PNM RESOURCES INC
Form 10-Q
July 28, 2017
Table of Contents

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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

Commission File Number	Name of Registrants, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
001-32462	PNM Resources, Inc. (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0468296
001-06986	Public Service Company of New Mexico (A New Mexico Corporation) 414 Silver Ave. SW Albuquerque, New Mexico 87102-3289 (505) 241-2700	85-0019030
002-97230	Texas-New Mexico Power Company (A Texas Corporation) 577 N. Garden Ridge Blvd. Lewisville, Texas 75067 (972) 420-4189	75-0204070

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 ü	NO
Public Service Company of New Mexico (“PNM”)	YES ü	NO
Texas-New Mexico Power Company (“TNMP”)	YES	NO ü

(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.)

Indicate by check mark whether each registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

PNMR	YES	ü	NO
PNM	YES	ü	NO
TNMP	YES	ü	NO

Table of Contents

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 (Do not check if a smaller reporting company)	Smaller reporting company	Emerging growth company
PNMR	ü				
PNM			ü		
TNMP			ü		

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 ü

As of July 25, 2017, 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 outstanding as of July 25, 2017 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of common stock of TNMP outstanding as of July 25, 2017 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.

Table of Contents

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

INDEX

	Page No.
GLOSSARY	4
PART I. FINANCIAL INFORMATION	
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)	
PNM RESOURCES, INC. AND SUBSIDIARIES	
Condensed Consolidated Statements of Earnings	8
Condensed Consolidated Statements of Comprehensive Income	9
Condensed Consolidated Statements of Cash Flows	10
Condensed Consolidated Balance Sheets	12
Condensed Consolidated Statement of Changes in Equity	14
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES	
Condensed Consolidated Statements of Earnings	15
Condensed Consolidated Statements of Comprehensive Income	16
Condensed Consolidated Statements of Cash Flows	17
Condensed Consolidated Balance Sheets	19
Condensed Consolidated Statement of Changes in Equity	21
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES	
Condensed Consolidated Statements of Earnings	22
Condensed Consolidated Statements of Cash Flows	23
Condensed Consolidated Balance Sheets	24
Condensed Consolidated Statement of Changes in Common Stockholder's Equity	26
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	27
ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	81
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	121
ITEM 4. CONTROLS AND PROCEDURES	124
PART II. OTHER INFORMATION	
ITEM 1. LEGAL PROCEEDINGS	125
ITEM 1A. RISK FACTORS	125
ITEM 5. OTHER INFORMATION	125
ITEM 6. EXHIBITS	126
SIGNATURE	127

Table of Contents

GLOSSARY

Definitions:

2014 IRP	PNM's 2014 IRP
2017 IRP	PNM's 2017 IRP
ABCWUA	Albuquerque Bernalillo County Water Utility Authority
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
BACT	Best Available Control Technology
BART	Best Available Retrofit Technology
BDT	Balanced Draft Technology
BHP	BHP Billiton, Ltd
Board	Board of Directors of PNMR
BTMU	The Bank of Tokyo-Mitsubishi UFJ, Ltd.
BTMU Term Loan Agreement	NM Capital's $125.0 Million Unsecured Term Loan
BTU	British Thermal Unit
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CCN	Certificate of Convenience and Necessity
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
EIS	Environmental Impact Study
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESA	Endangered Species 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
FIP	Federal Implementation Plan
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

Table of Contents

GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers
IRP	Integrated Resource Plan
IRS	Internal Revenue Service
ISFSI	Independent Spent Fuel Storage Installation
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
Luna	Luna Energy Facility
MD&A	Management’s Discussion and Analysis of Financial Condition and Results of Operations
MMBTU	Million BTUs
Moody’s	Moody’s Investor Services, Inc.
MW	Megawatt
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
NEC	Navopache Electric Cooperative, Inc.
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 Capital	NM Capital Utility Corporation, an unregulated wholly-owned subsidiary of PNMR
NM Supreme Court	New Mexico Supreme Court
NMAG	New Mexico Attorney General
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMMMD	The Mining and Minerals Division of the New Mexico Energy, Minerals and Natural Resources Department
NMPRC	New Mexico Public Regulation Commission
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

Table of Contents

PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries, a wholly-owned subsidiary of PNMR
PNM 2016 Term Loan Agreement	PNM's $175.0 Million Unsecured Term Loan
PNM 2017 Senior Unsecured Note Agreement	PNM's Agreement for the sale of Senior Unsecured Notes, aggregating $450.0 million
PNM 2017 Term Loan Agreement	PNM's $200.0 Million Unsecured Term Loan
PNM 2018 SUNs	PNM's Senior Unsecured Notes to be issued under the PNM 2017 Senior Unsecured Note Agreement
PNM Multi-draw Term Loan	PNM's $125.0 Million Unsecured Multi-draw Term Loan Facility
PNM New Mexico Credit Facility	PNM's $50.0 Million Unsecured Revolving Credit Facility
PNM Revolving Credit Facility	PNM's $400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR 2015 Term Loan Agreement	PNMR's $150.0 Million Three-Year Unsecured Term Loan
PNMR 2016 One-Year Term Loan	PNMR's $100.0 Million One-Year Unsecured Term Loan
PNMR 2016 Two-Year Term Loan	PNMR's $100.0 Million Two-Year Unsecured Term Loan
PNMR Development	PNMR Development and Management Company, an unregulated wholly-owned subsidiary of PNMR
PNMR Revolving Credit Facility	PNMR's $300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSA	Power Sales Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RA	San Juan Project Restructuring Agreement
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
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
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station

Table of Contents

SNCR	Selective Non-Catalytic Reduction
SO_2	Sulfur Dioxide
TECA	Texas Electric Choice Act
Tenth Circuit	United States Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries, a wholly-owned subsidiary of TNP
TNMP Revolving Credit Facility	TNMP's $75.0 Million Secured Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries, a wholly-owned subsidiary of PNMR
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company
UG-CSA	Underground Coal Sales Agreement
US Supreme Court	Supreme Court of the United States
Valencia	Valencia Energy Facility
VaR	Value at Risk
VIE	Variable Interest Entity
WACC	Weighted Average Cost of Capital
WEG	WildEarth Guardians
Westmoreland	Westmoreland Coal Company
Westmoreland Loan	NM Capital's $125.0 million loan to WSJ
WSJ	Westmoreland San Juan, LLC, an indirect wholly-owned subsidiary of Westmoreland

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Electric Operating Revenues	$362,320	$315,391	$692,498	$626,352
Operating Expenses:				
Cost of energy	104,267	81,363	207,070	173,732
Administrative and general	45,122	45,160	92,655	92,270
Energy production costs	34,393	37,881	66,180	80,567
Regulatory disallowances and restructuring costs	—	—	—	774
Depreciation and amortization	57,625	50,955	114,008	100,784
Transmission and distribution costs	17,031	17,315	33,508	33,909
Taxes other than income taxes	18,777	17,895	38,012	37,987
Total operating expenses	277,215	250,569	551,433	520,023
Operating income	85,105	64,822	141,065	106,329
Other Income and Deductions:				
Interest income	3,885	10,194	8,766	13,815
Gains on available-for-sale securities	5,663	4,631	12,324	10,849
Other income	3,450	4,265	8,351	8,530
Other (deductions)	(2,904)	(4,105)	(6,387)	(7,104)
Net other income and deductions	10,094	14,985	23,054	26,090
Interest Charges	32,332	33,221	64,031	64,712
Earnings before Income Taxes	62,867	46,586	100,088	67,707
Income Taxes	21,636	15,634	32,411	22,790
Net Earnings	41,231	30,952	67,677	44,917
(Earnings) Attributable to Valencia Non-controlling Interest	(3,544)	(3,744)	(6,996)	(7,031)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Net Earnings Attributable to PNMR	$37,555	$27,076	$60,417	$37,622
Net Earnings Attributable to PNMR per Common Share:				
Basic	$0.47	$0.34	$0.76	$0.47
Diluted	$0.47	$0.34	$0.75	$0.47
Dividends Declared per Common Share	$0.2425	$0.2200	$0.4850	$0.4400

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net Earnings	$41,231	$30,952	$67,677	$44,917
Other Comprehensive Income (Loss):				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $(2,777), $2,791, $(5,783) and $661	4,378	(4,362)	9,120	(1,034)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $1,629, $(2,404), $2,701 and $1,970	(2,569)	3,757	(4,260)	(3,079)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(626), $(537), $(1,252) and $(1,074)	987	839	1,974	1,678
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of $40, $178, $112 and $681	(63)	(279)	(176)	(1,065)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $(82), $(88), $(125) and $(145)	130	137	198	226
Total Other Comprehensive Income (Loss)	2,863	92	6,856	(3,274)
Comprehensive Income	44,094	31,044	74,533	41,643
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,544)	(3,744)	(6,996)	(7,031)
Preferred Stock Dividend Requirements of Subsidiary	(132)	(132)	(264)	(264)
Comprehensive Income Attributable to PNMR	$40,418	$27,168	$67,273	$34,348

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

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$67,677	$44,917
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	131,861	116,785
Deferred income tax expense	32,443	22,869
Net unrealized (gains) losses on commodity derivatives	939	5,219
Realized (gains) on available-for-sale securities	(12,324)	(10,849)
Stock based compensation expense	4,561	3,543
Regulatory disallowances and restructuring costs	—	774
Allowance for equity funds used during construction and other, net	(2,409)	(207)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(12,204)	3,770
Materials, supplies, and fuel stock	969	(1,382)
Other current assets	2,613	(27,342)
Other assets	3,186	885
Accounts payable	(2,052)	(3,984)
Accrued interest and taxes	(6,802)	(4,283)
Other current liabilities	(2,498)	(23,255)
Other liabilities	(4,341)	(5,419)
Net cash flows from operating activities	201,619	122,041
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(230,882)	(378,574)
Proceeds from sales of available-for-sale securities	358,045	194,014
Purchases of available-for-sale securities	(359,853)	(195,619)
Return of principal on PVNGS lessor notes	—	8,547
Investment in Westmoreland Loan	—	(122,250)
Principal repayments on Westmoreland Loan	19,180	—
Other, net	143	167
Net cash flows from investing activities	(213,367)	(493,715)

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

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings, net	86,400	150,800
Long-term borrowings	57,000	357,500
Repayment of long-term debt	(77,447)	(126,156)
Proceeds from stock option exercise	1,574	6,569
Awards of common stock	(13,166)	(14,367)
Dividends paid	(38,896)	(35,312)
Valencia's transactions with its owner	(7,731)	(7,394)
Other, net	1,685	(1,077)
Net cash flows from financing activities	9,419	330,563
Change in Cash and Cash Equivalents	(2,329)	(41,111)
Cash and Cash Equivalents at Beginning of Period	4,522	46,051
Cash and Cash Equivalents at End of Period	$2,193	$4,940
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$59,982	$57,492
Income taxes paid (refunded), net	$625	$850
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$1,279	$25,488

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

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,193	$ 4,522
Accounts receivable, net of allowance for uncollectible accounts of $1,086 and $1,209	86,598	87,012
Unbilled revenues	69,849	58,284
Other receivables	25,282	28,245
Current portion of Westmoreland Loan	20,968	38,360
Materials, supplies, and fuel stock	67,007	73,027
Regulatory assets	5,720	3,855
Commodity derivative instruments	3,847	5,224
Income taxes receivable	6,723	6,066
Other current assets	65,400	73,444
Total current assets	353,587	378,039
Other Property and Investments:		
Long-term portion of Westmoreland Loan	54,852	56,640
Available-for-sale securities	295,026	272,977
Other investments	404	547
Non-utility property	3,713	3,404
Total other property and investments	353,995	333,568
Utility Plant:		
Plant in service, held for future use, and to be abandoned	7,081,606	6,944,534
Less accumulated depreciation and amortization	2,395,590	2,334,938
	4,686,016	4,609,596
Construction work in progress	252,759	208,206
Nuclear fuel, net of accumulated amortization	88,586	86,913

of $43,196 and $43,905				
Net utility plant	5,027,361		4,904,715	
Deferred Charges and Other Assets:				
Regulatory assets	490,454		501,223	
Goodwill	278,297		278,297	
Commodity derivative instruments	4,106		—	
Other deferred charges	76,645		75,238	
Total deferred charges and other assets	849,502		854,758	
	$	6,584,445	$	6,471,080

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

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	$373,500	$287,100
Current installments of long-term debt	174,257	273,348
Accounts payable	78,324	86,705
Customer deposits	11,023	11,374
Accrued interest and taxes	55,726	61,871
Regulatory liabilities	5,265	3,609
Commodity derivative instruments	1,990	2,339
Dividends declared	132	19,448
Other current liabilities	66,353	59,314
Total current liabilities	766,570	805,108
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	2,199,105	2,119,364
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	971,440	940,650
Regulatory liabilities	454,952	455,649
Asset retirement obligations	132,261	127,519
Accrued pension liability and postretirement benefit cost	119,243	125,844
Commodity derivative instruments	4,106	—
Other deferred credits	129,794	140,545
Total deferred credits and other liabilities	1,811,796	1,790,207
Total liabilities	4,777,471	4,714,679
Commitments and Contingencies (See 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)	1,156,630	1,163,661
Accumulated other comprehensive income (loss), net of income taxes	(85,595)	(92,451)
Retained earnings	656,225	604,742
Total PNMR common stockholders' equity	1,727,260	1,675,952
Non-controlling interest in Valencia	68,185	68,920
Total equity	1,795,445	1,744,872
	$6,584,445	$6,471,080

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

Table of Contents

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

	Attributable to PNMR					
	Common Stock	AOCI	Retained Earnings	Total PNMR Common Stockholders' Equity	Non-controlling Interest in Valencia	Total Equity
	(In thousands)					
Balance at December 31, 2016, as originally reported	$1,163,661	$(92,451)	$604,742	$1,675,952	$68,920	$1,744,872
Cumulative effect adjustment (Note 8)	—	—	10,382	10,382	—	10,382
Balance at January 1, 2017, as adjusted	1,163,661	(92,451)	615,124	1,686,334	68,920	1,755,254
Net earnings before subsidiary preferred stock dividends	—	—	60,681	60,681	6,996	67,677
Total other comprehensive income	—	6,856	—	6,856	—	6,856
Subsidiary preferred stock dividends	—	—	(264)	(264)	—	(264)
Dividends declared on common stock	—	—	(19,316)	(19,316)	—	(19,316)
Proceeds from stock option exercise	1,574	—	—	1,574	—	1,574
Awards of common stock	(13,166)	—	—	(13,166)	—	(13,166)
Stock based compensation expense	4,561	—	—	4,561	—	4,561
Valencia's transactions with its owner	—	—	—	—	(7,731)	(7,731)
Balance at June 30, 2017	$1,156,630	$(85,595)	$656,225	$1,727,260	$68,185	$1,795,445

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Electric Operating Revenues	$276,097	$233,346	$527,655	$468,952
Operating Expenses:				
Cost of energy	82,952	61,367	164,268	133,811
Administrative and general	41,936	39,152	84,984	81,181
Energy production costs	34,393	37,881	66,180	80,567
Regulatory disallowances and restructuring costs	—	—	—	774
Depreciation and amortization	36,448	32,602	72,464	64,466
Transmission and distribution costs	10,175	10,241	20,094	20,557
Taxes other than income taxes	11,029	10,343	22,169	22,540
Total operating expenses	216,933	191,586	430,159	403,896
Operating income	59,164	41,760	97,496	65,056
Other Income and Deductions:				
Interest income	1,858	5,518	4,675	7,040
Gains on available-for-sale securities	5,663	4,631	12,324	10,849
Other income	2,665	2,953	6,508	6,339
Other (deductions)	(2,428)	(3,202)	(5,250)	(4,863)
Net other income and deductions	7,758	9,900	18,257	19,365
Interest Charges	20,931	22,690	41,943	44,281
Earnings before Income Taxes	45,991	28,970	73,810	40,140
Income Taxes	15,515	9,177	23,223	12,788
Net Earnings	30,476	19,793	50,587	27,352
(Earnings) Attributable to Valencia Non-controlling Interest	(3,544)	(3,744)	(6,996)	(7,031)
Net Earnings Attributable to PNM	26,932	16,049	43,591	20,321
Preferred Stock Dividends Requirements	(132)	(132)	(264)	(264)
Net Earnings Available for PNM Common Stock	$26,800	$15,917	$43,327	$20,057

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Net Earnings	$30,476	$19,793	$50,587	$27,352
Other Comprehensive Income (Loss):				
Unrealized Gains on Available-for-Sale Securities:				
Unrealized holding gains (losses) arising during the period, net of income tax (expense) benefit of $(2,777), $2,791, $(5,783), and $661	4,378	(4,362)	9,120	(1,034)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of $1,629, $(2,404), $2,701, and $1,970	(2,569)	3,757	(4,260)	(3,079)
Pension Liability Adjustment:				
Reclassification adjustment for amortization of experience (gains) losses recognized as net periodic benefit cost, net of income tax expense (benefit) of $(626), $(537), $(1,252), and $(1,074)	987	839	1,974	1,678
Total Other Comprehensive Income (Loss)	2,796	234	6,834	(2,435)
Comprehensive Income	33,272	20,027	57,421	24,917
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,544)	(3,744)	(6,996)	(7,031)
Comprehensive Income Attributable to PNM	$29,728	$16,283	$50,425	$17,886

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

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$50,587	$27,352
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	88,864	80,688
Deferred income tax expense	23,685	13,180
Net unrealized (gains) losses on commodity derivatives	939	5,219
Realized (gains) on available-for-sale securities	(12,324)	(10,849)
Regulatory disallowances and restructuring costs	—	774
Allowance for equity funds used during construction and other, net	(2,278)	(221)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(8,846)	8,572
Materials, supplies, and fuel stock	1,591	(4,924)
Other current assets	5,623	(18,964)
Other assets	8,539	6,582
Accounts payable	(754)	822
Accrued interest and taxes	(1,520)	736
Other current liabilities	9,220	(15,511)
Other liabilities	(6,949)	(6,871)
Net cash flows from operating activities	156,377	86,585
Cash Flows From Investing Activities:		
Utility plant additions	(125,698)	(302,721)
Proceeds from sales of available-for-sale securities	358,045	194,014
Purchases of available-for-sale securities	(359,853)	(195,619)
Return of principal on PVNGS lessor notes	—	8,547
Other, net	143	167
Net cash flows from investing activities	(127,363)	(295,612)

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

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash Flows From Financing Activities:		
Revolving credit facilities borrowings, net	(23,000)	126,000
Long-term borrowings	57,000	175,000
Repayment of long-term debt	(57,000)	(125,000)
Equity contribution from parent	—	4,142
Dividends paid	(264)	(4,406)
Valencia's transactions with its owner	(7,731)	(7,394)
Other, net	1,683	(369)
Net cash flows from financing activities	(29,312)	167,973
Change in Cash and Cash Equivalents	(298)	(41,054)
Cash and Cash Equivalents at Beginning of Period	324	43,138
Cash and Cash Equivalents at End of Period	$26	$2,084
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$39,584	$40,838
Income taxes paid (refunded), net	$—	$—
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$(5,392)	$21,157

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

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 26	$ 324
Accounts receivable, net of allowance for uncollectible accounts of $1,086 and $1,209	62,368	65,003
Unbilled revenues	58,717	48,289
Other receivables	22,925	25,514
Affiliate receivables	10,643	8,886
Materials, supplies, and fuel stock	62,810	64,401
Regulatory assets	1,880	3,442
Commodity derivative instruments	3,847	5,224
Income taxes receivable	26,269	25,807
Other current assets	59,357	67,355
Total current assets	308,842	314,245
Other Property and Investments:		
Available-for-sale securities	295,026	272,977
Other investments	173	316
Non-utility property	96	96
Total other property and investments	295,295	273,389
Utility Plant:		
Plant in service, held for future use, and to be abandoned	5,420,475	5,359,211
Less accumulated depreciation and amortization	1,854,466	1,809,528
	3,566,009	3,549,683
Construction work in progress	201,443	158,122
Nuclear fuel, net of accumulated amortization of $43,196 and $43,905	88,586	86,913
Net utility plant	3,856,038	3,794,718

Deferred Charges and Other Assets:				
Regulatory assets	354,886		365,413	
Goodwill	51,632		51,632	
Commodity derivative instruments	4,106		—	
Other deferred charges	68,608		68,149	
Total deferred charges and other assets	479,232		485,194	
	$	4,939,407	$	4,867,546

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

19

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$38,000	$61,000
Current installments of long-term debt	—	231,880
Accounts payable	60,205	55,566
Affiliate payables	38,178	23,183
Customer deposits	11,023	11,374
Accrued interest and taxes	33,761	34,819
Regulatory liabilities	5,265	3,517
Commodity derivative instruments	1,990	2,339
Dividends declared	132	132
Other current liabilities	46,784	33,551
Total current liabilities	235,338	457,361
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	1,631,912	1,399,489
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	773,188	748,666
Regulatory liabilities	421,947	423,701
Asset retirement obligations	131,305	126,601
Accrued pension liability and postretirement benefit cost	109,023	114,427
Commodity derivative instruments	4,106	—
Other deferred credits	104,841	118,980
Total deferred credits and liabilities	1,544,410	1,532,375
Total liabilities	3,411,660	3,389,225
Commitments and Contingencies (See 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	(85,594)	(92,428)
Retained earnings	268,709	225,382
Total PNM common stockholder's equity	1,448,033	1,397,872
Non-controlling interest in Valencia	68,185	68,920
Total equity	1,516,218	1,466,792
	$4,939,407	$4,867,546

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

Table of Contents

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT 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, 2016	$1,264,918	$(92,428)	$225,382	$1,397,872	$68,920	$1,466,792
Net earnings	—	—	43,591	43,591	6,996	50,587
Total other comprehensive income	—	6,834	—	6,834	—	6,834
Dividends declared on preferred stock	—	—	(264)	(264)	—	(264)
Valencia's transactions with its owner	—	—	—	—	(7,731)	(7,731)
Balance at June 30, 2017	$1,264,918	$(85,594)	$268,709	$1,448,033	$68,185	$1,516,218

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Electric Operating Revenues	$86,223	$82,045	$164,843	$157,400
Operating Expenses:				
Cost of energy	21,315	19,996	42,802	39,921
Administrative and general	9,235	10,204	19,638	19,794
Depreciation and amortization	15,597	14,897	30,968	29,406
Transmission and distribution costs	6,856	7,074	13,414	13,352
Taxes other than income taxes	6,934	6,499	13,770	12,998
Total operating expenses	59,937	58,670	120,592	115,471
Operating income	26,286	23,375	44,251	41,929
Other Income and Deductions:				
Other income	541	1,031	1,363	1,624
Other (deductions)	(109)	(354)	(198)	(339)
Net other income and deductions	432	677	1,165	1,285
Interest Charges	7,510	7,473	14,915	14,841
Earnings before Income Taxes	19,208	16,579	30,501	28,373
Income Taxes	7,004	6,071	10,693	10,408
Net Earnings	$12,204	$10,508	$19,808	$17,965

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

Table of Contents

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

	Six Months Ended June 30,	
	2017	2016
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$19,808	$17,965
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	31,877	30,270
Deferred income tax expense	4,894	(22)
Allowance for equity funds used during construction and other, net	(130)	14
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(3,358)	(4,802)
Materials and supplies	(622)	3,542
Other current assets	(3,897)	(6,941)
Other assets	(5,747)	(6,297)
Accounts payable	138	(2,986)
Accrued interest and taxes	(308)	5,275
Other current liabilities	1,957	1,279
Other liabilities	717	(6)
Net cash flows from operating activities	45,329	37,291
Cash Flows From Investing Activities:		
Utility plant additions	(78,940)	(59,795)
Net cash flows from investing activities	(78,940)	(59,795)
Cash Flow From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	47,000	(29,000)
Short-term borrowings (repayments) – affiliate, net	3,400	(300)
Long-term borrowings	—	60,000
Dividends paid	(17,459)	(7,456)
Other, net	—	(740)
Net cash flows from financing activities	32,941	22,504
Change in Cash and Cash Equivalents	(670)	—
Cash and Cash Equivalents at Beginning of Period	671	1
Cash and Cash Equivalents at End of Period	$1	$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$13,999	$13,118
Income taxes paid (refunded), net	$750	$850
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$1,700	$2,681

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

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$1	$ 671
Accounts receivable	24,230	22,009
Unbilled revenues	11,132	9,995
Other receivables	1,747	2,090
Materials and supplies	4,197	8,626
Regulatory assets	3,840	413
Other current assets	1,841	1,031
Total current assets	46,988	44,835
Other Property and Investments:		
Other investments	231	231
Non-utility property	2,549	2,240
Total other property and investments	2,780	2,471
Utility Plant:		
Plant in service and plant held for future use	1,425,439	1,380,584
Less accumulated depreciation and amortization	445,900	429,397
	979,539	951,187
Construction work in progress	40,196	16,978
Net utility plant	1,019,735	968,165
Deferred Charges and Other Assets:		
Regulatory assets	135,568	135,810
Goodwill	226,665	226,665
Other deferred charges	5,811	5,277
Total deferred charges and other assets	368,044	367,752
	$1,437,547	$ 1,383,223

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

Table of Contents

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

	June 30, 2017	December 31, 2016
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$47,000	$—
Short-term debt – affiliate	8,000	4,600
Accounts payable	10,096	16,709
Affiliate payables	4,347	3,793
Accrued interest and taxes	45,274	45,581
Regulatory liabilities	—	92
Other current liabilities	3,628	2,134
Total current liabilities	118,345	72,909
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	421,024	420,875
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	250,786	245,785
Regulatory liabilities	33,005	31,948
Asset retirement obligations	785	754
Accrued pension liability and postretirement benefit cost	10,220	11,417
Other deferred credits	7,798	6,300
Total deferred credits and other liabilities	302,594	296,204
Total liabilities	841,963	789,988
Commitments and Contingencies (See 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	454,166	454,166
Retained earnings	141,354	139,005
Total common stockholder's equity	595,584	593,235
	$1,437,547	$ 1,383,223

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

Table of Contents

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT 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, 2016	$64	$454,166	$139,005	$ 593,235
Net earnings	—	—	19,808	19,808
Dividends declared on common stock	—	—	(17,459)	(17,459)
Balance at June 30, 2017	$64	$454,166	$141,354	$ 595,584

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

Table of Contents

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 June 30, 2017 and December 31, 2016, the consolidated results of operations and comprehensive income for the three and six months ended June 30, 2017 and 2016, and cash flows for the six months ended June 30, 2017 and 2016. 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 2016 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2017 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual 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 2016 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 (Note 5) and, through January 15, 2016, the PVNGS Capital Trust. 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.

Certain 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. All intercompany transactions and balances have been eliminated. See Note 14.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by its Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered to be attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of $0.2425 per share in July 2017 and $0.22 in July

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)

2016, which are reflected as being in the second quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings.

TNMP declared and paid cash dividends on common stock to PNMR of $17.5 million in the six-months ended June 30, 2017. In the six-months ended June 30, 2016, PNMR made an equity contribution of $4.1 million to PNM. PNM and TNMP declared and paid cash dividends on common stock to PNMR of $4.1 million and $7.5 million in the six-months ended June 30, 2016.

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 2014-09 – Revenue from Contracts with Customers (Topic 606)

In May 2014, the FASB issued ASU No. 2014-09. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also revises the disclosure requirements regarding revenue. When it becomes effective, the new standard will replace most existing revenue recognition guidance in GAAP. Since the issuance of ASU No. 2014-09, the FASB issued a one-year deferral in the effective date and has issued additional ASUs that clarify implementation guidance regarding principal versus agent considerations, licensing, and identifying performance obligations, as well as adding certain additional practical expedients. The new standard can be applied retrospectively to each prior period presented or on a modified retrospective basis with a cumulative effect adjustment to retained earnings on the date of adoption. The Company currently anticipates using the modified retrospective method.
The Company has made significant progress in its assessment of the new standard, but along with others in the utility industry, is continuing to monitor the activities of the FASB and other non-authoritative groups regarding industry specific issues for further clarification. These industry specific issues include the impacts of the new guidance on its accounting for CIAC and the presentation of revenues associated with "alternative revenue programs," which primarily result from the Company's approved rate rider programs. The Company is working towards completing its evaluation and drafting its revenue recognition disclosures under the new standard. The Company has not finalized conclusions and has not yet completely determined the effect of the standard on its financial reporting, but does not anticipate material changes in revenue recognition associated with retail electric service rates.

Accounting Standards Update 2016-01 – Financial Instruments (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued ASU No. 2016-01, which makes targeted improvements to GAAP regarding financial instruments. The new standard eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and will require those equity securities to be measured at fair value with changes in fair value recognized in net income rather than in OCI. Also, the new standard will revise certain presentation and disclosure requirements. Under the new standard, accounting for investments in debt securities remains essentially unchanged. PNM currently classifies the investments held in the NDT and coal mine reclamation trusts as available-for-sale securities. Unrealized losses on these securities are recorded immediately through earnings and unrealized gains are recorded in AOCI until the securities are sold. The Company will adopt the new standard on January 1, 2018, its required effective date. At that time any unrealized gains, net of income taxes, recorded in AOCI related to equity securities will be reclassified to retained earnings as a cumulative effect adjustment and, thereafter, changes in the value of equity securities will be recorded in the Consolidated Statements of Earnings. The amount of the cumulative adjustment upon adoption will depend on the amounts recorded in AOCI at that time, but PNM had unrealized gains on equity securities, net of income taxes, recorded in AOCI of $7.8 million at June 30, 2017.

Accounting Standards Update 2016-02 – Leases (Topic 842)

In February 2016, the FASB issued ASU No. 2016-02. This ASU provides guidance on the recognition, measurement, presentation, and disclosure of leases. The ASU will require that a liability be recorded on the balance sheet for all leases based on the present value of future lease obligations. A corresponding right-of-use asset will also be recorded. Amortization of the lease obligation and the right-of-use asset for certain leases, primarily those classified as operating leases, will be on a straight-line basis, which is not expected to have a significant impact on the statements of earnings or cash flows, whereas other leases will be required to be accounted for as financing arrangements similar to the accounting treatment for capital leases under current GAAP. Also, the new standard will revise certain disclosure requirements. Although early adoption of the standard is permitted, the Company does not currently plan to adopt this standard prior to January 1, 2019, its required effective date. At adoption of the ASU, leases will be recognized and measured as of the earliest period presented using a modified retrospective approach.

As discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2016 Annual Reports on Form 10-K, the Company has operating leases of office buildings, vehicles, equipment, and certain rights-of-way. PNM also has operating lease interests in PVNGS Units 1 and 2 that will expire in January 2023 and 2024. The Company, along with others in the utility industry, is continuing to monitor the activities of the FASB and other non-authoritative groups regarding industry specific issues for further clarification. The Company has formed a project team, conducted outreach activities across its lines of business, and made significant progress in identifying arrangements, in addition to its existing operating lease arrangements, that may be classified as leases under the ASU. It is likely the arrangements currently classified as leases will continue to be recognized as leases under the new ASU. It is possible that other contractual arrangements not previously meeting the lease definition may contain elements that qualify as leases under ASU 2016-02 and that previously identified operating leases may be classified as financing leases under the new standard. The Company is in the process of analyzing each of the identified contractual arrangement to determine if it contains lease elements under the new standard and to quantify the potential impacts of identified lease arrangements. The Company anticipates this process will continue into 2018.

Accounting Standards Update 2016-13 – Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13. This ASU changes the way entities recognize impairment of many financial assets, including accounts receivable and investments in debt securities, by requiring immediate recognition of estimated credit losses expected to occur over their remaining lives. The new standard is effective for the Company beginning on January 1, 2020. Early adoption is permitted beginning on January 1, 2019. The Company is in the process of analyzing the impacts of this new standard, but does not anticipate it will adopt the standard prior to its effective date.

Accounting Standards Update 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued ASU No. 2016-15. This ASU eliminates diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Although early adoption is permitted, the Company does not currently plan to adopt this standard prior to January 1, 2018, its required effective date. Based on its preliminary analysis, the Company believes its current presentation of the statement of cash flows is in accordance with the new standard. Therefore, the Company does not anticipate the new standard will have a significant impact on its financial statements.

Accounting Standards Update 2016-18 – Statement of Cash Flows (Topic 230): Restricted Cash

In November 2016, the FASB issued ASU 2016-18. The ASU requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents during the period. Under the new standard, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new standard does not provide a definition of what should be considered restricted cash. The Company is in the process of analyzing the impacts of this new standard, including identifying items considered to be restricted cash. The new standard requires the use of a retrospective transition method for each period presented after adoption.

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)

Accounting Standards Update 2017-04 – Intangibles – Goodwill and Other (Topic 350)

In January 2017, the FASB issued ASU 2017-04 to simplify the annual goodwill impairment assessment process. Currently, the first step of the quantitative impairment test requires an entity to compare the fair value of the reporting unit with its carrying value, including goodwill. If as a result of this analysis, the entity concludes there is an indication of impairment in a reporting unit having goodwill, the entity is required to perform the second step of the impairment analysis, determining the amount of goodwill impairment to be recorded. The amount is calculated by comparing the implied fair value of the goodwill to its carrying amount. This exercise requires the entity to allocate the fair value determined in step one to the individual assets and liabilities of the reporting unit. Any remaining fair value would be the implied fair value of goodwill on the testing date. To the extent the recorded amount of goodwill of a reporting unit exceeds the implied fair value determined in step two, an impairment loss would be reflected in results of operations. ASU 2017-04 eliminates the second step of the impairment analysis. Accordingly, if the first step of a quantitative goodwill impairment analysis performed after adoption of this ASU indicates that the fair value of a reporting unit is less than its carrying value, the goodwill of that reporting unit would be impaired to the extent of that difference. The Company must adopt this ASU in 2020, but early adoption is permitted. The Company currently anticipates adopting this ASU in 2020. However, if there is an indication of potential impairment of goodwill as a result of an annual impairment assessment prior to 2020, the Company will evaluate the impact of ASU 2017-04 and could elect to early adopt this ASU.

Accounting Standards Update 2017-07 – Compensation – Retirement Benefits (Topic 715)

In March 2017, the FASB issued ASU 2017-07 to improve the presentation of net periodic pension and other postretirement benefit costs. Currently, the Company presents all of its net periodic benefit costs as administrative and general expenses on its Condensed Consolidated Statements of Earnings, net of amounts capitalized to construction and other accounts. The amendments in this ASU require the service cost component of net benefit costs be presented in the same line item or items as compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside of operating income with disclosures identifying where the other components of net benefit cost have been presented. The ASU also limits capitalization to only the service cost component of benefit costs. PNMR and its subsidiaries maintain qualified defined benefit pension and OPEB plans. Currently, net periodic benefit cost for the Company’s defined benefit pension plans do not include a service cost component and there is only a minor amount of service cost for the OPEB plans. Additional information about the Company’s plans is discussed in Note 12 of the Notes to Consolidated Financial Statements in the 2016 Annual Reports on Form 10-K and in Note 10. ASU 2017-17 requires retrospective presentation of the service cost component and the other components of net benefit cost in the income statement and prospective application regarding the capitalization of only the service cost component of net benefit cost. The Company is in the process of analyzing the impacts of this new standard, including the treatment of benefit costs by the NMPRC, PUCT, and FERC in the regulatory process.

Accounting Standards Update 2017-08 – Receivables – Nonrefundable Fees and Other Costs (Topic 310-20) Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued ASU No. 2017-08. This ASU amends the amortization period for certain purchased callable debt securities held at a premium. Under current GAAP, some entities amortize the premium as an adjustment of yield over the contractual life of the security. The update requires premiums to be amortized over the period to the earliest call date. The new standard is effective for the Company beginning on January 1, 2019. Early adoption is permitted including adoption in an interim period. The Company is in the process of analyzing the impacts of this new standard.

Accounting Standards Update 2017-09 – Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting

In May 2017, the FASB issued ASU No. 2017-09. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award are required to be accounted for as a modification of the award. The new standard is effective for the Company beginning on January 1, 2018. PNMR has not historically changed the terms or conditions of its share-based payment awards prior to their vesting. As a result, the Company does not anticipate this standard will have a significant impact on its financial statements.

Table of Contents

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)

(2) 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. Information regarding the computation of earnings per share is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	$37,555	$27,076	$60,417	$37,622
Average Number of Common Shares:				
Outstanding during period	79,654	79,654	79,654	79,654
Vested awards of restricted stock	251	97	181	101
Average Shares – Basic	79,905	79,751	79,835	79,755
Dilutive Effect of Common Stock Equivalents:				
Stock options and restricted stock	226	357	286	381
Average Shares – Diluted	80,131	80,108	80,121	80,136
Net Earnings Per Share of Common Stock:				
Basic	$0.47	$0.34	$0.76	$0.47
Diluted	$0.47	$0.34	$0.75	$0.47

(3) 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.

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 and NM Capital are also included in Corporate and Other.

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.

Table of Contents

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)

PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2017				
Electric operating revenues	$276,097	$86,223	$—	$362,320
Cost of energy	82,952	21,315	—	104,267
Utility margin	193,145	64,908	—	258,053
Other operating expenses	97,533	23,025	(5,235)	115,323
Depreciation and amortization	36,448	15,597	5,580	57,625
Operating income (loss)	59,164	26,286	(345)	85,105
Interest income	1,858	—	2,027	3,885
Other income (deductions)	5,900	432	(123)	6,209
Interest charges	(20,931)	(7,510)	(3,891)	(32,332)
Segment earnings (loss) before income taxes	45,991	19,208	(2,332)	62,867
Income taxes (benefit)	15,515	7,004	(883)	21,636
Segment earnings (loss)	30,476	12,204	(1,449)	41,231
Valencia non-controlling interest	(3,544)	—	—	(3,544)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$26,800	$12,204	$(1,449)	$37,555
Six Months Ended June 30, 2017				
Electric operating revenues	$527,655	$164,843	$—	$692,498
Cost of energy	164,268	42,802	—	207,070
Utility margin	363,387	122,041	—	485,428
Other operating expenses	193,427	46,822	(9,894)	230,355
Depreciation and amortization	72,464	30,968	10,576	114,008
Operating income (loss)	97,496	44,251	(682)	141,065
Interest income	4,675	—	4,091	8,766
Other income (deductions)	13,582	1,165	(459)	14,288
Interest charges	(41,943)	(14,915)	(7,173)	(64,031)
Segment earnings (loss) before income taxes	73,810	30,501	(4,223)	100,088
Income taxes (benefit)	23,223	10,693	(1,505)	32,411
Segment earnings (loss)	50,587	19,808	(2,718)	67,677
Valencia non-controlling interest	(6,996)	—	—	(6,996)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$43,327	$19,808	$(2,718)	$60,417
At June 30, 2017:				
Total Assets	$4,939,407	$1,437,547	$207,491	$6,584,445
Goodwill	$51,632	$226,665	$—	$278,297

Table of Contents

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)

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended June 30, 2016				
Electric operating revenues	$233,346	$82,045	$—	$315,391
Cost of energy	61,367	19,996	—	81,363
Utility margin	171,979	62,049	—	234,028
Other operating expenses	97,617	23,777	(3,143)	118,251
Depreciation and amortization	32,602	14,897	3,456	50,955
Operating income (loss)	41,760	23,375	(313)	64,822
Interest income	5,518	—	4,676	10,194
Other income (deductions)	4,382	677	(268)	4,791
Interest charges	(22,690)	(7,473)	(3,058)	(33,221)
Segment earnings before income taxes	28,970	16,579	1,037	46,586
Income taxes	9,177	6,071	386	15,634
Segment earnings	19,793	10,508	651	30,952
Valencia non-controlling interest	(3,744)	—	—	(3,744)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings attributable to PNMR	$15,917	$10,508	$651	$27,076
Six Months Ended June 30, 2016				
Electric operating revenues	$468,952	$157,400	$—	$626,352
Cost of energy	133,811	39,921	—	173,732
Utility margin	335,141	117,479	—	452,620
Other operating expenses	205,619	46,144	(6,256)	245,507
Depreciation and amortization	64,466	29,406	6,912	100,784
Operating income (loss)	65,056	41,929	(656)	106,329
Interest income	7,040	—	6,775	13,815
Other income (deductions)	12,325	1,285	(1,335)	12,275
Interest charges	(44,281)	(14,841)	(5,590)	(64,712)
Segment earnings (loss) before income taxes	40,140	28,373	(806)	67,707
Income taxes (benefit)	12,788	10,408	(406)	22,790
Segment earnings (loss)	27,352	17,965	(400)	44,917
Valencia non-controlling interest	(7,031)	—	—	(7,031)
Subsidiary preferred stock dividends	(264)	—	—	(264)
Segment earnings (loss) attributable to PNMR	$20,057	$17,965	$(400)	$37,622
At June 30, 2016:				
Total Assets	$4,775,481	$1,339,525	$245,450	$6,360,456
Goodwill	$51,632	$226,665	$—	$278,297

Table of Contents

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)

(4) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the six months ended June 30, 2017 and 2016 is as follows:

	Accumulated Other Comprehensive Income (Loss)				
	PNM			PNMR	
	Unrealized Gains on Available-for-Sale Securities	Pension Liability Adjustment	Total	Fair Value Adjustment for Cash Flow Hedges	Total
	(In thousands)				
Balance at December 31, 2016	$4,320	$(96,748)	$(92,428)	$(23)	$(92,451)
Amounts reclassified from AOCI (pre-tax)	(6,961)	3,226	(3,735)	323	(3,412)
Income tax impact of amounts reclassified	2,701	(1,252)	1,449	(125)	1,324
Other OCI changes (pre-tax)	14,903	—	14,903	(288)	14,615
Income tax impact of other OCI changes	(5,783)	—	(5,783)	112	(5,671)
Net after-tax change	4,860	1,974	6,834	22	6,856
Balance at June 30, 2017	$9,180	$(94,774)	$(85,594)	$(1)	$(85,595)
Balance at December 31, 2015	$17,346	$(88,822)	$(71,476)	$44	$(71,432)
Amounts reclassified from AOCI (pre-tax)	(5,049)	2,752	(2,297)	371	(1,926)
Income tax impact of amounts reclassified	1,970	(1,074)	896	(145)	751
Other OCI changes (pre-tax)	(1,695)	—	(1,695)	(1,746)	(3,441)
Income tax impact of other OCI changes	661	—	661	681	1,342
Net after-tax change	(4,113)	1,678	(2,435)	(839)	(3,274)
Balance at June 30, 2016	$13,233	$(87,144)	$(73,911)	$(795)	$(74,706)

Pre-tax amounts reclassified from AOCI related to “Unrealized Gains on Available-for-Sale Securities” are included in “Gains on available-for-sale securities” in the Condensed Consolidated Statements of Earnings. Pre-tax amounts reclassified from AOCI related to “Pension Liability Adjustment” are reclassified to “Operating Expenses – Administrative and general” in the Condensed Consolidated Statements of Earnings. Pre-tax amounts reclassified from AOCI related to “Fair Value Adjustment for Cash Flow Hedges” are reclassified to “Interest Charges” in the Condensed Consolidated Statements of Earnings. An insignificant amount was capitalized as AFUDC and capitalized interest. The income tax impacts of all amounts reclassified from AOCI are included in “Income Taxes” in the Condensed Consolidated Statements of Earnings.

Table of Contents

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)

(5) 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 9 of the Notes to Consolidated Financial Statements in the 2016 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 and six months ended June 30, 2017, PNM paid $4.9 million and $9.8 million for fixed charges and $0.2 million and $0.3 million for variable charges. For the three and six months ended June 30, 2016, PNM paid $4.8 million and $9.6 million for fixed charges and $0.4 million and $0.6 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 obligations of Valencia 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 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Operating revenues	$5,094	$5,248	$10,021	$10,185
Operating expenses	(1,550)	(1,504)	(3,025)	(3,154)
Earnings attributable to non-controlling interest	$3,544	$3,744	$6,996	$7,031

Table of Contents

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)

Financial Position

	June 30, 2017	December 31, 2016
	(In thousands)	
Current assets	$3,322	$ 2,551
Net property, plant, and equipment	65,528	66,947
Total assets	68,850	69,498
Current liabilities	665	578
Owners' equity – non-controlling interest	$68,185	$ 68,920

Westmoreland San Juan LLC ("WSJ") and SJCC

As discussed in the subheading Coal Supply in Note 11, PNM purchases coal for SJGS from SJCC under a coal supply agreement ("CSA"). That section includes information on the acquisition of SJCC by WSJ, a subsidiary of Westmoreland, on January 31, 2016, as well as a $125.0 million loan (the "Westmoreland Loan") from NM Capital, a subsidiary of PNMR, to WSJ which loan provided substantially all of the funds required for the SJCC purchase, and the issuance of $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. The Westmoreland Loan and the letters of credit support result in PNMR being considered to have a variable interest in WSJ, including its subsidiary, SJCC, since PNMR and NM Capital could be subject to possible loss in the event of a default by WSJ under the Westmoreland Loan and/or performance was required under the letter of credit support. Principal payments under the Westmoreland Loan began on August 1, 2016 and are required quarterly thereafter. Interest is also paid quarterly beginning on May 3, 2016.

At June 30, 2017, the amount outstanding under the Westmoreland Loan was $75.8 million. In addition, interest receivable of $1.3 million is included in Other receivables. The Westmoreland Loan requires that all cash flows of WSJ, in excess of normal operating expenses, capital additions, and operating reserves, be utilized for principal and interest payments under the loan until it is fully repaid. A principal payment of $9.6 million plus interest of $2.0 million is due on August 1, 2017. As of July 25, 2017, $11.6 million was held in a SJCC bank account that is restricted solely to be used to service the Westmoreland Loan. The Westmoreland Loan is secured by the assets of and the equity interests in SJCC. In the event of a default by WSJ, NM Capital would have the ability to take over the mining operations. In such event, NM Capital would likely engage a third-party mining company to operate SJCC so that operations of the mine are not disrupted. The acquisition of SJCC for approximately $125.0 million on January 31, 2016 was an arms-length negotiated transaction between Westmoreland and BHP, which amount should approximate the fair value of SJCC at the date of acquisition. If WSJ were to default, NM Capital should be able to acquire assets of approximately the value of the Westmoreland Loan without a significant loss. Furthermore, 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 SJCC performs the required reclamation of the mine site in accordance with applicable regulations and all reclamation costs are reimbursable under the CSA. Also, much of the mine reclamation activities will not be performed until after the expiration of the CSA and the final maturity of the Westmoreland Loan. In addition, each of the SJGS participants has established and funds a trust to meet its future reclamation obligations.

Both WSJ and SJCC are considered to be VIEs. PNMR's analysis of these arrangements concluded that Westmoreland, as the parent of WSJ, has the ability to direct the SJCC mining operations, which is the factor that most significantly impacts the economic performance of WSJ and SJCC. NM Capital's rights under the Westmoreland Loan are the typical protective rights of a lender, but do not give NM Capital any oversight over mining operations unless there is a default under the loan agreement. 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 Westmoreland and its subsidiaries, 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. Therefore, PNM's involvement through the CSA is a protective right rather than a participating right and Westmoreland has the power to direct the activities that most significantly impact the economic performance of SJCC. The CSA requires SJCC 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 SJCC is able to mine more efficiently than anticipated, its

36

economic performance will be improved. Conversely, if SJCC cannot mine as efficiently as anticipated, its economic performance will be negatively impacted. Accordingly, PNMR believes Westmoreland is the primary beneficiary of WSJ and, therefore, WSJ and SJCC are not consolidated by either PNMR or PNM. The amounts outstanding under the Westmoreland Loan and the letter of credit support constitute PNMR's maximum exposure to loss from the VIEs.

(6) Lease Commitments

The Company leases office buildings, vehicles, and other equipment under operating leases. In addition, PNM leases interests in Units 1 and 2 of PVNGS. All of the Company's leases are currently accounted for as operating leases. See New Accounting Pronouncements in Note 1. Additional information concerning the Company's lease commitments is contained in Note 7 of the Notes to Consolidated Financial Statements in the 2016 Annual Reports on Form 10-K, including PNM's actions with regard to renewal and purchase options under the PVNGS leases.

The PVNGS leases were scheduled to expire on January 15, 2015 for the four Unit 1 leases and January 15, 2016 for the four Unit 2 leases. The four Unit 1 leases have been extended to expire on January 15, 2023 and one of the Unit 2 leases has been extended to expire on January 15, 2024. For the other three PVNGS Unit 2 leases, PNM exercised its fair market value options to purchase the assets underlying those leases on the expiration date of the original leases. On January 15, 2016, PNM paid $78.1 million to the lessor under one lease for 31.3 MW of the entitlement from PVNGS Unit 2 and $85.2 million to the lessors under the other two leases for 32.8 MW of the entitlement from PVNGS Unit 2. See Note 12 for information concerning the NMPRC's treatment of the purchased assets and extended leases in PNM's NM 2015 Rate Case.

PNM is exposed to losses under the PVNGS lease arrangements upon the occurrence of certain events that PNM does not consider to be 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 June 30, 2017, amounts due to the lessors under the circumstances described above would be up to $173.0 million, payable on July 15, 2017 in addition to the scheduled lease payments due on July 15, 2017.

(7) Fair Value of Derivative and Other Financial Instruments

Additional information concerning energy related derivative contracts and other financial instruments is contained in Note 8 of the Notes to Consolidated Financial Statements in the 2016 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 retail and wholesale customers. PNM is exposed to market risk for its share of PVNGS Unit 3 and the needs of its wholesale customers not covered under a FPPAC. However, as discussed below, PNM has hedging arrangements for the output of PVNGS Unit 3 through December 31, 2017, at which time PVNGS Unit 3 will be included as a jurisdictional resource to serve New Mexico retail customers. Beginning January

Table of Contents

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, 2018, PNM expects to be exposed to market risk for the 65 MW of SJGS Unit 4 that is anticipated to be transferred to PNM from PNMR Development (Note 11). 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 open 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 in wholesale portfolios. PNM monitors the market risk of its commodity contracts using VaR calculations to maintain total exposure within management-prescribed limits 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 derivative instruments for the purchase and sale of energy based on PNM's intent. During the six months ended June 30, 2017 and the year ended December 31, 2016, PNM was not hedging its exposure to the variability in future cash flows from commodity derivatives through designated cash flows hedges. The 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.

Commodity Derivatives

PNM's commodity derivative instruments that are recorded at fair value, all of which are accounted for as economic hedges, are summarized as follows:

	Economic Hedges	
	June 30, 2017	December 31, 2016
	(In thousands)	
Current assets	$3,847	$ 5,224
Deferred charges	4,106	—
	7,953	5,224
Current liabilities	(1,990)	(2,339)
Long-term liabilities	(4,106)	—
	(6,096)	(2,339)
Net	$1,857	$ 2,885

Included in the above table are $1.3 million and $2.7 million of current assets at June 30, 2017 and December 31, 2016 related to contracts for the sale of energy from PVNGS Unit 3 through 2017 at market price plus a premium. Certain of 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. Included in the above table are equal amounts of assets and liabilities aggregating $5.2 million at June 30, 2017 and $0.5 million at December 31, 2016, which result from PNM’s hazard sharing arrangements with Tri-State (Note 12). The hazard sharing arrangements are net-settled upon delivery. Other amounts that could be offset under master netting agreements were immaterial.

Table of Contents

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)

At June 30, 2017 and December 31, 2016, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at June 30, 2017 and December 31, 2016, amounts posted as cash collateral under margin arrangements were $1.3 million and $2.6 million. At June 30, 2017 and December 31, 2016, obligations to return cash collateral were $0.1 million and $0.1 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. The table above includes $0.1 million of current assets and less than $0.1 million of current liabilities at June 30, 2017 and $0.2 million of current assets and $0.1 million of current liabilities at December 31, 2016 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

The following table presents the effect of mark-to-market commodity derivative instruments on PNM's earnings, excluding income tax effects. Commodity derivatives had no impact on OCI for the periods presented.

	Economic Hedges			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(In thousands)			
Electric operating revenues	$4,592	$(4,123)	$7,933	$(1,439)
Cost of energy	(5,286)	(967)	(5,276)	(1,112)
Total gain (loss)	$(694)	$(5,090)	$2,657	$(2,551)

Commodity contract volume positions are presented in MMBTU for gas related contracts and in MWh for power related contracts. The table below presents PNM's net buy (sell) volume positions:

	Economic Hedges	
	MMBTU	MWh
June 30, 2017	177,500	(1,383,295)
December 31, 2016	254,100	(2,471,600)

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.

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. At June 30, 2017 and December 31, 2016, PNM had no such contracts in a net liability position.

Sale of Power from PVNGS Unit 3

Because PNM's 134 MW share of Unit 3 at PVNGS is not currently included in retail rates, that unit's power is being sold in the wholesale market. PVNGS Unit 3 will be included as a jurisdictional resource to serve New Mexico retail customers beginning on January 1, 2018. As of June 30, 2017, PNM had contracted to sell substantially all of PVNGS Unit 3 output through 2017 at market price plus a premium. Through hedging arrangements that are accounted for as economic hedges, PNM has established fixed rates for substantially all of the sales through 2017, which average approximately $29 per MWh.

Table of Contents

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)

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. Available-for-sale securities are carried at fair value. Available-for-sale 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 (Note 11). At June 30, 2017 and December 31, 2016, the fair value of available-for-sale securities included $274.4 million and $253.9 million for the NDT and $20.6 million and $19.1 million for the mine reclamation trusts. The fair value and gross unrealized gains of investments in available-for-sale securities are presented in the following table.

	June 30, 2017		December 31, 2016	
	Unrealized Gains	Fair Value	Unrealized Gains	Fair Value
	(In thousands)			
Cash and cash equivalents	$—	$10,318	$—	$23,683
Equity securities:				
Domestic value	4,640	69,106	1,135	34,796
Domestic growth	4,542	68,147	3,032	47,595
International and other	3,396	38,620	2,029	27,481
Fixed income securities:				
U.S. Government	371	29,411	115	40,962
Municipals	949	37,137	585	43,789
Corporate and other	1,423	42,287	553	54,671
	$15,321	$295,026	$7,449	$272,977

The proceeds and gross realized gains and losses on the disposition of available-for-sale securities 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 $(0.1) million and $1.0 million for the three and six months ended June 30, 2017 and $(0.7) million and $0.9 million for the three and six months ended June 30, 2016.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
	(In thousands)			
Proceeds from sales	$91,657	$69,115	$358,045	$194,014
Gross realized gains	$7,971	$9,531	$16,617	$20,247
Gross realized (losses)	$(2,236)	$(4,233)	$(5,321)	$(10,349)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. At June 30, 2017 and December 31, 2016, PNMR's held-to-maturity securities consist of the Westmoreland Loan.

The Company has no available-for-sale or held-to-maturity securities for which carrying value exceeds fair value. There are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings.

Table of Contents

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)

At June 30, 2017, the available-for-sale and held-to-maturity debt securities had the following final maturities:

	Fair Value	
	Available-for-Sale	Held-to-Maturity
	PNMR and PNM	PNMR
	(In thousands)	
Within 1 year	$4,426	$ —
After 1 year through 5 years	22,201	86,070
After 5 years through 10 years	27,997	—
After 10 years through 15 years	4,324	—
After 15 years through 20 years	10,623	—
After 20 years	39,264	—
	$108,835	$ 86,070

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. Level 3 inputs used in determining fair values for the Company consist of internal valuation models. The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the six months ended June 30, 2017 or the year ended December 31, 2016.

For available-for-sale securities, Level 2 fair values are provided by the trustee utilizing a pricing service. 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. 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. For investments categorized as Level 3, including the Westmoreland Loan and certain items in other investments, fair values were determined by discounted cash flow models that take into consideration discount rates that are observable for similar types of assets and liabilities. Management of the Company independently verifies the information provided by pricing services.

Table of Contents

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)

Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy. There were no Level 3 fair value measurements at June 30, 2017 and December 31, 2016 for items recorded at fair value.

		GAAP Fair Value Hierarchy	
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
	(In thousands)		
June 30, 2017			
Available-for-sale securities			
Cash and cash equivalents	$10,318	$10,318	$ —
Equity securities:			
Domestic value	69,106	69,106	—
Domestic growth	68,147	68,147	—
International and other	38,620	35,366	3,254
Fixed income securities:			
U.S. Government	29,411	28,187	1,224
Municipals	37,137	—	37,137
Corporate and other	42,287	—	42,287
	$295,026	$211,124	$ 83,902
Commodity derivative assets	$7,953	$—	$ 7,953
Commodity derivative liabilities	(6,096)	—	(6,096)
Net	$1,857	$—	$ 1,857
December 31, 2016			
Available-for-sale securities			
Cash and cash equivalents	$23,683	$23,683	$ —
Equity securities:			
Domestic value	34,796	34,796	—
Domestic growth	47,595	47,595	—
International and other	27,481	27,481	—
Fixed income securities:			
U.S. Government	40,962	39,723	1,239
Municipals	43,789	—	43,789
Corporate and other	54,671	23,158	31,513

	$272,977	$196,436	$ 76,541
Commodity derivative assets	$5,224	$—	$ 5,224
Commodity derivative liabilities	(2,339)	—	(2,339)
Net	$2,885	$—	$ 2,885

42

Table of Contents

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)

The carrying amounts and fair values of investments in the Westmoreland Loan, other investments, and long-term debt, which are not recorded at fair value on the Condensed Consolidated Balance Sheets are presented below:

			GAAP Fair Value Hierarchy		
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
June 30, 2017	(In thousands)				
PNMR					
Long-term debt	$2,373,362	$2,502,268	$—	$2,502,268	$—
Westmoreland Loan	$75,820	$86,070	$—	$—	$86,070
Other investments	$404	$1,051	$404	$—	$647
PNM					
Long-term debt	$1,631,912	$1,718,492	$—	$1,718,492	$—
Other investments	$173	$173	$173	$—	$—
TNMP					
Long-term debt	$421,024	$462,016	$—	$462,016	$—
Other investments	$231	$231	$231	$—	$—
December 31, 2016					
PNMR					
Long-term debt	$2,392,712	$2,540,693	$—	$2,540,693	$—
Westmoreland Loan	$95,000	$100,893	$—	$—	$100,893
Other investments	$547	$1,164	$547	$—	$617
PNM					
Long-term debt	$1,631,369	$1,730,157	$—	$1,730,157	$—
Other investments	$316	$316	$316	$—	$—
TNMP					
Long-term debt	$420,875	$468,329	$—	$468,329	$—
Other investments	$231	$231	$231	$—	$—

(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. In 2011, the Company changed its approach to awarding stock-based compensation. As a result, no stock options have been granted since 2010 and awards of restricted stock have increased. 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 13 of the Notes to Consolidated Financial Statements in the 2016 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. Beginning with 2017 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 and is adjusted periodically to reflect the level of achievement expected to be attained.

Table of Contents

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)

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 June 30, 2017 and December 31, 2016, PNMR had unrecognized expense related to stock awards of $5.8 million and $4.5 million, which are expected to be recognized over an average of 2.1 and 1.8 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.

The FASB issued Accounting Standards Update 2016-09 – Compensation –- Stock Compensation (Topic 718) to simplify several aspects of the accounting for share-based payment transactions and eliminate diversity in practice. PNMR's historical accounting for stock compensation complies with ASU 2016-09, except for the treatment of the income tax consequences of awards and the presentation of reductions to taxes payable on the Consolidated Statements of Cash Flows. Prior to ASU 2016-09, benefits resulting from income tax deductions in excess of compensation cost recognized under GAAP for vested restricted stock and on exercised stock options (collectively, "excess tax benefits") were recorded to equity provided the excess tax benefits reduced income taxes payable. Deficiencies resulting from tax deductions related to stock awards that were below recognized compensation cost upon vesting and on canceled stock options were recorded to equity. PNMR had not recorded excess tax benefits to equity since 2009 because it is in a net operating loss position for income tax purposes. ASU 2016-09 requires that all excess tax benefits and deficiencies be recorded to tax expense and classified as cash flows from operating activities. PNMR adopted ASU 2016-09 as of January 1, 2017 and recorded excess tax benefits of $0.3 million and $2.1 million in the three and six months ended June 30, 2017 of which $0.2 million and $1.6 million was allocated to PNM and $0.1 million and $0.5 million was allocated to TNMP. As required by ASU 2016-09, PNMR recorded the excess tax benefits that were not recognized in prior years, due to its net operating loss position, as a cumulative effect adjustment of $10.4 million, increasing retained earnings and decreasing accumulated deferred income taxes on the Condensed Consolidated Balance Sheets. When excess tax benefits are used to reduce income taxes payable, the benefit will be reflected in cash flows from operating activities.

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, which will not be received prior to vesting, 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:

	Six Months Ended June 30,	
Restricted Shares and Performance Based Shares	2017	2016
Expected quarterly dividends per share	$0.2425	$0.2200
Risk-free interest rate	1.50 %	0.94 %

Market-Based Shares		
Dividend yield	2.67 %	2.74 %
Expected volatility	20.80 %	20.44 %
Risk-free interest rate	1.54 %	0.97 %

Table of Contents

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)

The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the six months ended June 30, 2017:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2016	218,316	$ 27.59	305,874	$