

STANDARDS OF CONDUCT COMPLIANCE PROCEDURES FOR PUBLIC SERVICE COMPANY OF NEW MEXICO

February 8, 2007

These procedures govern the operation of Public Service Company of New Mexico's ("PNM") transmission provider services that are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). PNM (a utility operating company in New Mexico and Arizona) is a subsidiary of PNM Resources, Inc. ("PNMR"), a registered holding company and the parent corporation of PNM as well as the following subsidiaries; TNP Enterprises, parent organization for Texas-New Mexico Power Company (a utility operating company in Texas) and First Choice Power, L.P ("First Choice Power" - a retail electric provider in Texas); PNMR Services Company ("PNMR Services" - a service company that provides services to PNM and the subsidiary in which all holding company executive management are located); and several other utility/non-utility subsidiaries (both active and in-active). Because TNP and its subsidiaries operate only in Texas and are subject to the jurisdiction of the Electric Reliability Council of Texas ("ERCOT"), these procedures do not address them.

These procedures govern the operations of the PNM transmission system and the communications between the PNM transmission function employees and other PNM employees engaged in wholesale marketing and sales or other functions or PNM affiliates that must be operated separately from PNM transmission operations, in accordance with FERC Standards of Conduct. The procedures implement the requirements of the FERC's Standards of Conduct for transmission providers, issued in Order No. 2004, as supplemented, which require transmission providers such as PNM to post and maintain written procedures for implementing the Standards of Conduct on their Open Access Same-Time Information System (OASIS¹). In particular, these procedures apply to employees in PNM's Customer and Delivery Services business unit (which includes the PNM Transmission Operations and Reliability function²); PNM's Energy Resources business unit (which includes PNM's Wholesale Merchant function³); and PNMR Services, which provides a variety of shared support services to both functions.

PNMR's Standards of Conduct Chief Compliance Officer is Larry Bryant, who is responsible for: ensuring that training is conducted; postings to the OASIS are appropriately made (including updates to the organization charts, etc.); coordinating Standards of Conduct issues with FERC Staff; and addressing any compliance issues, including coordination with counsel where

¹ PNM is one of several transmission providers that participate in the westTTrans (OATI) OASIS website that can be accessed under the URL: www.westtrans.net.

² **PNM Transmission Operations and Reliability** employees are those employees primarily engaged in receiving and responding to requests for transmission service, determining Available Transmission Capability (ATC) and Total Transmission Capability (TTC), and operating the transmission system; and employees responsible for planning expansion of PNM's transmission capabilities. These employees are currently located in PNM's Transmission Operations Department and PNM's Power Operations Department. PNM is a Balancing Authority operator in New Mexico.

³ PNM's **Wholesale Merchant** function is responsible for the sale for resale of electric and gas energy in interstate commerce. PNM employees engaged in the Wholesale Merchant function currently reside in the PNM Energy Resources business unit.

appropriate on compliance issues. Any questions or concerns about these procedures can be phoned to Larry at (505) 241-4240, or his alternate, Sarah Smith at (505) 241-4903. In addition, employees can call the PNMR Integrity Line: 1-888-840-4158 to report concerns about compliance with these procedures. The PNMR Integrity Line is managed by an independent third party and all calls are confidential.

Procedures to Ensure Independent Functioning of Transmission Operations (18 C.F.R. Section 358.4)

PNM employees in the Transmission Operations and Reliability function perform their duties independently from PNM's employees in the Wholesale Merchant function, or other functions of PNM's Energy Resources business unit, at all times except in emergency circumstances and except where sharing of information is permitted if it is necessary to maintain reliable operation of the transmission system. The following procedures are employed to ensure the independent functioning of PNM's Transmission Operations and Reliability function from PNM's Wholesale Merchant function.

I. Access to transmission system control center or other transmission operations and reliability facilities

Only transmission operations and reliability employees have access to the PNM Transmission Operations and Reliability facilities and only transmission function employees who perform the day-to-day operations of the transmission system have routine access to the transmission system control and dispatch room (Control Room⁴). The following procedures apply for all others to obtain access to the PNM Transmission Operations and Reliability facilities and the transmission Control Room.

1. PNM Transmission Operations and Reliability employees have been functionally and physically separated from employees engaged in the Wholesale Merchant function. PNM's Transmission Operations Department ("TO") employees reside in PNM's Headquarters Facility in a restricted access area. Access to the restricted area of the TO department is maintained by locked doors with a limited distribution access code, which is changed on a monthly basis. A TO staff member must accompany any Wholesale Merchant function employees or third party Transmission Customers⁵ who wish to hold meetings with PNM's TO staff in the TO offices.

PNM TO staff personal computers are password protected. PNM Wholesale Merchant function employees do not have access to shared computer drives used by TO staff. PNMR maintains computer systems commonly accessible to PNM and PNMR Services for maintaining many corporate functions, such as interoffice e-mail. There are in-company "public folders" of information that may be established and maintained by individuals or departments for the provision of broad-based in-company access to specific, routinely updated information.

⁴ The **Control Room** is the location from which PNM exercises real-time operation and control of its transmission system for reliability purposes.

⁵ **Transmission Customer** means any eligible customer (or its designated agent) that can or does execute a transmission service agreement with PNM or can or does receive transmission service from PNM.

However, PNM Transmission Operations and Reliability employees limit access to such folders to a specific set of employees and PNM's Wholesale Merchant employees are precluded from viewing any documents or information that is not available to the general public without restriction, or that is not at the same time available to all OASIS users. PNM Transmission Operations and Reliability employees and PNM Wholesale merchant employees are trained in Standards of Conduct and are responsible for establishing and maintaining any restricted distribution or access that is necessary for in-company public folders. Distributions lists are checked each month by the creators of such folders and updated as necessary, to ensure no unauthorized personnel have access.

2. PNM Power Operations Department employees are located in a separate building/facility located south of Albuquerque, which also houses PNM's Control Room. The facility access is monitored and is restricted via locked gates. Permission is required to enter the Power Operations facility for anyone that does not work at the facility. All non-facility employees and third parties must sign-in prior to gaining access to the building. The sign-in roster is maintained for 3 years for review. Access to the Control Room is restricted via two card-key access points for those employees with routine work in the Control Room. No PNM Wholesale Merchant function employees or employees of any other third party merchant/power marketing utility or entity are allowed access to the PNM Control Room.

3. PNM's Wholesale Merchant function employees are located in a separate building/facility located in the northern area of Albuquerque. Sign-in is required for all non-PNMR visitors. Additional "card-key" access is required to gain access to the Merchant Trading Floor⁶.

4. PNM Transmission Operations and Reliability function and PNM Wholesale Merchant function also have specific written procedures for use of PNM's Emergency Back-up Center, which serves as the official back-up center for both the PNM Transmission Operations and Reliability System Control Dispatch group, and the Wholesale Merchant function of PNM. The procedures define how the two PNM groups can (separately) access and utilize the facility in compliance with Standards of Conduct.

5. Additionally, PNMR Services' Internal Audit group performs periodic audits of Transmission Operations and Reliability functions and Wholesale Merchant functions for Standards of Conduct compliance.

II. Procedures in the event of emergencies

During System Emergencies⁷, PNM Transmission Operations and Dispatch employees take whatever steps are necessary to maintain system reliability. If any deviation from Standards of Conduct has occurred during a System Emergency, PNMR's Chief Compliance Officer is among

⁶ The **Merchant Trading Floor** is the location from which PNM's employees engage in wholesale merchant functions to buy and sell energy in interstate commerce.

⁷ **System Emergency** is any abnormal system condition that could adversely affect the reliability of the electric system and which requires automatic or immediate manual action to limit loss of transmission facilities or generation supply.

those immediately notified, and it is the Compliance Officer's responsibility to ensure PNM posts the following information on the OASIS site and files a report with the FERC within 24 hours of the occurrence of the System Emergency:

1. The cause and nature of the emergency;
2. The beginning and ending day, hour and minute of the emergency;
3. All transmission schedules interrupted or curtailed in response to the emergency;
4. Specific deviation(s) from these Standards of Conduct, which occurred during the emergency; and
5. If the duration of the emergency is longer than 24 hours, the Chief Compliance Officer will report the deviations from Standards of Conduct to the FERC within 24 hours of the beginning of the System Emergency and will file a separate report within 24 hours of the conclusion of the System Emergency, indicating the ending day, hour and minute of the System Emergency.

III. Updating of information on the OASIS

Posted on the PNM OASIS site are: (1) the names of any energy affiliates or business units that by FERC Order 2004 requirements must be treated as energy affiliates, as well as their respective addresses; (2) Organization charts for PNMR and PNM and a narrative describing how PNMR and PNM are organized and the reporting relationships and chain of command for employees subject to FERC Standards of Conduct, including shared support services employees⁸; (3) job titles and position descriptions for all PNM transmission function employees, except those in clerical and field and maintenance positions. Also posted is information (organization charts, job titles and descriptions) of employees of PNM's Energy Resources business unit that perform wholesale merchant functions for PNM, including shared support services employees. Notices of employee transfers between the PNM Transmission Operations and Reliability functions and the PNM Wholesale Merchant function are posted by the Chief Compliance Officer or his alternate on the OASIS (as they occur) and the notices remain posted for 90 days.

The following procedures are used to ensure that any change in information that affects information provided on the PNM OASIS site is posted within seven business days of any changes that occur:

1. PNMR Services Corporate Communications Department provides updates regarding general company events and news to all employees (including the Chief Compliance Officer) in the form of weekly news e-mails and other special e-mail notifications. These communications may include announcements of significant events that have occurred or are going to be announced to the public. However, they shall never include advance notice of transmission information that has not already been posted on the OASIS. They may also include announcements of reorganizations (that could

⁸ PNMR Services houses the majority of employees that are considered shared support services. However, PNM's Customer and Delivery Services business unit and Energy Resources business unit, also have shared support services employees, all of whom are trained in Standards of Conduct.

affect chain of command and job titles), changes to locations of facilities (including a business unit or Energy Affiliate functional equivalent), and merger announcements. The Chief Compliance Officer is responsible for making any necessary changes to the information in this regard that is posted on the OASIS.

2. PNMR Services People Services business unit conducts a weekly review of personnel changes through a corporate supported computer system and makes corresponding updates to the total company organization charts that are posted on PNMR's internal website. The Chief Compliance Officer is notified by People Services in the event that organization charts have been changed. Additionally, People Services produces a weekly report that contains the names, job titles, department and effective date of personnel "hires," "leaves of absence," and "terminations," which is provided to the Chief Compliance Officer or his alternate. Finally, all employees of PNM Transmission Operations and Reliability groups, the PNM Wholesale Merchant group, and PNMR Services that are subject to Standards of Conduct are trained and are aware of the requirement to provide notification to the Chief Compliance Officer of changes to their respective organizations and personnel status (including employee transfers between groups) so the OASIS can be updated. The Chief Compliance Officer is responsible for completing the required updates to the OASIS within seven business days of any such change, and ensuring that required postings remain on the OASIS for the required 90-day period. The Chief Compliance Officer also ensures that the records of the postings are retained for three years.

IV. Shared Service Employees

Some sharing of support service employees, not directly involved in either the Wholesale Merchant function or Transmission Operations and Reliability function, such as computer programmers, engineers, human resources, right-of-way, environmental services and others, is necessary. The majority of these employees are housed in PNMR Services, but some shared support services employees reside in the business units that house the Wholesale Merchant function and the Transmission Operations and Reliability function. All such employees are required to complete Standards of Conduct training requirements to become familiar with the various requirements thereof, including the no-conduit rule. It is the responsibility of PNMR's Chief Compliance Officer and the respective supervisors, managers, and directors of the business units that provide shared services to ensure that employees needing training receive it and comply with Standards of Conduct and the "no conduit" rule.

PNMR also has procedures to ensure compliance with the Standards of Conduct provision for shared senior officers including the requirement that certain officers recuse themselves from cross functional meetings and discussions that involve prohibited Transmission Operations and Reliability information.

Procedures to Ensure Against Undue Discrimination (18 C.F.R. Section 358.5)

Employees of PNM's Wholesale Merchant function have access only to information about the PNM interstate transmission system that is made available on OASIS or to the general public in other public documents/filings, or as necessary for the reliable operation of generation

facilities. The transmission information provided to employees of PNM's Wholesale Merchant function who are engaged in the dispatch and operation of generation facilities is only operational information that is necessary for reliable operation and dispatch of the generation facilities and does not include information about third parties except as operationally necessary for the dispatch of the power from the San Juan Generating Station to the third party co-owners.

To ensure that employees of PNM's Wholesale Merchant function do not get preferential access to transmission information, including information about available transmission capability, prices, curtailments, ancillary services, maintenance activity, capacity expansion plans or similar information, PNM has adopted the measures set forth below. Any unauthorized disclosure of or access to restricted information will be treated as violation of Standards of Conduct, which is also considered a breach of PNMR's internal code of conduct ("**Do the Right Thing: Principles of Business Conduct**") and could result in sanctions. Additionally, the Chief Compliance Officer is apprised of any such occurrence and is responsible for the immediate disclosure on the OASIS site of PNM of the information obtained.

1. Except for information necessary for generation dispatch, PNM employees engaged in the Wholesale Merchant function have access only to that information available to all transmission customers and do not have preferential access to any information about the PNM transmission system that is not publicly available to all OASIS users.

PNM currently operates its transmission and generation systems using common computer systems. PNM employees engaged in the Wholesale Merchant function are prohibited from accessing any PNM computer screen displays or Energy Log File categories that contain information on the PNM bulk power transmission systems or the bulk power transmission systems of any third parties. Access to restricted information is limited by employee function using a combination of firewall and password controlled user access.

The PNMR Services Information Technology business unit and the TO Operations Engineering group have implemented security provisions in operating the Systems that prevents designated consoles from reading data obtained in data fields that are designated as non-access for such consoles. This includes a specific set of procedures for monitoring, reviewing, and granting/removing accesses and permissions to the system for both the Wholesale merchant function and the Transmission Operations and Reliability function. The consoles operated by the Wholesale Merchant function can access data fields containing PNM owned generation and PNM ownership of generation in jointly owned facilities (including the generation of participants in San Juan Generating Station for which PNM is the operating agent), PNM load (including firm requirements load), and area control error. Wholesale Merchant function consoles are denied access to data fields containing transmission operations and transmission service schedules. A complete list of the generation information that can be accessed by the Wholesale Merchant function is included in Exhibit A to these procedures.

The PNMR Services Information Technology business unit also monitors corporate-wide personal computer accesses and permissions to ensure they are properly updated and maintained. As part of this effort, PNMR Services People Services business unit conducts routine reviews of employee job transfers and provides a report of transfers

to the Information Technology business unit for use in maintaining a current set of permissions and accesses to computer applications and databases. The report is routed to the various applications level security administrators across the Company to determine what access, user ID, and permission changes are necessary as a result of the transfer. The report is also provided to the Chief Compliance Officer or his alternate for information and follow-up if necessary. Additionally, supervisors, managers, and directors for the various business units across the Company, are responsible for ensuring that computer accesses and permissions to the respective applications and databases associated with their business functions are updated and maintained on a timely basis. The PNM Wholesale Merchant function has a “new employee” requirements check list wherein, one of the requirements is to address access permission to network drives for persons transferring to or from the Transmission Operations and Reliability function.

2. No PNM employee in the Wholesale Merchant business unit engages in any aspect of transmission system operations or reliability functions, or in any other activities associated with administering the PNM Open Access Transmission Tariff. Further, no PNM employee engaged in the Wholesale Merchant functions has access to PNM's Control Room, or similar facilities used for Transmission Operations or Reliability functions that differ in any way from the access available to other open access Transmission Customers. PNM's Wholesale Merchant function personnel, PNM's Transmission Operations and Reliability personnel are located in different facilities, each having its own separate security authorizations and requirements to allow only authorized personnel to access each respective facility. Wholesale Merchant Function personnel are not authorized to access the Control Room, and Transmission Operations and Reliability personnel are not authorized to access the Merchant Trading Floor. It is the responsibility of each respective group to ensure the security authorizations are maintain and enforced.
3. PNM Transmission Operations and Reliability employees are prohibited from disclosing to employees engaged in the Wholesale Merchant function any information concerning the transmission system of PNM, or the transmission system of another (including information received from non-affiliates or information about available transmission capability, price, curtailments, ancillary services, etc.) through non-public communications conducted off the OASIS, through access to information not posted on the OASIS that is not at the same time available to the general public without restriction, or through information on the OASIS that is not at the same time publicly available to all OASIS users. Further, PNM Transmission Operations and Reliability employees are prohibited from distributing non-public transmission information such as plans for expanding capacity or budget projections to PNM Wholesale Merchant employees. Likewise, PNM Wholesale Merchant employees do not share future marketing plans and profitability projections with PNM Transmission Operations and Reliability employees. Employees of each respective group, as well as employees of PNMR Services, that provide shared services to each group are trained in Standards of Conduct and are responsible for ensuring that information access restrictions are maintained and enforced.

4. PNM Transmission Operations and Reliability employees are prohibited from disclosing any market information obtained from other transmission customers or developed in the course of responding to a request for transmission or ancillary service, except to the extent such information is posted on the OASIS or the customer provides written authorization that such information may be shared with others, in which case the written authorization must also be posted on the OASIS. PNM has established procedures for maintaining books of account; files and records that pertain to requests for transmission service and any studies required responding to those requests. These procedures provide that all files which contain information on transmission capability or ancillary services, or any market sensitive information obtained in the course of responding to transmission service requests are restricted, with permission for access to be granted only by the Lead Director of TO Department. To the extent a customer is willing to disclose information about his specific transmission transactions, it is the responsibility of the Chief Compliance Officer to review the written authorization for such disclosure prior to its posting on the OASIS. PNM Transmission Operations and Reliability employees are trained in Standards of Conduct and are responsible for ensuring they comply with this requirement.
5. PNMR uses the computer-based Standards of Conduct training program developed by EEI. All PNM Transmission Operating and Reliability employees and all employees engaged in the Wholesale Merchant function receive the Standards of Conduct training. Training is also provided, as necessary, to employees who provide shared support services to each of these groups, to ensure they are knowledgeable of prohibited information and the no-conduit rule. PNM's Chief Compliance Officer is responsible for developing and updating training materials and for coordinating training to the appropriate PNMR departments and personnel. However, the various department and business unit supervisors, managers, and directors have the ultimate responsibility to ensure that their employees who need training in the Standards of Conduct receive it. Each employee trained in Standards of Conduct (as well as employees in any energy affiliate) receives a copy of these procedures for implementation of Standards of Conduct as well as a reference brochure that summarizes Standards of Conduct provisions. Employees that complete Standards of Conduct training have access to and can print the Standards of Conduct training program (slide presentation) for reference.
6. In the event that PNM Transmission Operations and Reliability employees employ any third party contractors that also provide services to PNM's Wholesale Merchant function, the contract for such services shall include provisions to preclude inadvertent information transfer that would violate Standards of Conduct. Additionally, contractors subject to Standards of Conduct, because they perform transmission functions or have access to confidential transmission or customer information, are provided Standards of Conduct training.
7. PNMR Services' Audit Services Department conducts periodic reviews of PNMR's compliance with Standards of Conduct and the training program for the Standards of Conduct, to insure that the implementation of and the ongoing application of the Standards of Conduct complies with FERC standards. The Audit Services Department reports the results of its reviews directly to the Chief Executive Officer of PNMR.

Tariff Administration:

1. PNM Transmission Operations and Reliability employees strictly enforce all tariff provisions relating to the sale or purchase of open access transmission service, except to the extent that the PNM Open Access Transmission Tariff provides for the use of discretion. To the extent that such discretion is invoked, it is exercised in a fair and impartial manner that treats all customers in a non-discriminatory manner. The PNM Transmission Operations and Reliability function maintains a log, available for FERC audit, detailing the circumstances and manner in which it exercises discretion under terms of the Open Access Transmission Tariff. The log information is posted on the PNM OASIS for public inspection and is updated on a daily basis, as changes occur.
2. Any offer of a discount for any transmission service made by PNM Transmission Operations and Reliability is announced to all potential customers by the PNM Transmission Operations and Reliability employees posting such discounts on the OASIS.
3. All offers of transmission service are made in accordance with the PNM Open Access Transmission Tariff with no preference given to sales for resale by PNM's Wholesale Merchant Function over the interests of any other wholesale customer in matters relating to the sale or purchase of transmission service.
4. For any transmission service transaction agreed to by PNM Transmission Operations and Reliability employees and a Transmission Customer for a transaction using the bulk power transmission system, PNM Transmission Operations and Reliability (at the time the ATC must be adjusted in response to the transaction), posts on the OASIS (and makes available for download) information describing the transaction (including price, quantity, points of receipt and delivery, length and type of service, identification of whether the transaction involves PNM's Wholesale Merchant function, identification of what, if any, ancillary service transactions are associated with the transmission transaction, and any other relevant terms and conditions) and keeps such information posted on the OASIS for at least 30 days. A record of the transactions is retained and kept available, as part of the log information.
5. Any offer of a discount for any ancillary service made by PNM Transmission Operations and Reliability is announced to all potential customers by posting on the respective OASIS.
6. For any ancillary service transaction agreed to PNM Transmission Operations and Reliability and a Transmission Customer for a transaction using the bulk power transmission system, PNM Transmission Operations and Reliability (at the time ATC must be adjusted in response to the transaction), posts on the OASIS (and makes available for download) information describing the transaction (including date and time when the agreement was entered into, price, quantity, length and type of service, identification of whether the transaction involves PNM's Wholesale Merchant function, identification of what, if any, transmission service transactions are associated with this ancillary service transaction, and any other relevant terms and conditions) and shall keep

such information posted on the OASIS for at least 30 days. A record of the transactions is retained and kept available, as part of the log information.

7. In processing a request for transmission service or ancillary service associated with transmission service on the bulk power transmission system, PNM Transmission Operations and Reliability posts the following information regarding each request: the date and time when the request is made, its place in the queue, the status of the request, and the result (accepted, withdrawn, or denied).

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Exhibit A

Per the provisions of the Procedures to Ensure Against Undue Discrimination, concerning PNM's Energy Management System, the following details the information available to PNM's Wholesale Merchant function to perform the generation dispatch function. This specific information is shared information provided in the Spectrum, EASE, and OATi Systems:

1. All load and capability information for PNM's owned generating facilities and PNM ownership interests in jointly owned facilities for which PNM is the operating agent, and any new PNM generating facilities or ownership interest that may be established in the future.
2. All load and capability information for PNM's long-term and short-term firm and interruptible power and energy sales and purchases.
3. Status of all emergency, hazard share, and reserve share agreements under which PNM is obligated to provide or purchase emergency or reserve services.
4. Status and calculation of PNM's deviation and inadvertent balances
5. Instantaneous load information for PNM's total native load
6. Area Control Error
7. Frequency measurements
8. Real-time Spinning and Contingent Reserve Quota
9. Actual system reserves
10. Spinning and Contingent Reserve margins

The following details the information that is not available to PNM's Wholesale Merchant function via the Spectrum System:

1. All load and capability information regarding PNM's long-term and short-term firm and non-firm transmission services.