DELTA AIR LINES INC /DE/
Form FWP
December 17, 2008

Issuer Free Writing Prospectus
Filed Pursuant to Rule 433
Registration Statement No. 333-156206
December 17, 2008

On December 9, 2008, Delta Air Lines, Inc. (the "Company") hosted a conference for investors which was webcast live on the Company's website. Attached hereto is the transcript of the conference and accompanying slide presentation.

The Company has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the Company and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at www.sec.gov. Alternatively, the Company, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling toll-free 1-866-715-2170.

Delta: One Great Airline2008 Investor Day December 9, 2008

Delta: A Sound Investment Positioned for Long-Term Success Building the Premier Global Network Delivering for the Customer Growing Other Revenue Sources Achieving Operational Excellence Building On A Strong Financial Foundation Wrap-up and Q&A Lunch with Executives Majestic Ballroom, 5th Floor Richard Anderson, Chief Executive Officer Ed Bastian, President Glen Hauenstein, EVP – Network Planning and Revenue Management Jim Cron, SVP – Global Sales and Distribution Tony Charaf, President – Technical Operations Jeff Robertson, VP – Loyalty Programs Steve Gorman, Chief Operating Officer Hank Halter, Chief Financial Officer Delta Management Team 8:00 – 8:30 am 8:30 – 9:00 am 9:00 – 9:30am 9:30 – 9:45 am 9:45 – 10:00 am 10:00 – 10:30 am 10:30 – 11:00 am 11:00 – 11:30 am 11:30 am – Noon 12:00 – 1:00 pm

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Safe Harbor This presentation contains various projections and other forward-looking statements which represent Delta's estimates or expectations regarding future events. All forward-looking statements involve a number of assumptions, risks and uncertainties, many of which are beyond Delta's control, that could cause the actual results to differ materially from the projected results. Factors which could cause such differences include, without limitation, business, economic, competitive, industry, regulatory, market and financial uncertainties and contingencies, as well as the "Risk Factors" discussed in Delta's Form 10-Q filed with the SEC on October 16, 2008 and Form 10-K filed with the SEC on February 15, 2008. Caution should be taken not to place undue reliance on Delta's forward-looking statements, which represent Delta's views only as of the date of this presentation, and which Delta has no current intention to update. In this presentation, we will discuss certain non-GAAP financial measures. You can find the reconciliations of those measures to comparable GAAP measures on our website at delta.com.

Delta: A Sound Investment Richard H. Anderson Chief Executive Officer

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Our Investment Thesis Strategic Objectives Build financially viable airline - achieve consistent profitability, top-tier pre-tax margins, industry leading balance sheet Create a comprehensive worldwide network that is structurally sustainable, drives RASM premiums of 105-110% of industry, and generates long-term profits Responsible and disciplined capital management Pursue strategic options to broaden network scope and long-term viability What We Have Accomplished Industry leading top-line revenue growth – up 11% YTD September 2008 Lowest non-fuel CASM, flat year-over-year $6.7 billion YE 2008 cash $6 billion revenue stream from ancillary and third party sources Most diversified international portfolio #1 in Domestic, Transatlantic, Africa, Japan, and Asia markets; #2 to Latin America Nearly 50% of capacity in international markets Lean domestic network with 2009 capacity down 20% vs. 2007 and over 165 aircraft retired Investments based on demonstrated returns Fleet flexibility AMEX deal = no equity dilution Merger with Northwest Shift domestic widebodies to profitable international growth Alaska partnership to secure West Coast position

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Our Investment Thesis Strategic Objectives Build the world's leading global alliance in terms of market presence, distribution, customer experience and financial contribution Deliver industry-leading safety and operational performance coupled with a relentless commitment to customer service Sustain a competitive advantage by building a world-class, employee-friendly airline which is productive, diverse, accountable, results driven, and known as a great place to work What We Have Accomplished Top Transatlantic alliance with immunized JV with Air France / KLM Immunized SkyTeam partnerships with Alitalia, CSA, and Korean Recognized excellence in safety Consistent, top-tier operations 25% improvement in baggage service vs. 2007 Customer-focused culture Experienced management team with deep bench Performance driven compensation strategy Single pilot seniority list

Financially Superior Business Model DL System PRASM vs. Industry1 3Q08 YTD Operating Revenue 3Q08 Unrestricted Liquidity ($B) 3Q08 Mainline Non-Fuel Unit Costs (¢) 95% 98% 99% 102% 2005 2006 2007 2008YTD 10.8% 9.9% 6.1% 4.9% 3.5% 6.2 4.6 2.9 2.9 1.3 6.85 7..31 7.74 8.06 8.08

The Leading Global Network Provides the scale to weather economic downturn Japan #1 Asia #1 Domestic #1 Latin America #2 Transatlantic #1 Africa #1

Delta: Positioned for Long-Term Success Ed Bastian President

Delta: Positioned For Long-Term Success Managing the current economic cycle Unlocking merger benefits Capitalizing on the value of the world’s largest airline Fuel price decline, capacity rationalization and merger synergies provides tools we need to manage economic downturn Moving with speed and efficiency to capture the $2 billion in annual synergies created by the merger Leveraging the structural opportunities from the expanded scale and scope of the premier global network

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Recession Will Drive Industry Revenue Decline in 2009 Historical Industry Operating Revenue Change Global economy in recessionary cycle which will continue through 2009 and possibly beyond Creates softening revenue environment as leisure and business customers reduce discretionary and business-related spending We are planning for a 8 – 12% industry revenue decline Worst industry revenue environment in history (ex. 9/11) 80 5 60% 40% 20% 0% -20% 2002 1992 1982 1972 1962 1952 1942

Why Managing the Current Crisis Will Be Different Domestic Capacity Discipline Industry Domestic Capacity Change Unprecedented Fall in Fuel 2008 Crude Oil Prices ~14% decline in domestic capacity over two years Aircraft being retired or sold – not coming back into the system Capital markets closed to new entrants, limited aircraft financing $1 change in crude = $100 million for Delta Run rate benefit of change in crude from 2008 approximates $5 billion 10% 5% 0% -5% -10% 1978 1983 1988 1993 2003 2008 $30 $70 $110 $150

Well Positioned to Deal with Economic Uncertainty Unit revenue premium, best-in-class cost structure, and solid liquidity position % change YoY 3Q08 Mainline Non-Fuel Unit Costs 3Q08 Unrestricted Liquidity Premier global network drives unit revenue premium and provides tools to manage economic weakness Merger synergies offset CASM pressure from capacity reductions Merger creates cash raising opportunities, including incremental liquidity from new affinity card contract10.8% 9.9(6.1% 4.9% 3.5% 6.85 7.31 7.74 8.06 8.08 6.2 4.6 2.9 2.9 1.3

Delta Is Well Positioned for 2009 Fuel price decline, capacity rationalization and merger synergies allow for cash generation in face of economic downturn Industry Revenue Fuel price Mainline non-fuel unit cost Full year Year-end target Unrestricted liquidity Capacity Domestic International 2009 Target Down 8% -12% $2.19 per gallon Up 3 – 5% Up 3% $7.5 billion at 12/31/09 Down 6 – 8% Down 8 – 10% Down 3 – 5% Revenue would need to erode an unprecedented 20+% to offset benefits from lower fuel price, capacity reductions, and merger synergies

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Confidence in Value, Timing of Synergies Merger provides unparalleled synergies $500 million in 2009, ramping up to $2 billion at steady state Mitigating risk around timing and value of synergies FAA-approved plan for single operating certificate Technology platforms chosen Network actions being takenAffinity card agreement plus fee alignment meet 2009 synergy targets Synergy Phase-in ($B) Revenue Cost 2009 2010 2011 2012 0.5 1.1 1.6 2.0

Integration of the Airlines On Track Network/Operations Customer Employee Expanded codeshare - DL code on >90% of NW flights at end of November Announced summer 2009 routes to unique international markets Increasing hub-to-hub connectivity Business as usual" messaging – gradual transition of check-in procedures and branding Aligned fee structures – contributes ~$200 million annually Reciprocal upgrades in loyalty programs Equity stake in the company recognizes hard work New leadership team in place Combined pilot contract and seniority list less than 12 months after merger announcement

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Prioritizing Integration Activities That Drive Real Value to Customers, Employees, and Shareholders Targeting a reduction to $500 million in cash costs to integrate the airlines Technology ($175 million) Employees ($150 million)Product($100 million) Facilities ($75 million) Core platform and application decisions taken Combining Delta strengths in operating systems with Northwest strengths in commercial functionality Front-line employee training New uniformsEmployee transition costs Standardizing fleet with Delta livery Modifying interiors to Delta standard 757 cockpit alignment Consolidation of facilities at 170 airports Delta brand on all facilities and lounges

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Capitalizing on the Power of the World's Largest Airline Expanded scale and scope of the airline Unlocking value in the network Combining the best of both companies Establish industry leading co-brand partnership by pairing the largest loyalty program with the best affinity card issuer Enhanced potential of ancillary businesses (MRO, Delta Global Services, Delta Air Elite, etc.) Driving efficiency into the regional carrier portfolio – and other supply chain opportunities Taking the largest, fully-immunized transatlantic joint venture to the next level Fleet realignment provides means to meet network goals while significantly reducing need to invest in new aircraft Utilizing the best revenue tools across $30+ billion revenue base Enhancing top-tier operational performance by adopting best practices Forming the best management team from the two top performing airlines

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American Express Agreement Generates $2 Billion in New Liquidity over Next Two Years Pairing the world's largest loyalty program with the best marketer in the industry Best-in-class affinity card agreement Over $15 billion in value for next seven yearAgreement provides $1 billion in immediate liquidity Immediate purchase of SkyMiles Current contract enhancements generate additional $1 billion in revenue over 2009-2010 Leverages American Express unique capabilities Moving now de-risks program conversion American Express Delta Skymiles

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Delta: Positioned For Long-Term Success Managing the current economic cycle Unlocking merger benefits Capitalizing on the value of the world's largest airline Fuel price decline, capacity rationalization and merger synergies provide the tools to manage economic downturn Nearly $7 billion in liquidity provides the foundation Moving with speed and efficiency to capture $2 billion in annual synergies Integration costs reduced to $500 million Leveraging the structural opportunities from the expanded scale and scope of the airline Opportunities affirmed by today's American Express announcement

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Delta: Building The Premier Global Network Glen Hauenstein EVP – Network Planning and Revenue Management

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Delta Has Led The Industry In Revenue Momentum Domestic PRASM1 vs. the Industry Commitment to capacity discipline Right-sizing domestic network Fleet re-gauging Improved domestic product 1 Length of haul-adjusted PRASM for Delta and Northwest combined for all periods presented 94% 98% 100% 102% 2005020060200702008 YTD

The Leading Global Network Provides the scale to weather economic downturn Japan #1 Asia #1 Domestic #1 Latin America #2 Transatlantic #1 Africa #1

Network Diversity Mitigates Risk Creates a natural hedge against regional weakness Less Reliance On Domestic Markets1 International Mix By Region2 Reflects capacity mix for month of August for DL standalone 2005-2008 and DL+NW 2009-2010. Source: July 2009 OAGDomestic International ME/Africa/India Pacific Latin/Caribbean HeathrowW. Europe DL AA CO UA US

Commitment to Capacity Discipline Across The Network Reduce unprofitable capacity while growing network footprint Remove bottom 10% underperforming markets Growth in Africa/Middle East offsets reduction in Europe Re-gauging Pacific for improved profitability Realign Mexico/Caribbean with growth to unique, emerging markets in S. America CY09 Y/Y Capacity Change MMS of ASMs -6 to -8% System Domestic Int'l Atlantis Pacific Latin -8 to -10% -3 to 05% Europe Africa ME/India -6% =41% =7% -6 to -8% C/S America Caribbean Mexico =#% -6% -10%

Optimizing the Domestic Network Salt Lake City $1B market with 290 flts/day 57% revenue share Serving 30 unique cities Minneapolis $1.7B market with 500 flts/day 68% revenue share Detroit$1.7B city with 525 flts/day 65% revenue share 2nd largest Midwest hub only behind ORD New York (JFK)Largest o&d market in world Service to 52 int'l cities #1 carrier / over 200 daily worldwide departures Cincinnati $0.7B market and 275 flts/day 79% revenue share Downsized / restructured to increase connectivity Memphis $0.5B market with 250 flts/day 66% revenue share Serving top cities and unique small communities Atlanta Largest hub in the world and 5th largest US city with $2.6B in annual revenue 1,020 flts/day with service to 240 cities #1 carrier with 63% revenue share Right sizing hubs to the local market, enhanced connectivity, and more efficient routings provide path to profitability at each hub

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Full Transatlantic JV = Opportunity to Maximize Profits Value created from: Reducing capacity while keeping similar levels of service Powerful hubs drive most efficient routings Cross-fleeting to optimize gauge Creating the preferred alliance for high yielding corporate accounts$200M+ incremental profit opportunity (full ramp-up) SLC MSP DTW MEM CVG Atl JFK AMS CDS Delta Air France KLM

Most Powerful Domestic Network Combined With Most Powerful Asian Network Expanded ALK relationship facilitates development of West Coast Pacific gateway US Position North America cities US gateways to Asia Transpacific flights/day 1 3 2 4 271 182 154 148 10 60 4 2016 16 6 5 Beijing Seoul Busan Osaka Majoya Shanghai Taipei Hong Koing Manily Bankok Ho Chi Miknh Singapore Gaum Saipan HNL SEA PDX SLC SFO LAX MSP JFK DTW Atl

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Most Powerful Domestic Network Combined With Most Powerful Asian Network Expanded ALK relationship facilitates development of West Coast Pacific gateway US Position North America cities US gateways to Asia Transpacific flights/day 1 3 2 4 271 182 154 148 10 60 4 2016 16 6 5 Beijing Seoul Busan Osaka Majoya Shanghai Taipei Hong Koing Manily Bankok Ho Chi Miknh Singapore Gaum Saipan HNL SEA PDX SLC SFO LAX MSP JFK DTW Atl

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Narita Restructuring Drives RASM Improvement Better positioned through balanced capacity and improved connectivity Narita – Transpacific seats increased 30% via new hub connections Intra-Asia capacity reduced to lessen dependence on low yielding local traffic Overall network coverage increased with six net new markets Transpacific / Intra-Asia Daily Seat mix 54%46% 46% 54% Summer 09

Capitalize on Delta's #1 Position to NYC Integrate Northwest Continue profitable int'l expansion London product upgrade Appropriate aircraft gaugeAdding key service to Tokyo, including 13 one-stop Asian connections Increase network breadth with unique destinations in Europe and Africa Lie flat seating product Improve performance to Chicago, Los Angeles and San Francisco Right-size Shuttle with two class regional jets and smaller mainline

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Fleet Options Enable Flexible Network Enhanced ability to adjust capacity as demand environment changes International widebody capacity matched to seasonal demand Larger aircraft redeployed to hubs and high density routes Narrowbody aircraft scheduled based on capacity and capability Example Atlanta – Sao PauloExample: Portland – Amsterdam A330-200 767-300 New York (JFK) – Amsterdam 767-300 A330-200 Current Schedule Use small, narrowbody domestic aircraft to upgrade high demand markets served by single-class regional jetsOptimization of mission capable aircraft across the combined network

Lowest Capital Cost Enables Flexible Utilization Mission Short-Haul Long-Haul Transoceanic Capital Cost Market MD88/90 A320 737/8 777/747

Revenue Momentum Continues Strategic Opportunities Drive Incremental Value System PRASM vs. the Industry1 1 Length of haul-adjusted for Delta and Northwest combined for all periods presented. 2005 2006 2007 2008 2009E Target YTD 95% 98% 99% 102% 105% 110%

Delta: Delivering for the Customer Jim Cron Senior Vice President – Global Sales and Distribution

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Delivering for the Customer – Network Scope Broadest possible schedule network is the most important airline attribute for the business customer Combined network offers industry leading convenience Delta is clearly delivering the network to the business customer Japan Domestic Latin AmericaA frica

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Delivering for the Customer – Other Key Value Drivers Portfolio of hubs allows us to adjust capacity in response to economic challenges without sacrificing unique markets or critical time of day coverage Despite capacity reductions, new revenue generating markets continue to be launched (e.g. JFK-NRT, PIT-CDG) Competitive advantage in acquiring new business Delta delivering on other top business customer needsReliability High Value Differentiation Competitive customer amenity offering throughout the travel process Delta value proposition delivers strong revenue results

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Distribution Strong Foundation New Delta becomes world's #1 global segment producer (9%) with a strong #1 US POS position (23%)* 2006 GDS agreements produce significant cost improvements over seven-year term Traditional agencies generate meaningful yield premiums as a channel (nearly double non-traditional)Delta.com and Delta Reservations provide high service, low cost direct channels Opportunities Continued growth of low-cost Delta direct channelsSteady growth of delta.com realized in recent years (26% in 2006, 30% in 2007, 36% by end of 2008) Focus on selling and service ability of Delta Reservations channel Using best of both airline’s technology and evaluation techniques to construct valuable contracts Global alliance partnerships

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Delta: Growing Other Revenue Sources – TechOps Tony Charaf President – Technical Operations

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MRO Scope EngineComponentsAirframe Capacity of 900-1,000 engines per year Engines account for nearly 80% of total MRO revenue Global presence brings TechOps customers from over 30 countries on 5 continents Merger with Northwest expands global presence Customer engines approximately 50% of TechOps overhauls in 2008 Capability on Component repairs for Delta fleet types is over 65% Merger with Northwest provides opportunity to grow business with Airbus components Component work provides strongest margin opportunity and is primary focus for 2009 growth Line maintenance revenue is a function of locations to which Delta operates with frequency Capability and resources have been greatly expanded by Northwest merger Creates opportunities for additional MRO business in engine, airframe, and components Facilities in MSP and DTW offer new growth opportunities for TechOps Relationships with lessors continue to strengthen

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MRO Financial Performance Delta TechOps (30% CAGR) has grown at five times the rate of the MRO Industry (6% CAGR) over the past three years Approximately 70% of Projected 2009 MRO Revenue is currently secured with geographically diversified long-term contracts with operators such as Gol, ABX, Hawaiian, World Airways, Air Berlin, Asiana, Star Air, as well as major lessors such as ILFC TechOps cumulative book-of-business is valued at $2B over the next five years and continues to grow TechOps has consistently produced double-digit margins REVENUE Delta TechOps: 30% CAGR MRO Industry:$377M 312M

Long-Term MRO Growth Strategy Strong Relative Position in the Industry Well Positioned to Weather Global Economic Crisis Atlanta as “Gateway to the world” – continued focus on MRO pillars Merger expands TechOps capacity and capability Flexible, efficient, and highly skilled workforce trained in continuous improvement Comprehensive one-stop shop for integrated customer solutions Focus on safety, reliability, and unit cost productivity Further leveraged by incremental labor, inventory, and remanufacturing productivity As Delta’s global footprint expands, so does TechOps’ ability to tap into new markets New product offering such as CFM56-5 engine overhauls (growing at $250M annually) will further diversify TechOps during a challenging competitive and economic environment Merger with Northwest provides us with Airbus component and composite capabilities, allowing us to enter a market growing at $200M annually Our capabilities are our strengths – we repair what we fly

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Delta: Growing Other Revenue Sources - SkyMiles Jeff Robertson Vice President – Loyalty Programs

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Contract Extension with American Express Agreement provides over $2 billion in short-term liquidity Immediate Liquidity + Contract Enhancements Leverage Existing Partnership Immediate $1B purchase of miles Additional $1B of new value through rate improvement, volume and other program enhancements in 2009 and 2010 Lowers portfolio conversion riskGuarantees only one conversion Industry leading issuer and marketer with best-in-class benefits

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Growth in Revenue* is Significant DL & NW Annual Revenue Synergy from program consolidation
* Revenue defined as gross mileage sales and other program-related revenue $1.4B $1.1B $1.5B $2.0B $2.1B $2.2B 2005 2006 200702008E 2009E 2010E 2011E

Program Membership Total Members Post-Merger Largest program attracts additional high-quality partners and improved rates Source: AA: 60M from 10-K 2/20/08, UA: 52M from 10-K 2/29/08, CO: 35M from CO self-reported data in SkyTeam Fact Sheet Aug08, US: 30M - Webflyer.com and Ideaworks analysis 74M 60M 52M 35M 30M

SkyMiles – A World-Class Loyalty Program Largest Loyalty Program Incremental Revenue Opportunities Best of Both Programs SkyMiles - #1 in total membership with 74M members, over 20% more than the #2 program Also # 1 in active membership and revenue Largest program attracts additional high-quality partners and improved rates New affinity card agreement Significant upside from increasing Northwest revenue per active member to Delta levels Single technology platform Best-in-class elite program and award options More ways to earn miles from a global network of choice and partnerships

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Delta: Achieving Operational Excellence Steve Gorman Chief Operating Officer

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Excellent Operational Performance in 2008 On-Time Reliability Baggage Top tier completion factor October YTD Delta and Northwest in top three of departures within zero and arrivals within 14 minutes Most efficient block times in industry Opportunity to enhance by adopting best practices of both companies Northwest top of industry for network carriersDelta has reduced claims 25% year-over-year Ongoing reductions in claims at Delta through completion of Atlanta Worldport baggage infrastructure project and expanded technology

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Merging Operations with Minimal Customer Disruption Centralize functions Consolidating all functions within operations groups Dual certificate operations with strong, experienced leaders for key functions Operations Control Centers (including Dispatch) Flight Operations and In-Flight Services Pre-merger Northwest-staffed stations Carefully Planned IntegrationSafety and Supply Chain organizations Already consolidated Station integration Interim plans for stations with check-in facilities in separate terminals Bridge technology such as dual airline kiosks Consolidation mainly completed by summer 2009

Progress Towards Single Operating Certificate On-Schedule SOC Plan completed in August 2008 and approved by FAA in SeptemberDetailed timeline for analysis, implementation and FAA approval Program approach identifying all operational processes and procedures that must be aligned Adopt and go – no hybrids Implementation plan includes documentation, training and systems FAA has dedicated Joint Transition Team with leader and three principals from each airline certificate Targeting SOC completion by end of 2009

Single Operating Certificate Unlocks Significant Synergies Network Supply Chain Facilitates full network optimization Fleet and schedule flexibilityFully merged operations Single operations control Flight operations and in-flight services including base realignment, scheduling and resource planning Airport operations including staffing and gates

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Delta: Building On A Strong Financial Foundation Hank Halter Chief Financial Officer

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Building On A Strong Financial Foundation Enhancing a strong financial foundation Preserving and growing liquidity Best top line revenue growth Managing unit costs despite capacity reductions Ancillary and third party revenue opportunities Benefits of productivity initiativesMitigating fuel price risk Investing prudently – fleet rationalization minimizes need for massive re-fleeting strong operating cash flow Disciplined capex spending Manageable debt maturities

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Solid Revenue Performance Strengthens Position Delta is delivering a revenue premium to the industry 3Q08 YTD Operating Revenue1 % change YoY Delta System PRASM 2 LOH-Adjusted domestic PRASM1 Represents Delta and Northwest combined results 10.8 9.906.104.903.56 95098099010202005 2006 200702008 YTDvs. the Industry1,2

Best-In-Class Cost Structure Cost advantage positions Delta to better weather economic challenges Removed associated costs along with domestic capacity 20-25 Delta mainline aircraft and equivalent of 100 regional jets by end of 2008 Voluntary programs resulted in over 4,000 headcount reductionSecond round of voluntary programs underway – to be completed by end of 1Q09 Maintained investments in employees, customer experience and infrastructure 1 Excludes special items. Delta represents Delta and Northwest combined results1 Excludes special items. Delta represents Delta and Northwest combined results3Q08 Mainline CASM ex Fuel (¢)1 5.53 5.71 6.62 6.85 7.31 7 74 8.06 8.08

Ancillary and Third Party Revenue: Source of Significant Value Cargo Investments in product, technology and people Focus on yield management Power of expanded global networkMROOutpacing industry revenue growth Double-digit margins Northwest's capability and facilities provide unique opportunity 1 Revenue defined as gross mileage sales and other program-related revenue 2009 Ancillary and Third Party Revenue $5.8 BillionFees/Charges Provide customers value-added products/services $200M incremental revenue from fee alignment SkyMiles Largest frequent flier program in the world American Express contract generates substantial value Other $0.8B Cargo $1.1BFees / Charges $1.4BSkyMiles1 $2.0B MRO$0.5B

Fuel Price Decline, Capacity Rationalization and Synergies Provide Upside to Manage Economic Downturn Annualized savings from $50 decline in crude price per barrel ($100 to $50) Savings from capacity reduction of 6 - 8% Merger synergies Total Impact ~$5 Billion~$1 Billion ~$0.5 Billion ~$6.5 Billion

Fuel Hedging Portfolio Allows For Nearly 80% Participation in 2009 At Market Fuel Prices % of Fuel Consumption Hedged Call options SwapsCollarsProjected fuel pricePortfolio Downside ParticipationAvg. Jet Fuel Equivalent Floor Avg. Jet Fuel 3.39 3.33 2.70 2.70 3.06 2.81 2.87 2.71 1.32 0.80 2.09 0.00 43 70 89 98 78 100 2.49 2.26 2.09 1.92 2.19 Note: Hedging portfolio data as of December 3, 2008 1 Includes 12% of 1st quarter hedges (collars) unwound between $65-$70/bbl

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Disciplined Capex Plan for 2009 Invest prudently to create the most profitable, flexible, and operationally capable fleet while preserving liquidity Optimize fleet flexibility with strategic aircraft purchases 6 777-200LR 6 737-700 8 CRJ-900 Invest in products/technologies that maximize fleet profitability Winglets Lie-flat seats and video on- demand Continue improving baggage systems and JFK facility 2009 Capex ($B) Ground Equipment / Technology Parts / Modifications Aircraft 0.3 0.3 0.2 1.6 0.3 1.0

Fleet Rationalization Lengthens Re-Fleeting Horizon Flying an MD-88 aircraft saves $2.6 million per year vs. purchasing a new B737-800 Annual total cost advantage of MD-88 vs. new B737-800 ($M) Note: Based on crude price per barrel of $60 and $20 crack spread Ownership cost advantage lower crew and maintenance costs higher fuel expense total cost advantage

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Delta Maintains A Strong Liquidity Position Cash preservation a priority in time of economic weakness and volatile fuel prices Unrestricted Liquidity December 2008 vs. December 2009 ($B) Liquidity expected to grow in 2009 despite economic weakness Note: Liquidity balance includes cash and short term securities. Liquidity balance could be impacted by short-term fuel hedge collateral postings.6.7 3.2 1.6 0.8 7.5 Unrestricted Liquidity Balance 12/31/08 Operating Cash Flow Cap Ex Net Debt Maturities Unrestricted Liquidity Balance 12/31/09

Estimated Free Cash Flow of $8 - $9 Billion Over Next Three Years Total Three Year Projection 2009 – 2011 Adjusted Net Debt ($B)EBITDAR Operating Cash Flow Capital Expenditures Net Debt Maturities Strong financial foundation, merger benefits drive free cash flow generation $15 - $17B $11 - $13B $11 - $13B $3.5 - $4.5B12/31/08 12/31/0912/31/10 3

Delta’s Net Operating Losses Are a Significant Asset Value of NOLs approaches $15 billion Net Operating Losses (NOLs) $B1 Expect use of NOLs to offset future pre-tax income Minimal cash tax requirements 1 Net operating losses projected for Delta and Northwest as of December 31, 2008 10.0 4.5 14.5

Building On A Strong Financial Foundation Enhancing a strong financial foundationManaging risk in the business Preserving and growing liquidity Best top line revenue growth Managing unit costs despite capacity reductions Ancillary and third party revenue opportunities Benefits of productivity initiatives Mitigating fuel price risk Investing prudently – fleet rationalization minimizes need for massive re-fleeting Strong operating cash flow Disciplined capex spending Manageable debt maturities

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Delta: One Great Airline Solid balance sheet and liquidity position Durable financial foundation Financial and strategic benefits of consolidationPremier global network and leading alliances Engaged, committed workforceInvestments in customer service and operational improvements

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Appendix A: Bankruptcy Claims Update

Working Through Bankruptcy Claims Distributions Targeting to complete claims process during 2009 Delta Plan of Reorganization contemplates distribution of 400 million shares by end of 2009 To date, 311 million shares have been distributed including 14 million shares to employees No change to estimated bankruptcy claims pool of $15 billion Northwest has approximately 9 million Delta shares still to be distributed under their Plan of ReorganizationDistributed through Nov. 2008 (In millions) Delta Case Comair Case Claim value Delta shares Distributed Claim value Delta Shares distributed 12,701,285.7,758,11.0

Appendix B: Unaudited Condensed Combined Financial Information

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Unaudited Condensed Combined Financial InformationThe following Unaudited Combined Statements of Operations and Unaudited Condensed Combined Statement of Cash Flows have been developed from and should be read in conjunction with (1) the unaudited interim consolidated financial statements of Delta and Northwest contained in their respective Quarterly Reports on Form 10-Q for the quarterly periods ended September 30, 2008, June 30, 2008 and March 31, 2008 and (2) the audited consolidated financial statements of Delta and Northwest contained in their respective Annual Reports on Form 10-K for the fiscal year ended December 31, 2007. The Unaudited Combined Statements of Operations and Unaudited Condensed Combined Statement of Cash Flows are provided for illustrative purposes only and do not purport to represent the combined company's consolidated results of operations and cash flows for the dates presented, nor are these financial statements necessarily indicative of the combined company’s future consolidated results of operations and cash flows. The historical consolidated financial statements of Northwest have been adjusted to reflect certain reclassifications to conform with Delta’s financial statement presentation. Delta expects to incur significant costs and realize significant benefits associated with integrating the operations of Delta and Northwest. The Unaudited Combined Statements of Operations do not reflect any purchase accounting adjustments, costs of integration activities, benefits that may result from operating efficiencies or revenue synergies expected to result from the Merger.

September 30, 2008 OPERATING REVENUE: Passenger: Mainline $ 5,330 $ 5,364 $ 6,265 $ 6,723 Regional affiliates 1,381 1,445 1,649 1,606 Cargo 374 332 372 363 Other, net 705 759 802 838
Total operating revenue 7,790 7,900 9,088 9,530 OPERATING EXPENSE: Aircraft fuel and related taxes 2,292 2,535 2,884 3,864
Salaries and related costs 1,805 1,819 1,838 1,794 Contract carrier arrangements2 1,044 1,102 1,139 1,163 Aircraft maintenance materials and outside repairs 467 477 481 441 Contracted services 456 461 464 469 Passenger commissions and other selling expenses 423 440 472 485 Depreciation and amortization 416 428 423 415 Landing fees and other rents 289 315 335 339 Aircraft rent 154 157 160 163 Passenger service 146 144 171 187 Other 213 286 260 271 Total operating expense 7,705 8,164 8,627 9,591 OPERATING (LOSS) INCOME 85 (264) 461 (61) OTHER (EXPENSE) INCOME: Interest expense (264) (261) (249) (252) Interest income 90 64 49 42 Miscellaneous, net (16) (18) 46 (69) Total other expense, net (190) (215) (154) (279)INCOME (LOSS) BEFORE INCOME TAXES (105) (479) 307 (340) INCOME TAX BENEFIT (PROVISION) 41 - - (3) NET (LOSS) INCOME $ (64) $ (479) $ 307 $ (343)

DELTA AIR LINES, INC. Unaudited Condensed Combined Statement of Cash Flows' For the Nine Months Ended September 30, 2008 (in millions)   Net cash provided by operating activities $ 852 Cash Flows From Investing Activities: Property and equipment additions: Flight equipment, including advance payments (1,989) Ground property and equipment, including technology (241) Payments of fuel hedge margin deposits (104) Decrease in restricted cash 279
Proceeds from sales of flight equipment 126 Proceeds from sale of investment in affiliate 20
Investments in affiliated companies (213) Redesignation from cash equivialents to short-term investments (1,064) Proceeds from sales of investments 55 Other, net 7 Net cash used in investing activities (3,124) Cash Flows From Financing Activities: Payments on long-term debt and capital lease obligations (1,222) Proceeds from short-term obligations 133 Proceeds from long-term obligations 2,887 Payments of deferred financing costs (114) Other, net (30) Net cash provided by financing activities 1,654 Net Decrease in Cash and Cash Equivalents (618) Cash and cash equivalents at beginning of period 5,587 Cash and cash equivalents at end of period $ 4,969 ' The historical consolidated financial statements of Northwest have been adjusted to reflect certain reclassifications to conform with Delta’s financial statement presentation.

Unaudited Combined Statements of Operations DELTA AIR LINES, INC. Unaudited Combined Statements of Operations Excluding Special Items (in millions) Delta Northwest Special Items Combined Delta Northwest Special Items Combined Three Months Ended December 31, 2007 Three Months Ended December 31, 2007 Three Months Ended December 31, 2007 Three Months Ended March 31, 2008 Three Months Ended March 31, 2008 Three Months Ended March 31, 2008 OPERATING REVENUE: Passenger: Mainline $ 3,052 $ 2,278 $ - $ 5,330 $ 3,061 $ 2,303 $ - $ 5,364 Regional affiliates 1,015 366 - 1,381 1,039 406 - 1,445 Cargo 132 242 - 374 134 198 - 332 Other, net 484 221 - 705 532 227 - 759 Total operating revenue 4,683 3,107 - 7,790 4,766 3,134 - 7,900 OPERATING EXPENSE: Aircraft fuel and related taxes 1,356 936 - 2,292 1,422 1,113 - 2,535 Salaries and related costs 1,070 735 - 1,805 1,091 728 - 1,819 Contract carrier arrangements 851 193 - 1,044 896 206 - 1,102 Aircraft maintenance materials and outside repairs 245 222 - 467 268 209 - 477 Contracted services 246 210 - 456 254 207 - 461 Passenger commissions and other selling expenses 212 211 - 423 225 215 - 440 Depreciation and amortization 288 128 - 416 297 148 (17) 2 428 Landing fees and other rents 175 114 - 289 179 136 - 315 Aircraft rent 60 94 - 154 64 93 - 157 Passenger service 88 58 - 146 84 60 - 144 Restructuring, asset writedowns, pension settlements and related items, net - - - - 6,116 3,917 (10,033) 3 - Other 94 119 - 213 131 155 - 286 Total operating expense 4,685 3,020 - 7,705 11,027 7,187 (10,050) 8,164 OPERATING (LOSS) INCOME (2) 87 - 85 (6,261) (4,053) 10,050 (264) OTHER (EXPENSE) INCOME: Interest expense (138) (126) - (264) (147) (114) - (261) Interest income 39 51 - 90 27 37 - 64 Miscellaneous, net (4) (26) 14 1 (16) (9) (9) - (18) Total other expense, net (103) (101) 14 (190) (129) (86) - (215) INCOME (LOSS) BEFORE INCOME TAXES (105) (14) 14 (105) (6,390) (4,139) 10,050 (479) INCOME TAX BENEFIT (PROVISION) 35 6 - 41 - - - - NET (LOSS) INCOME $ (70) $ (8) $ 14 $ (64) $ (6,390) $ (4,139) $ 10,050 $ (479) 1 $14 loss on sale of interest in affiliate (NWA) 2 $17 aircraft and aircraft-related impairments (NWA) 3 $3,917 goodwill impairment (NWA); $6,100 goodwill impairment (DL); $16 Restructuring and related (DL)

Combined Statements of OperationsOPERATING REVENUE: Passenger: Mainline $ 3,627 $ 2,638 $ - Regional affiliates 1,143 506 - Cargo 160 212 - Other, net 569 233 - Total operating revenue 5,499 3,589 - OPERATING EXPENSE: Aircraft fuel and related taxes 1,678 1,206 - Salaries and related costs 1,092 746 - Contract carrier arrangements 931 208 - Aircraft maintenance materials and outside repairs 295 186 - Contracted services 257 207 - Passenger commissions and other selling expenses 248 224 - Depreciation and amortization 302 745 (624) 4 Landing fees and other rents 185 150 - Aircraft rent 67 93 - Passenger service 105 66 - Restructuring, asset writedowns, pension settlements and related items, net 1,300 (76) (1,224) 5 Other 126 134 - Total operating expense 6,586 3,889 (1,848) OPERATING (LOSS) INCOME (1,087) (300) 1,848 OTHER (EXPENSE) INCOME: Interest expense (141) (108) - Interest income 25 24 - Miscellaneous, net 40 (207) 213 6 Total other expense, net (76) (291) 213 INCOME (LOSS) BEFORE INCOME TAXES (1,163) (591) 2,061 INCOME TAX BENEFIT (PROVISION) 119 214 (333)7 NET (LOSS) INCOME $ (1,044) $ (377) $ 1,728 DeltaNorthwest Three Months Three Months EndedEnded June 30,June 30,Special (in millions)2008 2008Items DeltaNorthwest Three MonthsThree Months EndedEndeSeptember 30,September 30,Special 20082008ItemsDELTA AIR LINES, INC. Unaudited Combined Statements of Operations Excluding Special Items DELTA AIR LINES, INC. Unaudited Combined Statements of Operations Excluding Special Items

Unaudited Condensed Combined Statement of Cash Flows DELTA AIR LINES, INC. Unaudited Condensed Combined Statement of Cash Flows' For the Nine Months Ended September 30, 2008 DELTA AIR LINES, INC. Unaudited Condensed Combined Statement of Cash Flows' For the Nine Months Ended September 30, 2008 (in millions) Delta Northwest Net cash provided by operating activities $ 282 $ 570 Cash Flows From Investing Activities: Property and equipment additions: Flight equipment, including advance payments (1,056) (933) Ground property and equipment, including technology (160) (81) Payments of fuel hedge margin deposits - (104) Decrease in restricted cash 2 277 Proceeds from sales of flight equipment 110 16 Proceeds from sale of investment in affiliate - 20 Investments in affiliated companies - (213) Redesignation from cash equivialents to short-term investments (818) (246) Proceeds from sales of investments - 55 Other, net 7 - Net cash used in investing activities (1,915) (1,209) Cash Flows From Financing Activities: Payments on long-term debt and capital lease obligations (857) (365) Proceeds from short-term obligations - 133 Proceeds from long-term obligations 2,014 873 Payments of deferred financing costs - (114) Other, net (12) (18) Net cash provided by financing activities 1,145 509 Net Decrease in Cash and Cash Equivalents (488) (130) Cash and cash equivalents at beginning of period 2,648 2,939 Cash and cash equivalents at end of period $ 2,160 $ 2,809 Combined $852 (1,989) (241) (104) 279 126 20 (213) (1,064) 55 7 (3,124) (1,222) 133 2,887 (114) (30
The historical consolidated financial statements of Northwest have been adjusted to reflect certain reclassifications to conform withDelta’s financial statement presentation.

Appendix C: Non-GAAP Reconciliations

Forward Looking Projections Delta is unable to reconcile certain forward-looking projections to GAAP, including projected Mainline non-fuel CASM, adjusted net debt, unrestricted liquidity, length of haul adjusted PRASM to industry, earnings before interest, taxes, depreciation, amortization and aircraft rent (EBITDAR), as the nature or amount of special items and the impact of purchase accounting adjustments cannot be estimated at this time. We are in the process of analyzing the impact purchase accounting adjustments and special items will have on our consolidated financial statements.

Length of Haul Adjusted PRASM

Mainline Non-Fuel CASM Delta and Northwest exclude special items because management believes the exclusion of these items is helpful to investors to evaluate the companies' recurring operational performance. Delta's cost per available seat mile (CASM) excludes expenses related to Delta's providing maintenance and staffing services to third parties as these costs are not associated with the generation of a seat mile. Northwest's CASM excludes expenses primarily related to Northwest's providing freight operations and its vacation wholesale operations to third parties as these costs are not associated with the generation of a seat mile. Delta and Northwest present Mainline CASM excluding fuel expense and related taxes because management believes high fuel prices mask the progress toward achieving business plan targets. Three Months Ended September 30, 2008 Delta Northwest Combined Mainline CASM 12.42 ¢ 15.71 ¢ 13.68 ¢ Items excluded: Services provided to third parties (0.46) (0.95) (0.64) Mainline CASM excluding items not related to generation of a seat mile 11.96 14.76 13.04 Restructuring and merger-related items (0.02) (0.14) (0.07) Mainline CASM excluding special items 11.94 14.62 12.97 Fuel expense and related taxes (5.22) (7.55) (6.12) Mainline CASM excluding fuel expense and related taxes and special items 6.72 ¢ 7.07 ¢ 6.85 ¢

[EXCERPTS FROM TRANSCRIPT OF DECEMBER 9, 2008 INVESTOR CONFERENCE]

Richard Anderson - Delta Air Lines, Inc. - CEO

Welcome and thank you all for being here and welcome to the new Delta Investor Day. We want to try to make this very meaningful for you. And if you understand the central theme that we're really talking about is the basic investment thesis in the new Delta and why it makes really good sense as a long-term investment vehicle for you and the owners that you represent. To kick it off I would like to introduce much of the senior management team. And I think we've done a very good job of assembling a world-class management team here.

So let me start down at the end with Ben Hirst he's the General Counsel of Delta; Hank Halter, the Chief Financial Officer of Delta; Ned Walker who's the Chief Communication Officer in charge of worldwide communications.

Most of you know Glen Hauenstein, EVP of Network; Brian McManus, an official with the Air Line Pilots Association and a member of our Master Executive Council at ALPA; Dino Atsalis who's in charge of government affairs for the Delta Air Line Pilots Association; Steve Gorman who's the Chief Operating Officer at Delta; Tony Charaf who's the President of Delta Tech Ops, he runs both internal tech ops and our MRO business; Neel Shah, who's in charge of our cargo operations, done a phenomenal job; Jeff Robertson, who just landed the best affinity card deal in the history of the airline industry; Mike Becker, who is the Chief Operating Officer of Northwest; Theresa Wise, the Chief Information Officer of Delta; Tim Mapes, SVP of Marketing; Jim Cron, SVP of Sales and Distribution; Paul Jacobson a very happy Treasurer with the wire transfer we received this morning; and Ed Bastian, our President.

So with that, let me move on to the agenda, and we want this, when we were preparing the slides our goal was to give you meaningful quantitative information about where we are and where we're headed to support our investment thesis and you'll see that there are consistent themes through this that we'll pick up through each one of the presentations. So I'll go through sort of the fundamental bond building blocks of where our Board will led us a little over a year ago in terms of the business model at Delta.

Ed will walk you through our guidance and where we are with the merger and the capturing of synergies in the merger. Glen will give you a lot of color around Network, because it's really the generator of where our profits will be long-term. Jim Cron will discuss with you our sales and distribution strategy. You can see we'll take a short break and we'll try to intersperse it with questions along the way. And Tony and Jeff will speak to you about our diversification of the top line and the large amount of revenues that we have from other sources such as our very profitable number one position in the maintenance repair and overall business in the US. And now as you can see from our press release this morning, the largest affinity card program. Quite a large part of our strategy going forward is to at diversify our cash flows through other channels of revenue, and we want to give you a good view of other revenue sources other than traditional passenger revenues.

Steve Gorman will touch on the fact that we're running really, really good airline with top tier operational performance. And then ultimately Hank will take you through a lot of the numbers. So you have the presentation there. And then we'll have plenty of time for Q&A and then lunch with the executives and will spread out to try to cover the questions that are on your mind.

You've all seen this. So let's move really quickly to the building blocks. So last fall, our Board tasked management with coming up with a sound strategy that would break what I'll call the sort of negative cyclicality of the industry for investors. And we really came up with a series of building blocks that our Board has been very focused on management executing against.

And the first of those is really to build a financially viable airline that can achieve consistent profitability, top-tier pre-tax margins and industry-leading balance sheet. And if you look at what we've done, 11% revenue growth year-to-date through September of '08. Now with the cash position, we have a $6.7 billion. We've kept our CASM -- our CASM by year-end will be flat with all the capacity reductions we've taken over the course of the year. And as I said earlier, a $6 billion revenue stream from diversified revenue sources.

The foundation of that revenue growth really is the network and the network is the most internationally rated network in the industry. Number one domestic, number one transatlantic, number one Africa, number one Japan and Asian markets and number two to Latin America with the goal of having our network diversified, with half of our capacity distributed across the international network.

We have led the industry in rationalizing capacity first to fuel prices and then to demand and we continue to be very focused on making certain that we have the right balance of capacity to demand and in doing so, we at the conference the last week announced our capacity plans for 2009.

And the important thing about dealing with capacity the way we do is that it's not just about taking out the variable costs related to that capacity, we've been very focused on keeping our non-fuel CASM flat. And we've achieved that with the significant pull-down that we had in 2008. By 4Q '08 we will have essentially flattened our nonfuel CASM. So it's not just about taking capacity out, it's also about having the discipline to take the cost out. And we will continue to be certain that we're focused on making our capacity meet demand in whatever environment were in.

And then the great thing about that is we have a very versatile fleet. There are a lot of airlines that have mortgages on all of their airplanes, and when you have mortgages on all of your airlines and you spent upwards of $30 million to $35 million per copy of a domestic airplane, it's very difficult to manage your capital with a real rate of return. And that's not our philosophy. We are not going to take our cash flow and make CapEx investments to place large fleet orders for the sake of placing a fleet order.

And the versatility of our fleet gives us the ability to vary our capacity very quickly. And when you think about it, it's unique to the airline industry. Westin can't close this hotel, right? We can put capacity on the ground because we have depreciated airplanes like 757s and MD 80s, we can park that capacity, and we can take the cost of out. And that gives us a very strong tool in the terms of managing our RASM and our profitability over the long run.

And that really gets to the third slide, which is disciplined capital management. This industry has got to make investments based on demonstrated returns, not based upon shiny airplanes. And that's really an important part of the cash flow story here, which is having the discipline to be certain that when we make capital investments or make fleet decisions and we're very fortunate to have the two fleets that we have, because if you take the combination of Delta and Northwest and you look at the percentage of our fleet CASM devoted to ownership and I'd submit that it's the lowest fleet CASM related to ownership in the industry. And that is very important going forward and something we must maintain because it's a long-term advantage.

And you really do, and I'll be blunt about this, these storylines that you get about newest fleet, when you see newest fleet you've got to ask yourself what's the capital cost of that newest fleet? And what does it do to the economics of the business? And I'll submit to you that we are going to have a different strategy at Delta, which is a strategy based upon disciplined capital investment that has demonstrated returns over the long term. And we have a lot of rich opportunity to rationalize across these two airlines without making large CapEx commitments.

Fourth is strategic options. And before I leave three, there's been a question that investors have had and the AMEX deal gives us the cash and the capital and the resources we need on our balance sheet so that the immediate need or the issue of whether we were going to do an equity offering, really takes that off the table as we sit today with our AMEX deal. So we're pretty confident about where our cash position is and Hank's going to walk you through some high-level, those of you who flipped ahead in the slides, we'll walk you through some of the high-level three-year projections for the airline.

Let me move to four really quick, which is the merger with Northwest has unlocked enormous value and we're very confident, and Ed will walk you through where we are on synergy capture. But just look at the American Express deal, that American Express deal, creating the largest affinity card program in the world with the very best economics.

The economics of the transaction are far and away better than any other airline affinity program in the world and are the result of the merger with Northwest. Because as our Board looked at what our options were to get to the first block on the page as we moved through the analysis it became clear that we needed a larger platform, that we needed to fill in our network and that we needed to be able to capture more value through a combination of another network.

And if you look at how Delta got positioned where it is today in the industry, it's been a series of those kinds of transactions about every 15 years since about 1960. So, Northeastern Airlines, Western Airlines, Pan Am's international authority, Chicago and Southern, so it's sort of consistent with what the airline has done over a pretty long period of time, because you can have a solid organic growth strategy but in addition you need to be able to put bolt-on additional assets and capture additional value. And we're very confident of our synergy capture.

And now that we have the teams, and I didn't mention to you the background of the executives, but we really did do what we said about picking carefully and getting a good strong mix of executives from both airlines. And part of that brings new findings all the time as we go through the budget process for 2009. Best practices that we never really accounted for or had visibility to when we did the top down synergy analysis.

So the merger with Northwest and the value that you see us creating with the American Express deal, and that's both cash value and its P&L value because of the underlying terms of the transaction, is emblematic of a lot of other opportunities that we have ahead of us with other relationships, suppliers and the like across the new Delta.

So we will continue pursuing strategic options that broaden our network and our long-term viability. Our movement across the fleet to move from a very domestic-focused airline to an internationally-focused airline, and importantly, two weeks ago, three weeks ago we announced the Alaska airlines relationship, which is a long-term ten year relationship where we essentially become the exclusive codeshare partner with Alaska off the west coast internationally, make a very important ingredient in building out our network and you would expect that we would continue to pursue those sort of strategic options.

The next step in terms of creation of value and building an enduring franchise where we can have advantages that are protectable and sustainable is the global alliance opportunity with Air France KLM. Many of you that are familiar with Northwest understand the tremendous value that's been created in the Northwest KLM alliance.

That entity historically on a full-up basis has had high teen margins, and now we bring to bear the KLM Northwest relationship in line with the Delta Air France joint venture. And the opportunity that it creates is phenomenal, because we're fully immunized. We plan capacity and we price together and we operate it together today under our immunization from the United States Department of Transportation and the European Union.

And that gives us the number one position across the transatlantic with essentially two other competitors in the market -- the British and the Germans and their alliance partners. So you really have three networks and we're the strongest of the three networks across the transatlantic with the most developed position. In other words, we really have a first mover advantage, because we had antitrust immunity for quite a while. And we've been well down the path of the immunized joint venture with the full support of our pilots union.

And that's one question you always have to ask our competitors when they talk about their immunized joint ventures. If you don't have pilot scope clause provisions that allow you to codeshare and fully utilize the joint venture, the announcement is really hollow. And what we have in cooperation with our pilots, we have the ability to fully utilize the codes of both airlines to drive RASM premiums across the Atlantic. And that first mover advantage and the structural advantage we have, this is an $8 billion to $10 billion business segment in and of itself.

Steve will talk to you on box six here about operations and Northwest and Delta together are the top-tier operators in the industry. Just looking at DOT data and the performance of the two airlines and Steve will walk you through that briefly today. But you need to understand, think about it, the mergers been announced six weeks ago, still very smooth.

You have not read anything in the paper and our ultimate goal is that 18 months from now it will be at acclaimed as the most successful and smooth merger for customers in the industry and we have the plans to get that done. And we are down in the details of the business line by line, making certain that all the pieces fit together as we go through the integration.

We have very operationally focused executives. Not all of them are here. Tony's here, and Steve's here, but a very committed group of executives that are very well experienced, very knowledgeable. And you're going to see a very smooth operational integration and it's going to go fairly rapidly and be transparent to the customer.

You're already seeing it on the frequent flyer program, we're really working to build the world's best frequent flyer program and doing our best to pick best in breed between Northwest and Delta. And then ultimately putting them together on the Northwest, CRM platform sometime later next year. So you'll see that commitment to customer service play out as we go through the integration.

And lastly, box seven. It's interesting -- in 2008 we did three collective bargaining agreements with our pilots. To completion, to agreement. We did one in February, a collective bargaining agreement with our pilots in February and completed it, couldn't get the seniority list integration done with the Northwest pilots, but we had a complete agreement on all the terms except for seniority list. Real credit to Ed Bastian and Mike Campbell and Lee Moak and Brian and Dino and the leadership of our pilots union.

Then in April when we were getting ready to announce the deal we knew we had to have a deal with our pilots because of a whole host of reasons and I think we got that deal done in about two weeks. And then we needed to do

another deal with the Northwest pilots in July to bring them under the collective bargaining agreement and to get to the single seniority lists, which we received, our pilots received last night.

So we have competitors that can't sit in the same room with their pilots, between management and pilots, and we did three collective bargaining agreements in 2008 with our ALPA leadership. And we're blessed to have the leadership that we have. And Brian's here today and I was going to ask Brian very quickly just to talk a little bit about the seniority list and the process. And, Brian, if you want to take just a second to do that.

Brian McManus - Delta Air Lines, Inc. - Pilot

I'm Brian McManus. My position is Chairman of the Stock Advisory Committee for the Delta Master Executive Council Pilots Union at Delta. And briefly, what sets this seniority list integration apart from other seniority list agreements that have been conducted in the past at other properties is two items.

One, the Delta pilots have a history of always aiming for a fair and equitable treatment of the merged pilot group entity. That was the case with Western Airlines in 1987, and that was the case with the Pan Am acquisition in 1991. Additionally, this was an acquisition or merger of equals which had the potential to create more strife or internal dissension with an integration process.

So recognizing that our own union policy was a little bit lacking in this area we created an above average process in order to achieve a fair and equitable agreement. And without going into the multitude of details, just to highlight one or two aspects, we created a three versus a normally one-man arbitration panel. Additionally it's final and binding of course, and we also created a date certain finality to have this process completed by.

So with all those objectives laid out, we were able to achieve all those objectives. And once again seniority is always in the eye of the beholder, but I believe the reaction by both pilot groups over the course of the next coming months will yield to the fact that by all objective measures this seniority list is fair and equitable for all concerned.

And why that's so important is that when you have internal unity within the pilot union, among the ranks of the pilots, we can focus our efforts on being collaborative with management in order to achieve the most profitable airline possible and management can utilize the assets to the greatest degree in order to achieve the greatest profit possible. And once again we have crafted our pilot agreement that Richard mentioned in order to achieve first dollar of profit sharing. So we're all going in the same direction with regard to trying to make this the most profitable airline and share in that growth. Thank you.

Richard Anderson - Delta Air Lines, Inc. - CEO

Thank you Brian. So seven is really important because you can contrast our culture and our employee relations with what's going on in a lot of lot of other airlines, and we do think that it needs to be, we are committed to making it a good place to work for our employees.

And when our employees are happy and productive, we produce a good product for our customers and we're very, very productive in terms of when you look at employees and non-labor CASM and our labor CASM across the airline and those go hand in glove. A good working relationship with all of our employees is a very important part of our delivering on the plan and we're committed to distinguishing our employee relations from the rest of the industry.

Just a few more slides, I told you we'd give you numbers. Passenger revenue PRASM, our long-term goal is in the 105% to 110% range. Our liquidity you can see there is very strong and we plan on building that over the course of the next three years. You can see our operating revenue in terms of top line growth and our non-fuel unit costs.

And the model that you see here, these four metrics are the four metrics that fundamentally drive the business and are the four metrics that will always keep Delta in a superior position versus the industry and the merger gives us the opportunity, the real tangible opportunity to continue these industry leading positions.

And of course at the base of that is the network and the power of the network over the long run. And understand, though, we will maintain those positions but we will be the most disciplined operator with respect to capacity in the industry. We've demonstrated that over the course of the past year. If you'll recall last year in -- well, this past year in March, when fuel prices were going over 105 a barrel. We were the first airline by a couple of months to react and we did an early out program and reduced our staffing at Delta by 4,300 heads. We took about 12% of our domestic capacity out in the back half of the year and now our CASM is flat y-o-y.

So we can just take the capacity out we also took the costs out. And that same sort of discipline both domestically and internationally will always be our focus of right-sizing demand capacity in the market, but we will not compromise the strategic value of the network, the convenience of the network or the need to be certain that we're competing hard in certain markets. So rest assured that we're going to stay focused on building and growing the leading global network with the lowest fleet capital costs in the industry.

So with that, maybe time for just a few questions. I don't want to get too far into -- we're to try to break just a little bit after each one so you don't have to hold your questions. But just a couple of questions and then we'll have Ed sit down and talk a little bit about how we're, get into the details of how are positioned for success.

QUESTION AND ANSWER

Unidentified Audience Member

You talked about returns. Can you just give us some guidelines in terms of what return hurdles, you think about? Where returns are going to go?

Richard Anderson - Delta Air Lines, Inc. - CEO

Well we're a bit early in the process about our Board going through where we think that will be as we move through and capture the synergies. But when you think about the model, the model ought to have pre-tax returns in the 7% to 10% range. The model should have pre-tax returns in those range. Next question.

Unidentified Audience Member

Thank you. Richard, for years your time spent at Northwest and at Continental you were on the outside looking in to Delta. Now that you've been at the Company for more than a year, what are some of the surprises both good and bad that you've seen at the Company?

Richard Anderson - Delta Air Lines, Inc. - CEO

The culture really matters at Delta and it really does make a difference. It makes a difference both in the delivery of the service and the cooperation of the employees and the ability to run the largest most profitable maintenance, repair and overhaul business. And it's really quite a pleasant place to work and be a part of because it does have a very tangible difference in terms of the spirit of the place and people's desire to be winners. Delta had the preeminent position in the airline industry for many years and that sort of underlying DNA admittedly is really part of the underlying fabric.

I would say that at there haven't been really any disappointments. The only thing we knew going in to the analysis that our Board tasked us with was the need to broaden the network. So if you looked at, and I would say this would have been prior to the merger the number one challenge that we had, we had great assets but we didn't have coverage at all in Asia.

We were weak in the Midwest, we were weak in the Northwest and while we had a transatlantic joint venture it wasn't as developed. So if you look at the asset base of the Company, the merger with Northwest really fills in what I would call and answer your question, the weak points in the network. The merger filled those in.

So we're really quite pleased and believe that this coupled with the Alaska alliance really fills out our network in a

very fulsome way and gives us -- in this business you are always hunting for those places where you have a strategic advantage that's defensible over the long-term. And what the transaction did was gave us a wide array of those assets and our confidence on being able to execute is quite high and it's quite high really because of the people in the front row here and all the other 70,000 folks that are pretty charged up about what the opportunity is here.

Unidentified Audience Member

You're right, the one void in your system was the western part of the US, which you seem to be for fixing with the Alaska deal. But in today's environment with what I consider Alaska airlines at a very low stock price, why not a merger? I know it would be a lot to handle with what you're doing now, but that would fill in your system completely.

Richard Anderson - Delta Air Lines, Inc. - CEO

It's not very often that I use the words no comment.

Dan McKenzie - Credit Suisse - Analyst

Yes. Hi, Richard. Dan McKenzie with Credit Suisse. Bob Crandall, Gordon Bethune used to love to say that industry's only as smart as its dumbest competitor and the presentation this morning of course does not presuppose that. I'm wondering if you could just help share some thoughts about how Delta can sort of untether itself from the industry dynamic?

Richard Anderson - Delta Air Lines, Inc. - CEO

Well, that's really what the presentations here are about, and the untethering first comes in employee relations. If you look at the airlines that have succeeded over time, one of the ways you untether yourself from the rest of the industry is to maintain strong relationships with your employees so you have the dexterity and the flexibility to be able to react to the market and to provide a superior product. Because we do believe that the right measured investments in the product will return higher RASM and if the employees are engaged and on board it really is an untethering, if you will, versus the industry.

I think the second untethering is, and I'll go back to this, is the fleet assets and the discipline around capital. I think people can talk about where capacity goes in the industry, but how you fill that capacity is really important and the industry has historically been very focused on placing massive orders for airplanes with perhaps not clear economics. And we're not going to do that. We're not going to place airplane orders for the sake of placing airplane orders and we're going to fully utilize what we have because it's a very low capital cost base.

I would say that the third untethering is the breadth and scope of the network. And the breadth and scope of the network is not replicable in the current organizational behavior that we have in the industry and having that broad, diverse network gives you a spreading of the risk, if you will, across the industry. And then lastly we're going to maintain capacity discipline. And the industry has over the past year, year and a half, two years done quite a good job in right-sizing unilaterally each carrier right-sizing capacity and demand.

And I believe everyone's gotten a taste of that in the form of the RASM that we've seen over the course of the past year and a half. So I would say that those four factors are very important factors as we go forward. And I would probably add a fifth to that which is we have opportunities like AMEX across our business. We have opportunities like the AMEX deal as a result of this merger to create distinguishable value versus the industry.

Unidentified Audience Member

Given that the merger is quite clearly going to be a great success, do you see any other combinations among the US carriers in a merger?

Richard Anderson - Delta Air Lines, Inc. - CEO

There don't appear to be any indications but I have no better evidence than you do of whether there will be other

consolidations in the industry. We're really just focused on ours and making ours successful and distinguishable from the rest of the industry. Maybe time for one more.

Unidentified Audience Member

Good morning. I'm wondering what steps you have taken, and perhaps Brian can talk about it as well, about simplifying your fleet from a labor perspective? And stopping or at least slowing the constant zigzagging of pilots up through nine different variants to grab a gold ring of a 777 or a 74, which can be seven quite costly?

Richard Anderson - Delta Air Lines, Inc. - CEO

Well in our base case so that you understand where it flows out in the economics, in our base case on synergies we've captured that dissynergy and the numbers that you see from us are net of those costs, number one. Number two, it all ultimately comes down to the pilot cost per block hour and pilot productivity measures and we're among the best in the industry. And our intent working with our pilots is to continue having the highest levels of productivity across the industry. Ultimately our goal will be to simplify the number of fleets across the airline. But it's a target.

There is also an opportunity that comes from having a diverse fleet in a network of the gauge. So when you look at the size of the network that we have, it's pretty important to have and we've got some slides that we'll show you, it's pretty important to have the right-sized airplanes for the market. And if we keep focused on pilot productivity, which we are very focused on in terms of making certain that the pilot cost per block hour and the hard hours per pilot remain industry-leading, we do that and at the same time remember Glen will get a lot of leverage from having the right airplane in the right market.

So when you have a network with this much diversity you really do need -- one of the worst things you can do in the airline industry is schedule the wrong airplane in a market. Fly a 777 domestically, fly a 777 in a short-haul transatlantic market, at least on our network. So the fleet diversification has many more blessings on the revenue side and a big chunk of our revenue synergies comes from putting the right airplane on the right market.

So in summary, the 2 billion in synergies is net of any dissynergies that come as a result of multiple fleet types, number one. Number two, the focus has to be overall productivity, which we're very good at managing. And number three, fleet diversification is a very important part of generating the revenue synergies from the merger. With that, I'd like to welcome Ed Bastian.

PRESENTATION

Ed Bastian - Delta Air Lines, Inc. - President

All right. Thank you, Richard. I appreciate that. And good morning, everybody. I appreciate the strong degree of interest we have in our story here at Delta Air Lines. I'd also like to welcome those that we have on the phone with us this morning as well. Thank you for participating and expressing your interest in the Delta story.

I think Richard did a very nice job of laying out the investment thesis as we like to call it here and the reason why we believe we should be the airline of choice for our investors. What I'd like to do now is take you down to the next level and explain a little more detail how we look at the business, how we're positioning ourselves for long-term success and how we'd like you understand the various platforms over which we're operating.

If you look at our business model from the external side and Dan this responds a little bit to one of the questions you just asked, how should investors look at Delta? And what sets Delta apart? And what are the opportunities that we have for the future? There are really three platforms off of which we're operating. First, we believe we've got the best tools and will make the most effective use of those tools to navigate the current economic crisis.

That means our ability to aggressively manage capacity in terms of restraint, discipline, as well as seeking opportunities for unique growth and leverage in a turbulent marketplace coupled with the leverage that we have because of lower fuel prices as well as the fact that we have the lowest cost operators within the two businesses.

Second, and this is a distinguishing factor, we have merger benefits that others will not have. And we are moving with great discipline and speed towards unlocking the value of those merger benefits -- $2 billion of benefit alone on an annual scale. There's not an airline today that makes $2 billion in a single year. Our merger we believe will create $2 billion of value alone on top of the stand-alone businesses. And third, what I call our value agenda. And that's capitalizing on the opportunities that the world's largest airline creates. And I'm to take you through each one of those three platforms as we go through here.

While 2008 has been a challenging year for all of us driven in our business by the unprecedented rise in the cost of fuel, we expect 2009 to hold its own special challenges for us as we now are clearly in the midst of a global economic downturn. For Delta our demand started to slow in October. We started to see a downtick in bookings as the world seemed to put spending on pause, and it doesn't matter whether you're an airline or any other sector, financial services sector, any other sector of the global economy, spending has slowed down over the course of the fourth quarter, and certainly has impacted our business as well.

Based on what we see now, our expectations are that we're looking at a downward draft with respect to overall industry revenues in 2009 and for planning purposes we're assuming an overall decline in industry revenues on the order of 8% to 12%. That would be unprecedented, absent the 9/11 decline that we saw which was a security and a threat factor towards the safety of flying -- not a financial crisis, but actually a safety crisis.

So an unprecedented level of decline in the amount of airline industry revenue. But obviously it's also related to what we're seeing going on across other economic sectors. And that 8% to 12% decline that we're managing for is instructive and informative with respect to the capacity decisions and the capacity reductions, the 6% to 8% system capacity reductions that we announced last week.

If you look back over history and this goes back to the 1930s, you can see there's only been two years with the exception of 9/11 where the industry has seen any decline in nominal industry revenues and they were slight in the early 80s and in the early 90s, recessions that occurred in both those two years. And they were on the order of 1% to 2% industry revenue decline. The 9/11 event, if you look on a cumulative basis between 2001 and 2002 was on the order of about a 17% decline.

However, as stark as that picture is and the fact that we're anticipating and planning for the most significant decline in the industry's history on a normalized basis, we do believe this crisis will be managed differently, as compared to the past. There's two fundamental reasons why. First we have an unprecedented level of capacity discipline that we are exerting as well as the rest of the industry across the industry landscape.

On a domestic scale we're anticipating 2009 domestic capacity to be down 14% in 2009 as measured against 2007. That's for the industry, for Delta, we anticipate the domestic decline to be 20%. So aggressively managing the part of the business model, the domestic industry environment where you have the greatest opportunity and need for capacity restraint. We also believe that the aircraft that the utilization reductions and the capacity that are coming from will not be popping back up again in the schedule as the economic headwinds start to turn.

Many of these are older shell types, they are uneconomic planes in the current form and would cost a fairly substantial amount of money to bring back into the business model, which if you couple with the fact that the capital market is largely closed to new aircraft financings, new aircraft acquisitions or any other investments in a start-up carrier, we believe the capacity restraint that we've already seen to date will continue going forward.

A big difference if you measure that against what we face with the previous downturns where capacity was climbing at large paces when the bubble hit. Second, we're looking at an unprecedented fall in fuel prices which we're all aware of. This summer as oil started to go well north of $100 towards $150 we started to make moves on capacity then fortuitously because now we're positioned certainly on the domestic scene to manage the economic downturn that we're seeing in bookings.

And if you measure 2009 estimates with respect to crude oil prices as measured against what we paid in 2008, we're looking at an order of magnitude of about $50 a barrel savings in 2009 against 2008. 2008 our average price for crude was $100 per barrel. Today we're forecasting 2009 to be roughly about $50 a barrel based on where the market is currently. That $50 savings on a run rate basis is $5 billion for Delta.

Now we'll not get that for full $5 billion at the start of the year, we still have some underwater hedges that were working through over the first part of the year, but come the spring we expect to see that $5 billion being in the run rate on the business model on a going forward basis. To put that $5 billion in context, that's 17% of our passenger revenues, our consolidated passenger revenues. So we would need to see consolidated passenger revenues to fall more than 17% before you would just break even on this level of fuel price demand. So that again is another reason why we

believe this year will be different.

Richard talked about a current performance of Delta and the reason why we've been outperforming the competition as we have. The solid top line revenue growth with the market share improvement and increasing the degree of revenue premium that we're drawing for the product. The revenue improvements that we're seeing, I can appreciate there being some concern as to the reason why were driving top line.

We're not driving the top line, as Richard said, to fly shiny new metal. In fact, we probably have the least amount of new capacity entering the industry of any of the competition. We're driving this through hard earned new business opportunities, ancillary revenue options as well as improvements in the revenue premiums that we've been driving across the business. And if you couple that with our best in class CASM performance, our costs today, our mainline costs are 10% to 15% better than the competition. That's why you see we have the firm financial footing that we do here.

And we expect to continue to lead the industry in 2009. As I mentioned on industry revenue basis are planned for 2009 calls for industry revenues on a macro scale to be down somewhere in the order of 8% to 12%. We're looking at a current projection of fuel price of $2.19 per gallon.

That fuel price estimate is based on a $50 crude assumption and a $20 crack assumption both of which are largely consistent, at least the crude is, with the 2009 forward curves that you would see out there today. That also -- that number also includes the cost of out of the market hedges that we have that will be working off over the first part of 2009 and also includes the cost of taxes and transportation, so that's an all-in fully burdened fuel price assumption.

On the non-fuel unit cost guidance for 2009 we're anticipating some pressure on the non-fuel costs. There's two factors, one of which as we're pulling down below the level of capacity we're talking about 6% to 8%. It takes us on the order of six to nine months to get the cost out associated with that capacity pull down. So that's adding pressure in the 2009 year.

But the second factor which will be more, I wouldn't call permanent, but will live with us for a longer period of time than capacity is the fact that we'll be facing higher pension cost as the value of our pension trusts have declined as a result of the financial market meltdown. Again, not anything different than any other corporate company you're going to see out there for 2009 guidance but our estimate with the impact of higher pension expense for 2009 is about 3%. So 3% to 5% is our guidance on non-fuel.

We expect by the end of the year to get the full cost of the capacity out but the pension hit will stay with us for some time. Now, that's not a cash hit at the same order of magnitude. The cash will lag on the order of six to 12 months and we're working with various means to see if there's ways by which we can better manage the length of time over which we have to make up that cash funding.

Speaking of cash, our year end target for 2009 of unrestricted liquidity is $7.5 billion. And as I mentioned previously we're looking at an overall capacity reduction in 2009 of 6% to 8%, 8% to 10% coming out of the domestic system and international is down 3% to 5%. Now, if you look at this guidance in aggregate and ask the question well, what does this mean to earnings?

We don't think we're in a position to give earnings guidance for 2009. There's too many moving piece parts quite honestly on the demand front as well as on the economic and the fuel front to give you specific earnings guidance. But suffice it to say that we expect it to be solidly profitable in 2009 and as we get into the year we can provide you some better expectations of what we mean by solidly profitable.

However on the last point, I do want to mention is that you would need to look at the revenue hit in the industry of greater than 20% to offset the benefits we expect to see on the fuel price, the benefits we expect to see from the capacity reduction, the 6% to 8% in the system and the benefits we expect to see in the current year from the merger. So north of a 20% revenue decline, which even is unprecedented by 9/11 standards in order to offset the value that we see being created in the coming year.

Now that we're inside Northwest, as Richard mentioned, we have an even heightened degree of confidence and conviction around both the value of the synergies as well as the timing of the synergies. And in fact in 2009, as we've mentioned previously our commitment of $500 million of synergies, we have effectively hit those through the American Express card deal that we announced this morning coupled with the fact that we've also aligned the fee programs across the two carriers in other fee categories.

I mentioned last week that our estimate in the line fee categories is about $200 million a year. So those two actions alone, the AMEX deal plus the value of fee alignment is about $700 million in synergy revenue for the new company in 2009 over 2008. But we're not stopping there, obviously. And we're looking for new ways by which to drive improved synergies into the business model.

The steps we're taking are focused on mitigating risk. For example, we talked about us getting to a single operating certificate and while we're pleased with the performance of our pilots in terms of arriving at a single seniority list, we want to be able to implement that list in the form of a combined integrated schedule.

We need to get to a single operating certificate before we can actually start to execute the game plan and the network strategy using that list. To that end, we already have the FAA's approval with respect to our plans to implement a single operating certificate. Steve Gorman will be talking in more detail on our progress towards getting to an SOC. But our target is to have the SOC in place, up and running by the end of 2009.

Similarly on technology, another major risk factor for airline mergers that historically have somewhat proven to be a surprise in various categories. We are feeling very good about our decisions on technology platforms. We've been able to couple the strength of the Delta operating systems together with what I call the commercial savvy of some of the Northwest technology systems to truly put in place a best in class technology suite that Theresa Wise is managing.

Theresa was the former CIO of Northwest, she is the new CIO for the combined Delta. We're going to be spending almost $200 million on technology. We're going to do it right. We're not going to disappoint our customers and we're not going to disappoint you.

And finally on network actions that are being taken, Glen will walk through those following my piece here. But network is another area that we're going to proceed while we're moving with speed we're also going to be proceeding with some caution because we realize that that's an area of some danger, if you start to move the network ahead of your capabilities on both technology and operating systems.

So we're cautiously managing the network strategy. If there's been one part of the overall merger that's probably going to move a little bit slower than our original expectations is the degree to which we can start to free flow the aircraft. But that's a temporary move. By 2010 we expect to have the ability to free flow fleet across both systems in a very aggressive manner.

I touched on most of this just during my comments here, but 2009 for us will be a transition year. Getting to that single operating certificate, getting the technology worked on and resolving labor issues will be the three key milestones that we're going to measure 2009 performance off of.

I do want to talk for a moment here, though, on this slide about the employee participation because when you ask us what's different about this merger, we can also say that the level of employee support and participation on the front end of the process truly is unprecedented. And the employees have been rewarded and compensated as such by you, the shareholders. You've provided our pilots with equity in the merger. You've provided our non-pilots with equity in the merger.

And I can't tell you how meaningful that is for the employees to have received the acknowledgment from our shareholders as to the importance and the alignment that we have together in terms of going out and focusing the fight on the competition and improving the overall profitability and the value of the model as compared to some of the past labor strategies that we've seen that have been failed across this industry.

To that end, there's one just one small amendment that I would like to make to what Richard said earlier here about capital raising. We have no plans in place to raise capital, and you'll see why in a minute when we talk about the American Express deal, but there is a very small piece of capital you will see us float because when we issued our shares to our non-pilots, we withheld about 1% of that 4% share account to pay for withholding taxes for our employees.

We're going to sell that 1% share in the marketplace, it's already in the diluted share count in your models. It's not new equity, but you will see it and I don't want there to be any surprise. It will be a capital raise of a little over $100 million. But we'll be announcing that in the coming days as we get that equity in place. But that's a simple offset to what's already been announced. So that's already within the 4% that the shareholder base has approved.

On the cost of integration, we've also sharpened our pencils further and we have more details in terms of how the integration will flow. And the good news on that is the more we've seen the needs and prioritized the targets and the tasks we've been able to bring the spend level down. So previously we had told you that we were expecting the cost of integration to be about $600 million in cash. Our current estimate is down to $500 million in cash. So there's $100 million savings that we are anticipating as we integrate our two airlines.

The key areas across which we'll be integrating will be technology, as I mentioned, close to $200 million to get a support platform that will be world class within the industry. Investments in employees in terms of training, new uniforms, getting employees relocated, separation packages, where necessary, and we'll keep that as minimal as possible. Investments in product, we'll be standardizing our fleet across the two airlines such that by the end of 2010, which is our goal, is to have the entire Northwest product and the Delta product in the new Delta livery, the current Delta livery standards, both outside the aircraft as well as inside the aircraft.

And finally on a facility front, we'll also have by the 2010 date, the end of 2010, all facilities in the new Delta livery model, so that by the course of 2010 you will see a gradual transformation to a total Delta look and feel from a customer standpoint. We're going to be doing this gradually, we're going to be mindful of the cash and not getting the cash ahead of the synergy values, but we will be moving slowly over the course of the next year and half to the point where you will see Delta in the marketplace on an exclusive basis.

So now we've discussed the tactical tools by which we're managing the current economic crisis. We've also talked about how the merger sets us apart and the value that the merger creates for us, the $2 billion of merger benefits that we individually have. The third piece that we haven't spent as much time talking to and we'll be spending more time as we go forward talking about is really the value components, the strategic value that this merger creates that we could not begin to accomplish as a stand-alone entity, both Delta or Northwest, and why we believe, to Dan's earlier question, we are going to be airline of choice for the investors.

And they fall across various realms. First, we're going to leverage the fact that we have an expanded scope and breadth across the industry. The co-brand announcement that we made today with American Express signifies that. I'll talk about that on the next slide.

But we not only have the leading Affinity card program and provider now with a world-class marketing organization such as American Express -- we also have the opportunity to create the greatest value in our SkyMiles currency of any airline model on the planet. We will be able to enhance the potential of our third-party businesses, our Commercial Aviation Services Group, as we've started to label them.

Close to $5 billion in third-party revenues will be in place for 2009. Tony Charaf will talk about what he is doing on the MRO and Jeff Robertson will follow him talking about the value creation that we see through the frequent flyer currency.

But we're also going to be driving other efficiencies through the supply chain model. When you're the largest airline in the world, you can't be ignored. People need to come see you rather than you go see them and find them. And if there's one space that in this environment I think the economic model still has not been rationalized and still needs some work to do it's in the regional jet industry.

And now that Delta is the operator of 40% of the regional jets across the industry landscape, that gives us a power and ability to drive the economics such that there's a greater balance in the risk and reward profile for the regionals versus the mainline carriers. Next, as we look to unlock the unique value that the merger creates, we're going to be taking advantage of the scale this new airline has. Richard mentioned the JV that we have with Air France/KLM, an $8 billion to $10 billion entity controlling 30% of the lift across the Transatlantic.

And candidly, we haven't scratched the surface of what that really means to the new Delta. We have a great operating model and the success of the Northwest KLM joint venture, but Delta has been somewhat behind Northwest with respect to our learnings in terms of how to operate an effective JV structure. That's going to be value that this new merger creates.

Secondly, we're also going to be able to better align our fleet needs. You're not going to see Delta out there with a large new aircraft order. We don't need to order new aircraft in order to get the scale and the breadth of the network model. We have it already in our grasp here.

And when you think about needing the tools and having the tools to manage an economic downturn, the new Delta can flex its muscle, both internally in terms of trying to capture and retain as much revenue as possible in a downturn economic climate while providing that at the lowest cost possible, as well as having the footprint out there to be able to expand when the economy does start to turn, to take advantage of that presence and that scale across the globe.

And finally in combining the best of both companies, Richard talked a lot about that, the people aspect of it, the best practices, that fact that you can now take the best revenue management technology in the industry and apply that against a $30 billion revenue base. The operational performance of the two carriers are already up there. And learning from the two teams together, building the best management team across the industry together is going to be unprecedented in terms of its strength.

Now hopefully you've seen our announcement. We've previewed it enough over the course of the last number of weeks that we anticipated being able to make an announcement today. And we're pleased to make that announcement with American Express and I'd like to welcome a couple of our team members from American Express here. Pam and Ralph, thank you for participating and joining us, we appreciate your support and your partnership and look forward to the next seven years.

But the American Express is a world-class arrangement in its current form. Delta, previous to this extension of the arrangement, has an exclusive arrangement with American Express that runs through 2010. What we announced today is a five-year extension of that arrangement, which will take us through 2015 that will have a value to it of over $15 billion over the course of the next seven years. From 2009 to 2015 our estimate of value in the arrangement is over $15 billion and that's cash revenue for Delta.

$2 billion of that revenue and that cash will be moved to the next two years such that, over the course of the 2009 and 2010 we're going to improve our cash flows, our liquidity picture, by $2 billion. And in fact, $1 billion of that $2 billion, in fact $1.05 billion of that $2 billion, is being received today in the form of a prepurchase of miles from American Express, which will not be amortized until the 2011 and 2012 time frame, so the full use of that value for the next two years, of the $1 billion. There's a $50 million first-year signing bonus as well that we've also received today.

And then incrementally to that, there's going to be $500 million of contract enhancements in each year subsequent which will grow over time. And our estimate for 2009 and 2010 each is it's $500 million a year so that in 2009, based on the liquidity forecast you have from Delta, you can increase that forecast by $1.5 billion, $1 billion from the prepayment we received today and $0.5 billion from the contract enhancements that we'll be receiving over the course of 2009, with an incremental $0.5 billion in 2010 above today's run rates.

In addition to the financial incentives, however, we're also pleased to be able to take advantage of the unique marketing relationship and partnership that we have with American Express, a true world-class marketing partner in the loyalty program. And we've been able to now pair the world's leading airline loyalty program with the world's leading marketer in the credit card space to come up with what we think will be a very special and, again, a defining attribute of the new Delta.

I'd also to make mention of US Bank. US Bank is the current cardholder, card processor and Affinity card provider for Northwest. That arrangement will end over the course of 2009, in the back end of 2009, although we have a very strong relationship and will have a continuing strong relationship with US Bank. They will be our debit card provider as well as a relationship bank that we look to many years of good service with up in Minneapolis.

So in conclusion, we believe that we are positioned for long-term success. And candidly, the list is quite long in terms of the various attributes, in terms of how we define success. We believe we have the tools in place to manage the current economic crisis that we're all navigating as an industry.

However, on top of that, when you add the merger benefits that are on track and in place, ready to be delivered in 2009, coupled with the unprecedented scale and structural damage that the world's largest creates, as evidenced by today's Amex announcement, we feel it's going to be a very, very powerful combination. So with that I'm going to close and I will take a couple of minutes of questions before I turn it over to Glen to talk about our network. Yes, Bill?

QUESTION AND ANSWER

Unidentified Audience Member

You've got a lot on your plate in terms of this integration and, as you talked about the industry revenue outlook of 8% to 12% down and you have 6 to 8% capacity cut, how is it that you couldn't cut more to match those two? Because it seems unlikely, given how much you've got to accomplish, that you'll also be able to outperform the industry on revenue.

So I would think it would position you better to achieve the return targets we talked about if you were cutting more in line with where the industry will go. Can you just comment, are you not able to cut more?

Ed Bastian - Delta Air Lines, Inc. - President

We have no restrictions on our ability to cut. However, this is what sets us apart from the competition is the value of the merger. Because we have no-brainer opportunities as you couple the strength of the Delta network to the strength of the Northwest network to drive opportunities to grow, even in a downward economic climate, such as connecting Atlanta to Narita and the wonderful assets that Northwest possesses across the Pacific.

So the 6% to 8% that I mentioned is the net. But there's 3% to 4% of growth opportunities and Glen will get a little bit into this in terms of his presentation that we're going to seek to grow -- that drives value out of the merger. But the core business is being trimmed considerably more than that 6% to 8% and that's why we think we're going to continue to growth the RASM premium to the industry. Yes, Gary?

Unidentified Audience Member

While we're on the 8% to 12%, could you just elaborate a little bit on how you're thinking about that, how you came up with 8% to 12%? You know it's not quite what we saw around 9/11, it's nothing what we've seen in prior recessions, is it extrapolation of what we've seen?

And then secondly, I wonder if -- you know in the past in presentations like this you've sort of tied some of these revenue forecasts to fuel with an assumption that you would incrementally recover certain portions. Is that the case here and how should we think about that?

Ed Bastian - Delta Air Lines, Inc. - President

Well it's pretty tough with what's happened in the fuel market for the last several months to tie any relationship to fuel and revenue, other than they're tending to move in the same direction. And I get a question a lot as to how aggressively are we managing and hedging fuel at today's lower level.

And we are in the market placing some additional fuel hedges, but to the degree to which revenues were to continue to be soft in this environment, we think that's going to put downward pressure on fuel. And we don't want to go too long

a fuel hedge until we get a better sense for where revenue and demand is going to balance out into next year.

Our estimate of 8% to 12% is a function of nothing other than the signals that we're seeing out in the marketplace, discussing with our corporate clients, seeing what the demand picture across not just our industry but industries on a global scale. It's a function somewhat of knowing that there's going to be reduced capacity out there in terms of available seats to fly.

And we've taken several different data points and these are to percentage a target. And we feel that 10% is, at this point in time, as good an estimate out there as we've got to make certain that we're trying to be more aggressive than anything we've seen in managing that revenue downturn.

Now the value of being the world's largest airline is you have the flex, the flex up or flex down, depending as to how the economic environment proceeds. We're watching this on a daily basis, this is not something that we put in the can and then we run the play automatically. We're going to watch and meter capacity as we see the demand trends.

But at this point in time we do think this is the most difficult revenue environment any of us in our collective experience has seen. And that's why we want to be conservative.

Unidentified Audience Member

Is the 8-12% excluding fees? Or is that total revenue to the industry?

Ed Bastian - Delta Air Lines, Inc. - President

That's passenger revenue. Obviously fees and other things are moving in a different direction, just given that they've been implemented, we've decoupled a little bit the price of a ticket from the fee that drives that revenue source.

Unidentified Audience Member

Do you have any ballpark of an estimate on how much offset we might get from the stream?

Ed Bastian - Delta Air Lines, Inc. - President

Well Hank will get into this, we're looking at total other revenue sources of over $5 billion in 2009. And we'll rate for you the sources of that. Yes, here?

Unidentified Audience Member

I just have a couple questions on your regional strategy. You mentioned that Delta, now being one of the largest participants in the regional market, you would look to potentially consolidate some of those. So first of all, which regions and planes do you think that you would like to focus on?

And then specifically, how do the Northwest new 170s and the DC-9s fit into that strategy or not? Have you guys looked at what you're going to focus on as far as what you're going to keep and what you're going to ditch?

Ed Bastian - Delta Air Lines, Inc. - President

We have been rationalizing our regional jet portfolio at Delta over the course of the last couple years. In fact I think we have in order of about 150 less regional jets flying at Delta today than we had a couple of years ago. Where the focus has been on the rationalization effort are on contract providers that are not meeting their performance specs.

So customer performance is the number attribute. If you're going to be a Delta regional supplier you're going to hit a mainline level of customer satisfaction in the product that you're offering. Secondly, we're looking at opportunities to manage utilization down. And obviously in the environment where reduced demand, there's reduced need for utilization. So we're looking at utilization opportunities within the existing contracts.

Third, we now have, between Northwest and Delta, three wholly owned carriers, [Nusaba], Compass and Comair that we can manage together, as well as a balanced portfolio of contract providers so that we can move to the degree necessary that we have an uncompetitive supply range that we can move lift between the various carriers, not that their strategy is to play one against the other, but we've got to make certain that we're providing the most cost effective list out there.

And long term, as we look for growth opportunities, we don't see a need to place a regional jet order any time soon. But long term, as we look at that, we're going to look for new providers to service the Delta to take on the risks, and not just the rewards of being a Delta supplier. Yes?

Unidentified Audience Member

Just a follow up on Gary's question about the 8 to 12 revenue, can you comment at all on what you think in components of that would be the business travel versus leisure travel? Are you expecting them to diverge in any way? Or are they pretty similar?

Ed Bastian - Delta Air Lines, Inc. - President

No I think business travel is going to be down at a higher degree and I think part of that will be compensated by a reduced but still fairly significant drop off of value leisure travelers. You know there's so many demand and niche issues going forward that 2009 is a very difficult year to forecast.

Earlier this year when oil prices were going for the roof the media did a very good job of educating the American public as to how expensive it was going to be to travel on a going-forward basis. And I think that influenced some decisions that people were making.

On a go-forward basis obviously with demand falling, people are having to reevaluate that value proposition. So I'd expect to see the front-end cabin to experience the most degree of pressure and clearly that being the international side of the business.

But we are still operating at some fairly heavy loads. I mean in November our year-over-year load factors were up for Delta, which outperform most of the industry on a load factor basis. So people are still traveling. Okay one last one. Yes, Bill?

Unidentified Audience Member

You mentioned that you had no plans in place to raise any capital any time soon. And combined with your liquidity certainly we can see that for '09, but in the year 2010 and 2011 you've got some very sizeable maturities.

Now I know the American Express agreement obviously is going to help out, but at that point do you have to raise capital? Or is this going to be something where you feel like you're going to have sufficient liquidity to just go ahead and pay those maturities in cash?

Ed Bastian - Delta Air Lines, Inc. - President

We do believe we're going to have sufficient cash in place to either refinance or pay down those debt maturities as they come due. Hank's going to be performing a three-year outlook in his presentation of our cash flows.

But when you look at the reduced level of capital that we expect the new entity to need on a going-forward basis, coupled with the strength of our operating cash flows, we will be free cash flow positive to a fairly significant extent over the course of the next three years, more than sufficient to fully handle any maturities as they come due in the ordinary course.

Unidentified Audience Member

Just a follow up to that would be kind of some goals. You mentioned a lot of goals here on your slides, maybe where you'd like to be as far as leverage goes. Obviously you'd like to be lower, but what's realistic for the next several years?

Ed Bastian - Delta Air Lines, Inc. - President

In Hank's presentation we've got a slide. Our expectation is we're going to reduce our net debt load by 50% over the next three years.

Thank you everybody. Glen Hauenstein, I'll turn it over to you.

PRESENTATION

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

Thanks, Ed. Welcome everybody and thanks so much for coming. I have the opportunity to talk a little bit about the great network opportunities that the merger of these two companies present. And one of the questions recently, from Bill I believe, was do you expect to outperform the industry in 2009.

And I would like to start out by saying I would be incredibly disappointed if we did not outperform the industry. Because if you look out on the landscape of who could do what to their network and who has new opportunities in their tool chest that they didn't have just a year ago.

I think you'd all have to agree that nobody has more tools in their war chest to increase their relative performance versus the industry than a combined Delta/Northwest does today. And if you look at our history here, you'll see that over the past few years Delta has certainly outperformed the industry and has the most revenue momentum going into this year.

And I think, back to what Richard said earlier in his comments, which is really at the crux of why you would want to merge these two companies, certainly you take the lowest-hanging fruit in the early years when you start with a new management team in restructuring an airline. It gets more and more difficult as you move through the process in that you've taken the low-hanging fruit off the tree.

And the merger now presents a huge opportunity for the combined company to have a lot more low-hanging fruit for us to go out and harvest over the next couple of years. And so I'd like to talk a little bit about the piecing items in harvesting that fruit, when we can get to which ones occur naturally and which ones we have to go actually out and pick.

And if you think about what happened here, you took a carrier which is the operated Northwest side of the equation which had an incredible Asian franchise but had a very de minimis domestic product offering. And you're bolting that on to now the largest legacy domestic carrier with an incredible Transatlantic franchise.

So what does that provide to shareholders? What are the network benefits that are going to accrue to shareholders over the next couple of years. I think what immediately happens naturally is that in places in the east coast, without touching anything like Boston and Washington and all the way up and down through Raleigh, the new Delta with the old Northwest Asian franchise becomes much more relevant and we have a much better shot at attracting a better mix of traffic day one in bolting on the presence and the frequent flyer program of Delta on the east coast. That comes automatically.

What happens to Delta's network automatically from adding Northwest and the domestic presence in the upper Midwest and the north-central region is that that strengthens our historical strength position in the Transatlantic. And we really don't have to do anything for that to occur, that just occurs naturally.

So what do we have to do to that network to improve the value proposition moving forward is we need to restructure it. And that's the exciting part for me because that's my job. And what we have here is just an illustration of what the tools are in our war chest.

We now have diversified the Delta portfolio from essentially an 80% domestic carrier to almost a 50/50 split domestic and internationally. And then when you look across the international regions you'll see that there is no more diverse portfolio than the new Delta portfolio.

And the relevance here is really in the "I don't have to do anything" category. But Northwest, on a stand-alone basis, was very susceptible to problems that happened in Asia, whether or not it was an Asian economic meltdown, whether or not it was SARS. Likewise, Delta was very sensitive to issues in the TransAtlantic marketplace.

And now you've created a portfolio that really can move the assets around where the money is flowing. And right now it's a recessionary environment you'll see in the next slide that we're contracting across-the-board. But as we continue to expand, we will be able to expand in those regions that are generating the most profits for us. And that's everywhere, really, in the world.

And we have no single dependence on any individual marketplace. So unlike some of our competitors that are heavily vested in markets like Heathrow, which we know has taken a devastating reduction in revenues because of the financial crisis, we have a more diverse portfolio than any other carrier.

So our plan for network discipline next year, and this is really the first year that Delta over the last five years will have contracted internationally, we had double-digit run ups in capacity for the last four years in a row compounding on each other, so quite a dramatic international growth strategy over the last four years to achieve that diversified portfolio.

But this year we are actually going to restrain capacity across every international entity. But within those entities we are growing some of them. For example, we are going to grow in Africa, Africa has been an incredible success story for us. We're the only US carrier operating in Africa.

We will also be continuing to grow in the Middle East. We serve more cities in the Middle East and are the largest carrier from the US to the Middle East. And those markets continue to outperform, despite the fact that oil is $43. They seem to have a lot of residual in the Middle East and attractions that people want to go see, like Dubai.

But we are redeploying the bottom 10% of assets. So if you look across the network we'll be growing. And this is what I call the year of scope not depth. So if we had 2,500 seats a day into the London market, this year we'll only have 2,000. If we had 800 seats a day into Istanbul we'll have 500. If we had 5,000 seats a day into Italy we'll have 4,000 seats a day.

And so we're taking down the incremental seats across the network and then we're redeploying the assets to more scope. So you'll actually see that we've announced some new cities and we have one or two more to go. But we're taking the same asset base, we're grounding several airplanes internationally and then we're taking the remaining assets and we're distributing them out to give us less density and more scope across the network.

And we think that's the strategy we should employ as we go through an economic contraction because the first dollar of revenue in a new market is much more valuable than the last dollar of revenue in an existing market is the theory behind that. And so across every international entity we will shrink, which is the first time, as I said, in the last five years.

A lot of people have asked us why would you operate seven hubs. And I think I want to focus not on operating but what the up side is in the short run for operating seven hubs. If you think about it, as Delta and Northwest last year were operated as independent carriers, Detroit competed head on with Cincinnati, Memphis competed head on with Atlanta. Those are two examples of hubs that were scheduled for the convenience of the operating carriers.

And now that we're putting them together, the upside I believe is incredible here because, if you take what we've done in Cincinnati starting in January, so these are things that we are taking real time right up front and moving on them. Cincinnati had timings that were exactly identical to those in Detroit and served almost all of the same cities that Detroit served.

So now we have retimed the Cincinnati structure, we've reoriented it to give it unique flows and we've changed the timing of the Cincinnati banks to complement Detroit as opposed to compete with them. So instead of having two 5.00 p.m.s going from Buffalo west, now we have a 3.00 p.m. and a 4.00 p.m.

And that happens throughout the day, so instead of to 6.00 a.m. Buffalo west, we have a 6.00 a.m., a 7.00 a.m., an 8.00 a.m. an 9.00 a.m. And we have time of day coverage and we've taken these hubs that have historically competed

in the exact same time channels, we've created separation and uniqueness and concentrated the flows around the geographic pole of each one of the hubs.

This to me is by far where we can outperform the industry hands down in the domestic arena over the next year as we reorient not only the timings of each one of these hubs but the cities that they serve. So for example, you saw us just a couple of weeks ago announce Memphis into some secondary Texas cities.

As we looked out into the marketplace we saw that Memphis east was totally redundant with Atlanta so the people on the third flight from Memphis to Charleston, for example, were competing for the exact same flows that Charleston-Atlanta was competing for. So we have redeployed those airplanes out and created uniqueness.

So if you look and say, okay into McAllen, Texas for example, we had no outlet. We're the world's largest airline, we're the largest domestic airline, yet we didn't serve some relatively large domestic markets. So we take the airplanes that are redundant out, reorient them and create new and unique flows into the market.

So I think those are the big upsides. We're going to do that over and over and over again and take the exact same asset base, actually many fewer airplanes that will fly, and create much more utility for our customers by taking these hubs that on paper look redundant but using them to enhance each other as opposed to compete with each other.

A little bit more detail on the Transatlantic joint venture, and I think just to get into a little bit of history on this, as most of you in this room know, Northwest and KLM have a very tight and historic joint venture that has produced incredible returns for both carriers.

We at Delta prior to the merger had had joint venture envy if you will, so we structured a joint venture with Air France that looked very similar, not identical but very similar, to the joint venture that Northwest had with KLM. Now we have a situation where Air France has acquired KLM and Delta has merged with Northwest.

So we really have two two-way alliances that over the next three to four months we need to combine into one two-way alliance. And this is one of our very highest priorities in the alliance department is to get this structured so we can start unlocking the value that we believe is embedded in this joint venture with Anti-Trust Immunity.

And if you think about what are the cornerstones of value here, we think that the cornerstones of value are we operate four of the top seven hubs in the Transatlantic. We have a 30% market share and we have the largest frequent flyer program in the US to now we're the largest frequent flyer program in Europe.

And so if you think of the power of that as we move forward and now having Anti-Trust Immunity being able to coordinate pricing, scheduling, putting the right airplanes in the right markets and leveraging each other's hubs for the right traffic flows, we believe that there are hundreds of millions of dollars as we move through this year and into next year and we really bring this into maturity.

And I think one of the advantages we have here, you've heard a lot of other carriers talk about their joint venture that they're planning on starting or the ATI applications that are pending at the Department of Transportation. And I think the thing is here, we are years ahead of them in terms of having ATI already, in terms of having a joint venture that already works and having the model that works.

And we also have four of the top seven hubs and the biggest frequent flyer program on either side of the Atlantic and that can't be replicated. So it's not only a structural advantage but it's really a timing advantage. And we will be working very hard over the next three months to make sure that equates to shareholder value.

Northwest hub in Narita gives us immediate opportunities here. And if you think about the Achilles' heel of Northwest, back to the historical problems they had, they operated well below the average in Transatlantic revenues, I believe. If you look at their unit revenue performance in the Pacific, I believe it was the bottom in the aviation industry.

That is a symptom of a lot of problems and one of the problems was their airplanes were too big, the 747-400s flying from points of weakness, so Los Angeles, which historically had not been a point of strength for Northwest with the 747-400. The combined fleet allows us to accomplish several things.

One is an immediate down gauge so we can take our two daily flights from Atlanta to Honolulu, for example, and we can combine that on to one 747-400, which we offer essentially the same level of seats at a much lower cost. And then we can take the planes that we're flying on those markets and cascade them down to right size the Transpacific for Northwest.

So when you talk about the tools that you have in your chest and whether or not you can outperform the industry over the next 12 to 14 months, I think who has these? What other carrier has these options coming into play at this point in time?

And I think the answer is clearly nobody. If you're American or if you're United or if you're Continental, you've kind of already optimized your network. You don't have a step function variable here that you can get over the next 12 to 14 months. And that I think is what's so exciting about the revenue side and the network side of Delta's story.

So not only will we right size the Transpacific, but we will also add in some other points. Of course we're the largest operator in Kennedy with over 210 daily departures combined. And interestingly enough, several years ago Northwest left Kennedy.

If you talk to the people at Northwest, the reason they left Kennedy is two reasons. One is because of the rotations of the Narita hub. You had to park an airplane for 23 hours, that's a scheduling issue. But it essentially took an extra airplane, it took airplanes to fly that because they had no beyond points, they couldn't go anywhere from JFK. And it was beyond the scope of Detroit, which is where the banks were based.

The second issue was, the only thing they could fly was a 747-400 and they had no connections beyond JFK. So if you think about starting in April when we connect Kennedy to the Narita hub, not only will we connect it with one airplane that we can use now to flow beyond Narita, we will now have 210 flight connections on the New York side and we'll have all of Asia connections on the Narita side.

So starting April 1 we will go from being a non-presence, although we're the largest carrier in New York, we'll go from having a non-presence in New York to Asia to being the preeminent player in New York to Asia, connecting 86% of the Asia-New York traffic with either a non-stop or single-connect service out of New York. And I think those are the kinds of things that are embedded in the power of this combined airline.

We'll also add Salt Lake City. That will not be a daily service, that will be serviced five times a week. And we are able to do that with an A330-200. And we will also be rebanking and adding some Atlanta services. We will go from 7x Atlanta/Narita to 11x Atlanta/Narita, they will be connecting to the Narita bank.

Right now the existing flights do not connect to the Narita bank so there's no way to get on Delta from the Southeast through Atlanta to the beyond points of Narita. So that would be another big plus, we think, in the network as we move forward.

The last part of the Narita restructuring is really a reliance on inter-port travel. Inter-port is really those points beyond, and I'll go back to that slide just for a graphical presentation, the points to the west of Narita.

So if you look today at what Northwest flies, they are more reliant on generating traffic in Tokyo to get to fill their beyond seats when they are on the Transpacific flight. So they have more flights going west than have seats coming in at the east.

And that makes it very difficult to fill because Narita, of course, is not a point of strength for Northwest point of sale. They are not the flag carrier of Japan, we are not the flag carrier of Japan, Delta's not. So filling those seats, we're tending to fill them at the bottom of the spectrum of distribution.

And so now we have rebalanced and reoriented so that it is much more point of sale US We'll be adding some points west like Ho Chi Minh City and some other points in to fill it out but actually rebalancing the hub to be more point of sale US origin oriented, which we think is our point of strength now.

If you think about going back to this slide, a little known fact is now Seattle, Portland, San Francisco and Los Angeles, which are the four primary gateway cities on the west coast, if you combine the new Delta and Alaska, we are the largest carrier in three out of four of those cities.

We would be the largest carrier in Los Angeles, the largest carrier in Portland and the largest carrier in Seattle. And so we're taking from a point of weakness, flying from the west coast, downsizing the airplanes and adding scope. And I

think that's a kind of shame on us if we can't outperform the industry RASM as we move forward with all these tools in our chest.

I want to mention a little bit about New York City. I talked about Asia and I think that's a very exciting piece of our New York City. But if you think about what we've been doing over the last four years, Delta has kind of had half foot in and half foot out historically, since the acquisition of PanAm in I believe 1991. Not really a commitment of all in with our chips in New York City and not really able to decide if they wanted to get out.

And we have, over the last four years now, we're four years into this project, that we are all-in in Kennedy. And we have systematically been eliminating those reasons why you would not want to fly Delta. And I think if you look at the in-flight service data, you'll see that Delta always exceed its competitors in in-flight service.

And I think the issue we have moving forward is, to be honest, is the terminal which we haven't talked about. But we are working hard with the port authority and the governments to find a good solution for that. Next year we will be operating in terminal four, we'll be operating all of our flights to Los Angeles, all of our flights to Middle East, all our flights to Africa will depart from Terminal Four, as well as Prague because our partner CSA Czech is there.

And we are committed to finding a long-term solution for Kennedy. Potentially it would be a lot of public works projects on the docket for the next four years, maybe we can get some help from our government on that. But an increased network with unique destinations in Europe and Africa. Nobody flies more unique places than we do out of New York.

And one of the historical problems we have had is we've not had a good product to London and not had a product to London first. So the first thing was to acquire the Heathrow slots and the second thing would be to have the premier products. So next year we will have two evening flights, all with lie-flat seats.

Again, that's an upside for us because right now we have one morning and one evening. We were able to obtain slots to find two evenings. The evenings are the preferred time channel and they have the much higher unit revenues than the morning time channel does. So we think with the lie-flat product and the evening schedules we will be able to make even more inroads to London Heathrow.

And improve our performance, I wouldn't say performance, I would say our schedule reliability, our dependability into Los Angeles and San Francisco. Right now we only have 3.5 San Francisco. So we will have all the major time of day coverage in all the major markets out of New York. And I think if you look at our portfolio of offerings you'll see it really is pretty incomparable versus JetBlue, which is more focused on the leisure Caribbean, Florida markets and American, which really only has 93 departures a day in Kennedy.

Richard and Ed both alluded to this, but our fleet is amongst the most flexible in the industry moving forward. And to give you a sense of the timelines on all this, we are not able to accomplish the most valuable fleet changes in the next year, because we do not have a single res platform or a single operating certificate.

And we did not want to put the customers at risk because having the systems talk to each other, and a lot of this would have been a manual process and there was a good chance that passengers or, even worse, planes could get lost in the system during irregular operations and the crews wouldn't follow the airplanes.

So this is that kind of US Air blowup they had with their res system after the integration. We have systematically gone through and made sure that we are not going to have those kinds of blowups. And so we've deferred the ability to have cross fleeting across the entire system over the next nine to ten months.

But by the end of the fourth quarter of 2009 we're committed to having that in place where we can essentially flow the fleets between the carriers without regard to metal neutrality or to which carrier is operating them. And if you look at this, we have an incredible number of gauging opportunities. And there is a cost to operating a complex fleet. But, as Richard said, there is also a huge revenue benefit.

And no carrier has more flexibility in its fleet in terms of gauge than the new Delta. And both carriers, Northwest and Delta, had shortcomings in certain aspects of their fleet. So for example, Northwest, despite it's small domestic footprint and small domestic gauge, had incredibly big international airplanes.

Everyone of Northwest airplanes, with one exception for the international rating was bigger than Delta's biggest airplane. And so you had a small domestic airline with these very big international airplanes and you had Delta with a very small gauge international fleet and a very large gauge domestic fleet.

And as we move through this process of integration, we're going to be able to unlock more and more of this value moving forward as we find what sticks and what works and what doesn't. And this again is very unique to the combined delta. Nobody else is getting all this flexibility in their network next year, they're theoretically all

optimizing their existing networks today.

Lastly, nobody likes a recession, it's not fun to work through. I know for most of you in the financial community, this is not a fun time for the financial community either and it's really not -- air lines like to grow, airlines like to fly new markets. But I think this is a very interesting time because airlines have exerted an incredible amount of capacity discipline and moving forward we're hopeful that they will all continue. We certainly will do our part.

But our fleet has an incredible amount of flexibility in both utilization and our ability to ground airplanes. So we have the very lowest capital costs than any of the major carriers. We have a very flexible fleet with an incredible amount of gauge.

And I have this saying in the network, yesterday's trash is today's treasure. And that relates to the fact that we are changing or evolving to whatever the current economic conditions are. And if you think about what the current economic condition was just six months ago, we had fuel at $140 a barrel and we had demand that was relatively solid.

And now six months later the whole world has flipped upside down and we have fuel in the 40s and we have a very weak demand set out there. And so different planes work well in different scenarios. And if you think about it, the DC-9s, this is a typical example of yesterday's trash is today's treasure, the DC-9s with $140 fuel were not very good economic airplanes because on a per-seat basis they tend to burn a lot of fuel.

Now you fast forward and you say, oh, that is now a treasure for me because fuel's $40 a barrel, I have no ownership costs, I can flex the utilization up and down and it's 100-seat airplane. In a declining demand environment I want to cascade down demand to fill up the airplane and not have to scrape the bottom of the barrel for seats on the yield curve.

And so this fleet provides an incredible amount of stability and flexibility moving forward to really weather any economic storm because, depending on what happens over the next six to nine months will depend on which one of these we tend to favor in utilization or in groundings. So at the end of the day, the punch line of all this is nobody else has more tools in their network for continued revenue improvement and continued revenue momentum.

And we fully believe that, with those tools that are available to us, that we will execute on them and we will continue the revenue momentum we've experienced over the last four years. And we will achieve 105% of industry average revenues that were a two- to three-point gain, depending on where we close out 2008 or 2009 relative to the industry.

And then beyond that, as we continue to get to be able to unleash the power of the fleet flexibility with single-operating certificate and single-res platform, that we will be able to achieve our goal of having 110% industry RASM in 2010 and beyond. So with that I believe I've ended my presentation and if there are any questions, I think we're running just a few minutes behind. Bob?

QUESTION AND ANSWER

Unidentified Audience Member

You talked about putting 747s into Sao Paulo and into Rome and whatever. What's the timing of that? And did you say by April you'd have RITA largely restructured around? Or how long does it take to get those restructurings done?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

It phases in between April and June.

Unidentified Audience Member

And the changes Cincinnati versus Detroit, is that --?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

Cincinnati happens in January. So this is all happening in the first half of the year.

Unidentified Audience Member

Thanks.

Unidentified Audience Member

Hi. What evidence is there that broader, more diverse and larger airlines earn a higher return on invested capital or any other financial metric? I just don't see it from the history of the industry.

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

Well and I think that's why I was talking about specifics because I don't necessarily think that size in itself makes that -- you can make that leap of faith from size. But I think you have to put it in context of the whole offering here.

What usually happens with size, if you look historically, they usually have the highest costs in the industry. Now you've got for the first time ever not only something that's never been assembled before, so if you go back in the history of aviation, not to go that far back, but PanAm had all the international loops but it had no domestic network.

So this is the first time anybody has really assembled all this together. Oh and by the way, we have the lowest unit cost of any major carrier. So I think it's that combination that will provide for improved shareholder returns, not the network per se.

Unidentified Audience Member

Yes hi, just a point of clarification on Terminal Four, if you could just remind us how many gates Terminal Four has. I believe you have 25 gates at Terminal Two and Terminal Three, will you be taking over the entire Terminal Four?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

No we're working with the port on a permanent solution. This is a temporary solution and we will only take the furthest west concourse of Terminal Four. So that's between us and our partners that six gates.

Unidentified Audience Member

Just two points of clarification, on the 200 million in revenue from the joint venture, is that Delta revenue or joint venture revenue? And secondly, I think you recently talked about moving more into 777s from the 787s in your order, can you talk a little bit about that trade off in terms of returns on capital?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

Well what was your first question again?

Unidentified Audience Member

The joint venture revenue.

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

The joint venture is Delta's.

Unidentified Audience Member

The incremental 200 million?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

No that's separate from the 2 billion, that's pre -- is that correct?

Unidentified Company Representative

Most of that is (inaudible - microphone inaccessible)

Unidentified Audience Member

Okay.

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

And I don't think we've disclosed in our Form 10Q on the 787 program yet so I think we'll withhold that and see what happens over the next few months.

Unidentified Audience Member

But the capital costs are materially different are they not?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

The capital costs are materially different, but you know you don't necessarily need as many airplanes as Northwest needed. That's the beauty of this is that Northwest had to replace over the next generation all of their 747-400s. And I think that we have 777s in our fleet that we could use in order to offset the requirement of 777 versus 787s.

Unidentified Company Representative

I might be able to give just one clarification on that. When Hank does his walk through of three-year CapEx projection, Glen is exactly right, we don't quite know where the 787 is right now in terms of it's delivery. And we've read the same reported information that you have, we do not have that capital in our three-year plan.

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

One more question?

Unidentified Audience Member

Glen, could you maybe comment on these unique markets, the ones to sort of what I would call non-traditional Europe and Africa. You've got a forecast for down 8 to 12 industry revenue, presumably embedded within that, if international erosion. Is there anything special about the way you're viewing those markets versus what we might consider more traditional international?

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

Yes I think the more unique it is the more unique it is. What we see in Africa to date is we see still an incredible growth in Africa revenues. So it hasn't followed the trend of Western Europe for example.

And do we have a crystal ball on how these are decoupled or whether or not they move in tandem, you know we don't. And our pledge to our shareholders is that we will respond to consumer demand. The more unique the market these days the more it tends to not follow the trend.

You know I think if you look at it, even in Europe there's good news and bad news. And you know generally the more developed and the heavier the reliance on the financial community the more dramatic the fall off in traffic is.

So those markets that we're heavily reliant on, high fares and the financial community traveling, you guys aren't traveling as much as you used to and that's readily apparent. And some of the more ethnic markets have not been as impacted or generally not as impacted to date as the higher-end markets like Heathrow.

Unidentified Audience Member

(inaudible question - microphone inaccessible)

Glen Hauenstein - Delta Air Lines, Inc. - EVP - Network Planning and Revenue Management

They are outperforming and our expectation is they will continue to outperform on a relative basis. Okay well thank you very much, I appreciate your time. We're running a little bit behind. So with that I'll turn it over to Jim Cron.

PRESENTATION

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

Well good morning, everybody. What I'd like to do is just speak briefly and try and give you a little flavor for why the story that you're hearing today is going to be so meaningful for customers and why I believe and we believe in the future it will create greater sustainability of the revenue premiums that the industry talks about but that can be so elusive at times for the individual carriers.

For those of you that don't know me - I'm new to the Delta team but not new to the airline industry, I've been in marketing at Northwest for the better part of 19 years. And I think I possess a very good knowledge of what's important to the business customer and why customers choose airlines, particularly in the higher yield category.

And you know it really is the total marketing package in terms of price, amenities, network. But when you really break it down, and there's a but there. And you're going to get a little tired, maybe, of seeing this slide but we don't. Schedule and network really do matter most. I mean it is the number one attribute for the business traveler of why they choose an airline.

And we've said it before, but the non-stop wins and the best connect wins and to the extent you've got competitive advantage versus your competitors, obviously that's a good thing. And why it matters is when we talk to the business customer it's just about time. It's about saving their time, it's about convenience and it's about being the broadest possible network that we can.

And when you have that advantage, this is where you'll hear a lot of things about how airlines generate revenue per ASM premiums, but the history is where you have the true schedule advantages versus the industry, especially if that capacity is right size, which Glen I think gave a lot of assurances that Delta's very good at doing that. That's where the revenue premiums are generated in this business.

There's a lot of other variables, but if you want to look at consistency over time, it's where true schedule advantage exists that airlines generate the premiums. I saw that very clearly at Northwest in regions of the country when we were number one, and I'm already seeing it at Delta and we're going to continue doing that in the future. I mean if you really think about it, both airlines have revenue premiums that they bring forward from their stand alones. There's no reason that I can see that those don't continue to exist and grow.

And the way they present themselves, just so you know, is airlines will publish and ATA will at times publish the revenue per ASM gaps within North America. And you'll also see them show up in your positive booking and revenue gaps on your corporate contracts. And it's really the amount of revenue that you take in that's in excess of what your schedule would naturally drive.

And how an airline gets paid for this schedule advantage is when you look at your traffic and your revenue composition. It's essentially that you have a richer mix of business versus leisure traffic. And as you can see from the chart, Delta's clearly delivering in that regard.

One thing, as we talk about capacity reductions and I'm not going to go into a lot of detail on exactly what's going on because I think Glen covered it very well, but we're much more effective at dealing with a capacity reduction, especially with our business customers at Delta, than either airline would have been stand alone.

What I remember going through these kind of exercises at Northwest, it was always very difficult. Because when you were at an airline and you operated a bunch of relatively low-frequency markets, maybe service to only one hub, one frequency a day to international markets, when you started to get into what the capacity pull down was going to be that you needed to do, it was very hard to do that without creating a pretty sizeable gap in your schedule.

And when you looked at it, you knew that there was a pretty significant amount of risk that, when you took the morning Minneapolis/LA trip out to right size the market, there was an element of the market there that you knew you were going to be potentially losing as a result of that.

With the combined airline, and Glen showed all the hubs on the map, we have so much flexibility within this structure to pull capacity without the customer losing a morning departure that they really need, without the customer losing a frequency to international departure. So we're at a much better position than either airlines was in a stand-alone world.

And most exciting I think is that Glen's still able to find ways to add the unique international markets. So my message to the business customer is, yes we're pulling this capacity to this capacity to this capacity, but we're also adding this unique market to Africa or South America.

So it's not just a good story for customers, but when you remove that capacity out of say the marginal domestic or the marginal Europe and reallocate it to something that's bringing in more unique revenue flows, that's a good thing.

Fleet also matters in this world. And again, I think Glen said it but it's the fact that Delta now has the ability -- you know at other airlines, if you don't have the fleet diversity, your only option may be to exit a market or exit a frequency. At Delta there's enough fleet flexibility that we can look at down gauging, up gauging, whatever we need to do to right size the market.

When you think of other aspects of the business that Delta's delivering on, and I sort of categorize these as the other most important needs of the business customer, but it's basically reliability, differentiation of what I'll call a competitive product throughout the travel process.

Reliability, Steve Gorman's going to share more with you about that, but the airline's running very well. Both airlines were leading up to the merger and the combined airline continues to run very well. Customers have noticed that, we see it every day in our customer complaint data and our Res contacts. And that's obviously a good thing for cost and revenue.

On the differentiation side, you're going to hear a bunch of stuff about the frequent flyer program, the elite benefit, the corporate relationships that we have. All of those things are things that we do in the area of elite customer differentiation that drive revenue.

And then finally, competitive product throughout the process. I mean this is really your customer service and your amenities, but Delta does a very competitive job at working those through the system. And again, customers matter

and I think there's upside there as well.

Let me talk just real briefly about the distribution side of the house. We're a little early in some of these processes from an integration standpoint, but just a couple of facts that are important. Delta is the largest producer of segments within, the stat is, really the MIDT data, which is really the traditional agency world.

And what's important about that is the traditional agency channel is the channel that generates the greatest yield premiums within the industry. So again, there's evidence there. You look at the relationships with the travel management companies that both airlines bring. And with the corporate customers that's a good fact to have on our side.

We've got GDS agreements that run through 2013 that lock in savings per transaction year by year. And those are in the various baselines that you've seen. There's nothing new there but the agreements are in place through 2013. And then the direct channels are still low cost and they're growing.

So opportunities that we see on there, Delta.com will continue to grow not just as a selling tool but as a total travel tool. I mean when you talk about trying to get more people to your website and drive more business through the site, a big part of it is people rely on that website for more than just purchase. They rely on it for all aspects of their travel journey.

Within the Res arena, you know the ticketing fees that airlines have implemented over the last 12 months or so have really changed the face of a reservations department. Reservations is now an extremely competitive low-cost channel. It tends to focus on selling and service.

So selling it tends to deal with your more complicated transactions, particularly international. The service tends to answer difficult questions for customers and, again, all in the vein of driving deal premiums within the airline.

Just an interesting story, during the run up to the merger I was running the World Ports Program at Northwest. And once we answered the question that your miles and your elite benefits were safe, the next question that continually came up was, is anything going to change with your elite reservations agent lines.

Because they were the link, they were the one-stop shopping tool for your business customers to your reservations group. So Res continues to play a very impressive role within the company. There's a ton of know how and expertise within airline reservation departments and we'll continue to capitalize on that.

And what you'll see, it's not on the page, but there is a chart that shows that in spite of service levels going up and getting better, Res costs per employee minute at Delta has actually been trending down for the last five six years and will continue to do so in the future. But again, it was really the $15, $20, $25 ticketing fees that truly matched the value that Res provides with its cost structure.

On the corporate deals, again we're just getting into this. What we're finding is we've got a couple of different techniques from the two airlines of evaluating corporate deals. We're currently in the process of aligning those and in the first quarter we'll be rolling out a new sort of best of both airline tool.

We're not waiting, as deals come up for renewal in the interim we're handling those on an interim basis. But there's a lot of good very analytic, very rigorous in terms of how we develop the best possible corporate contract to drive share and revenue premiums.

And then finally on the global alliance world, and we've touched on the Delta/Air France stuff, but a unique perspective coming from the Northwest/KLM. I mean as you integrate these joint ventures, there are real opportunities to reduce distribution costs.

You can go as far on the Northwest/KLM side as having a single salesforce in the US, single sales force in Europe, ticket stock at Northwest/KLM, basically the KLM stock left North America and the Northwest stock left Europe, which again took a bunch of redundancies out of the system.

We have to figure out whether or not we can get to that point in the Delta/Air France relationship, but again, just to point out that there is upside in that relationship, not just on the revenue side but also on the distribution cost side. So that is a brief introduction to why this stuff matters to the customer. I'm now standing I think between you and a break, but if there's a couple quick questions I'm happy to take them. Yes?

QUESTION AND ANSWER

Unidentified Audience Member

Hi, Jim, I wonder if you could just share the biggest objection that you get from corporate customers. It seems to me as Delta having the most superior network in the industry that you should be winning the corporate contracts left and right. What are the objections that you're getting today? And then just as a follow up, if you could provide some perspective around the auto industry in Detroit and how corporate travel trends are turning around the system.

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

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Sure. You know as far as objections from corporate customers and, again, we're brand new on this with Delta so we really haven't had objections yet on the combined airline front.

But it's typically just a negotiation. I mean corporations would rather pay less for their travel and they're going to talk to multiple carriers. But in the end, it tends to be the schedule advantage. But price will always be generally the issue that they will raise most. But, if you've got the schedule advantage, you can typically drive the revenue premiums.

And then the second question was on the auto industry. I mean clearly Detroit, if you look at the 8 to 12%, Detroit is going to be down more than that. And so that's baked into that line of thinking and probably the biggest impact we're just seeing is in the business class up front on international.

Domestically the planes are still very full, we're seeing -- you know probably the most common reaction is just more and more of the companies, instead of buying inside 14 days, are buying outside of 14 days to try and keep their costs down.

But when you get into the business class, it's a little more difficult because clearly the trade down is more significant. But it's in the 8% to 12% that Ed and Hank will probably talk about. Yes?

Unidentified Audience Member

Operators at GDS companies have said that business segments are off anywhere between 15% and more recently close to 20%. How should we be equating that to let's say declines in traffic?

It's suggested here through Delta.com that a little bit over a third of your bookings come through Delta.com. So does that mean that we should be thinking that it should up 10%? Is there an equation there just so that we can get to a traffic drop off or an increase at some future point?

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

Yes you know I'd have to look at the data. It depends on which piece of the GDS. I mean clearly at the higher yield, which can easily be double the average yields, the traffic loss could be somewhere in the 50% range of the revenue decline.

But what you'll see is I think there's also a big leisure component within the GDSes saying that their bookings are off 15% to 20%. So I really think it gets back fairly close to the 8 to 12 that Ed was talking about. I mean 50% of the bookings are still coming through the GDSes. So I think it's in line with the 8 to 12.

Unidentified Audience Member

Thanks. What percentage of sales do the OTAs represent for you?

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

OTAs are in the 15% range.

Unidentified Audience Member

Okay. And just a point of clarification --

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

And that's of volume, revenue is less.

Unidentified Audience Member

Okay thanks. And just a clarification, those Delta.com figures, are those growth rates or are those percentage of sales, the 26, 30 and 36?

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

Those are percentage of sales.

Unidentified Audience Member

Okay thanks.

Jim Cron - Delta Air Lines, Inc. - SVP - Global Sales and Distribution

Okay I think we're done. Thanks, everybody.

Unidentified Company Representative

We'll take a ten-minute break and start back up at 10.15.

(BREAK)

PRESENTATION

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Good morning. I'm Tony Charaf, I'm the President of Technical Operations for Delta Air Lines. And I'm going to try to do my job today, being that I'm an engineer, to stay on time. First let me start by sharing with you a bit of history on Technical Operations and the MRO business and how we have been able to successfully grow this business to where it is today.

Prior to 1999 MRO Delta Air Lines was basically a hobby. At that time I was Director of Engine Maintenance and it was clear to us that we had a golden nugget here that needed to be taken care of. So we began to recognize the value and the competitiveness of our workforce. And I will be hammering that point quite heavily during my presentation. You've already heard it already from Richard.

So in order to leverage this position we established a technical sales and marketing group to start competing in the MRO market space. Basically our focus started by paying attention to our core competencies and develop products

that the market is looking for that are futuristic in nature that could be sustained for growth.

And we had to be very competitive in our product offering to make sure that when we are in the market place competing against our MRO providers that we had something to offer to the marketplace. As such, we started to rationalize our footprint. And I'm sure you'll remember the days when we were closing bases. We closed three bases right after we made the decision to go for the MRO. One was in Dallas and one was in Tampa and a Delta North facility that we had next to our main hangars.

Basically here the footprint rationalization was to control cost. And we also outsourced heavy maintenance on our airframe because we knew then that this is an area where we are not competitive. This was a very tough decision, however it was a decision that needed to be made. And it's the still the right decision today. If we have to make it again, it will be done again today.

Then we started to look at our non-union workforce and we started to pay a lot of attention to their training. We made sure that we brought in continuous improvements so we started with Six Sigma and then LEAN and then theory of constraints. We have a tremendously flexible workforce today that gives us a tremendous advantage when it comes to competing against other suppliers.

And we also took advantage and built on Delta's brand reputation, the reputation that stood for many years for quality, for integrity, for safety and for customer service. And this branding transitions to Technical Operations today in the marketplace and we take full advantage of that.

The other piece that we paid attention to was, as Delta is subject to the same economic pressures as our customers, we really understand the airline business. We are forced to be very creative, we are forced to be innovative, we are forced to really continue to take cost out of our operation. And by the way, this expertise in what we have done inside of our walls is also shared with our customers. And that has been tremendously advantageous for us.

So now let me take you through how we built this business and what are the pillars that we have used to build our business. And the four that we have used here are engines, components, line maintenance and airframe. You will note that engine maintenance is by far our mainstay, 80% of our revenue is generated from engine maintenance.

So you say, well how do you diversify your product offering if 80% of your business is coming from engine maintenance? And that's a very fair question. However, I will tell that within engine maintenance we have diversified our product offering because we do all the CFM-56 lines, the CFMs that are connected to even the military we're looking at.

So the Dash 2, Dash 3, Dash 5 and Dash 7, which is absolutely the future engine of our business, we do the Pratt & Whitney products that have staying power. And those are the PW2000 and PW4000. And we do the CF34 engine, which goes on the RJs. And we also do all the CF-6 products that GE puts out.

Now in addition to that, we built our diversity by looking at customers that are not only in the United States. So we are global in nature. We have over 100 customers worldwide. We are diverse in both type and geography here.

So when you look at the type, as I said, we have international and we have domestic. We also have freighters that we work on, we have the cargo business that we pay attention to. We also are paying attention to the military business and we definitely nowadays we are joining hands with people like ILFC and Banc of America, who are the lessors that are repossessing airplanes today that they need them turned around really quickly so they can lease them out again.

And we offer those wonderful partners of our quick turn and one-stop shop. So the airplane comes in, we do nose to tail. If they need to paint that aircraft in different livery we can do that, if they want us to work on the engines we can do that, components we can do that, APUs, landing gears, whatever it takes. So it's a one-stop shop. And the cycle time and the quality of the product is far superior to anything that they can get anywhere else. And for that, we do double-digit returns on that business.

Now the other thing that is very important to us is our merger with Northwest. Our merger with Northwest will provide us opportunities to expand internationally. Now as all of you have noted already, the Amsterdam and Tokyo hubs now will provide the infrastructure and labor capabilities for us to grow line maintenance and support component, engine maintenance that we could ship basically through a one-stop delivery to our shops in Atlanta.

Northwest also provides us with increased presence in China and the Philippines and more of Asia. The market for MRO services in this region is continuing to grow at a very high pace and that business is going to from $8.9 billion in '08 to $17 billion in '018.

In addition to that now, as you have noticed also from Glen's presentation, that we are going to be in the Middle East basically big and we are in Africa big and that is also a one-stop shop. We have a non-stop flight, for example, from Dubai to Atlanta and that is in our backyard. So that engine or that component can come straight to our shops. And

now geographic distances are not a challenge for us any longer.

So how well is the business doing and where do we see it going forward? I will tell you up front that you're seeing here that there is a 30% CAGR that we have been able to sustain in the last several years. However, I am not going to stand up here and tell you that this is sustainable and maintainable in the long run. This is not something we can sustain.

However, we believe that a 12% to 15% CAGR is very realistic over the next five years for us and this business will continue to grow. You will say to me, well how are you going to protect your double-digit margins and how are you going to sustain this growth? There are so many things that we are doing internally. I will share some of them with you so you can connect to the strategy.

Production improvements, for example, that we have in our shops, right now we are undertaking cycle time reduction in our engine maintenance to take our products to a level that is unprecedented in the industry. And we are basically connecting with our suppliers and our vendors.

And we are really changing the way that the industry is doing business today, meaning that for a long time we have been contracting with vendors on a cycle time that they have to maintain for us on certain parts that they deliver to us. No longer are we going to do that.

What we're going to do from here on is, we are not interested in the cycle time, we are interested in them providing the parts to us exactly when we need those parts. And they must have the inventory necessary within their walls to absolutely support that. And by doing so, we can take our cycle times and reduce our cycle times by 50% if need be. And by doing so, we can take a lot of the assets that are on our balance sheet, we can lease them or we can cannibalize them so that we can get parts out of them.

The field here is absolutely magnificent for all of us. We continue to invest in our automation, so we can capture the granularity that we need in our businesses, so we can absolutely bill properly and capture our costs in our shops.

I talked about the customer and the product diversity, we will continue pay a lot of attention to that. The other piece that I didn't mention is the repair, innovation and creativity within our walls today. We have the capability of re-manufacturing. When you have some parts that are really in the business process, they are very expensive and they come in and they have wear and tear, let's say, on the lugs or the rails, and the tendency in the industry is to scrap that part.

You can talk about a $0.5 million part or a $0.25 million part and because of our creativity and the engineering intellect that we have within our walls, we are capable of developing repairs internally, where we can take that part and repair it for 10% of its cost and put it back in service. And the rest is basically a competitive edge that we create.

We will continue to join hands and support PMAs. PMAs are the parts manufacturing authorization that the market has and just in this case, the PMA providers will create cost synergies for technical operations and those cost synergies will be shared with our customers and we have already done that. And our customers seem to be very receptive to that.

So to really summarize what I just talked about, we have tremendous platform and a strategy that is built on the pillars that I shared with you. But what really anchors our success and how we go forward and how do we sustain our position and how do we sustain our double-digit returns? This strategy is built on, well you heard that already, many times, the people.

The people of technical operations are very skilled, they're motivated, highly trained, very flexible and when there is a need for us to support our customers for example, in Line Maintenance, I will share with you a little story that Air Berlin is one of our customers and they needed assistance. They are in the backyard of Lufthansa technique, and whenever they needed help, we used to get no more than 20% of their business. And when they needed help, they would call Lufthansa technique.

However, the technicians that they send are very class and craft, basically connected and if the problem was hydraulic and it turned out that the problem was electrical, it stops. And now they have to send other folks to really fix that airplane. Long story short, they started calling us from Frankfurt or Paris or Atlanta, for that matter, and we would send two of our best technicians. And no matter what the problem is, the problem will be fixed. And today we get 100% of the CFM 56 dash 7 removals.

This is the story. This story is built on people that are skilled, motivated, well trained. And we pay a lot of attention to processes and measurements within our walls. The second pillar, the second platform, that's really connecting our business, and that's why we believe that there is a tremendous amount of upside on that, is the product offering that we

have, the diversity in our customer base and how global we have become. That is absolutely phenomenally superior because we can basically support a soft demand in one region and one product by having other regions and other products that are continuing to grow for us.

Customer service will always be our connection to our customers and we are known for that. So when people do business with technical operations, at Delta Airlines, they know that they are getting a quality product that is connected to people that have integrity and they have their best interests at heart. And with that said, I think I have maybe a minute or two for a couple of questions.

QUESTION AND ANSWER

Unidentified Audience Member

Thanks. You talked about your -- the flexibility advantage you have with your labor, but yet how much of that could potentially go away or how much of that is at risk if labor is able to unionize after the North close -- after the Northwest acquisition. Is that a risk that you have on your radar screen? Is that going to be a potential cost advantage that would go away? Could you quantify that potentially?

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Let me give you some statistics so you can see where that's going to play. Today, at Delta, we have over 5,200 AMTs. At Northwest, we have about 900 AMTs. And I will also tell you that for maybe about 90% of them are pay dues. So when you look at the NMBs and the rules, we believe that that's not going to be an issue for us. Because the 65%, 35% rule will apply here. And we are already negotiating basically to integrate our seniority list as we speak.

That's a non-issue for us.

Unidentified Audience Member

On your forecast for the next five years, on the MRO industry, it's about 6% over the last five years. What do you see for the next five years? Just for the industry? Given all the economic issues and downsizing, et cetera.

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

For awhile, it looked like the industry is going to not sustain that kind of growth. However, where the market is today, and I know you know that people are looking now at keeping all the aircrafts longer, that is good news for us. I think that is definitely sustainable and it's showing now that is sustainable. Because even today, when we are losing airlines, small airlines are a customer of ours, because of bankruptcy or whatever, now the lessors are coming into the picture a lot more than every before.

So now we're doing more business with the ILFCs of the world and the Banc of Americas and the GCAS because they repossess those aircrafts and they want to turn them right back and lease them. And that has become a major source of revenue for us. And by the way, that's double-digit return. We will not do it otherwise.

Unidentified Audience Member

Yes. As you look at your strategic weaknesses, looking ahead, how do you see yourself working through those? Is M&A scale potentially a possibility or is it -- could there be a desire to grow internally? If you could just provide some perspective about how you think about what you need to do to take the organization forward?

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Well I will be glad to answer that. I think I'm going to repeat something that Richard has said many times over, is that when you have the business like the MRO at technical operations today at Delta, that is right there and it's steady and it's double-digit return one quarter after another, why would you sell it? This is a business that is going to support

Delta when Delta has downturns. So this is basically strategically what we have decided we're going to do internally.

So the growth will be organic for the time being, because we still have quite a bit of capacity internally. In most of our shops today, we run 1, 1.5 shifts, so we still have a lot of brick and mortar. The one thing that's probably going to be a constraint for us down the line, especially in the mainstay of our business, which is engines, will be test cells. Because as you know, the EPA issues and all that. So when we test engines.

However, we still have plenty of room to go up. Right now we do about 650 engines a year. We can easily go up to 800, 900 engines before we can -- before we have to look outside. In addition to that, with our merger with Northwest, now we have test cells in Minneapolis that we can also use and reach out to if we need to.

Unidentified Audience Member

Just how much of your growth is volume versus price?

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Our intention is we will not grow revenue at the expense of margin. So we are paying a lot of attention to that. We will continue to pay a lot of attention to that going forward. My answer to you is that we must maintain a cost structure internally that must absolutely remain very competitive at a global level and by doing so, we will protect our margins. So this is my answer to you. It is that we will not do business at the expense of margin.

One more and I think I need to get off the stage.

Unidentified Audience Member

At one point, there was an engine shop in Atlanta that was part of a -- of Northwest through another acquisition, earlier acquisition. Is that still a part of Northwest? Did that come into -- is that -- had that gone to somebody else along the way?

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Actually, that hangar is empty as we speak.

Unidentified Audience Member

This was an engine overhaul place.

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Yes.

Unidentified Audience Member

It's a hangar too?

Tony Charaf - Delta Air Lines, Inc. - President - Technical Operations

Yes, it is. But it is empty as we speak.

Thank you very much, ladies and gentlemen.

PRESENTATION

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Good morning, everybody. I'm Jeff Robertson, I oversee the Loyalty Programs of WorldPerks and SkyMiles, the two loyalty programs, and I want to thank you all for coming out today first off, and allowing me to share a few minutes around the loyalty program, which I obviously am so passionate about, our loyalty programs I'm so passionate about.

Last year, I think I talked to a few of you here about the loyalty program. It feels like a lot of things have changed in the last year to year and a half around the frequent flyer program. So let's start off this morning with American Express. It's probably the hottest topic on the list this morning for the loyalty program.

And by the way, there's a lot of people I need to thank. There's some folks here in American Express, a lot of the Delta folks, we were all up very late last night, we finished this thing around 5 AM, got it signed and just in time for our 7.30 announcement, so congrats to the AMEX team and thanks to the Delta people that were up late last night.

Okay. A couple of things around the contract. First off, and Ed has shared a lot of this, I'll sort of go into a little bit more detail. $2 billion in incremental liquidity associated with the new deal. It comes from two places, basically. $1 billion in a purchase of frequent flyer miles. And $1 billion, which is coming in new value that we will achieve as a company throughout 2009 and 2010.

That value comes basically in four components. The first is rate improvement. For the last contract that we negotiated, co-brand contract, was back in 2000, early 2000. So the rates have obviously dramatically changed since then. So we kind of went from a weaker performer, in terms of rate, to basically best-in-class rates.

Secondly, volume improvements. The volume improvements come in a couple of areas. One is co-brand growth. The second is membership rewards and our participation in membership rewards and the ability for our customers to be able to earn membership rewards points into the Northwest operations.

Thirdly, it comes from mitigated conversion costs. I'll get a little bit more into that as I talk about specifics around the AMEX relationship, but basically if you think about it, when we have two portfolios today, we've got to move to one, we're able to mitigate our conversion costs by moving a smaller portfolio into the larger portfolio than having to have a completely new issuer and having to convert the two card portfolios into a completely new issuer.

Thirdly, there's a small signing bonus attached to it. And fourthly, there are some new program enhancements, which we'll be announcing as two companies during 2009 that will provide more color to the complete $1 billion.

For us, AMEX was the right partner. And several reasons. One, I talked about it, reducing the portfolio conversion risk. Secondly, it guarantees only one conversion. This was important to us as we went through the contract negotiation process, but having one conversion was critical to us, than to actually have two portfolios converting into a new issuer. AMEX, no doubt, industry leader and powerful marketer who invests, in our opinion, very heavily in our co-brand and I think it shows in the performance of our co-brand over the last 13 years actually.

In addition, our participation in membership rewards is very valuable to Delta. Membership rewards, the powerful loyalty program of the American Express card product, we actually partner with, obviously, as a transfer partner. Those customers have the ability to use their frequent flyer miles, transfer them into Delta and burn them on Delta.

That partnership provides incremental value beyond the actual transfer revenue that we have received from American Express. It's membership rewards customers, it's the corporate card customers, it's the proprietary product customers, it's the small business cardholders, all a part of American Express's proprietary business, it participates more in Delta's program as a result of that relationship.

So, overall, again, $2 billion in incremental liquidity, a billion in the purchase of frequent flyer miles and a billion in new value that we'll deliver in 2009 and 2010.

Today I'm going to show you some specifics around the growth in revenue of our loyalty programs. Today we are forecasting a 2008 consolidated revenue of $1.5 billion. That is the gross cash sales of selling frequent flyer miles. It does not include deferrals of -- the accounting deferrals.

As we move into 2009, we are anticipating delivering $2 billion in total gross sales from our frequent flyer programs. That is a through a consolidation of the two programs as well as the new American Express contract. The current 2008 forecasted revenue of $1.5 billion is up roughly 6% to 7% year-over-year.

In addition, we looked at a couple of opportunities around the loyalty program that we're working on right now. First, integrating all of the hundreds of partner contracts right now, there's tremendous opportunity for us to attract synergies associated with those partner contracts. You've got two, you basically look at the two, you take the best of both and you move forward with that. That generally drives greater value in terms of synergies.

In addition, we've looked at the Northwest loyalty platform. I've had the thrill of being able to look at other airlines' loyalty programs, and take a look at the Northwest program and take a look at it and Northwest customers and find out what's going on with the Northwest customers. Well a couple of things sort of resonated for us. One was today we actually drive $100 of non-transportation revenue. Just over $100 of non-transportation revenue for every active customer in our database.

On the Northwest database, we took a look at that, they are driving roughly $40 in non-transportation revenue for every active member in their database. The opportunity to drive that $40 to $100 is significant for our company. It's in the hundreds of millions of dollars a year that we believe we can drive over time associated with that type of movement.

In terms of program membership, today the SkyMiles program has roughly 43 million members on the database, Northwest has 36 million members. We've done a preliminary de-duping of the database, fairly complex, I won't get into the detail, but basically there's about a 6% to 7% overlap of the databases.

The reason why that overlap is surprisingly lower than we had expected, it looks like a lot of the customers, just because of the way the route network is and the way the locations -- customers reside geographically, there's not as much overlap as you would have thought. The reason is because you're taking the strong strength of the Delta SkyMiles database that's in the east coast and the south with what is a strong strength in the Northwest database, which is located in Northwest, and the Midwest part of the country.

There just isn't that much overlap in the database, which we think provides tremendous value for us longer term in bringing the two databases together. In addition, we anticipate that we will likely now drive, post-merger, we will have 40% more active customers than our second biggest competitor -- than our next biggest competitor.

In addition, the size of the Delta program at 74 million customers, at the revenue that we're generating will, for the first time in the 28 years of airline loyalty programs, put Delta into a number one position, knocking somebody else out of the competition -- somebody else out of first place.

Size is important to us. There's no doubt. We talked about -- there were a lot of questions asked around the size of the airline and the size of things, but basically the size of the loyalty programs is important to us. It's important in many ways. It's a huge database. It's a database that our partners can access. And the power and size of the loyalty program is what drives partners to want to come to us.

In fact, I have had several examples of partners over the last couple of years that we've approached as Delta being the third biggest airline or that Northwest approached at that time being the fifth biggest airline, who were not interested in doing business with us. Now being the biggest airline in the world, they are interested in doing business with us.

So in summary, overall, it's a world class loyalty program. It's the largest loyalty program, 74 million members, 24 -- 20% more members than the second largest loyalty program. We believe, 40% more active members than the largest -- than the second largest loyalty program.

In addition, there's incremental revenue opportunities. The largest program will attract higher quality partners and improved rates. We've seen tremendous upside moving from 2008 to 2009 in the margin of the business. Not just in gross sales, but the margin is where we're really attracting a lot of the value between '08 and '09.

In addition, we've struck a new affinity card agreement, as we have talked about, and a significant upside as I have mentioned in increasing Northwest's revenue per active member to the Delta levels that we're current experiencing.

The other thing I wanted to highlight quickly here was just some facts that I know our customers and all of you as customers are really -- care a lot about, is sort of the integration of the program and what's going to happen. We intend, as we've talked about, to integrate the two loyalty programs by the end of 2009. The databases will be integrated and we will be using one platform.

That will be the Northwest loyalty platform. Our loyalty program was introduced -- our loyalty platform was actually introduced back in the '70s and early '80s and we built on that and band-aided that puppy over and over again. Well, now we get to choose the -- we get to be able to pick between the two and the Northwest platform was actually developed in 2000. So we're taking the Northwest platform basically in a plug-and-play environment and putting it into the Delta systems.

In addition, we will be introducing a best-in-class elite program in 2009. We will be announcing it in 2009, effective January 1, 2010. So we talked a lot about, we've made some announcements right now to basically align the two elite programs as fast as we possibly can, effective January 1st, 2009. We've made those announcements, we're in play around that and we will be announcing a new elite program in 2009, effective in 2010.

So holistically, the loyalty program, it's bigger, it's broader, it provides customers more opportunities to earn frequent flyer miles, it provides customers more opportunities to burn frequent flyer miles, and it will be and it remains to be a significant driver for RASM improvement for Delta as we move from 2008 moving forward. I've got a couple -- a little bit -- a couple of minutes for some questions or so around that. Yes? Go ahead. Sorry. Three in a row. You're all there, right in a row.

QUESTION AND ANSWER

Unidentified Audience Member

Two quick questions. First of all, is the incremental revenue opportunity from active members on the Northwest side factored into the $2 billion in synergies for the entire combined operation? And then secondly, what is the low-hanging fruit with respect to getting that incremental revenue from $40 up to $100?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Sure. In the $2 billion in synergies, there is a portion of that $2 billion that's being driven by the loyalty program. That is roughly $500 million. It comes from a combination of the American Express deal as well as synergies that we will obtain through integrating the two programs. Those synergies come from aligning fees, partner contracts, that type of work. So it totals around $500 million.

With respect to the $40 per member, the $40 per member, it appears as though, to us, it's lower penetration, specifically around potentially credit card, around partner activity and we believe we can improve with the American Express contract, with improved merchant acceptance in the Midwest, and with improved marketing that we believe we can pull off as the larger airline at this point. Okay.

Unidentified Audience Member

Can you discuss or maybe Hank will discuss this afterwards, the accounting treatment for the $2 billion from American Express, the $1 billion in miles obviously is an asset and then what's the liability offset to that on -- and how should we think about that going forward and modeling our numbers?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Yes, I have to admit that I'm not the accounting expert, but maybe Hank or you can pull Hank or I aside a little later -- or Ed, and we can talk about it.

Ed Bastian - Delta Air Lines, Inc. - President

(inaudible - microphone inaccessible) there's $1 billion prepaid. So the $1 billion is a prepaid. So that's cash up front

that we received today. That won't get amortized against our cash streams until '11 and '12. So that's going to stay on the balance sheet for the next several years.

The incremental improvements that Jeff's talking about, the $0.5 billion a year of incremental improvements, is the gross cash inflow from the program. Yes, from an accounting perspective, some part of that gets deferred and amortized over the life of the mile.

We can follow-up with you with respect to that -- because it's a pretty complicated formula in terms of how much gets recognized and at what point in the process. So we've been talking cash numbers here. So the $2 billion per year is cash. But there's -- the accounting numbers are somewhat reduced.

Unidentified Audience Member

Hi. To what extent should we attribute this to the merger versus would have happened anyway? Other airlines have done forward mile sales and you said the contract was from 2000 anyway. Had you updated the contract, maybe you would have gotten to market rates anyway. So to what extent can we attribute this to the merger versus, you know?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Yes. Some of the contract language is obviously confidential, but basically I think in summary, it's fair to say that the merger is what drove this contract to be struck today. The contract actually may have been struck down the road. It would have been a couple of years before we actually were able to extract that value, potentially, in a new deal.

I do believe the deal, however, is a best-in-class deal, driven by the merger, primarily. And being the largest loyalty program in the world. So basically it's a combination of moving money forward for a couple of years as well as what I think is greater value that we were able to work and partner with American Express because of the size of the loyalty program compared to where it is today.

Unidentified Audience Member

I think you had it in the release, but can you just go through AMEX side and kind of the percentage of seats that are available? Or kind of what the give-up was from your side?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Again, the contract language and sort of the contract terms are confidential, but today we award basically, I think it's around 7.5% to 8% of our RPMs are actually award RPMs. And getting into exactly what percent of that goes to American Express cardholders or American Express customers is somewhat confidential.

Unidentified Audience Member

Hi. Thanks.

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Yes.

Unidentified Audience Member

In Ed's prepared remarks, you know -- you discussed 500 million of enhancements to the cash flow over the next two years.

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Yes.

Unidentified Audience Member

For 2009 and 2010. As I look at this projection, I think I see that it goes from $1.5 billion to $2 billion, but then it levels off. Was there some kind of pull forward that should expect disappears in 2011? In other words, it was enhanced by $500 million in 9 and 10, and therefore you start paying some of it back through maybe less favorable terms to Delta beyond that? Or does -- is the $500 million just a run rate benefit that starts in 9 and 10 and continues through the rest of the contract?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

Yes, I can share that. The $500 million of incremental values that were pending in 9 and 10 is attributable to, I think, it's 90% of it will continue moving forward. So when we look at the actual run rate synergies, especially with the American Express contract, it's roughly $425 million to $450 million firm, however, there is some upside possible as a result of growth. So we forecasted -- we're relatively conservative in the $450 million and there's additional $50 million or slightly more in the frequent flyer program integration value to get us to $500 million.

Unidentified Audience Member

Nothing particularly special about 9 and 10? That's just the terms of the contract?

Jeff Robertson - Delta Air Lines, Inc. - VP - Loyalty Programs

It is the terms of the contract, yes.

Tim? Very good. Okay.

PRESENTATION

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

Thanks, Jeff. Good morning. Very much like my day job, I've been told, we need to get -- as the head of operations, we need to get this back on track from an on-time standpoint. Jill's back in the back going. And so I'll do my best to do that.

I really just had -- oh, I had three messages, primarily, that I wanted to deliver today. One, and you've heard Richard talk about it, and you've actually heard Jim Cron talk about it earlier, regarding the operation and the really top of the industry results that both Northwest and Delta have continued to deliver, despite all the distractions that could have occurred with regard to all the rumors about a merger and then the actual announcement and then they're working towards close.

The -- our movement towards a very smooth merging of operations with minimal customer disruption and then give you a little bit of detail about the single operating certificate, the progress we've made so far and our plan to achieve that by the end of '09.

Again, to the credit to all of our folks in operations, they have not let any of the potential distractions get in the way of delivering top performance. By the DOT stats, from a completion factor, which we think is one of the most important factors, if not the most important factor, was -- is did the flight get -- fly. It did not get cancelled. From that standpoint, Northwest in the October year-to-date, through the entire year, is number one.

From a completion factor standpoint, Delta's a little further down the chart, in the middle of the pack, primarily because we've made some proactive decisions earlier in the year, due to some pretty severe weather in Atlanta and JFK to do a much -- a further out accommodation of our customers, to reaccom them, to let them know that they can get to where they need to go, despite the weather, on a planned basis.

But I think here, an important factor and a big advantage we have, you've heard earlier, a couple of the earlier execs, talk about our low-cost capital of our fleet. And what that allows us to do from an operational standpoint, particularly during peak times, when we have the highest stress and when the system is wound the tightest, is to use the advantage of that low-cost fleet, fully depreciated fleet, the DC9, the MD80 and even the 757 to add a few spares to the process.

That we would not be near as -- we wouldn't do it near as eagerly if that was a very, very high cost asset. And so it would take full advantage of that. And we'll continue to do that and have over 99% completion factor as we look forward, as we have over the last few months.

From a D0 and A14 standpoint, so departures within zero and then arrivals within 14, which is the second piece, do you get there on time when you need to for the meetings, particularly for our premium customers, and from that standpoint, for that second leg, we are both -- we are in the top three, we're basically essentially tied for third in the DOT statistics through October. I will tell you, one of the moving pieces here that's been very dynamic in the industry through the course of '08 has been the block time.

We both operate, if you look at year-to-date, the most efficient block time in the industry from the DOT stats. There has been a lot of change between the different network carriers this year. Earlier in the year, from what we could see in the stats, it looked like US air had added a double-digit block time. After the summer, in the fall, they have -- it looks like they are pulling that out.

On the other hand, United and American appear to have added double-digit block time since the summer pull down into the Fall schedule. The important thing here in how we look at it is very disciplined around departure within zero and be at the top of the industry. A good efficient block time and block time reliability that results in a top of the industry arrivals within 14.

We can learn from that. Northwest has very disciplined standard operating procedures that Delta can learn from and adapt in that countdown to departure within zero. And we are committed to do that. The third leg of that stool, the flight goes, it arrives on time, with bags. From that standpoint, again, at the top of the industry for Northwest. A couple of things here. I just want to put a little perspective. When we're talking the bags, the statistics you see are claims per 1,000 passengers.

So when you see a 3.5, which is what per 1,000 passengers, that's 99.65% of the bags being delivered in a fashion that do not get claimed. Or in Delta's case, a 5.5. Again, you're talking about a 99.5% success factor. So just to put that in perspective, but here again, Northwest really, really mature technology with the scanning technology in all the systems that can monitor the baggage, track and trace, very, very solid infrastructure at the two major hubs in Minneapolis and Detroit. And really good processes for dealing with the transfer of bags from a standard operating procedure standpoint.

Delta has improved 25% year-over-year. Still not where we need to be in the competitive rankings. A couple of key factors there, technology. We introduced scanners just this year. February through June, rolled them out in 205 stations. Have just started to use the monitoring software that tells you when you're loading a bag that's going onto the wrong flight or to the wrong destination. Infrastructure. Tremendous challenge in Atlanta.

That's an -- a baggage infrastructure in Atlanta that was built around 1.5 concourses for 250 to 300 flights a day. Needless to say, we're operating over 1,000 flights a day today with over six concourses, and so we are three-quarters of the way through a $100 million capital project to upgrade the infrastructure in the Atlanta baggage facility, throughout the Atlanta airport.

Even as minor as the conveyor belts are 33 inches wide instead of 39 inches wide, so we have had over 300 jams a day and for seven day coverage over 70 people, all they did is they were jammers. They got rid of the jams. Well all of the conveyors have been expanded to 39 inches, put a high speed conveyor out to concourse B and then from B to C to add about 40% more capacity to the infrastructure in Atlanta. So from that standpoint, I think you can continue to see improvement and then we can adopt and have begun adoption of the Northwest software using the information we have from the scanners.

We have very diligently, both kind of behind the curtain and in front of the curtain, begun merging the operations. I'll start behind the curtain. We still have two certificates. So we still have parallel operations that are staffed by very, very capable people at both of the certificates at both airlines, from the executives all -- at every -- and all -- at every layer, every employee group.

That is continuing to occur and we -- that just keeps -- that's what's producing those results that you're seeing reported in the DOT. It's two real solid operations running in parallel. We are collaborating much more than we did, obviously, before, when we do have particular instances where we need each other's help, but pretty much parallel operations.

At the same time, we're starting to centralize some of the functions, even within those parallel groups, that we can consolidate as quickly as possible. Those are things like the resource planning, catering, the training group so that as we move along the single operating certificate and have more training, we have a single training group that's developing that training. The air traffic control. Even in tech ops, in terms of the engineering and quality assurance organizations, we really started to pull those together as quickly as we can, even though we still have the two certificates.

Finally, I just wanted to mention, in two areas we've already consolidated. Safety and supply chain. Really, unrelated reasons. Safety, when we did a review with the FAA of the learnings from the US Airways merger, one of the things that became very clear is you can't get to a single operating certificate in an efficient fashion and develop one set of safety procedures and policies and metrics if you have two different safety organizations trying to do that, competing with each other so to speak.

And so we have named one Head of Safety, one safety organization that is everything from aviation safety to workplace safety and then also environmental compliance and security. And that particular point, the Director of Safety for Delta certificate is the Head of Safety for the overall airline and then of course Northwest has a Director of Safety for their certificate that still is the primary interface and leads the entire safety effort still in Minneapolis on the Northwest certificate.

So that was one of them. The other area is in supply chain and operations. To get as quickly as possible at developing plans and executing on those plans to start working on the synergy savings from the supply chain. We have immediately after close put together one supply chain organization and by the different commodity verticals and they are full speed ahead on trying to achieve that.

A lot of good opportunities there. Just to give you a little bit of insight in terms of the kind of the things that we're looking at in hotels. We have 82 common hotels. Both hotels are using -- both airlines are using the same hotels. In technical operations, 16 -- about two-thirds of our vendors on engines, what we send out on engines, either engine types or components, are common.

60% of the components that come off the airplane go to common vendors. So there's a lot of opportunity there. We have 229 kitchens around the system, 42 of those are at common stations. So we are prioritizing those and really attacking those to start delivering the synergy benefits that are a part of the benefits that Ed was referring to earlier.

Finally, I just wanted to step back in front of the curtain. From a customer standpoint, for the minimal disruptions. A couple of things. We have -- overall, there's 390 stations. 70 of them Northwest-only, 150 Delta-only, so then we have 170 stations that we need to deal with where we need to consolidate those stations. We already have a definitive, specific plan for 50 of those. And every week we're adding another five to six or seven of those.

We have already begun implementing in some cases. In the States, we have 23 airports where we had what we'll call a constrained airport where the -- where we were in separate terminals. And in those we have a short-term plan of having bussing between the terminals, having dual kiosk capability where you can go to the kiosk, it just went in this week, and you can go check in on either airline at the kiosk.

We have terminals at the different ticket counters of the different airlines for the other airlines, so you don't have to go to the other terminal. You can get your pass and then a lot of direction signage and a lot of extra help just to help direct some of that and minimize our customer confusion.

And then over the course of time, in those 50, for all 20 of those, we have a specific plan for consolidation and those are airports like Washington DC, Boston, Chicago, LAX and those are nearly all but a handful of those will be consolidated before summer. And it goes either way. Chicago, we're moving Delta from Terminal Three into Terminal Two. Boston, moving Northwest from E into Delta in -- or in A, except for the International.

So that is all going on from a customer standpoint and then at a very high level, trying to already make it as seamless as possible for the customers from the standpoint of a couple of things. Harmonizing the fees, that as Ed talked about earlier. Reaccommodating agnostically when we have irregular operations due to weather. To reaccom agnostically on either carrier. Already balancing the calls between the res centers, have auto-redirect on the different websites if somebody is going into the different website.

So very focused on the customer and making it as seamless as possible for the customer, that we think is a dramatic differentiation from maybe some of the other mergers in the past in this industry. Finally, a little bit on the single operating certificate. We -- as Ed mentioned, we had a plan that was submitted that a preliminary plan of all the

processes, submitted it to the FAA, they approved it a couple of weeks later, so in mid-September, we had the plan.

This isn't really mystery. It is just hard detailed work that takes a lot of effort. We've got about 115 processes that we've identified in that plan. And they range from relatively simple processes to very complex processes. How you handle your ETOP software operation. Of course dispatch and flight relief, engine condition monitoring and training, air worthiness directive management, there's all those different kinds of processes.

For each one of those, we analyze the differences in the processes, look at them, cross reference them to all the manuals, decide which one of those processes we're going to select. Because we're not going to invent a third one. We're going to select one or the other of the approved processes on the certificate already because that way we have subject matter experts at one of the airlines and we only have to train one airline or the other in terms of the people. We don't want to have a new process where we have to train everybody and we don't have the expertise.

So from that standpoint, then, we look at the differences, we decide that, we develop an implementation plan, we go to the FAA now with that, here's what we're going to do and here's our implementation plan. They approve, we go back and execute, then we come back and we say we're done with that and we know what the training is, we've done the training and they'll approve again from that standpoint.

That's the second approval. And then when we get out to near the end of '09, all of that will have been aligned and happening along the way for these 150 processes. We've already submitted six. Two have been approved. We plan to have 15 more -- 15 total submitted before the end of the year. If we just sit there and turn that crank on those 115 in a very disciplined way, with a every two week review process on the progress on a very, very specific gantt chart by process.

And when we get done, the FAA validates and says, okay, it's all done. And we have a Delta single operating certificate. FAA has been extremely cooperative in dedicating resources with a team of, a dedicated team, of seven people, three from each of the certificates, from the principals and the one team leader. And so we -- that will not be a constraint on this process either.

Why is that important? I mean, there -- I mean, we heard earlier, Brian talk about the seniority list. I mean, we can't take really -- that senior effect -- list doesn't go into effect for bidding until the first bid period after we have a single operating certificate. And if you look at it from the standpoint of you heard Glen talk and you heard -- I mean, a couple of different phrases. You heard Ed say free flow the fleet.

You heard Richard say right airplane on the right route. That doesn't happen until we have a single operating certificate, so we can have a single bidding system for the pilots bidding a crew planning, scheduling, tracking for the flight attendants in addition to the pilots.

So we have one single operation control center, all those particular things that you heard Glen say earlier were -- we cannot do scale of that manually. Because so much of that is automated and so much is with automated tools and managing the daily operation of that dispatch and that release and all the aircraft swaps that go on to efficiently run the airline every day.

And so from that standpoint, all that gets released and then Glen, well he won't get any sleep at all because he will be ready to go where he can just swap and free those airplanes and move them around, literally, every schedule change and every dynamically between the schedule change.

Operationally, again, all those parallel operations will collapse into one, will have -- be able to fully utilize the efficiencies. I'll tell you, frankly, on the supply chain, I think most -- that is primarily dependent on just prioritizing opportunities, which we have, analyzing them, putting them together and negotiating strategy, then putting out the RFP and selecting the vendor.

That will pace that much more so than the single operating certificate, but there is still some, for example, one maintenance program in technical operations will definitely help us from a leverage standpoint in the supply chain when we talk about those engines that have a 66% common vendor and those components that have a 60%. With that, I think I have a few minutes for questions. She's bringing a mic.

QUESTION AND ANSWER

Unidentified Audience Member

How long after single operating certificate, would you anticipate the final legal merger would take place?

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

The whole legal merger. I mean, we will have that certificate and we -- and it will happen right away. Ben, do you want to help on that?

Richard Anderson - Delta Air Lines, Inc. - CEO

Well --

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

I don't --

Richard Anderson - Delta Air Lines, Inc. - CEO

Yes, I think we've got to look at where the timing falls out. In terms of single -- I've got a view on -- thank you, Shannon. We haven't quite planned out where that will ultimately be. Because we're focused on getting the single operating certificate done. I mean, the key from an investor perspective is regardless of when the entities come together, the value gets unlocked from the single operating certificate. I would expect that we'll -- the Northwest subsidiary will be there for awhile thereafter, a good while thereafter. But we won't let that be an impediment to our getting to the synergies.

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

And back to the value, one of the important things is on the single operating certificate, the processes, in those 115, the training in each of the different areas, whether it be in the technicians or the flight attendants, whatever that might be, we're front-loading those processes so that we can have the approved training programs and actually be implementing those training programs so that when it happens, the single operating certificate, we're ready to go to completely unlock those synergies right away. Yes?

Unidentified Audience Member

Two quick questions. How are you managing the runway shutdown at JFK at the end of '09? I understand the FAA's working with the Port Authority. In your view, what's the solution there?

And then I guess just a second quick question, unrelated, but your competitors in the New York market have conditioned travelers here to check in 30 minutes beforehand or 30 minutes or greater and for Delta it's 45. What's holding you back from matching your competitors' with baggage checking time in the New York market?

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

I'll answer your second first. The -- from that standpoint, the -- one of the things we're looking at as we compare the best practices between two airlines is the time prior to check in. And they're different between the two.

And I will say there, from that standpoint, when we look at the processes, particularly in terminal three, that -- and the security process in terminal three, that we think we need that cushion in terminal three so that people do not -- are able to arrive at the gate prior to us closing the door. I mean, so it's primarily around, from a customer standpoint, not having people cut it too close and miss that flight. But not so much probably terminal two, which is -- moves much slower, obviously, if you've done both, than terminal three. But we just want to have one standard there.

And from the closure of the runway, I mean, obviously we work closely with the FAA and provide our input into the best we can. I mean, we had that whole issue of there are just the whole air traffic control in general in the northeast. And the 77 initiatives and prioritizing those 77 initiatives. And how we go about improving -- I mean, that's the biggest thing we can do to improve the operation, obviously, in New York, is to do a -- have a much more efficient air traffic control system from the standpoint of both inbound and outbound.

Unidentified Audience Member

I forgot, what -- the single operating certificate drives how much of the 2 billion in synergies?

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer
Oh, I don't think we ever really have categorized it that way as such.

Richard Anderson - Delta Air Lines, Inc. - CEO

What we've published is 2 billion in run rate by 2012. That's what we've published. And I think the number that we've characterized for 2009 and -- Jill, you should -- or Shannon? Cathy, help me on this. I think the number that we've published for 2009 is about 0.5 billion of synergy realization?

Which we described earlier, Ed described in his slide presentation, in his presentation, as being hit by the AMEX deal. Because of the incremental -- at least on a cash basis, we've got to get to the accounting issues. But for the audience here and all the people that are going through budget right now, at Delta, it doesn't change. I mean, in terms of the cost synergies that -- and the revenue synergies that Glen has to produce, regardless of the end.

So we're sort of -- the way we're budgeting the airlines, so you know by year, we've got every organization has three buckets in their budget. They've got the Delta stand alone operating certificate, the Northwest stand alone operating certificate and the synergies. And in each of the operating budgets, you've got to get your normal annual 3% to 4% productivity target and you've got to hit your CapEx number.

And then the synergies are separately bucketed because we don't want the synergies to get mixed in with running the business, the way the business ought to be run. And the synergies belong to the shareholders, not to the operating departments, to make their budget.

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

The other thing I'd say, on my synergy slide, somebody else was saying -- I mean, the biggest piece of that is the full benefit of them from a network standpoint to free flow that fleet.

Richard Anderson - Delta Air Lines, Inc. - CEO

And if you'll recall back to the merger announcement, I believe our -- or when we updated our synergies, I believe the full network effect of fleet simplification, Ed help me on this, is about 300 million to 400 million?

Ed Bastian - Delta Air Lines, Inc. - President

Yes. 300 million to 400 million, once you completely flow the fleet.

Steve Gorman - Delta Air Lines, Inc. - EVP, Chief Operating Officer

Okay. I'll turn it over to Hank.

PRESENTATION

Hank Halter - Delta Air Lines, Inc. - CFO

Hey, good morning everyone. I'm the last presenter, I'm also in between the Q&A and the lunch, so I'll try to go quickly, but at the same time, I want to make this as meaningful as it is for you.

You heard this morning, you saw a lot of presentations. Richard started, then Ed, Glen, Steve, Tony, Jeff. Delta is building a strong financial foundation. We're enhancing our bottom line through top line revenue growth, unit revenue improvement, cost reductions, productivity. We're managing risk, a systematic fuel hedging program. We're investing prudently into building in the business. CapEx spending, it's minimal. And it's minimal for the right reasons. We'll invest when it's appropriate to invest and we'll be prudent at all times.

And we're preserving and growing liquidity. I'll show you operating cash flow that is growing, it's sufficient to pay for CapEx. It's sufficient to pay for debt obligations and maturities coming due. And most importantly, Delta's positioned for long-term success.

Solid revenue performance is definitely strengthening our position. We're also focusing on all aspects of the business. When you look at top-line revenue growth, Delta has delivered double-digit top-line revenue growth this year, approximately 8% to 11% for 2008 each quarter. And we are doing that also with growing unit revenue performance.

By 2008, Delta's unit revenue performance is in excess of the industry average on a length of haul adjusted basis, 102%. And this represents Delta and Northwest combined. And look where we were just in 2005, up from 95%. So as Delta is growing its top-line revenue, it's not compromising its unit revenue performance.

Unit costs. While Delta's improving its top line and its unit revenue, its RASM, it's also the best-in-class unit cost performance and it shows up here quite easily. If you look at Delta and unit cost is best-in-class for the network carriers, and it's very close to the low-cost carriers, the LCCs. Any business has to be the low-cost leader.

And that goes for any business, airline, any capital intensive business. You've got to be the low-cost leader because that's what you can control. And it's your peers with the lowest costs that are helping set the revenue environment and that's why it's critical for Delta in this environment in particular to have the lowest cost structure.

If you look at the progress we've made over the years, we're very, very close to Southwest now and when you consider the cost structure of Delta, this slide doesn't show the revenue premium, the revenue advantage, we have, over those low-fare carriers.

You heard a lot about the various pieces of revenue this morning from the different presenters. When you look at Delta, we're obviously very focused on passenger revenue. Obviously that's a significant portion of our business, that's what we're in business for, is flying passengers.

But we're also capitalizing and continue to maximize opportunities from the non-passenger areas of our business. We call this the ancillary areas, ancillary businesses and third-party revenue. And when you look at 2009, we're going to have over $5.5 billion of revenue value coming from these third parties and ancillary areas.

Cargo, for example. Our cargo business will deliver revenue in excess of $1 billion under the direction of Neel Shah. That business has been delivering 35% year-over-year revenue improvement from the Delta side this year and will continue to do so going forward. You heard from Tony Charaf recently on the MROs, the maintenance, repair and overhaul business. And that's gone from, as Tony described it, a hobby to one where that business is now the largest airline North America provider on the MRO space. And that's Tony's organization. It's $0.5 billion on an annual basis.

And most recently, Jeff was up here talking about SkyMiles, $2 billion of value. Value coming from the world's largest frequent flyer program and in partnership with American Express. And then now, charging customers for value-added services, the services they use, the fees and charges along with codeshare and joint venture revenues, those are in excess of almost $1.5 billion, $1.4 billion projected for 2009.

And the list goes on. What it shows is at Delta, we're capitalizing on every aspect of our business. Every revenue stream that presents opportunity, we're going after it and we're delivering on that. And we'll continue to deliver on that.

Let's show some math here and look at what opportunities face us in 2009. Obviously fuel prices have been falling and as Ed mentioned earlier, each dollar change in the crude price per barrel is worth about $100 million annually in fuel expense at Delta. This year, in 2008, our all-in price per barrel was approximately $100. Next year, we're targeting $50 to be the market price for crude oil. That's a $5 billion benefit year-over-year 2009 run rate versus 2008.

On top of that, we recently announced capacity reductions of 6% to 8%. Delta's going to get $1 billion of cost savings from that. And something I didn't emphasize on the earlier slide, talking about CASM. Delta's CASM is a function of getting costs out of the business. We do that very, very well. It's what we can control. So this latest cost reduction or, excuse me, capacity reduction of 6% to 8%, we will get this $1 billion out.

Look at what we did just earlier this year. We announced in March a capacity reduction for 2008. And by the fourth quarter, our capacity is down on the domestic side, 12% to 15%. But when you look at our non-fuel unit costs, it's going to be about flat year-over-year. And that's the evidence of Delta's ability to get the costs out.

We're not going to let our unit costs grow just because we're reducing capacity. And we might not be able to get it out immediately, and as Ed mentioned it will take us several quarters to get that cost out, but we're targeting flat CASM year-over-year absent that pension cost impact in the fourth quarter of '09 versus '08. And that's a testament to getting the costs out.

So on top of that, we've heard a lot of talk about the merger synergies. That's $500 million of benefit. So when you add up the left side of the page, in terms of opportunities, there's $6.5 billion of opportunities facing us in 2009, this compared to 2008.

And then when you look at the revenue environment, it is down. Revenue is weaker. The demand environment is weaker and as a result, we will see lower revenue. But it would take in excess of 20% of passenger revenue declines to offset the savings of $6.5 billion, the $6.5 billion of opportunity that we have facing us in 2009. And that would be an unprecedented level of passenger revenue reduction in one year. And on top of that, if the numbers were approaching that level, we would go and pull additional capacity out of the system and then go after more cost reductions to offset that.

Let's talk a little bit about Delta's fuel hedging program. As I mentioned, Delta follows a systematic fuel hedging program. We're in the market purchasing hedges when fuel prices are rising as well as when fuel prices are going down. And our portfolio currently consists of call options, swaps and collars. But as you can see from the charts, each quarter through 2009, most of the swaps and collars will be out by the end of the second quarter.

Looking forward, for the full year, we're 37% hedged and that will give us an all-in price of $2.19 per gallon. And also, very important, is downside participation. Nearly 80% of our fuel consumption will participate in downside participation, should fuel prices continue going down. So once we're beyond the June quarter, the margins and the collateral we've been posting, related to our hedges, will be behind us. And we'll have full downside participation by third quarter and into fourth and beyond. And then you can also see we're in the process of buying hedges for 2010.

Obviously we're much more hedged closer in. We strive to the upcoming six month period to be about 50% hedged. And then going out, the number steps downward. But what it does is allows it to continue building hedges on in a systematic fashion, we're not out trying to beat the market, but rather we're out trying to reduce volatility and that's what's critical and part of our risk management objective, it's to reduce volatility in the numbers.

Another aspect of CapEx, it's something very, very critical at Delta and a philosophy that we hold firm to. And that's investing prudently in the building, in the business. In 2009, we expect CapEx to total $1.6 billion. That consists of approximately $1 billion of aircraft, $300 million of parts modifications, inventory, $300 million of ground and technology CapEx.

And of that $1.6 billion, about $800 million of that will be cash CapEx. For the aircraft for which we have firm orders, we have secured financing that will cover substantially all of that cost. So in terms of modeling cash purposes our CapEx for 2009 on a cash basis is about $800 million.

You can see on the left side we've got about 20 aircraft on firm order, 777, 737-700s, the next-generation aircraft and two class regional jets CRJ 700s and -- excuse me, 900s. All of these aircraft are focused on our international strategy and premium revenue. We're not going to invest CapEx for the sake of just spending money and growing the airline. We're going to invest prudently and in doing so we're positioning Delta for long-term success.

One of the things that we use to follow our CapEx strategy, and one that limits our aircraft purchasing is when we look at fleet rationalization. Fleet rationalization is something that Delta has unique to it going forward because of the

merger with Northwest and now the different fleet types that will allow us really lengthen the fleeting horizon.

So you won't see Delta in the near term announcing the massive aircraft re-fleeting, that's not going to happen for us, and the economics here we believe don't support it. You know, you see other airlines when they announce large capacity orders replacing existing fleets, they're bragging about the young age their fleet will be, they brag about the fuel efficiency, in many cases brag about the maintenance efficiency.

One thing they're not talking about is the cost of ownership and what we're doing here is showing you the difference between a MD88 aircraft, a pre-owned 88, versus a brand new 737-800. Both can be configured with 150 seats, same crew members, but at the end of the day you can see there is a significant cost advantage by flying a MD88, a used MD88 that we currently have, 114 of them to be exact, compared to going out and re-fleeting with the new aircraft.

There will come the day when you do need to re-fleet aircraft but it's certainly not in the near-term horizon, not with this kind of advantage. That's a $2.5 million advantage per year, per aircraft by flying a current owned aircraft versus going out and doing a massive order for new aircraft. In terms of liquidity for 2009, we expect to end 2008 with about $6.7 billion of unrestricted liquidity, that includes the proceeds from the American Express agreement that was announced this morning.

For 2009 we're projecting operating cash flow in the $3.2 billion range. We'll use that $3.2 billion to fund CapEx, cash CapEx which is $800 million as well as fund upcoming debt maturities. So, I had mentioned earlier total CapEx is 1.6 which the slide shows here, a portion of that the $800 million of financing for that is captured in the net debt maturities. But at the end of the year we expect to end 2009, despite a weakened economy and slow demand environment, growing our liquidity balance to $7.5 billion by the end of 2009.

Let's look forward, 2009, 2010 and 20ll, the next three-year horizon. We're expecting operating cash flow of $11 billion to $13 billion. Cash flow to be sufficient to fund our capital expenditures as well as our net debt maturity. And there will be cash left over to restore the balance sheet and improve the health of the balance sheet.

Looking at adjusted net debt you can see that we project to end this year at $15 billion, 12/31/08. And over the course of the three years, based on the strong operating cash flow, the prudent investment we will make in the business, as well as upcoming net debt maturities, we'll have an adjusted net debt figure of approximately $6.5 billion at the end of 2011.

That's the power of this business, that's the power of the unit revenue growth, the other business growth in the revenues, such as MRO, such as SkyMiles. It's the power of cost leadership and cost discipline. It's also the power of prudent investment in CapEx. That's what's delivering the strong liquidity balance, and that's what's also enabling us to reduce our adjusted net debt over this three-year horizon.

Net operating losses is also a significant asset for Delta. As a result of the merger, combining the net operating losses that Delta previously had with the NOLs that Northwest carried we now have approximately $15 billion of net operating losses that can be used to offset future taxable income. So while Delta does project to be significantly profitable going forward, the cash tax obligation will be fairly minimal because of the $14.5 billion of net operating losses that we anticipate to be able to use going forward.

So this morning again, you've heard from the various presenters, speaking about the pieces of our business, the revenue, the cost, the productivity, the various ancillary areas, and all are focused on the same objective, building on the strong financial foundation for Delta and positioning for long-term success.

We'll continue growing on our revenue streams, all revenue streams. We're going to be keenly focused on cost, cost discipline, cost leadership. Productivity is always a mantra at Delta and that's productivity not from synergies, that's from just running the business smarter and focused on the bottom line.

We will invest prudently, no massive aircraft re-fleeting orders to be announced at any time soon, but yet, we will invest where it makes sense in the business, using our liquidity wisely and consequently, that liquidity can be used for various functions, at the end of the day, hopefully reducing our adjusted net debt and improving the health of the balance sheet. Delta truly is positioned for long-term success. I thank you for your interest in Delta Airlines and I'll be happy to answer any questions you have.

QUESTION AND ANSWER

Unidentified Audience Member

These are numbers, your -- for free cash flow, your numbers here for free cash flow, how much of it you assumed for the refinancing of aircraft notes?

Hank Halter - Delta Air Lines, Inc. - CFO

There is some moderate refinancing. When you look at the aircraft, we've got -- for the aircraft on order, we've got financing in place for substantially all of that purchase price. And then for the debt coming due, we've got an exit facility and such that we anticipate refinancing in that in the couple billion dollar range tops. Most of the debt obligations coming due we will pay with cash from the business.

Unidentified Audience Member

Okay. And instead of about a 50% LTV that you've assume for a refinancing?

Hank Halter - Delta Air Lines, Inc. - CFO

Yes. Thereabouts.

Unidentified Audience Member

Okay, and then just so that I understand the net maturities, the net maturities is that change in unrestricted cash, that gross debt maturities less that change in unrestricted cash. Would I be correct there?

Hank Halter - Delta Air Lines, Inc. - CFO

Right, the adjusted net debt would be the debt balance plus aircraft rents, the operating rents, seven times aircraft operating rents, less the maturities that we're paying off during that period, add back any debt we're taking on for aircraft for example, and then less the unrestricted cash balance

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Unidentified Audience Member

Thank you

Hank Halter - Delta Air Lines, Inc. - CFO

Sure

Unidentified Audience Member

Just a couple of quick questions. On the cost saving numbers that you show, are those gross cost savings, so net of integration costs, net of regular cost inflation that you have there, or is that gross cost savings?

Hank Halter - Delta Air Lines, Inc. - CFO

The cost savings from the synergies, the $2 billion -- the $500 million in 2009, growing to $2 billion?

Unidentified Audience Member

The $1 billion that you show on the slide from capacity cuts plus $500 million, the --?

Hank Halter - Delta Air Lines, Inc. - CFO

Yes. That's a gross number. Now the net number, it's fairly -- I tell you what, it really approximates on a net basis, because when you think about the payback period, the payback of the capacity reductions is very short. So for instance, we'll offer a, what we did in March, a voluntary program to exit individuals that were interested in leaving early, that paid for itself in six months.

Unidentified Audience Member

And then in liquidity numbers that you show, can you just touch on how much cash collateral you posted now, but also what's your assumption for pension funding that you'll make over these three years, is that in here?

Hank Halter - Delta Air Lines, Inc. - CFO

Yes, that is. The collateral that we have posted for margins is included in that liquidity balance, so the balance at 12/31 of about $6.7 billion, I think, as 2008, that includes just north of about $1 billion of liquidity posting on the hedges.

Unidentified Audience Member

Okay. And the pension is?

Hank Halter - Delta Air Lines, Inc. - CFO

The pension obligations for 2009, those numbers do include a small pension funding obligation. Based on the measurement date of when Delta's pension measurement, for funding purposes occurs, we expect our 2009 obligations to not be significantly different than 2008. Going forward the re-measurements will obviously drive more liquidity funding in 2010 and beyond. But the '09 number really represents a partial year because of where our measurement date falls.

Unidentified Audience Member

(inaudible - microphone inaccessible) cash flow for the next three years, what kind of fuel assumptions and other critical variables, obviously PRASMs, right, one of them, but anything you want to share with us?

Hank Halter - Delta Air Lines, Inc. - CFO

Sure, in terms of fuel prices, we've got that growing $10 a year. So for 2009, we're modeling $50 with a $20 dollar refining cost. Then we'll grow that $10 a year on the crude price and then we'll grow our refining costs $2.50 per barrel. So $60, $22.50 in 2010 growing to $70 and $25 in 2011.

In 2010 in terms of what we've modeled here, and again, it's just a model, we're constantly refining our projections, we're looking at stabilization in 2010 in terms of capacity. Obviously we'll watch that closely should the situation warrant itself to further be able to reduce capacity in '10 we'll do that and then a slight increase in capacity in 2011. Obviously as you heard from Glen and the other speakers, in terms of revenue opportunities, there is continued revenue opportunities from the synergies from the ancillary businesses so those will continue generating value for us in 2010 and 2011.

Hank Halter - Delta Air Lines, Inc. - CFO

Yes. Hey, Gary.

Unidentified Audience Member

Hey, just a quick knit and then a follow up. First, on the $1 billion that you point out in capacity related cost savings, does that include fuel burn or is that in the $5 billion?

Hank Halter - Delta Air Lines, Inc. - CFO

Yes. No, the fuel burn is just the -- excuse me, the first number, the $5 billion, is price only. And in the $1 billion, you've got obviously a very large piece of that is fuel consumption, you've also got the other variable savings, including headcount and landing fees and all the other variables that go with that, plus a fixed cost component. I mean the one thing the other airlines fail to get out is something we're intent on doing, is getting the fixed costs out of the business.

Unidentified Audience Member

Okay. And then when I look at that slide that shows the net debt balance going down to $6.5 billion, if memory serves, you think about the earnings that are going to be required to generate the cash flow to get there in the first place, it's a very substantial reversal in what the way the balance sheet looks. Pretty much turns it upside down. Is that a target, is that what you think, the position that you think you need to manage to in terms of long-term balance sheet? Or is that just what the numbers tell you today and it will be adjusted along the way?

Hank Halter - Delta Air Lines, Inc. - CFO

Yes. No, it's what our models are currently projecting. I wouldn't say that's a target, and to be honest, I think, looking at 2011, we need to spend more time on that target and obviously reviewing it with our Board, and other constituents, is important, before we come out with a defined target. But what the numbers do project is that with a substantial liquidity increase, looking at the balance sheet, that just goes right against your net debt.

We may choose to do other things with it, but at the end of the day, that's what the models are currently projecting. And like any models, you know in the airline business, especially looking forward, anything beyond 2009 obviously we'll be looking to revise assumptions as the world continues changing.

Unidentified Audience Member

(inaudible - microphone inaccessible). What I'm more interested in, well you might be more than right, wrong because you're more than right.

Hank Halter - Delta Air Lines, Inc. - CFO

There you go.

Unidentified Audience Member

That happens every once in a while in airlines, once a century or so. I guess what I'm really driving at more, is as you think about investing in the business, in changing the stance that you have now, around capital deployment and other things, do you need to get to the kind of balance sheet or closer to the kind of balance sheet that would suggest than the one you have today, before you would do that. So it's more of a longer term?

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273,262

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1,495,561

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

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

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Electric Operating Revenues:		
Contracts with customers	$80,787	$75,128
Alternative revenue programs	859	3,492
Total Electric Operating Revenues	81,646	78,620
Operating Expenses:		
Cost of energy	21,754	21,487
Administrative and general	10,709	10,403
Depreciation and amortization	16,387	15,371
Transmission and distribution costs	7,128	6,558
Taxes other than income taxes	7,136	6,836
Total operating expenses	63,114	60,655
Operating income	18,532	17,965
Other Income and Deductions:		
Other income	754	822
Other (deductions)	331	(90)
Net other income and deductions	1,085	732
Interest Charges	7,729	7,404
Earnings before Income Taxes	11,888	11,293
Income Taxes	2,475	3,689
Net Earnings	$9,413	$7,604

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

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

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	$9,413	$7,604
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	16,836	15,921
Deferred income tax expense (benefit)	(953)	2,746
Other, net	(456)	(168)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	3,115	3,138
Materials and supplies	(729)	(247)
Other current assets	331	(838)
Other assets	(3,055)	(2,042)
Accounts payable	(4,400)	(788)
Accrued interest and taxes	(1,952)	(3,991)
Other current liabilities	5,874	134
Other liabilities	1,456	361
Net cash flows from operating activities	25,480	21,830
Cash Flows From Investing Activities:		
Utility plant additions	(49,956)	(36,345)
Net cash flows from investing activities	(49,956)	(36,345)
Cash Flow From Financing Activities:		
Revolving credit facilities borrowings (repayments), net	21,200	22,000
Short-term borrowings (repayments) – affiliate, net	2,600	1,700
Dividends paid	(1,024)	(9,855)
Net cash flows from financing activities	22,776	13,845
Change in Cash and Cash Equivalents	(1,700)	(670)
Cash and Cash Equivalents at Beginning of Period	1,700	671
Cash and Cash Equivalents at End of Period	$—	$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	$1,830	$2,584
Income taxes paid (refunded), net	$(8)	$—
Supplemental schedule of noncash investing activities:		
(Increase) decrease in accrued plant additions	$9,868	$2,235

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

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

	March 31, 2018	December 31, 2017
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	$—	$ 1,700
Accounts receivable	22,248	23,246
Unbilled revenues	8,069	10,186
Other receivables	3,062	2,860
Affiliate receivables	—	336
Materials and supplies	6,373	5,643
Regulatory assets	596	794
Other current assets	796	1,131
Total current assets	41,144	45,896
Other Property and Investments:		
Other investments	220	220
Non-utility property	2,240	2,240
Total other property and investments	2,460	2,460
Utility Plant:		
Plant in service and plant held for future use	1,513,724	1,504,778
Less accumulated depreciation and amortization	466,976	460,858
	1,046,748	1,043,920
Construction work in progress	61,695	34,350
Net utility plant	1,108,443	1,078,270
Deferred Charges and Other Assets:		
Regulatory assets	141,486	141,433
Goodwill	226,665	226,665
Other deferred charges	6,236	6,046
Total deferred charges and other assets	374,387	374,144
	$1,526,434	$ 1,500,770

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

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

	March 31, 2018	December 31, 2017
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$21,200	$ —
Short-term debt – affiliate	2,600	—
Accounts payable	15,544	29,812
Affiliate payables	4,635	667
Accrued interest and taxes	27,666	29,619
Regulatory liabilities	2,225	1,525
Other current liabilities	3,320	2,450
Total current liabilities	77,190	64,073
Long-term Debt, net of Unamortized Premiums, Discounts, and Debt Issuance Costs	480,716	480,620
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	125,515	126,415
Regulatory liabilities	184,734	179,137
Asset retirement obligations	809	793
Accrued pension liability and postretirement benefit cost	7,084	7,879
Other deferred credits	7,592	7,448
Total deferred credits and other liabilities	325,734	321,672
Total liabilities	883,640	866,365
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	504,166	504,166
Retained earnings	138,564	130,175
Total common stockholder's equity	642,794	634,405
	$1,526,434	$ 1,500,770

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

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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, 2017	$64	$504,166	$130,175	$ 634,405
Net earnings	—	—	9,413	9,413
Dividends declared on common stock	—	—	(1,024)	(1,024)
Balance at March 31, 2018	$64	$504,166	$138,564	$ 642,794

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at March 31, 2018 and December 31, 2017 and the consolidated results of operations, comprehensive income, and cash flows for the three months ended March 31, 2018 and 2017. 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 2017 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2018 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual audited Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR’s, PNM’s, and TNMP’s audited Consolidated Financial Statements and Notes thereto that are included in their respective 2017 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 6). PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants. The agreements for the jointly-owned plants provide that if an owner were to default on its payment obligations, the non-defaulting owners would be responsible for their proportionate share of the obligations of the defaulting owner. In exchange, the non-defaulting owners would be entitled to their proportionate share of the generating capacity of the defaulting owner. There have been no such payment defaults under any of the agreements for the jointly-owned plants.

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

Dividends on Common Stock

Dividends on PNMR's common stock are declared by the Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board.

TNMP declared and paid cash dividends on common stock to PNMR of $1.0 million and $9.9 million in the three months ended March 31, 2018 and 2017.

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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)

Investment in NM Renewable Development, LLC

As discussed in Note 1 of the 2017 Annual Reports on Form 10-K, in September 2017, PNMR Development and AEP OnSite Partners created NMRD to pursue the acquisition, development, and ownership of renewable energy projects, primarily in the state of New Mexico. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. NMRD's current renewable energy capacity in operation is 21.8 MW. NMRD also has 10 MW of solar PV facilities under construction that will be completed in mid-2018. PNMR accounts for its investment in NMRD using the equity method of accounting because PNMR's ownership interest results in significant influence, but not control, over NMRD and its operations.

In February 2018, PNMR Development made cash contributions of $5.0 million to NMRD for its construction activities. For the three months ended March 31, 2018, NMRD had revenues of $0.4 million and net earnings of $0.1 million. At March 31, 2018, NMRD had $3.9 million in cash, $0.4 million in accounts receivable, $43.3 million of property, plant, and equipment and other assets, $4.5 million in accounts payable and accrued expenses, and $43.1 million of owners' equity.

Cash and Restricted Cash

Additional information concerning the Company's policy for recording cash and cash equivalents is discussed in Note 1 of the 2017 Annual Reports on Form 10-K. In November 2016, the FASB issued Accounting Standards Update 2016-18 – Statement of Cash Flows (Topic 230), which requires that amounts generally described as restricted cash and restricted cash equivalents ("restricted cash") be included with cash and cash equivalents when reconciling the beginning of period and end of period amounts shown on the statements of cash flows and adds disclosures necessary to reconcile such amounts to cash and cash equivalents on the balance sheets. ASU 2016-18 does not require that restricted cash be reflected as cash in the statement of financial position and does not provide a definition of what should be considered restricted cash. Upon adoption, ASU 2016-18 requires the use of a retrospective transition method for the statement of cash flows in each period presented. During 2015, PNM received a deposit of $8.2 million from a third party that was restricted for PNM's construction of transmission interconnection facilities for that party. During 2016, PNM utilized $7.2 million of such third-party deposits to offset construction costs for the interconnection facilities. The remaining $1.0 million was held as restricted cash until the second quarter of 2017, at which time a refund was made to the third party. The balances of this deposit arrangement were included in Other current assets on the balance sheets of PNMR and PNM. Under the terms of the BTMU Term Loan Agreement (Note 9), all cash of NM Capital is restricted and must be used for payments required under that agreement or for taxes and fees. Cash held by NM Capital is included in Cash and cash equivalents on the balance sheets of PNMR and amounted to $1.4 million at December 31, 2016 and $1.5 million at March 31, 2018, but was less than $0.1 million at March 31, 2017 and December 31, 2017.

The Company adopted ASU 2016-18 as of January 1, 2018, its required effective date. In accordance with the standard, PNM made retrospective adjustments to its Condensed Consolidated Statements of Cash Flows for the three months ending March 31, 2017 to increase beginning cash, restricted cash, and equivalents at January 1, 2017 by $1.0 million and ending cash, restricted cash, and equivalents at March 31, 2017 by $1.0 million. No other changes were made to the Condensed Consolidated Financial Statements in connection with the adoption of ASU 2016-18.

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 2016-02 – Leases (Topic 842)

In February 2016, the FASB issued ASU 2016-02 to provide guidance on the recognition, measurement, presentation, and disclosure of leases. ASU 2016-02 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, whereas other leases will be required to be accounted for as financing arrangements similar to the accounting treatment for capital leases under current GAAP. ASU 2016-02 also revises certain disclosure requirements. At adoption, ASU 2016-02 requires that leases be recognized and measured as of the earliest

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period presented using a modified retrospective approach with all periods presented being restated and presented under the new guidance. The ASU allows entities to apply certain practical expedients to arrangements that exist upon adoption or that expired during the periods presented.

As further discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, the Company has operating leases of office buildings, vehicles, and equipment. The Company also routinely enters into land easements and right-of-way agreements. 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 that may be classified as leases under ASU 2016-02 in addition to its existing operating lease arrangements. It is likely the arrangements currently classified as leases will continue to be recognized as leases under ASU 2016-02. It is possible that other contractual arrangements not previously meeting the lease definition may contain elements that qualify as leases and that previously identified operating leases may be classified as financing leases under ASU 2016-02. 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 quantifying the potential impacts of identified lease arrangements. The Company is also evaluating the practical expedients, if any, it will elect upon adoption. The Company anticipates this process will continue throughout 2018. The Company will adopt this standard effective as of January 1, 2019, its required effective date.

In January 2018, the FASB issued ASU 2018-01, which clarifies that land easements are to be evaluated under ASU 2016-02, but provides an additional optional practical expedient to not evaluate existing or expired land easements that were not accounted for as leases under the current guidance. The Company has numerous land easements and right-of-way agreements that would fall under this clarification. The only such agreement that has been accounted for as a lease under current guidance is the right-of-way agreement with the Navajo Nation, which is discussed in Note 7 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K. The Company anticipates it will elect to use the practical expedient for its existing and expired land easements upon adoption of ASU 2016-02.

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 2016-13, which 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 the remaining lives of the assets. The Company anticipates adopting ASU 2016-13 effective as of January 1, 2020, its required effective date, although 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 have a significant impact on its financial statements.

Accounting Standards Update 2017-04 – Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued ASU 2017-04 to simplify the annual goodwill impairment assessment process. Currently, the first step of a quantitative impairment test requires an entity to compare the fair value of each reporting unit containing goodwill 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 ASU 2017-04 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 anticipates it will adopt ASU 2017-04 for impairment testing after January 1, 2020, its required effective

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date, although early adoption is permitted. However, if there is an indication of potential impairment of goodwill as a result of an impairment assessment prior to 2020, the Company will evaluate the impact of ASU 2017-04 and could elect to early adopt this standard.

Accounting Standards Update 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12 to better align hedge accounting with an organization's risk management activities and to simplify the application of hedge accounting guidance. ASU 2017-12 is effective for the Company on January 1, 2019 although early adoption is permitted beginning on January 1, 2018. As discussed in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 9, the Company periodically enters into, and designates as cash flow hedges, interest rate swaps to hedge its exposure to changes in interest rates. In addition, as discussed in Note 8 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 7, the Company enters into various derivative instruments to economically hedge the risk of changes in commodity prices, which are not currently designated as cash flow hedges. The Company is evaluating the requirements of ASU 2017-12, but does not anticipate the changes will have a significant impact on the Company's accounting treatment for derivative instruments or on its financial statements.

(2) Segment Information

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

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

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

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company. The activities of PNMR Development, NM Capital, and the equity method

investment in NMRD are also included in Corporate and Other.

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.

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PNMR SEGMENT INFORMATION

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended March 31, 2018				
Electric operating revenues	$236,232	$81,646	$—	$317,878
Cost of energy	70,802	21,754	—	92,556
Utility margin	165,430	59,892	—	225,322
Other operating expenses	100,511	24,973	(5,016)	120,468
Depreciation and amortization	36,627	16,387	5,708	58,722
Operating income (loss)	28,292	18,532	(692)	46,132
Interest income	2,487	—	1,637	4,124
Other income (deductions)	1,217	1,085	79	2,381
Interest charges	(20,830)	(7,729)	(4,496)	(33,055)
Segment earnings (loss) before income taxes	11,166	11,888	(3,472)	19,582
Income taxes (benefit)	(348)	2,475	(1,344)	783
Segment earnings (loss)	11,514	9,413	(2,128)	18,799
Valencia non-controlling interest	(3,677)	—	—	(3,677)
Subsidiary preferred stock dividends	(132)	—	—	(132)
Segment earnings (loss) attributable to PNMR	$7,705	$9,413	$(2,128)	$14,990
At March 31, 2018:				
Total Assets	$4,925,741	$1,526,434	$224,218	$6,676,393
Goodwill	$51,632	$226,665	$—	$278,297

	PNM	TNMP	Corporate and Other	Consolidated
	(In thousands)			
Three Months Ended March 31, 2017				
Electric operating revenues	$251,558	$78,620	$—	$330,178
Cost of energy	81,317	21,487	—	102,804
Utility margin	170,241	57,133	—	227,374
Other operating expenses	93,756	23,797	(4,660)	112,893
Depreciation and amortization	36,016	15,371	4,996	56,383
Operating income (loss)	40,469	17,965	(336)	58,098
Interest income	2,816	—	2,065	4,881
Other income (deductions)	5,545	732	(335)	5,942
Interest charges	(21,012)	(7,404)	(3,284)	(31,700)
Segment earnings (loss) before income taxes	27,818	11,293	(1,890)	37,221
Income taxes (benefit)	7,708	3,689	(622)	10,775
Segment earnings (loss)	20,110	7,604	(1,268)	26,446
Valencia non-controlling interest	(3,452)	—	—	(3,452)
Subsidiary preferred stock dividends	(132)	—	—	(132)

Segment earnings (loss) attributable to PNMR	$16,526	$7,604	$(1,268)	$22,862
At March 31, 2017:				
Total Assets	$4,870,201	$1,396,055	$211,423	$6,477,679
Goodwill	$51,632	$226,665	$—	$278,297

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(3) Accumulated Other Comprehensive Income (Loss)

Information regarding accumulated other comprehensive income (loss) for the three months ended March 31, 2018 and 2017 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, 2017, as originally reported	$13,169	$(110,262)	$(97,093)	$1,153	$(95,940)
Cumulative effect adjustment (Note 7)	(11,208)	—	(11,208)	—	(11,208)
Balance at January 1, 2018, as adjusted	1,961	(110,262)	(108,301)	1,153	(107,148)
Amounts reclassified from AOCI (pre-tax)	(2,629)	1,891	(738)	(53)	(791)
Income tax impact of amounts reclassified	668	(480)	188	13	201
Other OCI changes (pre-tax)	1,115	—	1,115	1,858	2,973
Income tax impact of other OCI changes	(283)	—	(283)	(472)	(755)
Net after-tax change	(1,129)	1,411	282	1,346	1,628
Balance at March 31, 2018	$832	$(108,851)	$(108,019)	$2,499	$(105,520)

Balance at December 31, 2016	$4,320	$(96,748)	$(92,428)	$(23)	$(92,451)
Amounts reclassified from AOCI (pre-tax)	(2,763)	1,618	(1,145)	112	(1,033)
Income tax impact of amounts reclassified	1,078	(631)	447	(44)	403
Other OCI changes (pre-tax)	7,766	—	7,766	(185)	7,581
Income tax impact of other OCI changes	(3,030)	—	(3,030)	72	(2,958)
Net after-tax change	3,051	987	4,038	(45)	3,993
Balance at March 31, 2017	$7,371	$(95,761)	$(88,390)	$(68)	$(88,458)

Pre-tax amounts reclassified from AOCI related to Unrealized Gains on Available-for-Sale Securities are included in Gains on investment securities in the Condensed Consolidated Statements of Earnings. Pre-tax amounts reclassified from AOCI related to Pension Liability Adjustment are reclassified to Other Income and Deductions – Other (deductions) 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 is included in capitalized interest. The income tax impacts of all amounts reclassified from AOCI are included in Income Taxes in the Condensed Consolidated Statements of Earnings.

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(4) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share is as follows:

	Three Months Ended March 31,	
	2018	2017
	(In thousands, except per share amounts)	
Net Earnings Attributable to PNMR	$14,990	$22,862
Average Number of Common Shares:		
Outstanding during period	79,654	79,654
Vested awards of restricted stock	205	112
Average Shares – Basic	79,859	79,766
Dilutive Effect of Common Stock Equivalents:		
Stock options and restricted stock	154	346
Average Shares – Diluted	80,013	80,112
Net Earnings Per Share of Common Stock:		
Basic	$0.19	$0.29
Diluted	$0.19	$0.29

(5) Electric Operating Revenues

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

Revenue Recognition

Electric operating revenues are recorded in the period of energy delivery, which includes estimated amounts for service rendered but unbilled at the end of each accounting period. The determination of the energy sales billed to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading and the corresponding unbilled revenue are estimated. Unbilled electric revenue is estimated based on the daily generation volumes, estimated customer usage by class, line losses, and applicable customer rates reflecting historical trends and experience. Amounts billed are generally due within the next month. The Company does not incur incremental costs to obtain contracts for its energy services.

PNM's wholesale electricity sales are recorded as electric operating revenues and wholesale electricity purchases are recorded as costs of energy sold. In accordance with GAAP, derivative contracts that are subject to unplanned netting

are recorded net in earnings. A “book-out” is the planned or unplanned netting of off-setting purchase and sale transactions. A book-out is a transmission mechanism to reduce congestion on the transmission system or administrative burden. For accounting purposes, a book-out is the recording of net revenues upon the settlement of a derivative contract.

Unrealized gains and losses on derivative contracts that are not designated for hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power and fuel supply agreements, used to hedge generation assets and purchased power costs. Changes in the fair value of economic hedges are reflected in results of operations, with changes related to economic hedges on sales included in operating revenues and changes related to economic hedges on purchases included in cost of energy sold.

In May 2014, the FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). 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

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amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 also revises the disclosure requirements regarding revenue and requires that revenue from contracts with customers be reported separately from other revenues. ASU 2014-09 provides that it could 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 adopted ASU 2014-09 effective as of January 1, 2018, its required effective date, using the modified retrospective method of adoption. The adoption of ASU 2014-09 did not result in changes to the nature, amount, and timing of the Company's existing revenue recognition processes or information technology infrastructure. Therefore, the adoption of ASU 2014-09 had no effect on the amount of revenue recorded in 2018 compared to the amount that would have been recorded under prior GAAP, no effect on total Electric operating revenues or any other caption within the Company's financial statements, and no cumulative effect adjustment was recorded. Revenues for 2018 are presented in accordance with the standard on the Condensed Consolidated Statements of Earnings and 2017 revenues are presented on a comparative basis. Additional disclosures to further disaggregate 2018 revenues are also presented.

Under ASU 2014-09, PNM and TNMP recognize revenue as they satisfy performance obligations, which typically occurs as the customer or end-user consumes the electric service provided. Electric services are typically for a bundle of services that are distinct and transferred to the end-user in one performance obligation measured by KWh or KW. Electric operating revenues are recorded in the period of energy delivery, including estimated unbilled amounts. As permitted under GAAP, the Company has elected to exclude all sales and similar taxes from revenue.

Revenue from contracts with customers is recorded based upon the total authorized tariff price at the time electric service is rendered, including amounts billed under arrangements qualifying as an Alternative Revenue Program ("ARP"). ARP arrangements are agreements between PNM or TNMP and its regulator that allows PNM or TNMP to adjust future rates in response to past activities or completed events, if certain criteria are met. GAAP requires that ARP revenues be reported separately from contracts with customers. ARP revenues in a given period include the recognition of "originating" ARP revenues (i.e. when the regulator specific conditions are met) in the period, offset by the reversal of ARP revenues billed to customers in that period.

Sources of Revenue

Additional information about the nature of revenues is provided below.

Revenue from Contracts with Customers

PNM

NMPRC Regulated Retail Electric Service – PNM provides electric generation, transmission, and distribution service to its rate-regulated customers in New Mexico. PNM's retail electric service territory covers a large area of north central New Mexico, including the cities of Albuquerque, Rio Rancho, and Santa Fe, and certain areas of southern New Mexico. Customer rates for retail electric service are set by the NMPRC and revenue is recognized as energy is delivered to the customer. PNM invoices customers on a monthly basis for electric service and generally collects

billed amounts within one month.

Transmission Service to Third Parties – PNM owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado, and Utah. Transmission customers receive service for the transmission of energy owned by the customer utilizing PNM's transmission facilities. Customers generally receive transmission services, which are regulated by FERC, from PNM through PNM's Open Access Transmission Tariff ("OATT") or a specific contract. Customers are billed based on capacity and energy components on a monthly basis.

TNMP

PUCT Regulated Retail Electric Service – TNMP provides transmission and distribution services in Texas under the provisions of TECA and the Texas Public Utility Regulatory Act. TNMP is subject to traditional cost-of-service regulation with respect to rates and service under the jurisdiction of the PUCT and certain municipalities. TNMP's transmission and distribution activities are solely within ERCOT, which is the independent system operator responsible for maintaining reliable operations for the bulk electric power supply system in most of Texas. Therefore, TNMP is not subject to traditional rate regulation by FERC.

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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. Revenue is recognized as energy is delivered to the consumer. Delivery of service is invoiced as the transaction occurs and is generally paid within a month.

Transmission Cost of Service ("TCOS") – TNMP is a transmission service provider that is allowed to recover its TCOS through a network transmission rate that is approved by the PUCT. TCOS customers are other utilities that receive service for the transmission of energy owned by the customer utilizing TNMP's transmission facilities. Historically, TNMP has updated its transmission rates twice per year to reflect changes in its invested capital although updates are not allowed while a general rate case is in progress (Note 12).

Alternative Revenue Programs

ARP revenues, which are discussed above, include recovery or refund provisions under PNM's renewable energy rider and true-ups to PNM's formula transmission rates; TNMP's AMS surcharge, transmission cost recovery factor, and rate impacts of the 2017 change in the corporate income tax rate; and the energy efficiency incentive bonus at both PNM and TNMP. GAAP provides for the recognition of regulatory assets and liabilities for the difference between ARP revenues and amounts billed under those programs. Regulatory assets and liabilities are amortized into earnings as amounts are billed. Accordingly, the Company has deferred certain costs and recorded certain liabilities pursuant to the rate actions of the NMPRC, PUCT, and FERC.

Other Electric Operating Revenues

Other electric operating revenues consist primarily of PNM's sales for resale meeting the definition of a derivative under GAAP. Derivatives are not considered contracts with customers under ASU 2014-09. PNM engages in activities meeting the definition of derivatives to optimize its existing jurisdictional assets and long-term power agreements through spot market, hour-ahead, day-ahead, week-ahead, month-ahead, and other sales of any excess generation not required to fulfill retail load and contractual commitments. Through December 31, 2017, PNM's 134 MW share of Unit 3 at PVNGS was excluded from retail rates and was being sold in the wholesale market. In December 2015, the NMPRC approved PNM's request to include PVNGS Unit 3 as a jurisdictional resource to service New Mexico retail customers beginning in 2018.

Disaggregation of Revenues

A disaggregation of revenues from Contracts with customers for the three months ended March 31, 2018 by the type of customer is presented in the table below. The table also reflects ARP revenues and Other revenues.

	PNM	TNMP	Consolidated
	(In thousands)		
Electric Operating Revenues:			
Contracts with customers:			
Retail electric revenue			
Residential	$97,169	$29,266	$ 126,435
Commercial	82,849	27,152	110,001

Industrial	13,459	4,305	17,764
Public authority	4,635	1,416	6,051
Economy energy service	7,288	—	7,288
Transmission	12,482	16,508	28,990
Miscellaneous	4,682	2,140	6,822
Total revenues from contracts with customers	222,564	80,787	303,351
Alternative revenue programs	65	859	924
Other electric operating revenues	13,603	—	13,603
Total Electric Operating Revenues	$236,232	$81,646	$ 317,878

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For the three months ended March 31, 2017, ARP revenues and Other electric operating revenues were $1.1 million and $28.4 million for PNM and $3.5 million and none for TNMP.

Contract balances

Performance obligations related to contracts with customers are typically satisfied when the energy is delivered and the customer or end-user utilizes the energy. Accounts receivable from customers represent amounts billed to the customer or end-user, including amounts under ARP programs. For PNM, accounts receivable reflected on the Condensed Consolidated Balance Sheets includes $58.7 million at March 31, 2018 and $62.9 million at December 31, 2017 resulting from contracts with customers. All of TNMP's accounts receivable results from contracts with customers.

Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance). The Company has no contract assets as of March 31, 2018. Contract liabilities arise when consideration is received in advance from a customer before satisfying the performance obligations. Therefore, revenue is deferred and not recognized until the obligation is satisfied. Under its OATT, PNM accepts upfront consideration for capacity reservations requested by transmission customers, which requires PNM to defer the customer's transmission capacity rights for a specific period of time. PNM recognizes the revenue of these capacity reservations over the period it defers the customer's capacity rights. Other utilities pay PNM and TNMP in advance for the joint-use of their utility poles. These revenues are recognized over the period of time specified in the joint-use contract, typically for one calendar year. Deferred revenues on these arrangements are recorded as contract liabilities. The Company has no other arrangements with remaining performance obligations to which a portion of the transaction price would be required to be allocated.

Changes during the period in the balances of contract liabilities, which are included in Other current liabilities on the Condensed Consolidated Balance Sheets, are as follows:

	PNM	TNMP	Consolidated
	(In thousands)		
Balance at December 31, 2017	$349	$—	$ 349
Consideration received in advance of service to be provided	3,983	1,512	5,495
Deferred revenue earned	(1,099)	(378)	(1,477)
Balance at March 31, 2018	$3,233	$1,134	$ 4,367

(6) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity ("VIE"). GAAP also requires continual reassessment of the primary beneficiary of a VIE. Additional information concerning PNM's VIEs is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

Valencia

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 158 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third-party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed operation and maintenance and capacity charges in addition to variable operation and maintenance charges under this PPA. For the three months ended March 31, 2018 and 2017, PNM paid $4.9 million and $4.9 million for fixed charges and $0.3 million and $0.1 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy its obligations and creditors of Valencia do not have any recourse against PNM’s assets. During the term of the PPA, PNM has the option, under certain conditions, to purchase

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and own up to 50% of the plant or the VIE. The PPA specifies that the purchase price would be the greater of 50% of book value reduced by related indebtedness or 50% of fair market value.

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

Summarized financial information for Valencia is as follows:

Results of Operations

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Operating revenues	$4,768	$4,927
Operating expenses	(1,091)	(1,475)
Earnings attributable to non-controlling interest	$3,677	$3,452

Financial Position

	March 31, 2018	December 31, 2017
	(In thousands)	
Current assets	$2,981	$ 2,688
Net property, plant, and equipment	63,400	64,109
Total assets	66,381	66,797
Current liabilities	981	602
Owners' equity – non-controlling interest	$65,400	$ 66,195

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 ("SJGS CSA"). That section includes information on the acquisition of SJCC by WSJ, a subsidiary of Westmoreland, on January 31, 2016, as well as the $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 March 31, 2018, the amount outstanding under the Westmoreland Loan was $51.0 million. In addition, interest receivable of $1.2 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 $0.9 million plus interest of $1.8 million is due on May 1, 2018. As of April 23, 2018,

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$2.7 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 foreclose on the equity of WSJ or the assets used in 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 arm's-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 foreclose on 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 SJGS CSA. Also, much of the mine reclamation activities will not be performed until after the expiration of the SJGS 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.

On March 28, 2018, NM Capital executed an extension and waiver agreement with WSJ, which waived a technical event of default by WSJ under the Westmoreland Loan. This waiver relates solely to the required delivery of the financial statements of Westmoreland, WSJ's parent company, and expires on the earlier of May 1, 2019 or the occurrence of any other event of default. On April 2, 2018, Westmoreland filed its Annual Report on Form 10-K for the year ended December 31, 2017 with the SEC. In the Westmoreland Form 10-K, Westmoreland indicated that it has retained financial advisors and restructuring advisors "to explore strategic alternatives to strengthen the Company's balance sheet and maximize the value of the Company, which may include, but not limited to, seeking reorganization under Chapter 11 of the U.S. Bankruptcy Code." As mentioned above, in January 2016, NM Capital made the Westmoreland Loan to WSJ, which is a ring-fenced, bankruptcy remote subsidiary of Westmoreland. The Westmoreland Loan is secured by the equity interests and assets of WSJ. A bankruptcy of Westmoreland would not constitute a default by WSJ under the Westmoreland Loan and WSJ continues to perform as required by the Westmoreland Loan other than the technical default covered by the March 28, 2018 waiver.

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. PNM's involvement through the SJGS 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 SJGS 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 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.

(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 2017 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

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Company regularly assesses the validity and availability of pricing data for its derivative transactions. Although the Company uses its best judgment in estimating the fair value of these instruments, there are inherent limitations in any estimation technique.

Energy Related Derivative Contracts

Overview

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

PNM was exposed to market risk for its share of PVNGS Unit 3 through December 31, 2017, at which time PVNGS Unit 3 became a jurisdictional resource to serve New Mexico retail customers. Beginning January 1, 2018, PNM is exposed to market risk for its 65 MW interest in SJGS Unit 4, which is held as merchant plant as ordered by the NMPRC (Note 11). PNM entered into agreements to sell power from 36 MW of that capacity to a third party at a fixed price for the period January 1, 2018 through June 30, 2022, subject to certain conditions. Under these agreements, PNM is obligated to deliver 36 MW of power only when SJGS Unit 4 is operating. These agreements are not considered derivatives because there is no notional amount due to the unit-contingent nature of the transactions.

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

Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing positions in the energy markets, primarily on a short-term basis. PNM routinely enters into various derivative instruments such as forward contracts, option agreements, and price basis swap agreements to economically hedge price and volume risk on power commitments and fuel requirements and to minimize the effect of market fluctuations. PNM monitors the market risk of its commodity contracts 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 instruments for the purchase and sale of energy, which meet the definition of a derivative, based on PNM's intent. During the three months ended March 31, 2018 and the year ended December 31, 2017, PNM was not hedging its exposure to the variability in

future cash flows from commodity derivatives through designated cash flows hedges. The derivative contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. PNM has no trading transactions.

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Commodity Derivatives

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

	Economic Hedges	
	March 31, 2018	December 31, 2017
	(In thousands)	
Current assets	$ 1,087	$ 1,088
Deferred charges	3,277	3,556
	4,364	4,644
Current liabilities	(1,328)	(1,182)
Long-term liabilities	(3,277)	(3,556)
	(4,605)	(4,738)
Net	$ (241)	$ (94)

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 $4.4 million at March 31, 2018 and $4.6 million at December 31, 2017, which result from PNM's hazard sharing arrangements with Tri-State. The hazard sharing arrangements are net-settled upon delivery. Other amounts that could be offset under master netting agreements were immaterial.

At March 31, 2018 and December 31, 2017, PNM had no amounts recognized for the legal right to reclaim cash collateral. However, at March 31, 2018 and December 31, 2017, amounts posted as cash collateral under margin arrangements were $0.5 million and $0.8 million. At March 31, 2018 and December 31, 2017, obligations to return cash collateral were $0.9 million and $0.9 million. Cash collateral amounts are included in Other current assets and Other current liabilities on the Condensed Consolidated Balance Sheets.

PNM has a NMPRC-approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes $0.2 million of current liabilities at March 31, 2018 related to this plan. The offset to this amount is recorded as a regulatory asset on the Condensed Consolidated Balance Sheets. There were no amounts hedged under this plan as of December 31, 2017.

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 March 31,

	2018	2017
	(In thousands)	
Electric operating revenues	$(10)	$3,341
Cost of energy	12	11
Total gain	$2	$3,352

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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
March 31, 2018	405,000	(40,800)
December 31, 2017	100,000	—

PNM has contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. In connection with managing its commodity risks, PNM enters into master agreements with certain counterparties. If PNM is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral if PNM's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that PNM will perform; and others have no provision for collateral. At March 31, 2018 and December 31, 2017, PNM had $0.1 million and zero of such contracts in a liability position.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Investment securities are carried at fair value. Investment securities consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and trusts for PNM's share of final reclamation costs related to the coal mines serving SJGS and Four Corners (Note 11). At March 31, 2018 and December 31, 2017, the fair value of investment securities included $294.0 million and $293.7 million for the NDT and $30.0 million and $29.8 million for the mine reclamation trusts.

In January 2016, the FASB issued Accounting Standards Update 2016-01 – Financial Instruments (Subtopic 825-10), which makes targeted improvements to GAAP regarding financial instruments. ASU 2016-01 eliminates the requirement to classify investments in equity securities with readily determinable fair values into trading or available-for-sale categories and requires those equity securities to be measured at fair value with changes in fair value recognized in net income rather than in OCI. Under ASU 2016-01, the accounting for available-for-sale debt securities remains essentially unchanged. The accounting required by ASU 2016-01 is to be applied prospectively with a cumulative effect adjustment recorded as of the beginning of the year of adoption. ASU 2016-01 also revises certain presentation and disclosure requirements. Accordingly, the following information for 2018 is presented under ASU 2016-01 and the information for 2017 is presented under prior GAAP.

Prior to 2018, PNM classified all debt and equity investments held in the NDT and coal mine reclamation trusts as available-for-sale securities. Unrealized losses on these securities were recorded immediately through earnings and unrealized gains were recorded in AOCI until the securities were sold.

On January 1, 2018, PNM recorded an after-tax cumulative effect adjustment of $11.2 million to reclassify unrealized holding gains on equity securities held in the NDT and coal mine reclamation trusts from AOCI to retained earnings on the Condensed Consolidated Balance Sheets. After January 1, 2018, all gains and losses resulting from sales and

changes in the fair value of equity securities are recognized in earnings.

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

	Three Months Ended March 31, 2018 (In thousands)
Equity securities:	
Net gains from equity securities sold	$ 2,828
Net gains from equity securities still held	136
Total net gains on equity securities	2,964
Available-for-sale debt securities:	
Net gains (losses) on debt securities	(2,676)
Net gains on investment securities	$ 288

The proceeds and gross realized gains and losses on the disposition of securities held in the NDT and coal mine reclamation trusts are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold. Gross realized losses shown below exclude the (increase)/decrease in realized impairment losses of ($1.2) million and $1.1 million for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Proceeds from sales	$626,729	$266,388
Gross realized gains	$6,021	$8,645
Gross realized (losses)	$(4,677)	$(3,085)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. At March 31, 2018 and December 31, 2017, PNMR’s held-to-maturity securities consist of the Westmoreland Loan.

The Company has no available-for-sale debt securities or held-to-maturity debt 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.

At March 31, 2018, the available-for-sale and held-to-maturity debt securities had the following final maturities:

Fair Value	
Available-for-Sale	Held-to-Maturity
	PNMR

	PNMR and PNM (In thousands)	
Within 1 year	$8,562	$ —
After 1 year through 5 years	53,094	57,486
After 5 years through 10 years	66,603	—
After 10 years through 15 years	9,735	—
After 15 years through 20 years	10,061	—
After 20 years	36,263	—
	$184,318	$ 57,486

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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. 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 three months ended March 31, 2018 or the year ended December 31, 2017.

For investment securities, Level 2 and Level 3 fair values are provided by fund managers utilizing a pricing service. For level 2 fair values, the pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. Fair values of Level 2 investments in mutual funds are equal to net asset value as of year-end. Level 3 investments are comprised of corporate term loans. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For the Company’s long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. The valuation of Level 3 investments requires significant judgment by the pricing provider due to the absence of quoted market values, changes in market conditions, and the long-term nature of the assets. The significant unobservable inputs include the trading multiples of public companies that are considered comparable to the company being valued, company specific issues, estimates of liquidation value, current operating performance and future expectations of performance, changes in market outlook and the financing environment, capitalization rates, discount rates, and cash flows. For the Westmoreland Loan, fair values were determined using an internal valuation model of discounted cash flows that takes 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.

Items recorded at fair value by PNM on the Condensed Consolidated Balance Sheets are presented below by level of the fair value hierarchy along with gross unrealized gains on investments in available-for-sale securities. Under ASU 2016-01, PNM does not classify it investments in equity instruments as available-for-sale securities beginning January 1, 2018.

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		GAAP Fair Value Hierarchy			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Unrealized Gains
	(In thousands)				
March 31, 2018					
Cash and cash equivalents	$22,810	$22,810	$—	$ —	
Equity securities:					
Corporate stocks, common	35,185	35,185	—	—	
Corporate stocks, preferred	6,714	865	5,849	—	
Mutual funds and other	74,976	74,976	—	—	
Available-for-sale debt securities:					
U.S. Government	23,829	23,829	—	—	$ 271
International Government	9,894	—	9,894	—	61
Municipals	35,782	—	35,782	—	103
Corporate and other	114,813	—	112,462	2,351	680
	$324,003	$157,665	$163,987	$ 2,351	$ 1,115
Commodity derivative assets	$4,364	$—	$4,364	$ —	
Commodity derivative liabilities	(4,605)	—	(4,605)	—	
Net	$(241)	$—	$(241)	$ —	
December 31, 2017					
Available-for-sale securities					
Cash and cash equivalents	$52,636	$52,636	$—	$ —	
Equity securities:					
Domestic value	40,032	40,032	—	—	$ 4,011
Domestic growth	35,456	35,456	—	—	3,995
International and other	45,867	42,332	3,535	—	6,810
Fixed income securities:					
U.S. Government	34,317	33,645	672	—	273
Municipals	48,076	—	48,076	—	1,225
Corporate and other	67,140	—	67,140	—	1,714
	$323,524	$204,101	$119,423	$ —	$ 18,028
Commodity derivative assets	$4,644	$—	$4,644	$ —	

Commodity derivative liabilities	(4,738	) —	(4,738	) —
Net	$ (94	) $—	$ (94	) $ —

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A reconciliation of the changes in Level 3 fair value measurements is as follows:

	Corporate Debt (In thousands)
Balance at December 31, 2017	$ —
Actual return on assets sold during the period	(3)
Actual return on assets still held at period end	(11)
Purchases	2,724
Sales	(359)
Balances at March 31, 2018	$ 2,351

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:

	Carrying Amount	Fair Value	GAAP Fair Value Hierarchy Level 1	Level 2	Level 3
March 31, 2018	(In thousands)				
PNMR					
Long-term debt	$2,581,549	$2,661,283	$—	$2,661,283	$—
Westmoreland Loan	$50,991	$57,486	$—	$—	$57,486
Other investments	$375	$375	$375	$—	$—
PNM					
Long-term debt	$1,658,431	$1,703,098	$—	$1,703,098	$—
Other investments	$155	$155	$155	$—	$—
TNMP					
Long-term debt	$480,716	$513,690	$—	$513,690	$—
Other investments	$220	$220	$220	$—	$—
December 31, 2017					
PNMR					
Long-term debt	$2,437,645	$2,554,836	$—	$2,554,836	$—
Westmoreland Loan	$56,640	$66,588	$—	$—	$66,588
Other investments	$503	$503	$503	$—	$—
PNM					
Long-term debt	$1,657,910	$1,727,135	$—	$1,727,135	$—
Other investments	$283	$283	$283	$—	$—
TNMP					
Long-term debt	$480,620	$527,563	$—	$527,563	$—
Other investments	$220	$220	$220	$—	$—

(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 2017 Annual Reports on Form 10-K.

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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, awards to employees 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. Awards of restricted stock to non-employee members of the Board are expensed over a one year vesting period.

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 over the performance period as required service is provided and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees meet their service requirements. At March 31, 2018 and December 31, 2017, PNMR had unrecognized expense related to stock awards of $5.8 million and $3.8 million, which are expected to be recognized over an average of 2.04 and 1.53 years.

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

	Three Months Ended March 31,	
Restricted Shares and Performance Based Shares	2018	2017
Expected quarterly dividends per share	$0.2650	$0.2425
Risk-free interest rate	2.39 %	1.58 %
Market-Based Shares		
Dividend yield	2.96 %	2.67 %

Expected volatility	19.12 %	20.80 %
Risk-free interest rate	2.36 %	1.54 %

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The following table summarizes activity in restricted stock awards, including performance-based and market-based shares, and stock options, for the three months ended March 31, 2018:

	Restricted Stock		Stock Options	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Exercise Price
Outstanding at December 31, 2017	189,045	$ 31.11	193,441	$ 9.98
Granted	204,654	$ 29.03	—	$ —
Exercised	(201,162)	$ 27.68	(97,941)	$ 8.19
Forfeited	(3,562)	$ 30.58	—	$ —
Expired	—	$ —	—	$ —
Outstanding at March 31, 2018	188,975	$ 32.52	95,500	$ 11.81

PNMR's stock-based compensation program provides for performance and market targets through 2020. Included as granted and as exercised in the above table are 97,697 previously awarded shares that were earned for the 2015 through 2017 performance measurement period and ratified by the Board in February 2018 (based upon achieving market targets at "target" levels, weighted at 60%, and performance targets at below "target" levels, weighted at 40%). Excluded from the above table are maximums of 134,219, 155,291, and 152,750 shares for the three-year performance periods ending in 2018, 2019, and 2020 that would be awarded if all performance and market criteria are achieved at maximum levels and all executives remain eligible.

Effective as of January 1, 2015, the Company entered into a retention award agreement with its Executive Vice President and Chief Financial Officer under which he would receive awards of restricted stock if PNMR met specific performance targets at the end of 2016 and 2017 and he remained an employee of the Company. If PNMR achieved the specified performance target for the period from January 1, 2015 through December 31, 2016, he was to receive $100,000 of PNMR common stock based on the market value per share on the grant date in early 2017. The specified market target was achieved at the end of 2016 and the Board ratified him receiving $100,000 of PNMR common stock in February 2017 based on a market per share value of $36.30 on the grant date of March 3, 2017, or 2,754 shares. Similarly, if PNMR achieved the specified performance target for the period from January 1, 2015 through December 31, 2017, he was to receive $275,000 of PNMR common stock based on the market value per share on the grant date in early 2018. The specified performance target was achieved at the end of 2017 and the Board ratified him receiving $275,000 of PNMR common stock in February 2018 based on the market value per share of $35.85 on the grant date of March 2, 2018, or 7,670 shares, which are included in the above table. The retention award was made under the PEP and was approved by the Board on December 9, 2014.

In March 2015, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive 53,859 shares of PNMR's common stock if PNMR meets certain performance targets at the end of 2019 and she remains an employee of the Company. Under the agreement, she was to receive 17,953 of the total shares if PNMR achieved specific performance targets at the end of 2017. The specified performance target was achieved at the end of 2017 and the Board ratified her receiving the 17,953 shares in February

2018, which are included in the above table. The retention award was made under the PEP and was approved by the Board on February 26, 2015. The above table does not include the restricted stock shares that remain unvested under this retention award agreement.
At March 31, 2018, the aggregate intrinsic value of stock options outstanding, all of which are exercisable, was $2.5 million with a weighted-average remaining contract life of 1.8 years. At March 31, 2018, no outstanding stock options had an exercise price greater than the closing price of PNMR common stock on that date.

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

	Three Months Ended March 31,	
Restricted Stock	2018	2017
Weighted-average grant date fair value	$29.03	$22.12
Total fair value of restricted shares that vested (in thousands)	$7,162	$5,024
Stock Options		
Weighted-average grant date fair value of options granted	$—	$—
Total fair value of options that vested (in thousands)	$—	$—
Total intrinsic value of options exercised (in thousands)	$2,711	$945

(9) Financing

The Company’s financing strategy includes both short-term and long-term borrowings. The Company utilizes short-term revolving credit facilities, as well as cash flows from operations, to provide funds for both construction and operating expenditures. Depending on market and other conditions, the Company will periodically sell long-term debt or enter into term loan arrangements and use the proceeds to reduce borrowings under the revolving credit facilities or refinance other debt. Each of the Company’s revolving credit facilities and term loans contains a single financial covenant, which requires the maintenance of a debt-to-capital ratio of less than or equal to 65%, and generally also include customary covenants, events of default, cross default provisions, and change of control provisions. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. Additional information concerning financing activities is contained in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

Financing Activities

As discussed in Note 11, NM Capital, a wholly-owned subsidiary of PNMR, entered into a $125.0 million term loan agreement (the “BTMU Term Loan Agreement”) with BTMU, as lender and administrative agent, as of February 1, 2016. The BTMU Term Loan Agreement has a maturity of February 1, 2021 and bears interest at a rate based on LIBOR plus a customary spread, which aggregated 4.41% at March 31, 2018. PNMR, as parent company of NM Capital, has guaranteed NM Capital’s obligations to BTMU. NM Capital utilized the proceeds of the BTMU Term Loan Agreement to provide funding of $125.0 million (the “Westmoreland Loan”) to a ring-fenced, bankruptcy-remote, special-purpose entity that is a subsidiary of Westmoreland Coal Company to finance Westmoreland’s purchase of SJCC. See Note 6. The BTMU Term Loan Agreement requires that NM Capital utilize all amounts, less taxes and fees, it receives under the Westmoreland Loan to repay the BTMU Term Loan Agreement. The principal balance outstanding under the BTMU Term Loan Agreement was $45.1 million at March 31, 2018. Based on scheduled payments on the Westmoreland Loan, NM Capital estimates it will make principal payments of $10.0 million on the BTMU Term Loan Agreement in the twelve months ended March 31, 2019.

On October 21, 2016, PNMR entered into letter of credit arrangements with JPMorgan Chase Bank, N.A. (the “JPM LOC Facility”) under which letters of credit aggregating $30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC is required to post in connection with permits relating to the operation of the San Juan mine (Note 11).

On July 28, 2017, PNM entered into an agreement (the “PNM 2017 Senior Unsecured Note Agreement”) with institutional investors for the sale of $450.0 million aggregate principal amount of Senior Unsecured Notes (the “PNM 2018 SUNs”) offered in private placement transactions. Under the PNM 2017 Senior Unsecured Note Agreement, PNM has agreed to issue $350.0 million of the PNM 2018 SUNs on or about May 15, 2018 and $100.0 million of the PNM 2018 SUNs on or about August 1, 2018. The issuances of the PNM 2018 SUNs are subject to the satisfaction of customary conditions. PNM will use the gross proceeds from the PNM 2018 SUNs to repay $350.0 million of PNM’s 7.95% Senior Unsecured Notes that mature on May 15, 2018 and $100.0 million of PNM’s 7.50% Senior Unsecured Notes that mature on August 1, 2018. The terms of the PNM 2017 Senior

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Unsecured Note Agreement include customary covenants, including a covenant that requires the maintenance of a debt-to-capital ratio of less than or equal to 65%, customary events of default, including a cross default provision, and covenants regarding parity of financial covenants, liens and guarantees with respect to PNM's material credit facilities. In the event of a change of control, PNM will be required to offer to prepay the PNM 2018 SUNs at par. PNM will have the right to redeem any or all of the PNM 2018 SUNs prior to their respective maturities, subject to payment of a customary make-whole premium. In accordance with GAAP, aggregate borrowings of $450.0 million under PNM's Senior Unsecured Notes due on May 15, 2018 and August 1, 2018, are reflected as being long-term in the Condensed Consolidated Balance Sheet at March 31, 2018 since the PNM 2017 Senior Unsecured Note Agreement demonstrates PNM's ability and intent to re-finance the aggregate $450.0 million Senior Unsecured Notes on a long-term basis. Information concerning the maturities and interest rates on the PNM 2018 SUNs to be issued in May 2018 and August 2018 is as follows:

Scheduled Funding Date	Maturity Date	Principal Amount (In millions)	Interest Rate
May 15, 2018	May 15, 2023	$ 55.0	3.15 %
May 15, 2018	May 15, 2025	104.0	3.45 %
May 15, 2018	May 15, 2028	88.0	3.68 %
May 15, 2018	May 15, 2033	38.0	3.93 %
May 15, 2018	May 15, 2038	45.0	4.22 %
May 15, 2018	May 15, 2048	20.0	4.50 %
		350.0	
August 1, 2018	August 1, 2028	15.0	3.78 %
August 1, 2018	August 1, 2048	85.0	4.60 %
		100.0	
		$ 450.0	

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On March 9, 2018, PNMR issued $300.0 million aggregate principal amount of 3.250% Senior Unsecured Notes (the "PNMR 2018 SUNs"), which mature on March 9, 2021. The proceeds from the offering were used to repay the $150.0 million PNMR 2015 Term Loan Agreement, and to reduce borrowings under the PNMR Revolving Credit Facility.

At March 31, 2018, variable interest rates were 2.64% on the $100.0 million PNMR 2016 Two-Year Term Loan, which matures in December 2018, and 2.61% on the $200.0 million PNM 2017 Term Loan Agreement, which matures in January 2019.

Short-term Debt and Liquidity

Currently, the PNMR Revolving Credit Facility has a financing capacity of $300.0 million and the PNM Revolving Credit Facility has a financing capacity of $400.0 million. PNMR and PNM have entered into agreements to extend

the maturities of both facilities to October 31, 2022. However, one lender, whose current commitment is $10.0 million under the PNMR Revolving Credit Facility and $40.0 million under the PNM Revolving Credit Facility, did not agree to extend its commitments beyond October 31, 2020. Unless one or more of the other current lenders or a new lender assumes the commitments of the non-extending lender, the financing capacities will be reduced to $290.0 million for the PNMR Revolving Credit Facility and $360.0 million for the PNM Revolving Credit Facility from November 1, 2020 through October 31, 2022. PNM also has the $40.0 million PNM 2017 New Mexico Credit Facility that expires on December 12, 2022. The TNMP Revolving Credit Facility is a $75.0 million revolving credit facility secured by $75.0 million aggregate principal amount of TNMP first mortgage bonds and matures on September 23, 2022.

On February 26, 2018, PNMR Development entered into a revolving credit facility with Wells Fargo Bank, National Association, as lender, which allows PNMR Development to borrow up to $24.5 million on a revolving credit basis and also provides for the issuance of letters of credit. The facility expires on February 25, 2019, bears interest at a variable rate, and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development uses the facility to finance its participation in NMRD and other activities.

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Short-term debt outstanding consisted of:

Short-term Debt	March 31, 2018	December 31, 2017
	(In thousands)	
PNM:		
PNM Revolving Credit Facility	$—	$39,800
PNM 2017 New Mexico Credit Facility	—	—
	—	39,800
TNMP Revolving Credit Facility	21,200	—
PNMR:		
PNMR Revolving Credit Facility	96,000	165,600
PNMR 2016 One-Year Term Loan (as extended)	100,000	100,000
PNMR Development Revolving Credit Facility	21,500	—
	$238,700	$305,400

At March 31, 2018, the weighted average interest rate was 3.05% for the PNMR Revolving Credit Facility, 2.54% for the TNMP Revolving Credit Facility, 2.72% for the PNMR Development Revolving Credit Facility, and 2.63% for the PNMR 2016 One-Year Term Loan (as extended), which matures in December 2018.

In addition to the above borrowings, PNMR, PNM, and TNMP had letters of credit outstanding of $6.4 million, $2.5 million, and $0.1 million at March 31, 2018 that reduce the available capacity under their respective revolving credit facilities. The above table excludes intercompany debt. As of March 31, 2018 and December 31, 2017, PNM had $54.6 million and zero and TNMP had $2.6 million and zero of intercompany borrowings from PNMR. On April 9, 2018, PNMR Development deposited $68.2 million with PNM related to transmission network interconnection studies. PNM used the deposit to repay intercompany borrowings.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, subject to change if there is a change in PNMR’s credit rating, for three separate tranches, each of $50.0 million, of its variable rate debt. These hedge agreements are accounted for as cash flow hedges. These hedge agreements had fair value gains totaling $3.1 million at March 31, 2018 that is included in Other deferred charges and $1.4 million at December 31, 2017 that is included in Other current assets on the Condensed Consolidated Balance Sheets. The fair values were determined using Level 2 inputs under GAAP, including using forward LIBOR curves under the mid-market convention to discount cash flows over the remaining term of the agreement.

At April 23, 2018, PNMR, PNM, TNMP, and PNMR Development had availability of $197.4 million, $397.5 million, $34.5 million, and none under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit, and PNM had $40.0 million of availability under the PNM New Mexico Credit Facility. Total availability at April 23, 2018, on a consolidated basis, was $669.4 million for PNMR. As of April 23, 2018, PNM and TNMP had no borrowings from PNMR under their intercompany loan agreements. At April 23, 2018, PNMR, PNM, and TNMP had invested cash of $0.9 million, $8.6 million, and none.

As described above, PNM entered into the PNM 2017 Senior Unsecured Note Agreement on July 28, 2017 to issue $450.0 million of the PNM 2018 SUNs on May 15, 2018 and August 1, 2018, proceeds from which will be used to repay like amounts of PNM Senior Unsecured Notes maturing on those dates. The $200.0 million PNM 2017 Term Loan Agreement matures on January 18, 2019. PNM has no other long-term debt due through March 31, 2019. The $100.0 million PNMR 2016 One-Year Term Loan (as extended) matures on December 14, 2018 and the $100.0 million PNMR 2016 Two-Year Term Loan matures on December 21, 2018. PNMR also anticipates repayments on the BTMU Term Loan Agreement of $10.0 million in the period from April 1, 2018 through March 31, 2019 and $9.4 million in the remainder of 2019. TNMP has $172.3 million of first mortgage bonds that are due in April 2019. The $24.5 million PNMR Development revolving credit facility expires on February 25, 2019. Additional information on debt maturities is contained in Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

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(10) Pension and Other Postretirement Benefit Plans

PNMR and its subsidiaries maintain qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs (collectively, the "PNM Plans" and "TNMP Plans"). PNMR maintains the legal obligation for the benefits owed to participants under these plans. The periodic costs or income of the PNM Plans and TNMP Plans are included in regulated rates to the extent attributable to regulated operations. PNM and TNMP receive a regulated return on the amounts funded for pension and OPEB plans in excess of the periodic cost or income to the extent included in retail rates (a "prepaid pension asset").

Additional information concerning pension and OPEB plans is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K. Annual net periodic benefit cost for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year.

In March 2017, the FASB issued Accounting Standards Update 2017-07 – Compensation - Retirement Benefits (Topic 715) to improve the presentation of net periodic pension and other postretirement benefit costs. Prior to ASU 2017-07, the Company presented all of its net periodic benefit costs, net of amounts capitalized to construction and other accounts, as Administrative and general expenses on its statements of earnings. ASU 2017-07 requires the service cost component of net benefit costs be presented in the same line item or items as employees' compensation. The other components of net periodic benefit cost (the "non-service cost components") are required to be presented separately from the service cost component and outside of operating income. ASU 2017-07 also limits capitalization of net periodic benefit costs to only the service cost component. ASU 2017-07 requires retrospective presentation of the service and non-service cost components of net periodic benefit costs in the income statement and prospective application regarding the capitalization of only the service cost component of net periodic benefit costs. The Company adopted ASU 2017-07 as of January 1, 2018, its required effective date. In accordance with the standard, the PNM and PNMR Condensed Consolidated Statements of Earnings for the three months ended March 31, 2017 reflect a reclassification of Administrative and general expenses to Other deductions for the non-service cost components of net periodic benefit costs in the amount of $2.1 million, net of amounts capitalized prior to the adoption of the standard. The non-service components of TNMP's net periodic benefit costs in 2017 were insignificant. The Company believes PNM and TNMP can continue to capitalize the non-service cost components of net periodic benefit costs as regulatory assets and liabilities to the extent attributable to regulated operations. During the three months ended March 31, 2018, PNM recorded $0.9 million of non-service cost as Other deductions, which is net of $0.3 million deferred as regulatory assets, and TNMP recorded $0.1 million of non-service cost to Other income, which is net of less than $0.1 million deferred as regulatory liabilities.

PNM Plans

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

	Three Months Ended March 31,		
	Pension Plan	OPEB Plan	Executive Retirement

					Program	
	2018	2017	2018	2017	2018	2017
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$—	$—	$21	$24	$—	$—
Interest cost	6,068	6,727	860	1,006	155	174
Expected return on plan assets	(8,672)	(8,451)	(1,353)	(1,308)	—	—
Amortization of net (gain) loss	4,087	4,001	588	921	90	78
Amortization of prior service cost	(241)	(241)	(416)	(416)	—	—
Net periodic benefit cost	$1,242	$2,036	$(300)	$227	$245	$252

PNM did not make any contributions to its pension plan trust in the three months ended March 31, 2018 and 2017 and does not anticipate making any contributions to the pension plan in 2018-2021, but expects to contribute $5.1 million in 2022, based on current law, including recent amendments to funding requirements, and estimates of portfolio performance. The funding

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assumptions were developed using discount rates of 4.0% to 5.1%. Actual amounts to be funded in the future will be dependent on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM made no contributions to the OPEB trust in the three months ended March 31, 2018 and 2017. PNM does not expect to make any contributions to the OPEB trust in 2018-2022. Disbursements under the executive retirement program, which are funded by PNM and considered to be contributions to the plan, were $0.5 million and $0.5 million in the three months ended March 31, 2018 and 2017 and are expected to total $1.5 million during 2018 and $5.7 million for 2019-2022.

TNMP Plans

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

	Three Months Ended March 31,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2018	2017	2018	2017	2018	2017
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	$—	$ —	$ 33	$ 36	$ —	$ —
Interest cost	656	722	119	139	7	8
Expected return on plan assets	(991)	(945)	(135)	(114)	—	—
Amortization of net (gain) loss	272	231	(56)	(20)	4	2
Amortization of prior service cost	—	—	—	—	—	—
Net Periodic Benefit Cost	$ (63)	$ 8	$ (39)	$ 41	$ 11	$ 10

TNMP did not make any contributions to its pension plan trust in the three months ended March 31, 2018 and 2017 and does not anticipate making any contributions in 2018-2022, based on current law, including recent amendments to funding requirements, and estimates of portfolio performance. The funding assumptions were developed using discount rates of 4.0% to 5.1%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP made contributions of $0.3 million and $0.7 million to the OPEB trust in the three months ended March 31, 2018 and 2017. TNMP expects to make no additional contributions to the OPEB trust in 2018 and $1.4 million for 2019-2022. Disbursements under the executive retirement program, which are funded by TNMP and considered to be contributions to the plan, were less than $0.1 million in the three months ended March 31, 2018 and 2017 and are expected to total $0.1 million during 2018 and $0.4 million in 2019-2022.

(11) Commitments and Contingencies

Overview

There are various claims and lawsuits pending against the Company. The Company also is subject to federal, state, and local environmental laws and regulations and periodically participates in the investigation and remediation of various sites. In addition, the Company periodically enters into financial commitments in connection with its business

operations. Also, the Company is involved in various legal and regulatory (Note 12) proceedings in the normal course of its business. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

With respect to some of the items listed below, the Company has determined that a loss is not probable or that, to the extent probable, cannot be reasonably estimated. In some cases, the Company is not able to predict with any degree of certainty the range of possible loss that could be incurred. The Company assesses legal and regulatory matters based on current information and makes judgments concerning their potential outcome, giving due consideration to the nature of the claim, the amount and nature of any damages sought, and the probability of success. Such judgments are made with the understanding that the outcome of any litigation, investigation, or other legal proceeding is inherently uncertain. In accordance with GAAP, the Company records liabilities for matters where it is probable a loss has been incurred and the amount of loss is reasonably estimable. The actual outcomes of the items listed below could ultimately differ from the judgments made and the differences could be material. The Company

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cannot make any assurances that the amount of reserves or potential insurance coverage will be sufficient to cover the cash obligations that might be incurred as a result of litigation or regulatory proceedings. Except as otherwise disclosed, the Company does not expect that any known lawsuits, environmental costs, and commitments will have a material effect on its financial condition, results of operations, or cash flows.
Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.

Commitments and Contingencies Related to the Environment

Nuclear Spent Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE that require the DOE to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE announced that it would not be able to open the repository by 1998 and sought to excuse its performance of these requirements. In November 1997, the DC Circuit issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. Based on this decision and the DOE's delay, a number of utilities, including APS (on behalf of itself and the other PVNGS owners, including PNM), filed damages actions against the DOE in the Court of Federal Claims. The lawsuits filed by APS alleged that damages were incurred due to DOE's continuing failure to remove spent nuclear fuel and high-level waste from PVNGS. In August 2014, APS and the DOE entered into a settlement agreement, which established a process for the payment of claims for costs incurred through December 31, 2016. The settlement agreement has been extended to December 31, 2019. Under the settlement agreement, APS must submit claims annually for payment of allowable costs. PNM records estimated claims on a quarterly basis. The benefit from the claims is passed through to customers under the FPPAC to the extent applicable to NMPRC regulated operations.

PNM estimates that it will incur approximately $57.7 million (in 2016 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the nuclear fuel is consumed. At March 31, 2018 and December 31, 2017, PNM had a liability for interim storage costs of $12.2 million and $12.3 million included in other deferred credits.

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

On June 8, 2012, the DC Circuit issued its decision on a challenge by several states and environmental groups of the NRC's rulemaking regarding temporary storage and permanent disposal of high level nuclear waste and spent nuclear fuel. The petitioners had challenged the NRC's 2010 update to the agency's Waste Confidence Decision and temporary storage rule (the "Waste Confidence Decision"). The DC Circuit found that the Waste Confidence Decision update

constituted a major federal action, which, consistent with NEPA, requires either an environmental impact statement or a finding of no significant impact from the NRC's actions. The DC Circuit found that the NRC's evaluation of the environmental risks from spent nuclear fuel was deficient and, therefore, remanded the Waste Confidence Decision update for further action consistent with NEPA. On September 6, 2012, the NRC commissioners issued a directive to the NRC staff to proceed with development of a generic EIS to support an updated Waste Confidence Decision, which was issued in September 2013. On August 26, 2014, the NRC approved a final rule on the environmental effects of continued storage of spent nuclear fuel. The continued storage rule adopted the findings of the generic EIS regarding the environmental impacts of storing spent fuel at any reactor site after the reactor's licensed period of operations. As a result, those generic impacts do not need to be re-analyzed in the environmental reviews for individual licenses. The August 2014 final rule has been subject to continuing legal challenges before the NRC and the United States Court of Appeals. On May 19, 2016, the NRC denied petitions filed by multiple petitioners to revise the August 2014 rule. The DC Circuit issued an order upholding the August 2014 rule on June 3, 2016 and denied a subsequent petition for rehearing on August 8, 2016.

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In 2011, the National Association of Regulatory Utility Commissioners and the Nuclear Energy Institute challenged, in the DC Circuit, DOE's 2010 determination of the adequacy of the one tenth of a cent per KWh fee (the "one-mill fee") paid by the nation's commercial nuclear power plant owners pursuant to their individual contracts with the DOE. On January 3, 2014, the DOE notified Congress of its intention to suspend collection of the one-mill fee, subject to Congress' disapproval, as ordered by the DC Circuit. On May 16, 2014, the DOE adjusted the fee to zero. PNM cannot predict if there will be challenges to this action or the potential outcome of such challenges.

The Clean Air Act

Regional Haze

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

On January 10, 2017, EPA published in the Federal Register revisions to the regional haze rule. EPA also provided a companion draft guidance document for public comment. The new rule delayed the due date for the next cycle of SIPs from 2019 to 2021, altered the planning process that states must employ in determining whether to impose "reasonable progress" emission reduction measures, and gave new authority to federal land managers to seek additional emission reduction measures outside of the states' planning process. Finally, the rule made several procedural changes to the regional haze program, including changes to the schedule and process for states to file 5-year progress reports. EPA's new rule was challenged by numerous parties. On January 19, 2018, EPA filed a motion to hold the case in abeyance in light of several letters issued by EPA on January 17, 2018 to grant various petitions for reconsideration of the 2017 rule revisions. On January 30, 2018, the court placed the case in abeyance and directed EPA to file status reports on 90-day intervals beginning April 30, 2018. Although EPA's decision to revisit the rule is not a determination on the merits of the issues raised in those petitions, EPA is likely to propose and take comment on additional revisions to the regional haze rules in the near future. PNM is evaluating the potential impacts of this rule.

SJGS

BART Compliance – SJGS is a source that is subject to the statutory obligations of the CAA to reduce visibility impacts. Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K contains detailed information concerning the BART compliance process, including interactions with governmental

agencies responsible for environmental oversight and the NMPRC approval process. In December 2015, PNM received NMPRC approval for the plan to comply with the EPA regional haze rule at SJGS. Under the approved plan, the installation of selective non-catalytic reduction technology (“SNCR”) on SJGS Units 1 and 4 was completed in early 2016 and Units 2 and 3 were retired in December 2017. In addition to the required SNCR equipment, the NSR permit, which was required to be obtained in order to install the SNCRs, specified that SJGS Units 1 and 4 be converted to balanced draft technology (“BDT”). See Note 12 for information concerning the NMPRC’s treatment of BDT in PNM’s NM 2015 Rate Case.

The December 2015 NMPRC order also provided, among other things, that:

- PNM was granted a CCN to acquire an additional 132 MW in SJGS Unit 4 effective January 1, 2018
- PNM was granted a CCN for 134 MW of PVNGS Unit 3 as a jurisdictional resource to serve New Mexico customers beginning January 1, 2018

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- No later than December 31, 2018, and before entering into a binding agreement for post-2022 coal supply for SJGS, PNM will file its position in a NMPRC case to determine the extent to which SJGS should continue serving PNM's retail customers' needs after mid-2022; all parties to the stipulation agree to support this case being decided within six months (see Other SJGS Matters below and Note 12)
- PNM was authorized to acquire 65 MW of SJGS Unit 4 as merchant plant

NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's December 2015 order alleging that the NMPRC's decision violated New Mexico statutes and NMPRC regulations because PNM did not adequately consider replacement resources other than those proposed by PNM, the NMPRC did not require PNM to adequately address and mitigate ratepayer risk, the NMPRC unlawfully shifted the burden of proof, and the NMPRC's decision was arbitrary and capricious. The parties presented oral argument to the court on January 25, 2017. On March 5, 2018, the NM Supreme Court issued its opinion affirming the NMPRC's December 2015 order, thereby denying NEE's appeal. A request for rehearing of the NM Supreme Court's decision was not filed by the statutory deadline. This matter is now concluded.

NEE Complaint – On March 31, 2016, NEE filed a complaint with the NMPRC against PNM regarding the financing provided by NM Capital to facilitate the sale of SJCC (see Coal Supply below). The complaint alleges that PNM failed to comply with its discovery obligation in the SJGS abandonment case and requests the NMPRC investigate whether the financing transactions could adversely affect PNM's ability to provide electric service to its retail customers. PNM responded to the complaint on May 4, 2016. On January 31, 2018, NEE filed a motion asking the NMPRC to investigate whether PNM's relationship with WSJ, in light of Westmoreland's financial condition, could be harmful to PNM's customers. PNM responded requesting the NMPRC deny the motion and that NEE's prior complaint be dismissed. The NMPRC has taken no action on these matters. PNM cannot currently predict the outcome of these matters.

SJGS Ownership Restructuring Matters – As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, SJGS was jointly owned by PNM and eight other entities. The SJPPA that governs the operation of SJGS expires on July 1, 2022. In connection with the plan to comply with EPA regional haze rules at SJGS, some of the SJGS participants expressed a desire to exit their ownership in the plant. As a result, the SJGS participants negotiated a restructuring of the ownership in SJGS and addressed the obligations of the exiting participants for plant decommissioning, mine reclamation, environmental matters, and certain future operating costs, among other items.

On July 31, 2015, the SJGS participants executed the San Juan Project Restructuring Agreement ("SJGS RA"). The SJGS RA provides the essential terms of restructured ownership and addresses other related matters, including that the exiting participants remain obligated for their proportionate shares of environmental, mine reclamation, and certain other legacy liabilities that are attributable to activities that occurred prior to their exit. The SJGS RA became effective contemporaneously with the effectiveness of the new SJGS CSA. The effectiveness of the new SJGS CSA was dependent on the closing of the purchase of the existing coal mine operation by a new mine operator, which occurred on January 31, 2016 as discussed in Coal Supply below.

Other SJGS Matters – Although the SJGS RA results in an agreement among the SJGS participants enabling compliance with current CAA requirements, it is possible that the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, and other business considerations, could jeopardize the economic viability of SJGS or the ability or willingness of individual participants to continue participation in the plant. PNM's 2017 IRP (Note 12) filed with the NMPRC on July 3, 2017 presented resource portfolio plans for scenarios that assumed SJGS will operate beyond the end of the current coal supply agreement that runs through June 30, 2022 and for scenarios that assumed SJGS will cease operations after mid-2022. The 2017 IRP data shows that retiring SJGS in 2022 would provide long-term cost benefits to PNM's customers.

Four Corners

On August 6, 2012, EPA issued its Four Corners FIP with a final BART determination for Four Corners. The rule included two compliance alternatives. On December 30, 2013, APS notified EPA that the Four Corners participants selected the alternative that required APS to permanently close Units 1, 2, and 3 by January 1, 2014 and install SCR post-combustion NOx controls on each of Units 4 and 5 by July 31, 2018. Installation of SCRs on Four Corners Unit 5 was completed in March 2018 and the installation on Unit 4 is anticipated to be completed in May 2018. PNM owns a 13% interest in Units 4 and 5, but had no ownership interest in Units 1, 2, and 3, which were shut down by APS on December 30, 2013. For particulate matter emissions, EPA is

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requiring Units 4 and 5 to meet an emission limit of 0.015 lbs/MMBTU and the plant to meet a 20% opacity limit, both of which are achievable through operation of the existing baghouses. Although unrelated to BART, the final BART rule also imposes a 20% opacity limitation on certain fugitive dust emissions from Four Corners' coal and material handling operations.
PNM estimates its share of costs for post-combustion controls at Four Corners Units 4 and 5 to be up to $89.0 million, including amounts incurred through March 31, 2018 and PNM's AFUDC. See Note 17 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and Note 12 for a discussion of the treatment of these costs in PNM's NM 2016 Rate Case.

The Four Corners participants' obligations to comply with EPA's final BART determinations, coupled with the financial impact of climate change regulation or legislation, other environmental regulations, and other business or regulatory considerations, could jeopardize the economic viability of Four Corners or the ability of individual participants to continue their participation in Four Corners.

Four Corners Federal Agency Lawsuit – On April 20, 2016, several environmental groups filed a lawsuit against OSM and other federal agencies in the United States District Court for the District of Arizona in connection with their issuance of the approvals that extended the life of Four Corners and the adjacent mine. The lawsuit alleges that these federal agencies violated both the ESA and NEPA in providing the federal approvals necessary to extend operations at Four Corners and the adjacent mine past July 6, 2016. The court granted an APS motion to intervene in the litigation on August 3, 2016. On September 15, 2016, NTEC, the current owner of the mine providing coal to Four Corners, filed a motion to intervene for the limited purpose of seeking dismissal of the lawsuit based on NTEC's tribal sovereign immunity. On September 11, 2017, the court granted NTEC's motion and dismissed the case with prejudice, terminating the proceedings. The environmental group plaintiffs filed a Notice of Appeal of the dismissed order in the United States Court of Appeals for the Ninth Circuit on November 9, 2017. PNM cannot predict if such appeal will be successful and, if it is successful, the outcome of further district court proceedings.

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

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. On January 21, 2016, the DC Circuit denied petitions to stay the Clean Power Plan, but 29 states and state agencies successfully petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. The decision means the Clean Power Plan is not in effect and neither states nor sources are obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a ten judge en banc panel. However, before the DC Circuit could issue an opinion, the Trump Administration asked that the case be held in abeyance while the rule is re-evaluated, which was granted.

On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order puts forth two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order directs the EPA Administrator to immediately review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Clean Power Plan, (2) the NSPS for GHG from new, reconstructed, or modified electric generating units, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. It also directs the EPA Administrator to notify the US Attorney General of his intent to review rules subject to pending litigation so that the US Attorney General may notify the court and, in his discretion, request that the court delay further litigation pending completion of the reviews. In response to the Executive Order, EPA filed a petition with the DC Circuit requesting the cases challenging the Clean Power Plan be held in abeyance until 30 days after the conclusion of EPA's review and any subsequent rulemaking, which was granted. In addition, the DC Circuit issued a similar order in connection with a motion filed by EPA to hold cases challenging the NSPS in abeyance.

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On October 10, 2017, EPA issued a NOPR proposing to repeal the Clean Power Plan and filed its status report with the court requesting the case be held in abeyance until the completion of the rulemaking on the proposed repeal. The NOPR proposes a legal interpretation concluding that the Clean Power Plan exceeds EPA's statutory authority. Under the proposed interpretation, Section 111(d) limits EPA's authority to adopt performance standards to only those physical and operational changes that can be implemented within an individual source. Therefore, measures in the Clean Power Plan that would require power generators to change their energy portfolios by shifting generation from coal to gas and from fossil fuel to renewable energy exceed EPA's statutory authority. The NOPR was published in the Federal Register on October 16, 2017 and comments were due by April 26, 2018. Any final rule will be subject to judicial review. In a separate but related action, on December 28, 2017, EPA published the Advance Notice of Proposed Rulemaking for replacement of the Clean Power Plan. EPA indicated it has not determined whether it will promulgate a new rule under section 111(d) or what form a new rule would take. Comments to EPA's new rule were due by February 26, 2018.

The proposed federal plan released concurrently with the Clean Power Plan is important to Four Corners and the Navajo Nation. Since the Navajo Nation does not have primacy over its air quality program, EPA would be the regulatory authority responsible for implementing the Clean Power Plan on the Navajo Nation if the Clean Power Plan is ultimately sustained. In addition, the proposed rule recommended that EPA determine it is "necessary or appropriate" for EPA to regulate CO_2 emissions on the Navajo Nation. The comment period for the proposed rule closed on January 21, 2016. APS and PNM filed separate comments with EPA on EPA's draft plan and model trading rules, advocating that such a federal plan is neither necessary nor appropriate to protect air quality on the Navajo Nation. PNM is unable to predict the financial or operational impacts on Four Corners operations if the Clean Power Plan is ultimately implemented as proposed and EPA determines that a federal plan is necessary or appropriate for the Navajo Nation.

PNM's review of the CO_2 emission reductions standards under the Clean Power Plan is ongoing and the assessment of its impacts will depend on the proposed repeal of the Clean Power Plan, future GHG reduction rulemaking, litigation of any final rule, and other actions the Trump Administration is taking through judicial and regulatory proceedings. Accordingly, PNM cannot predict the impact these standards may have on its operations or a range of the potential costs of compliance, if any.

National Ambient Air Quality Standards ("NAAQS")
The CAA requires EPA to set NAAQS for pollutants considered harmful to public health and the environment. EPA has set NAAQS for certain pollutants, including NOx, SO_2, ozone, and particulate matter. In 2010, EPA updated the primary NOx and SO_2 NAAQS to include a 1-hour maximum standard while retaining the annual standards for NOx and SO_2 and the 24-hour SO_2 standard. New Mexico is in attainment for the 1-hour NOx NAAQS. On May 13, 2014, EPA released the draft data requirements rule for the 1-hour SO_2 NAAQS, which directs state and tribal air agencies to characterize current air quality in areas with large SO_2 sources to identify maximum 1-hour SO_2 concentrations. The proposed rule also describes the process and timetable by which air regulatory agencies would characterize air quality around large SO_2 sources through ambient monitoring or modeling. This characterization will result in these areas being designated as attainment, nonattainment, or unclassified for compliance with the 1-hour SO_2 NAAQS. On March 2, 2015, the United States District Court for the Northern District of California approved a settlement that

imposes deadlines for EPA to identify areas that violate the NAAQS standards for 1-hour SO_2 emissions. The settlement results from a lawsuit brought by Earthjustice on behalf of the Sierra Club and the Natural Resources Defense Council under the CAA. The consent decree requires the following: (1) within 16 months of the consent decree entry, EPA must issue area designations for areas containing non-retiring facilities that either emitted more than 16,000 tons of SO_2 in 2012 or emitted more than 2,600 tons with an emission rate of 0.45 lbs/MMBTU or higher in 2012; (2) by December 2017, EPA must issue designations for areas for which states have not adopted a new monitoring network under the proposed data requirements rule; and (3) by December 2020, EPA must issue designations for areas for which states have adopted a new monitoring network under the proposed data requirements rule. SJGS and Four Corners SO_2 emissions are below the thresholds set forth in (1) above. EPA regions sent letters to state environmental agencies explaining how EPA plans to implement the consent decree. The letters outline the schedule that EPA expects states to follow in moving forward with new SO_2 non-attainment designations. NMED did not receive a letter.

On August 11, 2015, EPA released the Data Requirements Rule for SO_2, telling states how to model or monitor to determine attainment or nonattainment with the new 1-hour SO_2 NAAQS. On June 3, 2016, NMED notified PNM that air quality modeling results indicated that SJGS was in compliance with the standard. In January 2017, NMED submitted their formal modeling report

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regarding attainment status to EPA. The modeling indicated that no area in New Mexico exceeds the 1-hour SO_2 standard. In July of each year, NMED will submit an annual report to EPA documenting annual SO_2 emissions from SJGS and the associated compliance status.

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

On October 1, 2015, EPA finalized the new ozone NAAQS and lowered both the primary and secondary 8-hour standard from 75 parts per billion (“ppb”) to 70 ppb. With ozone standards becoming more stringent, fossil-fueled generation units will come under increasing pressure to reduce emissions of NOx and volatile organic compounds, and to generate emission offsets for new projects or facility expansions located in nonattainment areas.

On November 10, 2015, EPA proposed a rule revising its Exceptional Events Rule, which outlines the requirements for excluding air quality data (including ozone data) from regulatory decisions if the data is affected by events outside an area’s control. The proposed rule is important in light of the new more stringent ozone NAAQS final rule since western states like New Mexico and Arizona are particularly subject to elevated background ozone transport from natural local sources, such as wildfires, and transported via winds from distant sources, such as the stratosphere or another region or country.

On February 25, 2016, EPA released guidance on area designations, which states used to determine their initial designation recommendations by October 1, 2016. EPA recommended that states and tribes use the three most recent years of quality assured monitoring data available (e.g., 2013 to 2015) to recommend designations. In their submittals, states and tribes were also able to use preliminary 2016 data. EPA was expected to release final designations of attainment/nonattainment for areas by October 1, 2017. On June 6, 2017, the EPA Administrator sent letters to state governors announcing that EPA was extending, by one year, the deadline for promulgating area designations. However, on August 2, 2017, the Trump Administration reversed the decision to extend the deadline to issue area designations, thereby requiring EPA to issue designations for ozone attainment areas by October 1, 2017.

NMED published its 2015 Ozone NAAQS Designation Recommendation Report on September 2, 2016. In New Mexico, NMED is designating only a small area in southern Dona Ana County as non-attainment for ozone. NMED will have responsibility for bringing this non-attainment area into compliance and will look at all sources of NOx and volatile organic compounds since these are the pollutants that form ground-level ozone. According to NMED’s website, “If emissions from Mexico keep New Mexico from meeting the standards, the New Mexico area could remain non-attainment but would not face more stringent requirements over time.”

On November 6, 2017, EPA released a final rule establishing some, but not all, initial area designations. In that final rule, EPA designated 2,646 counties (representing about 85% of the counties in the United States) as

attainment/unclassifiable, and three counties in Washington as unclassifiable. San Juan County, New Mexico, where SJGS and Four Corners are located, is designated as attainment/unclassifiable. On December 21, 2017, EPA issued a notice of availability of its intended designations for the remaining undesignated areas. EPA stated that it intended to address the remaining areas in a separate future action, but did not specify a time frame for doing so. Under the CAA, EPA was required to promulgate area designations no later than October 1, 2017. The notice announces the availability of "120-day letters," which were sent directly to states and tribes on December 20, 2017, and contain EPA's intended air quality designations for the remaining areas. The only county in New Mexico designated as non-attainment is Dona Ana County. States and tribes were required to provide EPA any additional information they would like EPA to consider by February 28, 2018. EPA intends to make final designations for all areas addressed in the 120-day letters no later than April 30, 2018. In a related matter, EPA published a final rule on March 9, 2018 that establishes air quality thresholds, which define the classifications assigned to all nonattainment areas for ozone NAAQS. The final rule also establishes the timing of attainment dates for each nonattainment area classification, which are marginal, moderate, serious, severe, or extreme. The rule becomes effective May 8, 2018.

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NMED is required to submit an infrastructure and transport SIP that provides the basic air quality management program to implement the revised ozone standard. This plan is generally due within 36 months from the date the NAAQS is promulgated and is expected to be submitted to the EPA by October 1, 2018. State ozone attainment plans are generally due within five to six years from the date of the ozone NAAQS promulgation and are planned for submittal in 2020 and 2021.

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

WEG v. OSM NEPA Lawsuit

In February 2013, WEG filed a Petition for Review in the United States District Court of Colorado against OSM challenging federal administrative decisions affecting seven different mines in four states issued at various times from 2007 through 2012. In its petition, WEG challenged several unrelated mining plan modification approvals, which were each separately approved by OSM. WEG alleged various NEPA violations against OSM, including, but not limited to, OSM's alleged failure to provide requisite public notice and participation, alleged failure to analyze certain environmental impacts, and alleged reliance on outdated and insufficient documents. WEG's petition sought various forms of relief, including a finding that the federal defendants violated NEPA by approving the mine plans; voiding, reversing, and remanding the various mining modification approvals; enjoining the federal defendants from re-issuing the mining plan approvals for the mines until compliance with NEPA has been demonstrated; and enjoining operations at the seven mines.

Of the fifteen claims for relief in the WEG Petition, two concerned SJCC's San Juan mine. WEG's allegations concerning the San Juan mine arise from OSM administrative actions in 2008. SJCC intervened in this matter. The court granted SJCC's motion to sever its claims from the lawsuit and transfer venue to the United States District Court for the District of New Mexico. In July 2016, OSM filed a Motion for Voluntary Remand to allow the agency to conduct a new environmental analysis. On August 31, 2016, the court entered an order remanding the matter to OSM for the completion of an EIS by August 31, 2019. The court ruled that mining operations may continue in the interim and the litigation is administratively closed. If OSM does not complete the EIS within the time frame provided, the court will order immediate vacatur of the mining plan at issue, absent a further court order based on good cause shown. On March 22, 2017, OSM issued its Notice of Intent to initiate the public scoping process and prepare an EIS for the project. The Notice of Intent provided that, in addition to analyzing the environmental effects of the mining project, the EIS will also analyze the indirect effects of coal combustion at SJGS. The public comment period ended on May 8, 2017 and the EIS resource data submittal phase was completed in November 2017. The draft EIS is expected to be available for public comment in mid-2018. PNM cannot currently predict the outcome of this matter.
Navajo Nation Environmental Issues
Four Corners is located on the Navajo Reservation and is held under an easement granted by the federal government, as well as a lease from the Navajo Nation. The Navajo Acts purport to give the Navajo Nation Environmental Protection Agency authority to promulgate regulations covering air quality, drinking water, and pesticide activities, including those activities that occur at Four Corners. In October 1995, the Four Corners participants filed a lawsuit in

the District Court of the Navajo Nation challenging the applicability of the Navajo Acts to Four Corners. In May 2005, APS and the Navajo Nation signed an agreement resolving the dispute regarding the Navajo Nation's authority to adopt operating permit regulations under the Navajo Nation Air Pollution Prevention and Control Act. As a result of this agreement, APS sought, and the court granted, dismissal of the pending litigation in the Navajo Nation Supreme Court and the Navajo Nation District Court, to the extent the claims relate to the CAA. The agreement does not address or resolve any dispute relating to other aspects of the Navajo Acts. PNM cannot currently predict the outcome of these matters or the range of their potential impacts.

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Cooling Water Intake Structures

EPA signed its final cooling water intake structures rule on May 16, 2014, which establishes national standards for certain cooling water intake structures at existing power plants and other facilities under the Clean Water Act to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens) and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures). The final rule was published on August 15, 2014 and became effective October 14, 2014.

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

The rule is not clear as to how it applies and what the compliance timelines are for facilities like SJGS that have a cooling water intake structure and only a multi-sector general stormwater permit. PNM is working with EPA regarding this issue. However, PNM does not expect material changes as a result of any requirements that may be imposed upon SJGS. The requirements related to Four Corners will be addressed in a subsequent NPDES permitting cycle that will determine APS's costs to comply with the rule. PNM does not expect such costs to be material.

Effluent Limitation Guidelines

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

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

On April 14, 2017, EPA filed a motion with the United States Court of Appeals for the Fifth Circuit relating to ongoing litigation of the 2016 Steam Electric Effluent Guidelines rule. EPA asked the court to hold all proceedings in the case in abeyance until August 12, 2017 while EPA reconsiders the rule. EPA also asked to be allowed to file a

motion on August 12, 2017 to inform the court if EPA wishes to seek a remand of any provisions of the rule so that EPA may conduct further rulemaking, if appropriate. The motion referred to the notice signed by the EPA Administrator on April 12, 2017, which announced EPA's intent to reconsider this rule, as well as EPA's administrative stay of the compliance deadlines. On August 22, 2017, the court granted the government's motion and the litigation is held in abeyance until EPA's further rulemaking has concluded.

On April 25, 2017, EPA published in the Federal Register a notice of postponement of certain compliance dates for the 2016 Steam Electric Effluent Guidelines rule, consistent with the EPA's decision to grant reconsideration of the rule. Specifically, the deadlines that will be postponed are the "best available technology" limitations and pretreatment standards for certain waste streams.

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On September 18, 2017, EPA published the final rule for postponement of certain compliance dates, which have not yet passed for the Effluent Limitations Guidelines rule, consistent with the EPA's decision to grant reconsideration of that rule. The final rule postponed the earliest date on which compliance with the effluent limitation guidelines for these waste streams would be required from November 1, 2018 until November 1, 2020.

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

Four Corners may be required to change equipment and operating practices affecting boilers and ash handling systems, as well as change its waste disposal techniques. Until a draft NPDES permit is proposed for Four Corners, APS is uncertain what will be required to comply with the revised effluent limitations during the revised compliance timeframe (from November 1, 2020 through December 31, 2023). PNM is unable to predict the outcome of this matter or a range of the potential costs of compliance.

Santa Fe Generating Station

PNM and the NMED are parties to agreements under which PNM installed a remediation system to treat water from a City of Santa Fe municipal supply well, an extraction well, and monitoring wells to address gasoline contamination in the groundwater at the site of PNM's former Santa Fe Generating Station and service center. PNM believes the observed groundwater contamination originated from off-site sources, but agreed to operate the remediation facilities until the groundwater meets applicable federal and state standards or until the NMED determines that additional remediation is not required, whichever is earlier. The City of Santa Fe has indicated that since the City no longer needs the water from the well, the City would prefer to discontinue its operation and maintain it only as a backup water source. However, for PNM's groundwater remediation system to operate, the water well must be in service. Currently, PNM is not able to assess the duration of this project or estimate the impact on its obligations if the City of Santa Fe ceases to operate the water well.

The Superfund Oversight Section of the NMED also has conducted multiple investigations into the chlorinated solvent plume in the vicinity of the site of the former Santa Fe Generating Station. In February 2008, a NMED site inspection report was submitted to EPA, which states that neither the source nor extent of contamination has been determined and that the source may not be the former Santa Fe Generating Station. Results of tests conducted by NMED in April 2012 and April 2013 showed elevated concentrations of nitrate in three monitoring wells and an increase in free-phase hydrocarbons in another well. PNM conducted similar site-wide sampling activities in April 2014 and obtained results similar to the 2013 data. As part of this effort, PNM also collected a sample of hydrocarbon product for "fingerprint" analysis from a monitoring well located on the northeastern corner of the property. This analysis indicated that the hydrocarbon product was a mixture of newer and older fuels, and the location of the monitoring well suggests that the hydrocarbon product is likely from offsite sources. PNM does not believe the former generating station is the source of the increased levels of free-phase hydrocarbons, but no conclusive determinations have been made. However, it is possible that PNM's prior activities to remediate hydrocarbon contamination, as conducted under an NMED-approved plan, may have resulted in increased nitrate levels. Therefore, PNM has agreed to monitor nitrate levels in a limited number of wells under the terms of the renewed discharge permit for the former generating station.

Effective December 22, 2015, PNM and NMED entered into a memorandum of understanding to address changing groundwater quality conditions at the site. Under the memorandum, PNM will continue hydrocarbon investigation of the site under the supervision of NMED and qualified costs of the work will be eligible for payment through the New Mexico Corrective Action Fund ("CAF"), which is administered by the NMED Petroleum Storage Tank Bureau. Among other things, money in the CAF is available to NMED to make payments to or on behalf of owners and operators for corrective action taken in accordance with statutory and regulatory requirements to investigate, minimize, eliminate, or clean up a release. PNM's work plan and cost estimates for specific groundwater investigation tasks were approved by the Petroleum Storage Tank Bureau. PNM submitted a monitoring plan consisting of a compilation of the data associated with monitoring activities conducted under the CAF to NMED on October 3, 2016. PNM completed all CAF-related work associated with the monitoring plan and received NMED's approval. Under the next phase, PNM's contractor prepared a scope of work, which PNM and NMED approved, for the installation of additional monitoring wells and additional sampling of certain existing monitoring wells at the site. Work commenced in March 2018. Qualified costs of this work are eligible for payment through the CAF.

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PNM is unable to predict the outcome of these matters.
Coal Combustion Byproducts Waste Disposal
CCBs consisting of fly ash, bottom ash, and gypsum generated from coal combustion at SJGS are currently disposed of in the surface mine pits adjacent to the plant. SJGS does not operate any CCB impoundments or landfills. The NMMMD currently regulates placement of ash in the San Juan mine with federal oversight by the OSM. APS disposes of CCBs in ash ponds and dry storage areas at Four Corners. Ash management at Four Corners is regulated by EPA and the New Mexico State Engineer's Office.
In June 2010, EPA published a proposed rule that included two options for waste designation of coal ash. One option was to regulate CCBs as a hazardous waste, which would allow EPA to create a comprehensive federal program for waste management and disposal of CCBs. The other option was to regulate CCBs as a non-hazardous waste, which would provide EPA with the authority to develop performance standards for waste management facilities handling CCBs and would be enforced primarily by state authorities or through citizen suits. Both options allow for continued use of CCBs in beneficial applications.

On December 19, 2014, EPA issued its coal ash rule, which included a non-hazardous waste determination for coal ash. Coal ash will be regulated as a solid waste under Subtitle D of RCRA. The rule sets minimum criteria for existing and new CCB landfills and existing and new CCB surface impoundments and all lateral expansions consisting of location restrictions, design and operating criteria; groundwater monitoring and corrective action; closure requirements and post closure care; and recordkeeping, notification, and internet posting requirements.

Because the rule is promulgated under Subtitle D, it does not require regulated facilities to obtain permits, does not require the states to adopt and implement the new rules, and is not within EPA's enforcement jurisdiction. Instead, the rule's compliance mechanism is for a state or citizen group to bring a RCRA citizen suit in federal district court against any facility that is alleged to be in non-compliance with the new requirements. EPA published the final CCB rule in the Federal Register on April 17, 2015, with an effective date of October 19, 2015. Based upon the requirements of the final rule, PNM conducted a CCB assessment at SJGS and made minor modifications at the plant to ensure that there are no facilities which would be considered impoundments or landfills under the rule. PNM does not expect the rule to have a material impact on operations, financial position, or cash flows.

As indicated above, CCBs at Four Corners are currently disposed of in ash ponds and dry storage areas. The CCB rule requires ongoing, phased groundwater monitoring. By October 17, 2017, utilities that own or operate CCB disposal units, such as those at Four Corners must have collected sufficient groundwater sampling data to initiate a detection monitoring program. To the extent that certain threshold constituents are identified through this initial detection monitoring at levels above the CCB rule's standards, the rule required the initiation of an assessment monitoring program by April 15, 2018. If this assessment monitoring program reveals concentrations of certain constituents above the CCB rule standards that trigger remedial obligations, a corrective measures evaluation must be completed by January 2019. Depending upon the results of such groundwater monitoring and data evaluations, Four Corners may be required to take corrective actions, the costs of which cannot be reasonably estimated at this time.

Pursuant to a June 24, 2016 order by the DC Circuit in litigation by industry and environmental groups challenging EPA's CCB regulations, EPA is required to complete a rulemaking proceeding by June 2019 to address specific

technical issues related to the handling of CCBs. EPA was not required to take final action approving the inclusion of boron, but EPA was required to consider its inclusion. In March 2018, EPA issued a proposed rule amending the CCB rule, which proposes, among other things, to add boron to the list of constituents that trigger corrective action. Should EPA take final action adding boron to the list of groundwater constituents, corrective action may be required. Any resulting corrective action measures may increase costs of compliance with the CCB rule at coal-fired generating facilities. At this time, PNM cannot predict if the EPA will ultimately amend the CCB rule or the eventual impacts of those amendments.

On December 16, 2016, the Water Infrastructure Improvements for the Nation Act (the "WIIN Act") was signed into law to address critical water infrastructure needs in the United States. The WIIN Act contains a number of provisions requiring EPA to modify the self-implementing provisions of the current CCB rules under Subtitle D. Among other things, the WIIN Act provides for the establishment of state and EPA permit programs for CCBs, provides flexibility for states to incorporate the EPA final rule for CCBs or develop other criteria that are at least as protective as the EPA's final rule, and requires EPA to approve state permit

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programs within 180 days of submission by the state for approval. As a result, the CCB rule is no longer self-implementing and there will either be a state or federal permit program. Subject to Congressional appropriated funding, EPA will implement the permit program in states that choose not to implement a program. Until permit programs are in effect, EPA has authority to directly enforce the self-implementing CCB rule. For facilities located within the boundaries of Native American tribal reservations, such as the Navajo Nation where Four Corners is located, EPA is required to develop a federal permit program regardless of appropriated funds. EPA has yet to undertake rulemaking proceedings to implement the CCB provisions of the WIIN Act. There is no time line for establishing either state or federal permitting programs. APS recently filed a comment letter with EPA seeking clarification as to when and how EPA would be initiating permit proceedings for facilities on tribal reservations, including Four Corners. PNM is unable to predict when EPA will be issuing permits for Four Corners.

On September 13, 2017, EPA agreed to evaluate whether to revise the CCB regulations based upon utility industry petitions for EPA to reconsider the RCRA Subtitle D regulations for CCBs, which were premised in part on the provisions of the WIIN Act. In light of the WIIN Act and the petitions for rulemaking, the EPA is considering making additional changes to the CCB rule to provide flexibility to state programs consistent with the WIIN Act. With respect to ongoing litigation initiated by industry and environmental groups challenging the legality of the CCB regulations and pursuant to an order issued by the DC Circuit, EPA filed a status report on November 15, 2017 on the challenges to the CCB rule identifying provisions it intends to reconsider. On November 20, 2017, the DC Circuit heard oral arguments from industry groups, environmentalists, and EPA. EPA and the industry groups argued the court should postpone adjudication until EPA completes the reconsideration process for the affected provision. On December 20, 2017, a proposal to remand the CCB rule was transmitted to the Office of Management and Budget for interagency review.

The CCB rule does not cover mine placement of coal ash. OSM is expected to publish a proposed rule covering mine placement in the future and will likely be influenced by EPA's rule. PNM cannot predict the outcome of OSM's proposed rulemaking regarding CCB regulation, including mine placement of CCBs, or whether OSM's actions will have a material impact on PNM's operations, financial position, or cash flows. PNM would seek recovery from its ratepayers of all CCB costs that are ultimately incurred.

Other Commitments and Contingencies
Coal Supply
SJGS
The coal requirements for SJGS are supplied by SJCC. SJCC holds certain federal, state, and private coal leases. In addition to coal delivered to meet the current needs of SJGS, PNM has prepaid SJCC for certain coal mined but not yet delivered to the plant site. At March 31, 2018 and December 31, 2017, prepayments for coal (including amounts purchased from the existing SJGS participants discussed below), which are included in other current assets, amounted to $26.3 million and $26.3 million. Additional information concerning the coal supply for SJGS is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.
In conjunction with the activities undertaken to comply with the CAA for SJGS, as discussed above, PNM and the other owners of SJGS evaluated alternatives for the supply of coal to SJGS. On July 1, 2015, PNM and Westmoreland Coal Company ("Westmoreland") entered into a new coal supply agreement ("SJGS CSA"), pursuant to which Westmoreland is to supply all of the coal requirements of SJGS through June 30, 2022. PNM and Westmoreland also

entered into agreements under which Westmoreland is to provide CCB disposal and mine reclamation services for SJGS. Contemporaneous with the entry into the coal-related agreements, Westmoreland entered into a stock purchase agreement (the "Stock Purchase Agreement") on July 1, 2015 to acquire all of the capital stock of SJCC.

The SJGS CSA became effective as of 11:59 PM on January 31, 2016, upon the closing under the Stock Purchase Agreement. Upon closing under the Stock Purchase Agreement, Westmoreland's rights and obligations under the SJGS CSA and the agreements for CCB disposal and mine reclamation services were assigned to SJCC. Westmoreland has guaranteed SJCC's performance under the SJGS CSA.

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Pricing under the SJGS CSA is primarily fixed, adjusted to reflect general inflation. The pricing structure takes into account that SJCC has been paid for coal mined but not delivered, as discussed above. PNM has the option to extend the SJGS CSA, subject to negotiation of the term of the extension and compensation to the miner. In order to extend, PNM must give written notice of that intent by July 1, 2018 and the parties must agree to the terms of the extension by January 1, 2019. However, as discussed in Note 12, PNM's 2017 IRP shows that retirement of PNM's SJGS capacity in 2022 would be cost-effective for customers. If retirement of SJGS is approved by the NMPRC, there will be no need to extend the SJGS CSA.

The SJGS RA sets forth terms under which PNM acquired the coal inventory, including coal mined but not delivered, of the exiting SJGS participants as of January 1, 2016 and supplied coal to the SJGS exiting participants for the period from January 1, 2016 through December 31, 2017 and is supplying coal to the SJGS remaining participants over the term of the SJGS CSA. Coal costs under the SJGS CSA are significantly less than under the previous arrangement with SJCC. Since substantially all of PNM's coal costs are passed through the FPPAC, the benefit of the reduced costs and the economic benefits of the coal inventory arrangement with the exiting owners are passed through to PNM's customers.

In support of the closing under the Stock Purchase Agreement and to facilitate PNM customer savings, NM Capital, a wholly-owned subsidiary of PNMR, provided funding of $125.0 million (the "Westmoreland Loan") to Westmoreland San Juan, LLC ("WSJ"), a ring-fenced, bankruptcy-remote, special-purpose entity that is a subsidiary of Westmoreland, to finance WSJ's purchase of the stock of SJCC (including an insignificant affiliate) under the Stock Purchase Agreement. NM Capital was able to provide the $125.0 million financing to WSJ by first entering into a $125.0 million term loan agreement (the "BTMU Term Loan Agreement") with BTMU, as lender and administrative agent. The BTMU Term Loan Agreement became effective as of February 1, 2016, matures on February 1, 2021, and bears interest at a rate based on LIBOR plus a customary spread. In connection with the BTMU Term Loan Agreement, PNMR, as parent company of NM Capital, has guaranteed NM Capital's obligations to BTMU. The balance outstanding under the BTMU Term Loan Agreement was $45.1 million at March 31, 2018.

The Westmoreland Loan is a $125.0 million loan agreement among NM Capital, as lender, WSJ, as borrower, SJCC and its affiliate, as guarantors, BTMU, as administrative agent, and MUFG Union Bank, N.A., as depository bank. The Westmoreland Loan became effective as of February 1, 2016 and matures on February 1, 2021. The interest rate on the Westmoreland Loan escalates over time and was initially a rate of 7.25% plus LIBOR. Such rate was 9.25% plus LIBOR for the period from February 1, 2017 through January 31, 2018 and is 12.25% plus LIBOR for the period from February 1, 2018 through January 31, 2019. WSJ must pay principal and interest quarterly to NM Capital in accordance with an amortization schedule. In addition, 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. At March 31, 2018, the amount outstanding under the Westmoreland Loan was $51.0 million. The next principal payment of $0.9 million plus interest of $1.8 million is due on May 1, 2018. As of April 23, 2018, $2.7 million was held in a SJCC restricted bank account that is to be used solely to service the Westmoreland Loan. The Westmoreland Loan is secured by the assets of and the equity interests in SJCC and its affiliate. The Westmoreland Loan also includes customary representations and warranties, covenants, and events of default. There are no prepayment penalties. On March 28, 2018, NM Capital executed an extension and waiver agreement with WSJ, which waived a technical event of default by WSJ under the Westmoreland Loan. This waiver

related to the required delivery of the financial statements of WSJ's parent company and expires on the earlier of May 1, 2019 or the occurrence of any other event of default. See Note 6.

In connection with certain mining permits relating to the operation of the San Juan mine, SJCC is required to post reclamation bonds of $118.7 million with the NMMMD. In order to facilitate the posting of reclamation bonds by sureties on behalf of SJCC, PNMR entered into letter of credit arrangements with a bank under which letters of credit aggregating $30.3 million have been issued.

Four Corners

APS purchases all of Four Corners' coal requirements from NTEC, an entity owned by the Navajo Nation, under a coal supply contract (the "Four Corners CSA") that expires in 2031. The coal comes from reserves located within the Navajo Nation. NTEC has contracted with Bisti Fuels Company, LLC, a subsidiary of The North American Coal Corporation, for management and operation of the mine. The average coal price per ton under the new contract was approximately 51% higher in the twelve months ended June 30, 2017 than in the twelve months ended June 30, 2016, excluding the disputed amounts discussed below. The contract provides for pricing adjustments over its term based on economic indices. PNM's share of the costs is being recovered

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through the FPPAC.

Four Corners Coal Supply Arbitration – The owners of Four Corners are obligated to purchase a specified minimum amount of coal each contract year and to pay for any shortfall below the minimum amount, except when caused by "uncontrollable forces" as defined in the Four Corners CSA. On June 13, 2017, APS received a demand for arbitration from NTEC in connection with the Four Corners CSA. NTEC originally sought a declaratory judgment to support its interpretation of a provision regarding uncontrollable forces in the agreement relating to the annual minimum quantities of coal to be purchased by the Four Corners owners. NTEC also alleged a shortfall in those purchases for the initial contract year, which ended June 30, 2017, of which PNM's share is estimated to be approximately $6.5 million. On September 20, 2017, NTEC amended its demand for arbitration removing the request for a declaratory judgment. PNM's share of the total estimated alleged shortfall through March 31, 2018 is estimated to be $11.6 million. An arbitration regarding the alleged shortfall in the first contract year is scheduled for May 21, 2018. PNM anticipates that substantially all of any amount it ultimately is required to pay would be collected through the FPPAC. Although PNM cannot predict the timing or outcome of the arbitration, the outcome is not expected to have a material impact on its financial position, results of operations, or cash flows.

Coal Mine Reclamation

As indicated under Coal Combustion Byproducts Waste Disposal above, SJGS currently disposes of CCBs in the surface mine pits adjacent to the plant and Four Corners disposes of CCBs in ash ponds and dry storage areas. As discussed in Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, in conjunction with the shutdown of SJGS Units 2 and 3 to comply with the BART requirements of the CAA, the SJGS participants requested that the coal mine reclamation study for SJGS be updated as of December 31, 2016. That reclamation cost estimate reflects the terms of the new reclamation services agreement with Westmoreland and continuation of mining operations through 2053, as well as the anticipated impacts of the shutdown of SGS Units 2 and 3 on December 31, 2017. The current estimate for decommissioning the mine serving Four Corners reflects the operation of the mine through 2031, the term of the new agreement for coal supply.

Based on the 2016 estimates and PNM's current ownership share of SJGS, PNM's remaining payments as of March 31, 2018 for mine reclamation, in future dollars, are estimated to be $99.7 million for the surface mines at both SJGS and Four Corners and $127.1 million for the underground mine at SJGS. At March 31, 2018 and December 31, 2017, liabilities, in current dollars, of $41.2 million and $41.4 million for surface mine reclamation and $15.1 million and $14.7 million for underground mine reclamation were recorded in other deferred credits.

As discussed in Note 12, PNM filed its 2017 IRP on July 3, 2017. The conclusions contained in the 2017 IRP indicate that it would be cost beneficial to PNM's customers for PNM to retire its SJGS capacity in 2022 and for PNM to exit its ownership interest in Four Corners in 2031. The 2017 IRP is not a final determination of PNM's future generation portfolio. Retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings, which PNM would make at appropriate times in the future. If the NMPRC orders the abandonment of those facilities, PNM would be required to remeasure its liability for coal mine reclamation to reflect that reclamation activities would occur sooner than currently anticipated. The remeasurement would likely result in a significant increase in PNM's liability for SJGS mine reclamation due to an increase in the amount of fill dirt required to remediate the mine areas, thereby increasing the overall reclamation costs. PNM would record an additional amount when it is determined that the increase to the liability is probable and can be reasonably estimated, which would be dependent on receiving the NMPRC approvals indicated above. The amount of the increase in the liability would depend on the timing of those approvals and other regulatory actions, as well estimates made at that time of the costs to perform the future reclamation activities, including the then current inflation and discount rates. Preliminary

calculations indicate the increase in PNM’s liability for SJGS mine reclamation as of December 31, 2017 would be approximately $35 million for the surface mine and $5 million for the underground mine. PNM would record a regulatory asset for amounts recoverable from ratepayers under existing or future orders of the NMPRC and amounts not recoverable would be expensed. PNM cannot predict what actions the NMPRC might take.

Under the terms of the SJGS CSA, PNM and the other SJGS owners are obligated to compensate SJCC for all reclamation costs associated with the supply of coal from the San Juan mine. The SJGS owners entered into a reclamation trust funds agreement to provide funding to compensate SJCC for post-term reclamation obligations. As part of the restructuring of SJGS ownership (see SJGS Ownership Restructuring Matters above), the SJGS owners negotiated the terms of an amended agreement to fund post-term reclamation obligations under the CSA. The trust funds agreement requires each owner to enter into an individual trust

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agreement with a financial institution as trustee, create an irrevocable reclamation trust, and periodically deposit funds into the reclamation trust for the owner's share of the mine reclamation obligation. Deposits, which are based on funding curves, must be made on an annual basis. As part of the restructuring of SJGS ownership discussed above, the SJGS participants agreed to adjusted interim trust funding levels. PNM funded $5.8 million in 2017. Based on PNM's reclamation trust fund balance at March 31, 2018, the current funding curves indicate PNM's required contributions to its reclamation trust fund would be $7.5 million in 2018, $8.7 million in 2019, and $9.2 million in 2020.
Under the Four Corners CSA, which became effective on July 7, 2016, PNM is required to fund its ownership share of estimated final reclamation costs in thirteen annual installments, beginning on August 1, 2016, into an irrevocable escrow account solely dedicated to the final reclamation cost of the surface mine at Four Corners. PNM contributed $2.3 million to the escrow account in 2017 and anticipates providing additional funding of $2.3 million in each of 2018 and 2019.
PNM collects a provision for surface and underground mine reclamation costs in its rates. The NMPRC has capped the amount that can be collected from retail customers for final reclamation of the surface mines at $100.0 million. Previously, PNM recorded a regulatory asset for the $100.0 million and recovers the amortization of this regulatory asset in rates. If future estimates increase the liability for surface mine reclamation, the excess would be expensed at that time. Regulatory determinations made by the NMPRC may also affect the impact on PNM. PNM is currently unable to determine the outcome of these matters or the range of possible impacts.

Continuous Highwall Mining Royalty Rate

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

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

PVNGS Liability and Insurance Matters
Public liability for incidents at nuclear power plants is governed by the Price-Anderson Nuclear Industries Indemnity Act, which limits the liability of nuclear reactor owners to the amount of insurance available from both commercial sources and an industry-wide retrospective payment plan. In accordance with this act, the PVNGS participants are insured against public liability exposure for a nuclear incident up to $13.2 billion per occurrence. PVNGS maintains the maximum available nuclear liability insurance in the amount of $450 million, which is provided by American

Nuclear Insurers. The remaining $12.7 billion is provided through a mandatory industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, PNM could be assessed retrospective premium adjustments. Based on PNM's 10.2% interest in each of the three PVNGS units, PNM's maximum potential retrospective premium assessment per incident for all three units is $38.9 million, with a maximum annual payment limitation of $5.8 million, to be adjusted periodically for inflation.

The PVNGS participants maintain insurance for damage to, and decontamination of, property at PVNGS in the aggregate amount of $2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. These coverages are provided by Nuclear Electric Insurance Limited ("NEIL"). The primary policy offered by NEIL contains a sublimit of $2.25 billion for non-nuclear property damage. If NEIL's losses in any policy year exceed accumulated funds, PNM is subject to retrospective premium adjustments of $5.4 million for each retrospective premium assessment declared by NEIL's Board of

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Directors due to losses. The insurance coverages discussed in this and the previous paragraph are subject to certain policy conditions, sublimits, and exclusions.

Water Supply

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

For SJGS and Four Corners, PNM and APS have negotiated an agreement with the more senior water rights holders (tribes, municipalities, and agricultural interests) in the San Juan basin to mutually share the impacts of water shortages with tribes and other water users in the San Juan basin. The agreement to share shortages in 2017 through 2020 has been negotiated and awaits endorsement by the parties and the New Mexico State Engineer.

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

PVNGS Water Supply Litigation

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

San Juan River Adjudication

In 1975, the State of New Mexico filed an action in New Mexico District Court to adjudicate all water rights in the San Juan River Stream System, including water used at Four Corners and SJGS. PNM was made a defendant in the litigation in 1976. In March 2009, then President Obama signed legislation confirming a 2005 settlement with the Navajo Nation. Under the terms of the settlement agreement, the Navajo Nation's water rights would be settled and finally determined by entry by the court of two proposed adjudication decrees. The court issued an order in August 2013 finding that no evidentiary hearing was warranted in the Navajo Nation proceeding and, on November 1, 2013, issued a Partial Final Judgment and Decree of the Water Rights of the Navajo Nation approving the proposed settlement with the Navajo Nation. Several parties filed a joint motion for a new trial, which was denied by the court. A number of parties subsequently appealed to the New Mexico Court of Appeals. PNM entered its appearance in the appellate case. On April 3, 2018, the New Mexico Court of Appeals issued an order affirming the decision of the New Mexico District Court. Several parties filed motions requesting a rehearing with the New Mexico Court of Appeals seeking clarification of the order. The court has not yet taken any action in response to these motions. Adjudication of non-Indian water rights is ongoing.

PNM is participating in this proceeding since PNM's water rights in the San Juan Basin may be affected by the rights recognized in the settlement agreement and adjudicated to the Navajo Nation, which comprise a significant portion of

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

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Rights-of-Way Matter

On January 28, 2014, the County Commission of Bernalillo County, New Mexico passed an ordinance requiring utilities to enter into a use agreement and pay a yet-to-be-determined fee as a condition to installing, maintaining, and operating facilities on county rights-of-way. The fee is purported to compensate the county for costs of administering and maintaining the rights-of-way, as well as for capital improvements. On February 27, 2014, PNM and other utilities filed a Complaint for Declaratory and Injunctive Relief in the United States District Court for the District of New Mexico challenging the validity of the ordinance. The court denied the utilities' motion for judgment. The court further granted the County's motion to dismiss the state law claims. The utilities filed an amended complaint reflecting the two federal claims remaining before the federal court. The utilities also filed a complaint in Bernalillo County, New Mexico District Court reflecting the state law counts dismissed by the federal court. In subsequent briefing in federal court, the County filed a motion for judgment on one of the utilities' claims, which was granted by the court, leaving a claim regarding telecommunications service as the remaining federal claim. On January 4, 2016, the utilities filed an Application for Interlocutory Appeal from the state court, which was denied. On March 28, 2017, the utilities filed a Writ of Certiorari with the NM Supreme Court, which was denied. The matter will proceed in New Mexico District Court. The utilities and Bernalillo County reached a standstill agreement whereby the County would not take any enforcement action against the utilities pursuant to the ordinance during the pendency of the litigation, but not including any period for appeal of a judgment, or upon 30 days written notice by either the County or the utilities of their intention to terminate the agreement. If the challenges to the ordinance are unsuccessful, PNM believes any fees paid pursuant to the ordinance would be considered franchise fees and would be recoverable from customers. PNM is unable to predict the outcome of this matter or its impact on PNM's operations.

Navajo Nation Allottee Matters

A putative class action was filed against PNM and other utilities in February 2009 in the United States District Court for the District of New Mexico. Plaintiffs claim to be allottees, members of the Navajo Nation, who pursuant to the Dawes Act of 1887, were allotted ownership in land carved out of the Navajo Nation and allege that defendants, including PNM, are rights-of-way grantees with rights-of-way across the allotted lands and are either in trespass or have paid insufficient fees for the grant of rights-of-way or both. In March 2010, the court ordered that the entirety of the plaintiffs' case be dismissed. The court did not grant plaintiffs leave to amend their complaint, finding that they instead must pursue and exhaust their administrative remedies before seeking redress in federal court. In May 2010, plaintiffs filed a notice of appeal with the Bureau of Indian Affairs ("BIA"), which was denied by the BIA Regional Director. In May 2011, plaintiffs appealed the Regional Director's decision to the DOI, Office of Hearings and Appeals, Interior Board of Indian Appeals. Following briefing on the merits, on August 20, 2013, that board issued a decision upholding the Regional Director's decision that the allottees had failed to perfect their appeals, and dismissed the allottees' appeals, without prejudice. The allottees have not refiled their appeals. Although this matter was dismissed without prejudice, PNM considers the matter concluded. However, PNM continues to monitor this matter in order to preserve its interests regarding any PNM-acquired rights-of-way.

In a separate matter, in September 2012, 43 landowners claiming to be Navajo allottees filed a notice of appeal with the BIA appealing a March 2011 decision of the BIA Regional Director regarding renewal of a right-of-way for a PNM transmission line. The allottees, many of whom are also allottees in the above matter, generally allege that they were not paid fair market value for the right-of-way, that they were denied the opportunity to make a showing as to their view of fair market value, and thus denied due process. On January 6, 2014, PNM received notice that the BIA, Navajo Region, requested a review of an appraisal report on 58 allotment parcels. After review, the BIA concluded it

would continue to rely on the values of the original appraisal. On March 27, 2014, while this matter was stayed, the allottees filed a motion to dismiss their appeal with prejudice. On April 2, 2014, the allottees' appeal was dismissed with prejudice. Subsequent to the dismissal, PNM received a letter from counsel on behalf of what appears to be a subset of the 43 landowner allottees involved in the appeal, notifying PNM that the specified allottees were revoking their consents for renewal of right of way on six specific allotments. On January 22, 2015, PNM received a letter from the BIA Regional Director identifying ten allotments with rights-of-way renewals that were previously contested. The letter indicated that the renewals were not approved by the BIA because the previous consent obtained by PNM was later revoked, prior to BIA approval, by the majority owners of the allotments. It is the BIA Regional Director's position that PNM must re-obtain consent from these landowners. On July 13, 2015, PNM filed a condemnation action in the NM District Court regarding the approximately 15.49 acres of land at issue. On December 1, 2015, the court ruled that PNM could not condemn two of the five allotments at issue based on the Navajo Nation's fractional interest in the land. PNM filed a motion for reconsideration of this ruling, which was denied. On March 31, 2016, the Tenth Circuit granted PNM's petition to appeal the December 1, 2015 ruling. On September 18, 2015, the allottees filed a separate complaint against PNM for federal trespass. Both matters have been

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consolidated. On June 27, 2016, PNM filed its opening brief in the Tenth Circuit. Amicus briefs were filed in support of PNM's position. On October 5, 2016, the United States, the Navajo Nation, and individual allottees filed their response briefs. After the response briefs were filed, other entities requested leave to file amicus briefs addressing arguments raised in the United States' response brief. Oral argument before the Tenth Circuit was heard on January 17, 2017. On May 26, 2017, the Tenth Circuit affirmed the district court. On July 8, 2017, PNM filed a Motion for Reconsideration en banc with the Tenth Circuit. On July 21, 2017, the court denied PNM's Motion for Reconsideration. On July 26, 2017, PNM filed a motion to stay implementation of the court's decision, which was denied. The NM District Court has stayed the case until May 15, 2018 based on the Navajo Nation's acquisition of interests in two additional allotments and the unresolved ownership of the fifth allotment due to the owner's death. On November 20, 2017, PNM filed its Petition for Writ of Certiorari with the US Supreme Court. On December 22, 2017, amicus briefs supporting PNM's Petition for Writ of Certiorari were filed with the US Supreme Court. On March 23, 2018, responses to PNM's petition were filed. On April 5, PNM filed its reply brief in support of its Petition for Writ of Certiorari.
PNM cannot predict the outcome of these matters.

Sales Tax Audits

In November 2011, PNMR completed the sale of its retail electric provider, which operated in Texas under the name First Choice Power ("First Choice"). Under the sale agreement, PNMR is contractually obligated for First Choice's taxes relating to periods prior to the sale.

The Texas Comptroller of Public Accounts ("Comptroller") has initiated audits of First Choice's sales and use tax filings and miscellaneous gross receipts tax filings for periods prior to the sale. During the course of the audits, PNMR accrued an immaterial liability for items identified in the audits for which PNMR believed an unfavorable resolution was probable. The Comptroller has issued notifications of audit results indicating additional tax due of $5.0 million, plus penalties and interest. The primary issue in dispute is the disallowance by the auditor of the tax benefits of bad debt charge-offs and billing credits. On behalf of First Choice, PNMR filed requests for redetermination for both audits.

PNMR has engaged in continued discussions with the Comptroller, as well as supplying additional documentation in support of PNMR's positions. If PNMR and the Comptroller do not reach agreement, this matter will go to hearing with the Texas State Office of Administrative Hearings. Although PNMR believes its positions are correct, it is unable to predict the outcome of this matter.

(12) Regulatory and Rate Matters

The Company is involved in various regulatory matters, some of which contain contingencies that are subject to the same uncertainties as those described in Note 11. Additional information concerning regulatory and rate matters is contained in Note 17 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K.
PNM

New Mexico General Rate Cases

New Mexico 2015 General Rate Case (“NM 2015 Rate Case”)

On August 27, 2015, PNM filed an application with the NMPRC for a general increase in retail electric rates. The application proposed a revenue increase of $123.5 million, including base non-fuel revenues of $121.7 million. PNM’s application was based on a future test year (“FTY”) period beginning October 1, 2015 and proposed a ROE of 10.5%. The primary drivers of PNM’s identified revenue deficiency were the cost of infrastructure investments, including depreciation expense based on an updated depreciation study, and a decline in energy sales as a result of PNM’s successful energy efficiency programs and economic factors. The application included several proposed changes in rate design to establish fair and equitable pricing across rate classes and to better align cost recovery with cost causation. Specific rate design proposals included higher customer and demand charges, a revenue decoupling pilot program applicable to residential and small commercial customers, a re-allocation of revenue among PNM’s customer classes, a new economic development rate, and continuation of PNM’s renewable energy rider. PNM requested that the proposed new rates become effective beginning in July 2016. A public hearing on the proposed new rates was held in

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April 2016. Subsequent to this hearing, the NMPRC ordered PNM to file additional testimony regarding PNM's interests in PVNGS, including the 64.1 MW of PVNGS Unit 2 that PNM repurchased in January 2016, pursuant to the terms of the initial sales-leaseback transactions (Note 13). A subsequent public hearing was held in June 2016. After the June hearing, PNM and other parties were ordered to file supplemental briefs and to provide final recommended revenue requirements that incorporated fuel savings that PNM implemented effective January 1, 2016 from PNM's SJGS coal supply agreement ("SJGS CSA") (Note 11). PNM's filing indicated that recovery for fuel related costs would be reduced by approximately $42.9 million reflecting the current SJGS CSA, which also reduced the request for base non-fuel related revenues by $0.2 million to $121.5 million.

On August 4, 2016, the Hearing Examiner in the case issued a recommended decision (the "August 2016 RD"). The August 2016 RD proposed an increase in non-fuel revenues of $41.3 million compared to the $121.5 million increase requested by PNM. Major components of the difference in the increase in non-fuel revenues proposed in the August 2016 RD, included:

- A ROE of 9.575% compared to the 10.5% requested by PNM
- Disallowing recovery of the entire $163.3 million purchase price for the January 15, 2016 purchases of the assets underlying three leases of portions of PVNGS Unit 2 (Note 13); the August 2016 RD proposed that power from the previously leased assets, aggregating 64.1 MW of capacity, be dedicated to serving New Mexico retail customers with those customers being charged for the costs of fuel and operating and maintenance expenses (other than property taxes, which were $0.8 million per year at that time), but the customers would not bear any capital or depreciation costs other than those related to improvements made after the date of the original leases
- Disallowing recovery from retail customers of the rent expense, which aggregates $18.1 million per year, under the four leases of capacity in PVNGS Unit 1 that were extended for eight years beginning January 15, 2015 and the one lease of capacity in PVNGS Unit 2 that was extended for eight years beginning January 15, 2016 (Note 13) and related property taxes, which were $1.5 million per year at that time; the August 2016 RD proposed that power from the leased assets, aggregating 114.6 MW of capacity, be dedicated to serving New Mexico retail customers with those customers being charged for the costs of fuel and operating and maintenance expense, except that customers would not bear rental costs or property taxes
- Disallowing recovery of the costs of converting SJGS Units 1 and 4 to BDT, which is required by the NSR permit for SJGS, (Note 11); PNM's share of the costs of installing the BDT equipment was $52.3 million of which $40.0 million was included in rate base in PNM's rate request
- Disallowing recovery of $4.5 million of amounts recorded as regulatory assets and deferred charges

The August 2016 RD recommended that the NMPRC find PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing the BDT equipment on SJGS Units 1 and 4. The August 2016 RD also proposed that all fuel costs be removed from base rates and be recovered through the FPPAC. In addition, the August 2016 RD would remove recovery of the costs of power obtained from New Mexico Wind from the FPPAC and include recovery of those costs through PNM's renewable energy rider discussed below. The August 2016 RD recommended continuation of the renewable energy rider and certain aspects of PNM's proposals regarding rate design, but would not approve certain other rate design proposals or PNM's request for a revenue decoupling pilot program. The August 2016 RD proposed approving PNM's proposals for revised depreciation rates (except the August 2016 RD would require

depreciation on Four Corners be calculated based on a 2041 life rather than the 2031 life proposed by PNM), the inclusion of construction work in progress in rate base, and ratemaking treatment of the "prepaid pension asset." The August 2016 RD would credit retail customers with 100% of the New Mexico jurisdictional portion of revenues from "refined coal" (a third-party pre-treatment process) at SJGS. The August 2016 RD did not preclude PNM from supporting the prudence of the PVNGS purchases and lease renewals in its next general rate case and seeking recovery of those costs. PNM disagreed with many of the key conclusions reached by the Hearing Examiner in the August 2016 RD and filed exceptions to defend its prudent utility investments. Other parties also filed exceptions to the August 2016 RD.

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

- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, aggregating 64.1 MW, of PVNGS Unit 2 at an initial rate base value of $83.7 million; and disallowance of the recovery of the undepreciated costs of

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capitalized improvements made during the period the 64.1 MW was being leased by PNM, which aggregated $43.8 million when the order was issued

- Allowing full recovery of the rent expense and property taxes associated with the extended leases for capacity, aggregating 114.6 MW, in Palo Verde Units 1 and 2
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity purchased in January 2016 and the 114.6 MW of capacity under the extended leases
- Recovery of assumed operating and maintenance expense savings of $0.3 million annually related to BDT

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. Subsequently, NEE, NMIEC, and ABCWUA filed notices of cross-appeal to PNM's appeal. On October 26, 2016, PNM filed a statement of issues related to its appeal with the NM Supreme Court, which stated PNM is appealing the NMPRC's determination that PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. Specifically, PNM's statement indicated it is appealing the following elements of the NMPRC's order:

- Disallowance of recovery of the full purchase price, representing fair market value, of the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016
- Disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM
- Disallowance of recovery of future contributions for PVNGS decommissioning attributable to the 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases
- Disallowance of recovery of the costs of converting SJGS Units 1 and 4 to BDT

The issues that are being appealed by the various cross-appellants include:

- The NMPRC allowing PNM to recover the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and any of the purchase price for the 64.1 MW in PVNGS Unit 2
- The NMPRC allowing PNM to recover the costs incurred under the new coal supply contract for Four Corners
- The revised method to collect PNM's fuel and purchased power costs under the FPPAC
- The final rate design
- The NMPRC allowing PNM to include the "prepaid pension asset" in rate base

NEE subsequently filed a motion for a partial stay of the order at the NM Supreme Court. This motion was denied. The NM Supreme Court stated that the court's intent was to request that PNM reimburse ratepayers for any amount overcharged should the cross-appellants prevail on the merits.

On February 17, 2017, PNM filed its Brief in Chief, and pursuant to the court's rules, the briefing schedule was completed on July 21, 2017. Oral argument at the NM Supreme Court was held on October 30, 2017. Although appeals of regulatory actions of the NMPRC have a priority at the NM Supreme Court under New Mexico law, there is no required time frame for the court to act on the appeals.

GAAP requires a loss to be recognized when it is probable that a loss has been incurred and the amount of loss can be reasonably estimated. When there is a range of the amount of the probable loss, the minimum amount of the range is to be accrued unless an amount within the range is a better estimate than any other amount. As of September 30, 2016, PNM evaluated the accounting consequences of the order in the NM 2015 Rate Case and the likelihood of being successful on the issues it is appealing in the NM Supreme Court as required under GAAP. The evaluation indicated it is reasonably possible that PNM will be successful on the issues it is appealing. If the NM Supreme Court rules in PNM's favor on some or all of the issues, those issues would be remanded back to the NMPRC for further action. As of September 30, 2016, PNM estimated it would take a minimum of 15 months, from the date PNM filed its appeal, for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. During such time, the rates specified in the order would remain in effect. PNM concluded that a range of probable loss resulted from the NMPRC order in the NM 2015 Rate Case; that the minimum amount of loss was 15 months of capital cost recovery that the order disallowed for PNM's investments in the PVNGS Unit 2 purchases, PVNGS Unit 2 capitalized improvements, and BDT; and that no amount within the range of possible loss was a better estimate than any other amount.

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Accordingly, PNM recorded a pre-tax regulatory disallowance of $6.8 million at September 30, 2016 for the capital costs that will not be covered during that 15 month appeal period. In addition, PNM recorded a pre-tax regulatory disallowance for $4.5 million of costs recorded as regulatory assets and deferred charges (which the order disallowed and which PNM did not challenge in its appeal) since PNM could no longer assert that those assets were probable of being recovered through the ratemaking process.

PNM also evaluated the accounting consequences of the issues that are being appealed by the cross-appellants. PNM does not believe the issues raised in the cross-appeals have substantial merit. Accordingly, PNM does not believe that the likelihood of the cross-appeals being successful is probable and, therefore, no loss was recorded in 2016 related to the issues subject to the cross-appeals.

Since the NM Supreme Court did not issue a decision on the appeals related to the NM 2015 Rate Case by December 31, 2017, which was 15 months from the date of the NMPRC's order in that case, PNM reevaluated the accounting consequences of the order in the NM 2015 Rate Case. PNM continues to believe that it is reasonably possible that PNM will be successful on the issues it is appealing and that it is not probable the cross appeals will be successful. However, based on the proceedings to date in the appeal process and other actions by the NM Supreme Court, PNM estimates that it will take seven months from December 31, 2017 for the NM Supreme Court to issue a decision and any remanded issues to be addressed by the NMPRC. Accordingly, PNM recorded an additional loss of $3.1 million at December 31, 2017, representing an additional disallowance of seven months of capital cost recovery that the order disallowed. Further losses will be recorded if the currently estimated time frame for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues is extended.

PNM continues to believe that the disallowed investments, which are the subject of PNM's appeal, were prudent and that PNM is entitled to full recovery of those investments through the ratemaking process. Although PNM believes it is reasonably possible that its appeals will be successful, it cannot predict what decision the NM Supreme Court will reach or what further actions the NMPRC will take on any issues remanded to it by the court. If PNM's appeal is unsuccessful, PNM would record further pre-tax losses related to the capitalized costs for any unsuccessful issues. The impacts of not recovering future contributions for decommissioning would be recognized in future periods reflecting that rates charged to customers would not recover those costs as they are incurred. The amounts of any such losses to be recorded would depend on the ultimate outcome of the appeal and NMPRC process, as well as the actual amounts reflected on PNM books at the time of the resolution. However, based on the book values recorded by PNM as of March 31, 2018, such losses could include:

- The remaining costs to acquire the assets previously leased under three leases aggregating 64.1 MW of PVNGS Unit 2 capacity in excess of the recovery permitted under the NMPRC's order; the net book value of such excess amount was $75.3 million, after considering the losses recorded in 2016 and 2017
- The undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity in PVNGS Unit 2 purchased by PNM in January 2016 was being leased by PNM; the net book value of these improvements was $39.1 million, after considering the losses recorded in 2016 and 2017
- The remaining costs to convert SJGS Units 1 and 4 to BDT; the net book value of these assets was $49.4 million, after considering the losses recorded in 2016 and 2017

Although PNM does not believe that the likelihood of the cross-appeals being successful is probable, it is unable to predict what decision the NM Supreme Court will reach. If the NM Supreme Court were to overturn all of the issues subject to the cross-appeals and, upon remand, the NMPRC did not provide any cost recovery of those items, PNM would write-off all of the costs to acquire the assets previously leased under three leases, aggregating 64.1 MW of PVNGS Unit 2 capacity, totaling $150.4 million (which amount includes $75.3 million that is the subject of PNM's appeal discussed above) at March 31, 2018, after considering the losses recorded in 2016 and 2017. The impacts of not recovering costs for the lease extensions, new coal supply contract for Four Corners, and "prepaid pension asset" in rate base would be recognized in future periods reflecting that rates charged to customers would not recover those costs as they are incurred. The outcomes of the cross-appeals regarding the FPPAC and rate design should not have a financial impact to PNM.

PNM is unable to predict the outcome of this matter.

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

On December 7, 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates. PNM did not include any of the costs disallowed in the NM 2015 Rate Case that are at issue in its pending appeal to the NM Supreme Court. Key aspects of PNM's request were:

- An increase in base non-fuel revenues of $99.2 million
- Based on a FTY beginning January 1, 2018 (the NMPRC's rules specify that a FTY is a 12 month period beginning up to 13 months after the filing of a rate case application)
- ROE of 10.125%
- Drivers of revenue deficiency
  Implementation of the modifications in PNM's resource portfolio, which were previously approved by the NMPRC as part of the SJGS regional haze compliance plan (Note 11)
  Infrastructure investments, including environmental upgrades at Four Corners
  Declines in forecasted energy sales due to successful energy efficiency programs and other economic factors
  Updates in the FERC/retail jurisdictional allocations
- Proposed changes to rate design to establish fair and equitable pricing across rate classes and to better align cost recovery with cost causation
  Increased customer and demand charges
  A "lost contribution to fixed cost" mechanism applicable to residential and small commercial customers to address the regulatory disincentive associated with PNM's energy efficiency programs

The NMPRC scheduled a public hearing to begin on June 5, 2017, ordered that a settlement conference be held, and that any resulting stipulation should be filed by March 27, 2017. Settlement discussions were held, but no agreements were reached by March 27, 2017, after which the date for filing a stipulation was extended. In early May 2017, PNM and thirteen intervenors (the "Signatories") entered into a comprehensive stipulation. On May 12, 2017, the Hearing Examiners issued an order rejecting the stipulation in its then current form, but allowed the Signatories to revise the stipulation. On May 23, 2017, the Signatories filed a revised stipulation that addressed the issues raised by the Hearing Examiners. NEE was the sole party opposing the revised stipulation. The terms of the revised stipulation, which required NMPRC approval in order to take effect, included:

- A revenue increase totaling $62.3 million, with an initial increase of $32.3 million beginning January 1, 2018 and the remaining increase beginning January 1, 2019
- A ROE of 9.575%
- Full recovery of PNM's investment in SCRs at Four Corners with a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM's rate riders, with an effective date prior to January 1, 2020
- An agreement to adjust the January 2019 increase for certain changes in federal corporate tax laws enacted prior to November 1, 2018 and effective and applicable to PNM by January 1, 2019 and to true-up PNM's cost of debt for refinancing transactions through 2018
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate (Note 14) to the extent attributable to PNM's retail operations

- PNM would withdraw its proposal for a “lost contribution to fixed cost” mechanism with the issue to be addressed in a future docket
- PNM would perform a cost benefit analysis in its 2020 IRP of the impact of a possible early exit from Four Corners in 2024 and 2028

A hearing on the revised stipulation was held in August 2017. On October 31, 2017, the Hearing Examiners issued a Certification of Stipulation recommending a Modified Revised Stipulation. The significant changes to the revised stipulation in the Hearing Examiners’ Modified Revised Stipulation included:

- Identifying PNM’s decision to continue its participation in Four Corners as imprudent
- Disallowing PNM’s ability to collect a debt or equity return on its $90.1 million investment in SCRs at Four Corners and on $58.0 million of projected capital improvements during the period July 1, 2016 through December 31, 2018

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- Recommending a temporary disallowance of $36.8 million of PNM’s projected capital improvements at SJGS through December 31, 2018

On December 20, 2017, the NMPRC issued an Order Partially Adopting Certification of Stipulation, which approved the Hearing Examiners’ Certification of Stipulation with certain changes. Substantive changes from the Certification of Stipulation included requiring the impacts of changes related to the reduction in the federal corporate income tax rate be implemented effective January 1, 2018 rather than January 1, 2019 and deferring further consideration regarding the prudency of PNM’s decision to continue its participation in Four Corners to a future proceeding.

On December 28, 2017 PNM filed a Motion for Rehearing and Request for Oral Argument asking the NMPRC to vacate their December 20, 2017 order and allow the parties to present oral argument. Additionally, several Signatories to the revised stipulation filed a Joint Motion for Partial Rehearing asking that the NMPRC approve the revised stipulation without modification. On January 2, 2018, NEE filed a response urging the NMPRC to reject PNM’s Motion.

On January 3, 2018, the NMPRC vacated its December 20, 2017 order and granted the motions for rehearing. The rehearing was held on January 10, 2018.

The NMPRC issued a Revised Order Partially Adopting Certification of Stipulation dated January 10, 2018 (the “Revised Order”). The Revised Order approved the Hearing Examiners’ Certification of Stipulation with certain changes including:

- Requiring the impacts of changes related to the reduction in the federal corporate income tax rate and PNM’s cost of debt (aggregating an estimated $47.6 million) be implemented in 2018 rather than January 1, 2019
- Deferring further consideration regarding the prudency of PNM’s decision to continue its participation in Four Corners to PNM’s next rate case
- Disallowing PNM’s ability to collect an equity return on its $90.1 million investment in SCRs at Four Corners and on $58.0 million of projected capital improvements during the period July 1, 2016 through December 31, 2018, but allowed recovery of the total $148.1 million of investments with a debt-only return
- Requiring PNM to reduce the requested $62.3 million increase in non-fuel revenue by $9.1 million
- Implementation of the first phase of the rate increase for services rendered, rather than bills rendered, beginning February 1, 2018 and of the second for services rendered beginning January 1, 2019

On January 16, 2018, PNM requested clarifying changes to the Revised Order to adjust the $9.1 million reduction to $4.4 million, asserting that $4.7 million of the reduction was duplicative. On January 17, 2018, the NMPRC issued an order approving the adjustment requested by PNM. On January 19, 2018, PNM and the Signatories filed a Joint Notice of All Signatories of Acceptance of the Order on Notice of Acceptance. On January 31, 2018, the NMPRC issued an order closing the docket in the NM 2016 Rate Case. After implementation of changes to the federal corporate income tax rate and cost of debt, the final order results in a net increase to PNM’s non-fuel revenue requirement of $10.3 million. PNM implemented 50% of the approved increase for service rendered beginning February 1, 2018 and will implement the rest of the increase for service rendered beginning January 1, 2019.

GAAP required PNM to recognize a loss to reflect that PNM will not earn an equity return on $148.1 million of investments at Four Corners. As of December 31, 2017, PNM recorded a pre-tax regulatory disallowance of $27.9 million. The amount of the loss was calculated by determining the present value of disallowed cash flows, which equals the difference between the cash flows resulting from recovery of those investments at PNM's embedded cost of debt and the cash flows with a full return on investment (including an equity component), and discounting the differences at PNM's WACC.

On February 7, 2018, NEE filed a notice of appeal with the NM Supreme Court asking the court to review the NMPRC's decisions in the NM 2016 Rate Case. On March 7, 2018, NEE filed its statement of issues with the NM Supreme Court requesting, among other things, that the NMPRC be required to identify PNM's decision to continue its participation in Four Corners as imprudent and to deny any recovery related to PNM's $148.1 million investments in that facility. Although PNM does not believe it is probable that NEE's appeal will be successful, it is unable to predict what decision the NM Supreme Court will reach. If the NM Supreme Court were to remand the case to the NMPRC and the NMPRC identified PNM's continued involvement in Four Corners as imprudent with no recovery of the $148.1 million of investments in Four Corners, PNM would be required to record

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additional losses for the remaining amount of those investments (after considering the $27.9 million disallowance recorded in 2017). In addition, PNM's future investments in Four Corners, which could be required under the participation agreement governing that facility, could also be subject to disallowance. PNM cannot predict the outcome of this matter.

Investigation/Rulemaking Concerning NMPRC Ratemaking Policies

On March 22, 2017, the NMPRC issued an order opening an investigation and rulemaking to simplify and increase "the transparency of NMPRC rate cases by reducing the number of issues litigated in rate cases," and provide a "more level playing field among intervenors and NMPRC staff on the one hand, and the utilities on the other." The order posed the following questions: whether a standardized method should be established for determining ROE; should the ROE be subject to reward or penalty based on utilities meeting or failing to meet certain metrics, which could include customer complaints, outages, peak demand reductions, and RPS and energy efficiency compliance; whether recovery of utility rate case expenses should be limited to 50% unless the case is settled; whether intervenors should be allowed to recover their expenses if the NMPRC accepts their position; whether parties should have access to software used by utilities to support their positions; and how regulatory assets should be authorized and recovered. Initial comments were filed in July 2017 and several public workshops have been held. PNM cannot predict the outcome of this proceeding.

Renewable Portfolio Standard

The REA establishes a mandatory RPS requiring a utility to acquire a renewable energy portfolio equal to 10% of retail electric sales by 2011, 15% by 2015, and 20% by 2020. PNM files annual renewable energy procurement plans for approval by the NMPRC. The NMPRC requires renewable energy portfolios to be "fully diversified." The current diversity requirements, which are subject to the limitation of the RCT, are minimums of 30% wind, 20% solar, 3% distributed generation, and 5% other.

The REA provides for streamlined proceedings for approval of utilities' renewable energy procurement plans, assures that utilities recover costs incurred consistent with approved procurement plans, and requires the NMPRC to establish a RCT for the procurement of renewable resources to prevent excessive costs being added to rates. Currently, the RCT is set at 3% of customers' annual electric charges. PNM makes renewable procurements consistent with the NMPRC approved plans. PNM recovers certain renewable procurement costs from customers through a rate rider. See Renewable Energy Rider below.

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

- 107 MW of PNM-owned solar PV facilities, including 40 MW constructed in 2015 that were identified as a cost-effective resource in PNM's application to retire SJGS Units 2 and 3 (Note 11) and are being recovered in the base rates provided in the NM 2015 Rate Case discussed above rather than through PNM's renewable energy rider; and an additional procurement of 1.5 MW of PNM-owned solar PV facilities to supply the energy sold under PNM's voluntary renewable energy tariff
- A PPA through 2044 for the output of New Mexico Wind, having a current aggregate capacity of 204 MW and a PPA through 2035 for the output of Red Mesa Wind, an existing wind generator having an aggregate capacity of 102 MW
-

- A PPA through 2042 for the output of the Lightning Dock Geothermal facility; the geothermal facility began providing power to PNM in January 2014; the current capacity of the facility is 4 MW
- Solar distributed generation, aggregating 86.2 MW at March 31, 2018, owned by customers or third parties from whom PNM purchases any net excess output and RECs
- Solar and wind RECs as needed to meet the RPS requirements

PNM filed its 2016 renewable energy procurement plan on June 1, 2015. The plan met RPS and diversity requirements within the RCT in 2016 and 2017 using existing resources and did not propose any significant new procurements. The NMPRC approved the plan in November 2015, and, after granting a rehearing motion to consider issues regarding the rate treatment of certain customers eligible for a cap on, or an exemption from, RPS procurement, the NMPRC again approved the plan in an order issued on February 3, 2016. The NMPRC deferred issues related to capped and exempt customers to PNM's NM 2015 Rate Case and to a new case, which the NMPRC subsequently initiated through issuance of an order to show cause. The NM 2015 Rate Case and show cause proceeding were to examine whether PNM miscalculated the FPPAC factor and base fuel costs in its treatment of renewable energy costs and application of the renewable procurement cost caps and exemptions. The show cause proceeding was

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stayed pending the outcome of the NM 2015 Rate Case. The September 28, 2016 order in the NM 2015 Rate Case directed that the cost of New Mexico Wind be recovered through PNM's renewable rider, rather than the FPPAC, and ordered certain other modifications regarding the accounting for renewable energy in PNM's FPPAC. These modifications do not affect the amount of fuel and purchased power or renewable costs that PNM will collect. No action has been taken in the show cause proceeding and PNM cannot predict its outcome.

PNM filed its 2017 renewable energy procurement plan on June 1, 2016. The plan met RPS and diversity requirements for 2017 and 2018 using existing resources and PNM did not propose any significant new procurements. PNM projected that its plan would slightly exceed the RCT in 2017 and would be within the RCT in 2018. PNM requested a variance from the RCT in 2017 to the extent the NMPRC determined a variance was necessary. A public hearing was held on September 26, 2016. On October 21, 2016, the Hearing Examiner issued a recommended decision recommending that the plan be approved as filed and also found that a variance from the RCT was not required. The NMPRC approved the recommended decision on November 23, 2016.

On June 1, 2017, PNM filed its 2018 renewable energy procurement plan. PNM requested approval to procure an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; approval to procure an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; approval to procure 50 MW of new solar facilities to be constructed beginning in 2018, and continuation of customer REC purchase programs and other purchases of RECs to ensure annual compliance with the RPS. PNM's proposed procurement cost for 2018 and 2019 will be within the RCT. The plan also sought a variance from the "other" diversity category in 2018 due to a revised production forecast of the Lightning Dock Geothermal facility in 2018. A public hearing on the application was held in September 2017. On October 17, 2017, the Hearing Examiner issued a recommended decision that PNM's 2018 renewable energy procurement plan be approved by the NMPRC, except for the re-powering of Lightning Dock Geothermal and PNM's request to procure 50 MW of new solar facilities. The Hearing Examiner recommended that the PPA for the output of energy from Lightning Dock Geothermal be terminated effective January 1, 2018. The Hearing Examiner also recommended that PNM be required to issue another all-renewables RFP allowing developers to utilize PNM-owned sites to construct facilities, the output from which facilities would be sold to PNM through PPAs. PNM strongly disagreed with the Hearing Examiner's recommendations and filed exceptions contesting the Hearing Examiner's proposals. On November 15, 2017, the NMPRC issued an order approving PNM's plan and rejecting the Hearing Examiner's recommendations. On November 29, 2017, NMIEC filed an appeal with the NM Supreme Court objecting to the fuel allocation methodology. On December 14, 2017, NEE filed a motion to intervene and cross-appeal objecting to the approval of the 50 MW of new solar facilities. On December 18, 2017, PNM filed a motion to intervene, which was granted. NMIEC filed a motion for a partial stay of the NMPRC order and PNM filed a response opposing the request. On February 27, 2018, the court issued an order denying the motion for stay. On April 9, 2018, NMIEC filed its Brief in Chief. Answer briefs are due on May 29, 2018. PNM cannot predict the outcome of this matter.

Renewable Energy Rider

The NMPRC has authorized PNM to recover certain renewable procurement costs through a rate rider billed on a per KWh basis. In PNM's NM 2015 Rate Case, the NMPRC authorized continuation of the renewable rider. In its 2018 renewable energy procurement plan case, PNM proposed to collect $43.5 million for the year. The 2018 renewable energy procurement plan became effective on January 1, 2018. PNM recorded revenues from the rider of $10.9 million and $12.2 million in the three months ended March 31, 2018 and 2017.

Under the renewable rider, if PNM's earned rate of return on jurisdictional equity in a calendar year, adjusted for weather and other items not representative of normal operations, exceeds the NMPRC-approved rate by 0.5%, PNM is required to refund the excess to customers during May through December of the following year. PNM's annual compliance filings with the NMPRC show that its rate of return on jurisdictional equity did not exceed the limitation through 2017.

Energy Efficiency and Load Management

Program Costs and Incentives/Disincentives

The New Mexico Efficient Use of Energy Act ("EUEA") requires public utilities to achieve specified levels of energy savings and to obtain NMPRC approval to implement energy efficiency and load management programs. The EUEA requires the

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NMPRC to remove utility disincentives to implementing energy efficiency and load management programs and to provide incentives for such programs. The NMPRC has adopted a rule to implement this act. The EUEA sets an annual program budget equal to 3% of an electric utility's annual revenue. PNM's costs to implement approved programs are recovered through a rate rider.

On April 15, 2016, PNM filed an application for energy efficiency and load management programs to be offered in 2017. The proposed program portfolio consisted of ten programs with a total budget of $28.0 million. The application also sought approval of an incentive of $2.4 million based on targeted savings of 75 GWh. The actual incentive would be based on actual savings achieved. On January 11, 2017, the NMPRC approved an unopposed stipulation that established a method to ensure that funding of PNM's energy efficiency program is equal to 3% of retail revenues, with an estimated 2017 energy efficiency funding level of $26.0 million, and approved a sliding scale profit incentive with a base level of 7.1% of program costs, equal to $1.8 million, if PNM achieves a minimum proscribed level of energy savings, increasing to a maximum of 9.0% depending on actual energy savings achieved above the minimum. On April 13, 2018, PNM filed its reconciliation of 2017 program costs and incentives, which indicated the incentive earned in 2017 is $2.3 million. The reconciliation filing and related incentive is subject to NMPRC approval. PNM expects the NMPRC will rule on this matter by mid-2018.

On April 14, 2017, PNM filed an application for energy efficiency and load management programs to be offered in 2018. The proposed program portfolio consists of a continuation of the ten programs approved in the 2016 application with a total budget of $25.1 million. The application also sought approval of a sliding scale incentive with a base incentive of $1.9 million if PNM is able to achieve savings of 53 GWh in 2018. As proposed, PNM would have earned an incentive of $2.1 million based on targeted savings of 70 GWh. The actual incentive would be based on actual savings achieved. PNM proposed to continue the same ten programs and a similar incentive mechanism in 2019, with a proposed budget of $28.2 million and a base level incentive of $2.1 million. On July 26, 2017, PNM, NMPRC staff, and other parties filed a stipulation that would resolve all issues in the case if approved by the NMPRC. Under the settlement, all of PNM's proposed programs would be approved with limited modifications and PNM's base level incentive would be $1.7 million in 2018. PNM would earn an incentive of $1.9 million based on targeted savings of 69 GWh. A public hearing was held in September 2017. On November 8, 2017, the Hearing Examiner issued a Certification of Stipulation recommending approval of the stipulation with various modifications, including adoption of a discount rate equal to the tax-adjusted WACC of 9.59% rather than the 7.71% proposed in the stipulation and modifying the program budgets to $23.6 million for 2018 and $24.9 million for 2019. On January 31, 2018, the NMPRC issued an order that largely accepted the certification with certain exceptions concerning the measurement and verification of the approved load management programs.

Petition for Energy Efficiency Disincentive

As discussed above, PNM's December 2016 application in the NM 2016 Rate Case had requested a "lost contribution to fixed cost" mechanism to address the disincentives associated with PNM's energy efficiency programs. In the revised stipulation to that case, PNM agreed to withdraw its proposal for such a mechanism and to address energy efficiency disincentives in a future docket. On March 2, 2018, PNM filed a petition proposing a "lost contribution to fixed cost mechanism" with substantially the same terms as those proposed in the NM 2016 Rate Case application. The Hearing Examiner for this matter has issued a procedural order that includes a public hearing to begin on October 30, 2018.

Energy Efficiency Rulemaking

In July 2012, the NMPRC opened an energy efficiency rulemaking docket to potentially address decoupling and incentives. Workshops to develop a proposed rule have been held, but no order proposing a rule has been issued. PNM is unable to predict the outcome of this matter.

On January 25, 2017, the NMPRC opened another energy efficiency rulemaking docket to consider whether applications for approval of energy efficiency and load management programs should be filed every two years rather than annually. On June 21, 2017, the NMPRC issued an order that modifies the filing frequency for utility energy efficiency plans to every three years.

Also on June 21, 2017, the NMPRC issued a new notice of proposed rulemaking to consider possible changes affecting a utility's ability to modify NMPRC approved funding levels by up to 10% between energy efficiency program applications. This rulemaking is in response to consensus changes proposed by parties in the January 25, 2017 rulemaking. On September 13, 2017, the NMPRC approved the proposed rule. Under the new rule, PNM's next application for energy efficiency and load management programs will be made in 2020 for programs to be offered beginning in 2021.

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FPPAC Continuation Application
NMPRC rules require public utilities to file an application to continue using their FPPAC every four years. On April 23, 2018, PNM filed the required continuation application and requested that its FPPAC be continued without modification.

Integrated Resource Plans
NMPRC rules require that investor owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period.
2014 IRP
PNM filed its 2014 IRP on July 1, 2014. The four-year action plan was consistent with the replacement resources identified in PNM's application to retire SJGS Units 2 and 3. PNM indicated that it planned to meet its anticipated long-term resource needs with a combination of additional renewable energy resources, energy efficiency, and natural gas-fired facilities. Consistent with statute and NMPRC rule, PNM incorporated a public advisory process into the development of its 2014 IRP. On July 31, 2014, several parties requested the NMPRC to not accept the 2014 IRP as compliant with NMPRC rule because to do so could affect the then pending proceeding on PNM's application to abandon SJGS Units 2 and 3 and for CCNs for certain replacement resources (Note 11) and because they asserted that the 2014 IRP did not conform to the NMPRC's IRP rule. Certain parties also asked that further proceedings on the 2014 IRP be held in abeyance until the conclusion of the SJGS abandonment/CCN proceeding. The NMPRC issued an order in August 2014 that docketed a case to determine whether the 2014 IRP complied with applicable NMPRC rules. The order also held the case in abeyance pending the issuance of final, non-appealable orders in PNM's 2015 renewable energy procurement plan case and its application to retire SJGS Units 2 and 3. The order regarding PNM's application to abandon SJGS Units 2 and 3 states that the NMPRC will issue a Notice of Proposed Dismissal in the 2014 IRP docket. On May 4, 2016, the NMPRC issued the Notice of Proposed Dismissal, stating that the docket would be closed with prejudice within thirty days unless good cause was shown why the docket should remain open. On May 31, 2016, NEE filed a request to hold the protests filed against PNM's 2014 IRP in abeyance or to dismiss those protests without prejudice. PNM responded on June 13, 2016 and requested that the NMPRC dismiss the case with prejudice. The NMPRC has not yet acted on its Notice of Proposed Dismissal or the request filed on May 31, 2016. PNM cannot predict the outcome of this matter.

2017 IRP

PNM filed its 2017 IRP on July 3, 2017. The 2017 IRP addresses a 20-year planning period, from 2017 through 2036, and includes an action plan describing PNM's plan to implement the 2017 IRP in the four-year period following its filing. PNM held its initial public advisory meeting on the 2017 IRP on June 30, 2016 and hosted 17 meetings statewide to present details of the process and receive public comment. The NMPRC's order concerning SJGS' compliance with the BART requirements of the CAA discussed in Note 11 requires PNM to make a filing in 2018 to determine the extent to which SJGS Units 1 and 4 should continue serving PNM's retail customers' needs after June 30, 2022. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP include:

- Retiring PNM's share of SJGS in 2022 after the expiration of the current operating and coal supply agreements would provide long-term cost savings for PNM's customers

- PNM exiting its ownership interest in Four Corners after its current coal supply agreement expires in 2031 would also save customers money
- The best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity; the mix could include energy storage, if the economics support it, and wind energy provided additional transmission capacity becomes available
- Significant increases in future wind energy supplies will likely require new transmission capacity to be built from eastern New Mexico to PNM's service territory
- PNM should retain the currently leased capacity in PVNGS, which would avoid replacement with carbon-emitting generation
- PNM should continue to develop and implement energy efficiency and demand management programs
- PNM should assess the costs and benefits of participating in the California Energy Imbalance Market

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- PNM should analyze its current Reeves Generating Station to consider possible technology improvements to phase out the older generators and replace them with new, more flexible supplies or energy storage

Protests to the 2017 IRP were filed by several parties. The issues addressed in the protests included the future of PNM's interests in SJGS, Four Corners, and PVNGS and the timing of future procurement of renewable resources. The NMPRC has assigned the case to a Hearing Examiner. On January 16, 2018, the Hearing Examiner issued an order setting the scope of the proceedings as the 2017 IRP's compliance with applicable statute and NMPRC rules. On February 22, 2018, PNM provided certain underlying information and clarified how costs, transmission constraints, energy storage, and public input were considered in developing the 2017 IRP. Hearings are scheduled to begin on June 4, 2018.

The 2017 IRP is not a final determination of PNM's future generation portfolio. Retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings, which PNM would make at appropriate times in the future. Likewise, NMPRC approval of new generation resources through CCN filings would be required. PNM cannot predict the ultimate outcome of the 2017 IRP process or whether the NMPRC will approve subsequent filings that would encompass actions to implement the conclusions of the 2017 IRP.

San Juan Generating Station Units 2 and 3 Retirement

On December 16, 2015, the NMPRC issued an order approving PNM's retirement of SJGS Units 2 and 3 on December 31, 2017. On January 14, 2016, NEE filed an appeal of the order with the NM Supreme Court. SJGS Units 2 and 3 were retired in December 2017. On March 5, 2018, the NM Supreme Court rendered a decision affirming the NMPRC's ruling, thereby denying NEE's appeal. A request for rehearing of the NM Supreme Court's decision was not filed by the statutory deadline. This matter is now concluded. Additional information concerning the NMPRC filing and related proceedings is set forth in Note 11.

San Juan Generating Station Unit 1 Outage

On March 17, 2018, a coal silo used to supply fuel to SJGS Unit 1 collapsed resulting in an outage. PNM promptly contacted the staff of the NMPRC to inform them of the event and has initiated a review of its cause. PNM currently anticipates inspections of the facility and a determination of estimated repair costs will be completed by the end of May 2018 and that the unit will be returned to service shortly after that date. PNM anticipates the damages to the facility will be reimbursed under an existing property insurance policy that covers SJGS, subject to a deductible of $2.0 million. PNM's exposure to the cost of repairs is $1.0 million, reflecting PNM's 50% ownership interest in SJGS Unit 1.

On April 12, 2018, NEE filed a petition (jointly with certain other organizations) requesting that the NMPRC order an investigation into the SJGS Unit 1 event. The petition requests that the NMPRC order PNM to respond to the petition, that proceedings be set on this matter, and that PNM be required to provide a narrative explanation, cost/benefit analysis, and alternatives assessment used to determine that Unit 1 should be repaired rather than utilizing alternative resources. On April 25, 2018, the NMPRC issued an order requiring PNM to provide a factual statement of the nature and cause of the event, as well as the anticipated need for and schedule of repairs required. PNM must also address the necessity and appropriateness of the request for a cost/benefit analysis, alternatives assessment, and request for further proceedings.

Advanced Metering Infrastructure Application

On February 26, 2016, PNM filed an application with the NMPRC requesting approval of a project to replace its existing customer metering equipment with Advanced Metering Infrastructure ("AMI"). The application asked the NMPRC to authorize the recovery of the cost of the project, up to $87.2 million, in future ratemaking proceedings, as well as to approve the recovery of the remaining undepreciated investment in existing metering equipment estimated to be approximately $33 million at the date of implementation, the costs of customer education, and severances for affected employees. Hearings in this matter were held in February and March 2017. During the March 2017 hearing, it was disclosed that the proposed meter contractor may not have complied with certain New Mexico contractor licensing requirements. PNM subsequently filed testimony regarding that matter as ordered by the Hearing Examiner. On May 12, 2017, PNM requested a new procedural schedule to allow it to issue a new RFP for contracting work related to the meter installation and to update its cost-benefit analysis. PNM subsequently updated the amount of the requested recovery for the anticipated cost of the project to $95.1 million. An additional hearing was held on October 25-26, 2017. On March 19, 2018, the Hearing Examiner issued a recommended decision finding that PNM had not proven a net public

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benefit in the case and recommending the NMPRC not approve the application. On April 2, 2018, PNM filed a statement on exceptions to the recommended decision indicating, among other things, that PNM disagreed with the finding that the record did not demonstrate a net public benefit to customers, but that PNM would not take exception to a recommendation to not approve the application. No other parties filed exceptions to the recommended decision by the required deadline. On April 11, 2018, the NMPRC adopted an order accepting the recommended decision and disapproving PNM's application. The order indicated PNM's next energy efficiency plan filing should include a proposal for an AMI pilot project.

Facebook, Inc. Data Center Project

As discussed in Note 17 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, the NMPRC approved a PNM application for arrangements in connection with services to be provided to Facebook, Inc. for a new data center to be constructed in PNM's service area. The approvals included:

- Two new electric service rates
- A PPA under which PNM would purchase renewable energy from PNMR Development
- A special service contract to provide electric service

Facebook's service requirements include the acquisition by PNM of a sufficient amount of new renewable energy resources and RECs to match the energy and capacity requirements of the data center. PNM's initial procurement was to be through a PPA with PNMR Development for the energy production from 30 MW of new solar capacity that PNMR Development was to construct. As discussed in Note 1, PNMR Development transferred its interests in the solar capacity and the PPA to NMRD in December 2017. The cost of the PPA is passed through to Facebook under a new rate rider. The new special service rate is applied to Facebook's energy consumption in those hours of the month when their consumption exceeds the energy production from the renewable resources. The first 10 MW of solar capacity began commercial operation on January 1, 2018, the second 10 MW began commercial operation in March 2018, and the remaining capacity is anticipated to be completed by mid-2018.

In late 2017, PNM entered into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply additional renewable power to Facebook. These PPAs were subject to NMPRC approval and PNM made a filing requesting approval on January 17, 2018. A NMPRC hearing on PNM's filing was held on March 7, 2018 and the NMPRC approved the PPAs on March 21, 2018. These PPAs include the purchase of the power and RECs from:

- Casa Mesa Wind, LLC, a subsidiary of NextEra Energy Resources, LLC., which is expected to be located near House, New Mexico, have a total capacity of 50 MW, and be operational on December 31, 2018
- A 166 MW portion of the La Joya Wind Project, owned by Avangrid Renewables, LLC, which is expected to be located near Estancia, New Mexico and be operational in November 2020
- Route 66 Solar Energy Center, LLC, a subsidiary of NextEra Energy Resources, LLC., which is expected to be located west of Albuquerque, New Mexico, have a total capacity of 50 MW, and be operational in December 2021

TNMP

Advanced Meter System Deployment

In July 2011, the PUCT approved a settlement and authorized an AMS deployment plan that permits TNMP to collect $113.4 million in deployment costs through a surcharge over a 12-year period. TNMP began collecting the surcharge on August 11, 2011. Deployment of advanced meters began in September 2011. TNMP completed its mass deployment in 2016 and has installed more than 242,000 advanced meters. In connection with TNMP's deployment of AMS, TNMP committed to file a general rate case no later than September 1, 2018. TNMP will include a reconciliation of AMS costs in the 2018 filing.

The PUCT adopted a rule creating a non-standard metering service for retail customers choosing to decline standard metering service via an advanced meter. The cost of providing non-standard metering service is to be borne by opt-out customers through an initial fee and ongoing monthly charge. As approved by the PUCT, TNMP is recovering $0.2 million in costs through initial fees ranging from $63.97 to $168.61 and ongoing annual expenses of $0.5 million through a $36.78 monthly fee. These amounts presume up to 1,081 consumers will elect the non-standard meter service, but TNMP has the right to adjust the fees if the number of anticipated consumers differs from that estimate. As of April 23, 2018, 98 consumers have made the election.

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TNMP does not expect the implementation of non-standard metering service to have a material impact on its financial position, results of operations, or cash flows.

Transmission Cost of Service Rates
TNMP can update its transmission rates twice per year to reflect changes in its invested capital. Updated rates reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, and the approved rate of return on such facilities. The following sets forth TNMP's recent interim transmission cost rate increases:

Effective Date	Approved Increase in Rate Base	Annual Increase in Revenue
	(In millions)	
March 23, 2016	$25.8	$ 4.3
September 8, 2016	9.5	1.8
March 14, 2017	30.2	4.8
September 13, 2017	27.5	4.7
March 27, 2018	32.0	0.6

Periodic Distribution Rate Adjustment

PUCT rules permit interim rate adjustments to reflect changes in investments in distribution assets. Distribution utilities may file for a periodic rate adjustment between April 1 and April 8 of each year as long as the electric utility is not earning more than its authorized rate of return using weather-normalized data. However, TNMP has not made a filing to adjust rates for additional investments in distribution assets. In connection with TNMP's deployment of its advanced meter system discussed above, TNMP committed to file a general rate case no later than September 1, 2018. TNMP has also committed that it would not file a request for an increase in rates to reflect changes in investments in distribution assets until after the 2018 general rate case.

Order Related to Changes in Federal Income Tax Rates

On January 25, 2018, the PUCT issued an accounting order that addresses the change in federal income tax rates on investor-owned utilities in the state of Texas. The order requires investor-owned utilities to record a regulatory liability equal to the reduction in accumulated federal deferred income tax balances at the end of 2017 due to the change in the federal income tax rate. In addition, the order requires that a regulatory liability be recorded to reflect the difference between revenues collected under existing rates and those that would have been collected had those rates been set reflecting federal income tax reform beginning on the date of the order. As discussed in Note 11 of the Notes to the Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, at December 31, 2017, TNMP recorded a regulatory liability for deferred income taxes of $146.5 million to reflect the change in federal income tax rates that will be refunded to customers in future periods. In compliance with the PUCT order, during the three months ended March 31, 2018, TNMP recorded a regulatory liability of $1.5 million, which amount represents

the impact of the reduction in the federal corporate income tax rate on revenues collected from January 25, 2018 through March 31, 2018. The order provides that these regulatory liabilities will be considered by the PUCT in each utility's next rate proceeding, which for TNMP is anticipated to be filed in May 2018. TNMP is evaluating whether the PUCT order constitutes retroactive ratemaking and whether to advocate such a position in future rate proceedings. TNMP cannot predict the outcome of this matter.

(13) Lease Commitments

The Company leases office buildings, vehicles, and other equipment. In addition, PNM leases interests in Units 1 and 2 of PVNGS and certain right-of-way agreements are classified as leases. 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 2017 Annual Reports on Form 10-K, including PNM's actions with regard to renewal and purchase options under the PVNGS leases.

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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 31.25 MW of the entitlement from PVNGS Unit 2 and $85.2 million to the lessors under the other two leases for 32.76 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 March 31, 2018, amounts due to the lessors under the circumstances described above would be up to $166.8 million, payable on July 15, 2018 in addition to the scheduled lease payments due on July 15, 2018.

(14) Income Taxes

On December 22, 2017, comprehensive changes in United States federal income taxes were enacted through legislation commonly known as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes many significant modifications to the tax laws, including reducing the federal corporate income tax rate from 35% to 21% effective January 1, 2018. The Tax Act also eliminates federal bonus depreciation for utilities effective September 28, 2017 and, effective January 1, 2018, limits interest deductibility for non-utility businesses and limits the deductibility of certain officer compensation.

Although most of the provisions of the Tax Act are not effective until 2018, GAAP required that some effects be recognized in 2017. Under the asset and liability method of accounting for income taxes used by the Company, deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts of

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existing assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to reverse. At the date of enactment of the Tax Act, the Company had net deferred tax liabilities for its regulated activities and net deferred tax assets for non-regulated activities. As a result of the change in the federal income tax rate, the Company re-measured and adjusted its deferred tax assets and liabilities as of December 31, 2017. The portion of that adjustment not related to PNM’s and TNMP’s regulated activities was recorded as a reduction in net deferred tax assets and an increase in income tax expense. The portion related to PNM’s and TNMP’s regulated activities was recorded as a reduction in net deferred tax liabilities and an increase in regulatory liabilities, based on the assumption that PNM and TNMP will be required to return the benefit to ratepayers over time. PNM’s NM 2016 Rate Case (Note 12) reflects that assumption by including an amortization of the estimated benefit of the reduction in existing deferred federal income taxes as a reduction to customer rates over a twenty-one year period beginning in 2018. In January 2018, the PUCT issued an order requiring Texas utilities, including TNMP, to begin recording regulatory liabilities for the effects of the Tax Act with the stated purpose of reflecting those effects in the utility bills of Texas ratepayers. During the three months ended March 31, 2018, TNMP recorded a regulatory liability of $1.5 million in accordance with the PUCT’s order (Note 12).

In December 2017, the SEC issued Staff Accounting Bulletin No. 118, which provides guidance to address the application of GAAP to reflect the Tax Act in circumstances where all information and analysis of the Tax Act is not yet available or complete. This bulletin provides for up to a one-year period in which to complete the required analyses and accounting for the impacts of the Tax Act. The Company believes it made reasonable estimates of the effects of the Tax Act and reflected the impacts in the Consolidated Financial Statements included in the 2017 Annual Reports on Form 10-K. However, the reported effects on the Company’s deferred tax assets and liabilities, regulatory assets and liabilities, and income tax expense are provisional and it is possible that changes to United States Treasury regulations, IRS interpretations of the provisions of the Tax Act, actions by the NMPRC, PUCT, and FERC, or the Company’s further analysis of historical records could cause these estimates to change. Through March 31, 2018, no significant adjustments to the impacts reflected in the 2017 Consolidated Financial Statements included in the 2017 Annual Reports on Form 10-K have been identified.

In 2013, New Mexico House Bill 641 reduced the New Mexico corporate income tax rate from 7.6% to 5.9%. The rate reduction is being phased-in from 2014 to 2018. In accordance with GAAP, PNMR and PNM adjusted accumulated deferred income taxes to reflect the tax rate at which the balances are expected to reverse during the period that includes the date of enactment, which was in the year ended December 31, 2013. At that time, the portion of the adjustment related to PNM’s regulated activities was recorded as a reduction in deferred tax liabilities and an increase in a regulatory liability, based on the assumption that PNM would be required to return the benefit to customers over time. PNM’s NM 2016 Rate Case (Note 12) reflects that assumption. In addition, the portion of the adjustment that was not related to PNM’s regulated activities was recorded as a reduction in deferred tax assets and an increase in income tax expense. Changes in the estimated timing of reversals of deferred tax assets and liabilities resulted in refinements of the impacts of this change in tax rates being recorded periodically through December 31, 2017, at which time the impacts of the rate reduction were fully phased in. In the three months ended March 31, 2017, PNM’s regulatory liability was reduced by $4.8 million, which increased deferred tax liabilities. Deferred tax assets not related to PNM’s regulatory activities were reduced by $0.1 million in the three months ended March 31, 2017, increasing income tax expense by less than $0.1 million for PNM and $0.1 million for the Corporate and Other

segment. The benefit of the lower New Mexico corporate income tax rate is being returned to customers over a three-year period beginning February 1, 2018 as ordered in PNM's NM 2016 Rate Case.

As required under GAAP, the Company makes an estimate of its anticipated effective tax rate for the year as of the end of each quarterly period within its fiscal year. In interim periods, income tax expense is calculated by applying the anticipated annual effective tax rate to year-to-date earnings before income taxes, which includes the earnings attributable to the Valencia non-controlling interest. GAAP also provides that certain unusual or infrequently occurring items, including excess tax benefits related to stock awards, be excluded from the estimated annual effective tax rate calculation. At March 31, 2018, PNMR, PNM, and TNMP estimated their effective income tax rates for the year ended December 31, 2018 would be 12.11%, 8.07%, and 23.47%. These rates reflect the reduced federal corporate income tax rate of 21%, which rates are adjusted to reflect permanent differences between earnings determined in accordance with GAAP and taxable income, as well as state income taxes. The primary permanent difference is the reduction in income tax expense resulting from the amortization of excess deferred federal and state income taxes ordered by the NMPRC in PNM's NM 2016 Rate Case. During the three months ended March 31, 2018, income tax expense calculated by applying the expected annual effective income tax rate to earnings before income taxes for PNMR, PNM, and TNMP was further reduced by excess tax benefits related to stock awards of $1.3 million, $1.0 million and $0.3 million.

(15) Related Party Transactions

PNMR, PNM, TNMP, and NMRD are considered related parties as defined under GAAP, as is PNMR Services Company, a wholly-owned subsidiary of PNMR that provides corporate services to PNMR and its subsidiaries in accordance with shared services agreements. These services are billed at cost on a monthly basis to the business units. In addition, PNMR provides construction and operations and maintenance services to NMRD, a 50% owned subsidiary of PNMR Development (Note 1), and PNM purchases renewable energy from certain NMRD-owned facilities at a fixed price per MWh of energy produced. The table below summarizes the nature and amount of related party transactions of PNMR, PNM, TNMP, and NMRD:

	Three Months Ended March 31,	
	2018	2017
	(In thousands)	
Services billings:		
PNMR to PNM	$23,679	$24,402
PNMR to TNMP	8,365	8,137
PNM to TNMP	86	85
TNMP to PNMR	35	35
PNMR to NMRD	78	—
Renewable energy purchases:		
PNM from NMRD	370	—
Interest billings:		
PNMR to PNM	62	—
PNM to PNMR	66	43
PNMR to TNMP	8	31
Income tax sharing payments:		
PNMR to PNM	—	—
PNMR to TNMP	—	—
TNMP to PNMR	—	—

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations for PNMR is presented on a combined basis, including certain information applicable to PNM and TNMP. The MD&A for PNM and TNMP is presented as permitted by Form 10-Q General Instruction H(2). This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. A reference to a "Note" in this Item 2 refers to the accompanying Notes to Condensed Consolidated Financial Statements (Unaudited) included in Item 1, unless otherwise specified. Certain of the tables below may not appear visually accurate due to rounding.

MD&A FOR PNMR

EXECUTIVE SUMMARY
Overview and Strategy

PNMR is a holding company with two regulated utilities serving approximately 776,000 residential, commercial, and industrial customers and end-users of electricity in New Mexico and Texas. PNMR's electric utilities are PNM and TNMP.
Strategic Goals
PNMR is focused on achieving three key strategic goals:

- Earning authorized returns on regulated businesses
- Delivering above industry-average earnings and dividend growth
- Maintaining solid investment grade credit ratings

In conjunction with these goals, PNM and TNMP are dedicated to:

- Maintaining strong employee safety, plant performance, and system reliability
- Delivering a superior customer experience
- Demonstrating environmental stewardship in business operations, including reducing CO_2 emissions
- Supporting the communities in their service territories

Earning Authorized Returns on Regulated Businesses

PNMR's success in accomplishing its strategic goals is highly dependent on two key factors: fair and timely regulatory treatment for its utilities and the utilities' strong operating performance. The Company has multiple strategies to achieve favorable regulatory treatment, all of which have as their foundation a focus on the basics: safety, operational excellence, and customer satisfaction, while engaging stakeholders to build productive relationships. Both PNM and TNMP seek cost recovery for their investments through general rate cases and various rate riders.

Fair and timely rate treatment from regulators is crucial to PNM and TNMP in earning their allowed returns and critical for PNMR to achieve its strategic goals. PNMR believes that earning allowed returns is viewed positively by credit rating agencies and that improvements in the Company's ratings could lower costs to utility customers.

Additional information about rate filings is provided in Note 17 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 12.

State Regulation

New Mexico 2015 Rate Case – On September 28, 2016, the NMPRC issued an order that authorized PNM to implement an increase in base non-fuel rates of $61.2 million for New Mexico retail customers, effective for bills sent after September 30, 2016. This order was on PNM's application for a general increase in retail electric rates (the "NM 2015 Rate Case") filed in August 2015. PNM's application requested an increase in base non-fuel revenues of $121.5 million based on a future test year ("FTY") beginning October 1, 2015. The primary drivers of the revenue deficiency were infrastructure investments and declines in forecasted energy sales due to successful energy efficiency programs and other economic factors.

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Following public hearings, the Hearing Examiner in the case issued a recommended decision in August 2016 proposing an increase in non-fuel revenues of $41.3 million (the "August 2016 RD"). The NMPRC's September 26, 2016 order approved many aspects of the August 2016 RD, including the determination that PNM was imprudent in purchasing 64.1 MW of previously leased capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. However, the order also made certain significant modifications to the August 2016 RD. Major components of the difference between the increase in non-fuel revenues approved in the order and PNM's request, include:

- A ROE of 9.575%, compared to the 10.5% requested by PNM
- Inclusion of the January 2016 purchase of the assets underlying three leases of capacity, totaling 64.1 MW, of PVNGS Unit 2 (Note 13) at an initial rate base value of $83.7 million, compared to PNM's request for recovery of the fair market value purchase price of $163.3 million; and disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW was being leased by PNM, which costs totaled $43.8 million when the order was issued
- Disallowance of the recovery of any future contributions for PVNGS decommissioning costs related to the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016 and the 114.6 MW of the leased capacity in PVNGS Units 1 and 2 that were extended for eight years beginning January 15, 2015 and 2016 (Note 13)
- Disallowance of recovery of the costs associated with converting SJGS Units 1 and 4 to BDT, which is required by the NSR permit for SJGS (Note 12); PNM's share of the costs of installing the BDT equipment was $52.3 million, $40.0 million of which PNM requested be included in rate base in the NM 2015 Rate Case

On September 30, 2016, PNM filed a notice of appeal with the NM Supreme Court regarding the order in the NM 2015 Rate Case. PNM is appealing the NMPRC's determination that PNM was imprudent in the actions taken to purchase the previously leased 64.1 MW of capacity in PVNGS Unit 2, extending the leases for 114.6 MW of capacity of PVNGS Units 1 and 2, and installing BDT equipment on SJGS Units 1 and 4. PNM's appeal includes the following specific elements of the NMPRC's order:

- Disallowance of recovery of the full fair market value purchase price of the 64.1 MW of capacity in PVNGS Unit 2 purchased in January 2016
- Disallowance of the recovery of the undepreciated costs of capitalized improvements made during the period the 64.1 MW of capacity was leased by PNM
- Disallowance of recovery of future contributions for PVNGS decommissioning attributable to 64.1 MW of purchased capacity and the 114.6 MW of capacity under the extended leases
- Disallowance of recovery of the costs of converting SJGS Units 1 and 4 to BDT

NEE, NMIEC, and ABCWUA filed notices of cross appeal to PNM's appeal. The issues that are being appealed by the various cross-appellants are:

- The NMPRC allowing PNM to recover the costs of the lease extensions for the 114.6 MW of PVNGS Units 1 and 2 and any of the purchase price for the 64.1 MW in PVNGS Unit 2
- The NMPRC allowing PNM to recover the costs incurred under the new coal supply contract for Four Corners
- The revised method to collect PNM's fuel and purchased power costs under the FPPAC
- The final rate design
- The NMPRC allowing PNM to include the "prepaid pension asset" in rate base

The NM Supreme Court has stated that the court's intent would be to request that PNM reimburse ratepayers for any amount overcharged should the cross-appellants prevail on the merits. Oral argument at the NM Supreme Court was held on October 30, 2017. Although appeals of regulatory actions of the NMPRC have a priority at the NM Supreme

Court under New Mexico law, there is no required time frame for the court to act on the appeals.

PNM evaluated the accounting consequences of the order in the NM 2015 Rate Case and the likelihood of being successful on the issues it is appealing in the NM Supreme Court as required under GAAP. The evaluation indicated it is reasonably possible that PNM will be successful on the issues it is appealing. If the NM Supreme Court rules in PNM's favor on some or all of the issues, those issues would be remanded back to the NMPRC for further action. PNM currently estimates it will take a minimum of seven months from December 31, 2017 for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues. During such time, the rates specified in the order remain in effect. PNM recorded pre-tax regulatory disallowances in 2016 and 2017 aggregating $14.4 million, representing capital cost recovery for the period October 1, 2016

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through July 31, 2018 on its investments that the order disallowed and amounts recorded as regulatory assets and deferred charges that the order disallowed and which PNM did not challenge in its appeal. Additional losses will be recorded if the estimated time frame for the NM Supreme Court to render a decision and for the NMPRC to take action on any remanded issues is further extended.

PNM continues to believe that the disallowed investments, which are the subject of PNM's appeal, were prudently incurred and that PNM is entitled to full recovery of those investments through the ratemaking process. If PNM's appeal is unsuccessful, PNM would record additional pre-tax losses related to any unsuccessful issues. The March 31, 2018 book values of PNM's investments that the order disallowed, after considering the losses recorded through December 31, 2017, were $75.3 million for the 64.1 MW of purchased capacity in PVNGS Unit 2, $39.1 million for the PVNGS Unit 2 disallowed capital improvements, and $49.4 million for the BDT equipment.

PNM does not believe that the likelihood of the cross-appeals being successful is probable. However, if the NM Supreme Court were to overturn all of the issues subject to the cross-appeals and, upon remand, the NMPRC did not provide any cost recovery of those items, PNM would write-off all of the costs to acquire the assets previously leased under three leases aggregating 64.1 MW of PVNGS Unit 2 capacity, totaling $150.4 million at March 31, 2018 (which amount includes $75.3 million that is the subject of PNM's appeal discussed above) after considering the losses recorded through December 31, 2017. The impacts of not recovering costs for the lease extensions, new coal supply contract for Four Corners, and "prepaid pension asset" in rate base would be recognized in future periods reflecting that rates charged to customers would not recover those costs as they are incurred. The outcomes of the cross-appeals regarding the FPPAC and rate design should not have a financial impact to PNM.

New Mexico 2016 Rate Case – On December 7, 2016, PNM filed an application with the NMPRC for a general increase in retail electric rates (the "NM 2016 Rate Case"). PNM did not include any of the costs disallowed in the NM 2015 Rate Case that are at issue in PNM's pending appeal to the NM Supreme Court. PNM's application requested an increase in base non-fuel revenues of $99.2 million based on a FTY beginning January 1, 2018. The primary drivers of the revenue deficiency were:

- Implementation of the modifications in PNM's resource portfolio, which were previously approved by the NMPRC as part of the SJGS regional haze compliance plan (see below and Note 11)
- Infrastructure investments, including environmental upgrades at Four Corners
- Declines in forecasted energy sales due to successful energy efficiency programs and other economic factors
- Updates in the FERC/retail jurisdictional allocations

After NMPRC ordered settlement discussions were held, PNM and representatives of several intervenors reached an agreement on the parameters for a settlement in this proceeding. In May 2017, PNM and thirteen intervenors entered into a comprehensive stipulation, which was subsequently revised to address issues raised by the Hearing Examiners in the case. NEE was the sole party opposing the revised stipulation. The terms of the revised stipulation included:

- A revenue increase totaling $62.3 million, with an initial increase of $32.3 million beginning January 1, 2018 and the remaining increase beginning January 1, 2019
- A ROE of 9.575%, compared to the 10.125% requested by PNM
- Full recovery of PNM's investment in SCRs at Four Corners with a debt-only return
- An agreement to not implement non-fuel base rate changes, other than changes related to PNM's rate riders, with an effective date prior to January 1, 2020
- An agreement to adjust the January 2019 increase for certain changes in federal corporate tax laws and to true-up PNM's cost of debt
- Returning to customers over a three-year period the benefit of the reduction in the New Mexico corporate income tax rate to the extent attributable to PNM's retail operations

- PNM would perform a cost benefit analysis in its 2020 IRP of the impact of a possible early exit from Four Corners in 2024 and 2028

A public hearing on the revised stipulation was held in August 2017. On October 31, 2017, the Hearing Examiners issued a Certification of Stipulation recommending modifications to the revised stipulation that would identify PNM’s decision to continue its participation in Four Corners as imprudent, not allow PNM to collect a debt or equity return on $148.1 million of investments in SCRs and other projects at Four Corners, and to temporarily disallow recovery of $36.8 of PNM’s projected capital improvements at SJGS.

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Extensive proceedings before the NMPRC were conducted in December 2017 and January 2018 as described in Note 12. Ultimately, the NMPRC issued an order on January 16, 2018 that approved the Certification of Stipulation with certain changes, which included allowing PNM to recover its $148.1 million of investments in SCR and other projects at Four Corners with a debt-only return (but maintaining the recommended disallowance of an equity return), deferring further consideration regarding the prudency of PNM's decisions to continue its participation in Four Corners to PNM's next general rate case, requiring the impacts of changes related to the reduction in the federal corporate income tax rate and PNM's cost of debt (aggregating an estimated $47.6 million) be implemented in 2018 rather than January 1, 2019, and requiring PNM to reduce its requested $62.3 million increase in non-fuel revenues by $4.4 million.

After implementation of changes to the federal corporate income tax rate and cost of debt, the order results in a net increase to PNM's non-fuel revenue requirement of $10.3 million. PNM implemented 50% of the approved increase for service rendered, rather than bills rendered, beginning February 1, 2018 and will implement the rest of the increase for service rendered beginning January 1, 2019. GAAP required PNM to recognize a loss reflecting that it will earn a debt-only return on $148.1 million of investments at Four Corners rather than a full return. Accordingly, PNM recorded a pre-tax regulatory disallowance of $27.9 million as of December 31, 2017.

On February 7, 2018, NEE filed a notice of appeal with the NM Supreme Court asking the court to review the NMPRC's decisions in the NM 2016 Rate Case. On March 7, 2018, NEE filed its statement of issues with the NM Supreme Court requesting, among other things, that the NMPRC be required to identify PNM's decision to continue its participation in Four Corners as imprudent and to deny any recovery related to PNM's $148.1 million of investments in Four Corners. Although PNM does not believe it is probable that NEE's appeal will be successful, it is unable to predict what decision the NM Supreme Court will reach. If the NM Supreme Court were to remand the case to the NMPRC and the NMPRC identified PNM's continued involvement in Four Corners as imprudent with no recovery of the $148.1 million of investments in Four Corners, PNM would be required to record additional losses for the remaining amount of those investments (after considering the $27.9 million regulatory disallowance recorded in 2017). In addition, PNM's future investments in Four Corners, which could be required under the participation agreement governing that facility, could also be subject to disallowance. PNM cannot predict the outcome of this matter.

San Juan Generating Station Unit 1 Outage – On March 17, 2018, a coal silo used to supply fuel to SJGS Unit 1 collapsed resulting in an outage. PNM promptly contacted the staff of the NMPRC to inform them of the event and has initiated a review of its cause. PNM currently anticipates inspections of the facility and a determination of estimated repair costs will be completed by the end of May 2018 and that the unit will be returned to service shortly after that date. PNM anticipates the damages to the facility will be reimbursed under an existing property insurance policy that covers SJGS, subject to a deductible of $2.0 million. PNM's exposure to the cost of repairs is $1.0 million, reflecting PNM's 50% ownership interest in SJGS Unit 1. To minimize the operational and financial impacts of this event, PNM has accelerated the fall 2018 planned maintenance outage on Unit 1 to be performed while the unit is out of service for this event.

On April 12, 2018, NEE filed a petition (jointly with certain other organizations) requesting that the NMPRC order an investigation into the SJGS Unit 1 event. The petition requests that the NMPRC order PNM to respond to the petition, that proceedings be set on this matter, and that PNM be required to provide a narrative explanation, cost/benefit analysis, and alternatives assessment used to determine that Unit 1 should be repaired rather than utilizing alternative resources. On April 25, 2018, the NMPRC issued an order requiring PNM to provide a factual statement of the nature and cause of the event, as well as the anticipated need for and schedule of repairs required. PNM must also address the necessity and appropriateness of the request for a cost/benefit analysis, alternatives assessment, and request for further proceedings.

Advanced Metering – In September 2011, TNMP began its deployment of advanced meters for homes and businesses across its service area. TNMP completed its mass deployment in 2016 and has installed more than 242,000 advanced meters. As part of the State of Texas' long-term initiative to create an advanced electric grid, installation of advanced meters will ultimately give consumers more data about their energy consumption and help them make more informed decisions. In addition, TNMP has completed installation of a new outage management system that will leverage capabilities of the advanced metering infrastructure to enhance TNMP's responsiveness to outages.

On February 26, 2016, PNM filed an application with the NMPRC requesting approval of a project to replace its existing customer metering equipment with Advanced Metering Infrastructure ("AMI"). The application also asked the NMPRC to authorize the recovery, in future ratemaking proceedings, of the cost of the project, as well as to approve the recovery of the remaining undepreciated investment in existing metering equipment, the costs of customer education, and severance for any affected employees. On March 19, 2018, the Hearing Examiner issued a recommended decision finding that PNM had not proven a net

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public benefit in the case and recommending the NMPRC not approve the application. On April 2, 2018 PNM filed a statement on exceptions to the recommended decision indicating, among other things, that PNM disagreed with the finding that the record did not demonstrate a net public benefit to customers, but that PNM would not take exception to a recommendation to not approve the application. No other parties filed exceptions to the recommended decision by the required deadline. On April 11, 2018, the NMPRC adopted an order accepting the recommended decision and disapproving PNM's application. The order indicated PNM's next energy efficiency plan filing should include a proposal for an AMI pilot project.

Rate Riders and Interim Rate Relief – The PUCT has approved mechanisms that allow TNMP to recover capital invested in transmission and distribution projects without having to file a general rate case. This permits more timely recovery of investments. The PUCT has also approved riders that allow TNMP to recover amounts related to AMS, energy efficiency, third-party transmission costs, and the CTC. The NMPRC has approved PNM recovering fuel costs through the FPPAC, as well as rate riders for renewable energy and energy efficiency that allow for more timely recovery of investments and improve PNM's ability to earn its authorized return.

TNMP General Rate Case – TNMP's last general rate case was filed in 2010 with new rates becoming effective on February 1, 2011. In connection with TNMP's deployment of its AMS, TNMP has committed to file a general rate case no later than September 1, 2018. TNMP currently anticipates filing its general rate case in May 2018 using a 2017 calendar year test period. New rates are anticipated to become effective during January 2019.

FERC Regulation

Rates PNM charges wholesale transmission customers and wholesale generation customers are subject to traditional rate regulation by FERC. Rates charged to wholesale electric transmission are based on a formula rate mechanism pursuant to which rates for wholesale transmission service are calculated annually in accordance with an approved formula. The formula includes updating cost of service components, including investment in plant and operating expenses, based on information contained in PNM's annual financial report filed with FERC, as well as including projected large transmission capital projects to be placed into service in the following year. The projections included are subject to true-up in the following year formula rate. Certain items, including changes to return on equity and depreciation rates, require a separate filing to be made with FERC before being included in the formula rate. The low natural gas price environment has resulted in market prices for power being substantially lower than what PNM is able to offer wholesale generation customers under the cost of service model that FERC requires PNM to use. Consequently, PNM decided to stop pursuing wholesale generation contracts and currently has no full-requirements wholesale generation customers.

Delivering Above Industry-Average Earnings and Dividend Growth

PNMR's strategic goal to deliver above industry-average earnings and dividend growth enables investors to realize the value of their investment in the Company's business. PNMR's current target is 6% earnings and dividend growth for the period 2018 through 2021. Earnings growth is based on ongoing earnings, which is a non-GAAP financial measure that excludes from GAAP earnings certain non-recurring, infrequent, and other items that are not indicative of fundamental changes in the earnings capacity of the Company's operations. PNMR uses ongoing earnings to evaluate the operations of the Company and to establish goals, including those used for certain aspects of incentive compensation, for management and employees.

PNMR targets a dividend payout ratio of 50% to 60% of its ongoing earnings. PNMR expects to provide above industry-average dividend growth in the near-term and to manage the payout ratio to meet its long-term target. The Board will continue to evaluate the dividend on an annual basis, considering sustainability and growth, capital planning, and industry standards. The Board approved the following increases in the indicated annual common stock dividend:

Approval Date	Percent Increase

February 2012	16	%
February 2013	14	%
December 2013	12	%
December 2014	8	%
December 2015	10	%
December 2016	10	%
December 2017	9	%

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Maintaining Solid Investment Grade Credit Ratings
The Company is committed to maintaining solid investment grade credit ratings in order to reduce the cost of debt financing and to help ensure access to credit markets, when required. See the subheading Liquidity included in the full discussion of Liquidity and Capital Resources below for the specific credit ratings for PNMR, PNM, and TNMP. Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. In January 2018, S&P changed the outlook for PNMR, PNM, and TNMP from stable to negative.

Business and Strategic Focus

PNMR strives to create enduring value for customers, communities, and shareholders. PNMR's strategy and decision-making are focused on safely providing reliable, affordable, and environmentally responsible power. The Company works closely with customers, stakeholders, legislators, and regulators to ensure that resource plans and infrastructure investments benefit from robust public dialogue and balance the diverse needs of our communities. Equally important is the focus of PNMR's utilities on customer satisfaction and community engagement.

Reliable and Affordable Power
PNMR and its utilities are aware of the important roles they play in enhancing economic vitality in their service territories. Management believes that maintaining strong and modern electric infrastructure is critical to ensuring reliability and supporting economic growth. When contemplating expanding or relocating their operations, businesses consider energy affordability and reliability to be important factors. PNM and TNMP strive to balance service affordability with infrastructure investment to maintain a high level of electric reliability and to deliver a superior customer experience. Investing in PNM's and TNMP's infrastructure is critical to ensuring reliability and meeting future energy needs. Both utilities have long-established records of providing customers with reliable electric service.

Utility Plant and Strategic Investments

Utility Plant Investments – During the 2015 to 2017 period, PNM and TNMP together invested $1,552.0 million in utility plant, including substations, power plants, nuclear fuel, and transmission and distribution systems. PNM completed the 40 MW natural gas-fired La Luz peaking generating station located near Belen, New Mexico in December 2015. PNM also completed installation of SNCR and BDT equipment on SJGS Units 1 and 4 in early 2016 and the addition of 40 MW of PNM-owned solar PV facilities in 2015. In addition, on January 15, 2016, PNM completed the $163.3 million acquisition of 64.1 MW of capacity in PVNGS Unit 2 that had previously been leased to PNM.

Strategic Investments – In 2017, PNMR Development and AEP OnSite Partners created NM Renewable Development, LLC ("NMRD") to pursue the acquisition, development, and ownership of renewable energy generation projects, primarily in the state of New Mexico. Abundant renewable resources, large tracts of affordable land, and strong government and community support make New Mexico a favorable location for renewable generation. New Mexico has the 2nd highest technical potential of the 48 contiguous states for utility scale solar photovoltaics as noted in 2015 by the National Renewable Energy Laboratory, while New Mexico is 6th for technical potential for land-based wind. PNMR Development and AEP OnSite Partners each have a 50% ownership interest in NMRD. Through NMRD, PNMR anticipates being able to provide additional renewable generation solutions to customers within and surrounding its regulated jurisdictions through partnering with a subsidiary of one of the United States' largest electric utilities. The formation of this joint venture provides a more efficient use of PNMR's capital to support new renewable investment opportunities while maintaining the necessary capital to support investments required by regulated jurisdictions. NMRD's current renewable energy capacity in operation is 21.8 MW, which includes 20 MW of solar PV facilities required to supply energy to the new Facebook data center located within PNM's service territory and 1.8 MW to supply energy to Columbus Electric Cooperative located in southwest New Mexico. At March 31, 2018,

NMRD also had 10 MW of solar PV facilities under construction that will be completed in mid-2018 and will be used to supply the Facebook data center. NMRD is actively exploring opportunities for additional renewable projects. In addition, NMRD will evaluate potential bid opportunities for future renewable projects, including large-scale projects to serve future data center and other customer needs.

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Integrated Resource Plan

NMPRC rules require that investor-owned utilities file an IRP every three years. The IRP is required to cover a 20-year planning period and contain an action plan covering the first four years of that period. PNM filed its 2014 IRP on July 1, 2014. The four-year action plan was consistent with the replacement resources identified in PNM's application to retire SJGS Units 2 and 3. PNM indicated that it planned to meet its anticipated energy demand with a combination of additional renewable energy resources, energy efficiency, and natural gas-fired facilities.

PNM filed its 2017 IRP on July 3, 2017. Under the NMPRC's order concerning SJGS' compliance with the BART requirements of the CAA discussed in Note 11, PNM is required to make a filing in 2018 to determine the extent to which SJGS should continue serving PNM's retail customers' needs after June 30, 2022. The 2017 IRP analyzed several scenarios utilizing assumptions that PNM continues service from its SJGS capacity beyond mid-2022 and that PNM retires its capacity after mid-2022. Key findings of the 2017 IRP include:

- Retiring PNM's share of SJGS in 2022 after the expiration of the current operating and coal supply agreements would provide long-term cost savings for PNM's customers
- PNM exiting its ownership interest in Four Corners after its current coal supply agreement expires in 2031 would also provide long-term cost savings for customers
- The best mix of new resources to replace the retired coal generation would include solar energy and flexible natural gas-fired peaking capacity; the mix could include energy storage if the economics support it and wind energy provided additional transmission capacity becomes available
- Significant increases in future wind energy supplies will likely require new transmission capacity to be built from eastern New Mexico to PNM's service territory
- PNM should retain the currently leased capacity in PVNGS, which would avoid replacement with carbon-emitting generation
- PNM should continue to develop and implement energy efficiency and demand management programs
- PNM should assess the costs and benefits of participating in the California Energy Imbalance Market
- PNM should analyze its current Reeves Generating Station to consider possible technology improvements to phase out the older generators and replace them with new, more flexible supplies or energy storage

Several parties filed protests to the 2017 IRP. The issues addressed in the protests include PNM's future interest in SJGS, Four Corners, and PVNGS and the timing of future procurement of renewable resources. The 2017 IRP is not a final determination of PNM's future generation portfolio. Retiring PNM's share of SJGS capacity and exiting Four Corners would require NMPRC approval of abandonment filings, which PNM would make at appropriate times in the future. Likewise, NMPRC approval of new generation resources through CCN filings would be required. PNM cannot predict the ultimate outcome of the 2017 IRP process or whether the NMPRC will approve subsequent filings that would encompass actions to implement the conclusions of the 2017 IRP.

Environmentally Responsible Power

PNMR has a long-standing record of environmental stewardship. PNM's environmental focus is in three key areas:

- Developing strategies to provide reliable and affordable power, while transforming PNM's generation resources to a cleaner energy portfolio by reducing CO_2 emissions
- Preparing PNM's system to meet New Mexico's increasing renewable energy resources as cost-effectively as possible
- Increasing energy efficiency participation

PNMR's Sustainability Portal provides key environmental and sustainability information related to PNM's and TNMP's operations and is available at http://www.pnmresources.com/about-us/sustainability-portal.aspx. The portal also contains a Climate Change Report, which outlines plans to be coal-free by 2031 (subject to regulatory approval). This could enable an 87% reduction in CO_2 emissions in 2040 compared to 2012 levels, which is a significantly greater

reduction than that required of New Mexico under EPA's Clean Power Plan. As discussed below, in December 2017 the Company shutdown SJGS Units 2 and 3, which is expected to result in a 40% reduction in CO_2 emissions in 2018 compared to 2012 levels.

SJGS

Regional Haze Rule Compliance Plan – In December 2015, PNM received NMPRC approval for the plan to comply with the EPA regional haze rule at SJGS that minimizes the cost impact to customers while still achieving broad environmental benefits.

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Under the approved plan, the installation of SNCRs on SJGS Units 1 and 4 was completed in early 2016 and Units 2 and 3 were retired in December 2017. The plan provides for similar visibility improvements, but at a lower cost to PNM customers than a previous EPA ruling that would have required the installation of more expensive SCRs on all four units at SJGS. The plan has the added advantage of reducing other emissions in addition to NOx, including SO_2, particulate matter, CO_2, and mercury, as well as significantly reducing water usage. Additional information is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and in Note 11.

The December 2015 order also provided, among other things, that:

- PNM was granted a CCN to acquire an additional 132 MW in SJGS Unit 4 effective January 1, 2018
- PNM was granted a CCN for 134 MW of PVNGS Unit 3 as a jurisdictional resource to serve New Mexico customers beginning January 1, 2018
- PNM was authorized to acquire 65 MW of SJGS Unit 4 as merchant utility plant
- No later than December 31, 2018, and before entering into a binding coal supply agreement for SJGS, PNM will make a NMPRC filing to determine the extent that SJGS should continue serving PNM's customers' needs after mid-2022

NEE filed a notice of appeal with the NM Supreme Court of the NMPRC's December 2015 order. On March 5, 2018, the NM Supreme Court issued its opinion affirming the NMPRC's December 2015 order, thereby denying NEE's appeal. A request for rehearing of the NM Supreme Court's decision was not filed by the statutory deadline. This matter is now concluded.

On March 31, 2016, NEE filed a complaint against PNM with the NMPRC regarding the financing provided by NM Capital to facilitate the sale of SJCC. The complaint alleges that PNM failed to comply with its discovery obligation in the SJGS abandonment case and requests the NMPRC investigate whether the financing transactions could adversely affect PNM's ability to provide electric service to its retail customers. PNM responded to the complaint on May 4, 2016. On January 31, 2018, NEE filed a motion asking the NMPRC to investigate whether PNM's relationship with WSJ, in light of Westmoreland's financial condition, could be harmful to PNM's customers. PNM responded requesting the NMPRC deny the motion and that NEE's prior compliant be dismissed. The NMPRC has taken no action on these matters.

SJGS Ownership Restructuring – In connection with the plan to comply with EPA regional haze rules at SJGS, some of the SJGS participants expressed a desire to exit their ownership in the plant. As a result, the SJGS participants negotiated a restructuring of the ownership in SJGS and addressed the obligations of the exiting participants for plant decommissioning, mine reclamation, environmental matters, and certain future operating costs, among other items. The San Juan Project Restructuring Agreement ("SJGS RA") sets forth the agreement among the SJGS owners regarding ownership restructuring and addresses other related matters, including that the exiting participants remain obligated for their proportionate shares of environmental, mine reclamation, and certain other legacy liabilities that are attributable to activities that occurred prior to their exit. The SJGS RA became effective contemporaneously with the effectiveness of the new SJGS CSA on January 31, 2016. See Note 11.

Other SJGS Environmental Matters – In addition to the regional haze rule, SJGS is required to comply with other rules currently being developed or implemented that affect coal-fired generating units, including rules regarding GHG under Section 111(d) of the CAA. Implementation of the Clean Power Plan, which was published by EPA in October 2015, is currently stayed by order of the US Supreme Court pending further proceedings before the DC Circuit. Oral argument was heard by the DC Circuit in September 2016, but the court has taken no action. On March 28, 2017, President Trump issued an Executive Order on Energy Independence. The order sets out two general policies: promote clean and safe development of energy resources, while avoiding regulatory burdens, and ensure electricity is affordable, reliable, safe, secure, and clean. The order rescinds various actions undertaken by the previous administration and directs the EPA Administrator to review and if appropriate suspend, revise, or rescind the Clean

Power Plan, as well as other environmental regulations. On October 10, 2017, EPA issued a proposal to repeal the Clean Power Plan based on a legal interpretation of the CAA under which the Clean Power Plan exceeds EPA's statutory authority. EPA published the proposed repeal rule on October 16, 2017 and accepted public comments through April 26, 2018. In addition, EPA published an advanced NOPR on December 28, 2017 to take comment on whether EPA should adopt a rule to replace the Clean Power Plan and what such a replacement rule might include, for which public comments were due February 26, 2018.

PNM estimates that implementation of the BART plan at SJGS, as well as potentially exiting ownership in the remaining units at SJGS (as well as Four Corners), as discussed above, should provide significant steps for New Mexico to meet its ultimate compliance with Section 111(d) under the Clean Power Plan or any replacement rule. PNM is unable to predict the impact of this rule on its generation portfolio.

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Because of environmental upgrades completed in 2009, SJGS has a mercury removal efficiency of 98% and mercury emissions are well below the mercury limit imposed by EPA in the 2011 Mercury and Air Toxics Standards. Major environmental upgrades on each of the units at SJGS have significantly reduced emissions of NOx, SO_2, particulate matter, and mercury. Between 2006 and 2017, SJGS has reduced NOx emissions by 41%, SO_2 by 70%, particulate matter by 61%, and mercury by 98%.

Renewable Energy

PNM's renewable procurement strategy includes utility-owned solar capacity, as well as wind and geothermal energy purchased under PPAs. As of December 31, 2017, PNM had 107 MW of utility-owned solar capacity. In addition, PNM purchases power from a customer-owned distributed solar generation program that had an installed capacity of 86.2 MW at March 31, 2018. PNM also owns the 500 KW PNM Prosperity Energy Storage Project, which uses advanced batteries to store solar power and dispatch the energy either during high-use periods or when solar production is limited. The project was one of the first combinations of battery storage and PV energy in the nation and involved extensive research and development of advanced grid concepts. The facility also was the nation's first solar storage facility fully integrated into a utility's power grid. Since 2003, PNM has purchased the output from New Mexico Wind, a 204 MW wind facility, and began purchasing the output of Red Mesa Wind, an existing 102 MW wind energy center, on January 1, 2015. PNM has a 20-year agreement to purchase energy from the Lightning Dock Geothermal facility built near Lordsburg, New Mexico. The geothermal facility, which has a current capacity of 4 MW, began providing power to PNM in January 2014. PNM also purchases RECs as necessary to meet the RPS.

The majority of these renewable resources are key means for PNM to meet the RPS and related regulations that require PNM to achieve prescribed levels of energy sales from renewable sources, if that can be accomplished without exceeding the RCT limit set by the NMPRC. PNM makes renewable procurements consistent with the plans approved by the NMPRC. PNM's 2017 renewable energy procurement plan meets RPS and diversity requirements for 2017 and 2018 using existing resources and does not propose any significant new procurements. PNM's 2018 renewable energy procurement plan requested approval to procure an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; approval to procure an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; approval to procure 50 MW of new solar facilities to be constructed beginning in 2018; continuation of customer REC purchase programs; and other purchases of RECs to ensure annual compliance with the RPS. On November 15, 2017, the NMPRC issued an order approving PNM's plan. NMIEC filed an appeal with the NM Supreme Court objecting to the fuel allocation methodology. NEE filed a motion to intervene and cross-appeal objecting to the approval of the 50 MW of new solar facilities. PNM filed a motion to intervene. The NM Supreme Court granted the motions to intervene. NMIEC filed a motion for a partial stay and PNM filed a response opposing the request. On February 27, 2018, the court issued an order denying the motion for stay. PNM cannot predict the outcome of this matter.

PNM is currently purchasing the output of 20 MW of solar capacity from NMRD that is used to serve the Facebook data center. See Strategic Investments above. In late 2017, PNM entered into three separate 25-year PPAs to purchase renewable energy and RECs to be used by PNM to supply additional renewable power to the Facebook data center. These PPAs include the purchase of the power and RECs from a 50 MW wind project to be operational at December 31, 2018, a 166 MW wind project to be operational in November 2020, and a 50 MW solar project to be operational in December 2021. The NMPRC approved these PPAs on March 21, 2018 (Note 12).

PNM will continue to procure renewable resources while balancing the impact to customers' electricity costs in order to meet New Mexico's escalating RPS requirements.

Energy Efficiency

Energy efficiency also plays a significant role in helping to keep customers' electricity costs low while meeting their energy needs. PNM's and TNMP's energy efficiency and load management portfolios continue to achieve robust results. In 2017, incremental energy saved as a result of new participation in PNM's portfolio of energy efficiency programs was approximately 74 GWh. This is equivalent to the annual consumption of approximately 11,000 homes in PNM's service territory. PNM's load management and annual energy efficiency programs also help lower peak demand requirements. In 2017, TNMP's incremental energy saved as a result of new participation in TNMP's energy

efficiency programs was approximately 21 GWh. This is equivalent to the annual consumption of approximately 2,300 homes in TNMP's service territory. In April 2016 and again in April 2017, TNMP was recognized by Energy Star for TNMP's successful energy efficiency efforts. TNMP received the "Partner of the Year Energy Efficiency Delivery Award" for its High-Performance Homes Program.

Water Conservation and Solid Waste Reduction

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PNM continues its efforts to reduce the amount of fresh water used to make electricity (about 20% more efficient than in 2007). Continued growth in PNM's fleet of solar and wind energy sources, energy efficiency programs, and innovative uses of gray water and air-cooling technology have contributed to this reduction. Water usage will continue to decline as PNM substitutes less fresh-water-intensive generation resources to replace SJGS Units 2 and 3 starting in 2018, as water consumption at that plant has been reduced by approximately 50%. Focusing on responsible stewardship of New Mexico's scarce water resources improves PNM's water-resilience in the face of persistent drought and ever-increasing demands for water to spur the growth of New Mexico's economy. In addition to the above areas of focus, the Company is working to reduce the amount of solid waste going to landfills through increased recycling and reduction of waste. In 2017, 18 of the Company's 23 facilities met the solid waste diversion goal of a 60% diversion rate, while recycling at least the same number of waste streams as 2016. The Company expects to continue to do well in this area in the future.

Customer, Stakeholder, and Community Engagement

The Company strives to deliver a superior customer experience. Through outreach, collaboration, and various community-oriented programs, the Company has a demonstrated commitment to build productive relationships with stakeholders, including customers, community partners, regulators, intervenors, legislators, and shareholders. PNM continues to focus its efforts to enhance the customer experience through customer service improvements, including billing and payment options, strategic customer engagement, and improved communications. These efforts are supported by market research to understand the varying needs of customers, identifying and establishing valued services and programs, and proactively communicating and engaging with customers at regional and community levels.

The Company has leveraged a number of communications channels and strategic content to better serve and engage its many stakeholders. PNM's website, www.pnm.com, provides the details of major regulatory filings, including general rate requests, as well as the background on PNM's efforts to maintain reliability, keep prices affordable, and protect the environment. PNM has also leveraged social media in communications with customers on various topics such as education, outage alerts, safety, customer service, and PNM's community partnerships in philanthropic projects. In May 2017, a chat function was added to PNM's website to allow customers options when communicating with customer service representatives and an online management system was launched to expedite applications for solar interconnections. The website continues to be a resource for the facts about PNM's operations and community support efforts, including plans for building a sustainable energy future for New Mexico. In September 2016, PNMR launched a dedicated sustainability portal on its corporate website www.pnmresources.com to provide additional information regarding the Company's environmental and other sustainability efforts. The site provides the key corporate governance and sustainability information related to the operations of PNM and TNMP. In January 2018, PNM added a Climate Change Report to this portal. The information is presented under four main headings: Environment, Social, Economic, and Governance.

With reliability being the primary role of a transmission and distribution service provider in Texas' deregulated market, TNMP continues to focus on keeping end-users updated about interruptions and to encourage consumer preparation when severe weather is forecasted. In August 2017, Hurricane Harvey made landfall in the gulf coast region and TNMP employees worked diligently to restore power safely and efficiently for affected customers. In addition, PNMR made donations to support relief and restoration efforts in the gulf coast region. TNMP employees who were impacted by Hurricane Harvey were provided emergency crisis funds supported by the PNM Resources Foundation and other employee donations.

Local relationships and one-on-one communications remain two of the most valuable ways both PNM and TNMP connect with their stakeholders. Both companies maintain long-standing relationships with governmental representatives and key electricity consumers to ensure that these stakeholders are updated on company investments and initiatives. Key electricity consumers also have dedicated Company contacts that support their important service needs.

PNMR has a long tradition of supporting the communities it serves in New Mexico and Texas. The Company demonstrates its core value of caring through the PNM Resources Foundation, corporate giving, widespread employee volunteerism, and PNM’s low-income assistance programs. In addition to the extensive engagement both PNM and TNMP have with nonprofit organizations in their communities, the PNM Resources Foundation provides more than $1 million in grant funding each year across New Mexico and Texas. These grants help nonprofits collaborate more efficiently and support community projects such as providing software coding camps to underserved youths, helping small businesses, and by providing employee matching and volunteer grants. In 2017, “A New Century of Service” grants, which celebrate PNM’s 100th anniversary, funded 62 community projects to build a better future for local communities. In December 2017, PNM announced an additional $1.0 million in donations to the PNM Resources Foundation to support future economic and educational programs in New Mexico. In March 2018, the PNM Resources

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Foundation awarded a total of $0.2 million, to be paid over two years, to the New Mexico State University College of Engineering to support education for professional surveyors.

PNM provides funds to support nonprofits in New Mexico focused in the areas of economic development, education, and the environment. One of PNM's most important outreach programs is tailored for low-income customers. In 2017, PNM hosted 44 community events throughout its service territory to connect low-income customers with nonprofit community service providers offering support and help with such needs as water and gas utility bills, food, clothing, medical programs, and services for seniors. Additionally, through its Good Neighbor Fund, PNM provided $0.5 million of assistance with electric bills to 3,804 families in 2017 and offered financial literacy training to further support customers.

Volunteerism is an important facet of the PNMR culture. In 2017, more than 800 PNM and TNMP employees and retirees contributed approximately 10,800 volunteer hours serving their local communities. Company volunteers also actively participate on nonprofit boards, in educational, economic, and environmental forums, as well as safety seminars. PNMR employees are, in large part, responsible for the success of the Company's customer, stakeholder, and community outreach.

Economic Factors

PNM – In the three months ended March 31, 2018, PNM experienced a decrease in weather-normalized retail load of 0.9% compared to 2017, reflecting a continued sluggish economy in New Mexico, along with PNM's successful energy efficiency programs and increases in distributed generation. New Mexico economic conditions continue to be stable. The twelve-month rolling average employment growth has been consistent for nearly a year, although it remains lower than the national average. Also, some of the previously announced successful economic development efforts, such as the selection of a site within PNM's New Mexico service territory for a data center by Facebook, Inc., continue their hiring processes. Construction activity has increased and there has been commercial expansion in retail and other support businesses. PNM's customer growth of 0.7% in the three months ended March 31, 2018 reflects this activity.

TNMP – In the three months ended March 31, 2018, TNMP experienced an increase in volumetric weather normalized retail load of 3.8% compared to 2017. Most of TNMP's industrial and larger commercial customers are billed based on their peak demand. Demand-based load, excluding retail transmission customers, increased 5.4% in the three months ended March 31, 2018. The Texas economy continues to grow, primarily due to its diverse base. Economic growth in Texas continues to outpace the rest of the country. The relocation of some national and global corporate headquarters to the Dallas-Fort Worth area has led to growth in commercial customers and also contributes to growth in residential and small business customers. TNMP continues to see strong demand in its service territories, particularly with new transmission interconnection requests in the West Texas region where oil and gas production continues to grow.

Results of Operations

Net earnings attributable to PNMR were $15.0 million, or $0.19 per diluted share in the three months ended March 31, 2018 compared to $22.9 million, or $0.29 per diluted share, in 2017. Among other things, earnings in the three months ended March 31, 2018 benefited from additional revenues due to the rate increase approved in the NM 2016 Rate Case at PNM, higher revenues from new transmission customers and FERC formula transmission rates at PNM, rate increases and increased load at TNMP, colder weather at PNM and TNMP, and reduced income tax expense due to the reduced corporate income tax rate and the amortization of excess deferred income taxes as ordered by the NMPRC and PUCT. These increases were more than offset by decreased load at PNM, reduced revenues at PNM due to power from PVNGS Unit 3 not being sold into the wholesale market, higher plant maintenance costs at PNM, increased operating expense due to the additional 197 MW of ownership in SJGS Unit 4 (offset by reduced expenses from the shutdown of SJGS Units 2 and 3), increased depreciation and property taxes due to increased plant in service at PNM and TNMP, and lower gains on the sales of investment securities. Additional information on factors impacting results of operation for each segment is discussed under Results of Operations below.

Liquidity and Capital Resources

PNMR and PNM have revolving credit facilities that expire in October 2022. The PNMR and PNM facilities have capacities of $300.0 million and $400.0 million through October 2020 and $290.0 million and $360.0 million from November 2020 through October 2022. Both facilities provide for short-term borrowings and letters of credit. In addition, PNM has a $40.0 million revolving credit facility, which expires in December 2022, with banks having a significant presence in New Mexico and TNMP has a $75.0 million revolving credit facility, which expires in September 2022. On February 26, 2018, PNMR Development entered into a $24.5 million revolving credit facility that matures on February 25, 2019. Total availability for PNMR on a consolidated basis was $669.4 million at April 23, 2018. The Company utilizes these credit facilities and cash flows from operations

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to provide funds for both construction and operational expenditures. PNMR also has intercompany loan agreements with each of its subsidiaries.

PNMR projects that its consolidated capital requirements, consisting of construction expenditures and dividends, will total $3,136.3 million for 2018-2022, including amounts expended through March 31, 2018. The construction expenditures include estimated amounts for environmental upgrades at Four Corners, 50 MW of new solar facilities included in PNM's 2018 renewable energy procurement plan, an anticipated expansion of PNM's transmission system, and the initial costs of replacement resources related to the potential shutdown of SJGS Units 1 and 4 in 2022.

In July 2017, PNM entered into the PNM 2017 Senior Unsecured Note Agreement, under which $450.0 million of the PNM 2018 SUNs are to be issued in 2018 and the proceeds will be used to repay $450.0 million of currently outstanding Senior Unsecured Notes on their maturity dates in 2018. In March 2018, PNMR issued $300.0 million of 3.25% Senior Unsecured Notes (the "PNMR 2018 SUNs"), which will mature on March 9, 2021. Proceeds from the issuance of the PNMR 2018 SUNs were used to repay a $150.0 million term loan and borrowings under the PNMR Revolving Credit Facility. After considering the effects of those financings, PNMR has consolidated maturities and other repayments of short-term and long-term debt aggregating $410.0 million in the period from April 1, 2018 through March 31, 2019 and $9.4 million in the remainder of 2019. Furthermore, TNMP has $172.3 million of first mortgage bonds that are due in April 2019 and the $24.5 million PNMR Development revolving credit facility expires in February 2019. In addition to internal cash generation, the Company anticipates that it will be necessary to obtain additional long-term financing in the form of debt refinancing, new debt issuances, and/or new equity in order to fund its capital requirements during the 2018-2022 period. The Company currently believes that its internal cash generation, existing credit arrangements, and access to public and private capital markets will provide sufficient resources to meet the Company's capital requirements for at least the next twelve months. The Company is in compliance with its debt covenants.

RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and Notes thereto. Trends and contingencies of a material nature are discussed to the extent known. Refer also to Disclosure Regarding Forward Looking Statements and to Part II, Item 1A. Risk Factors.

A summary of net earnings attributable to PNMR is as follows:

	Three Months Ended March 31,		
	2018	2017	Change
	(In millions, except per share amounts)		
Net earnings attributable to PNMR	$15.0	$22.9	$(7.9)
Average diluted common and common equivalent shares	80.0	80.1	(0.1)
Net earnings attributable to PNMR per diluted share	$0.19	$0.29	$(0.10)

The components of the change in net earnings attributable to PNMR are:

	Three Months Ended March 31, 2018
	(In millions)

PNM	$ (8.8)
TNMP	1.8
Corporate and Other	(0.8)
Net change	$ (7.9)

Information regarding the factors impacting PNMR's operating results by segment are set forth below.

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Segment Information

The following discussion is based on the segment methodology that PNMR's management uses for making operating decisions and assessing performance of its various business activities. See Note 2 for more information on PNMR's operating segments.

PNM

PNM defines utility margin as electric operating revenues less cost of energy, which consists primarily of fuel and purchase power costs. PNM believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since substantially all fuel and purchase power costs are offset in revenues as those costs are passed through to customers under PNM's FPPAC. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

The following table summarizes the operating results for PNM:

	Three Months Ended March 31,		
	2018	2017	Change
	(In millions)		
Electric operating revenues	$236.2	$251.6	$(15.4)
Cost of energy	70.8	81.3	(10.5)
Utility margin	165.4	170.2	(4.8)
Operating expenses	100.5	93.8	6.7
Depreciation and amortization	36.6	36.0	0.6
Operating income	28.3	40.5	(12.2)
Other income (deductions)	3.7	8.4	(4.7)
Interest charges	(20.8)	(21.0)	0.2
Segment earnings before income taxes	11.2	27.8	(16.6)
Income (taxes) benefit	0.3	(7.7)	8.1
Valencia non-controlling interest	(3.7)	(3.5)	(0.2)
Preferred stock dividend requirements	(0.1)	(0.1)	—
Segment earnings	$7.7	$16.5	$(8.8)

The following table shows total GWh sales, including the impacts of weather, by customer class and average number of customers:

	Three Months Ended March 31,		
	2018	2017	Percentage Change
	(Gigawatt hours, except customers)		
Residential	751.7	749.5	0.3 %
Commercial	834.4	826.6	0.9
Industrial	205.7	207.9	(1.1)
Public authority	50.3	53.3	(5.6)
Economy energy service [(1)]	170.7	186.8	(8.6)
Firm-requirements wholesale [(2)]	—	21.6	(100.0)
Other sales for resale [(3)]	681.0	1,085.4	(37.3)
	2,693.8	3,131.1	(14.0)%

Average retail customers (thousands)	524.7	520.9	0.7	%

(1) PNM purchases energy for a large customer on the customer's behalf and delivers the energy to the customer's location through PNM's transmission system. PNM charges the customer for the cost of the energy as a direct pass through to the customer with only a minor impact in utility margin resulting from providing ancillary services.

(2) Decrease in 2018 reflects the loss of NEC as a wholesale generation customer.

(3) Decrease in 2018 reflects that PVNGS Unit 3 is included as a New Mexico jurisdictional resource beginning January 1, 2018 rather than as merchant plant in 2017 (Note 11).

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Operating Results – Three months ended March 31, 2018 compared to 2017

The following table summarizes the significant changes to utility margin:

Utility margin:	Three Months Ended March 31, 2018 Change (In millions)
Rate relief – Additional revenue due to rate increase approved by the NMPRC effective February 1, 2018 (Note 12)	$ 0.5
Retail Customer usage/load – Weather normalized KWh sales decreased 0.9% due to decreased sales in residential, industrial, and other customers	(1.6)
Weather – Colder weather in 2018; heating degree days were 19.0% higher	2.1
Transmission – The addition of new customers and higher revenues under formula transmission rates	2.8
Wholesale contracts – Loss of NEC as a wholesale generation customer	(0.3)
Unregulated margin – Loss of PVNGS Unit 3 wholesale power sales	(6.3)
Third party transmission cost – Transmission of power from PVNGS Unit 3 to serve New Mexico retail customers	(1.9)
Rate riders – Includes renewable energy and energy efficiency riders, which are partially offset in operating expenses, depreciation and amortization, and interest charges	0.7
Net unrealized economic hedges – Primarily related to 2017 hedges of PVNGS Unit 3 power sales and sales to NEC	(1.3)
Other	0.5
Net Change	$ (4.8)

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Three Months Ended March 31, 2018 Change (In millions)
Higher plant maintenance costs at SJGS, Four Corners, and gas-fired plants	$ 5.1
Increased costs associated with additional 132 MW of SJGS Unit 4 and accelerated recovery of SNCRs on SJGS Units 1 and 4	3.3
Increased costs associated with 65 MW of SJGS Unit 4 held as merchant plant beginning January 1, 2018 (Note 11)	1.4
Higher property taxes due to increases in utility plant in service and higher assessed values	0.8
Higher employee medical expenses due to unfavorable claims experience	0.7
Higher allocated corporate depreciation, primarily related to computer software	0.5
Lower capitalized administrative and general expenses due to lower construction spending in 2018	0.4

Cost savings realized from the retirement of SJGS Units 2 and 3	(5.2)
2017 training costs associated with new software implementation	(0.8)
Other	0.5
Net Change	$ 6.7

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Depreciation and amortization:	Three Months Ended March 31, 2018 Change (In millions)
Increased utility plant in service	$ 2.2
Lower depreciation resulting from the retirement of SJGS Units 2 and 3, partially offset by amortization of the associated regulatory asset (Note 11)	(1.6)
Net Change	$ 0.6

Other income (deductions):

Lower gains on investment securities in the NDT and coal mine reclamation trusts	$(6.4)
Higher equity AFUDC	0.6
2017 interest income from third-party transmission service provider due to FERC ruling	(1.0)
Lower non-service components of pension and OPEB expense	1.3
Higher interest income and lower trust expenses related to investment securities in the NDT and coal mine reclamation trusts	0.8
Net Change	$(4.7)

Interest charges:

Higher debt AFUDC	$0.4
Other	(0.2)
Net Change	$0.2

Income taxes:

Decrease due to reduction in corporate income tax rate and lower segment earnings before income taxes	$(7.6)
Amortization of excess deferred income taxes, as ordered by the NMPRC in PNM’s NM 2016 Rate Case	(1.2)
Increase due to lower excess tax benefits related to stock compensation awards (Note 8)	0.4
Other	0.3
Net Change	$(8.1)

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TNMP

TNMP defines utility margin as electric operating revenues less cost of energy, which consists of costs charged by third-party transmission providers. TNMP believes that utility margin provides a more meaningful basis for evaluating operations than electric operating revenues since all third-party transmission costs are passed on to consumers through a transmission cost recovery factor. Utility margin is not a financial measure required to be presented under GAAP and is considered a non-GAAP measure.

The following table summarizes the operating results for TNMP:

	Three Months Ended March 31,		
	2018	2017	Change
	(In millions)		
Electric operating revenues	$81.6	$78.6	$ 3.0
Cost of energy	21.8	21.5	0.3
Utility margin	59.9	57.1	2.8
Operating expenses	25.0	23.8	1.2
Depreciation and amortization	16.4	15.4	1.0
Operating income	18.5	18.0	0.5
Other income (deductions)	1.1	0.7	0.4
Interest charges	(7.7)	(7.4)	(0.3)
Segment earnings before income taxes	11.9	11.3	0.6
Income (taxes)	(2.5)	(3.7)	1.2
Segment earnings	$9.4	$7.6	$ 1.8

The following table shows total sales, including the impacts of weather, by retail tariff consumer class and average number of consumers:

	Three Months Ended March 31,		
	2018	2017	Percentage Change
Volumetric load [1] (GWh)			
Residential	656.8	577.0	13.8 %
Commercial and other	8.0	9.2	(13.0)
Total volumetric load	664.8	586.2	13.4 %
Demand-based load [2] (MW)	4,310.2	3,871.7	11.3 %
Average retail consumers (thousands) [3]	250.1	246.8	1.3 %

[1] Volumetric load consumers are billed on KWh usage.

[2] Demand-based load includes consumers billed on monthly KW peak and also includes retail transmission customers that are primarily billed under TNMP’s rate riders.

[3] TNMP provides transmission and distribution services to REPs that provide electric service to their customers in TNMP’s service territories. The number of consumers above represents the customers of these REPs. Under TECA, consumers in Texas have the ability to choose any REP to provide energy.

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Operating Results – Three months ended March 31, 2018 compared to 2017

The following table summarizes the significant changes to utility margin:

Utility margin:	Three Months Ended March 31, 2018 Change (In millions)
Rate relief – Transmission cost of service rate increases in March 2017, September 2017, and March 2018	$ 1.7
Retail customer usage/load – Weather normalized KWh sales increased 3.8%; the average number of retail consumers increased 1.3%	0.4
Demand based customer usage/load – Higher demand-based revenues for large commercial and industrial retail consumers; billed demand, excluding retail transmission customers, increased 5.4%	0.9
Weather – Colder weather in 2018; heating degree days were 72.2% higher in 2018	1.3
Revenue subject to refund – Amounts deferred as regulatory liability for the impact of the reduction in the federal corporate income tax rate (Note 12)	(1.5)
Net Change	$ 2.8

The following tables summarize the primary drivers for changes in operating expenses, depreciation and amortization, other income (deductions), interest charges, and income taxes:

Operating expenses:	Three Months Ended March 31, 2018 Change (In millions)
Higher employee related expenses	$ 0.3
Higher outside consulting costs, including vegetation management	0.4
Training costs associated with new software implementation in 2017	(0.2)
Higher costs associated with rate riders, primarily the AMS surcharge	0.4
Higher property taxes due to increased utility plant in service	0.4
Other	(0.1)
Net Change	$ 1.2

Depreciation and amortization:	
Primarily due to increased utility plant in service	$1.0

Other income (deductions):	
Higher equity AFUDC	$0.3
Other	0.1
Net Change	$0.4

Interest charges:

Increase due to issuance of $60.0 million of long-term debt in August 2017	$	(0.5	)
Higher debt AFUDC	0.2		
Net Change	$	(0.3	)

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Income taxes:	Three Months Ended March 31, 2018 Change (In millions)
Decrease due to reduction in corporate income tax rate, partially offset by tax on higher segment earnings	$ 1.5
Increase due to lower excess tax benefits related to stock compensation awards (Note 8)	(0.2)
Other	(0.1)
Net Change	$ 1.2

Corporate and Other

The table below summarizes the operating results for Corporate and Other:

	Three Months Ended March 31,		
	2018	2017	Change
	(In millions)		
Total revenues	$—	$—	$ —
Cost of energy	—	—	—
Utility margin	—	—	—
Operating expenses	(5.0)	(4.7)	(0.3)
Depreciation and amortization	5.7	5.0	0.7
Operating income (loss)	(0.7)	(0.3)	(0.4)
Other income (deductions)	1.7	1.7	—
Interest charges	(4.5)	(3.3)	(1.2)
Segment earnings (loss) before income taxes	(3.5)	(1.9)	(1.6)
Income (taxes) benefit	1.3	0.6	0.7
Segment earnings (loss)	$(2.1)	$(1.3)	$ (0.8)

Corporate and Other operating expenses shown above are net of amounts allocated to PNM and TNMP under shared services agreements. The amounts allocated include certain expenses shown as depreciation and amortization and other income (deductions) in the table above. The change in depreciation expense primarily relates to additions to computer software. Substantially all depreciation and amortization expense is offset in operating expenses as a result of allocation of these costs to other business segments.

Operating Results – Three months ended March 31, 2018 compared to 2017

The following tables summarize the primary drivers for changes in other income (deductions), interest charges, and income taxes:

Three
Months
Ended
March
31, 2018
Change

Other income (deductions):	(In millions)
Decrease in interest income on the Westmoreland Loan (Note 11)	$ (0.4)
Other	0.4
Net Change	$ —

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Interest charges:	Three Months Ended March 31, 2018 Change (In millions)
Higher short term borrowings and interest rates	$ (0.8)
Issuance of $300.0 million of PNMR 2018 SUNs in March 2018 (Note 9)	(0.8)
Decrease in interest expense on the BTMU Loan Agreement (Note 9)	0.4
Net Change	$ (1.2)

Income taxes:

Decrease due to reduction in corporate income tax rate and lower segment earnings before income taxes	$0.1
Impact of phased-in reduction in New Mexico corporate income tax rates	0.1
Impact of difference in effective tax rates used by PNMR and its subsidiaries in the calculation of income taxes in interim periods	0.7
Other	(0.2)
Net Change	$0.7

LIQUIDITY AND CAPITAL RESOURCES

Statements of Cash Flows

The changes in PNMR's cash flows for the three months ended March 31, 2018 compared to March 31, 2017 are summarized as follows:

	Three Months Ended March 31,		
	2018	2017	Change
	(In millions)		
Net cash flows from:			
Operating activities	$78.9	$131.6	$(52.7)
Investing activities	(119.2)	(106.6)	(12.6)
Financing activities	40.1	(27.2)	67.3
Net change in cash and cash equivalents	$(0.2)	$(2.2)	$2.0

Cash Flows from Operating Activities

Changes in PNMR's cash flow from operating activities result from net earnings, adjusted for items impacting earnings that do not provide or use cash. See Results of Operations above. Certain changes in assets and liabilities resulting from normal operations, including the effects of the seasonal nature of the Company's operations, also impact operating cash flows.

Cash Flows from Investing Activities

The changes in PNMR's cash flows from investing activities relate primarily to changes in utility plant additions. Cash flows from investing activities also include activity related to the Westmoreland Loan and NMRD. Major components of PNMR's cash inflows and (outflows) from investing activities are shown below:

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	Three Months Ended March 31,		
	2018	2017	Change
Cash (Outflows) for Utility Plant Additions	(In millions)		
PNM:			
Generation	$(18.0)	$(16.4)	$ (1.6)
Transmission and distribution	(33.0)	(34.3)	1.3
Four Corners SCRs	(3.8)	(8.2)	4.4
Nuclear fuel	(6.9)	(6.9)	—
	(61.7)	(65.8)	4.1
TNMP:			
Transmission	(23.2)	(22.5)	(0.7)
Distribution	(26.8)	(12.8)	(14.0)
AMS	—	(1.0)	1.0
	(50.0)	(36.3)	(13.7)
Corporate and Other:			
Computer hardware and software	(6.0)	(10.1)	4.1
PNMR Development utility plant additions	—	(2.6)	2.6
	(6.0)	(12.7)	6.7
	$(117.7)	$(114.8)	$ (2.9)
Cash Inflows on the Westmoreland Loan			
Principal payments	$5.6	$9.6	$ (4.0)
Cash Inflows (Outflows) Related to NMRD			
Investments in NMRD	$(5.0)	$—	$ (5.0)

Cash Flow from Financing Activities

The changes in PNMR's cash flows from financing activities include:

- Short-term borrowings decreased $66.7 million in 2018 compared to an increase of $16.0 million in 2017, resulting in a net decrease in cash flows from financing activities of $82.7 million
- In 2018, PNMR issued $300.0 million aggregate principle amount of 3.250% Senior Unsecured Notes utilizing the proceeds to repay the $150.0 million PNMR 2015 Term Loan Agreement
- In accordance with the BTMU Term Loan Agreement, NM Capital made principal payments of $5.0 million in 2018 compared to $9.4 million in 2017

Financing Activities

See Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K and Note 9 for additional information concerning the Company's financing activities. PNM must obtain NMPRC approval for any financing transaction having a maturity of more than 18 months. In addition, PNM files its annual short-term financing plan with the NMPRC. The Company's ability to access the credit and capital markets at a reasonable cost is largely dependent upon its:

- Ability to earn a fair return on equity
- Results of operations
- Ability to obtain required regulatory approvals
- Conditions in the financial markets

•Credit ratings

Each of the Company’s revolving credit facilities and term loans contains a single financial covenant, which requires the maintenance of debt-to-capital ratios of less than or equal to 65%, and generally include customary covenants, events of default, cross default provisions, and change of control provisions. The Company is in compliance with its debt covenants.

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As discussed in Note 11, NM Capital, a wholly-owned subsidiary of PNMR, entered into the $125.0 million BTMU Term Loan Agreement with BTMU, as lender and administrative agent. The BTMU Term Loan Agreement has a maturity of February 1, 2021 and bears interest at a rate based on LIBOR plus a customary spread, which aggregated 4.41% at March 31, 2018. The principal balance outstanding under the BTMU Term Loan Agreement was $45.1 million at March 31, 2018. PNMR, as parent company of NM Capital, has guaranteed NM Capital's obligations to BTMU. NM Capital utilized the proceeds of the BTMU Term Loan Agreement to provide funding for the $125.0 million Westmoreland Loan to a ring-fenced, bankruptcy-remote, special-purpose entity, which is a subsidiary of Westmoreland, to finance Westmoreland's purchase of SJCC. The principal balance outstanding under the Westmoreland Loan was $51.0 million at March 31, 2018. On March 28, 2018, NM Capital executed an extension and waiver agreement with WSJ, which waived a technical event of default by WSJ under the Westmoreland Loan. This waiver relates solely to the required delivery of the financial statements of WSJ's parent company and expires on the earlier of May 1, 2019 or the occurrence of any other event of default. See Note 6.

On October 21, 2016, PNMR entered into letter of credit arrangements with JPMorgan Chase Bank, N.A. (the "JPM LOC Facility") under which letters of credit aggregating $30.3 million were issued to facilitate the posting of reclamation bonds, which SJCC is required to post in connection with permits relating to the operation of the San Juan mine (Note 11).

On July 28, 2017, PNM entered into the PNM 2017 Senior Unsecured Note Agreement with institutional investors for the sale of $450.0 million aggregate principal amount of eight series of Senior Unsecured Notes (the "PNM 2018 SUNs") offered in private placement transactions. PNM has agreed to issue $350.0 million of the PNM 2018 SUNs (at fixed annual interest rates ranging from 3.15% to 4.50% for terms between 5 and 30 years) on or about May 15, 2018 and $100.0 million of the PNM 2018 SUNs (at fixed annual interest rates of 3.78% and 4.60% for terms of 10 and 30 years) on or about August 1, 2018. The issuances of the PNM 2018 SUNs are subject to the satisfaction of customary conditions. PNM will use the gross proceeds from the PNM 2018 SUNs to pay $350.0 million of PNM's 7.95% Senior Unsecured Notes that mature on May 15, 2018 and $100.0 million of PNM's 7.50% Senior Unsecured Notes that mature on August 1, 2018.

On March 9, 2018, PNMR issued $300.0 million aggregate principal amount of 3.250% Senior Unsecured Notes (the "PNMR 2018 SUNs"), which mature on March 9, 2021. The proceeds from the offering were used to repay the $150.0 million PNMR 2015 Term Loan Agreement and to reduce borrowings under the PNMR Revolving Credit Facility.

On February 26, 2018, PNMR Development entered into a $24.5 million revolving credit facility with Wells Fargo Bank, National Association, as lender. The facility allows PNMR Development to borrow on a revolving credit basis and also provides for the issuance of letters of credit. The facility expires on February 25, 2019. The facility bears interest at a variable rate and contains terms similar to the PNMR Revolving Credit Facility. PNMR has guaranteed the obligations of PNMR Development under the facility. PNMR Development uses the facility to finance its participation in NMRD and other activities.

At March 31, 2018, variable interest rates were 2.64% for the $100.0 million PNMR 2016 Two-Year Term Loan and 2.61% for the $200.0 million PNM 2017 Term Loan Agreement.

In 2017, PNMR entered into three separate four-year hedging agreements whereby it effectively established fixed interest rates on three separate tranches, each of $50.0 million, of its variable rate debt. The hedging agreements effectively fix interest rates on the aggregate $150.0 million of short-term debt at rates of 1.926%, 1.823%, and 1.629%, plus customary spreads over LIBOR, and are subject to changes if there is a change in PNMR's credit rating.

Capital Requirements

PNMR's total capital requirements consist of construction expenditures and cash dividend requirements for PNMR common stock and PNM preferred stock. Key activities in PNMR's current construction program include:

- Upgrading generation resources, including expenditures for compliance with environmental requirements and for renewable energy resources
- Expanding the electric transmission and distribution systems
- Purchasing nuclear fuel

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Projected capital requirements, including amounts expended through March 31, 2018, are:

	2018	2019-2022	Total
	(In millions)		
Construction expenditures	$500.8	$ 2,210.8	$2,711.6
Dividends on PNMR common stock	84.4	337.7	422.1
Dividends on PNM preferred stock	0.5	2.1	2.6
Total capital requirements	$585.7	$ 2,550.6	$3,136.3

The construction expenditure estimates are under continuing review and subject to ongoing adjustment, as well as to Board review and approval. The construction expenditures above include environmental upgrades of $7.9 million at Four Corners, $72.9 million for 50 MW of new solar facilities included in PNM's 2018 renewable energy procurement plan, approximately $170 million in 2018-2020 for an anticipated expansion of PNM's transmission system, and approximately $100 million in 2021 and $300 million in 2022 for the costs of replacement resources related to the potential shutdown of SJGS Units 1 and 4 in 2022. Expenditures for the expansion of PNM's transmission system and SJGS replacement resources are subject to obtaining necessary approvals of the NMPRC. PNM will be required to file CCN applications with the NMPRC to obtain those approvals. Expenditures for environmental upgrades are estimated to be $7.9 million in 2018. The ability of PNMR to pay dividends on its common stock is dependent upon the ability of PNM and TNMP to be able to pay dividends to PNMR. Note 5 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K describes regulatory and contractual restrictions on the payment of dividends by PNM and TNMP.

During the three months ended March 31, 2018, PNMR met its capital requirements and construction expenditures through cash generated from operations, as well as its liquidity arrangements and the borrowings discussed in Financing Activities above.

In addition to the capital requirements for construction expenditures and dividends, the Company has long-term debt and term loans that must be paid or refinanced at maturity. The $100.0 million PNMR 2016 One-Year Term Loan (as extended) matures on December 14, 2018, the $100.0 million PNMR 2016 Two-Year Term Loan matures on December 21, 2018, and the $200.0 million PNM 2017 Term Loan matures on January 18, 2019. Also, $350.0 million of PNM Senior Unsecured Notes mature on May 15, 2018 and $100.0 million of PNM Senior Unsecured Notes mature on August 1, 2018. As described above, PNM entered into the PNM 2017 Senior Unsecured Note Agreement on July 28, 2017. Proceeds from the $450.0 million of the PNM 2018 SUNs to be issued under that agreement will be used to repay the senior unsecured notes that mature on May 15, 2018 and August 1, 2018. The BTMU Term Loan Agreement requires that NM Capital utilize all amounts, less taxes and fees, it receives under the Westmoreland Loan to repay the BTMU Term Loan Agreement. Based on scheduled payments on the Westmoreland Loan, NM Capital estimates it will make principal payments of $10.0 million on the BTMU Term Loan Agreement in the twelve months ended March 31, 2019. TNMP has $172.3 million of first mortgage bonds that are due in April 2019 and the $24.5 million PNMR Development revolving credit facility expires in February 2019. Note 6 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K contains additional information about the maturities of long-term debt. PNMR and PNM anticipate that funds to repay these long-term debt maturities and term loans will come from entering into new arrangements similar to the existing agreements, borrowing under their revolving credit facilities, issuance of new long-term debt in the public or private capital markets, or a combination of these sources. The Company has from time to time refinanced or repurchased portions of its outstanding debt before scheduled maturity. Depending on market conditions, the Company may refinance other debt issuances or make additional debt repurchases in the future.

Liquidity

PNMR's liquidity arrangements include the PNMR Revolving Credit Facility, the PNM Revolving Credit Facility, and the TNMP Revolving Credit Facility. The PNMR and PNM facilities have capacities of $300.0 million and $400.0 million through October 2020 and $290.0 million and $360.0 million from November 2020 through October 2022. The $75.0 million TNMP Revolving Credit Facility matures in September 2022. PNM also has the $40.0 million PNM 2017 New Mexico Credit Facility, which expires in December 2022. PNMR Development has a $24.5 million

revolving credit facility that expires in February 2019. The Company believes the terms and conditions of these facilities are consistent with those of other investment grade revolving credit facilities in the utility industry. The Company expects that it will be able to extend or replace these credit facilities under similar terms and conditions prior to their expirations.

The revolving credit facilities and the PNM 2017 New Mexico Credit Facility provide short-term borrowing capacity. The revolving credit facilities also allow letters of credit to be issued. Letters of credit reduce the available capacity under the facilities. The Company utilizes these credit facilities and cash flows from operations to provide funds for both construction and operational

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expenditures. The Company's business is seasonal with more revenues and cash flows from operations being generated in the summer months. In general, the Company relies on the credit facilities to be the initial funding source for construction expenditures. Accordingly, borrowings under the facilities may increase over time. Depending on market and other conditions, the Company will periodically sell long-term debt and use the proceeds to reduce the borrowings under the credit facilities. Information regarding the range of borrowings for each facility is as follows:

Range of Borrowings	Three Months Ended March 31, 2018 Low	High
	(In millions)	
PNM:		
PNM Revolving Credit Facility	$ —	$ 64.2
PNM 2017 New Mexico Credit Facility	—	20.0
TNMP Revolving Credit Facility	—	24.4
PNMR Revolving Credit Facility	29.2	110.0
PNMR Development Revolving Credit Facility	—	21.5

At March 31, 2018, the average interest rate was 3.05% for the PNMR Revolving Credit Facility, 2.63% for the PNMR 2016 One-Year Term Loan (as extended), 2.54% for the TNMP Revolving Credit Facility, and 2.72% for the PNMR Development revolving credit facility. There were no borrowings outstanding under the PNM Revolving Credit Facility or the PNM 2017 New Mexico Credit Facility at March 31, 2018.

The Company currently believes that its capital requirements for at least the next twelve months can be met through internal cash generation, existing, extended, or new credit arrangements, and access to public and private capital markets. The Company anticipates that it will be necessary to obtain additional long-term financing to fund its capital requirements during the 2018-2022 period. This could include new debt and/or equity issuances. The Company currently anticipates utilizing a three-year at-the-market equity issuance program to raise equity beginning in 2020 to partially fund capital requirements. This at-the-market program should provide a flexible, efficient, and low-cost way to issue equity as needed. The Company also expects to issue new debt periodically to fund capital investments. To cover the difference in the amounts and timing of internal cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements. However, if difficult market conditions return, the Company may not be able to access the capital markets or renew credit facilities when they expire. Should that occur, the Company would seek to improve cash flows by reducing capital expenditures and exploring other available alternatives. Also, PNM could consider seeking authorization for the issuance of first mortgage bonds to improve access to the capital markets.

Information concerning the credit ratings for PNMR, PNM, and TNMP was set forth under the heading Liquidity in the MD&A contained in the 2017 Annual Reports on Form 10-K. As of April 23, 2018, ratings on the Company's securities were as follows:

	PNMR	PNM	TNMP
S&P			
Corporate rating	BBB+	BBB+	BBB+
Senior secured debt	*	*	A
Senior unsecured debt	BBB	BBB+	*
Preferred stock	*	BBB-	*
Moody's			
Issuer rating	Baa3	Baa2	A3
Senior secured debt	*	*	A1
Senior unsecured debt	Baa3	Baa2	*

* Not applicable

Currently, all of the credit ratings issued by both Moody's and S&P on the Company's debt are investment grade. On January 16, 2018, S&P changed the outlook for PNMR, PNM, and TNMP from stable to negative while affirming the ratings above for all entities. The ultimate outcomes from PNM's NM 2015 Rate Case and NM 2016 Rate Case, including the pending

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appeals before the NM Supreme Court, as discussed in Note 12, could affect both the outlook and credit ratings. Investors are cautioned that a security rating is not a recommendation to buy, sell, or hold securities, that each rating is subject to revision or withdrawal at any time by the assigning rating organization, and that each rating should be evaluated independently of any other rating.

A summary of liquidity arrangements as of April 23, 2018 is as follows:

	PNM	TNMP	PNMR Separate	PNMR Development	Consolidated
	(In millions)				
Financing capacity:					
Revolving credit facility	$400.0	$ 75.0	$ 300.0	$ 24.5	$ 799.5
PNM 2017 New Mexico Credit Facility	40.0	—	—	—	40.0
Total financing capacity	$440.0	$ 75.0	$ 300.0	$ 24.5	$ 839.5
Amounts outstanding as of April 23, 2018:					
Revolving credit facility	$—	$ 40.4	$ 96.2	$ 24.5	$ 161.1
PNM New Mexico Credit Facility	—	—	—	—	—
Letters of credit	2.5	0.1	6.4	—	9.0
Total short-term debt and letters of credit	2.5	40.5	102.6	24.5	170.1
Remaining availability as of April 23, 2018	$437.5	$ 34.5	$ 197.4	$ —	$ 669.4
Invested cash as of April 23, 2018	$8.6	$ —	$ 0.9	$ —	$ 9.5

In addition to the above, PNMR had $30.3 million of letters of credit outstanding under the JPM LOC Facility. The above table excludes intercompany debt. On April 9, 2018, PNMR Development deposited $68.2 million with PNM related to transmission network interconnection studies. PNM used the deposit to repay intercompany borrowings. As of April 23, 2018, PNM and TNMP had no intercompany borrowings from PNMR. The remaining availability under the revolving credit facilities at any point in time varies based on a number of factors, including the timing of collections of accounts receivables and payments for construction and operating expenditures.

For offerings of debt or equity securities registered with the SEC, PNMR has a shelf registration statement expiring in March 2021. This shelf registration statement has unlimited availability and can be amended to include additional securities, subject to certain restrictions and limitations. PNMR can also offer new shares of common stock through the PNM Resources Direct Plan under a SEC shelf registration statement that expires in August 2018. PNM has a shelf registration statement for up to $475.0 million of Senior Unsecured Notes that expires in May 2020.

Off-Balance Sheet Arrangements

PNMR's off-balance sheet arrangements include PNM's operating leases for portions of PVNGS Units 1 and 2. These arrangements help ensure PNM the availability of lower-cost generation needed to serve customers. See MD&A – Off-Balance Sheet Arrangements and Notes 7 and 9 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K, as well as Note 13.

Commitments and Contractual Obligations

PNMR, PNM, and TNMP have contractual obligations for long-term debt, operating leases, construction expenditures, purchase obligations, and certain other long-term obligations. See MD&A – Commitments and Contractual Obligations in the 2017 Annual Reports on Form 10-K.

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Contingent Provisions of Certain Obligations

As discussed in the 2017 Annual Reports on Form 10-K, PNMR, PNM, and TNMP have a number of debt obligations and other contractual commitments that contain contingent provisions. Some of these, if triggered, could affect the liquidity of the Company. In the unlikely event that the contingent requirements were to be triggered, PNMR, PNM, or TNMP could be required to provide security, immediately pay outstanding obligations, or be prevented from drawing on unused capacity under certain credit agreements. The contingent provisions also include contractual increases in the interest rate charged on certain of the Company's short-term debt obligations in the event of a downgrade in credit ratings. The Company believes its financing arrangements are sufficient to meet the requirements of the contingent provisions. No conditions have occurred that would result in any of the above contingent provisions being implemented.

Capital Structure

The capitalization tables below include the current maturities of long-term debt, but do not include short-term debt and do not include operating lease obligations as debt.

	March 31, 2018		December 31, 2017	
PNMR				
PNMR common equity	39.4	%	40.9	%
Preferred stock of subsidiary	0.3	%	0.3	%
Long-term debt	60.3	%	58.8	%
Total capitalization	100.0	%	100.0	%
PNM				
PNM common equity	46.1	%	46.0	%
Preferred stock	0.4	%	0.4	%
Long-term debt	53.5	%	53.6	%
Total capitalization	100.0	%	100.0	%
TNMP				
Common equity	57.2	%	56.9	%
Long-term debt	42.8	%	43.1	%
Total capitalization	100.0	%	100.0	%

OTHER ISSUES FACING THE COMPANY

Climate Change Issues

Background

For the past several years, management has identified multiple risks and opportunities related to climate change, including potential environmental regulation, technological innovation, and availability of fuel and water for operations, as among the most significant risks facing the Company. Accordingly, these risks are overseen by the full Board in order to facilitate more integrated risk and strategy oversight and planning. Board oversight includes understanding the various challenges and opportunities presented by these risks, including the financial consequences that might result from potential federal and/or state regulation of GHG; plans to mitigate the risks; and the impacts these risks may have on the Company's strategy. In addition, the Board approves certain PNM investments in environmental equipment and grid modernization technologies.

Management periodically updates the Board on implementation of the corporate environmental policy and the Company's environmental management systems, promotion of energy efficiency, and use of renewable resources. The Board is also advised of the Company's practices and procedures to assess the sustainability impacts of operations on

the environment. Management has recently published, with Board oversight, a Climate Change Report available at http://www.pnmresources.com/about-us/sustainability-portal.aspx, that details PNM's efforts to transition to a coal-free generation portfolio. The Board considers issues

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associated with climate change, the Company's GHG exposures, and the financial consequences that might result from potential federal and/or state regulation of GHG.

Changes in the climate are generally not expected to have material consequences to the Company in the near-term. The Company cannot anticipate or predict the potential long-term effects of climate change or climate change related regulation on its assets and operations.

Greenhouse Gas Emissions ("GHG") Exposures

In 2017, GHG associated with PNM's interests in its fossil-fueled generating plants included approximately 6.9 million metric tons of CO_2, which comprises the vast majority of PNM's GHG. By comparison, the total GHG in the United States in 2016, the latest year for which EPA has published final data, were approximately 6.5 billion metric tons (in CO_2 equivalents), of which approximately 5.3 billion metric tons were CO_2.

As of January 1, 2018, approximately 67.9% of PNM's generating capacity, including resources owned, leased, and under PPAs, all of which is located within the United States, consisted of coal or gas-fired generation that produces GHG. This reflects the retirement of SJGS Units 2 and 3 that occurred in December 2017 and the restructuring of ownership in SJGS Unit 4. These events reduced PNM's entitlement in SJGS from 783 MW to 562 MW and will cause the Company's output of GHG to decrease in 2018 compared to 2017. Many factors affect the amount of GHG emitted, including plant performance, economic dispatch, and the availability of renewable resources. For example, between 2007 and 2017, production from New Mexico Wind has varied from a high of 580 GWh in 2011 to a low of 405 GWh in 2014. Variations are primarily due to how much and how often the wind blows. In addition, if PVNGS experienced prolonged outages or if PNM's entitlement from PVNGS were reduced, PNM might be required to utilize other power supply resources such as gas-fired generation, which could increase GHG.

PNM has several programs underway to reduce or offset GHG from its generation resource portfolio, thereby reducing its exposure to climate change regulation. See Note 12. As described in Note 11, PNM received approval for the December 31, 2017 shutdown of SJGS Units 2 and 3 as part of its strategy to address the regional haze requirements of the CAA. The shutdown of SJGS Units 2 and 3 is expected to result in a reduction of GHG for the entire station of approximately 50%, including an overall reduction of approximately 40% of GHG from the Company's owned interests. In addition, as discussed in Note 12, PNM's 2017 IRP indicates exiting ownership in the remaining SJGS units in 2022 and Four Corners in 2031 would provide long-term cost savings to its customers and would further reduce PNM's GHG. PNM owns utility-scale solar generation with a total generation capacity of 107 MW. Since 2003, PNM has purchased the entire output of New Mexico Wind, which has an aggregate capacity of 204 MW, and, since January 2015, has purchased the full output of Red Mesa Wind, which has an aggregate capacity of 102 MW. PNM has a 20-year PPA for the output of Lightning Dock Geothermal, which began providing power to PNM in January 2014. The current capacity of the geothermal facility is 4 MW. On November 15, 2017 the NMPRC approved PNM's 2018 renewable energy procurement plan (Note 12). As a result, PNM will acquire an additional 80 GWh in 2019 and 105 GWh in 2020 from a re-powering of New Mexico Wind; an additional 55 GWh in 2019 and 77 GWh in 2020 from a re-powering of Lightning Dock Geothermal; and PNM will construct 50 MW of new solar facilities in 2018. Additionally, PNM has a customer distributed solar generation program that represented 86.2 MW at March 31, 2018. PNM's distributed solar programs will reduce PNM's annual production from fossil-fueled electricity generation by about 200 GWh. PNM has offered its customers a comprehensive portfolio of energy efficiency and load management programs since 2007, with a budget of $23.6 million for the 2018 program year. PNM's annual savings from these programs were approximately 622 GWh of electricity in 2017. Over the next 20 years, PNM projects energy efficiency and load management programs will provide the equivalent of approximately 8,000 GWh of electricity, which will avoid at least 4.3 million metric tons of CO_2 based upon projected emissions from PNM's system-wide resources. These estimates are subject to change because of the uncertainty of many of the underlying variables, including changes in demand for electricity, and complex relationships between those variables.

Because of PNM's dependence on fossil-fueled generation, legislation or regulation that imposes a limit or cost on GHG could impact the cost at which electricity is produced. While PNM expects to recover any such costs through rates, the timing and outcome of proceedings for cost recovery are uncertain. In addition, to the extent that any additional costs are recovered through rates, customers may reduce their usage, relocate facilities to other areas with lower energy costs, or take other actions that ultimately will adversely impact PNM.

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Other Climate Change Risks

PNM's generating stations are located in the arid southwest. Access to water for cooling for some of these facilities is critical to continued operations. Forecasts for the impacts of climate change on water supply in the southwest range from reduced precipitation to changes in the timing of precipitation. In either case, PNM's generating facilities requiring water for cooling will need to mitigate the impacts of climate change through adaptive measures. Current measures employed by PNM generating stations such as air cooling, use of grey water, improved reservoir operations, and shortage sharing arrangements with other water users will continue to be important to sustain operations.

PNM's service areas occasionally experience periodic high winds, forest fires, and severe thunderstorms. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic hurricanes and drought conditions. In addition to potentially causing physical damage to Company-owned facilities, which disrupts the ability to transmit and/or distribute energy, weather and other events of nature can temporarily reduce customers' usage and demand for energy. During the third quarter of 2017, Hurricane Harvey had significant impacts on the Gulf Coast region, including certain areas serviced by TNMP. While Hurricane Harvey did not have a significant impact on TNMP's facilities, the hurricane impacted customer usage and could impact future usage or create resource constraints that could delay or disrupt the supply of materials necessary to maintain historical levels of system reliability.

EPA Regulation

In April 2007, the US Supreme Court held that EPA has the authority to regulate GHG under the CAA. This decision heightened the importance of this issue for the energy industry. In December 2009, EPA released its endangerment finding for emissions from new motor vehicles, stating that the atmospheric concentrations of six key greenhouse gases (CO_2, methane, nitrous oxides, hydrofluorocarbons, perfluorocarbons, and sulfur hexafluoride) endanger the public health and welfare of current and future generations. In May 2010, EPA released the final PSD and Title V Greenhouse Gas Tailoring Rule (the "Tailoring Rule") to address GHG from stationary sources under the CAA permitting programs. The purpose of the rule was to "tailor" the applicability of two programs, the PSD construction permit and Title V operating permit programs, to avoid impacting millions of small GHG emitters. On June 23, 2014, the US Supreme Court found EPA lacked authority to "tailor" the CAA's unambiguous numerical thresholds of 100 or 250 tons per year, and thus held EPA may not require a source to obtain a PSD permit solely on the basis of its potential GHG emissions. However, the court upheld EPA's authority to apply the PSD program for GHGs to "anyway" sources – those sources that have to comply with the PSD program for other non-GHG pollutants.

On June 25, 2013, then President Obama announced his Climate Action Plan, which outlined how his administration planned to cut GHG in the United States, prepare the country for the impacts of climate change, and lead international efforts to combat and prepare for global warming. The plan proposed actions that would lead to the reduction of GHG by 17% below 2005 levels by 2020.

On August 3, 2015, EPA responded to the Climate Action Plan by issuing three separate but related actions: (1) the final Carbon Pollution Standards for new, modified, and reconstructed power plants (under Section 111(b)); (2) the final Clean Power Plan for existing power plants (under Section 111(d)); and (3) a proposed federal plan associated with the final Clean Power Plan.

EPA's Carbon Pollution Standards for new sources (those constructed after January 8, 2014) established separate standards for gas- and coal-fired units. The standards reflect the degree of emission limitation achievable through the application of what EPA determined to be the best system of emission reduction ("BSER") demonstrated for each type of unit. For newly constructed and reconstructed base load natural gas-fired stationary combustion turbines, EPA finalized a standard based on efficient natural gas combined cycle technology. The final standards for coal-fired power plants vary depending on whether the unit is new, modified, or reconstructed.

The final Clean Power Plan established numeric “emission standards” for existing electric generating units – one for “fossil-steam” units (coal- and oil-fired units) and one for natural gas-fired units (combined cycle only). The emission standards are based on emission reduction opportunities that EPA deemed achievable using technical assumptions for three “building blocks”: efficiency improvements at coal-fired EGUs, displacement of affected EGUs with renewable energy, and displacement of coal-fired generation with natural gas-fired generation.

Multiple states, utilities, and trade groups filed petitions for review in the DC Circuit to challenge both the Carbon Pollution Standards for new sources and the Clean Power Plan for existing sources. Numerous parties also simultaneously filed motions to stay the Clean Power Plan during the litigation. The DC Circuit refused to stay the rule, but 29 states and state agencies successfully

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petitioned the US Supreme Court for a stay, which was granted on February 9, 2016. As a result, the Clean Power Plan is not in effect and neither states nor sources are obliged to comply with its requirements. With the US Supreme Court stay in place, the DC Circuit heard oral arguments on the merits of the Clean Power Plan on September 27, 2016 in front of a 10-judge en banc panel. However, before the DC Circuit could issue an opinion, President Trump took office and his administration asked the court to hold the case in abeyance while the rule is re-evaluated, which the court granted.

On March 28, 2017, President Trump issued an Executive Order titled "Promoting Energy Independence and Economic Growth." Among its goals are to "promote clean and safe development of our Nation's vast energy resources, while at the same time avoiding regulatory burdens that unnecessarily encumber energy production, constrain economic growth, and prevent job creation." The order rescinds several key pieces of the Obama Administration's climate agenda, including the Climate Action Plan and the Final Guidance on Consideration of Climate Change in NEPA Reviews. It directs agencies to review and suspend, revise or rescind any regulations or agency actions that potentially burden the development or use of domestically produced energy resources.

Most notably, the order directs EPA to immediately review and, if appropriate and consistent with law, suspend, revise, or rescind (1) the Carbon Pollution Standards for new, reconstructed or modified electric utilities, (2) the Clean Power Plan, (3) the Proposed Clean Power Plan Model Trading Rules, and (4) the Legal Memorandum supporting the Clean Power Plan. In response, the EPA signed a NOPR to repeal the Clean Power Plan on October 10, 2017. The notice proposes a legal interpretation concluding that the Clean Power Plan exceeds EPA's statutory authority. EPA accepted comments on that proposed interpretation through April 26, 2018. Any final rule will likely be subject to judicial review. EPA indicated it has not determined whether it will promulgate a new rule under section 111(d) or what form a new rule would take, but it did seek comment on that question in a separate advanced notice of proposed rulemaking published December 28, 2017. Comments were due by February 26, 2018.

PNM is unable to predict the impact to the Company of this Executive Order or the potential repeal of the Clean Power Plan. It is uncertain the direction EPA will take, if any, to replace the existing rule. If a future regulation limiting GHG from fossil-fueled EGUs is adopted, such regulations could impact PNM's existing and future fossil-fueled EGUs. The existing Carbon Pollution Standards covering new sources could also impact PNM's generation fleet, although that rule remains under review by EPA and the DC Circuit.

Federal Legislation

Prospects for enactment in Congress of legislation imposing a new or enhanced regulatory program to address climate change are highly unlikely in 2018.

State and Regional Activity

Pursuant to New Mexico law, each utility must submit an IRP to the NMPRC every three years to evaluate renewable energy, energy efficiency, load management, distributed generation, and conventional supply-side resources on a consistent and comparable basis. The IRP is required to take into consideration risk and uncertainty of fuel supply, price volatility, and costs of anticipated environmental regulations when evaluating resource options to meet supply needs of the utility's customers. The NMPRC requires that New Mexico utilities factor a standardized cost of carbon emissions into their IRPs using prices ranging between $8 and $40 per metric ton of CO_2 emitted and escalating these costs by 2.5% per year. Under the NMPRC order, each utility must analyze these standardized prices as projected operating costs. Reflecting the developing nature of this issue, the NMPRC order states that these prices may be changed in the future to account for additional information or changed circumstances. Although these prices may not reflect the costs that ultimately will be incurred, PNM is required to use these prices for purposes of its IRP. As discussed in Note 12, in its 2017 IRP, PNM analyzed resource portfolio plans for scenarios that assumed SJGS will

operate beyond the end of the current coal supply agreement that runs through June 30, 2022 and for scenarios that assumed SJGS will cease operations by the end of 2022. The key findings of the 2017 IRP include that exiting SJGS in 2022 would provide long-term cost benefits to PNM's customers and that PNM exiting its ownership interest in Four Corners in 2031 would also save customers money. The materials presented in the IRP process are available at www.pnm.com\irp.

On August 30, 2017, Western Resource Advocates provided the NMPRC with a presentation on a proposed rulemaking for the adoption of a clean energy standard in New Mexico and a suggestion that the NMPRC issue a NOPR. The NMAG's office and Prosperity Works joined in the petition. The proposed clean energy standard, if adopted, would require utilities to reduce carbon emissions by four percent per year for the next 20 years. The NMPRC has convened a series of workshops to develop a clean energy standard rule that could be proposed for a future rulemaking proceeding. The major topic areas discussed at the

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workshops are: jurisdictional and other legal issues; selection of the timeframe for the emissions baseline year to be used, unspecified power, and electric vehicle credits; and cost responsibilities, benefits, reasonable cost threshold, impact on rates, compliance issues, reliability impacts, and unintended consequences. Workshops are scheduled to continue in 2018.

International Accords

The United Nations Framework Convention on Climate Change ("UNFCCC") is an international environmental treaty that was negotiated at the 1992 United Nations Conference on Environment and Development (informally known as the Earth Summit) and entered into force in March 1994. The objective of the treaty is to "stabilize greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system." Parties to the UNFCCC, including the United States, have been meeting annually in Conferences of the Parties ("COP") to assess progress in meeting the objectives of the UNFCCC.

On December 12, 2015, the Paris Agreement was finalized during the 2015 COP. The agreement, which was agreed to by more than 190 nations, requires that countries submit Nationally Determined Contributions ("NDCs"). NDCs reflect national targets and actions that arise out of national policies and elements relating to oversight, guidance and coordination of actions to reduce emissions by all countries. In November 2014, then President Obama announced the United States' commitment to reduce GHG, on an economy-wide basis, by 26%-28% from 2005 levels by the year 2025. The United States NDC is part of an overall effort by the former administration to have the United States achieve economy-wide reductions of around 80% by 2050. The former administration's GHG reduction target for the electric utility industry is a key element of its NDC and is based on EPA's final GHG regulations for new, existing, and modified and reconstructed sources. The United States was one of 189 nations that offered intended NDCs. Thresholds for the number of countries necessary to ratify or accede to the Paris Agreement and total global GHG percentage were achieved on October 5, 2016 and the Paris Agreement entered into force on November 4, 2016. To date, 175 countries have ratified the Paris Agreement. On June 1, 2017, President Trump announced that the United States would withdraw from the Paris Agreement. In his public statement, he indicated that the United States would "begin negotiations to reenter either the Paris Accord or a .... new transaction on terms that are fair to the United States, its businesses, its workers, its people, its taxpayers." To date there have been no specific details as to how this will be accomplished.

PNM will continue to monitor the United States' involvement in international accords, but the potential impact that such accords may have on the Company cannot be determined at this time.

Assessment of Legislative/Regulatory Impacts

The Company has assessed, and continues to assess, the impacts of climate change legislation and regulation on its business. This assessment is ongoing and future changes arising out of the legislative or regulatory process could impact the assessment significantly. PNM's assessment includes assumptions regarding specific GHG limits; the timing of implementation of these limits; the possibility of a market-based trading program, including the associated costs and the availability of emission credits or allowances; the development of emission reduction and/or renewable energy technologies; and provisions for cost containment. Moreover, the assessment assumes various market reactions such as the price of coal and gas and regional plant economics. These assumptions are, at best, preliminary and speculative. However, based upon these assumptions, the enactment of climate change legislation or regulation could, among other things, result in significant compliance costs, including large capital expenditures by PNM, and could jeopardize the economic viability of certain generating facilities. See Note 11. In turn, these consequences could lead to increased costs to customers and affect results of operations, cash flows, and financial condition if the incurred costs are not fully recovered through regulated rates. Higher rates could also contribute to reduced usage of electricity. PNM's assessment process is too preliminary and speculative at this time for a meaningful prediction of

financial impact.

Transmission Issues

At any given time, FERC has various notices of inquiry and rulemaking dockets related to transmission issues pending. Such actions may lead to changes in FERC administrative rules or ratemaking policy, but have no time frame in which action must be taken or a docket closed with no further action. Further, such notices and rulemaking dockets do not apply strictly to PNM, but will have industry-wide effects in that they will apply to all FERC-regulated entities. PNM monitors and often submits comments taking a position in such notices and rulemaking dockets or may join in larger group responses. PNM often cannot determine the full impact of a proposed rule and policy change until the final determination is made by FERC and PNM is unable to predict the outcome of these matters.

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On November 24, 2009, FERC issued Order 729 approving two Modeling, Data, and Analysis Reliability Standards ("Reliability Standards") submitted by NERC – MOD-001-1 (Available Transmission System Capability) and MOD-029-1 (Rated System Path Methodology). Both MOD-001-1 and MOD-029-1 require a consistent approach, provided for in the Reliability Standards, to measuring the total transmission capability ("TTC") of a transmission path. The TTC level established using the two Reliability Standards could result in a reduction in the available transmission capacity currently used by PNM to deliver generation resources necessary for its jurisdictional load and for fulfilling its obligations to third-party users of the PNM transmission system.

During the first quarter of 2011, at the request of PNM and other southwestern utilities, NERC advised all transmission owners and transmission service providers that the implementation of portions of the MOD-029 methodology for "Flow Limited" paths has been delayed until such time as a modification to the standard can be developed that will mitigate the technical concerns identified by the transmission owners and transmission service providers. PNM and other western utilities filed a Standards Action Request with NERC in the second quarter of 2012.

NERC initiated an informal development process to address directives in Order 729 to modify certain aspects of the MOD standards, including MOD-001 and MOD-029. The modifications to this standard would retire MOD-029 and require each transmission operator to determine and develop methodology for TTC values for MOD-001.

A final ballot for MOD-001-2 concluded on December 20, 2013 and received sufficient affirmative votes for approval. On February 10, 2014, NERC filed with FERC a petition for approval of MOD-001-2 and retirement of reliability standards MOD-001-1a, MOD-004-1, MOD-008-1, MOD-028-2, MOD-029-1a, and MOD-030-2. On June 19, 2014, FERC issued a NOPR to approve a new reliability standard. The MOD-001-2 standard will become effective on the first day of the calendar quarter that is 18 months after the date the standard is approved by FERC. MOD-001-2 will replace multiple existing reliability standards and will remove the risk of reduced TTC for PNM and other western utilities.

Financial Reform Legislation

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Reform Act"), enacted in July 2010, includes provisions that will require certain over-the-counter derivatives, or swaps, to be centrally cleared and executed through an exchange or other approved trading facility. It also includes provisions related to swap transaction reporting and record keeping and may impose margin requirements on swaps that are not centrally cleared. The United States Commodity Futures Trading Commission ("CFTC") has published final rules defining several key terms related to the act and has set compliance dates for various types of market participants. The Dodd-Frank Reform Act provides exemptions from certain requirements, including an exception to the mandatory clearing and swap facility execution requirements for commercial end-users that use swaps to hedge or mitigate commercial risk. PNM has elected the end-user exception to the mandatory clearing requirement. PNM expects to be in compliance with the Dodd-Frank Reform Act and related rules within the time frames required by the CFTC. However, as a result of implementing and complying with the Dodd-Frank Reform Act and related rules, PNM's swap activities could be subject to increased costs, including from higher margin requirements. The Trump Administration has indicated that the provisions of the Dodd-Frank Reform Act will be reviewed and certain regulations may be rolled back, but no formal action has been taken yet. At this time, PNM cannot predict the ultimate impact the Dodd-Frank Reform Act may have on PNM's financial condition, results of operations, cash flows, or liquidity.

Other Matters

See Notes 11 and 12 herein and Notes 16 and 17 of the Notes to Consolidated Financial Statements in the 2017 Annual Reports on Form 10-K for a discussion of commitments and contingencies and rate and regulatory matters.

See Note 1 for a discussion of accounting pronouncements that have been issued, but are not yet effective and have not been adopted by the Company.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires Company management to select and apply accounting policies that best provide the framework to report the results of operations and financial position for PNMR, PNM, and TNMP. The selection and application of those policies requires management to make difficult, subjective, and/or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

As of March 31, 2018, there have been no significant changes with regard to the critical accounting policies disclosed in PNMR's, PNM's, and TNMP's 2017 Annual Reports on Forms 10-K. The policies disclosed included unbilled revenues, regulatory accounting, impairments, decommissioning and reclamation costs, pension and other postretirement benefits, accounting for contingencies, and income taxes.

MD&A FOR PNM

RESULTS OF OPERATIONS

PNM operates in only one reportable segment, as presented above in Results of Operations for PNMR.

MD&A FOR TNMP

RESULTS OF OPERATIONS

TNMP operates in only one reportable segment, as presented above in Results of Operations for PNMR.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Statements made in this filing that relate to future events or PNMR's, PNM's, or TNMP's expectations, projections, estimates, intentions, goals, targets, and strategies are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates. PNMR, PNM, and TNMP assume no obligation to update this information.

Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM, and TNMP caution readers not to place undue reliance on these statements. PNMR's, PNM's, and TNMP's business, financial condition, cash flows, and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. These factors include:

- The ability of PNM and TNMP to recover costs and earn allowed returns in regulated jurisdictions, including the impacts of the NMPRC orders in PNM's NM 2015 Rate Case and NM 2016 Rate Case, appeals of those orders, the deferral of the issue of PNM's prudence of continuation of participation in Four Corners to PNM's next rate case and recovery of PNM's investments in that plant, and any actions resulting from PNM's 2017 IRP and the impact on service levels for PNM customers if the ultimate outcomes do not provide for the recovery of costs of operating and capital expenditures, as well as other impacts of federal or state regulatory and judicial actions
- The ability of the Company to successfully forecast and manage its operating and capital expenditures, including aligning expenditures with the revenue levels resulting from the ultimate outcomes in PNM's NM 2015 Rate Case and NM 2016 Rate Case, including appeals, and TNMP's rate case anticipated to be filed in May 2018 and supporting forecasts utilized in future test year rate proceedings
- The impacts on the electricity usage of customers and consumers due to performance of state, regional, and national economies, energy efficiency measures, weather, seasonality, alternative sources of power, and other changes in supply and demand
- Uncertainty surrounding the status of PNM's participation in jointly-owned generation projects, including the 2022 scheduled expiration of the operational and fuel supply agreements for SJGS, as well as the 2018 required NMPRC filing to determine the extent to which SJGS should continue serving PNM's retail customers beyond mid-2022 and any actions resulting from PNM's 2017 IRP, including regulatory recovery of undepreciated investments in the event the NMPRC orders generating facilities to be retired before currently scheduled
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Uncertainty regarding the requirements and related costs of decommissioning power plants and reclamation of coal mines supplying certain power plants, as well as the ability to recover those costs from customers, including the potential impacts of the order in the NM 2015 Rate Case and NM 2016 Rate Case, appeals of those orders, and PNM's 2017 IRP

- Uncertainty regarding what actions PNM may take with respect to the generating capacity in PVNGS Units 1 and 2, which is under lease, at the expiration of the lease terms in 2023 and 2024, as well as the related treatment of the NMPRC for ratemaking purposes
- The Company's ability to access the financial markets in order to provide financing to repay or refinance debt as it comes due, as well as for ongoing operations and construction expenditures, including disruptions in the capital or credit markets, actions by ratings agencies, and fluctuations in interest rates, including any negative impacts that could result from the ultimate outcome in PNM's NM 2015 Rate Case and NM 2016 Rate Case, including appeals
- The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory, or contractual restrictions or subsidiary earnings or cash flows

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- State and federal regulation or legislation relating to environmental matters, the resultant costs of compliance, and other impacts on the operations and economic viability of PNM's generating plants
- State and federal regulatory, legislative, executive, and judicial decisions and actions on ratemaking, tax, including the impacts and related uncertainties of tax reform enacted in 2017, and other matters
- Risks related to climate change, including potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG
- Uncertainty surrounding counterparty credit risk, including financial support provided to facilitate the coal supply and ownership restructuring at SJGS
- The performance of generating units, transmission systems, and distribution systems, which could be negatively affected by operational issues, fuel quality, unplanned outages, extreme weather conditions, terrorism, cybersecurity breaches, and other catastrophic events
- Employee workforce factors, including cost control efforts and issues arising out of collective bargaining agreements and labor negotiations with union employees
- Variability of prices and volatility and liquidity in the wholesale power and natural gas markets
- Changes in price and availability of fuel and water supplies, including the ability of the mines supplying coal to PNM's coal-fired generating units and the companies involved in supplying nuclear fuel to provide adequate quantities of fuel
- The risks associated with completion of generation, transmission, distribution, and other projects
- Regulatory, financial, and operational risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainties
- The risk that FERC rulemakings or lack of additional capacity during peak hours may negatively impact the operation of PNM's transmission system
- The impacts of decreases in the values of marketable securities maintained in trusts to provide for decommissioning, reclamation, pension benefits, and other postretirement benefits, including potential increased volatility resulting from international developments
- The effectiveness of risk management regarding commodity transactions and counterparty risk
- The outcome of legal proceedings, including the extent of insurance coverage
- Changes in applicable accounting principles or policies

Any material changes to risk factors occurring after the filing of PNMR's, PNM's, and TNMP's 2017 Annual Reports on Form 10-K are disclosed in Item 1A, Risk Factors, in Part II of this Form 10-Q.

For information about the risks associated with the use of derivative financial instruments, see Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

SECURITIES ACT DISCLAIMER

Certain securities described or cross-referenced in this report have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be reoffered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. This Form 10-Q does not constitute an offer to sell or the solicitation of an offer to buy any securities.

WEBSITES

The PNMR website, www.pnmresources.com, is an important source of Company information. New or updated information for public access is routinely posted. PNMR encourages analysts, investors, and other interested parties to register on the website to automatically receive Company information by e-mail. This information includes news releases, notices of webcasts, and filings with the SEC. Participants will not receive information that was not requested and can unsubscribe at any time.

Our corporate Internet addresses are:

- PNMR: www.pnmresources.com
- PNM: www.pnm.com
- TNMP: www.tnmp.com

The PNMR website includes a link to PNMR's Sustainability Portal, www.pnmresources.com/about-us/sustainability-portal.aspx. This portal provides access to key sustainability information, including a Climate Change Report, related to the operations of PNM and TNMP and reflects PNMR's commitment to do business in an ethical, open, and transparent manner.

The contents of these websites are not a part of this Form 10-Q. The SEC filings of PNMR, PNM, and TNMP, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, are accessible free of charge on the PNMR website as soon as reasonably practicable after they are filed with, or furnished to, the SEC. These reports are also available in print upon request from PNMR free of charge.

Also available on the Company’s website at http://www.pnmresources.com/corporate-governance.aspx and in print upon request from any shareholder are PNMR’s:

- Corporate Governance Principles
- Code of Ethics (Do the Right Thing – Principles of Business Conduct)
- Charters of the Audit and Ethics Committee, Nominating and Governance Committee, Compensation and Human Resources Committee, and Finance Committee
- Restated Articles of Incorporation and Bylaws

The Company will post amendments to or waivers from its code of ethics (to the extent applicable to the Company’s executive officers and directors) on its website.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages the scope of its various forms of market risk through a comprehensive set of policies and procedures with oversight by senior level management through the RMC. The Board’s Finance Committee sets the risk limit parameters. The RMC has oversight over the risk control organization. The RMC is assigned responsibility for establishing and enforcing the policies, procedures, and limits and evaluating the risks inherent in proposed transactions on an enterprise-wide basis. The RMC’s responsibilities include:

- Establishing policies regarding risk exposure levels and activities in each of the business segments
- Approving the types of derivatives entered into for hedging
- Reviewing and approving hedging risk activities
- Establishing policies regarding counterparty exposure and limits
- Authorizing and delegating transaction limits
- Reviewing and approving controls and procedures for derivative activities
- Reviewing and approving models and assumptions used to calculate mark-to-market and market risk exposure
- Proposing risk limits to the Board’s Finance Committee for its approval
- Reporting to the Board’s Audit and Finance Committees on these activities

To the extent an open position exists, fluctuating commodity prices, interest rates, equity prices, and economic conditions can impact financial results and financial position, either favorably or unfavorably. As a result, the Company cannot predict with certainty the impact that its risk management decisions may have on its businesses, operating results, or financial position.

Commodity Risk

Information concerning accounting for derivatives and the risks associated with commodity contracts is set forth in Note 7, including a summary of the fair values of mark-to-market energy related derivative contracts included in the Condensed Consolidated Balance Sheets. During the three months ended March 31, 2018 and the year ended December 31, 2017, the Company had no commodity derivative instruments designated as cash flow hedging instruments.

Commodity contracts, other than those that do not meet the definition of a derivative under GAAP, are recorded at fair value on the Condensed Consolidated Balance Sheets. The following table details the changes in the net asset or liability balance sheet position for mark-to-market energy transactions.

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Economic Hedges	Three Months Ended March 31, 2018	2017
	(In thousands)	
Sources of fair value gain (loss):		
Net fair value at beginning of period	$(94)	$2,885
Amount realized on contracts delivered during period	26	(2,007)
Changes in fair value	2	3,352
Net mark-to-market change recorded in earnings	28	1,345
Net change recorded as regulatory assets and liabilities	(175)	(4)
Net fair value at end of period	$(241)	$4,226

All of the fair values as of March 31, 2018 were determined based on prices provided by external sources other than actively quoted market prices. All of the mark-to-market amounts will settle in 2018.

PNM is exposed to changes in the market prices of electricity and natural gas for the positions in its wholesale portfolio not covered by the FPPAC. The Company manages risks associated with these market fluctuations by utilizing various commodity instruments that may qualify as derivatives, including futures, forwards, options, and swaps. PNM uses such instruments to hedge its exposure to changes in the market prices of electricity and natural gas. PNM also uses such instruments under an NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC.

Prior to 2018, PNM measured the market risk of its wholesale activities not covered by the FPPAC using a Monte Carlo VaR simulation model to report the possible loss in value from price movements. In January 2018, PNM's interest in PVNGS Unit 3 became a jurisdictional resource to serve New Mexico Customers and PNM began selling 36 MW of its 65 MW merchant interest in SJGS Unit 4 to a third party at a fixed price. These events significantly reduced PNM's exposure to commodity risk and, beginning in February 2018, the Company no longer uses VaR as a risk metric. VaR limits were not exceeded during the year ended December 31, 2017.

Credit Risk

The Company is exposed to credit risk from its retail and wholesale customers, as well as the counterparties to derivative instruments. The Company conducts counterparty risk analysis across business segments and uses a credit management process to assess the financial conditions of counterparties. The following table provides information related to credit exposure by the credit worthiness (credit rating) and concentration of credit risk for wholesale counterparties, all of which will mature in less than two years.

Schedule of Credit Risk Exposure
March 31, 2018

Rating [(1)]	Credit Risk Exposure[(2)]	Number of Counter-parties >10%	Net Exposure of Counter-parties >10%
	(Dollars in thousands)		
External ratings:			
Investment grade	$3,141	1	$ 1,281
Non-investment grade	273	—	—
Split ratings	130	—	—
Internal ratings:			
Investment grade	46	—	—
Non-investment grade	769	1	648

Total	$4,359	$ 1,929

(1) The rating "Investment Grade" is for counterparties, or a guarantor, with a minimum S&P rating of BBB- or Moody's rating of Baa3. The category "Internal Ratings – Investment Grade" includes those counterparties that are internally rated as investment grade in accordance with the guidelines established in the Company's credit policy.

(2) The Credit Risk Exposure is the gross credit exposure, including long-term contracts (other than firm-requirements wholesale customers and the Tri-State hazard sharing agreement), forward sales, and short-term sales. The gross

exposure captures the amounts from receivables/payables for realized transactions, delivered and unbilled revenues, and mark-to-market gains/losses. Gross exposures can be offset according to legally enforceable netting arrangements, but are not reduced by posted credit collateral. At March 31, 2018, PNMR held $0.9 million of cash collateral to offset its credit exposure.

Net credit risk for the Company’s largest counterparty as of March 31, 2018 was $1.3 million.

As discussed in Note 11, PNMR’s subsidiary, NM Capital, entered into the Westmoreland Loan to facilitate the acquisition of SJCC by WSJ, a subsidiary of Westmoreland, and PNMR has arranged for letters of credit to be issued to support the coal mining operations of SJCC. PNMR is exposed to credit risk under these arrangements in the event of default by WSJ. As of April 23, 2018, remaining required principal payments under the Westmoreland Loan are $2.7 million in 2018, $8.6 million in 2019, $23.3 million in 2020, and $16.4 million in 2021. As of April 23, 2018, $2.7 million was held in a SJCC restricted bank account that will be used solely to make the May 1, 2018 scheduled principal payment of $0.9 million and interest of $1.8 million on the Westmoreland Loan. In addition, 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. 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 foreclose on the equity of WSJ or the assets used in the mining operations, the value of which PNMR believes approximates the amount outstanding under the Westmoreland Loan. Furthermore, PNMR considers the possibility of loss under the letters of credit to be remote. Accordingly, PNMR does not consider its credit risk under these arrangements to be material. See Note 6.

Other investments have no significant counterparty credit risk.

Interest Rate Risk

The majority of the Company’s long-term debt is fixed-rate debt and does not expose earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of PNMR’s consolidated long-term debt instruments would increase by 1.6%, or $42.6 million if interest rates were to decline by 50 basis points from their levels at March 31, 2018. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if all or a portion of debt instruments were acquired in the open market prior to their maturity. At April 23, 2018, PNMR, PNM, TNMP, and PNMR Development had short-term debt outstanding of $96.2 million, none, $40.4 million, and $24.5 million under their revolving credit facilities, which allow for a maximum aggregate borrowing capacity of $300.0 million for PNMR, $400.0 million for PNM, $75.0 million for TNMP, and $24.5 million for PNMR Development. PNM had no borrowings under the $40.0 million PNM 2017 New Mexico Credit Facility at April 23, 2018. The revolving credit facilities, the PNM 2017 New Mexico Credit Facility, the $100.0 million PNMR 2016 One-Year Term Loan Agreement (as extended), the $100.0 million PNMR 2016 Two-Year Term Loan Agreement, the $200.0 million PNM 2017 Term Loan Agreement, and the $125.0 million BTMU Term Loan Agreement bear interest at variable rates. On April 23, 2018, interest rates on borrowings averaged 3.15% for the PNMR Revolving Credit Facility, 4.64% for the BTMU Term Loan Agreement, 2.70% for the PNMR 2016 One-Year Term Loan Agreement, 2.68% for the PNMR 2016 Two-Year Term Loan Agreement, 2.61% for the PNM 2017 Term Loan Agreement, 2.64% for the TNMP Revolving Credit Facility, and 2.90% for the PNMR Development Revolving Credit Facility. The Company is exposed to interest rate risk to the extent of future increases in variable interest rates. However, as discussed in Note 9, PNMR has entered into hedging arrangements to effectively establish fixed interest rates on $150.0 million of variable rate debt.

The investments held by PNM in trusts for decommissioning and reclamation had an estimated fair value of $324.0 million at March 31, 2018, of which 56.9% were fixed-rate debt securities that subject PNM to risk of loss of fair value with increases in market interest rates. If interest rates were to increase by 50 basis points from their levels at

March 31, 2018, the decrease in the fair value of the fixed-rate securities would be 3.0%, or $5.5 million.

PNM does not directly recover or return through rates any losses or gains on the securities, including equity investments discussed below, in the trusts for decommissioning and reclamation. However, the overall performance of these trusts does enter into the periodic determinations of expense and funding levels, which are factored into the rate making process to the extent applicable to regulated operations. However, as described in Note 12, the NMPRC has ruled that PNM would not be able to include future contributions made by PNM for decommissioning of PVNGS, to the extent applicable to certain capacity previously leased by PNM, in rates charged to retail customers. PNM has appealed the NMPRC's ruling to the NM Supreme Court. PNM is at risk for shortfalls in funding of obligations due to investment losses, including those from the equity market risks discussed below to the extent not ultimately recovered through rates charged to customers.

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Equity Market Risk

The investments held by PNM in trusts for decommissioning and reclamation include certain equity securities at March 31, 2018. These equity securities expose PNM to losses in fair value should the market values of the underlying securities decline. Equity securities comprised 36.1% of the securities held by the trusts as of March 31, 2018. A hypothetical 10% decrease in equity prices would reduce the fair values of these funds by $11.7 million.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of the end of the period covered by this quarterly report, each of PNMR, PNM, and TNMP conducted an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer of each of PNMR, PNM, and TNMP concluded that the disclosure controls and procedures are effective.

Changes in internal controls over financial reporting

There have been no changes in each of PNMR's, PNM's, and TNMP's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the quarter ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, each of PNMR's, PNM's, and TNMP's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Notes 11 and 12 for information related to the following matters, for PNMR, PNM, and TNMP, incorporated in this item by reference.
Note 11

- The Clean Air Act – Regional Haze – SJGS
- The Clean Air Act – Regional Haze – Four Corners – Four Corners Federal Agency Lawsuit
- Navajo Nation Environmental Issues
- Santa Fe Generating Station
- Coal Supply – Four Corners – Four Corners Coal Supply Arbitration
- Continuous Highwall Mining Royalty Rate
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Rights-of-Way Matter
- Navajo Nations Allottee Matters
- Sales Tax Audits

Note 12

- PNM – New Mexico General Rate Cases
- PNM – Renewable Portfolio Standard
- PNM – Energy Efficiency and Load Management

- PNM – FPPAC Continuation Application
- PNM – Integrated Resource Plans
- PNM – San Juan Generating Station Unit 1 Outage
- TNMP – Order Related to Changes in Federal Income Tax Rates

ITEM 1A. RISK FACTORS

As of the date of this report, there have been no material changes with regard to the Risk Factors disclosed in PNMR's, PNM's, and TNMP's Annual Reports on Form 10-K for the year ended December 31, 2017.

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ITEM 6. EXHIBITS

3.1	PNMR	Articles of Incorporation of PNMR, as amended to date (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed November 21, 2008)
3.2	PNM	Restated Articles of Incorporation of PNM, as amended through May 31, 2002 (incorporated by reference to Exhibit 3.1.1 to PNM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002)
3.3	TNMP	Articles of Incorporation of TNMP, as amended through July 7, 2005 (incorporated by reference to Exhibit 3.1.2 to TNMP's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005)
3.4	PNMR	Bylaws of PNMR, with all amendments to and including October 24, 2017 (incorporated by reference to Exhibit 3.1 to PNMR's Current Report on Form 8-K filed October 25, 2017)
3.5	PNM	Bylaws of PNM, with all amendments to and including May 31, 2002 (incorporated by reference to Exhibit 3.1.2 to PNM's Report on Form 10-Q for the fiscal quarter ended June 30, 2002)
3.6	TNMP	Bylaws of TNMP, with all amendments to and including June 18, 2013 (incorporated by reference to Exhibit 3.6 to TNMP's Current Report on Form 8-K filed June 20, 2013)
10.1	PNMR	2018 Officer Annual Incentive Plan dated March 28, 2018
10.2	PNMR	2018 Long-Term Incentive Plan dated March 28, 2018
10.3	PNMR	Third Amendment to PNMR Executive Spending Account Plan effective February 22, 2018 (changing the name of the plan to Executive Choice Account Plan)
12.1	PNMR	Ratio of Earnings to Fixed Charges
12.2	PNM	Ratio of Earnings to Fixed Charges
12.3	TNMP	Ratio of Earnings to Fixed Charges
31.1	PNMR	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	PNMR	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	PNM	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.4	PNM	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.5	TNMP	Chief Executive Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.6	TNMP	Chief Financial Officer Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	PNMR	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	PNM	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	TNMP	Chief Executive Officer and Chief Financial Officer Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	PNMR, PNM, and TNMP	XBRL Instance Document
101.SCH	PNMR, PNM, and TNMP	XBRL Taxonomy Extension Schema Document
101.CAL	PNMR, PNM, and TNMP	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	PNMR, PNM, and TNMP	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	PNMR, PNM, and TNMP	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	PNMR, PNM, and TNMP	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

PNM RESOURCES, INC.
PUBLIC SERVICE COMPANY OF NEW MEXICO
TEXAS-NEW MEXICO POWER COMPANY
(Registrants)

Date: April 30, 2018 /s/ Joseph D. Tarry
Joseph D. Tarry
Vice President, Finance and Controller
(Officer duly authorized to sign this report)