Risk Factors Comparison 2024-02-29 to 2023-02-28 Form: 10-K

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The business and financial results of PNMR, PNM, and TNMP are subject to a number of risks and uncertainties, many of which are beyond their control, including those set forth below and in MD & A, Note 16, and Note 17. For other factors that may cause actual results to differ materially from those indicated in any forward- looking statement contained in this report, see Disclosure Regarding Forward Looking Statements in Item 1. Business. TNMP provides transmission and distribution services to REPs that provide electric service to consumers in TNMP' s service territories. References to customers in the risk factors discussed below also encompass the customers of these REPs who are the ultimate consumers of electricity transmitted and distributed through TNMP' s facilities. Regulatory Risks The profitability of PNMR' s utilities depends on being able to recover their costs through regulated rates and earn a fair return on invested capital, including investments in its generating plants. Without timely cost recovery, including recovery of undepreciated investments ~~and other costs associated with abandoning generation facilities,~~ and the opportunity to earn a fair return on capital investments, PNMR' s liquidity and results of operations could be negatively impacted. Further, PNM and TNMP are in a period of significant capital expenditures. While increased capital investments, higher interest rates, and other costs are placing upward pressure on rates charged to customers, energy efficiency initiatives and other factors are placing downward pressure on customer usage. The combination of these matters could adversely affect the Company' s results of operations and cash flows. The rates PNM charges its customers are regulated by the NMPRC and FERC. TNMP is regulated by the PUCT. The Company is in a period requiring significant capital investment and is projecting total construction expenditures for the years ~~2023~~ **2024** - ~~2027~~ **2028** to be $ ~~4.~~ 6 **. 1** billion. PNM and TNMP anticipate a trend toward increasing costs, for which they will have to seek regulatory recovery. These costs include **,** or are related to **,** costs of asset construction for generation, transmission, and distribution systems necessary to provide electric service, as well as the cost to remove and retire existing assets, environmental compliance expenditures, regulatory mandates to acquire power from renewable resources, regulation related to nuclear safety, increased costs related to cybersecurity, increased interest costs to finance capital investments, and depreciation **. If the NMPRC does not authorize appropriate recovery of any of the costs discussed above, including undepreciated generating resources at the A- 12time those resources are removed from service and fails to authorize recovery of the costs of obtaining power to replace those resources, PNM' s financial position, results of operations, and cash flows could be negatively impacted** . At the same time costs are increasing, there are factors placing downward pressure on the demand for power, thereby reducing customer usage. These factors include changing customer behaviors, including increased emphasis on energy efficiency measures and utilization of alternative sources of power, rate design that is not driven by economics, which could influence customer behavior, unfavorable economic conditions, reduced new sources of demand, and unpredictable weather patterns. ~~A- 12The~~ -- **The** combination of costs increasing relatively rapidly and the technologies and behaviors that are reducing energy consumption places upward pressure on the per unit prices that must be charged to recover costs. This upward pressure on unit prices could result in additional efforts by customers to reduce consumption through alternative measures. Without timely cost recovery and the authorization to earn a reasonable return on invested capital, the Company' s liquidity and results of operations could be negatively impacted. ~~On January 8, 2021, PNM filed the Four Corners Abandonment Application, which seeks NMPRC approval to exit PNM' s 13 % share of Four Corners as of December 31, 2024, and issuance of approximately $ 300 million of energy transition bonds as provided by the ETA. On December 15, 2021, the NMPRC issued a final order denying approval of the Four Corners Abandonment Application and the corresponding request for issuance of securitized financing. On December 22, 2021, PNM filed a Notice of Appeal with the NM Supreme Court of the NMPRC decision to deny the application. See additional discussion of the ETA and PNM' s Four Corners Abandonment Application in Notes 16 and 17. On April 2, 2021, PNM filed an application with the NMPRC requesting approval for the decertification and abandonment of 114 MW of leased PVNGS capacity, sale and transfer of related assets, and approval to procure new resources (" PVNGS Leased Interest Abandonment Application "). On August 25, 2021, the NMPRC issued an order granting dismissal of PNM' s requests for approval to abandon and decertify the Leased Interest; dismissal of PNM' s request for approval to sell and transfer the related assets; and dismissal of PNM' s request to create regulatory assets for the associated remaining undepreciated investments, but does not preclude PNM seeking recovery of the costs in a general rate case. On November 18, 2022, the NMPRC issued an accounting order requiring PNM to establish a regulatory liability to track and account for, upon termination of the PVNGS leases, all costs currently borne by ratepayers associated with those leases during pendency of the 2024 Rate Change, subject to a determination of ratemaking treatment. In addition, PNM may establish a regulatory asset account to record undepreciated investment for improvements to the Unit 1 and Unit 2 Leased Interests upon termination of the leases, and to record differences in the proceeds from SRP for the sale of the PVNGS Leased Assets and the actual book value for which recovery of these costs will be determined in the 2024 Rate Change. In the 2024 Rate Change, PNM must also address unresolved issues including whether PNM' s decision to renew the five leases and repurchase 64. 1 MW of PVNGS Unit 2 capacity exposed ratepayers to additional financial liability beyond that to which they would otherwise have been exposed, and whether PNM should be denied recovery of future decommissioning expenses as a remedy for imprudence. PNM is unable to predict the outcome of this matter. See additional discussion of PNM' s PVNGS Leased Interest Abandonment Application in Note 17. An adverse decision regarding PNM' s ability to recover certain PVNGS decommissioning costs and recovery of undepreciated investments at PVNGS and Four Corners, could negatively impact PNM' s financial position, results of operations, and cash flows. Likewise, if the NMPRC does not authorize appropriate recovery of any undepreciated generating resources at the time those resources~~

~~cease to be used to provide service to New Mexico ratepayers, including required future investments, and does not authorize recovery of the costs of obtaining power to replace those resources, PNM' s financial position, results of operations, and cash flows could be negatively impacted. The inability to operate generation resources prior to their planned retirement dates, or the NMPRC' s denial, modification or delay of PNM' s applications for replacement resources, would require PNM to obtain power from other sources in order to serve the needs of its customers. There can be no assurance the NMPRC will allow PNM to recover undepreciated investments in retired facilities through rates charged to customers, that adequate sources of replacement power would be available, that adequate transmission capabilities would be available to bring that power into PNM' s service territory, or whether the cost of obtaining those resources would be economical. Any such events would negatively impact PNM' s financial position, results of operations, and cash flows unless the NMPRC authorized the collection from customers of any un- recovered costs related to the retired facilities, as well as costs of obtaining replacement power. It is also possible that unsatisfactory outcomes of these matters, the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of certain generating facilities or the ability or willingness of individual participants to continue their participation through the periods currently contemplated in the agreements governing those facilities.~~ In December 2022, PNM filed the 2024 Rate Change that ~~include~~ **included** investments in transmission and distribution infrastructure for the six years between 2019 through 2024 as primary drivers of PNM' s identified revenue deficiency and a request for an ROE of 10. 25 %. The revenue deficiency is largely offset by cost reductions resulting from PNM' s transition to lower- cost, clean generation resources. ~~An~~ **On January 3, 2024, the NMPRC issued a final order increasing non- fuel rates by a fraction of what was requested in the application and approving an ROE of 9. 26 %. The final order also provided for specific disallowances of PNM' s undepreciated investments in Four Corners and PVNGS. This** adverse outcome in the 2024 Rate Change could negatively impact PNM' s financial position, results of operation, and cash flows. See Note 17. ~~PNM~~ **It is also possible that unsatisfactory outcomes of these matters, the financial impact of climate change regulation or legislation, other environmental regulations, the result of litigation, the adequacy and timeliness of cost recovery mechanisms, and other business considerations, could jeopardize the economic viability of certain generating facilities or the ability or willingness of individual participants to continue their participation through the periods** currently ~~recovers~~ **contemplated in the agreements governing** ~~the~~ **those** ~~cost of fuel for its generation~~ facilities ~~through its FPPAC. In December 2013, a new fifteen- year coal supply contract for Four Corners beginning in July 2016 was executed. The Four Corners contract provides for pricing adjustments over its terms based on economic indices. PNM will be relieved of its obligations under the coal supply agreement after December 31, 2024, pending a successful appeal at the NM Supreme Court of its Four Corners Abandonment A- 13 Application discussed in Note 17. Although PNM believes substantially all costs under the coal supply arrangement would continue to be recovered through the FPPAC, there can be no assurance that full recovery will continue to be allowed~~ . PNMR has counterparty credit risk in connection with financial support that was provided to facilitate the coal supply arrangement for SJGS. Adverse developments from these factors could have a negative impact on the business, financial condition, results of operations, and cash flows of PNM and PNMR. PNMR has an arrangement with a bank under which the bank has issued $ 30. 3 million of letters of credit in favor of sureties in order for the sureties to post reclamation bonds that are required under the miner' s operating permit. The Company' s financial position, results of operations, and cash flows could be negatively impacted if the current mine operator were to default on its obligations to reclaim the San Juan mine and PNMR is required to perform under the letter of credit support agreement. PNMR' s utilities are subject to numerous comprehensive federal, state, tribal, and local environmental laws and regulations, including those related to climate change as well as increased stakeholder actions related to ESG matters and reducing GHG, which may impose significant compliance costs and may significantly limit or affect their operations and financial results. Compliance with federal, state, tribal, and local environmental laws and regulations, including those addressing climate change, air quality, CCRs, discharges of wastewater originating from fly ash and bottom ash handling facilities, cooling water, ESG matters, GHG emissions, and other matters, may result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emission control obligations. These costs could include remediation, containment, civil liability, and monitoring expenses. The Company cannot predict how it would be affected if existing environmental laws and regulations were to be repealed, revised, or reinterpreted, or if new environmental laws or regulations were to be adopted. See Note 16 and the Climate Change Issues subsection of the Other Issues Facing the Company section of MD & A. The utility industry is facing increasing stakeholder scrutiny related to ESG matters. Recently, PNMR has seen a rise in certain stakeholders, such as investors, customers, employees, and lenders, placing increasing importance on the impact and social cost associated with climate change. Federal GHG reduction measures setting emission guidelines remain in a state of uncertainty. Therefore, PNMR is dealing with an uncertain regulatory and policy environment and increased scrutiny and changing stakeholder expectations with respect to environmental and climate change programs, judicial decisions, and international accords. Under the Biden Administration, EPA and other federal agencies ~~will seek~~ **have sought** to expand climate change regulations and work to aggressively reduce GHG emissions. Many state agencies, environmental advocacy groups, and other organizations will continue to focus on decarbonization with enhanced attention on GHG from fossil- fueled generation facilities. See discussion above and Note 17, regarding PNM' s abandonment applications and the ETA. PNM currently depends on fossil- fueled generation for ~~45~~ **43** . ~~1~~ **3** % of its electricity. As discussed under Climate Change Issues, this type of generation could be subject to future EPA or state regulations requiring GHG reductions. The anticipated expansion of federal and state regulations could result in additional operating restrictions on facilities and increased generation and compliance costs. **A- 13** CCRs from the operation of SJGS were used in the reclamation of a surface coal mine. These CCRs consist of fly ash, bottom ash, and gypsum. Any new regulation that would affect the reclamation process, including any future decision regarding classification of CCRs as hazardous waste, could significantly increase the costs of the disposal of CCRs and the costs of mine reclamation. In addition, PNM would incur additional costs to the extent the rule requires the closure or modification of CCR units at Four Corners or the construction of new CCR units beyond those already anticipated or requires corrective action to address releases from CCR disposal units at the site. See Note 16. A regulatory body may identify a site requiring environmental cleanup, including cleanup related to catastrophic events such as hurricanes or wildfires, and designate PNM or TNMP as a responsible party. There is also uncertainty in quantifying exposure under environmental laws that impose joint and several liability on all potentially responsible parties. Failure to comply with environmental laws and regulations, even if such non- compliance is caused by factors beyond PNM' s or TNMP' s control, may result in the assessment of civil or criminal penalties and fines. In the first round of the CAA regional haze program, BART determinations were made for both SJGS and Four Corners, requiring the facilities to reduce the levels of visibility- impairing emissions, including NOx, through the installation of control technology, resulting in operating cost increases. **Deadlines for** SIPs for the second planning period were ~~due~~ in July 2021 ~~,~~ which ~~deadline~~ NMED was unable to meet. NMED is currently preparing its next regional haze SIP and ~~has~~ notified PNM that it will not be required to submit a regional haze four- factor analysis for SJGS since PNM retired its share of SJGS in 2022. **In February 2024, EPA proposed to impose a federal implementation plan on New Mexico to address the interstate transport of ozone and its precursors, referred to by EPA as the " good neighbor " rule. If finalized as proposed, compliance with the rule would require specified fossil fuel- fired generating resources to participate in an ozone- season NOx emission allowance trading program that will limit total NOx emissions from all affected units within the state of New Mexico.** If PNM fails to timely obtain, maintain or comply with any required environmental regulatory approval, operations at affected facilities could be suspended or could subject PNM to additional expenses and potential penalties. Failure to comply with applicable environmental laws and regulations also could result in civil liability arising out of government enforcement actions or private claims. ~~PNMR may suffer~~ **Environmental noncompliance could also result in** reputational harm, which may cause ~~its~~ stock price ~~to decrease~~ **decreases** or cause certain investors and financial institutions not to purchase the Company' s debt securities or otherwise provide the Company with ~~A- 14~~ capital or credit on favorable terms, which may cause the cost of capital to increase. In addition, PNMR and its operating subsidiaries may underestimate the costs of environmental compliance, liabilities, and litigation due to the uncertainty inherent in these matters. Although there is uncertainty about the timing and form of the implementation of EPA' s regulations regarding **GHG emissions,** climate change, CCRs, power plant emissions, changes to the ambient air quality standards, and other environmental issues, the promulgation and implementation of such regulations could have a material impact on operations. The Company is unable to estimate these costs due to the many uncertainties associated with, among other things, the nature and extent of future regulations and changes in existing regulations, including the changes in regulatory policy under the Biden Administration. Timely regulatory recovery of costs associated with any environmental- related regulations would be needed to maintain a strong financial and operational profile. The above factors could adversely affect the Company' s business, financial position, results of operations, and liquidity. PNMR, PNM, and TNMP are subject to complex government regulation unrelated to the environment, which may have a negative impact on their businesses, financial position and results of operations. To operate their businesses, PNMR, PNM, and TNMP are required to have numerous permits and approvals from a variety of regulatory agencies. Regulatory bodies with jurisdiction over the utilities include the NMPRC, NMED, PUCT, TCEQ, ERCOT, FERC, NRC, EPA, and NERC. Oversight by these agencies covers many aspects of the Company' s utility operations including, but not limited to: location, construction, and operation of facilities; the purchase of power under long- term contracts; conditions of service; the issuance of securities; and rates charged to customers. FERC has issued a number of rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. The significant level of regulation imposes restrictions on the operations of the Company and causes the incurrence of substantial compliance costs. PNMR and its subsidiaries are unable to predict the impact on their business and operating results from future actions of any agency regulating the Company. Changes in existing regulations or the adoption of new ones could result in additional expenses and / or changes in business operations. Failure to comply with any applicable rules, regulations or decisions may lead to customer refunds, fines, penalties, and other payments, which could materially and adversely affect the results of operations and financial condition of PNMR and its subsidiaries. **A- 14** Operational Risks Customer electricity usage could be reduced by increases in prices charged and other factors. This could result in underutilization of PNM' s generating capacity, as well as underutilization of the capacities of PNM' s and TNMP' s transmission and distribution systems. Should this occur, operating and capital costs might not be fully recovered, and financial performance could be negatively impacted. A number of factors influence customers' electricity usage. These factors include but are not limited to rates charged by PNM and TNMP, rates charged by REPs utilizing TNMP' s facilities to deliver power, energy efficiency initiatives, unusual weather patterns, availability and cost of alternative sources of power, and national, regional, or local economic conditions. These factors and others may prompt customers to institute additional energy efficiency measures or take other actions that would result in lower energy consumption. If customers bypass or underutilize PNM' s and TNMP' s facilities through self- generation, renewable, or other energy resources, technological change, or other measures, revenues would be negatively impacted. PNM' s and TNMP' s service territories include several military bases and federally funded national laboratories, as well as large industrial customers that have significant direct and indirect impacts on the local economies where they operate. The Company does not directly provide service to any of the military bases or national laboratories but does provide service to large industrial customers. The Company' s business could be hurt from the impacts on the local economies associated with these customer groups as well as directly from the large industrial customers for a number of reasons including federally- mandated base closures, significant curtailment of the activities at the bases or national laboratories, and closure of industrial facilities or significant curtailment of their activities. Another factor that could negatively impact the Company is that proposals are periodically advanced in various localities to municipalize, or otherwise take over PNM' s facilities, which PNM believes would require state legislative or other legal action to implement, or to establish new municipal utilities in areas currently served by PNM. If any such initiative is successful, the result could be a material reduction in the usage of the facilities, a reduction in rate base, and reduced earnings. Should any of the above factors result in facilities being underutilized, the Company' s financial position, results of operations, and cash flows could be significantly impacted. Advances in technology could make electric generating facilities less competitive. Research and development activities are ongoing for new technologies that produce power or reduce power consumption. These technologies include renewable energy, customer- oriented generation, energy storage, and energy efficiency. PNM generates power at central station power plants to achieve economies of scale and produce power at a cost that ~~A- 15~~ is competitive with rates established through the regulatory process. There are distributed generation technologies that produce power, including fuel cells, microturbines, wind turbines, and solar cells, which have become increasingly cost competitive. These advances in technology have reduced the costs of these alternative methods of producing power to a level that is competitive with that of central station power production. In addition, advances made in the capabilities of energy storage have further decreased power production and peak usage through the dispatch of more battery systems. These technological advances have resulted in demand reduction that negatively impact revenue and / or result in underutilized assets that have been built to serve peak usage. In addition, certain federal, state, or local requirements that regulated utilities such as PNM are required to follow could result in third parties being able to provide electricity from similar generation technologies to consumers at prices lower than PNM is able to offer. As these technologies become more cost competitive or can be used by third- parties to supply power at lower prices than PNM is able to offer, PNM' s energy sales and / or regulated returns could be eroded, and the value of its generating facilities could be reduced. Advances in technology could also change the channels through which electric customers purchase or use power, which could reduce the Company' s sales and revenues or increase expenses. These advances can also create more uncertainty in load shapes and forecasts, which could have implications for generation and system planning. Costs of decommissioning, remediation, and restoration of nuclear and fossil- fueled power plants, as well as reclamation of related coal mines, could exceed the estimates of PNMR and PNM as well as the amounts PNM recovers from its ratepayers, which could negatively impact results of operations and liquidity. PNM has interests in a nuclear power plant, two coal- fired power plants, and several natural gas- fired power plants and is obligated to pay its share of the costs to decommission these facilities. PNM is also obligated to pay for its share of the costs of reclamation of the mines that supply coal to the coal- fired power plants. Likewise, other owners or participants are responsible for their shares of the decommissioning and reclamation obligations and it is important to PNM that those parties fulfill their obligations. Rates charged by PNM to its customers, as approved by the NMPRC, include a provision for recovery of certain costs of decommissioning, remediation, reclamation, and restoration. The NMPRC has established a cap on the amount of costs for the final reclamation of the surface coal mines that may be recovered from customers. PNM records estimated liabilities for its share of the legal obligations for decommissioning and reclamation. These estimates include many **A- 15** assumptions about future events and are inherently imprecise. In the event the costs to decommission the facilities or to reclaim the mines serving the plants exceed current estimates, or if amounts are not approved for recovery by the NMPRC, results of operations could be negatively impacted. The costs of decommissioning any nuclear power plant are substantial. PNM is responsible for all decommissioning obligations related to its entire interest in PVNGS, including portions under lease both during and after termination of the leases. PNM maintains trust funds designed to provide adequate financial resources for decommissioning PVNGS and SJGS, and for reclamation of the coal mine that served SJGS and continue to serve Four Corners at the end of their expected lives. However, if the PVNGS units are decommissioned before their planned date or the coal mine serving Four Corners is shut down sooner than expected, these funds may prove to be insufficient. The financial performance of PNMR, PNM, and TNMP may be adversely affected if power plants, other generation resources, and transmission and distribution systems do not operate reliably and efficiently. The Company' s financial performance depends on the successful operation of PNM' s generation assets, as well as the transmission and distribution systems of PNM and TNMP. PNM' s ~~recent~~ retirement of SJGS and the ~~abandonment application for~~ **potential retirement of** Four Corners will increase PNM' s dependency on other generation resources, including renewable resources, gas- fired facilities, and PVNGS, and will reduce PNM' s flexibility in managing those resources. Unscheduled or longer than expected maintenance outages, breakdown or failure of equipment or processes due to aging infrastructure, inability to install or operate renewable resources, temporary or permanent shutdowns to achieve environmental compliance, other performance problems with the generation assets, severe weather conditions, accidents and other catastrophic events, acts of war or terrorism, cybersecurity attacks, wildfires, disruptions in the supply, quality, and delivery of fuel and water supplies, and other factors could result in PNM' s load requirements being larger than available system generation capacity. Unplanned outages of generating units and extensions of scheduled outages occur from time to time and are an inherent risk of the Company' s business. If these were to occur, PNM would be required to purchase electricity in either the wholesale market or spot market at the then- current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or available at all. The failure of transmission or distribution facilities may also affect PNM' s and TNMP' s ability to deliver power. These potential generation, distribution, and transmission problems, and any service interruptions related to them, could result in lost revenues and additional costs. PNMR, PNM, and TNMP are subject to information security breaches and risks of unauthorized access to their information and operational technology systems as well as physical threats to assets. The Company faces the risk of physical and cybersecurity attacks, both threatened and actual, against generation facilities, transmission and distribution infrastructure, information technology systems, and network infrastructure, which could negatively impact the ability of the Company to generate, transport, and deliver power, or otherwise operate facilities in the most efficient manner or at all. ~~A- 16~~ The utility industry in which the Company operates is a highly regulated industry that requires the continued operation of sophisticated information technology systems and network infrastructure, some of which are deemed to be critical infrastructure under NERC guidelines. Certain of the Company' s systems are interconnected with external networks. In the regular course of business, the utilities handle a range of sensitive security and customer information. PNM and TNMP are subject to the rules of various agencies and the laws of various states, ~~concerning~~ **related to** safeguarding and maintaining the confidentiality of this information. Cyber- attacks regularly occur, and generally are unsuccessful. **To date,** ~~Those~~ **those** few events that ~~are~~ **were** successful ~~do~~ **did** not ~~generally~~ result in significant or consequential business impacts. However, despite steps the Company may take to detect, mitigate **,** and / or eliminate threats and respond to security incidents, the techniques used by those who wish to obtain unauthorized access, and possibly disable or sabotage systems and / or abscond with information and data, change frequently **and continue to evolve with the use of artificial intelligence** and the Company may not be able to protect against all such actions. In the event that a capable adversary attacks the Company' s computer and operating systems, despite the best efforts of the Company, the generation, transmission, or distribution of electrical services could be degraded or disrupted, customer information, business records, or other sensitive data could be lost, destroyed, or released outside of the Company' s control. Further, the Company' s use of technologies manufactured by third parties may be subject to espionage activities, and cyber- attack of the third party resulting in losses outside of the control of the Company. Although the Company has implemented security measures to identify, prevent, detect, respond to, and recover from cyber and physical security events and supply chain disruptions, critical infrastructure, including information and operational technology systems, are vulnerable to disability, failures, or unauthorized access, which could occur as a result of malicious compromise, employee error, and / or employee misconduct or supply compromise. A successful physical or cybersecurity attack or other similar failure of the systems could impact the reliability of PNM' s generation and PNM' s and TNMP' s transmission and distribution systems, including the possible unauthorized shutdown of facilities. Such an event could lead to disruptions of business operations, including the Company' s ability to generate, transport, and deliver power to serve customers, to bill customers, and to process other financial information. A breach of the Company' s information systems could also lead to the loss and destruction of confidential and proprietary data, personally identifiable information, trade secrets, intellectual property and supplier data, and could disrupt **A- 16** business operations which could harm the Company' s reputation and financial results, as well as potential increased regulatory oversight, litigation, fines, and other remedial action. The costs incurred to investigate and remediate a physical or cybersecurity attack could be significant. A significant physical or cybersecurity attack on the Company' s critical infrastructure could have an adverse impact on the operations, reputation and financial condition of PNMR, PNM, and TNMP. There are inherent risks in the ownership and operation of nuclear facilities. Following the transfer of the PVNGS Unit 1 Leased Interest to SRP in January 2023 **and the expiration of the leased interest in Unit 2 in January 2024** , PNM currently has a 7. ~~6~~ **3** % undivided interest in PVNGS ~~, including leased interest in Unit 2 still held until its expiration in January 2024~~ . PVNGS represented ~~15~~ **10** . ~~1~~ **7** % of PNM' s total generating capacity as of December 31, ~~2022~~ **2023** . PVNGS is subject to environmental, health, and financial risks including but not limited to the ability to obtain adequate supplies of nuclear fuel and water, the ability to dispose of spent nuclear fuel, decommissioning of the plant (see above), securing the facilities against possible terrorist attacks, and unscheduled outages due to equipment failures. The NRC has broad authority under federal law to impose licensing and safety- related requirements for the operation of nuclear generation facilities. Events at nuclear facilities of other operators or which impact the industry generally may lead the NRC to impose additional requirements and regulations on all nuclear generation facilities, including PVNGS. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit and to promulgate new regulations that could require significant capital expenditures and / or increase operating costs. In the event of noncompliance with its requirements, the NRC has the authority to impose a progressively increasing inspection regime that could ultimately result in the shutdown of a unit, civil penalties, or both, depending upon the NRC' s assessment of the severity of the situation, until compliance is achieved. Increased costs resulting from penalties, a heightened level of scrutiny, and / or implementation of plans to achieve compliance with NRC requirements could adversely affect the financial condition, results of operations, and cash flows of PNMR and PNM. Although PNM has no reason to anticipate a serious nuclear incident at PVNGS, if an incident did occur, it could materially and adversely affect PNM' s results of operations and financial condition. PNM has external insurance coverage to minimize its financial exposure to some risks. However, it is possible that liabilities associated with nuclear operations could exceed the amount of insurance coverage. See Note 16. Peak demand for power could exceed forecasted supply capacity, resulting in increased costs for purchasing capacity in the market or building additional generation facilities and / or battery storage facilities. PNM is obligated to supply power to retail customers. As PNM continues to complete the significant transition in generation resources necessary to achieve 100 % carbon emission- free generation by 2040, there are certain potential deliverability and cost risks associated with this transition. These risks are in three main areas, including 1) risk of completion ~~A- 17~~ of replacement resources prior to planned generation unit retirements, 2) increasing levels of renewable generation presenting risks of uncertainty and variability that will be further compounded as neighboring systems transition towards increasing levels of renewable resources, and 3) risks for mitigating possible resource volatility through a shrinking energy market. At peak times, power demand could exceed PNM' s forecasted available generation capacity, particularly if PNM' s power plants are not performing as anticipated and additional resources are not approved, or are not available, as PNM transitions its system to carbon emission- free generation and battery storage. Availability of this technology may create additional strain on the system by adding these additional resources without adequate storage. Additionally, further advances in the technology of renewable resources may need to occur in order to ensure that these resources meet carbon emission- free standards. Competitive market forces or adverse regulatory actions may require PNM to purchase capacity and energy from the market or build additional resources to meet customers' energy needs in an expedited manner. If that occurs, PNM may see opposition to recovery of these additional costs and could experience a lag between when costs are incurred and when regulators permit recovery in customers' rates. These situations could have negative impacts on results of operations and cash flows. ~~Throughout 2021 and 2022, PNM provided notices of delays and status updates to the NMPRC for the approved SJGS and PVNGS replacement resource projects.~~ As a result of ~~these~~ **construction** delays **, most of** the SJGS replacement resources were not available for the 2022 **and 2023** summer peak load ~~period~~ **periods** . If these delays continue, PNM ~~'~~ **’** s existing resources, including available reserves, may be insufficient for ~~2023~~ **2024** summer peak load reliability. ~~PNM has entered into agreements to purchase power from third parties~~

~~to minimize potential impacts to customers during the 2023 summer peak load period. However, prolonged~~ **Prolonged** delays in replacement resources for SJGS, PVNGS, availability of existing resources **,** and increased costs for purchasing capacity may negatively impact the results of operations and cash flows. See Note 17. **In** ~~On May 26, 2021, the NMPRC opened a docket initiating a rulemaking in order to streamline IRP proceedings and allow NMPRC oversight of utility resource procurement practices. On September 14,~~ 2022, the NMPRC adopted revisions to the IRP Rule **that** ~~. The final order revamps~~ - **revamp** and ~~modernizes~~ - **modernize** the planning process to accommodate increased stakeholder involvement. The IRP Rule establishes a collaborative facilitated process for a utility and stakeholders to agree on a statement of need for potential new or additional resources, as well as an action plan to guide procurement or development of resources to meet the stated need. Following acceptance of the statement of need and action plan, a utility will provide the NMPRC and intervenors drafts of the request for proposals (" RFP ") and a timeline for issuing, **A- 17** receiving, evaluating, and ranking bids. The NMPRC will then appoint an Independent Monitor (" IM ") to oversee the RFP process, which allows for parties and the IM to comment on the RFP consistency with the IRP, after which the utility issues the RFP. On ~~November 2, 2022, the NMPRC adopted an amended IRP Rule. On~~ December 2, 2022, PNM filed an appeal with the NM Supreme Court of the NMPRC' s final order which adopted revisions to the IRP Rule. See Note 17. The proposed oversight of the procurement process is likely to prevent a utility' s timely acquisition of necessary resources and may inhibit competitive procurement. Difficulties in obtaining permits and rights- of- way could negatively impact PNM' s results of operations. PNM' s ability to execute planned operational activities and projects may be inhibited by difficulties in obtaining permits and rights- of- way and other delays. Many of PNM' s transmission and distribution lines cross federal, state, and tribal lands. The Company can experience significant delays in obtaining approvals for new infrastructure, as well as renewals of existing rights- of- way and access for critical maintenance, including vegetation management on these lands. The environmental regulations governing siting and permitting on federal, state, and tribal lands are complex, involve multiple agencies, and include a public process. Any of these risk factors could result in higher costs, delays, or the inability to complete planned projects. General Economic and Weather Risks Changes in interest rates could adversely affect our business. Interest rates have increased and may continue to increase in the future. As a result, interest rates on future credit facilities and debt offerings could be higher than current levels, causing our financing costs to increase accordingly. In addition, because we use both fixed and variable rate debt, we are exposed to market risk due to the floating interest rates on our variable rate borrowings. Our results of operations, cash flows and financial position could be affected adversely by significant fluctuations in interest rates from current levels. ~~The supply~~ **Supply** chain **issues** ~~impacts of COVID- 19~~ , high inflation, actions by the Federal Reserve to address inflationary concerns ~~or~~ **and** other market conditions, geopolitical activity and the resulting impact on business and economic conditions could negatively affect the Company ~~'~~ **'** s business, results of operations, financial condition, cash flows, and the trading value of PNMR ~~'~~ **'** s common stock and the Company ~~'~~ **'** s debt securities. Continued supply chain issues ~~that~~ were initially experienced during ~~the COVID- 19 pandemic,~~ high inflation, actions by the Federal Reserve to address inflationary concerns or other market conditions, geopolitical activity and the resulting ~~A- 18~~ impact on the economy and financial markets could adversely affect the Company' s business, results of operations, financial condition, cash flows, and access to the capital markets. The Company provides critical electric services and has implemented business continuity and emergency response plans to continue to provide these services to its customers and to support the Company' s operations. The Company is also continuing to work with our suppliers to understand and mitigate the potential impacts to our supply chain and have taken steps to ensure the availability of critical components by increasing lead times and maintaining integrity of our systems. However, there is no assurance that the continued effects of these market conditions will not adversely impact our business, results of operations, financial condition, cash flows, ability to access the capital markets, and the trading value of the Company ~~'~~ **'** s common stock and debt securities. These effects could adversely impact the Company by: • reducing usage and / or demand for electricity by our customers in New Mexico and Texas; • causing delays and disruptions in the availability of and timely delivery of materials and components used in our operations; • causing delays and disruptions in the supply chain resulting in disruptions in the commercial operation dates of certain projects; • causing a deterioration in the credit quality of our counterparties, including power purchase agreement providers, contractors or retail customers, that could result in credit losses; • causing impairments of goodwill or long- lived assets and adversely impacting the Company' s ability to develop, construct and operate facilities; • impacting the Company' s ability to meet the requirements of the covenants in our existing credit facilities, including covenants regarding debt to capitalization; • causing a deterioration in our financial metrics or the business environment that impacts our credit ratings; • decreasing the value of our investment securities held in trusts for pension and other postretirement benefits, and for nuclear decommissioning, SJGS decommissioning, and coal mine reclamation, which could lead to increased funding requirements; • impacting our liquidity position and cost of and ability to access funds from financial institutions and capital markets; and • causing other unpredictable events. **A- 18** General economic conditions of the nation and / or specific areas can affect the Company' s customers and suppliers. Economic recession or downturn may result in decreased consumption by customers and increased bad debt expense, and could also negatively impact suppliers, all of which could negatively affect the Company. Economic activity in the service territories of PNMR subsidiaries is a key factor in their performance. Decreased economic activity can lead to declines in energy consumption, which could adversely affect future revenues, earnings, and growth. Higher unemployment rates, both in the Company' s service territories and nationwide, could result in commercial customers ceasing operations and lower levels of income for residential customers. These customers might then be unable to pay their bills on time, which could increase bad debt expense and negatively impact results of operations and cash flows. Economic conditions also impact the supply and / or cost of commodities and materials needed to construct or acquire utility assets or make necessary repairs. The operating results of PNMR and its operating subsidiaries are seasonal and are affected by weather conditions ~~, including regional drought~~ . Electric generation, transmission, and distribution are generally seasonal businesses that vary with the demand for power. With power consumption typically peaking during the hot summer months, revenues traditionally peak during that period. As a result, quarterly operating results of

PNMR and its operating subsidiaries vary throughout the year. In addition, PNMR and its operating subsidiaries have historically had lower revenues resulting in lower earnings when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net earnings, and cash flows of the Company. Drought conditions in New Mexico, especially in the " four corners " region, where Four Corners is located, may affect the water supply for PNM' s generating plants. If inadequate precipitation occurs in the watershed that supplies that region, PNM may have to decrease generation at these plants. This would require PNM to purchase power to serve customers and / or reduce the ability to sell excess power on the wholesale market and reduce revenues. Drought conditions or actions taken by the court system, regulators, or legislators could limit PNM' s supply of water, which would adversely impact PNM' s business. TNMP' s service areas are exposed to extreme weather, including high winds, drought, flooding, ice storms, and periodic hurricanes. Extreme weather conditions, particularly high winds and severe thunderstorms, also occur periodically in PNM' s service areas. These severe weather events can physically damage facilities owned by TNMP and PNM. Any such occurrence both disrupts the ability to deliver energy and increases costs. Extreme weather can also reduce customers' usage and demand for energy or could result in the Company incurring obligations to third parties related to such events. These factors could negatively impact results of operations and cash flows. ~~A- 19 As discussed in Note 16, in February 2021, Texas experienced a severe winter storm delivering the coldest temperatures in 100 years for many parts of the state. ERCOT declared its highest state of emergency, an Emergency Energy Alert Level 3, due to exceptionally high electric demand exceeding supply amid the arctic temperatures. Ultimately, the ERCOT market was not able to deliver sufficient generation load to the grid resulting in significant, statewide outages as ERCOT directed transmission operators to curtail thousands of firm load megawatts. In response to the severe winter weather, the Governor of Texas issued a Declaration of a State of Disaster for all counties in Texas. Additionally, to assist in the recovery from the emergency conditions, the PUCT issued an order that placed a temporary moratorium on customer disconnections due to non- payment for transmission and distribution utilities that ended in June 2021. Consequently, the duration of the severe winter storm and high energy costs posed a financial hardship to REPs in the ERCOT region. The Texas Attorney General issued civil investigation demands to ERCOT and 11 power companies in Texas related to power outages, emergency plans, energy pricing and other factors associated with the severe weather storm. While TNMP has regulatory authorization to defer bad debt expense from REPs to a regulatory asset and seek recovery in a future general rate case, it intends to fully cooperate with all regulatory directives and inquiries made by the PUCT, the Texas Attorney General, and any other regulatory agencies. Various market participants, including TNMP, have been named as defendants in lawsuits relating to the February 2021 winter weather power outages. As a transmission and distribution utility operating during that weather event, TNMP could be named in additional suits.~~ The impact of wildfires could negatively affect PNM' s and TNMP' s results of operations. PNM and TNMP have large networks of electric transmission and distribution facilities. Weather conditions **including severe drought, high winds, and the natural desert vegetation** in the U. S. Southwest region and Texas ~~vary and~~ could contribute to wildfires in or near PNM' s and TNMP' s service territories. PNM and TNMP take proactive steps to mitigate wildfire risk. However, wildfire risk is always present and PNM and TNMP could be held liable for damages incurred as a result of wildfires caused, or allegedly caused, by their transmission and distribution systems. In addition, wildfires could cause damage to PNM' s and TNMP' s assets that could result in loss of service to customers or make it difficult to supply power in sufficient quantities to meet customer needs. These events could have negative impacts on the Company' s financial position, results of operations, and cash flows ~~. Risks Relating to the Proposed Merger with Avangrid There is no assurance when or if the proposed Merger will be completed. Completion of the proposed Merger is subject to the satisfaction or waiver of a number of conditions as set forth in the Merger Agreement, including regulatory approval and other customary closing conditions. There can be no assurance that the conditions to completion of the proposed Merger will be satisfied or waived or that other events will not intervene to delay or result in the failure to close the proposed Merger. In particular, as discussed in more detail below, the NMPRC issued a negative ruling on the merger in December 2021 and in January 2022 PNMR filed a notice of appeal with the New Mexico Supreme Court. At this time PNMR and Avangrid amended the Merger Agreement to extend the End Date to April 20, 2023. It is not possible at this time to predict if or when the merger will receive the required approval from the NMPRC. In addition, each of Avangrid and PNMR may unilaterally terminate the Merger Agreement under certain circumstances, and Avangrid and PNMR may agree at any time to terminate the Merger Agreement, even though PNMR shareholders have already approved the Merger Agreement. Avangrid and PNMR may be unable to obtain the regulatory approvals required to complete the proposed Merger. In addition to other conditions set forth in the Merger Agreement, completion of the proposed Merger is conditioned upon the receipt of various state and U. S. federal regulatory approvals, including, but not limited to, approval by NMPRC, PUCT, FERC, NRC and the FCC. Avangrid and PNMR have made various filings and submissions and will pursue all required consents, orders and approvals in accordance with the Merger Agreement. In March 2021, PNMR and Avangrid received FCC approval of the transfer of operating licenses related to the Merger. In April 2021, FERC issued an order authorizing the Merger. In May 2021, the PUCT issued an order authorizing the Merger and the NRC approved the Merger. On December 8, 2021 the NMPRC issued an order rejecting the amended stipulation reached by the parties, see Note 22. On January 3, 2022, PNMR and Avangrid filed a notice of appeal with the NM Supreme Court, and PNM filed its Statement of Issues with the NM Supreme Court on February 2, 2022. In light of the NMPRC December 8, 2021 ruling, on January 3, 2022, PNMR, Avangrid and Merger Sub entered into an Amendment to the Merger Agreement pursuant to which PNMR and Avangrid each agreed to extend the End Date to April 20, 2023. As a result of the delay in closing the Merger due to the need to obtain NMPRC approval, PNMR and Avangrid will be required to make a new filing under the HSR Act and requested extensions of the previously granted approvals from the FCC and NRC. No additional filings will be required with CFIUS, FERC or the PUCT. These consents, orders and approvals may impose requirements, limitations or costs or place restrictions, and if such consents, orders and approvals require an extended period of time to be obtained, such extended period of time could increase the chance that an event occurs that constitutes a material adverse effect with respect to PNMR and thereby may allow Avangrid not to complete~~

~~the proposed Merger. Such extended period of time also may increase the chance that other adverse effects with respect to PNMR could occur, such as the loss of key personnel. Further, no assurance can be given that the required consents, orders and approvals will be obtained or that the required conditions to closing will be satisfied. A- 20 The announcement and pendency of the proposed Merger, during which PNMR is subject to certain operating restrictions, could have an adverse effect on PNMR' s businesses, results of operations, financial condition or cash flows and our ability to access the capital markets. The announcement and pendency of the proposed Merger could disrupt PNMR' s businesses, and uncertainty about the effect of the Merger may have an adverse effect on PNMR. These uncertainties could disrupt the business of PNMR and cause suppliers, vendors, partners and others that deal with PNMR to defer entering into contracts with PNMR or making other decisions concerning PNMR or seek to change or cancel existing business relationships with PNMR. In addition, PNMR' s employees may experience uncertainty regarding their roles after the Merger. For example, employees may depart either before the completion of the Merger because of such uncertainty and issues relating to the difficulty of coordination or a desire not to remain following the Merger; and the pendency of the Merger may adversely affect PNMR' s ability to retain, recruit and motivate key personnel. Additionally, the Merger requires PNMR to obtain Avangrid' s consent prior to taking certain specified actions while the Merger is pending. These restrictions may prevent PNMR from pursuing otherwise attractive business opportunities or other capital structure alternatives and making other changes to its business or executing certain of its business strategies prior to the completion of the Merger. Further, the Merger may impact our ability to access the capital markets and could give rise to potential liabilities, including as a result of future shareholder lawsuits relating to the Merger. Any of these matters could adversely affect the businesses of, or harm the results of operations, financial condition or cash flows of PNMR. PNMR will incur substantial transaction fees and costs in connection with the proposed Merger. PNMR has incurred and expects to incur additional material non- recurring expenses in connection with the proposed Merger and completion of the transactions contemplated by the Merger Agreement. Further, even if the proposed Merger is not completed, PNMR will need to continue to pay certain costs relating to the proposed Merger incurred prior to the date the proposed Merger was abandoned, such as legal, accounting, financial advisory, filing and printing fees. The termination of the Merger Agreement could negatively impact PNMR. If the Merger is not completed for any reason, the ongoing businesses of PNMR may be adversely affected and, without realizing any of the anticipated benefits of having completed the Merger, PNMR would be subject to a number of risks, including the following: • PNMR may experience negative reactions from the financial markets, including a decline of its stock price (which may reflect a market assumption that the Merger will be completed); • PNMR may experience negative reactions from its customers, regulators and employees; • PNMR may be required to pay certain costs relating to the Merger, whether or not the Merger is completed; and • Matters relating to the Merger will have required substantial commitments of time and resources by PNMR management, which would otherwise have been devoted to day- to- day operations and other opportunities that may have been beneficial to PNMR as an independent company. If the Merger Agreement is terminated and the Board seeks another merger, business combination or other transaction, PNMR shareholders cannot be certain that PNMR will be able to find a party willing to offer equivalent or more attractive consideration than the consideration PNMR shareholders would receive in the Merger. The Merger Agreement contains provisions that prevent a potential alternative acquirer that might be willing to pay more to acquire PNMR. The Merger Agreement contains customary " no shop " provisions which state that we will not solicit or facilitate proposals regarding a merger or similar transaction with another party while the Merger Agreement is in effect. These provisions prevent a potential third- party acquirer from considering or proposing an alternative acquisition, even if it were prepared to pay consideration with a higher value than that proposed to be paid in the Merger~~. Financial Risks PNMR may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay dividends or distributions to PNMR. PNMR is a holding company and has no operations of its own. PNMR' s ability to meet its financial obligations and to pay dividends on its common stock primarily depends on the net earnings and cash flows of PNM and TNMP and their capacity to pay upstream dividends or distributions. Prior to providing funds to PNMR, PNM and TNMP have financial and regulatory obligations that must be satisfied, including among others, debt service and, in the case of PNM, preferred stock dividends. The NMPRC has placed certain restrictions on the ability of PNM to pay dividends to PNMR, including that PNM cannot pay dividends that cause its debt rating to fall below investment grade. The NMPRC has also restricted PNM from paying dividends in any year, as determined on a rolling four- quarter basis, in excess of net earnings without prior NMPRC ~~A- 21~~ approval. PNM is permitted to pay dividends to PNMR from prior equity contributions made by PNMR. Additionally, PNMR' s financing agreements generally include a covenant to maintain a debt- to- capitalization ratio that does not exceed 70 %, and PNM and TNMP' s financing arrangements generally include a covenant to maintain debt- to- capitalization ratios that do not exceed 65 %. PNM also has various financial covenants that limit the transfer of assets, through dividends or other means and the Federal Power Act imposes certain restrictions on dividends paid by public utilities, including that dividends cannot be paid from paid- in capital. Further, the ability of PNMR to declare dividends depends upon the extent to which cash flows will support dividends, the Company' s financial circumstances and performance, economic conditions in the U. S. and in the Company' s service areas, **A- 19** future growth plans and the related capital requirements, and other business considerations. Declaration of dividends may also be affected by decisions of the NMPRC, FERC, and PUCT in various regulatory cases currently pending or that may be docketed in the future, including the outcome of appeals of those decisions, conditions imposed by the NMPRC, PUCT, or Federal Power Act, and the effect of federal regulatory decisions and legislative acts. Disruption in the credit and capital markets may impact the Company' s strategy and ability to raise capital. PNMR and its subsidiaries rely on access to both short- term and longer- term capital markets as sources of liquidity for any capital requirements not satisfied by cash flow from operations. In general, the Company relies on its short- term credit facilities as the initial source to finance construction expenditures. This results in increased borrowings under the facilities over time. The Company is currently projecting total construction expenditures for the years ~~2023~~ **2024** - ~~2027~~ **2028** to be $ ~~4.~~ 6 **. 1** billion. If PNMR or its operating subsidiaries are not able to access capital at competitive rates, or at all, PNMR' s ability to finance capital requirements and implement its strategy will be limited. Disruptions in the credit markets, which could negatively impact the Company' s access to capital, could be caused by an economic recession, declines in the health of the banking sector generally or the failure of specific banks who are parties to the Company' s credit facilities, deterioration in the overall health of the utility industry, the bankruptcy of an unrelated energy company, war, terrorist attacks, cybersecurity attacks, or threatened attacks. If the Company' s cash flow and credit and capital resources are insufficient to fund capital expenditure plans, the Company may be forced to delay important capital investments, sell assets, seek additional equity or debt capital, or restructure debt. In addition, insufficient cash flows and capital resources may result in reductions of credit ratings. This could negatively impact the Company' s ability to incur additional indebtedness on acceptable terms and would result in an increase in the interest rates applicable under the Company' s credit facilities. The Company' s cash flow and capital resources may be insufficient to pay interest and principal on debt in the future. If that should occur, the Company' s capital raising or debt restructuring measures may be unsuccessful or inadequate to meet scheduled debt service obligations. This could cause the Company to default on its obligations and further impair liquidity. Reduction in credit ratings or changing rating agency requirements could materially and adversely affect the Company' s growth, strategy, business, financial position, results of operations, and liquidity. PNMR, PNM, and TNMP cannot be sure that any of their current credit ratings will remain in effect for any given period of time or that a rating will not be put under review for a downgrade, lowered, or withdrawn entirely by a rating agency. As discussed in MD & A- Liquidity and Capital Resources, all of PNMR, PNM, and TNMP debt ratings are investments grade. Downgrades or changing requirements could result in increased borrowing costs due to higher interest rates on current borrowings or future financings, a smaller potential pool of investors, and decreased funding sources. Such conditions also could require the provision of additional support in the form of letters of credit and cash or other collateral to various counterparties. Declines in values of marketable securities held in trust funds for pension and other postretirement benefits, in the NDT and coal mine reclamation trusts, and in the SJGS decommissioning trust could result in sustained increases in costs and funding requirements for those obligations, which may affect operational results. The pension plans' targeted asset allocation is 50 % liability matching fixed and 50 % return generating income, which includes alternative income. The Company uses a strategy, known as Liability Driven Investing, which seeks to select investments that match the liabilities of the pension plans. The OPEB plans generally use the same pension fixed income and equity investment managers and utilize the same overall investment strategy as the pension plans, except there is no allocation to alternative investments and the OPEB plans have a target asset allocation of 30 % equities and 70 % fixed income. The NDT investment portfolio maintains a target of 80 % fixed income and 20 % equity securities. The current asset allocation exposes the NDT investment portfolio to market and macroeconomic factors. Declines in market values could result in increased funding of the trusts, the recognition of losses as impairments for the NDT and coal mine reclamation trusts, SJGS decommissioning trust, and additional expense for the benefit plans. In addition, a change in GAAP required that all changes in the fair value of equity securities recorded on the Company' s balance sheet be reflected in earnings, which results in increased volatility in earnings. ~~A- 22~~ Impairments of goodwill and long-lived assets of PNMR, PNM, and TNMP could adversely affect the Company' s business, financial position, liquidity, and results of operations. The Company annually evaluates recorded goodwill for impairment. See Note 1 and the Critical Accounting Policies and Estimates section of MD & A. Long- lived assets are also assessed whenever indicators of impairment exist. Factors that affect the long- term value of these assets, including treatment by regulators in ratemaking proceedings, as well as other economic and market conditions, could result in impairments. Significant impairments could adversely affect the Company' s business, financial position, liquidity, and results of operations. **A** ~~PNM' s PVNGS leases describe certain events, including " Events of Loss " and " Deemed Loss Events ", the occurrence of which could require PNM to take ownership of the underlying assets and pay the lessors for the assets. The " Events of Loss " generally relate to casualties, accidents, and other events at PVNGS, including the occurrence of specified nuclear events, which would severely adversely affect the ability of the operating agent, APS, to operate, and the ability of PNM to earn a return on its interests in PVNGS. The " Deemed Loss Events " consist primarily of legal and regulatory changes (such as issuance by the NRC of specified violation orders, changes in law making the sale and leaseback transactions illegal, or changes in law making the lessors liable for nuclear decommissioning obligations). PNM believes that the probability of such " Events of Loss " or " Deemed Loss Events " occurring is remote for the following reasons: (1) to a large extent, prevention of " Events of Loss " and some " Deemed Loss Events " is within the control of the PVNGS participants through the general PVNGS operational and safety oversight process; and (2) other " Deemed Loss Events " would involve a significant change in current law and policy. PNM is unaware of any proposals pending or being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events. Furthermore, the NRC places restrictions on the ownership of nuclear generating facilities. These restrictions could limit the transfer of ownership of the assets underlying all or a portion of its current leased interests in PVNGS. PNM and SRP entered into an Asset Purchase and Sale Agreement, pursuant to which PNM agreed to sell to SRP certain PNM-~~ **20** ~~owned assets and nuclear fuel necessary to the ongoing operation and maintenance of leased capacity in PVNGS Unit 1 and Unit 2, which SRP has agreed to acquire from the lessors upon termination of the existing leases. The proposed transaction between PNM and SRP has been approved by the NRC for the transfer of the associated possessory licenses at the end of the term of each of the respective leases. If the proposed transaction is not consummated, PNM may be required to retain all or a portion of its currently leased capacity in PVNGS or be exposed to other claims for damages by the lessors. See Note 8. If these events were to occur, there is no assurance PNM would be provided cost recovery from customers.~~ The impacts and implementation of U. S. tax reform legislation may negatively impact PNMR' s, PNM' s, and TNMP' s businesses, financial position, results of operations, and cash flows. Changes in tax laws may negatively impact PNMR' s, PNM' s, and TNMP' s businesses, financial position, results of operations, and cash flows. The Company possesses tax credits and other carryforwards, the value of which could be diminished by new laws or the Company' s ability to timely utilize them. Increases in tax rates may not be immediately recoverable through PNM' s and TNMP' s regulated rates, reducing earnings. Tax laws and regulations may also negatively impact the relative value of some resource investments over others, making those investments less competitive. Governance Risks Provisions of PNMR’ s organizational documents, as well as several other statutory and regulatory factors, will limit another party’ s ability to acquire PNMR and could deprive PNMR’ s shareholders of the opportunity to receive a takeover premium for shares of PNMR’ s common stock. PNMR’ s restated articles of incorporation and by- laws include a number of provisions that may have the effect of discouraging persons from acquiring large blocks of PNMR’ s common stock or delaying or preventing a change in control of PNMR. The material provisions that may have such an effect include: • Authorization for the Board to issue PNMR’ s preferred stock in series and to fix rights and preferences of the series (including, among other things, voting rights and preferences with respect to dividends and other matters) • Advance notice procedures with respect to any proposal other than those adopted or recommended by the Board • Provisions specifying that only a majority of the Board, the chairman of the Board, the chief executive officer, or holders of at least one- tenth of all of PNMR’ s shares entitled to vote may call a special meeting of shareholders Under the New Mexico Public Utility Act, NMPRC approval is required for certain transactions that may result in PNMR’ s change in control or exercise of control, including ownership of 10 % or more of PNMR’ s voting stock. PUCT approval is required for changes to the ownership of TNMP or its parent and certain other transactions relating to TNMP. Certain acquisitions of PNMR’ s outstanding voting securities also require FERC approval. ~~A-23~~