

**PNM RESOURCES, INC.  
BOARD OF DIRECTORS**

**STOCK OPTION GRANT POLICY**

**Approved: December 5, 2006  
(Amended: February 13, 2007)**

**BACKGROUND**

PNM Resources, Inc. (the "Company") has adopted the Omnibus Performance Equity Plan (the "PEP" or "Plan") by which it provides incentives for performance by granting stock options and other equity awards. Participants in the Plan are employees of the Company and its subsidiaries which have adopted the PEP, as well as the Company's non-employee directors. The Board Governance and Human Resources Committee (the "Committee") of the Board of Directors administers the PEP.

The purpose of this policy is to provide increased transparency in the Company's governance practices. This policy describes the Company's process and practices related to the awarding of equity compensation, including stock options. To ensure adherence to this policy, the Company's Audit Services Department will annually review the process and practices used by the Company in awarding equity compensation.

**POLICY**

1. Equity compensation awards shall be made only in compliance with the terms of the PEP and with applicable laws and regulations. The Senior Vice President and Chief Administrative Officer of the Company is charged with the responsibility of assuring equity compensation compliance.
2. The Board shall determine the amount of any award of equity compensation to non-employee directors. The date of award of any equity compensation to non-employee directors shall generally be the date of the Annual Meeting of Shareholders.
3. The Committee shall approve the award of equity compensation to officers. In doing so the Committee shall give due consideration to the recommendations of the CEO of the Company. In determining an award of equity compensation to the Company's CEO, the Committee shall solicit the input of the outside directors of the Company's Board, provided that the Committee shall have sole discretion to determine the award, if any, of equity compensation to the CEO.
4. The President of the Company shall propose to the Committee annually a pool of stock options to be made available for the award of options to non-officer employees with recommendations for the allocation of the pool among the eligible employees.
5. The Committee shall generally make any award of equity compensation to employees at its first regularly scheduled meeting each year, unless the meeting occurs during a black-out period for trading in Company securities in accordance with the Company's Insider Trading Policy. Under those circumstances, the Committee may (a) schedule a special meeting for the consideration of equity compensation awards to be held after the expiration of the blackout period; (b) award the equity compensation by means of unanimous consent executed after the expiration of the black-out period; or (c) pre-approve the equity compensation with an effective date of the first trading day after expiration of the black-out period. In accordance with the Company's Insider Trading Policy, a black-out period expires on the third trading day after release of the material, non-public information causing the black-out period. The related award agreements are prepared and distributed as soon as administratively feasible following the date on which the awards are approved.

6. If it is determined that equity compensation should be awarded to an employee after the Committee has awarded equity compensation pursuant to its annual process, for example in the case of new hires, any such equity compensation will generally be awarded by the Committee at its next regularly scheduled meeting. The Committee may award such equity compensation by one of the alternative means identified in Section 5 of this policy.
7. Equity compensation awards are prospective only. The date of awards is the date on which the Committee approves the awards unless: (a) the date of approval is a non-trading day, in which case the date is the immediately preceding trading date; or (b) in the case of pre-approval during a black-out period, in which case the date is the first trading date after expiration of the black-out period. The date of the award cannot be changed. The exercise price of stock options is the closing price of Company stock on the day the stock options are awarded. If an equity compensation award is made by unanimous consent, the effective date of the award shall be the date the last signature is received unless another date is specified in the resolutions in accordance with this policy.