

Common Questions About Executive Pay at PNM Resources

As one of the few publicly traded companies headquartered in New Mexico, we get questions each year regarding executive pay. We also recognize that any executive pay announcements in New Mexico will be subject to more review than ever because one of the PNM Resources subsidiaries, PNM, has a pending rate increase request. Here are PNM Resources' answers to questions we may receive.

Q. Why don't PNM Resources executives take a pay cut like some other companies?

A. We have not made across the board pay cuts, but we did freeze our base salaries in 2010. We froze them in 2009. We froze them in 2008. Most of our senior executives have not had an increase since 2007. We also have focused on reducing total officer pay through reductions in the number of officers we have. In 2007, we had 23 officers. Today, we have 12.

While we've been mindful of the need to reduce costs, we do have a responsibility to our customers to ensure reliable service. Part of that involves paying around the average of what the market pays to ensure that we have a leadership team in place to guide that effort. We must compete nationally for this talent.

Q. Why do you need a rate increase when your executives earn as much as they do?

A. It is always important to be accountable and responsible, and that is amplified when our customers are being asked for a rate increase. The proposed rate increase is not driven by executive pay. It is driven by the need to invest in systems such as power plants, substations and power lines to keep power reliable for customers today and in the future. We're investing more than half a billion dollars into our PNM systems on behalf of our customers. If 100 percent of executive pay was removed from rates it would reduce rates by less than 2/100th of a cent.

Also:

- Not a penny of incentive pay is in rates
- Only 44 percent of base salaries and benefits is in rates since PNM is just one of the companies PNM Resources officers work for

Q. How can PNM claim it needs to restore its financial health and still pay performance-based bonuses?

A. The performance-based pay is for performance of PNM Resources, a utility holding company with multiple subsidiaries. A key driver in this year's incentive pay results – and in last year's – was the performance of Texas-based First Choice Power. PNM's performance has to stand on its own for purposes of ratemaking and for rating the costs of its debt. This helps protect customers from subsidizing another subsidiary's activities. The rate increase is needed to restore the financial health of PNM and doesn't affect other subsidiaries. It will help reduce the cost of borrowing money to invest in systems to keep power reliable for customers.

Q. If base pay was frozen, why did Pat Vincent-Collawn's pay rise from \$456,926 to \$551,635 and her total compensation rise from \$1.9 million to \$2.4 million?

A. She became CEO in March 2010. A more accurate comparison would be to compare the 2009 reported CEO base salary of \$874,067 to the \$551,635, and the \$3.5 million total in 2009 to the \$2.4 million. Even these comparisons aren't apples to apples, however.

It's also important to note that the \$2.4 million is not all cash compensation. It includes stock options, for example, and the majority of these options for officers (all options issued before 2009) do not currently have monetary value to the holder because PNM Resources stock price is less than the exercise price of the options.