

PNM RESOURCES, INC.

**AUDIT & ETHICS COMMITTEE POLICY
GOVERNING AUDIT, AUDIT-RELATED
AND NON-AUDIT FEES AND SERVICES,**

As approved by the Audit and Ethics Committee

December 9, 2002

(Amended February 17, 2003; November 7, 2003 and July 17, 2006)

OVERVIEW

The Sarbanes-Oxley Act of 2002 ("Act") was signed into law on July 30, 2002. Subsequently, on January 28, 2003, the Securities and Exchange Commission adopted Rules on Strengthening the Commission's Requirements Regarding Auditor Independence ("Rules"). The Act and the Rules require that audit, audit-related, and non-audit services (other than those prohibited), to be performed by the audit firm must be pre-approved by the Audit and Ethics Committee (the "Committee") of the Company's Board of Directors. However, the Committee does not need to pre-approve non-audit services provided by an accounting firm that is not auditing the Company.

Audit services encompass financial statement audit and review services performed by the Company's audit firm that are customary for the purpose of rendering an opinion or review report on the Company's financial statements. The annual audit of the Company's consolidated financial statements includes quarterly reviews, internal control testing, report reviews (Form 10-K, annual report, etc.), attendance at Committee meetings, preparation of a management letter, use of specialists in connection with the foregoing and other services integral to audits of and expressing opinions on the Company's financial statements.

Audit-related services are generally an integral part or by-product of the audit process. The charges for these are generally not included in the estimated audit fees for the coming year as the fees will be dependent on the frequency, complexity and timing of authoritative pronouncements regarding accounting and reporting, and debt and equity transactions of the Company. They include the following:

- Implementation of new accounting and reporting standards
- Audits of opening balance sheets of acquired companies and accounting consultations on acquisitions and proposed acquisitions where such services would otherwise be performed in the audit of the Company's consolidated financial statements
- Services related to procedures used to support the calculation of the gain or loss from dispositions and discontinued operations

- Compliance letters, agreed upon procedures, reviews and similar reports based on audited financial statements and the role of the firm as independent auditor
- Audits of financial statements and transactions included in consolidated financial statements that are used by lenders, filed with government and regulatory bodies and similar reports, including affiliate transaction audits
- Review of internal control documentation and control testing resulting from Sarbanes-Oxley Section 404 compliance work
- Services that result from the role of the firm as independent auditor such as consents, letters to underwriters and other services related to financings that include audited financial statements
- Employee benefit plan audits where fees are paid by the Company

“Non-audit services” means any professional services provided to a company by a registered public accounting firm, other than those provided to a company in connection with an audit or a review of the financial statements and which are not considered “audit-related”. The Company may engage the audit firm for any non-audit service, that is not prohibited by law. The following non-audit services are specifically prohibited by law from being provided by the audit firm:

- Bookkeeping or other services related to the accounting records or financial statements of the audit client
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- Actuarial services
- Internal audit outsourcing services
- Management functions
- Human resources
- Broker-dealer, investment adviser, or investment banking services
- Legal services and expert services unrelated to the audit
- Specified types of tax or tax-related services
- Any service or product for a contingent fee or commission
- Any other services that the Public Company Accounting Oversight Board determines, by regulation, is impermissible

The Committee must pre-approve all audit, audit-related and non-audit services provided by the Company’s independent accountants before they commence. There is no limit to the number of services that the Committee may pre-approve at one meeting or occasion. Each service must be specifically identified. The Act permits the Committee to delegate to one or more of its members the authority to pre-approve services. The delegated member must report approvals at the next meeting of the full Committee. The pre-approval requirement is waived with respect to an inadvertent violation involving a non-audit service if:

- The service was not recognized by the company at the time of the audit engagement to be a non-audit service
- The aggregate amount paid for all services is not more than 5 percent of the total amount of revenues paid by the company to the auditor during the fiscal year when the non-audit services are performed
- The service is promptly brought to the attention of the audit committee
- The Committee approves the activity prior to the conclusion of the audit

Committee approvals must be disclosed to investors in periodic reports filed with the SEC.
POLICY

The Committee shall approve all audit, audit-related and non-audit services provided by the public accounting firm currently engaged as the Company's auditor. In order to maintain control over the contracting of services from the audit firm, the Controller has the responsibility of providing to the Committee or its delegate sufficient documentation describing with particularity the specific services desired to be procured from the audit firm, the budget for the services and a statement that the services are permitted by law to be provided by the audit firm. The Company will not contract for any services with the audit firm that has been prohibited by law.

PROCEDURE

Budget

All external audit, audit-related and non-audit services provided by the audit firm shall be budgeted by the Controller. Specific requests shall be submitted to the Controller for preliminary approval during the annual budget process (see attached request form). A copy of the RFP shall accompany the request. It will be the responsibility of the Controller to include in the budget a specified amount for any unidentified services at the time of the annual budget process. It is suggested that this be done by category. Specific services that have received preliminary approval from the Controller may be submitted to the Committee or its delegate for final approval.

Committee Approval

Audit services shall be approved by the Committee at the meeting prior to issuance of the annual proxy statement. Audit-related services specifically described in this policy, which are within a pre-approved budget are considered approved with approval of the audit services. To the extent known, the audit-related services anticipated shall be specifically identified in establishing the budget. Allowable non-audit services to be provided by the audit firm shall be specifically identified and submitted to the Committee for approval during regularly scheduled meetings. The Committee hereby delegates to its Chair the authority to pre-approve audit firm services during interim periods. The Chair shall report approvals at the next meeting of the full Committee.

The Committee shall approve a budget for audit-related services of the audit firm. The services to be provided under the budget must be within the category of services herein described as “audit-related”. Each service provided under the budget shall be reported to the Committee at the next regularly scheduled meeting.

Non-Audit Services Request Form



1. Requested By: _____

2. Description of Service Requested: _____

3. Cost of Service: \$ _____ Budget Approved: Yes _____ No _____

4. Purpose of the service and benefits to the company: _____

5. Time Period of Service: _____

6. This request is in compliance with Corporate Policy Statement No. _____

Submitted by: _____ Title: _____

Approved by: _____ Title: _____

Audit Committee Approved: _____ Date: _____

Attach copy of RFP and return completed form to SEC Reporting and GAAP Analysis at MS 2700