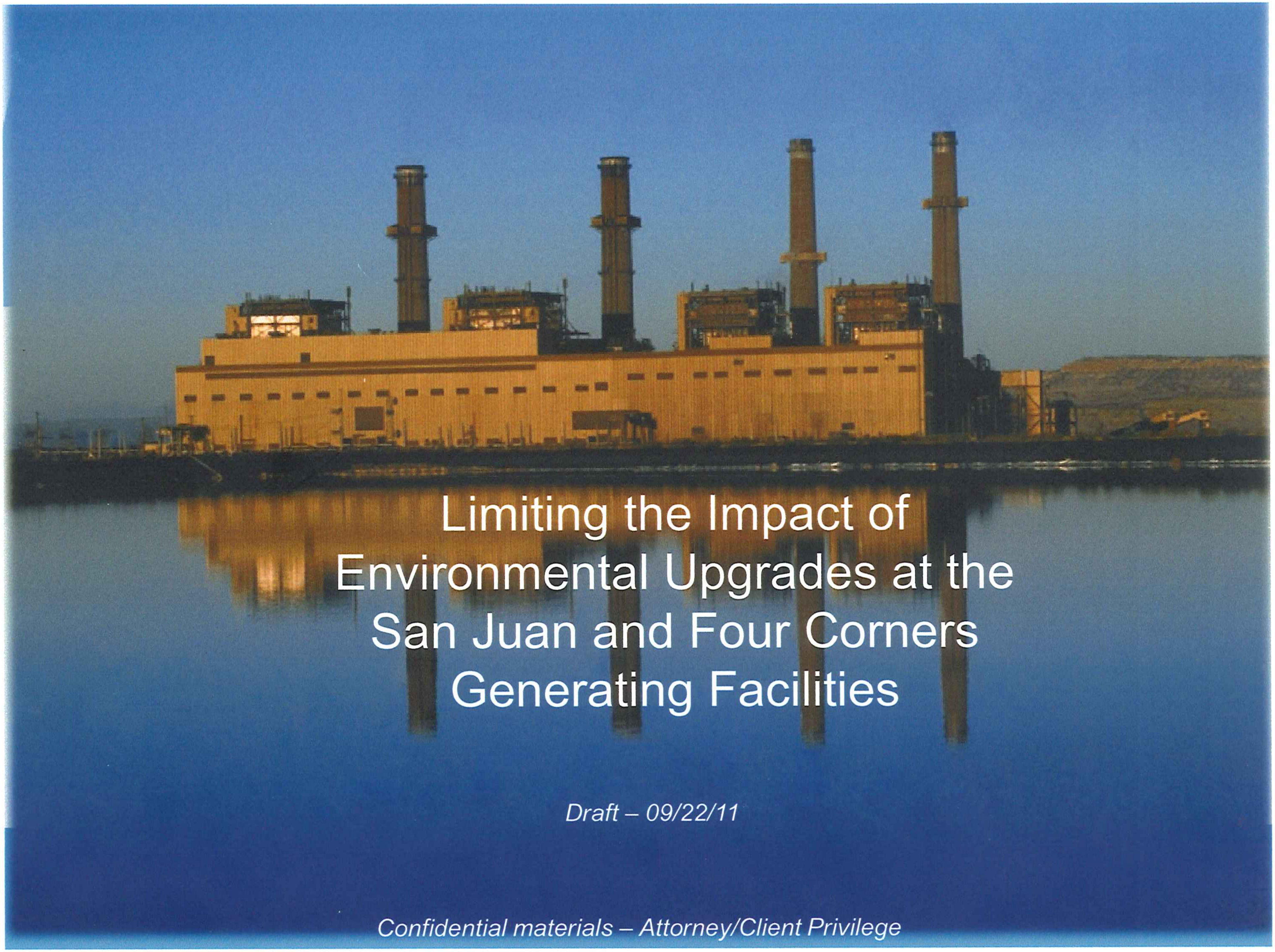


Limiting the Impact of Environmental Upgrades at the San Juan and Four Corners Generating Facilities

Draft – 09/22/11

Confidential materials – Attorney/Client Privilege

Securitization:
Why & How?

Saves about $530 million

Requires the passage of complex legislation in 2012

Requires that the PRC issue a Finance Order approving the project, the financing, and a rider.

EPA Actions

EPA issued, on August 4th, a Federal Implementation Plan ("FIP") requiring Selective Catalytic Reduction technology ("SCR") at the San Juan ("SJ")

Under the Clean Air Act ("CAA") EPA is required to give deference to states implementation plans ("SIP")

NM submitted its SIP to the EPA in July 2011

Recommended installation of Selective Non-Catalytic Reduction technology ("SNCR") on SJ units at a cost of $77 million, approximately 1/10th of the cost of SCRs

EPA has until January 29, 2013 to consider the SIP

Appeal Process

Request for administrative stay of the effective date of the rule filed with EPA September 16, 2011

Petition for review of EPA's decision filed with the 10^{th} Circuit Court of Appeals September 16, 2011

Petition for reconsideration under the clean air act with EPA will be filed by October 21, 2011

Motion to stay with the 10^{th} Circuit Court of Appeals may also be filed.

Timeframe

While appeal process is proceeding, PNM will begin the process of installation of SCRs in 2012 due to the 5 year compliance schedule.

Issue request for proposal for SCR project: November 2011

Receive SCR bids: February 2012

Award SCR project: March 2012

File CCN or similar application for SCR project: March 2012 (or sooner if sufficiently detailed information is available)

Issue

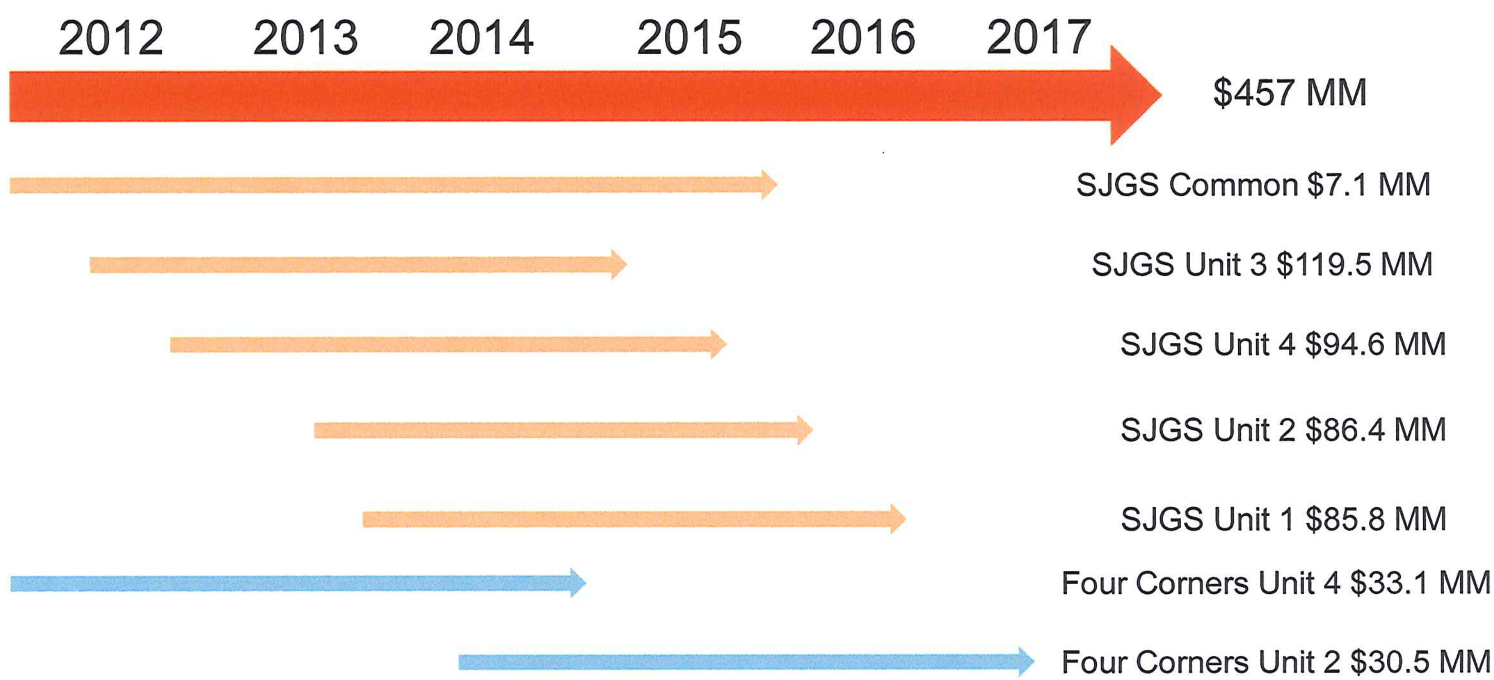
In July 2011, Sargent and Lundy estimated that costs to install SCRs at SJ would be at least $741 million

Currently, as we are preparing to release an RFP for the installation of SCR at SJ, our best estimate for installation of the SCRs is $844 million for SJ and $489 million for FC, (excluding AFUDC and Loads) of which PNM's share is estimated to be about $393 million for SJ and $64 million for FC. These estimates may change as we refine the project.

SCR investment will result in a significant financial burden on PNM customers

SCR investment may preclude PNM from making capital investments in new generation.

Construction Schedule and Projected In service dates



Solution—Securitization

- Financial tool that packages bonds backed by certain recovery
- Payback is guaranteed by state legislation that ties a future revenue stream to the bonds
- Recovery is collected through a non-bypassable surcharge on customer bills
- Recovery guarantee results in higher bond rating—AAA—which translates to lower interest rates
- Lower interest rates translate into lower costs for customers
- Utility earns a small return on its required investment

Customer Benefit from securitization

The revenue requirements to PNM's retail rate payer can be reduced by approximately $500M over the life of the project through the use of a securitized financing used to pay for the SCR project .

The primary driver of the savings is the capital structure used in a securitized financing and its cost vs. the capital structure used in traditional rate making and its cost.

Securitized financing provides for AAA debt financing in an amount up to 95% of the cost to be securitized.

Traditional regulated financing provides for PNM's BBB rated debt using it's regulated capital structure of 48%debt & 52% Equity.

PNM's proposed securitization

- PNM proposes to securitize the PNM Retail share of total SCR.
  - Based on current estimate this would equate to $425 million (approximately 93% of PNM share of total cost) using a 95/5 capital structure.
- PNM proposes to borrow the funds for securitization in 4 annual tranches beginning 1/1/14 based on actual construction spend.
  - The securitization rider would begin 1/1/14 and increase annually based on additional spend through 2016.

Securitized vs. Traditional Regulated WACC

Securitization WACC				Traditional Rate Case WACC			
	cap structure	rate	WACC		cap structure	rate	WACC
Debt	95%	4.72%	4.48%	Debt	48.19%	6.78%	3.26%
Equity	5%	9%	0.45%	Preferred Equity	0.53%	4.62%	0.02%
			4.93%	Common Equity	51.28%	10.00%	5.13%
							8.42%
		Pre-tax				Pre-tax	
		Debt	4.48%			Debt	3.26%
		Equity	0.74%			Equity	8.53%
		WACC	5.23%			WACC	11.79%

The Financing structure for securitized debt is similar to that of a mortgage style home loan, amortizes over a ten to twenty year period using annual or semiannual payments.

Note: Off-credit treatment for securitized debt is available from S&P and Fitch, with Moody's excluding the debt from balance sheet ratios, and looking at the debt both ways for coverage ratios. As such the securitized debt does not have an impact on PNM's credit rating.

Revenue Requirement

RR = O&M + Fuel + Depreciation + Pretax Return(RB)

Under Securitization payment by customer is made up of the return of debt principal and interest as well as the 5% equity portion funded by shareholders over 20 years.

PNM would propose a rider to follow the securitization for the ADIT benefit associated with the SCRs.

Under traditional rate making customer would pay return on of the assets in service based on PNM's approved WACC over the life of the asset.

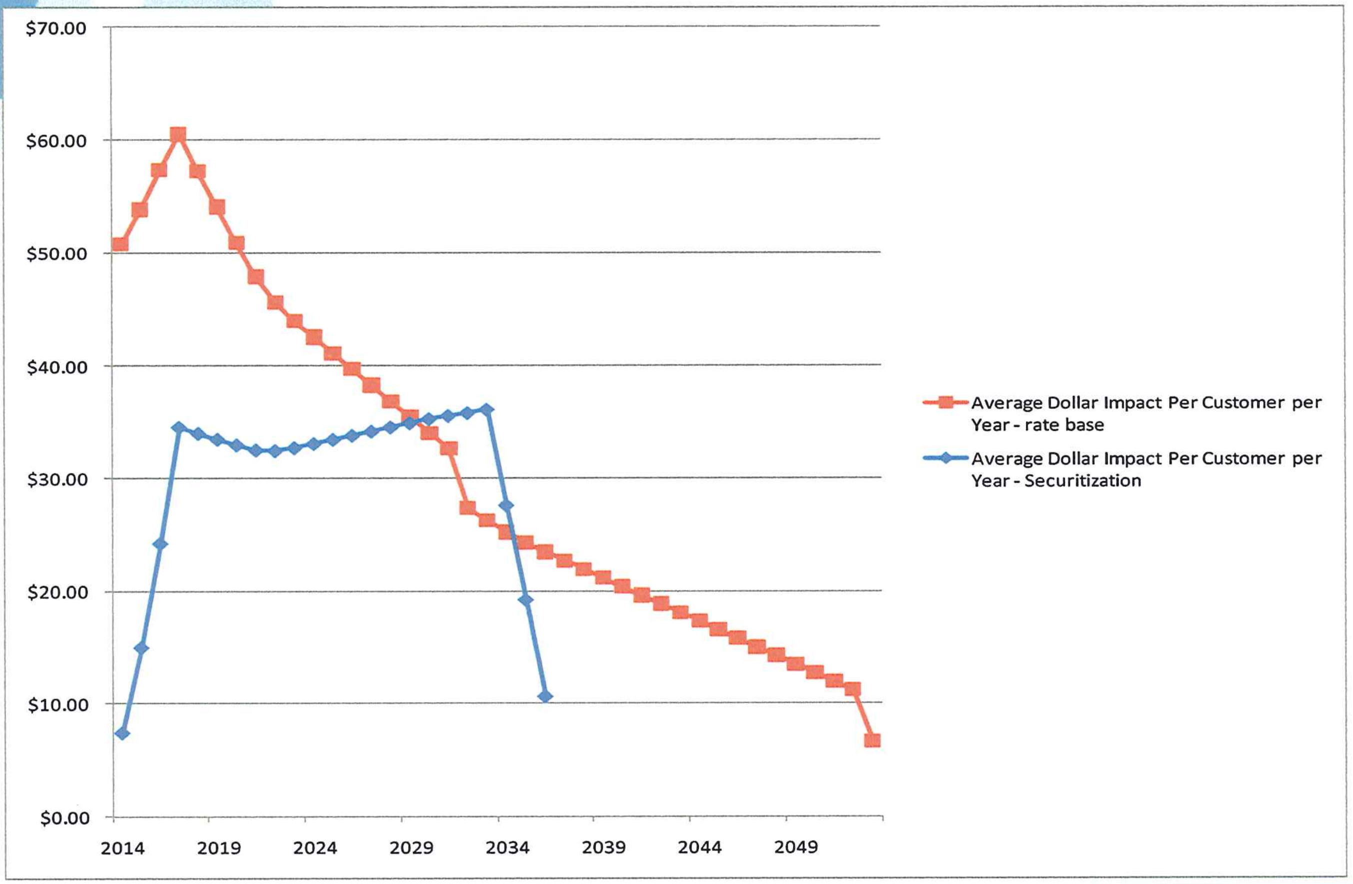
San Juan asset life is currently 2053 and Four Corners asset life is currently 2031.

Comparison of rate impacts under securitization is based on the return on and of the asset and excludes affects of O&M and Fuel.

Estimated Savings – Securitization vs. Rate Base

Comparison:	nominal dollars	NPV - Discount rate 8.42%
SCR Securitization collection over 20 years	714,091,417	$296,651,210.40
Rate base treatment collection in 40 years	1,246,180,614	$500,710,002.13
Difference (savings)	(532,089,197)	(204,058,792)

Estimated Residential Annual bill impact comparison



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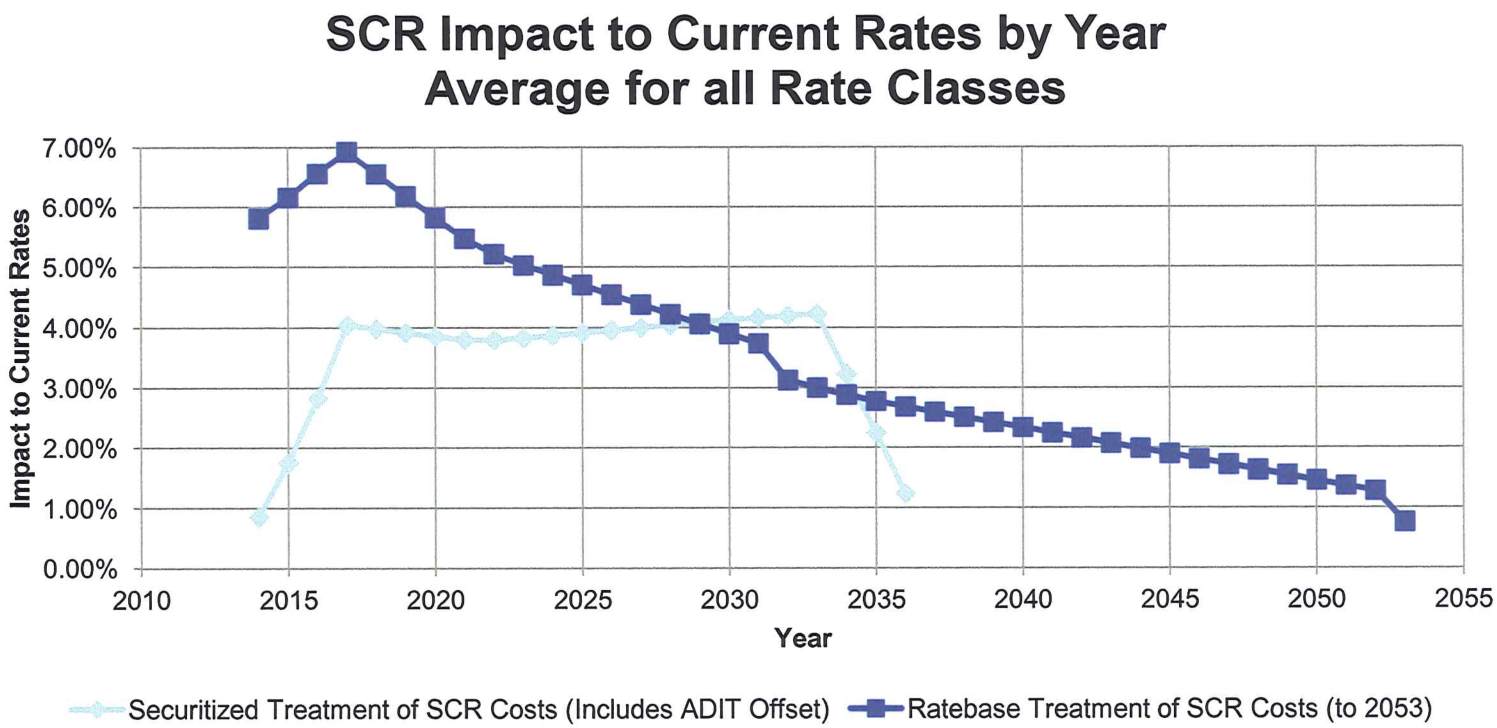
Average Customer %impact – Securitization vs. Rate Base



Legislation requirement for Securitization

- Defines costs qualified for recovery
- Non-bypassable customer charges with mandatory annual true-up of customer charges to ensure bonds are paid on schedule (rate adjustment mechanism)
- "True Sale"/assignment
  - Establishes that intangible property for the recoverable amount is a transferable and assignable present property right that is bankruptcy remote
  - Provides procedure which perfects a valid and enforceable security interest in the intangible property with perfected statutory liens on the intangible property.
- Irrevocability
- Defines securitization approval process (PUC financing order)
- Includes a state non-impairment pledge

Regulatory approvals of Securitization

- The utility commission approves qualified costs for recovery
- The utility commission approves non-bypassable securitization charge which will not be subject to counter claim or set-off
- The utility commission approves assessment of securitization charges until bonds are paid in full
- The utility commission approves mandatory true-up mechanism adjusting the charges as needed to pay the bonds on time
- The utility commission orders that the charges will not be subject to reduction, postponement or impairment by a subsequent utility commission
- The utility commission orders that terms and conditions of the financing order are binding on any successor utility