its authorized rate of return using weather-normalized data.

On April 6, 2020, TNMP filed its first application for a distribution cost recovery factor (the "2020 DCOS"). The 2020 DCOS application requests an increase in TNMP's annual distribution revenue requirement of $14.7 million based on net capital incremental distribution investments of $149.2 million. TNMP requested a procedural schedule that would result in rates being effective in September 2020. TNMP cannot predict the outcome of this matter.

Energy Efficiency

TNMP recovers the costs of its energy efficiency programs through an energy efficiency cost recovery factor ("EECRF"), which includes projected program costs, under and over collected costs from prior years, rate case expenses, and performance bonuses (if programs exceed mandated savings goals). TNMP's 2018 EECRF filing requested an adjustment of $5.6 million, including a performance bonus of

$0.8 million, and became effective on March 1, 2019. On May 30, 2019, TNMP filed its request to adjust the EECRF to reflect changes in costs for 2020. On August 30, 2019, a unanimous settlement stipulation was filed with the PUCT that would allow TNMP to recover its requested $5.9 million of program costs in 2020, which includes a performance bonus of $0.8 million based on TNMP's energy efficiency achievements in the 2018 plan year. The PUCT approved the settlement on December 13, 2019 to become effective March 1, 2020.

COVID-19 Electricity Relief Program

On March 26, 2020, the PUCT issued an order establishing an electricity relief program for electric utilities, REPs, and customers impacted by COVID-19. The program allows providers to implement a rider to collect unpaid residential retail customer bills and to ensure these customers continue to have electric service. In addition, the program provides transmission and distribution providers access to zero-interest loans from ERCOT. Collectively, ERCOT's loans may not exceed $15 million. The program has a term of six months unless extended by the PUCT. In a separate order, the PUCT authorized electric utilities to establish a regulatory asset for costs related to COVID-19. These costs may include but are not limited to costs related to unpaid accounts.

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TNMP filed its rider on March 30, 2020. The rider was effective immediately and establishes a charge of $0.33 per MWh in accordance with the PUCT's order. On April 14, 2020, TNMP executed an interest-free loan agreement to borrow $0.5 million from ERCOT. The loan must be repaid upon completion of the electricity relief program.

(13) Lease Commitments

The Company leases office buildings, vehicles, and other equipment. In addition, PNM leases interests in PVNGS Units 1 and 2 and certain rights-of-way agreements are classified as leases. All of the Company's leases with terms in excess of one year are recorded on the balance sheet by recording a present value lease liability and a corresponding right-of-use asset. Operating lease expense is recognized within operating expenses according to the use of the asset on a straight-line basis. Financing lease costs, which are comprised primarily of fleet and office equipment leases commencing after January 1, 2019, are recognized by amortizing the right-of-use asset on a straight-line basis and by recording interest expense on the lease liability. Financing lease right-of-use assets amortization is reflected in depreciation and amortization and interest on financing lease liabilities is reflected as interest charges on the Company's Condensed Consolidated Statements of Earnings.

See additional discussion of the Company's leasing activities in Note 8 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K.

PVNGS

PNM leases interests in Units 1 and 2 of PVNGS. The PVNGS leases were entered into in 1985 and 1986 and initially were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. Following procedures set forth in the PVNGS leases, PNM notified four of the lessors under the Unit 1 leases and one lessor under the Unit 2 lease that it would elect to renew those leases on the expiration date of the original leases. The four Unit 1 leases now expire on January 15, 2023 and the one Unit 2 lease now expires on January 15, 2024. The annual lease payments during the renewal periods aggregate $16.5 million for PVNGS Unit 1 and $1.6 million for Unit 2.

The terms of each of the extended leases do not provide for additional renewal options beyond their currently scheduled expiration dates. PNM has the option to purchase the assets underlying each of the extended leases at their fair market value or to return the lease interests to the lessors on the expiration dates. Under the terms of the extended leases, PNM had until January 15, 2020 for the Unit 1 leases and has until January 15, 2021 for the Unit 2 lease to provide notices to the lessors of PNM's intent to exercise the purchase options or to return the leased assets to the lessors. On January 3, 2020, PNM filed notice with the NMPRC of 60-day waivers of the deadline to provide notice to purchase or return the assets underlying the PVNGS Unit 1 leases. On March 3, 2020, and April 10, 2020, PNM filed additional notices of waivers of the deadlines. The deadline for PNM to provide irrevocable notice of its intent to purchase or return the assets underlying the PVNGS Unit 1 lease interests is now June 15, 2020. The waivers did not impact the PVNGS Unit 1 leases' current January 15, 2023 expiration dates. PNM's elections are independent for each lease and are irrevocable. In the proceeding addressing PNM's 2017 IRP, PNM agreed to promptly notify the NMPRC of a decision to extend the Unit 1 or 2 leases, or to exercise its option to purchase the leased assets at fair market value upon the expiration of leases. See Note 12. If PNM elects to exercise its purchase option under any of the leases, the leases provide an appraisal process to determine fair market value. If PNM elects to return the assets underlying the extended leases, PNM will retain certain obligations related to PVNGS, including costs to decommission the facility. PNM is depreciating its capital improvements related to the extended leases using NMPRC approved rates through the end of the NRC license period for each unit, which expire in June 2045 for Unit 1 and in June 2046 for Unit 2. Any transfer of the assets underlying the leases will be required to comply with NRC licensing requirements. For example, the NRC could limit the transfer of ownership should PNM decide to return the assets underlying all or a portion of its current leased interests in PVNGS. In the event PNM decides to return these interests to the lessors, and a qualified buyer cannot be identified, PNM may be required to retain all of a portion of its existing leased capacity in PVNGS or be exposed to other claims for damages by the lessors. Whether PNM retains or returns the assets underlying the extended leases, PNM will seek to recover its undepreciated investments, and any amounts paid to purchase the assets, as well as any other obligations related to PVNGS from NM retail customers.

PNM is exposed to loss under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider reasonably likely to occur. Under certain circumstances (for example, the NRC issuing specified violation orders with respect to PVNGS or the occurrence of specified nuclear events), PNM would be required to make specified payments to the lessors, and take title to the leased interests.

If such an event had occurred as of March 31, 2020, amounts due to the lessors under the circumstances described above would be up to $154.5 million, payable on July 15, 2020 in addition to the scheduled lease payments due on that date.

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Land Easements and Rights-of-Ways

Many of PNM's electric transmission and distribution facilities are located on lands that require the grant of rights-of-way from governmental entities, Native American tribes, or private parties. PNM has completed several renewals of rights-of-way, the largest of which is a renewal with the Navajo Nation. PNM is obligated to pay the Navajo Nation annual payments of $6.0 million, subject to adjustment each year based on the Consumer Price Index, through 2029. PNM's April 2020 payment for the amount due under the Navajo Nation right-of-way lease was $7.1 million, which included amounts due under the Consumer Price Index adjustment. Changes in the Consumer Price Index subsequent to January 1, 2019 are considered variable lease payments.

PNM has other prepaid rights-of-way agreements that are not accounted for as leases or recognized as a component of plant in service. PNM reflects the unamortized balance of these prepayments in other deferred charges on the Condensed Consolidated Balance Sheets and recognizes amortization expense associated with these agreements in the Condensed Consolidated Statement of Earnings over their term. As of March 31, 2020 and December 31, 2019, the unamortized balance of these rights-of-ways was $59.5 million and $60.2 million. During the three months ended March 31, 2020 and 2019, PNM recognized amortization expense associated with these agreements of $0.9 million and $0.9 million.

Fleet Vehicles and Equipment

Fleet vehicle and equipment leases commencing on or after January 1, 2019 are classified as financing leases. Fleet vehicle and equipment leases existing as of December 31, 2018 are classified as operating leases. The Company's fleet vehicle and equipment lease agreements include non-lease components for insignificant administrative and other costs that are billed over the life of the agreement. At March 31, 2020, residual value guarantees on fleet vehicle and equipment leases are $0.7 million, $1.3 million, and $2.0 million for PNM, TNMP, and PNMR.

Information related to the Company's operating leases recorded on the Condensed Consolidated Balance Sheets is presented below:

	March 31, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
			(In thousands)			
Operating leases:						
Operating lease assets, net of amortization	$ 114,829	$ 9,271	$ 124,717	$ 120,585	$ 9,954	$ 131,212
Current portion of operating lease liabilities	26,727	2,624	29,693	25,927	2,753	29,068
Long-term portion of operating lease liabilities	88,686	6,459	95,573	97,992	7,039	105,512

As discussed above, the Company classifies its fleet vehicle and equipment leases and its office equipment leases commencing on or after January 1, 2019 as financing leases. Information related to the Company's financing leases recorded on the Condensed Consolidated Balance Sheets is presented below:

	March 31, 2020			December 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
			(In thousands)			
Financing leases:						
Non-utility property	$ 6,320	$ 7,712	$ 14,299	$ 4,857	$ 4,910	$ 10,028
Accumulated depreciation	(729)	(756)	(1,527)	(482)	(466)	(973)
Non-utility property, net	5,591	6,956	12,772	4,375	4,444	9,055
Other current liabilities	975	1,255	2,298	722	850	1,637

Other deferred credits	4,316	5,706	10,182	3,333	3,597	7,102

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Information concerning the weighted average remaining lease terms and the weighted average discount rates used to determine the Company's lease liabilities as of March 31, 2020 is presented below:

	PNM	TNMP	PNMR Consolidated
Weighted average remaining lease term (years):			
Operating leases	6.55	3.98	6.35
Financing leases	5.53	5.68	5.57
Weighted average discount rate:			
Operating leases	3.92 %	3.97 %	3.92 %
Financing leases	3.57 %	3.52 %	3.52 %

Information for the components of lease expense is as follows:

	Three Months Ended March 31, 2020		
	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Operating lease cost:	$ 6,893	$ 774	$ 7,735
Less: amounts capitalized	(291)	(634)	(925)
Total operating lease expense	6,602	140	6,810
Financing lease cost:			
Amortization of right-of-use assets	247	289	553
Interest on lease liabilities	45	56	103
Less: amounts capitalized	(175)	(283)	(458)
Total financing lease expense	117	62	198
Variable lease expense	32	—	32
Short-term lease expense	85	1	86
Total lease expense for the period	$ 6,836	$ 203	$ 7,126

	Three Months Ended March 31, 2019		
	PNM	TNMP	PNMR Consolidated
	(In thousands)		
Operating lease cost:	$ 7,583	$ 898	$ 8,620
Less: amounts capitalized	(352)	(657)	(1,009)
Total operating lease expense	7,231	241	7,611
Financing lease cost:			
Amortization of right-of-use assets	104	98	203
Interest on lease liabilities	16	17	32
Less: amounts capitalized	(38)	(40)	(78)
Total financing lease expense	82	75	157
Variable lease expense	—	—	—
Short-term lease expense	74	3	94
Total lease expense for the period	$ 7,387	$ 319	$ 7,862

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Supplemental cash flow information related to the Company's leases is as follows:

	Three Months Ended March 31, 2020			Three Months Ended March 31, 2019		
	PNM	TNMP	PNMR Consolidated	PNM	TNMP	PNMR Consolidated
	(In thousands)					
Cash paid for amounts included in the measurement of lease liabilities:						
Operating cash flows from operating leases	$ 9,351	$ 166	$ 9,658	$ 9,452	$ 284	$ 9,891
Operating cash flows from financing leases	16	9	27	16	17	32
Finance cash flows from financing leases	80	51	147	25	33	58
Non-cash information related to right-of-use assets obtained in exchange for lease obligations:						
Operating leases	$ —	$ —	$ —	$ 143,816	$ 12,942	$ 157,440
Financing leases	1,463	2,802	4,272	1,635	1,268	2,904

Excluded from the operating and financing cash paid for leases above are \$0.3 million and \$0.2 million at PNM, \$0.6 million and \$0.3 million at TNMP, and \$0.9 million and \$0.5 million at PNMR. These capitalized costs are reflected as investing activities on the Company's Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019.

Future expected lease payments are shown below:

	As of March 31, 2020					
	PNM		TNMP		PNMR Consolidated	
	Financing	Operating	Financing	Operating	Financing	Operating
	(In thousands)					
Remainder of 2020	$ 861	$ 17,386	$ 1,111	$ 2,279	$ 2,027	$ 20,076
2021	1,117	26,576	1,441	2,448	2,631	29,316
2022	1,082	26,266	1,396	1,996	2,551	28,473
2023	1,038	17,735	1,269	1,508	2,345	19,423
2024	712	7,908	1,074	877	1,786	8,833
Later years	1,008	34,466	1,367	765	2,375	35,488
Total minimum lease payments	5,818	130,337	7,658	9,873	13,715	141,609
Less: Imputed interest	527	14,924	697	790	1,235	16,343
Lease liabilities as of March 31, 2020	$ 5,291	$ 115,413	$ 6,961	$ 9,083	$ 12,480	$ 125,266

The above tables include \$9.9 million, \$15.1 million, and \$25.0 million for PNM, TNMP, and PNMR at March 31, 2020 for expected future payments on fleet vehicle and equipment leases that could be avoided if the leased assets were returned and the lessor is able to recover estimated market value for the equipment from third parties. The Company's contractual commitments for leases that have not yet commenced are insignificant.

(14) Income Taxes

In December 2017, comprehensive changes in United States federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act made many significant modifications to the tax laws, including reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminated federal bonus depreciation for utilities, limited interest deductibility for non-utility businesses and limited the deductibility of officer compensation. During 2019, the IRS issued proposed regulations related to certain officer compensation and proposed regulations on interest deductibility that provide a 10% "de minimis" exception that allows entities with

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predominantly regulated activities to fully deduct interest expenses. In addition, the IRS issued proposed regulations interpreting Tax Act amendments to depreciation provisions of the IRC that allow the Company to claim a bonus depreciation deduction on certain construction projects placed in service subsequent to the third quarter of 2017. See additional discussion of the impacts of the Tax Act in Note 18 of the Notes to Consolidated Financial Statements in the 2019 Annual Reports on Form 10-K. On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") was enacted. Among other things, the CARES Act includes tax provisions that generally loosen restrictions on NOL utilization and business interest deductions, and accelerate refunds of previously generated alternative minimum tax credits. In addition, the CARES Act includes a temporary provision allowing businesses to defer payments to the government for some payroll taxes. The CARES Act provisions related to NOL utilization and business interest deductions are not applicable for the Company, but the Company is evaluating its ability to accelerate refunds of previously generated alternative minimum tax credits and is deferring payments of certain payroll taxes.

Beginning February 2018, PNM's NM 2016 Rate Case reflects the reduction in the federal corporate income tax rate, including amortization of excess deferred federal and state income taxes. In accordance with the order in that case, PNM is returning the protected portion of excess deferred federal income taxes to customers over the average remaining life of plant in service as of December 31, 2017, the unprotected portion of excess deferred federal income taxes to customers over a period of approximately twenty-three years, and excess deferred state income taxes to customers over a period of three years. The approved settlement in the TNMP 2018 Rate Case includes a reduction in customer rates to reflect the impacts of the Tax Act beginning on January 1, 2019. PNMR, PNM, and TNMP will amortize federal and state excess deferred income taxes of $30.3 million, $21.2 million, and $9.1 million in 2020. See additional discussion of PNM's NM 2016 Rate Case and TNMP's 2018 Rate Case in Note 12.

As required under GAAP, the Company makes an estimate of its anticipated effective tax rate for the year as of the end of each quarterly period within its fiscal year. In interim periods, income tax expense is calculated by applying the anticipated annual effective tax rate to year-to-date earnings before income taxes. GAAP also provides that certain unusual or infrequently occurring items, including excess tax benefits related to stock awards, be excluded from the estimated annual effective tax rate calculation. At March 31, 2020, PNMR, PNM, and TNMP estimated their effective income tax rates for the year ended December 31, 2020 would be 8.63%, 11.28%, and 9.79%. The primary difference between the statutory income tax rates and the effective tax rates is the effect of the reduction in income tax expense resulting from the amortization of excess deferred federal and state income taxes ordered by the NMPRC in PNM's NM 2016 Rate Case and the amortization of excess deferred federal income taxes as ordered by the PUCT in TNMP's 2018 Rate Case. During the three months ended March 31, 2020, income tax expense calculated by applying the expected annual effective income tax rate to earnings before income taxes was further reduced by excess tax benefits related to stock awards of $0.4 million for PNMR, of which $0.3 million was allocated to PNM and $0.1 million was allocated to TNMP.

(15) Related Party Transactions

PNMR, PNM, TNMP, and NMRD are considered related parties as defined under GAAP, as is PNMR Services Company, a wholly-owned subsidiary of PNMR that provides corporate services to PNMR and its subsidiaries in accordance with shared services agreements. These services are billed at cost on a monthly basis to the business units. In addition, PNMR provides construction and operations and maintenance services to NMRD, a 50% owned subsidiary of PNMR Development. PNM purchases renewable energy from certain NMRD-owned facilities at a fixed price per MWh of energy produced. PNM also provides interconnection services to PNMR Development and NMRD. See Note 16 for additional discussion of NMRD.

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The table below summarizes the nature and amount of related party transactions of PNMR, PNM, TNMP, and NMRD:

	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Services billings:		
PNMR to PNM	$ 22,123	$ 26,826
PNMR to TNMP	8,727	10,058
PNM to TNMP	76	75
TNMP to PNMR	35	35
PNMR to NMRD	76	41
Renewable energy purchases:		
PNM from NMRD	1,519	625
Interconnection billings:		
PNM to NMRD	220	—
PNM to PNMR	—	—
Interest billings:		
PNMR to PNM	—	933
PNM to PNMR	81	72
PNMR to TNMP	1	32
Income tax sharing payments:		
PNMR to PNM	—	—
TNMP to PNMR	—	—

(16) Equity Method Investment

As discussed in Note 1 of the Company's 2019 Annual Reports on Form 10-K, PNMR Development and AEP OnSite Partners created NMRD in September 2017 to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. As of March 31, 2020, NMRD's renewable energy capacity in operation was 85.1 MW. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. The investment in NMRD is accounted for using the equity method of accounting because PNMR's ownership interest results in significant influence, but not control, over NMRD and its operations.

In the three months ended March 31, 2020 and 2019, PNMR Development made cash contributions of $10.0 million and $7.0 million to NMRD to be used primarily for its construction activities.

PNMR presents its share of net earnings from NMRD in other income on the Condensed Consolidated Statements of Earnings. Summarized financial information for NMRD is as follows:

	Results of Operations	
	Three Months Ended March 31,	
	2020	2019
	(In thousands)	
Operating revenues	$ 1,667	$ 725
Operating expenses	1,580	796
Net earnings (loss)	$ 87	$ (71