

Appendix:

What Investors and the SEC Can Learn from the Texas Power Crises

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Appendix A: Companies' Financial Exposure to Texas

Company	Texas Financial Exposure
AEP	10% of 2020 earnings
CenterPoint	Not available
Exelon	6% of 2020 revenue
NRG	72% of 2020 revenue
PNM	25% of 2020 revenue
Sempra	15% of 2020 earnings
Vistra	81% of 2020 earnings

Appendix B: Companies' TCFD Reporting

Company	Alignment with TCFD Framework
AEP	Releases a stand-alone TCFD mapping report
CenterPoint	Does not release a TCFD report; does include TCFD-aligned section in its sustainability report; does not mention TCFD in its 2021 10-K
Exelon	Includes TCFD-aligned section in its corporate sustainability report
NRG	Releases a stand-alone TCFD mapping report
PNM	Releases a stand-alone TCFD mapping report
Sempra	Includes TCFD-aligned section in its corporate sustainability report
Vistra	Releases a stand-alone climate report aligned with the TCFD

Appendix C: Comparison of Companies' 2020 and 2021 10-Ks¹

AEP

AEP is subject to physical and financial risks associated with climate change (Page 42 of 2021 10-K)

Climate change creates physical and financial risk. Physical risks from climate change may include an increase in sea level and changes in weather conditions, such as changes in precipitation and extreme weather events, such as fires. Customers' energy needs vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling represent their largest energy use. To the extent weather conditions are affected by climate change, customers' energy use could increase or decrease depending on the duration and magnitude of the changes. Increased energy use due to weather changes may require AEP to invest in additional generating assets, transmission and other infrastructure to serve increased load. Decreased energy use due to weather changes may affect financial condition through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stress, including service interruptions. Weather conditions outside of the AEP service territory could also have an impact on revenues. AEP buys and sells electricity depending upon system needs and market opportunities. Extreme weather conditions creating high energy demand on AEP's own and/or other systems may raise electricity prices as AEP buys short-term energy to serve AEP's own system, which would increase the cost of energy AEP provides to customers. Severe weather and weather-related events impact AEP's service territories, primarily when thunderstorms, tornadoes, hurricanes, fires, floods and snow or ice storms occur. To the extent the frequency and intensity of extreme weather events and storms increase, AEP's cost of providing service will increase, [including the costs and the availability of procuring insurance related to such impacts](#), and these costs may not be recoverable. Changes in precipitation resulting in droughts, water shortages or floods could adversely affect operations, principally the fossil fuel generating units. A negative impact to water supplies due to long-term drought conditions or severe flooding could adversely impact AEP's ability to provide electricity to customers, as well as increase the price they pay for energy. AEP may not recover all costs related to mitigating these physical and financial risks. To the extent climate change impacts a region's economic health, it may also impact revenues. AEP's financial performance is tied to the health of the regional economies AEP serves. The price of energy, as a factor in a region's cost of living as well as an important input into the cost of goods and services, has an impact on the economic health of the communities within the AEP System.

Seasonality (Page 24 of 2021 10-K)

The consumption of electric power is generally seasonal. In many parts of the country, demand for power peaks during the hot summer months, with market prices also peaking at that time. In other areas, power demand peaks during the winter. The pattern of this fluctuation may change due to the nature and location of AEP's facilities and the terms of power sale contracts into which AEP enters. In addition, AEP has historically sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could diminish AEP's results of operations. Conversely, unusually extreme weather conditions could increase AEP's results of operations.

Seasonality (Page 26 of 2021 10-K)

¹ This comparison focuses on physical risk information in companies' 2010 and 2011 10-Ks. This information was compiled and aggregated across multiple sections of each companies' 10-Ks. Companies' discussions of the February 2021 Crisis were excluded from this comparison because they generally appeared in 2021 10-Ks as separate sub-sections.

The delivery of electric power is generally seasonal. In many parts of the country, demand for power peaks during the hot summer months. In other areas, power demand peaks during the winter months. The pattern of this fluctuation may change due to the nature and location of AEP's transmission and distribution facilities. In addition, AEP transmission and distribution has historically delivered less power, and consequently earned less income, when weather conditions are milder. In Texas, and to a lesser extent, in Ohio, where there is residential decoupling, unusually mild weather in the future could diminish AEP's results of operations. Conversely, unusually extreme weather conditions could increase AEP's results of operations.

CenterPoint

Global Climate Change (Page 15 of 2021 10-K)

To the extent climate changes may occur and such climate changes result in warmer temperatures in the Registrants' or Enable's service territories, financial results from the Registrants' and Enable's businesses could be adversely impacted. For example, CenterPoint Energy's and CERC's ~~NGD~~[Natural Gas](#) could be adversely affected through lower natural gas sales and Enable's natural gas gathering, processing and transportation and crude oil gathering businesses could experience lower revenues. On the other hand, warmer temperatures in CenterPoint Energy's and Houston Electric's electric service territory may increase revenues from transmission and distribution and generation through increased demand for electricity for cooling. Another possible result of climate change is more frequent and more severe weather events, such as hurricanes, ~~or,~~ [tornadoes and flooding](#). Since many of the Registrants' facilities are located along or near the Gulf Coast, increased or more severe hurricanes or tornadoes could increase costs to repair damaged facilities and restore service to customers. When the Registrants cannot deliver electricity or natural gas to customers, or customers cannot receive services, the Registrants' financial results can be impacted by lost revenues, and they generally must seek approval from regulators to recover restoration costs. To the extent the Registrants are unable to recover those costs, or if higher rates resulting from recovery of such costs result in reduced demand for services, the Registrants' future financial results may be adversely impacted.

Disruptions at power generation facilities owned by third parties or directives issued by regulatory authorities could interrupt Houston Electric's sales of transmission and distribution services and adversely affect its reputation, results of operations, financial condition and cash flows (Page 24 of 2021 10-K)

Houston Electric transmits and distributes to customers of REPs electric power that the REPs obtain from power generation facilities owned by third parties. Houston Electric does not own or operate any power generation facilities. ~~If power generation is disrupted or if power generation capacity is inadequate~~[In February 2021, the Texas electric system experienced an unprecedented power shortage due to extreme winter weather conditions. The state's power generation fell short of demand, resulting in significant electricity outages across Texas, including in Houston Electric's service territory. See Note 22 to the consolidated financial statements for further information on the February 2021 Winter Storm Event. If power generation is disrupted or if power generation capacity is inadequate or if ERCOT issues directives to TDUs \(such as Houston Electric\) to implement controlled outages, both of which recently occurred during the February 2021 Winter Weather Event](#), Houston Electric's sales of transmission and distribution services may be diminished or interrupted, and its [reputation](#), results of operations, financial condition and cash flows could be adversely affected.

Our revenues and results of operations are seasonal (Page 32 of 2021 10-K)

A significant portion of Houston Electric's revenues is derived from rates that it collects from each REP based on the amount of electricity it delivers on behalf of such REP. Similarly, Indiana Electric's revenues are derived from rates it charges its customers to provide electricity. Natural Gas' revenues are primarily derived from natural gas sales. Consequently, Houston Electric's and Indiana Electric's and Natural Gas' revenues and results of operations are subject to seasonality, weather conditions and other changes in electricity and natural gas usage, as applicable. Houston Electric's revenues are generally higher during the warmer months. As in certain past years, unusually mild weather in the warmer months could diminish Houston Electric's results of operations and harm its financial condition. Conversely, as in certain past years, extreme warm weather conditions could increase Houston Electric's results of operations in a manner that would not likely be annually recurring. A significant portion of Indiana Electric's sales are for space heating and cooling. Consequently, as in certain past years, Indiana Electric's results of operations may be adversely affected by warmer-than-normal heating season weather or colder-than-normal cooling season weather, while more extreme seasonal weather conditions could increase Indiana Electric's results of operations in a manner that would not likely be annually recurring.

~~NGD's and CES's revenues are primarily derived from natural gas sales. Thus, their revenues and results of operations are subject to seasonality, weather conditions and other changes in natural gas usage, with revenues being~~ Natural Gas' revenues are customarily higher during the winter months. As in certain past years, unusually mild weather in the winter months could diminish ~~our~~ Natural Gas' results of operations and harm ~~our~~ its financial condition. Conversely, as occurred in certain past years, extreme cold weather conditions could increase ~~our~~ its results of operations in a manner that would not likely be annually recurring. For information related to our weather hedges, see Note 9(a) to the consolidated financial statements.

Climate changes could adversely impact financial results from our businesses and result in more frequent and more severe weather events that could adversely affect our results of operations (Page 32 of 2021 10-K)

A changing climate creates uncertainty and could result in broad changes, both physical and financial in nature, to our service territories. If climate changes occur that result in warmer temperatures in our service territories, financial results from our ~~and Enable's~~ businesses could be adversely impacted. For example, ~~NGD~~ Natural Gas could be adversely affected through lower natural gas ~~sales and Enable's natural gas gathering, processing and transportation and crude oil gathering businesses could experience lower~~ revenues usage. Another possible result of climate change is more frequent and more severe weather events, such as hurricanes, tornadoes or severe winter weather conditions, including ice storms. Since ~~many~~ certain of our facilities are located along or near the Gulf Coast, increased or more severe hurricanes or tornadoes could increase our costs to repair damaged facilities and restore service to our customers. For example, in 2020, eight named storms occurred along the Gulf Coast. Of these eight storms, we experienced four named hurricanes in our service territories, which impacted our Natural Gas facilities. Our electric and Natural Gas operations in our services territories were impacted due to the February 2021 Winter Storm Event. For further information on the February 2021 Winter Storm Event, see Note 22 to the consolidated financial statements and "—The February 2021 Winter Storm Event has caused severe disruptions to our customers and our markets in certain of our jurisdictions and could have a material adverse impact to our financial condition, results of operations, cash flows and liquidity" above. When we cannot deliver electricity or natural gas to customers or our customers cannot receive our services, our financial results can be impacted by lost revenues, and we generally must seek approval from regulators to recover restoration costs. To the extent we are unable to recover those costs, or if higher rates resulting from our recovery of such costs result in reduced demand for our services, our future financial results may be adversely impacted. Any such decreased energy use may also require us to retire current infrastructure that is no longer needed. Further, we may be subject to climate change lawsuits, which could result in substantial penalties or damages.

Factors Influencing Our Businesses and Industry Trends (Page 46 of 2021 10-K)

Performance of the ~~Houston~~ Electric ~~T&D~~ reportable segment and the Natural Gas ~~Distribution~~ reportable segment is significantly influenced by energy usage per customer, which is significantly impacted by weather conditions. For Houston Electric, revenues are generally higher during the warmer months when more electricity is used for cooling purposes. ~~For CERC's NGD~~ ~~For Indiana Electric, a significant portion of its sales are for space heating and cooling. Consequently, as in certain past years, Indiana Electric's results of operations may be adversely affected by warmer-than-normal heating season weather or colder-than-normal cooling season weather.~~ For CERC's Natural Gas, demand for natural gas for heating purposes is generally higher in the colder months. Therefore, we compare our results on a ~~weather-adjusted~~ ~~weatheradjusted~~ basis. In ~~2019~~ ~~2020~~, the Houston area experienced weather that was ~~closer to warmer than~~ normal compared to ~~2018~~ ~~2019~~. Although the summer months, ~~particularly August and September,~~ were ~~somewhat~~ hotter than normal, ~~this was offset during the remaining months of the year due to milder than normal weather. While overall rainfall was higher~~ warmer than normal ~~temperatures started early in 2019 largely due to Tropical Storm Imelda, it did not rise to the record rainfall levels experienced in 2017 that occurred largely due to Hurricane Harvey. After the year with a return to more normal weather in 2018, our NGD~~ mild winter. Our Natural Gas service territories experienced warmer weather in ~~2019 in all areas except~~ ~~2020~~ than it has since 2017. Historically, both CenterPoint Energy's TDU and CERC's Natural Gas have utilized weather hedges to help reduce the impact of mild weather on their financial results. CenterPoint Energy's TDU and CERC's Natural Gas entered into a weather hedge for the 2019–2020 winter heating season in Texas where no weather normalization mechanisms exist. In CERC's non-Texas jurisdictions, weather normalization mechanisms or decoupling in the Minnesota division help to mitigate the impact of abnormal weather on our financial results.

Exelon

~~Exelon has utility and generation assets, and customers, that are and will be further subject to the impacts of climate change. Accordingly, Exelon is engaged in a variety of initiatives to understand and mitigate these impacts, including investments in resiliency, partnering with federal, state and local governments to minimize impacts, and, importantly, advocating for public policy that reduces emissions that cause climate change. Exelon, as a producer of electricity from predominantly low- and zero-carbon generating facilities (such as nuclear, hydroelectric, natural gas, wind and solar photovoltaic), has a relatively small GHG emission profile, or carbon footprint, compared to other domestic generators of electricity (Exelon neither owns nor operates any coal-fueled generating assets). Exelon's natural gas and biomass fired generating plants produce GHG emissions, most notably, CO₂. However, Generation's owned-asset emission intensity, or rate of carbon dioxide equivalent (CO₂e) emitted per unit of electricity generated, is among the lowest in the industry. Other GHG emission sources at Exelon include natural gas (methane) leakage on the natural gas systems, sulfur hexafluoride (SF₆) leakage from electric transmission and distribution operations, refrigerant leakage from chilling and cooling equipment, and fossil fuel combustion in motor vehicles. Exelon facilities and operations are subject to the global impacts of climate change and Exelon believes its operations could be significantly affected by the physical risks of climate change.~~

The Registrants could be negatively affected by the impacts of weather (Page 35 of 2021 10-K)

Weather conditions directly influence the demand for electricity and natural gas and affect the price of energy commodities. Temperatures above normal levels in the summer tend to increase summer cooling electricity demand and revenues, and temperatures below normal levels in the winter tend to increase winter heating electricity and gas demand and revenues. Moderate temperatures adversely affect the usage of energy and resulting revenues at PECO, DPL Delaware, and ACE. Due to revenue decoupling, BGE, Pepco, and DPL Maryland recognize revenues at MDPSC and DCPSC-approved levels per customer, regardless of what actual distribution volumes are for a billing period and are not affected by actual

weather with the exception of major storms. ComEd's customer rates are adjusted to eliminate the favorable and unfavorable impacts of weather and customer usage patterns on distribution revenue. Extreme weather conditions or damage resulting from storms could stress the Utility Registrants' transmission and distribution systems, communication systems, and technology, resulting in increased maintenance and capital costs and limiting each company's ability to meet peak customer demand. First and third quarter financial results, in particular, are substantially dependent on weather conditions, and could make period comparisons less relevant. Generation's operations are also affected by weather, which affects demand for electricity as well as operating conditions. To the extent that weather is warmer in the summer or colder in the winter than assumed, Generation could require greater resources to meet its contractual commitments. Extreme weather conditions or storms could affect the availability of generation and its transmission, limiting Generation's ability to source or send power to where it is sold. In addition, drought-like conditions limiting water usage could impact Generation's ability to run certain generating assets at full capacity. These conditions, which cannot be accurately predicted, could cause Generation to seek additional capacity at a time when wholesale markets are tight or to seek to sell excess capacity at a time when markets are weak. Climate change projections suggest increases to summer temperature and humidity trends, as well as more erratic precipitation and storm patterns over the long-term in the areas where Registrants have generation, transmission, and distribution assets. The frequency in which weather conditions emerge outside the current expected climate norms could contribute to weather-related impacts discussed above.

The Registrants are subject to risks associated with climate change (Page 41 of 2021 10-K)

Physical plants could be placed at greater risk of damage should changes in the global climate produce unusual variations in temperature and weather patterns, resulting in more intense, frequent and extreme weather events, unprecedented levels of precipitation and a change in sea level. The Registrants' The Registrants periodically perform analyses to better understand how climate change could affect their facilities and operations. The Registrants primarily operate in the Midwest and East Coast of the United States, areas that historically have been prone to various types of severe weather events, such that the Registrants have well-developed response and recovery programs based on these historical events. Still disruption or failure However, the Registrants' physical facilities could be placed at greater risk of electric generation, transmission or distribution systems or natural gas production, transmission, storage or distribution systems damage should changes in the event global climate impact temperature and weather patterns, resulting in more intense, frequent and extreme weather events, unprecedented levels of a hurricane, tornado precipitation, sea level rise, increased surface water temperatures, and/or other severe weather event, or otherwise, could prevent effects. In addition, changes to the climate may impact levels and patterns of demand for energy and related services, which could affect Registrants' operations. Over time, the Registrants may need to make additional investments to protect facilities from operating their business in the normal course physical climate-related risks and/or adapt to changes in operational requirements as a result of climate change.

Natural disasters, war, acts and threats of terrorism, pandemic, and other significant events could negatively impact the Registrants' results of operations, their ability to raise capital and their future growth (Page 44 of 2021 10-K)

Generation's fleet of power plants and the Utility Registrants' distribution and transmission infrastructures could be affected by natural disasters and extreme weather events, which could result in increased costs, including supply chain costs. An extreme weather event within the Registrants' service areas can also directly affect their capital assets, causing disruption in service to customers due to downed wires and poles or damage to other operating equipment. Natural disasters and other significant events increase the risk to Generation that the NRC or other regulatory or legislative bodies could change the laws or regulations governing, among other things, operations, maintenance, licensed lives, decommissioning,

SNF storage, insurance, emergency planning, security, and environmental and radiological matters. In addition, natural disasters could affect the availability of a secure and economical supply of water in some locations, which is essential for Generation's continued operation, particularly the cooling of generating units.

Results of Operations—PECO (Page 91 of 2021 10-K)

The demand for electricity and natural gas is affected by weather conditions. With respect to the electric business, very warm weather in summer months and, with respect to the electric and natural gas businesses, very cold weather in winter months are referred to as "favorable weather conditions" because these weather conditions result in increased deliveries of electricity and natural gas. Conversely, mild weather reduces demand. For the year ended December 31, ~~2019~~2020 compared to the same period in ~~2018 RNF was 2019~~, Operating revenues related to weather decreased by due to the impact of unfavorable weather conditions in PECO's service territory.

NRG

Seasonality and Price Volatility (Page 17 of 2021 10-K)

The sale of electric power to retail customers is a seasonal business with the demand for power generally peaking during the summer months. In connection with the acquisition of Direct Energy, the Company acquired a large natural gas customer portfolio, which generally experiences peak demand during the winter months. As a result, net working capital requirements for the Company's retail operations generally increase during summer and winter months along with the higher revenues, and then decline during off-peak months. Weather may impact operating results and extreme weather conditions could have a material impact. The rates charged to retail customers may be impacted by fluctuations in total power prices and market dynamics, such as the price of natural gas, transmission constraints, competitor actions, and changes in market heat rates. Annual and quarterly operating results of the Company's generation portfolio can be significantly affected by weather and energy commodity price volatility. Significant other events, such as the demand for natural gas, interruptions in fuel supply infrastructure and relative levels of hydroelectric capacity can increase seasonal fuel and power price volatility. The preceding factors related to seasonality and price volatility are fairly uniform across the regions in which the Company operates.

Volatile power and gas supply costs and demand for power and gas could adversely affect the financial performance of NRG's retail operations (Page 29 of 2021 10-K)

The ~~retail businesses' Company's~~ earnings and cash flows could also be adversely affected in any period in which its customers' actual usage of electricity or gas significantly varies from the forecasted usage, which could occur due to, among other factors, weather events, changes in usage patterns, competition and economic conditions.

NRG's businesses are subject to physical, market and economic risks relating to potential effects of climate change, and policies at the national, regional and state levels to regulate GHG emissions and mitigate climate change could adversely impact NRG's results of operations, financial condition and cash flows (Page 37 of 2021 10-K)

Fluctuations in weather and other environmental conditions, including temperature and precipitation levels, may affect consumer demand for electricity or natural gas. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods and other climatic events, could disrupt NRG's operations and supply chain, and cause ~~them~~it to incur significant costs in preparing for or responding to these effects. These or other meteorological changes in climate could lead

to increased operating costs, ~~or capital expenses~~ ~~or power purchase costs.~~ NRG's ~~commercial and residential~~ customers may also experience the potential physical impacts of climate change and may incur significant costs in preparing for or responding to these efforts, including increasing the mix and resiliency of their energy solutions and supply. Hazards customary to the power production industry include the potential for unusual weather conditions, which could affect fuel pricing and availability, the Company's route to market or access to customers, i.e., transmission and distribution lines, [transportation and delivery](#), or critical plant assets. The contribution of climate change to the frequency or intensity of weather-related events could affect NRG's operations and planning process. Climate change could also affect the availability of a secure and economical supply of water in some locations, which is essential for the continued operation of NRG's generation plants. NRG monitors water risk carefully. If it is determined that a water supply risk exists that could impact projected generation levels at any plant risk mitigation efforts are identified and evaluated for implementation.

Business Environment (Page 48 of 2021 10-K)

Weather conditions in the regions of the U.S. in which NRG does business influence the Company's financial results. Weather conditions can affect the supply and demand for electricity and fuels and may also impact the availability of the Company's generating assets. Changes in energy supply and demand may impact the price of these energy commodities in both the spot and forward markets, which may affect the Company's results in any given period. Typically, demand for and the price of electricity is higher in the summer and the winter seasons, when temperatures are more extreme. The demand for and price of natural gas is also generally higher in the winter. However, all regions of the U.S. typically do not experience extreme weather conditions at the same time, thus NRG's operations are typically not exposed to the effects of extreme weather in all parts of its business at once. A significant portion of the Company's business is located within Texas, and extreme weather conditions occurring in Texas may have a material impact on the Company's financial position.

PNM

Natural Gas (Page A-9 of 2021 10-K)

The natural gas used as fuel for the electric generating plants is procured on the open market and delivered by third-party transportation providers. The supply of natural gas can be subject to disruptions due to extreme weather events and/or pipeline or facility outages. PNM has contracted for firm gas transmission capacity to minimize the potential for disruptions due to extreme weather events. Certain of PNM's natural gas plants are generally used as peaking resources that are highly relied upon during seasonally high load periods and/or during periods of extreme weather, which also may be the times natural gas has the highest demand from other users. ~~PNM's reliance on its natural gas generating resources has increased with the December 2017 retirement of SJGS Units 2 and 3.~~ Substantially all of PNM's natural gas costs are recovered through the FPPAC.

The impact of wildfires could negatively affect PNM's and TNMP's results of operations (Page A-19 of 2021 10-K)

PNM and TNMP have large networks of electric transmission and distribution facilities. Weather conditions 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.

The operating results of PNM and its operating subsidiaries are seasonal and are affected by weather conditions, including regional drought (Page A-20 of 2021 10-K)

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 PNM and its operating subsidiaries vary throughout the year. In addition, PNM 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.

~~Assured supplies of water are important for PNM's generating plants.~~ Drought conditions in New Mexico, especially in the "four corners" region, where SJGS and Four Corners are 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. Although SJGS and Four Corners participate in voluntary shortage sharing agreements with tribes and other water users in the "four corners" region, PNM cannot be certain these contracts will be enforceable in the event of a major drought or that it will be able to renew these contracts in the future.

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.

Business Focus (Page A-38 of 2021 10-K)

With reliability being the primary role of a transmission and distribution service provider in Texas' deregulated market, TNMP continues to focus on keeping end-users updated about interruptions and to encourage consumer preparation when severe weather is forecasted. ~~In August 2017, Hurricane Harvey made landfall in the gulf coast region and TNMP employees worked to restore power safely and efficiently for affected customers. In addition, PNM made donations to support relief and restoration efforts in the gulf coast region. TNMP employees who were impacted by Hurricane Harvey were provided emergency crisis funds supported by the PNM Resources Foundation and other employee donations. This summer, TNMP provided a 33-person team for two weeks in support of another utility that experienced significant damage to their transmission and distribution system as a result of Hurricane Laura.~~

Other Climate Change Risks (Page A-57 of 2021 10-K)

PNM's generating stations are located in the arid southwest. Access to water for cooling for some of these facilities is critical to continued operations. Forecasts for the impacts of climate change on water supply in the southwest range from reduced precipitation to changes in the timing of precipitation. In either case, PNM's generating facilities requiring water for cooling will need to mitigate the impacts of climate

change through adaptive measures. Current measures employed by PNM generating stations such as air cooling, use of grey water, improved reservoir operations, and shortage sharing arrangements with other water users will continue to be important to sustain operations.

PNM's service areas occasionally experience periodic high winds and severe thunderstorms. TNMP has operations in the Gulf Coast area of Texas, which experiences periodic hurricanes and other extreme weather conditions. In addition to potentially causing physical damage to Company-owned facilities, which disrupts the ability to transmit and/or distribute energy, weather and other events of nature can temporarily reduce customers' usage and demand for energy. In addition, other events influenced by climate change, such as wildfires, could disrupt Company operations or result in third-party claims against the Company.

Sempre

Severe weather conditions, natural disasters, pandemics, accidents, equipment failures, explosions or acts of terrorism could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects (Page 37 of 2021 10-K)

Like other ~~major industrial capital intensive businesses, our~~ facilities, ~~ours~~ and infrastructure may be damaged by severe weather conditions, and natural disasters such as fires, earthquakes, tornadoes, hurricanes, other storms, tsunamis, heat waves, rising sea levels, floods, mudslides, drought, solar events and electromagnetic events; pandemics; accidents; equipment failures; explosions; or acts of terrorism, vandalism, war or criminality. Because we are in the business of using, storing, transporting and disposing of highly flammable and explosive materials, as well as radioactive materials, and operating highly energized equipment, the risks such incidents may pose to our facilities and infrastructure, as well as the risks to the surrounding communities for which we could be held responsible, are substantially greater than the risks such incidents may pose to a typical business. The facilities and infrastructure that we own or in which we have interests that may be subject to such incidents include, but are not limited to among others: ▪ natural gas, propane and ethane pipelines, storage and compressor facilities ▪ electric transmission ~~and~~ distribution and battery storage equipment ▪ power generation plants, including renewable energy and natural gas-fired generation ▪ marine and inland ethane and liquid fuels, LNG, and LPG facilities, terminals and storage ▪ nuclear power facilities, and nuclear fuel and nuclear waste storage facilities (through SDG&E's ~~20%~~ minority interest in SONGS, which is currently being decommissioned) Such incidents could result in severe business disruptions; prolonged power outages; property damage, injuries or loss of life; for which our businesses could be liable; significant decreases in revenues and earnings; and/or other significant additional costs to us, including as a result of higher maintenance costs or restoration expenses, amounts to compensate third parties, and regulatory fines, penalties and disallowances. For our regulated utilities, these liabilities or increased costs may not be recoverable in rates. Such incidents that do not directly affect our facilities may impact our business partners, supply chains and transportation, which could negatively impact construction projects and our ability to provide natural gas and electricity to our customers. ~~Other global incidents could have similar effects to the extent they reach and impact the territories in which we operate, the customers we serve or the employees who operate our businesses. For example, the coronavirus outbreak currently affecting China and elsewhere has resulted in travel restrictions and impacts on the global economy that could affect our operations in a manner that is not presently possible to predict. Moreover, weather-related incidents have become more prevalent, unpredictable and severe as a result of climate change or other factors, and we are currently in the midst of a severe global pandemic, any of which could have a greater impact on our businesses than is currently anticipated and, for our regulated utilities, rates may not be adequately or timely adjusted to reflect any such increased impact.~~ Any such incident could have a material adverse effect on our businesses, financial condition, results of operations, cash flows and/or prospects. Depending on the nature and location of the facilities and infrastructure affected, any such incident also could cause

catastrophic fires; natural gas, natural gas odorant, propane or ethane leaks; releases of other GHG [emissions](#); radioactive releases; explosions, spills or other significant damage to natural resources or property belonging to third parties; [or](#) personal injuries, health impacts or fatalities; [or could](#) present a nuisance to impacted communities. Any of these consequences could lead to significant claims against us. In some cases, we may be liable for damages even though we are not at fault, such as in cases [wherein which](#) the doctrine of inverse condemnation applies. We discuss how the application of this doctrine in California imposes strict liability on [an electric](#) utility whose equipment is determined to be a cause of a fire (meaning the utility may be found liable regardless of fault) below under “Risks Related to the California Utilities – ~~The Wildfire Legislation may not adequately protect SDG&E from liability from catastrophic wildfires in its service territory.~~” [Operational Risks.](#)” Insurance coverage may significantly increase in cost or become prohibitively expensive, may be disputed by the insurers, or may become unavailable for certain of these risks or at sufficient levels, and any insurance proceeds we receive may be insufficient to cover our losses or liabilities due to the existence of limitations, exclusions, high deductibles, failure to comply with procedural requirements, and other factors, which could materially adversely affect our businesses, financial condition, results of operations, cash flows and/or prospects, as well as the trading prices of our common stock, preferred stock and debt securities.

~~Frequent and more severe drought conditions, unseasonably warm temperatures, very low humidity and stronger winds have increased the degree and prevalence of wildfires in California including in SDG&E’s and SoCalGas’ service territories, which could place third party property and our electric and natural gas infrastructure in jeopardy and reduce the availability of hydroelectric generators. This could result in temporary power shortages in SDG&E’s and SoCalGas’ service territories and/or catastrophic destruction of third party property for which SDG&E or SoCalGas may be liable and unable to recover from ratepayers or may have inadequate insurance coverage. The Wildfire Legislation, signed into law in July 2019, includes a number of measures primarily intended to address certain important issues related to catastrophic wildfires in the State of California, including wildfire mitigation, cost recovery standards and requirements, a wildfire fund, a cap on liability, and the establishment of a wildfire safety board. However, in the event of a significant wildfire involving SDG&E equipment, the standards prescribed by the Wildfire Legislation may not be applied by the State of California consistently or the Wildfire Fund could be completely exhausted due to fires in other California IOUs’ service territories, by fires in SDG&E’s service territory or by a combination thereof, which could impact our ability to timely access capital necessary to address, in whole or in part, inverse condemnation and other liabilities. In addition, the State of California has been subject to housing shortages such that certain local land use policies and forestry management practices have been relaxed in certain cases to allow for the construction and development of residential and commercial projects in high risk fire areas that may not have the infrastructure or contingency plans necessary to address such risk. Severe rainstorms and associated high winds in our service territories, as well as flooding and mudslides where vegetation has been destroyed as result of human modification or wildfires, could damage our electric and natural gas infrastructure, resulting in increased expenses, including higher maintenance and repair costs and interruptions in natural gas and electricity delivery services. As a result, these events can have significant financial consequences, including regulatory penalties and disallowances if the California Utilities encounter difficulties in restoring service to their customers on a timely basis. Further, the cost of storm restoration efforts may not be fully recoverable through the regulatory process. Any such events could have a material adverse effect on our businesses, financial condition, results of operations and cash flows. Events or conditions caused by climate change, including risk of wildfires, severe weather conditions and flooding caused by rising sea levels, could have a greater impact on the California Utilities’ operations than the California Utilities currently anticipate. If the CPUC fails to adjust the California Utilities’ rates to reflect the impact of events or conditions caused by climate change or if a major fire is determined to be caused by our equipment, Sempra Energy’s and the California Utilities’ business, financial condition, results of operations, liquidity, and cash flows could be materially affected.~~

The California Utilities are subject to risks arising from the operation, maintenance and upgrade of their natural gas and electricity infrastructure and information technology systems, which, if they materialize, could materially and adversely affect Sempra Energy's and the California Utilities' financial results (Page 44 of 2021 10-K).

The California Utilities own and operate electric transmission and distribution facilities and natural gas transmission, distribution and storage facilities, which are, in many cases, interconnected and/or managed by information technology systems. ~~The~~ Even though the California Utilities undertake substantial capital investment projects to construct, replace, maintain, improve and upgrade these facilities and systems, ~~but while these capital investment projects are in process and even once completed~~, there is a risk of, among other things, potential breakdown or failure of equipment or processes due to aging infrastructure and information technology systems, human error in operations or maintenance, shortages of or delays in obtaining equipment, material and labor, operational restrictions resulting from environmental requirements and governmental interventions, and performance below expected levels. ~~In addition, as discussed above, weather-related incidents and other natural disasters can disrupt generation, transmission and distribution delivery systems, and these risks could be amplified while capital investment projects are in process.~~ Because our transmission facilities are interconnected with those of third parties, the operation of our facilities could also be adversely affected by ~~unexpected or uncontrollable~~ events occurring on the systems of such third parties, some of which may be unanticipated or uncontrollable by us. Additional risks associated with the ability of the California Utilities to safely and reliably operate, maintain, improve and upgrade their facilities and systems, many of which are beyond the California Utilities' control, include: ~~▪ challenges associated with meeting, among others: ▪ failure to meet customer demand for natural gas and/or electricity that results in customer, curtailments, controlled/ or uncontrolled gas outages, or gas surges back into homes; that could cause serious personal injury or loss of life; ▪ a prolonged widespread electrical black-out that results in damage to the California Utilities' equipment or damage to property owned by customers or other third parties; ▪ inadequate emergency preparedness plans and the failure to respond effectively to a catastrophic event that could lead to public or employee harm or extended outages; severe weather events such as storms, tornadoes, floods, drought, earthquakes, tsunamis, fires, pandemics, solar events, electromagnetic events or other natural disasters; ▪ the release of hazardous or toxic substances into the air, water or soil, including gas leaks from ▪ severe weather events or natural gas pipelines or storage facilities; and ▪ disasters, pandemics, or attacks by third parties, including such as cyber-attacks, acts of terrorism, vandalism or war, the effects of which we discuss above under "Risks Related to All Sempra Energy Businesses – Operational Risks" ▪ inadequate emergency preparedness plans and the failure to respond effectively to catastrophic events that could lead to public or employee harm or extended outages.~~ The occurrence of any of these events could affect demand for natural gas or electricity; cause unplanned outages; damage the California Utilities' assets and/or operations; damage the assets and/or operations of third parties on which the California Utilities rely; damage property owned by customers or others; and cause personal injury or death. ~~As a result, the California Utilities could incur costs to purchase replacement power, to repair assets and restore service, and to compensate third parties.~~ Any such events could materially adversely affect Sempra Energy's and one or both of the California Utilities' financial condition, cash flows and/or results of operations.

Wildfires in California pose a significant risk to the California Utilities' (particularly SDG&E's) and Sempra Energy's business, financial condition, results of operations and/or cash flows (Page 45 of 2020 10-K)

In 2020, California experienced some of the largest wildfires (measured by acres burned) in its history. Frequent and more severe drought conditions, inconsistent and extreme swings in precipitation, changes in vegetation caused by these precipitation swings or other factors, unseasonably warm temperatures, very low humidity and stronger winds have increased the degree, duration of the wildfire season and the intensity and prevalence of wildfires in California, including in SDG&E's and SoCalGas' service

~~territories, which could place third-party property and our and have made these wildfires increasingly difficult to predict and contain. Changing weather patterns, including as a result of climate change, could cause these conditions to become even more extreme and unpredictable. These wildfires could place third-party property and the California Utilities' electric and natural gas infrastructure in jeopardy and reduce the availability of hydroelectric generators. This, and these wildfires and the associated weather conditions could result in temporary power shortages in SDG&E's and SoCalGas' service territories and/or catastrophic destruction of third-party property for which SDG&E or SoCalGas may be liable and unable to recover from ratepayers or may have inadequate insurance coverage. The Wildfire Legislation, signed into law in July 2019, includes a number of measures primarily intended to address certain important issues related to catastrophic wildfires in the State of California, including wildfire mitigation, cost recovery standards and requirements, a wildfire fund, a cap on liability, and the establishment of a wildfire safety board. However, in the event of a significant wildfire involving SDG&E equipment, the standards prescribed by the Wildfire Legislation may not be applied by the State of California consistently or the Wildfire Fund could be completely exhausted due to fires in other California IOUs' service territories, by fires in SDG&E's service territory or by a combination thereof, which could impact our ability to timely access capital necessary to address, in whole or in part, inverse condemnation and other liabilities. In addition, the State of California has been subject to housing shortages such that certain certain of California's local land use policies and forestry management practices have been relaxed in certain cases to allow for the construction and development of residential and commercial projects in high-risk fire areas that may not have the infrastructure or contingency plans necessary to address such risk. Severe rainstorms and associated high winds in our service territories, as well as flooding and mudslides where vegetation has been destroyed as result of human modification or wildfires, could damage our electric and natural gas infrastructure, resulting in wildfire risks, which could lead to increased expenses, including higher maintenance and repair costs and interruptions in natural gas and electricity delivery services. As a result, these events can have significant financial consequences, including regulatory penalties and disallowances if the California Utilities encounter difficulties in restoring service to their customers on a timely basis. Further, the cost of storm restoration efforts may not be fully recoverable through the regulatory process. Any such events could have a material adverse effect third-party claims and greater losses for which SDG&E or SoCalGas may be liable. We discuss the effects wildfires or other natural disasters could have on our businesses, financial condition, results of operations and cash flows. Events or conditions caused by climate change, including risk of wildfires, severe weather conditions and flooding caused by rising sea levels, could have a greater impact on the California Utilities' operations than the California Utilities currently anticipate. If the CPUC fails to adjust including the ways in which they could materially adversely affect the California Utilities' rates to reflect the impact of events or conditions caused by climate change or if a major fire is determined to be caused by our equipment, and Sempra Energy's and the California Utilities' business, financial condition, results of operations, liquidity, and and/or cash flows, in this risk factor below and above under "Risks Related to All Sempra Energy Businesses – Operational Risks."~~

Although we spend significant resources on measures designed to mitigate wildfire risks, there is no assurance that these measures will be successful or effective in reducing our wildfire-related losses or that their costs will be fully recoverable in rates. The California Utilities are required by applicable California law to submit annual wildfire mitigation plans for approval by the Wildfire Safety Division of the CPUC and could be subject to increased risks if these plans are not approved in a timely manner and fines or penalties for any failure to comply with the approved plans. One of our wildfire mitigation tools is to de-energize certain of our facilities when weather conditions become extreme and there is elevated wildfire ignition risk, in an effort to help mitigate this safety risk to the public. Such "public safety power shutoffs" have been subject to significant scrutiny by various stakeholders, including customers, regulators and law makers, that could lead to legislation or rulemaking that increases the risk of penalties and liability for damages associated with these events. Such costs may not be recoverable in rates. Unrecoverable costs, adverse legislation or rulemaking, scrutiny by key stakeholders or other negative

effects associated with wildfire mitigation efforts could materially adversely affect Sempra Energy's and SDG&E's financial condition, cash flows could be materially affected, and/or results of operations.

Vistra

Seasonality (Page 9 of 2021 10-K)

The demand for and market prices of electricity and natural gas are affected by weather. As a result, our operating results are impacted by extreme or sustained weather conditions and may fluctuate on a seasonal basis. Typically, demand for and the price of electricity is higher in the summer and winter seasons, when the temperatures are more extreme, and the demand for and price of natural gas is also generally higher in the winter. More severe weather conditions such as heat waves or extreme winter weather have made, and may make such fluctuations more pronounced. ~~However, not all regions of the U.S. typically experience extreme weather conditions at the same time, so Vistra Energy is typically not exposed to the effects of extreme weather in all parts of its business at once.~~ The pattern of this fluctuation may change depending on, among other things, the retail load served and the terms of contracts to purchase or sell electricity-

Our revenues, results of operations and operating cash flows generally are affected by price fluctuations in the wholesale power market and other market factors beyond our control (Page 22 of 2021 10-K)

Extreme weather events can also materially impact power prices or otherwise exacerbate conditions or circumstances that result in volatility of power prices. For example, in February 2021, the U.S. experienced winter storm Uri and extreme cold temperatures in the central U.S., including Texas. This severe weather event substantially increased the demand for natural gas used in our electric power generation business, and the cold further limited the availability of renewable generation across the region contributing to extremely high market prices for natural gas and electricity, which resulted in substantial increases in the costs to procure sufficient fuel supply and increased collateral posting requirements. See "We may be materially and adversely affected by the effects of extreme weather conditions and seasonality" and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for additional discussion about the expected impacts of extreme weather, including the winter storm.

We may be materially and adversely affected by the effects of extreme weather conditions and seasonality (Page 43 of 2021 10-K)

We may be materially affected by weather conditions and our businesses may fluctuate substantially on a seasonal basis as the weather changes. In addition, we ~~could be~~ subject to the effects of extreme weather conditions, including sustained or extreme cold or hot temperatures, hurricanes, floods, storms, fires, earthquakes or other natural disasters, which could stress our generation facilities and grid reliability, limit our ability to procure adequate fuel supply, or result in outages, damage or destroy our assets and result in casualty losses that are not ultimately offset by insurance proceeds, and could require increased capital expenditures or maintenance costs, including supply chain costs. Moreover, an extreme weather event could cause disruption in service to customers due to downed wires and poles or damage to other operating equipment, which could result in us foregoing sales of electricity and lost revenue. Similarly, an extreme weather ~~event might~~ events have previously affected, and may in the future, affect, the availability of generation and transmission capacity, limiting our ability to source or deliver power where it is needed or limit our ability to source fuel for our plants ~~(, including due to damage to rail or natural gas pipeline infrastructure).~~ Additionally, extreme weather has resulted, and may in the future result, in (i) unexpected increases in customer load, requiring our retail operation to procure additional electricity supplies at wholesale prices in excess of customer sales prices for electricity. ~~These, (ii) the~~

failure of equipment at our generation facilities, (iii) a decrease in the availability of, or increases in the cost of, fuel sources, including natural gas, diesel and coal, or (iv) unpredictable curtailment of customer load by the applicable ISO/RTO in order to maintain grid reliability, resulting in the realization of lower wholesale prices or retail customer sales. See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of the expected impacts of winter storm Uri. Additionally, climate change may produce changes in weather or other environmental conditions, including temperature or precipitation levels, and thus may impact consumer demand for electricity. In addition, the potential physical effects of climate change, such as increased frequency and severity of storms, floods, and other climatic events, could disrupt our operations and cause us to incur significant costs to prepare for or respond to these effects. Weather conditions, which cannot be reliably predicted, could have adverse consequences by requiring us to seek additional sources of electricity when wholesale market prices are high or to sell excess electricity when market prices are low, as well as significantly limiting the supply of, or increasing the cost of our fuel supply, each of which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Appendix D: Comparison of Companies' 2010 and 2011 10-Ks²

AEP

Global Warming (Page 9 of 2011 10-K)

Global warming creates the potential for physical and financial risk. The materiality of the risks depends on whether any physical changes occur quickly or over several decades and the extent and nature of those changes. Physical risks from climate change could include changes in weather conditions. Our ~~customers'~~customers' energy needs currently vary with weather conditions, primarily temperature and humidity. For residential customers, heating and cooling today represent their largest energy use. To the extent weather patterns change significantly, ~~customers'~~customers' energy use could increase or decrease depending on the duration and magnitude of any changes. Increased energy use due to weather changes could require us to invest in more generating assets, transmission and other infrastructure to serve increased load, driving the overall cost of electricity ~~up~~higher. Decreased energy use due to weather changes could affect our financial condition through lower sales and decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions and increased storm restoration costs. We may not recover all costs related to mitigating these physical and financial risks. Weather conditions outside of our service territory could also have an impact on our revenues, either directly through changes in the patterns of our off-system power purchases and sales or indirectly through demographic changes as people adapt to changing weather. We buy and sell electricity depending upon system needs and market opportunities. Extreme weather conditions that create high energy demand could raise electricity prices, which could increase the cost of energy we provide to our customers and could provide opportunity for increased wholesale sales. To the extent climate change impacts a ~~region's~~region's economic health, it could also impact our revenues. Our financial performance is tied to the health of the regional economies we serve. The price of energy, as a factor in a region's cost of living as well as an important input into the cost of goods, has an impact on the economic health of our communities. The cost of additional regulatory requirements would normally be borne by consumers through higher prices for energy and purchased goods.

CenterPoint

Global Climate Change (Page 21 of 2011 10-K)

To the extent climate changes occur, our businesses may be adversely impacted, though we believe any such impacts are likely to occur very gradually and hence would be difficult to quantify with specificity. To the extent global climate change results in warmer temperatures in our service territories, financial results from our natural gas distribution businesses could be adversely affected through lower gas sales, and our gas transmission and field services businesses could experience lower revenues. On the other hand, warmer temperatures in our electric service territory may increase our revenues from transmission and distribution through increased demand for electricity for cooling. Another possible climate change ~~that has been widely discussed in recent years is the possibility of~~is more frequent and more severe weather events, such as hurricanes or tornadoes. Since many of our facilities are located along or near the Gulf Coast, increased or more severe hurricanes or tornadoes can increase our costs to repair damaged

² This comparison focuses on physical risk information in companies' 2010 and 2011 10-Ks. This information was compiled and aggregated across multiple sections of each companies' 10-Ks. Sempra, Exelon, and Vistra are all excluded from this comparison. Neither Exelon nor Vistra were public in 2010 or 2011. Sempra did not have operations in Texas in 2010 or 2011.

facilities and restore service to our customers. When we cannot deliver electricity or natural gas to customers or our customers cannot receive our services, our financial results can be impacted by lost revenues, and we generally must seek approval from regulators to recover restoration costs. To the extent we are unable to recover those costs, or if higher rates resulting from our recovery of such costs result in reduced demand for our services, our future financial results may be adversely impacted.

NRG

Policies at the national, regional and state levels to regulate GHG emissions could adversely impact NRG's result of operations, financial condition and cash flows (Page 41 of 2011 10-K)

Hazards customary to the power production industry include the potential for unusual weather conditions, which could affect fuel pricing and availability, the Company's route to market or access to customers, i.e. transmission and distribution lines, or critical plant assets. To the extent that climate change contributes to the frequency or intensity of weather related events, NRG's operations and planning process could be impacted.

Seasonality and Price Volatility (Page 14 of 2011 10-K)

The sale of electric power to retail customers is also a seasonal business with the demand for power ~~peaking during the summer months, generally peaking during the summer months. As a result, net working capital requirements for the Company's retail operations generally increase during summer months along with the higher revenues, and then decline during off-peak months.~~ Weather may impact operating results and extreme weather conditions could materially affect results of operations. The rates charged to retail customers may be impacted by fluctuations in the price of natural gas, transmission constraints, competition, and changes in market heat rates-

Significant events beyond the Company's control, such as hurricanes and other weather-related problems or acts of terrorism, could cause a loss of load and customers and thus have a material adverse effect on the Company's Texas retail business (Page 43 of 2011 10-K)

The uncertainty associated with events beyond the Company's control, such as significant weather events and the risk of future terrorist activity, could cause a loss of load and customers and may affect the Company's results of operations and financial condition in unpredictable ways. In addition, significant weather events or terrorist actions could damage or shut down the power transmission and distribution facilities upon which the retail business is dependent. Power supply may be sold at a loss if these events cause a significant loss of retail customer load.

PNM

Climate Change Issues (Page A-59 of 2011 10-K)

Given the geographic location of ~~our~~its facilities and customers, ~~we~~PNM generally ~~have~~has not been exposed to the extreme weather events and other physical impacts commonly attributed to climate change, with the possible exception of drought conditions periodically, and ~~we generally do not expect~~ physical changes ~~are generally not expected~~ to be of material consequence ~~to us~~ in the near-term. Drought conditions in northwestern New Mexico could impact the availability of water for cooling coal-~~fired~~ ~~generating~~ plants. Water shortage sharing agreements have been in place since 2003, although no shortage has been declared due to sufficient ~~snow pack~~precipitation in the San Juan Basin. PNM also has a supplemental water contract in place with the Jicarilla Tribe to help address any water shortages from primary sources. The contract expires December 31, 2016. TNMP, First Choice, and Optim Energy have

operations in the Gulf coast area of Texas, which experiences periodic hurricanes. In addition to potentially causing physical damage to Company or Optim Energy owned facilities, which disrupt the ability to transmit, distribute, and/or generate energy, hurricanes can temporarily reduce customers' usage and demand for energy.

Water Supply (Page B-98 of 2011 10-K)

Because of New Mexico's arid climate and periodic drought conditions, there is a growing concern in New Mexico about the use of water for power plants. PNM has secured water rights in connection with the existing plants at Afton, Luna, and Lordsburg. Water availability does not appear to be an issue for these plants at this time. The "four corners" region of New Mexico, in which SJGS and Four Corners are located, experienced drought conditions during 2002 through 2004 that could have affected the water supply for PNM's generation plants: in that region. In future years, if adequate precipitation is not received in the watershed that supplies the four corners region, the plants could be impacted. Consequently, PNM, APS, and BHP Billiton have undertaken activities to secure additional water supplies for SJGS, Four Corners, and related mines. PNM has reached an agreement for a voluntary shortage sharing agreement with tribes and other water users in the San Juan Basin for a term ending December 31, 2012. Further, PNM and BHP Billiton have reached agreement on a long-term supplemental contract relating to water for SJGS with the Jicarilla Apache Nation that ends in 2016. APS and BHP Billiton have entered into a similar contract for Four Corners. APS is continuing to work with area stakeholders to implement agreements to minimize the effect, if any, on future operations of Four Corners. Although the Company does not believe that its operations will be materially affected by the drought conditions at this time, it cannot forecast the weather situation or its ramifications, or how regulations and legislation may impact the Company's situation in the future, should the shortages occur in the future. In April 2010, APS signed an agreement on behalf of the PVNGS participants with five cities to provide cooling water essential to power production at PVNGS for the next forty years.

The operating results of PNMR and its operating subsidiaries and Optim Energy are affected by weather conditions and regional drought and may fluctuate on a seasonal and quarterly basis (Page A-22 of 2011 10-K)

Electric power generation, transmission, and distribution are generally seasonal businesses with demand for power from PNMR's and Optim Energy's electric operations traditionally peaking during the hot summer months. As a result, the operating results of PNMR ~~and~~, its operating subsidiaries, and Optim Energy will likely fluctuate substantially on a seasonal basis. ~~In addition, the sale of PNM Gas on January 30, 2009 and the absence of revenues from gas operations, which peaked in the winter months, changed quarterly earnings distribution.~~ In addition, PNMR and its operating subsidiaries have historically sold less power, and consequently earned less income, when weather conditions are milder. Unusually mild weather in the future could reduce the revenues, net earnings, available cash, and borrowing ability of PNMR and its operating subsidiaries. Drought conditions in New Mexico generally, and especially in the "four corners" region, in which SJGS and ~~the~~ Four Corners ~~plant~~ are located, may affect the water supply for PNM's generating plants. If adequate precipitation is not received in the watershed that supplies that region, PNM may have to decrease generation at these plants, which would require the purchase of power to serve PNM's customers and/or reduce PNM's ability to sell excess power on the wholesale market and reduce its revenues. Drought conditions or actions taken by regulators or legislators could limit PNM's supply of water, and PNM's and PNMR's business may be adversely impacted. Although PNM has been able to maintain adequate access to water through supplemental contracts and voluntary shortage sharing agreements with tribes and other water users in the "four corners" region, PNM cannot be certain that it will be able to do so in the future. TNMP, First Choice, and Optim Energy have operations in the Gulf coast area of Texas, which experiences periodic hurricanes. In addition to potentially causing physical damage to Company or Optim Energy owned facilities, which disrupt the ability to transmit, distribute,

and/or generate energy, hurricanes can reduce customers' usage and demand for energy. These factors could reduce ~~revenues~~ results of operation and ~~earnings~~ cash flows.