PNM RESOURCES INC
Form 10-K/A
August 08, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
(Amendment No. 2)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2005

Commission File Number	Registrants, State of Incorporation, Address and Telephone Number	I.R.S. Employer Identification No.
001-32462	PNM Resources, Inc. (A New Mexico Corporation) Alvarado Square Albuquerque, New Mexico 87158 (505) 241-2700	85-0468296
001-06986	Public Service Company of New Mexico (A New Mexico Corporation) Alvarado Square Albuquerque, New Mexico 87158 (505) 241-2700	85-0019030
002-97230	Texas-New Mexico Power Company (A Texas Corporation) 4100 International Plaza, P.O. Box 2943 Fort Worth, Texas 76113 (817) 731-0099	75-0204070

Securities Registered Pursuant To Section 12(b) Of The Act:

Registrant	Title of Each Class	Name of Each Exchange on Which Registered
PNM Resources, Inc.	Common Stock, no par value	New York Stock Exchange
PNM Resources, Inc.	6.75% Equity Units, $50 stated value	New York Stock Exchange

Securities Registered Pursuant To Section 12(g) Of The Act:

Registrant	Title of Each Class
Public Service Company of New Mexico	1965 Series, 4.58% Cumulative Preferred Stock

($100 stated value without sinking fund)

Indicate by check mark whether each registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

PNM Resources, Inc. (“PNMR”)	YES	ü	NO	
Public Service Company of New Mexico (“PNM”)	YES		NO	ü
Texas-New Mexico Power Company (“TNMP”)	YES		NO	ü

Indicate by check mark if each registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

PNMR	YES		NO	ü
PNM	YES		NO	ü
TNMP	YES	ü	NO	

Indicate by check mark whether PNMR and PNM (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) have been subject to such filing requirements for the past 90 days.
YES ü NO __

Indicate by check mark whether TNMP (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.
YES __ NO ü

(NOTE: As a voluntary filer, not subject to the filing requirements, TNMP filed all reports under Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months.)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrants' knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. __

Indicate by check mark whether PNMR is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer ü Accelerated filer __ Non-accelerated filer __

Indicate by check mark whether PNM and TNMP are large accelerated filers, accelerated filers, or non-accelerated filers (as defined in Rule 12b-2 of the Act).

Large accelerated filer __ Accelerated filer __ Non-accelerated filer ü

Indicate by check mark whether the registrants are a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES __ NO ü

As of February 28, 2006, 68,786,286 shares of common stock, no par value per share, of PNMR were outstanding.

The total number of shares of Common Stock of PNM outstanding as of February 28, 2006 was 39,117,799 all held by PNMR (and none held by non-affiliates).

The total number of shares of Common Stock of TNMP outstanding as of February 28, 2006 was 9,615 all held indirectly by PNMR (and none held by non-affiliates).

On June 30, 2005 the aggregate market value of the voting stock held by non-affiliates of PNMR as computed by reference to the New York Stock Exchange composite transaction closing price of $28.81 per share reported by The Wall Street Journal, was $1,980,440,339.

EXPLANATORY NOTE REGARDING AMENDMENT NO. 2

This Amendment No. 2 to the Annual Report on Form 10-K/A ("Amendment No. 2") amends the Registrants' Annual Report on Form 10-K/A Amendment No. 1 for the fiscal year ended December 31, 2005, initially filed with the Securities and Exchange Commission ("SEC") on April 19, 2006 (the "Original Filing").

Amendment No. 2 is being filed to correct the allocation of goodwill recorded for the June 6, 2005 acquisition of TNP Enterprises, Inc. and Subsidiaries by PNM Resources, Inc. ("PNMR"). The goodwill recorded in this purchase was allocated between Texas-New Mexico Power Company ("TNMP") and First Choice Power, L.P. ("First Choice"). Subsequent to the Original Filing, it was determined that goodwill was not properly allocated between the two entities. The reallocation of goodwill is detailed below.

		As Previously Reported		Restatement (In thousands)		As Restated
TNMP	$	456,088	$	(88,843)	$	367,245
First Choice		43,067		88,843		131,910
Total Goodwill	$	499,155	$	-	$	499,155

TNMP's Paid-in-capital is also reduced by the restatement amount shown above. Amendment No. 2 has no effect on the Statements of Earnings or Statements of Cash Flows of TNMP. Amendment No. 2 restates the goodwill allocation between PNMR's subsidiaries, TNMP and First Choice, and, therefore, has no effect on the Consolidated Balance Sheets of PNMR, but does impact the Notes to the Consolidated Financial Statements. Amendment No. 2 does not restate the Consolidated Financial Statements of Public Service Company of New Mexico. Refer to Note 24 to the Consolidated Financial Statements for additional detail on the restatement.

For the convenience of the reader, Amendment No. 2 sets forth the Original Filing in its entirety, with the exception of the corrections described above, a related revision to Item 9A and a clarification of the disclosures related to Palo Verde Nuclear Generating Station decommissioning costs. In addition, Amendment No. 2 has been signed as of a current date and all certifications of the Registrants' Chief Executive Officer and Principal Financial Officer are given as of a current date. This Amendment does not reflect events occurring after the filing of the Original Filing or modify or update the Original Filing in any way other than to correct the items described above and to correct several immaterial items.

PNM AND TNMP MEET THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (I) (1) (a) AND (b) OF FORM 10-K AND ARE THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION (I) (2).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following document are incorporated by reference into Part III of this report:

Proxy Statement to be filed by PNMR with the SEC pursuant to Regulation 14A relating to the annual meeting of stockholders of PNMR to be held on May 16, 2006.

This Form 10-K represents separate filings by PNMR, PNM and TNMP. Information herein relating to an individual registrant is filed by that registrant on its own behalf. PNM makes no representations as to the information relating to PNMR and its subsidiaries other than PNM. TNMP makes no representations as to the information relating to PNMR and its subsidiaries other than TNMP. When this Form 10-K is incorporated by reference into any filing with the SEC made by PNM or TNMP, the portions of this Form 10-K that relate to PNMR and its subsidiaries other than PNM or TNMP, respectively, are not incorporated by reference therein.

On June 6, 2005, PNMR completed its acquisition of TNP Enterprises, Inc. and Subsidiaries. See Note 2 in the Notes to Consolidated Financial Statements under Part II, Item 8. "Financial Statements and Supplementary Data," of this report for further information. Commencing with the Form 10-Q for the quarter ended June 30, 2005, TNMP was included in the filing of PNMR and PNM.

PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES

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PART III

GLOSSARY

Afton	Afton Generating Station
ALJ	Administrative Law Judge
Altura	Altura Power L.P.
APB	Accounting Principles Board
APS	Arizona Public Service Company
ARO	Asset Retirement Obligation
Avistar	Avistar, Inc.
BLM	U.S. Department of the Interior Bureau of Land Management
BNCC	BHP Navajo Coal Company
Board	Board of Directors
BTU	British Thermal Unit
Cal PX	California Power Exchange
Cal ISO	California Independent System Operator
CCN	Certificate of Public Convenience and Necessity
Company	PNM Resources, Inc. and Subsidiaries
Congress	United States Congress
Constellation	Constellation Energy Commodities Group, Inc.
Decatherm	1,000,000 BTUs
Delta	Delta-Person Limited Partnership
DOJ	United States Department of Justice
Duke	Duke Energy Corporation
EaR	Earnings at Risk
EIP	Eastern Interconnection Project
EITF	Emerging Issues Task Force
EPE	El Paso Electric Company
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
Farmington	City of Farmington, New Mexico
FCPSP	First Choice Power Special Purpose, L.P.
FERC	Federal Energy Regulatory Commission
First Choice	First Choice Power, L. P. and Subsidiaries
FIP	Federal Implementation Plan
Four Corners	Four Corners Power Plant
FPL	FPL Energy New Mexico Wind, LLC
GAAP	Generally Accepted Accounting Principles in the United
	States of America
GCT	Grand Canyon Trust
Global Electric Agreement	Signed by PNMR and other parties in 2003; provides for a five-year rate path for New Mexico jurisdictional customers that began in September 2003
Great Southwestern	Great Southwestern Construction, Inc.

IBLA	Interior Board of Land Appeals
IRS	United States Internal Revenue Service
ISO	Independent System Operator
LIBOR	London Interbank Offered Rate
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
MMBTUs	Million British Thermal Units
Moody's	Moody’s Investor Services, Inc.

MW	Megawatt
MWh	Megawatt Hour
Navajo Acts	Navajo Nation Air Pollution Prevention and Control Act, the
	Navajo Nation Safe Drinking Water Act, and the Navajo
	Nation Pesticide Act
Ninth Circuit	United States Court of Appeals for the Ninth Circuit
NMED	New Mexico Environment Department
NMPRC	New Mexico Public Regulation Commission
NNHPD	Navajo Nation Historic Preservation Department
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
OASIS	Open Access Same Time Information System
OATT	Open Access Transmission Tariff
O&M	Operations and Maintenance
PGAC	Purchased Gas Adjustment Clause
PG&E	Pacific Gas and Electric Co.
PNM	Public Service Company of New Mexico and Subsidiary
PNMR	PNM Resources, Inc. and Subsidiaries
PPA	Power Purchase Agreement
PRG	Power Resource Group, Inc.
PSA	Power Supply Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PUHCA	The Public Utility Holding Company Act
PURPA	Public Utility Regulatory Policy Act of 1978
PVNGS	Palo Verde Nuclear Generating Station
Reeves	Reeves Generating Station
REP	Retail Electricity Provider
Restructuring Act	New Mexico Electric Utility Industry Restructuring Act of 1999,
	as amended
RMC	Risk Management Committee
RMRR	Routine Maintenance, Repair or Replacement
RTO	Regional Transmission Organization
SCE	Southern California Edison Company
SCPPA	Southern California Public Power Authority
SDG&E	San Diego Gas and Electric Company
SEC	United States Securities and Exchange Commission
Sempra	Sempra Energy
Senate Bill 7	Legislation that established retail competition in Texas
SESCO	San Angelo Electric Service Company
SFAS	Statement of Financial Accounting Standards
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station

SO2	Sulfur Dioxide
S&P	Standard and Poors Ratings Services
SPS	Southwestern Public Service Company
SW Acquisition	SW Acquisition, L.P.
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act (also known as Senate Bill 7)
TNMP	Texas-New Mexico Power Company and Subsidiaries
TNP	TNP Enterprises, Inc. and Subsidiaries
Throughput	Volumes of gas delivered, whether or not owned by the Company
Tri-State	Tri-State Generation and Transmission Association, Inc.
Tucson	Tucson Electric Power Company

Twin Oaks	Assets of Twin Oaks Power, LP and Twin Oaks Power III, LP
UAMPS	Utah Associated Municipal Power Systems
USBR	United States Bureau of Reclamation
USFS	United States Forest Service
VaR	Value at Risk
Wood River	Wood River Partners, L.P.
WSPP	Western Systems Power Pool

PART I

ITEM 1. BUSINESS

THE COMPANY

PNMR was incorporated in the State of New Mexico in 2000. The Company's three primary subsidiaries are PNM, TNMP and First Choice. PNM was incorporated in the State of New Mexico in 1917. Upon the completion in 2001 of a one-for-one share exchange between PNM and PNMR, PNMR became the parent company of PNM. Prior to the share exchange, PNMR had existed as a subsidiary of PNM. The new parent company began trading on the New York Stock Exchange under the same PNM symbol beginning in December 2001.

On June 6, 2005, PNMR completed the acquisition of TNP. Prior to the consummation of the acquisition, TNP was a privately owned holding company based in Fort Worth, Texas. TNP's principal subsidiaries are TNMP and First Choice. TNMP's predecessor was organized in the State of Texas in 1925 and First Choice was organized in the State of Texas in 2000. See Note 2 in the Notes to Consolidated Financial Statements for details about the acquisition of TNP.

These filings for PNMR, PNM and TNMP include disclosures for PNMR, PNM and TNMP. For discussion purposes, this report will use the term "Company" when discussing matters of common applicability to PNMR, PNM and TNMP. Discussions regarding only PNMR, PNM or TNMP will be clearly indicated as such.

In December 2004, PNMR became a registered holding company under PUHCA. As a result of the requirement to register as a holding company, PNMR created PNMR Services Company, a wholly owned services company, which began operation in January 2005. PNMR's status as a registered holding company did not change the utility operations of the Company. Effective with the acquisition of TNP on June 6, 2005, all TNMP employees who were providing corporate support to TNP and First Choice became employees of PNMR Services Company. Energy legislation enacted in August 2005 resulted in the repeal of PUHCA effective February 2006. PNMR is in the process of evaluating the effects of that repeal, along with the other provisions of the legislation.

PNMR is an investor-owned holding company of energy and energy-related businesses. PNM is an integrated public utility with regulated and unregulated operations primarily engaged in (i) the generation, transmission and distribution of electricity, (ii) transmission, distribution and sale of natural gas within New Mexico, and (iii) unregulated operations primarily focused on the sale and marketing of electricity in the western United States. TNMP is a regulated utility operating in Texas and New Mexico. In Texas, TNMP provides regulated transmission and distribution services. In New Mexico, TNMP provides integrated electric services that include the transmission, distribution, purchase and sale of electricity. First Choice is a competitive retail electric provider operating in Texas. In addition, PNMR provides energy and technology related services through its wholly owned subsidiary, Avistar.

In January 2006, Altura, an indirect, wholly owned subsidiary of PNMR, entered into an agreement to purchase Twin Oaks no earlier than April 17, 2006. The Twin Oaks facility is a 305 MW coal-fired plant located in Texas. See Note 22 in the Notes to Consolidated Financial Statements for further details about the proposed acquisition of Twin Oaks.

Financial information relating to amounts of sales, revenue, net income and total assets of the Company's reportable segments is contained in "Part II, Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operation" and Note 3 in the Notes to Consolidated Financial Statements.

COMPANY WEBSITE

The Company's Internet address is http://www.pnmresources.com. The contents of the website are not a part of this Form 10-K. The Company's filings with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, are accessible free of charge at http://www.pnmresources.com as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. These reports are also available upon request in print from the Company free of charge. Additionally, the Company's Corporate Governance Principles, code of ethics (*Do the Right Thing-*

Principles of Business Conduct) and charters of the Company's Audit and Ethics Committee, Governance and Public Policy Committee, Human Resources and Compensation Committee and Finance Committee are available on the Company's website at http://www.pnmresources.com/ge/index and such information is available in print, without charge, to any shareholder who requests it.

REGULATED OPERATIONS

PNM Electric

PNM Electric is an integrated electric utility that consists of generation, transmission and distribution of electricity for retail electric customers in New Mexico and the sale of transmission to third parties as well as to PNM Wholesale and TNMP. PNM Electric provides retail electric service to a large area of north central New Mexico, including the cities of Albuquerque and Santa Fe, and certain other areas of New Mexico. PNM Electric owns or leases transmission lines, interconnected with other utilities in New Mexico, south and east into Texas, west into Arizona, and north into Colorado and Utah. The Company’s largest non-affiliated retail electric customer was served by PNM Electric and accounted for approximately 8.3% of the Company’s total retail electric revenues for the year ended December 31, 2005.

In 1990, the NMPRC established an off-system sales methodology that provided for a sharing mechanism whereby a certain amount of revenues from off-system sales were credited to reduce retail cost of service. Off-system sales above the amounts credited to retail customers accrue to the benefit of shareholders. Subsequent rate case settlements have continued to utilize this methodology.

Customer rates for retail electric service are set by the NMPRC based on the provisions of the Global Electric Agreement. In 2003, the NMPRC approved the Global Electric Agreement that set a rate path through 2007. PNM agreed to decrease retail electric rates by 6.5% in two phases over three years. The first phase of the rate reductions became effective in September 2003 and the second phase became effective September 1, 2005. (See Note 17 in the Notes to Consolidated Financial Statements.)

Weather-normalized retail electric load growth was 2.5% in 2005. PNM Electric's system peak demands for its retail customers and firm requirements customers in the summer and the winter for the last three years are shown in the following table:

System Peak Demands

	2005	2004	2003
		(Megawatts)	
Summer	1,779	1,655	1,661
Winter	1,530	1,481	1,434

PNM holds long-term, non-exclusive franchise agreements for its electric retail operations, with varying expiration dates. These franchise agreements allow PNM to access public rights-of-way for placement of PNM's electric facilities. Franchise agreements have expired in Albuquerque, Santa Fe, Bernalillo County, Sandoval County, San Miguel County, Village of Bosque Farms, Pueblo de Cochiti, Village of Tijeras, McKinley County and the City of Las Vegas. PNM remains obligated under New Mexico state law to provide service to customers in these franchise areas despite the absence of an effective franchise agreement. The Albuquerque metropolitan area accounted for approximately 53% of PNM Electric's 2005 electric utility operating revenues (excluding transmission revenues), and no other franchise area represents more than approximately 10%. PNM continues to collect and pay franchise fees to Albuquerque and Santa Fe, Village of Bosque Farms, Village of Tijeras and the City of Las Vegas. PNM currently does not pay franchise fees to Bernalillo County, Luna County, Sandoval County, McKinley County, Pueblo de Cochiti or San Miguel County.

PNM Electric owns or leases 2,897 circuit miles of electric transmission lines, interconnected with other utilities in New Mexico, east and south into Texas, west into Arizona, and north into Colorado and Utah. Due to rapid load growth in PNM Electric's service territory in recent years and the lack of transmission development, most of the capacity on this transmission system is fully committed and there is very little or no additional access available on a firm commitment basis. These factors result in physical constraints on the system and limit the ability to wheel power into PNM Electric's service area from outside of New Mexico.

TNMP Electric

TNMP Electric consists of the operations of TNMP. TNMP is a regulated utility operating in Texas and New Mexico. In Texas, TNMP Electric provides regulated transmission and distribution services under the provisions of TECA in accordance with Senate Bill 7. TNMP Electric serves a market niche of small-to-medium-sized communities. Only three of the 84 communities in TNMP Electric's service territory have populations exceeding 50,000. TNMP Electric's service territory is organized into two operating areas: Texas and New Mexico. In most areas that TNMP Electric serves, it is the exclusive provider of transmission and distribution services.

TNMP Electric's Texas territory consists of three non-contiguous areas. One portion of this territory extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red River, and to communities north, west and south of Fort Worth. The second portion of its territory includes the area along the Texas Gulf Coast between Houston and Galveston, and the third portion includes areas of far west Texas between Midland and El Paso. TNMP Electric's Texas operations lie entirely within the ERCOT region. ERCOT is the independent system operator that is responsible for maintaining reliable operations for the bulk electric power supply system in the ERCOT region, which is located entirely within Texas and serves approximately 85% of the electrical load in ERCOT. See "Rates and Regulation" below for more information about ERCOT. In New Mexico, TNMP provides integrated electricity services that include the transmission, distribution, purchase and sale of electricity to its customers in southwest and south central New Mexico as well as transmission to third parties and to PNM.

TNMP Electric provides transmission and distribution services at regulated rates to various retail electric providers that, in turn, provide retail electric service within TNMP Electric’s Texas service area. As of December 31, 2005, 30 retail electric providers served customers that receive transmission and distribution services from TNMP Electric. First Choice, TNMP Electric’s affiliated retail electric provider, was TNMP Electric’s largest customer and accounted for approximately 56% of TNMP's total retail electric revenues for the year ended December 31, 2005.

TNMP holds long-term, non-exclusive franchise agreements for its electric transmission and distribution services, with varying expiration dates. These franchises accounted for approximately 7% of TNMP’s 2005 total electric utility operating revenues. TNMP intends to negotiate and execute new or amended franchise agreements with municipalities as they expire. Sales within the remaining 84 franchises contributed approximately 63% of TNMP’s 2005 total electric utility operating revenues. The remainder of TNMP's revenues are earned from service provided to facilities in its service area that lie outside the territorial jurisdiction of the municipalities with which TNMP has franchise agreements.

PNM Gas

PNM Gas distributes natural gas to most of the major communities in New Mexico, including Albuquerque and Santa Fe. The Albuquerque metropolitan area accounted for approximately 50% of the total gas revenues in 2005. No single sales-service customer accounted for more than 0.9% of PNM Gas’ therm sales in 2005. PNM holds long-term non-exclusive franchises with varying expiration dates in all incorporated communities in New Mexico requiring franchise agreements except for the municipalities of Aztec, Bosque Farms, Eunice, Gallup, Grants, Hurley, Los Ranchos de Albuquerque, Milan, Santa Clara, Santa Fe County, and Silver City. PNM Gas remains obligated to serve these franchise areas pursuant to state law despite the absence of an effective franchise agreement.

PNM Gas has a customer base that includes both sales-service customers and transportation-service customers. Sales-service customers purchase natural gas and receive transportation and delivery services from PNM Gas for which PNM Gas receives both cost-of-gas and cost-of-service revenues. In 2005, the market price of natural gas across the United States increased significantly, due to a hot 2005 summer, which led to more demand from natural gas-fired power plants, as well as due to the hurricanes in the Gulf Coast region of the United States. Cost-of-gas revenues collected from its sales-service customers are recovered in accordance with NMPRC regulations through the PNM Gas PGAC and represent a pass-through of the cost of natural gas to the customer. As a result, increases or decreases in gas revenues resulting from wholesale gas price fluctuations do not impact the Company’s consolidated gross margin (gross margin is equal to operating revenues minus cost of energy sold). An order was issued by the NMPRC in 2001 that approved an agreement regarding the hedging strategy of PNM Gas and the implementation of a price management fund program which includes a continuous monthly balancing account with a carrying charge. This carrying charge has the effect of keeping PNM Gas whole on purchases of gas since it is compensated for the time value of money that exists due to any delay in collections from customers. Additionally, PNM Gas makes occasional gas sales to off-system sales customers. Off-system sales deliveries generally occur at pipeline interconnections with the PNM Gas system and profits are shared between PNM Gas and its customers on a 30%/70% basis.

PNM Gas had 26 transportation-service customers in 2005, which procure gas for their end users independently of PNM Gas end users. Transportation-service customers are gas marketers and producers contracting with PNM Gas for transportation services to their end users and for other related services that provide PNM Gas with cost-of-service revenues only. Transportation services are provided to transportation-service customers at locations throughout the PNM Gas distribution system, as well as points on and off PNM Gas transmission pipelines. Through its transportation-service customers, PNM Gas provided gas transportation deliveries to 1,823 end users that were not PNM Gas customers during 2005.

In 2005, 38% of the total gas throughput of PNM Gas was related to transportation gas deliveries. The transportation rates of PNM Gas are unbundled, and transportation customers only pay for the service they receive. In 2005, revenues from transportation customers accounted for 3% of the total gas revenues of PNM Gas. Revenues from sales-service customers accounted for the remaining 97%. Cost of gas, on which PNM Gas makes no margin, accounted for 71% of total sales-service revenue. Because a major portion of the PNM Gas load is related to heating, sales levels are affected by the weather. In 2005, 60% of the total sales occurred in the months of January, February, March and December.

PNM Gas obtains its supply of natural gas primarily from sources within New Mexico by contracting with third party producers and marketers. These contracts are generally sufficient to meet its peak-day demand. PNM Gas serves certain cities that depend on El Paso Natural Gas Company or Transwestern Pipeline Company for transportation of gas supplies. Because these cities are not directly connected to the transmission facilities of PNM Gas, gas transported by these companies is the sole supply source for these cities. Such gas transportation is regulated by the FERC.

UNREGULATED OPERATIONS

PNM Wholesale

PNM Wholesale consists of the generation and sale of electricity into the wholesale market based on two product lines, long-term contracts and short-term sales. The source of these sales is supply created by selling the unused capacity of PNM's jurisdictional assets as well as the capacity of PNM's wholesale plants excluded from retail rates. Both regulated and unregulated generation is jointly dispatched in order to improve reliability, provide the most economic power to retail customers, and maximize profits on any wholesale transactions.

Long-term contracts include sales to firm-requirements and other wholesale customers with multi-year arrangements. At December 31, 2005, these contracts ranged from 1 to 14.5 year terms with an average term of 5.3 years. Short-term sales include transactions entered into for less than one year. They include forward market opportunities, which transactions do not qualify as normal sales and purchases as defined in SFAS No. 133, as amended, *"Accounting for Derivative Instruments and Hedging Activities,"* ("SFAS 133") and, as a result, are marked to market. Also included in short-term sales are spot market, hour ahead, day ahead, week ahead and other sales of any excess generation not required to fulfill PNM Electric's retail load and contractual commitments.

The PNM Wholesale strategy calls for increased asset-backed energy sales supported by long-term contracts in the wholesale market, where PNM's aggregate net open forward electric sales position, including short-term sales and long-term contracts, is generally covered by its forecasted excess generation capacity. Company management actively monitors the asset-backed sales by the use of stringent risk management policies. The Company's future growth plans call for approximately 75% of its new generation portfolio to be committed through long-term contracts. The 75% threshold is in compliance with the Global Electric Agreement. Growth is dependent on market development and on the Company's ability to generate funds for the Company's future expansion. The Company continues to operate in the wholesale market and seek appropriately priced asset additions such as the proposed acquisition of the Twin Oaks facility. Expansion of the Company's generation portfolio is dependent on the Company's ability to acquire favorably priced assets at strategic locations and to secure long-term commitments for the purchase of power from the acquired plants.

In 2005 and 2004, PNM Wholesale revenues stabilized following the preceding years when volatility was high. The Company has been successful in developing its wholesale power marketing activities in the western United States, even in times of market volatility. Management believes this success is due to its business strategy of providing electric power customized to meet the special needs of its customers. This marketing strategy is based on PNM Wholesale's net asset-backed methodology, which helps mitigate the risks inherent in wholesale power marketing activities. PNM Wholesale also utilizes long-term transactions to enhance its product offerings.

Certain of PNM's generation resources are excluded from retail electric rates. As a result, PNM Wholesale developed a wholesale power marketing strategy in which it sells the generation from its resources that are excluded from retail rates. This strategy also includes the forward purchase and sale of electricity to take advantage of market price opportunities in the electric wholesale market. During 2005, 2004 and 2003, PNM's sales in the wholesale electric markets accounted for approximately 58%, 62% and 62%, respectively, of its total MWh sales. Of the total wholesale electric sales made in 2005, 2004 and 2003, 87%, 80% and 82%, respectively, were transacted through purchases for resale. (See Item 2. "Properties.")

PNM Wholesale has entered into various firm wholesale electric sales contracts. These contracts contain fixed capacity charges in addition to energy charges. Capacity charges are fixed monthly payments for a commitment of resources to service the contract requirements. Energy charges are payments based on the amount of electricity delivered to the customer intended to compensate PNM Wholesale for its variable costs incurred to provide the energy. PNM Wholesale's firm-requirements demand was 281 MW in 2005, and is expected, based solely on existing contracts, to be 273 MW in 2006, 161 MW in 2007, 154 MW in 2008 and 90 MW in 2009. Firm requirements for TNMP's New Mexico customers are included in these amounts through 2006. In accordance with the NMPRC's stipulation approving PNMR’s acquisition of TNP, beginning January 1, 2007, TNMP’s New Mexico customers will be included in the PNM Electric load (see “Acquisition Agreements” below). No firm-requirements PNM Wholesale customer accounted for more than 6.9% of the Company's total electric sales for resale revenues for the year ended December 31, 2005.

First Choice

First Choice is a certified retail electric provider operating in Texas, which allows it to provide electricity to residential, small and large commercial, industrial and institutional customers. First Choice's responsibilities include acquiring new retail customers, setting up retail accounts, handling customer inquiries and complaints, and acting as a liaison between the transmission and distribution companies and retail customers. First Choice was organized in 2000 to act as TNMP’s affiliated retail electric provider, as required by TECA. Although First Choice is regulated in certain respects by the PUCT under ERCOT, the Company includes First Choice in the unregulated portion of its business because First Choice is not subject to traditional rate of return regulation.

First Choice serves price-to-beat and competitive customers (residential, commercial, and aggregated municipalities) in Texas. The price-to-beat customers are former customers of TNMP that have chosen to remain with First Choice, TNMP’s affiliated retail electric provider. First Choice focuses its competitive customer acquisition efforts in the major metropolitan areas that are open to electric choice within ERCOT, including Dallas-Fort Worth, Houston, Corpus Christi, and McAllen-Harlingen.

First Choice experiences increased sales and operating revenues during the summer months as a result of increased air conditioner usage in hot weather. In 2005, approximately 43% of First Choice’s consolidated annual revenues were recorded in June, July, August and September.

First Choice’s load fluctuates continuously due to among other things, customer additions and losses, changes in customer usage, unseasonal weather and customer switching. First Choice continually monitors and revises its load forecast to account for changing price-to-beat and competitive customer loads. First Choice develops short-term load forecasts to identify short-term load surpluses and shortages, and to ensure that hedges are in place to cover forecasted sales. To the extent these short-term load forecasts identify shortages, First Choice covers shortages through short-term power purchases or through purchases on the ERCOT balancing market.

In Texas, capacity auctions were a semi-regular event mandated by the TECA to promote liquidity in the marketplace. In the most recent auctions, First Choice was the successful bidder for four 25 MW baseload blocks of capacity in October 2005 and two 25 MW cyclic blocks of capacity in September 2005.

CORPORATE AND OTHER

PNMR Services Company provides corporate services to PNMR and to all of PNMR's business units, including PNM, Avistar, TNP, TNMP and First Choice based on shared services agreements. These services are billed at cost on a monthly basis and allocated to the business units. PNMR Services Company and Avistar are included in the Corporate and Other segment.

SOURCES OF POWER

PNMR

The Company has sources of power from property it owns or leases and power purchased through various long-term PPAs. For the year ended December 31, 2005, the Company had a 2,393 MW generation capacity from these sources.

First Choice assumed the energy supply activities of TNMP in Texas in 2002. In 2003, First Choice and Constellation executed a PSA that resulted in Constellation being the primary supplier of power for First Choice's customers through the end of 2007. Additionally, Constellation has agreed to supply power in certain transactions under the PSA beyond the date when that commitment expires. The Company's basic strategy is to minimize its exposure to fluctuations in market energy prices by matching fixed price sales contracts with fixed price supply. In addition, First Choice uses various financial instruments to hedge against the risk of adverse changes in natural gas prices. The PSA with Constellation resulted in Constellation assuming weather related risks because the contract is based on customer usage profiles as determined by ERCOT. First Choice retained the risks associated with customer attrition. (See Note 17 in the Notes to Consolidated Financial Statements.)

PNM

Sources of Power - Owned

As of December 31, 2005, the total net generation capacity of facilities owned by PNM was 1,744 MW, which includes all of PNM's interests in PVNGS, portions of which are held under operating leases. (See Item 2. "Properties.")

PNM is committed to increasing the utilization of its generation capacity at SJGS, Four Corners and PVNGS. SJGS is operated by PNM. SJGS' equivalent availability was 89.4% and 89.8% for the years ended December 31, 2005 and 2004, respectively. PVNGS' equivalent availability was 76.0% and 81.7% for the years ended December 31, 2005 and 2004, respectively. Four Corners' equivalent availability was 86.3% and 82.4% for the years ended December 31, 2005 and 2004, respectively. Four Corners and PVNGS are operated by APS.

PNM's Lordsburg and Afton plants were built to serve wholesale customers and other sales rather than New Mexico retail customers and, therefore, are not currently included in the retail rates. However, these plants may be needed in the future to serve the growing retail load as is the case for Afton, as described below. If so, these plants would have to be certified by the NMPRC and would then be subject to inclusion in PNM's retail rates in a future rate case. These plants were built as part of PNM's ongoing strategy of increasing generation capacity over time to serve increasing retail load, sales under long-term contracts and other sales. The plants owned by PNM are available through joint dispatch to support service to the retail customers of PNM.

In July 2005, PNM filed with the NMPRC an application for a CCN in which PNM requested NMPRC approval to operate Afton as a public utility plant and include in PNM's retail rate base in its next retail electric rate case the costs associated with the conversion of Afton from a combustion turbine to a combined cycle unit. In November 2005, PNM filed a joint stipulation with the NMPRC that would allow PNM to convert Afton to a combined cycle plant and bring Afton into retail rates, with 50% of Afton's capacity designated to serve PNM's customers and the other 50% designated to serve TNMP's New Mexico customers. Hearings were held in February 2006 before the NMPRC.

In November 2004, PNMR Development, a subsidiary of PNMR, purchased a one-third interest in Luna. Luna is a 570 MW, partially constructed, natural gas-fired power plant near Deming in southern New Mexico. The purchasers are investing approximately $100.0 million, one-third from each purchaser, to complete construction. In November 2005, the one-third interest in Luna was transferred from PNMR Development to PNM. PNM will continue to develop Luna and will utilize it as merchant plant. Luna is expected to be operational no later than the second quarter of 2006.

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Sources of Power - Leased

In 1996, PNM entered into an operating lease agreement for the rights to all the output of the Delta gas-fired generating plant for 20 years. The plant received FERC approval for "exempt wholesale generator" status. The maximum dependable capacity under the lease is 132 MW. The gas turbine generating unit is operated by Delta and is located on PNM’s retired Person Generating Station site in Albuquerque. Primary fuel for the gas turbine generating unit is natural gas provided by wholesale gas purchases. In addition, the unit has the capability to utilize low sulfur fuel oil if natural gas is neither available nor cost effective.

As discussed above, PNM leases portions of PVNGS. See Item 2. “Properties” and Note 7 in the Notes to Consolidated Financial Statements.

Sources of Power - PPAs

In addition to generating its own power, PNM purchases power in the open market. PNM's purchases under its long-term PPAs, including the Delta lease and the contract described below, were 649 MW in 2005 and are expected to be 599 MW in 2006, 532 MW in 2007, 532 MW in 2008, and 532 MW in 2009. This projected capacity assumes that contracts that end during the period are not renewed or extended. PNM also purchases power in the forward, day-ahead and real-time markets.

In 2002, PNM entered into an agreement with FPL to develop a 200 MW wind generation facility in New Mexico. PNM began receiving commercial power from the project in June 2003. FPL owns and operates the New Mexico Wind Energy Center, which consists of 136 wind-powered turbines on a site in eastern New Mexico. PNM has a contract to purchase all the power generated by the New Mexico Wind Energy Center for 25 years. In 2003, PNM received approval from the NMPRC for a voluntary tariff that allows PNM retail customers to buy wind-generated electricity for a small monthly premium. Power from the New Mexico Wind Energy Center is used to service load under the voluntary tariff and as part of PNM’s electric supply mix for meeting retail load. Any wind-generated electricity in excess of these amounts is sold on the wholesale power market, either within New Mexico or outside the state.

TNMP

TNMP purchases all electricity for its New Mexico customers' needs and energy-scheduling services under a wholesale power contract with PNM that extends through December 2006. As discussed below, in “Rates and Regulation,” in accordance with the NMPRC stipulation approving PNMR’s acquisition of TNP, PNM will remain the power supplier for TNMP’s New Mexico needs through 2010. As discussed above, First Choice performs the energy supply activities for TNMP’s Texas customers.

MARKET REACH

As of the date of this report, PNM owns firm transmission capacity to the Mead market hub in the amount of 100 MW, which serves various wholesale power markets and loads in the greater Las Vegas, Nevada area, and serves as a delivery point for the Cal ISO. In addition, PNM owns transmission capacity to serve major load centers in the Phoenix, Arizona area in amounts varying from 100 MW to 150 MW.

FUEL AND WATER SUPPLY

PNM

The percentages of PNM's generation of electricity (on the basis of KWh) fueled by coal, nuclear fuel and gas and oil, and the average costs to PNM of those fuels (in cents per million BTU), during the past three years were as follows:

	Coal		Nuclear		Gas and Oil	
	Percent of Generation	Average Cost	Percent of Generation	Average Cost	Percent of Generation	Average Cost
2005	71.3%	163.9	26.3%	45.7	2.4%	687.6
2004	70.1%	154.4	28.1%	52.5	1.8%	693.9
2003	68.0%	163.8	29.5%	44.5	2.5%	625.2

The generation mix for 2006 is expected to be 67.4% coal, 27.7% nuclear and 4.9% gas and oil. Due to locally available natural gas and oil supplies, the utilization of locally available coal deposits and the generally abundant supply of nuclear fuel, PNM believes that adequate sources of fuel are available for its generating stations into the foreseeable future.

Coal

See Note 16 in the Notes to Consolidated Financial Statements for information about PNM's coal supply.

Natural Gas

The natural gas used as fuel for the electric generating plants located in Albuquerque (Reeves and the Delta operating lease) is procured on the open market and delivered by PNM Gas through its transportation services. PNM Wholesale procures its gas supply independently of PNM Gas but obtains gas transportation services from PNM Gas.

Nuclear Fuel

PNM is one of several participants in PVNGS. (See Note 14 in the Notes to Consolidated Financial Statements.) The fuel cycle for PVNGS is comprised of the following stages:

- mining and milling of uranium ore to produce uranium concentrates;
- conversion of uranium concentrates to uranium hexafluoride;
- enrichment of uranium hexafluoride;
- fabrication of fuel assemblies;
- utilization of fuel assemblies in reactors; and
- storage and disposal of spent nuclear fuel.

The PVNGS participants have contracted for all of the PVNGS requirements for uranium concentrates and conversion services through 2008. The PVNGS participants have also contracted for all of the PVNGS enrichment services through 2010, 80% of enrichment services through 2013 and all of the fuel assembly fabrication services until at least 2015.

Water Supply

See Note 16 in the Notes to Consolidated Financial Statements for information about PNM's water supply.

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RATES AND REGULATION

PNM is subject to the jurisdiction of the NMPRC, with respect to its retail electric and gas rates, service, accounting, issuance of securities, construction of major new generation and transmission facilities and other matters regarding retail utility services provided in New Mexico. The FERC has jurisdiction over rates and other matters related to wholesale electric sales and cost recovery for a portion of PNM’s transmission network.

In Texas, TNMP provides regulated transmission and distribution services and is subject to the jurisdiction of the PUCT and certain municipalities with respect to rates and service. Within New Mexico, TNMP is subject to the jurisdiction of the NMPRC. TNMP is subject to traditional cost-of-service regulation in both Texas and New Mexico. TNMP is subject to the jurisdiction of the FERC for some of its activities, including the issuance of securities and the acquisition or disposition of properties in New Mexico. TNMP’s transmission and distribution activities in Texas are not subject to FERC regulation, because those activities occur solely within the ERCOT system of Texas.

First Choice is a member of ERCOT, the ISO responsible for maintaining reliable operations of the bulk electric power supply system in the Texas electric market. The responsibilities of ERCOT include ensuring that information relating to a customer's choice of retail electric provider is conveyed in a timely manner to anyone needing the information. ERCOT is also responsible for ensuring that electricity production and delivery are accurately accounted for among the generation resources and wholesale buyers and sellers in the ERCOT region. The ERCOT ISO does not operate a centrally dispatched pool and does not procure energy on behalf of its members other than to maintain the reliable operation of the transmission system. ERCOT also serves as agent for procuring ancillary services for those who elect not to secure their own ancillary services requirements.

Members of ERCOT include retail customers, investor and municipal owned electric utilities, rural electric cooperatives, river authorities, independent generators, power markets and retail electric providers. The electric market served by ERCOT operates under the reliability standards set by the North American Electric Reliability Council. The PUCT has primary jurisdictional authority over the electric market served by ERCOT and the reliability of electricity across Texas' main interconnected power grid.

First Choice provides energy to retail customers in Texas. Senate Bill 7 contains no provisions for the specific recovery of fuel and purchased power costs, although First Choice can request that the PUCT change the price-to-beat fuel factor twice a year to recognize changes in natural gas prices. The rates charged to new customers acquired by First Choice outside of TNMP’s service territory are not regulated by the PUCT, but are negotiated by First Choice with each customer. As a result, changes in fuel and purchased power costs will affect First Choice’s operating results.

The items below describe certain of the more significant rate and regulatory matters that are relevant to the Company. See Notes 16 and 17 in the Notes to Consolidated Financial Statements for a discussion of additional rate and regulatory matters.

<u>PNMR</u>

Energy Policy Act

In August 2005, the Energy Policy Act of 2005 was enacted, effective February 2006. Implementation of various portions of the law requires the issuance of rules by the FERC. The FERC adopted final rules implementing various provisions of the Energy Policy Act including rules pertaining to repeal of PUHCA of 1935 and implementation of PUHCA of 2005, the FERC’s expanded mergers and acquisitions approval authority and prohibition of energy market manipulation. The FERC has also issued a number of other proposed rules that are pending, including rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. The Company will continue to monitor, and participate in, as appropriate, proceedings involving implementation of the Energy Policy

Act.

PNM

Regional Transmission Issues

In July 2005, the FERC issued an order terminating its proceeding on standard market design, stating that since issuance of the standard market design notice of proposed rulemaking, the electric industry has made significant progress in the development of voluntary RTOs and ISOs. In September 2005, the FERC issued a Notice of Inquiry on Preventing Undue Discrimination and Preference in Transmission Services seeking information from the industry regarding the provisions of the OATT for possible revision in a future rulemaking.

In November 2005, the FERC issued a Notice of Proposed Rulemaking Promoting Transmission Investment through Pricing Reform. In the proposed rulemaking, the FERC notes declining investment in the national transmission grid and proposes certain incentive actions it is considering to increase transmission investment to improve the reliability of national transmission grid. In addition to the incentive proposals, the FERC would implement additional reporting requirements for public utilities that operate transmission systems. The Company intends to monitor and participate in these FERC notices and rulemakings.

Generation Market Power Filings

In its triennial market power screen filing in 2004, PNM reported that it continued to face transmission constraints in northern New Mexico and would continue to abide by the cost-based rate limitation on transmission service during times of transmission congestion for the northern New Mexico market. PNM also reported that for the EPE control area, PNM's revised wholesale market share screen was below 20% for all seasons. In its order in PNM's market-based rate filing, the FERC initiated a proceeding to determine if PNM's mitigation measure in northern New Mexico is sufficiently adequate to prevent the exercise of market power and also required additional explanation of PNM's revised wholesale market share calculation. The FERC established that rates reviewed under this proceeding for transactions completed in these two markets would be subject to refund effective March 6, 2005.

In April 2005, the FERC issued an order denying PNM's petition for rehearing regarding the FERC's finding that the existing mitigation measure for the northern New Mexico control area was insufficient, rejecting PNM's February 2005 compliance filing as to both the northern and southern New Mexico control areas and requiring PNM to submit a compliance filing containing one of the alternatives listed in the order. The FERC's order also clarified that market-based sales made at SJGS are sales made within PNM's northern control area and are subject to these proceedings. In July 2005, PNM made its compliance filing at the FERC. The filing indicated that, as a result of the completion of its analysis pursuant to the FERC's order, PNM did show failures in its own control area, but did not show failures in the EPE control area, with the exception of one measure. PNM maintained its position that when the historical data is considered, it is clear that PNM does not possess generation market power in either the PNM or EPE control area destination markets and PNM should maintain its market-based sales authority in those markets. In the event the FERC does not so find, PNM also proposed mitigation measures in both the PNM and EPE control area destination markets that will be applicable during the limited time periods when the failures occurred.

PNM cannot predict the outcome of the additional FERC proceedings on PNM's financial position or results of operations; however, should the FERC determine that PNM has generation market power in these two markets, PNM could continue to make sales at cost-based or otherwise mitigated rates and thus not have future revenues subject to refund in this matter.

FERC Office of Market Oversight and Investigations Audit

In November 2005, PNM received notice that the FERC Division of Operational Audits of the Office of Market Oversight and Investigations would perform a compliance audit of PNM. The audit covers the period from January

2004 to the present and will examine PNM's compliance with the FERC standards of conduct and OASIS requirements, compliance of PNM's transmission practices with the FERC regulations and applicable OATT, and compliance of PNM's wholesale electricity marketing operation with its market-based rate tariff. This audit is part of a series of routine, mandatory audits of all of the utilities under FERC oversight, focused on compliance with the FERC's rules and regulations. Similar audits have been conducted of other regional utilities. The FERC will issue its findings upon conclusion of the audit, which could take from six months to a year, or more to complete.

In preparing for an on-site visit by OMOI as part of its audit, and during the visit itself, the Company discovered computer system paths that could have permitted unauthorized Company personnel to access certain real-time transmission information concerning the PNM and TNMP transmission systems. The Company immediately reported to OMOI its discovery and disabled the paths. The Company's preliminary examination has not revealed any evidence that unauthorized access to transmission information was, in fact, obtained by use of these paths.

PNM has been cooperating, and will continue to cooperate, fully with the FERC to complete the audit. The Company cannot predict the outcome of the audit or whether the FERC will make any adverse findings related to PNM's compliance with the FERC's rules and regulations.

Global Electric Agreement

In 2003, PNM signed the Global Electric Agreement, which provided for the repeal of a majority of the New Mexico Restructuring Act, a fixed rate path, procedures for PNM's participation in unregulated generating plant activities and other regulatory issues. In accordance with this rate path, PNM reduced its retail rates by 2.5% in September 2005. The rate path is effective through December 31, 2007, at which time rates are subject to review by the NMPRC.

Renewable Portfolio Standard

The NMPRC issued a renewable resources rule in 2002 to encourage the development of renewable energy in New Mexico. The rule includes a provision requiring the use of a minimum of 5% renewable energy by January 1, 2006, with the minimum amount to increase 1% per year for each year until a renewable portfolio standard of 10% is reached in the year 2011. The Renewable Energy Act passed by the New Mexico Legislature establishes a mandatory renewable energy portfolio standard similar to the structure established by the NMPRC. The Renewable Energy Act provides for streamlined proceedings for utilities to obtain approval of procurement plans, provided certainty to utilities and protection for customers and required the NMPRC to establish a reasonable cost threshold for the procurement of renewable energy to prevent excessive costs being added to rates. Under the Renewable Energy Act, if renewable energy cannot be acquired under the threshold, the mandate would be suspended.

In September 2005, PNM made its 2006 annual portfolio summary filing and renewable energy procurement plan filing. PNM proposed to continue to procure renewable energy and certificates from wind resources, to pursue renewable energy projects and to implement a program to purchase renewable energy certificates from net-metered customers with small solar systems. The NMPRC approved this plan; however, with respect to cost recovery, costs incurred pursuant to the plan, with the exception of those for the small solar program, are subject to a rebuttable presumption of prudence.

<u>TNMP</u>

FERC Office of Market Oversight and Investigations Audit

In November 2005, the Company received notice that the FERC Division of Operational Audits of the Office of Market Oversight and Investigations would begin a compliance audit of the FERC jurisdiction transmission system of TNMP. The audit covers the period from the effective date of PNMR's acquisition of TNP in June 2005 to the present. The audit is substantially the same as the PNM audit discussed above.

Acquisition Agreements

In 2005, the PUCT approved a settlement agreement finding the acquisition of TNP to be in the public interest. Among other things, the settlement agreement called for:

- a two-year electric rate freeze that includes a $13.0 million annual rate reduction in TNMP's retail delivery rates effective May 1, 2005;
- an authorized return on equity of 10.25% on an implied capital structure of 60% debt and 40% equity for certain reporting purposes;
- the use of a 60/40% debt/equity capital structure in TNMP's next base rate case if filed before January 1, 2009; and

- a $6.0 million synergy savings credit amortized over 24 months effective after the close of the transaction.

Also in 2005, the NMPRC approved a stipulation in connection with the acquisition of TNP. Among other things, the stipulation called for:

- a three-phase rate reduction totaling 15%, to TNMP's electric customers in southern New Mexico, beginning January 2006 and ending December 2010; the rate reduction will lower TNMP electric rates by approximately $9.6 million in the first year;
- an imputed 55/45% debt/equity structure with an assumed rate of return on equity of 10.5% for TNMP;
- PNM to remain the power supplier for TNMP's New Mexico needs through 2010; and
- integration of TNMP's New Mexico assets into PNM effective January 1, 2007, the companies, however, will maintain separate rates, at minimum, through 2010.

ENVIRONMENTAL MATTERS

PNM and TNMP, in common with other electric and gas utilities, are subject to stringent laws and regulations for protection of the environment by local, state, federal and tribal authorities. In addition, PVNGS is subject to the jurisdiction of the NRC, which has the authority to issue permits and licenses and to regulate nuclear facilities in order to protect the health and safety of the public from radioactive hazards and to conduct environmental reviews pursuant to the National Environmental Policy Act. The liabilities under these laws and regulations can be material and, in some instances, may be imposed without regard to fault, or may be imposed for past acts, whether or not such acts were lawful at the time they occurred. See Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies" for a discussion of applicable accounting policies. In addition, see Note 16 and Note 18 in the Notes to Consolidated Financial Statements for information related to the following matters, incorporated in this item by reference.

- Person Station
- Retired Fossil-Fueled Plant Decommissioning Costs
- Nuclear Spent Fuel and Waste Disposal
- Navajo Nation Environmental Issues
- New Source Review Rules
- The Clean Air Act
- Citizen Suit Under the Clean Air Act
- Four Corners Air Emissions
- Excess Emissions Reports
- Santa Fe Generating Station
- SESCO Matter (for both PNM and TNMP)
- Coal Combustion Waste Disposal
- Environmental Issues

COMPETITION

PNM Wholesale is involved in the generation and sale of electricity into the wholesale market. It is subject to competition from regional utilities with similar opportunities to generate and sell energy at market-based prices and larger trading entities that typically do not own or operate generating assets. The Company believes that it is well positioned to compete in this market due to its long history in the marketplace, its product offerings, and stringent risk management practices. The Company's energy marketers are operationally trained and maintain effective marketing relationships with competitors and counterparties. The Company has maintained an investment-grade rating for its long-term debt despite turbulent wholesale markets, which enables the Company to fully participate in the marketplace.

The Texas electricity market has been open to retail competition since January 2002. Prior to 2002, TNMP operated as an integrated utility in Texas. In accordance with Senate Bill 7 and in compliance with a plan approved by the PUCT, TNMP separated its Texas utility operations into three components: (1) an unregulated retail sales business operated by First Choice; (2) a regulated power transmission and distribution business operated by TNMP and (3) power generation, a business which TNMP is no longer engaged in. In accordance with Senate Bill 7, TNMP provides transmission and distribution services at regulated rates to various retail electric providers that, in turn, provide retail electric service within TNMP's Texas service area.

The Company is exposed to competition in the unregulated Texas retail electricity market through First Choice. First Choice serves customers at competitive rates and customers at price-to-beat rates approved by the PUCT. In order to compete effectively in the Texas retail electricity market, First Choice must be able to attract and retain customers on the basis of cost and service, while managing the cost of its energy supply.

Since 2002, Texas' electric consumers have been encouraged to switch from their traditional affiliated retail energy provider, such as TNMP, to a competitive retail energy provider, such as First Choice. Currently under TECA, Texas' consumers whose chosen retail energy provider has exited the Texas market are provided electric service by a "provider of last resort." The rates of a provider of last resort are regulated by the PUCT and are fixed for the two-year period that each provider of last resort serves. The current contracts for default service offered by providers of last resort under TECA will expire on December 31, 2006. On January 1, 2007 new providers of last resort will be identified and those providers as well as the rates offered will be effective until December 31, 2008.

On December 31, 2006, the price-to-beat rate mechanism will cease to exist and First Choice and other retail energy providers subject to providing price-to-beat rates will only market retail electricity at competitive rates. There is currently an open rulemaking at the PUCT evaluating the potential need for a replacement rate for the price-to-beat rate mechanism. Other services being evaluated in this rulemaking are provider of last resort functions and pricing and the possible creation of a default provider. The Company cannot currently predict what, if any, changes will occur to either mechanism and what, if any, impact such changes may have on its results of operations and financial position.

EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM and TNMP and for each business segment as of December 31, 2005:

	PNMR	PNM	TNMP
Corporate *	751	-	-
PNM Electric	1,165	1,165	-
TNMP Electric	469	-	469
PNM Gas	736	736	-
PNM Wholesale	70	70	-
First Choice	174	-	-
Other	17	-	-
Total	3,382	1,971	469

* Represents employees of PNMR Services Company.

TNMP does not have any employees that are represented by unions. The following table sets forth the number of employees of PNMR and PNM, by business segment, who are represented by unions as of December 31, 2005:

	PNMR	PNM
PNM Electric	496	496
PNM Gas	82	82
PNM Wholesale	45	45
Total	623	623

Not all of the Company's business segments are separate legal entities. The employees disclosed in the tables above for PNM Electric, PNM Gas and PNM Wholesale are allocated, in part, in a manner consistent with the allocation of labor costs to those segments.

ITEM 1A. RISK FACTORS

The business and financial results of PNMR, PNM and TNMP are subject to a number of risks and uncertainties, including those set forth below and in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation."

PNMR may fail to successfully integrate acquisitions, including the TNP acquisition and the proposed acquisition of Twin Oaks, into its other businesses or otherwise fail to achieve the anticipated benefits of pending and future acquisitions.

As part of PNMR's growth strategy, PNMR is pursuing, and intends to continue to pursue, a disciplined acquisition strategy. While PNMR expects to identify potential synergies, cost savings, and growth opportunities prior to the acquisition and integration of acquired companies or assets, PNMR may not be able to achieve these anticipated benefits due to, among other things:

- delays or difficulties in completing the integration of acquired companies or assets,
- higher than expected costs or a need to allocate resources to manage unexpected operating difficulties,
- diversion of the attention and resources of its management,
- reliance on inaccurate assumptions in evaluating the expected benefits of a given acquisition,
- inability to retain key employees or key customers of acquired companies, and
- assumption of liabilities unrecognized in the due diligence process.

Acquisition of TNP in 2005

PNMR cannot assure that it will successfully integrate TNP with PNMR's current businesses. The integration of TNP with PNMR's other businesses presents significant challenges and, as a result, PNMR may not be able to operate the combined company as effectively as expected. PNMR may also fail to achieve the anticipated benefits of the acquisition as quickly or as anticipated or may not be able to achieve those benefits at all. Even if PNMR manages to realize greater than anticipated benefits from the integration of TNP into its business, PNMR's regulated subsidiaries may be required by their regulators to return these benefits to ratepayers.

While the acquisition of TNP was accretive to earnings and cash flow in 2005, the 2005 results were based on a number of factors, which may not continue in the future. At First Choice, the gross margin increased, which was driven mainly by natural gas hedging, lower transmission costs and gains from capacity auction participation. However, at TNMP, gross margin decreased in 2005 compared to the prior year. The decrease was primarily due to a decrease in revenues due to a rate reduction effective May 1, 2005 that was part of the PUCT's approval of the TNP acquisition.

The ultimate success of the acquisition is also dependent upon PNMR's ability to achieve operational benefits from operating the companies as a unified operation and the management of customer retention at First Choice and TNMP.

Proposed Acquisition of Twin Oaks in 2006

On January 14, 2006, Altura, a newly formed indirect wholly owned subsidiary of PNMR, entered into an agreement with Sempra to purchase Twin Oaks in an acquisition of assets for $480.0 million in cash. The Twin Oaks facility is a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas. The transaction is expected to close no earlier than April 17, 2006. The Twin Oaks purchase agreement also includes the development rights for a possible 600 MW expansion of the plant. The necessary permits are expected to be granted in 2007. An additional $2.5 million payment will be made to Sempra upon the issuance of an air permit for the expansion and an additional $2.5 million will be paid when Altura begins construction of the expansion.

The proposed acquisition of Twin Oaks is the latest step in implementing PNMR's strategy of expanding its merchant generation fleet to serve a growing wholesale market in the Southwest, including the ERCOT market in Texas. The Twin Oaks plant provides PNMR with the opportunity for lower-cost coal generation in an ERCOT market that is driven by natural gas.

PNMR and Sempra are also parties to the purchase agreement and have agreed to guarantee certain obligations of their respective subsidiaries relating to the acquisition. Consequently, PNMR is at risk that Altura will not be able to meet its obligations that are guaranteed by PNMR.

Under the purchase agreement, substantially all of the assets and contractual commitments relating to Twin Oaks are to be transferred to Altura upon closing, including fuel supply and power purchase and sale agreements. For the next five years the majority of the plant's output will be sold via two existing contracts. All of the plant's capacity is committed through September 2007. After expiration, the first contract is expected to be replaced with another contract for approximately 75% of the plant's capacity through 2010. Although PNMR plans to market the excess energy and capacity within ERCOT, PNMR is at risk that its marketing efforts may not be successful due to a number of factors, including competition, market prices and demand for electricity and economic conditions.

PNMR has arranged for bridge financing to close the transaction. It is expected that the permanent financing will come from the issuance of debt and equity structured to maintain PNMR's investment grade rating. However, PNMR is at risk that it will be unable to obtain financing for the acquisition at a reasonable cost or terms that will permit PNMR to maintain its investment grade rating, due to conditions in the capital markets or PNMR's financial condition.

While the acquisition of the Twin Oaks facility is expected to be neutral to slightly accretive to earnings in the first 18 months of ownership, approximately 15% to 20% of earnings during this period will include the amortization of certain contracts, which will be recorded at fair market value under purchase accounting and amortized into income. Although the acquisition of Twin Oaks is expected to be fully accretive to earnings after the first 18 months and to be neutral to cash flow in 2006 and accretive thereafter, PNMR cannot assure that it will be able to achieve the expected earnings and cash flow results from the Twin Oaks plant.

PNMR, PNM and TNMP are subject to complex government regulation, which may have a negative impact on their business, financial position and results of operations.

PNMR, PNM and TNMP are subject to comprehensive regulation by several federal, state and local regulatory agencies, which significantly influences their operating environment and may affect their ability to recover costs from utility customers. In particular, the NMPRC, the PUCT, the FERC, the NRC, the EPA, ERCOT, the NMED and the TCEQ regulate many aspects of their utility operations, including siting and construction of facilities, conditions of service, the issuance of securities, and the rates that the regulated entities can charge customers. PNMR, PNM and TNMP are required to have numerous permits, approvals and certificates from these agencies to operate their business. The rates that PNM and TNMP are allowed to charge for their retail services significantly influence PNMR's and those subsidiaries' business, financial position, results of operations and liquidity. Due to pending federal regulatory reforms, the public utility industry continues to undergo change.

The Energy Policy Act of 2005 was enacted into law in August 2005, effective in February 2006. The legislation covers many areas, including the items set forth in Note 17 in the Notes to the Consolidated Financial Statements and elsewhere in this report. Implementation of various portions of the law requires the issuance of rules by the FERC. The FERC has adopted final rules implementing various provisions of the Energy Policy Act including rules pertaining to repeal of PUHCA of 1935 and implementation of PUHCA of 2005, the FERC's expanded mergers and acquisitions approval authority and prohibition of energy market manipulation. FERC has also issued a number of other proposed rules that are pending, including rules pertaining to preventing undue discrimination in transmission services and electric reliability standards. PNMR will continue to monitor, and participate in as appropriate, the FERC and other proceedings involving implementation of the Energy Policy Act, in order to assess the implications of the new law and rules on its operations.

PNMR and its subsidiaries are unable to predict the impact on their business and operating results from the future regulatory activities of any agency that regulates them or from the implementation of the Energy Policy Act of 2005. Changes in regulations or the imposition of additional regulations may require PNMR and its regulated subsidiaries to incur additional expenses or change business operations, and therefore may have an adverse impact on PNMR’s and those subsidiaries’ results of operations.

PNM's retail electric rate reduction and retail electric rate freeze, and the New Mexico settlement relating to the TNP acquisition, could adversely affect its profit margin if it does not control costs.

Pursuant to an electric retail rate freeze stipulation, PNM decreased its retail electric rates by 6.5% as follows:

· a 4% reduction effective September 1, 2003,
· an additional 2.5% reduction effective September 1, 2005, and
· maintain these reduced retail electric rates through December 31, 2007.

The TNP acquisition settlement in New Mexico established how synergy savings would be allocated among PNM's gas and electric customers. The settlement provides that:

· PNM's 413,000 electric customers will receive rate credits totaling $4.6 million or nearly $1.84 million annually over a 30-month period beginning January 2008.
· PNM's 471,000 gas customers will receive $4.3 million in rate credits over five years, or $860,000 annually, beginning June 6, 2005.

PNM's costs, however, are not frozen. Thus, PNM's ability to maintain its profit margins depends upon increased demand for electricity and PNM's efforts to control costs incurred in supplying that electricity, including, in particular, its coal costs.

PNM does not have the benefit of a fuel adjustment clause for its retail electric operations that would allow it to recover increased fuel and purchased power costs from customers. Therefore, to the extent that fuel and power prices increase, it is exposed to changes in fuel and power prices to the extent fuel for its electric generating facilities and power must be purchased on the open market in order for it to serve its retail electric customers. If PNM cannot control other operating expenses, the retail electric rate freeze may decrease PNM's profit margin. The retail electric rate freeze will also affect PNM's ability to earn a return or recover from its customers costs associated with investments in generation, transmission and distribution facilities since it will not be able to increase retail electric rates to recover those costs until at least after the end of the rate freeze.

PNMR and PNM are not able to predict what rate treatment PNM will receive following the expiration of the retail electric rate freeze in New Mexico. Some of the factors that influence rates are largely outside their control. In response to competitive, economic, political, legislative and/or regulatory pressures, PNM may have to agree to further rate freezes, rate refunds or rate reductions, any or all of which could have a significant adverse effect on PNMR's and PNM's business, financial position, results of operations and liquidity.

The impact from the TNP acquisition settlements could adversely affect TNMP's profit margin if TNMP does not control costs.

The TNP acquisition settlements for TNMP in Texas and New Mexico provide for the following:

· a two-year electric rate freeze that includes a $13.0 million annual rate reduction in TNMP's retail delivery rates effective May 1, 2005,

· a $6.0 million synergy savings credit (whether or not these savings are actually achieved) amortized over 24 months effective after the closing of the transaction,

· a three-phase rate reduction totaling 15%, beginning January 2006 and ending December 2010, to TNMP's electric customers in southern New Mexico; the rate reduction, which includes TNMP's annual synergy-savings allocation, will lower TNMP electric rates by $9.6 million in the first year, and

- maintain PNM as the power supplier for TNMP’s New Mexico needs through 2010.

In addition, as part of the New Mexico settlement relating to the TNP acquisition, TNMP's current fuel and purchased power adjustment clauses will be eliminated no later than March 31, 2006. Also, the New Mexico settlement requires the integration of TNMP's New Mexico assets into PNM effective January 1, 2007. The companies, however, will maintain separate rates, at a minimum, through 2010.

PNMR and TNMP are not able to predict what rate treatment TNMP will receive following the expiration of the retail electric rate provisions in New Mexico. Some of the factors that influence rates are largely outside their control. In response to competitive, economic, political, legislative and/or regulatory pressures, TNMP may have to agree to further rate freezes, rate refunds or rate reductions, any or all of which could have a significant adverse effect on PNMR's and TNMP's business, financial position, results of operations and liquidity.

The ability of First Choice to attract and retain customers and its ability to mitigate the fluctuation in costs of energy supply could have a significant adverse effect on PNMR's business, financial position, results of operations and liquidity.

As a result of the acquisition of TNP, PNMR is exposed to competition in the unregulated Texas retail electricity market through First Choice, which serves customers at price-to-beat rates and customers at competitive rates. In order to compete effectively in the Texas retail electricity market, First Choice must be able to attract and retain customers on the basis of cost and service, while managing the cost of its energy supply. The ability of First Choice to compete successfully in the Texas market could have a significant effect on PNMR's business, financial position, results of operations and liquidity.

There are inherent risks in the operation of nuclear facilities, such as environmental, health and financial risks and the risk of terrorist attack.

PNM has a 10.2% undivided interest in PVNGS, with portions of its interests in Units 1 and 2 held under leases. PVNGS is subject to environmental, health and financial risks such as the ability to dispose of spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities and the costs of securing the facilities against possible terrorist attacks and unscheduled outages due to equipment and other problems. PNM maintains nuclear decommissioning trust funds and external insurance coverage to minimize its financial exposure to some of these risks; however, it is possible that damages could exceed the amount of insurance coverage. Although the decommissioning trust funds are designed to provide adequate funds for decommissioning at the end of the expected life of the PVNGS units, there is the risk of insufficient decommissioning trust funds in the event of early decommissioning of the units.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of non-compliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, if a serious nuclear incident were to occur at PVNGS, it could materially and adversely affect PNM's and PNMR's business, financial position, results of operations and liquidity. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

PNMR's and its electric subsidiaries' financial performance may be adversely affected if their power plants and transmission and distribution system are not successfully operated.

General

PNMR's and its electric subsidiaries' financial performance depends on the successful operation of their generation, transmission and distribution assets. Unscheduled or longer than expected maintenance outages, other performance problems with the electric generation assets, severe weather conditions, accidents and other catastrophic events, disruptions in the delivery of fuel and other factors could reduce its excess generation capacity and therefore limit the electric subsidiaries' ability to opportunistically sell excess power in the wholesale market. Diminished generation capacity could also result in the aggregate net open forward electric sales position being larger than forecasted generation capacity. If this were to occur, purchases of electricity in the wholesale market would be required under contracts priced at the time of execution or, if in the spot market, at the then-current market price. There can be no assurance that sufficient electricity would be available at reasonable prices, or at all, if such a situation were to occur. Failures of transmission or distribution facilities may also cause interruptions in the services the electric subsidiaries provide. These potential generation, distribution and transmission problems, and any potentially related service interruptions, could result in lost revenues and additional costs.

PVNGS

During 2005, PVNGS had the lowest capacity factor (measured against maximum dependable capacity) that the plant has had since 1994. The equivalent availability for PVNGS was 76.0% for 2005. This reflects bottom quartile performance relative to the 103 operating reactors in the United States. There were nine unscheduled outages during 2005 that had a variety of causes. In 2004, the NRC determined that there had been a safety concern at PVNGS related to the safety injection systems for the three PVNGS units. This led to a "yellow" finding and a $50,000 civil penalty under the NRC's reactor oversight process. A "yellow" finding places a unit in the "degraded safety cornerstone" column of the NRC's performance matrix, which results in an enhanced NRC inspection regimen. During 2005, the NRC completed its enhanced inspection. The "yellow" finding remains unresolved.

APS has encountered tube cracking in the steam generators and has taken, and will continue to take, remedial actions that it believes have slowed the rate of tube degradation. The PVNGS Unit 2 steam generators were replaced in 2003, and the replacement of PVNGS Unit 1 steam generators was completed in December 2005. Installation of the PVNGS Unit 3 steam generators should be completed by December 2007.

APS has been operating PVNGS Unit 1 at reduced power levels since December 25, 2005 due to a vibration in the PVNGS Unit 1 shutdown cooling lines. As a result, PNM is receiving approximately 24 MW of power from PVNGS Unit 1 based on its 10.2% undivided interest in PVNGS.

Implementation of a potential solution preliminarily scheduled by APS for February 2006 was canceled after comprehensive analysis concluded that the desired improvement likely would not have been achieved. APS had informed PNM that it was in the process of formulating other potential remedies to address the issue and that it was scheduling another attempt to remedy this issue sometime in April 2006. APS has more recently informed PNM that the preferred solution will require Unit 1 to undergo an outage of approximately five weeks in order to effect the necessary modifications to Unit 1 and that it plans to begin this outage in the June 2006 timeframe. In addition, an outage of approximately one week for preparatory work will begin in mid-March 2006. This preferred solution was initially planned for installation in the spring of 2007.

The operation of PVNGS not only affects PNM's ability to make off-system sales, but can also cause PNM to purchase power to serve its retail electric customers. Based on current forward market energy prices, PNM estimates that operation of PVNGS Unit 1 at the reduced power level could result in a reduction in consolidated gross margin, or operating revenues minus cost of energy sold, of $3.0 million to $4.0 million per month before income taxes. However, PNM is taking steps to mitigate the impact on consolidated gross margin while PVNGS Unit 1 operates at the reduced power level.

The financial performance of PNMR and PNM may be adversely affected if PVNGS Unit 1 cannot be operated at a satisfactory level or if the NRC imposes restrictions on operation of the plant or any of the three units at PVNGS.

The operations of PNMR and its operating subsidiaries are subject to risks beyond their control that may reduce their revenues.

The revenues of PNMR and its operating subsidiaries are affected by the demand for electricity and natural gas. That demand can vary greatly based upon:

- weather conditions, including hurricanes, seasonality and temperature extremes,

- fluctuations in economic activity and growth in PNMR’s service area and the western region of the United States,
- the extent of additional energy available from current or new competitors, and
- the ability of First Choice to attract and retain customers.

Weather conditions will impact the revenues that PNMR and its operating subsidiaries obtain from electric retail and wholesale sales. Temperature extremes, especially for prolonged periods, can dramatically increase the demand for electricity, as opposed to the effect of more moderate temperatures. Temperature extremes inside the subsidiary's service territory reduce the amount of power available to sell on the wholesale market.

Drought conditions in New Mexico generally, and especially in the Four Corners region, in which SJGS and the Four Corners Generating Station are located, may affect the water supply for PNM's generating plants. If adequate precipitation is not received in the watershed that supplies the Four Corners region, PNM may have to decrease generation at these plants, which would reduce PNM's ability to sell excess power on the wholesale market and reduce its revenues. If the drought conditions continue or regulators or legislators take action to limit PNM's supply of water, 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 San Juan Basin, PNM cannot be certain that it will be able to do so in the future.

The inability to raise capital could limit PNMR's ability to execute its growth strategy and finance its capital requirements, which could adversely affect PNMR's business, financial position, results of operations and liquidity.

PNMR and its operating subsidiaries rely on access to both short-term money markets and longer-term capital markets as a source of liquidity for any capital requirements not satisfied by the cash flow from operations, which could include capital requirements for energy infrastructure investments and funding new projects. If PNMR and its operating subsidiaries are not able to access capital at competitive rates or at all, PNMR's ability to implement its growth strategy and its ability to finance capital requirements, if needed, will be limited. Market disruptions or any downgrade of PNMR's or its operating subsidiaries' credit rating may increase the cost of borrowing or adversely affect their ability to raise capital through the issuance of securities or other borrowing arrangements, which could have a material adverse effect on their business, financial position, results of operations and liquidity. These disruptions could include:

- an economic downturn,
- changes in capital market conditions generally,
- the bankruptcy of an unrelated energy company,
- increased market prices for electricity and gas,
- terrorist attacks or threatened attacks on facilities of PNMR's operating subsidiaries or those of unrelated energy companies, and
- deterioration in the overall health of the utility industry.

A significant reduction in the credit ratings of PNMR or its operating subsidiaries could materially and adversely affect their business, financial position, results of operations and liquidity.

PNMR, PNM and TNMP cannot be sure that any of their current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency. Any downgrade:

- could increase borrowing costs, which would diminish financial results,
- could require payment of a higher interest rate in future financings and the potential pool of investors and funding sources could decrease,

- could increase borrowing costs under certain of existing credit facilities,
- could also require the provision of additional support in the form of letters of credit or cash or other collateral to various counterparties,
- could limit access to or increase the cost of access to the commercial paper market, and
- below investment grade credit ratings would also require approvals from the NMPRC for new wholesale plant projects and for continuing to participate in wholesale plant projects of more than a certain dollar value and under certain conditions.

On January 20, 2006, S&P revised PNMR's outlook from stable to negative and downgraded the commercial paper of PNMR and PNM from A-2 to A-3, citing concerns about reduced plant availability at PVNGS, the higher cost of replacement power due to high natural gas prices and the lack of a fuel adjustment clause that would permit PNM to pass these costs to customers. The ratings action by S&P has increased short-term borrowing costs for PNMR and PNM and could increase long-term borrowing costs for PNMR and PNM.

The ratings from rating agencies reflect only the views of such rating agencies and are not recommendations to buy, to sell or to hold our securities. Each rating should be evaluated independently of any other rating. Any downgrade or withdrawal of PNMR's, PNM's or TNMP's current ratings may have an adverse effect on the market price of their outstanding debt.

Costs of environmental compliance, liabilities and litigation could exceed estimates by PNMR's and its operating subsidiaries, which could adversely affect their business, financial position, results of operations and liquidity.

Compliance with federal, state and local environmental laws and regulations may result in increased capital, operating and other costs, including remediation and containment expenses and monitoring obligations. PNMR, PNM and TNMP cannot predict how they would be affected if existing environmental laws and regulations were revised, or if new environmental laws and regulations seeking to protect the environment were adopted, but any such changes could increase their financing requirements or otherwise adversely affect their business, financial position, results of operations and liquidity, unless increased environmental costs are recovered in customer rates. Revised or additional laws and regulations could also result in additional operating restrictions on their facilities or increased compliance costs that may not be fully recoverable in rates, thereby reducing net income. For example, any future changes in the interpretation of the Clean Air Act's new source review provisions could potentially increase operating and maintenance costs substantially. Similarly, in March 2005, the EPA adopted the Clear Air Act Mercury Rule, which is intended to reduce mercury emissions from coal-fired generation plants. PNMR and PNM cannot be certain how this rule will affect them.

In addition, PNM or TNMP may be designated as a responsible party for environmental clean up at a site identified by a regulatory body. PNMR, PNM and TNMP cannot predict with certainty the amount and timing of all future expenditures related to environmental matters because of the difficulty of estimating clean-up and compliance costs, and the possibility that changes will be made to the current environmental laws and regulations. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties. Failure to comply with environmental laws and regulations, even if caused by factors beyond PNM's or TNMP's control, may result in the assessment of civil or criminal penalties and fines.

PNMR's business, results of operations and financial position may be adversely affected if PNMR and its operating subsidiaries do not successfully compete for wholesale customers and generation plant acquisition opportunities. Wholesale plants will be exposed to price risk to the extent they must compete for the sale of energy and capacity.

As a result of the changing regulatory environment and the relatively low barriers to entry (which include, in addition to open access transmission service, relatively low construction costs for new generating facilities), PNMR expects competition to steadily increase. This increased competition could affect load forecasts, acquisition opportunities and wholesale energy sales and related revenues. Since PNM's sales in the wholesale electric market accounted for approximately 58% of total MWh sales in 2005, the impact of these changes on PNMR's and PNM's financial results could be material. The effect on results of operations and financial position could vary depending on the extent to which:

· PNMR and its operating subsidiaries are able to acquire additional generation to compete in the wholesale market,

- new opportunities are created for the expansion of wholesale load, and
- current wholesale customers elect to purchase from other suppliers after existing contracts expire.

As of December 31, 2005, PNM's long-term contracts to supply power ranged from 1 to 14.5 year terms with an average term of 5.3 years. PNM's ability to renew these contracts at terms comparable to those currently in place is dependent upon prevailing market conditions at the time of negotiations.

To the extent electric capacity generated by wholesale plants is not under contract to be sold, the business, results of operations and financial position of PNMR and PNM will generally depend on the prices that can be obtained for energy and capacity in New Mexico, in Texas (if the proposed acquisition of Twin Oaks is completed) and in adjacent markets.

PNMR and its operating subsidiaries may not be able to mitigate fuel and wholesale electricity pricing risks, which could result in unanticipated liabilities or increased volatility in earnings.

The business and operations of PNMR and its operating subsidiaries are subject to changes in purchased power prices and fuel costs that may cause increases in the amounts that must be paid for power supplies on the wholesale market and the cost of producing power in owned generation plants. Prices for electricity, fuel and natural gas may fluctuate substantially over relatively short periods of time and expose PNMR and its operating subsidiaries to significant commodity price risks.

Among the factors that could affect market prices for electricity and fuel are:

- prevailing market prices for coal, oil, natural gas and other fuels used in the generation plants of PNMR and its operating subsidiaries, including associated transportation costs, and supplies of such commodities,
- prevailing market conditions in the general wholesale electricity market,
- liquidity in the commodity markets,
- the rate of growth in electricity as a result of population changes, regional economic conditions and the implementation of conservation programs,
- weather conditions impacting demand for electricity or availability of hydroelectric power or fuel supplies,
- changes in the regulatory framework for the commodities markets that PNMR and its operating subsidiaries rely on for purchased power and fuel,
- the actions of external parties, such as the FERC or independent system operators, that may impose price limitations and other mechanisms to address some of the volatility in the United States' western energy markets,
- changes in federal and state energy and environmental laws and regulations,
- union and labor relations, and
- natural disasters, wars, embargoes and other catastrophic events.

PNMR and its operating subsidiaries rely on derivatives such as forward contracts, futures contracts, options and swaps to manage these risks. They attempt to manage their exposure from these activities through enforcement of established risk limits and risk management procedures. PNMR and its operating subsidiaries cannot be certain that these strategies will be successful in managing pricing risk, or that they will not result in net liabilities as a result of future volatility in these markets.

Impairments of tangible long-lived assets of PNMR, PNM and TNMP could adversely affect their business, financial position, liquidity and results of operations.

PNMR, PNM and TNMP evaluate their tangible long-lived assets for impairment whenever indicators of impairment exist pursuant to SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS 144"). These potential impairment triggers could include changing customer purchase commitments and market share; fluctuating market prices resulting from weather patterns; changing fuel costs; industry deregulation and other economic and market conditions and trends. Except as described below, PNMR, PNM and TNMP determined that no triggering events occurred during the period for their tangible long-lived assets.

PNM determined that as of December 31, 2005, its D-11 steam turbine, which is in a temporary storage facility in southern New Mexico, was impaired in the amount of approximately $15.0 million. The D-11 steam turbine was impaired since it is no longer being utilized in the Afton generation facility and has been designated as available for sale.

PNM will continue to analyze all tangible long-lived assets for impairment on an on-going basis in accordance with SFAS 144.

Impairments of goodwill and intangible assets of PNMR and its subsidiaries could adversely affect their business, financial position, liquidity and results of operations.

As a result of the acquisition of TNP in 2005, PNMR recorded $499.2 million of goodwill composed of $367.3 million of goodwill at TNMP and $131.9 million of goodwill at First Choice. As required by SFAS 142, "*Goodwill and Other Intangible Assets*" ("SFAS 142"), PNMR and TNMP will evaluate goodwill for impairment annually and between annual tests whenever indicators of impairment exist. Impairment of goodwill exists when the carrying amount of goodwill exceeds its implied fair value.

PNMR also recorded $79.3 million of other intangible assets as a result of its acquisition of TNP. Of the $79.3 million of acquired intangible assets, $68.8 million was assigned to the trade name "First Choice." The trade name has an indefinite useful life and therefore, no amortization will be recognized until its useful life is determined to be no longer indefinite. As required by SFAS 142, PNMR evaluates the First Choice trade name for impairment annually and between annual tests whenever indicators of impairment exist. PNMR evaluates the useful life of the First Choice trade name each reporting period as required by SFAS 142 to determine whether events or circumstances continue to support an indefinite useful life.

The remaining $10.5 million of acquired intangible assets was assigned to the First Choice customer list. The useful life of the customer list is estimated to be eight years and is being amortized on a straight-line basis over eight years. As required by SFAS 144, PNMR evaluates the First Choice customer list for impairment whenever indicators of impairment exist. PNMR evaluates the remaining useful life of the First Choice customer list each reporting period as required by SFAS 144 to determine whether events or circumstances continue to support the remaining amortization period.

Due to the significant amounts of goodwill and intangible assets recorded by PNMR and its subsidiaries, the impairment of goodwill or intangible assets could adversely affect their business, financial position, liquidity and results of operations.

Actual results could differ from estimates used to prepare PNMR's, PNM's and TNMP's financial statements.

In preparing the financial statements in accordance with GAAP, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and actual results could differ from those estimates. For more information about these estimates and assumptions, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operation - Critical Accounting Policies" and Footnote 1 in the Notes to Consolidated Financial Statements.

Provisions of PNMR's organizational documents, as well as several other statutory and regulatory factors, will limit another party's ability to acquire PNMR and could deprive PNMR's shareholders of the opportunity to gain a takeover premium for shares of PNMR's common stock.

PNMR's restated articles of incorporation and by-laws include a number of provisions that may have the effect of discouraging persons from acquiring large blocks of PNMR's common stock or delaying or preventing a change in control of PNMR. The material provisions that may have such an effect include:

- authorization for the PNMR Board to issue PNMR's preferred stock in series and to fix rights and preferences of the series (including, among other things, whether, and to what extent, the shares of any series will have voting rights, subject to certain limitations, and the extent of the preferences of the shares of any series with respect to dividends and other matters),

- advance notice procedures with respect to any proposal other than those adopted or recommended by PNMR’s Board, and
- provisions specifying that only a majority of the Board, the chairman of the Board, the president or holders of not less than one-tenth of all of PNMR's shares entitled to vote may call a special meeting of stockholders.

Under the New Mexico Public Utility Act, NMPRC approval is required for certain transactions that may result in PNMR’s change in control or exercise of control. Certain acquisitions of PNMR’s outstanding voting securities would also require FERC approval under the FERC's authority resulting from the Energy Policy Act and the repeal of PUHCA. See Note 17 in the Notes to Consolidated Financial Statements for further discussion.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

PNMR

The significant properties owned by PNMR include those owned by PNM and TNMP and are disclosed below.

PNM

Electric

PNM’s ownership and capacity in electric generating stations in commercial service as of December 31, 2005 follow:

Type	Name	Location	Total Net Generation Capacity (MW)
Coal	SJGS (a)	Waterflow, New Mexico	765
Coal	Four Corners (b)	Fruitland, New Mexico	192
Gas/Oil	Reeves Station	Albuquerque, New Mexico	154
Gas/Oil	Las Vegas (c)	Las Vegas, New Mexico	18
Gas/Oil	Afton (d)	La Mesa, New Mexico	141
Gas	Lordsburg (e)	Lordsburg, New Mexico	72
Nuclear	PVNGS (f)	Wintersburg, Arizona	402 (g)
			1,744

(a) SJGS Units 1, 2 and 3 are 50% owned by PNM; SJGS Unit 4 is 38.5% owned by PNM.
(b) Four Corners Units 4 and 5 are 13% owned by PNM.
(c) PNM has filed with the NMPRC for approval to close the Las Vegas Generating Station in 2006.
(d) Subject to NMPRC approval, PNM plans to convert Afton to a combined cycle plant and bring Afton into retail rates, with 50% of Afton's capacity designated to serve PNM's customers and the other 50% designated to serve TNMP's New Mexico customers.
(e) PNM’s Lordsburg plant was built to serve wholesale customers and other sales rather than New Mexico retail customers and, therefore, is not currently included in the retail rates. However, it is possible that this plant may be needed in the future to serve the growing retail load.
(f) PNM is entitled to 10.2% of the power and energy generated by PVNGS. PNM has a 10.2% ownership interest in Unit 3 and has leasehold interests in approximately 7.9% of Units 1 and 2 and an ownership interest in approximately 2.3% of Units 1 and 2.
(g) For load and resource purposes, PNM has notified the NMPRC that the maximum dependable capacity rating for PVNGS is 395 MW.

Fossil-Fueled Plants

SJGS is located in northwestern New Mexico, and consists of four units operated by PNM. Units 1, 2, 3 and 4 at SJGS have net rated capacities of 327 MW, 316 MW, 497 MW and 507 MW, respectively. SJGS Units 1 and 2 are owned on a 50% shared basis with Tucson. SJGS Unit 3 is owned 50% by PNM, 41.8% by SCPPA and 8.2% by Tri-State. SJGS Unit 4 is owned 38.457% by PNM, 28.8% by M-S-R Public Power Agency, 10.04% by Anaheim, 8.475% by Farmington, 7.2% by Los Alamos and 7.028% by UAMPS.

PNM also owns 192 MW of net rated capacity derived from its 13% interest in Units 4 and 5 of Four Corners located in northwestern New Mexico on land leased from the Navajo Nation and adjacent to available coal deposits. Units 4 and 5 at Four Corners are jointly owned with SCE, APS, Salt River Project, Tucson and EPE and are operated by APS.

Four Corners and a portion of the facilities adjacent to SJGS are located on land held under easements from the United States and also under leases from the Navajo Nation. The enforcement of these leases could require Congressional consent. PNM does not deem the risk that is associated with the enforcement of these easements and leases to be material. However, PNM is dependent in some measure upon the willingness and ability of the Navajo Nation to protect these leased properties.

PNM owns 154 MW of generation capacity at Reeves Station in Albuquerque and 18 MW of generation capacity at Las Vegas Station in Las Vegas, New Mexico. PNM also owns Afton, a 141 MW gas or oil fired combustion turbine plant in La Mesa, New Mexico, and Lordsburg, a 72 MW gas fired combustion turbine generator in Lordsburg, New Mexico. In addition, PNM has 132 MW of generation capacity in Albuquerque under an operating lease. These power sources are used primarily for peaking and transmission support. During times of excess capacity, these resources have been used to augment PNM’s wholesale power trading activities. PNM owns a one-third interest in a partially constructed, combined-cycle power plant near Deming, New Mexico, called Luna. The facility is expected to be completed no later than the second quarter of 2006 and is designed to be capable of producing 570 MW, of which PNM will be entitled to 190 MW. PNM plans to convert Afton to a combined cycle plant and bring Afton into retail rates, with 50% of Afton's capacity designated to serve PNM's customers and 50% designated to serve TNMP's New Mexico customers. (See “Sources of Power” in Item 1. “Business.”)

Nuclear Plant

PNM’s Interest in PVNGS

PNM is participating in the three units of PVNGS, also known as the Arizona Nuclear Power Project, with APS (the operating agent), Salt River Project, EPE, SCE, SCPPA and the Department of Water and Power of the City of Los Angeles. PNM has a 10.2% undivided interest in PVNGS, with portions of its interests in Units 1 and 2 held under leases.

Other PVNGS Matters

See Note 16 in the Notes to Consolidated Financial Statements for information on other PVNGS matters.

Transmission and Distribution

As of December 31, 2005, PNM owned, jointly owned or leased, 2,897 circuit miles of electric transmission lines, 4,077 miles of distribution overhead lines, 4,504 cable miles of underground distribution lines (excluding street lighting) and 237 substations.

Gas

As of December 31, 2005, the natural gas properties consisted primarily of natural gas storage, transmission and distribution systems. Provisions for storage made by PNM include ownership and operation of an underground storage facility located near Albuquerque. The transmission systems consisted of 1,578 miles of pipe and compression facilities. The distribution systems consisted of 12,205 miles of pipe.

Other Information

PNM’s electric and gas transmission and distribution lines are generally located within easements and rights-of-way on public, private and Native American lands. PNM leases interests in PVNGS Units 1 and 2 and related property, EIP and associated equipment, data processing, communication, office and other equipment, office space, joint use utility poles, vehicles and real estate. PNM also owns and leases service and office facilities in Albuquerque and in other areas throughout its service territory.

TNMP

TNMP's facilities are located within its Texas and New Mexico service areas. TNMP's Texas transmission and distribution facilities are located in three non-contiguous areas. One area extends from Lewisville, which is approximately 10 miles north of the Dallas-Fort Worth International Airport, eastward to municipalities near the Red River, and to communities north, west, and south of Fort Worth. The second area includes counties along the Texas Gulf Coast between Houston and Galveston, and the third area includes portions of far west Texas between Midland

and El Paso. TNMP's New Mexico transmission and distribution facilities are located in southwest and south central New Mexico, including the cities of Alamogordo, Ruidoso, Sliver City, Lordsburg and surrounding communities. TNMP also owns and leases service and office facilities in other areas throughout its service territory.

ITEM 3. LEGAL PROCEEDINGS

See Note 16 in the Notes to Consolidated Financial Statements for information related to the following matters for PNMR, PNM and TNMP, incorporated in this item by reference.

- Tax Refund Litigation
- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Navajo Nation Environmental Issues
- Citizen Suit Under the Clean Air Act
- Excess Emissions Reports
- Santa Fe Generating Station
- Natural Gas Royalties Qui Tam Litigation
- Asbestos Cases
- SESCO Matter (for both PNM and TNMP)
- Archaeological Site Disturbance
- Legal Proceedings discussed under the caption "Western United States Wholesale Power Market"
- Wholesale Power Marketing Antitrust Suit
- TNMP True-Up Proceeding
- Power Resource Group Litigation

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SUPPLEMENTAL ITEM - EXECUTIVE OFFICERS OF PNM RESOURCES, INC.

All officers are elected annually by the Board of the PNMR. Executive officers, their ages as of February 26, 2006 and offices held with PNMR for the past five years, or other companies if less than five years with PNMR, are as follows:

Name	Age	Office	Initial Effective Date
J. E. Sterba	50	Chairman, President and Chief Executive Officer	December 2001
		Chairman, President and Chief Executive Officer, PNM	October 2000
		President and Chief Executive Officer, PNM	June 2000
		President, PNM	March 2000
C. N. Eldred [1]	52	Senior Vice President and Chief	
		Financial Officer	January 2006
		Vice President and Chief Financial Officer,	
		Omaha Public Power District	November 1999
A. A. Cobb	58	Senior Vice President and Chief Administrative Officer	June 2005
		Senior Vice President, Peoples Services and	
		Development	December 2001
		Senior Vice President, Peoples Services and	
		Development, PNM	September 2001
		Global Human Resources Officer, Clientlogic	November 1999
P. T. Ortiz	56	Senior Vice President and General Counsel	June 2005
		Senior Vice President, General Counsel and Secretary	December 2001
		Senior Vice President, General Counsel and	
		Secretary, PNM	August 1999
W.J. Real	57	Senior Vice President, Public Policy (PNMR and PNM)	July 2002
		Executive Vice President, Power Production	
		and Marketing	December 2001
		Executive Vice President, Power Production	
		and Marketing, PNM	January 1999
H. W. Smith [2]	48	Senior Vice President, Energy Resources (PNMR and PNM)	March 2004

		Vice President, Energy Supply, Trading and	
		Services, TECO Energy, Inc.	January 2001
W.D Hobbs [3]	62	Senior Vice President, Customer and Delivery Services	June 2005
		Senior Vice President and Chief Operations	
		Officer, TNMP	August 2002
		Vice President, Transmission and	
		Distribution Operations, TNMP	June 2002
		Vice President, Texas Transmission and	
		Distribution Operations, TNMP	October 2000
J. D. Shorter [4]	40	Senior Vice President	April 2005
		Managing Partner, Wolfrox Partners LLP	August 2004
		Senior Vice President, North America	
		Commercial Operations, TXU Corp.	June 2003
		Vice President and Director of Trading, TXU Corp.	March 1999
T. G. Sategna	52	Vice President and Corporate Controller (PNMR and PNM)	October 2003
		Controller, Utility Operations (PNMR and PNM)	August 2002
		Controller, Electric and Gas	December 2001
		Controller, Electric and Gas Services, PNM	May 2000

[1] C. N. Eldred was Chief Financial Officer at Omaha Public Power District prior to joining PNMR. Prior to that he was head of financing and capital markets for Southern Company. At Southern Company Mr. Eldred executed debt and equity financing strategies and managed rating agency and investment banking relationships associated with capital markets.

[2] H.W. Smith had 25-years of experience in the utility industry prior to joining PNMR, which included executive-level experience in marketing and customer service, economic development, generation development and engineering.

[3] W.D. Hobbs had more than 24 years of experience in engineering, power production, business development and utility operations prior to joining PNMR. He most recently served as Senior Vice President and Chief Operations Officer for TNMP.

[4] J. D. Shorter had more than 16 years of experience in strategic planning, pricing and wholesale power marketing prior to joining PNMR, including extensive knowledge of the deregulated market in Texas.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PNMR's common stock is traded on the New York Stock Exchange. On May 18, 2004, PNMR's Board approved a 3-for-2 stock split effective on June 11, 2004 for shareholders of record on June 1, 2004. All references to numbers of shares outstanding and per share amounts have been restated to reflect the stock split.

Ranges of sales prices of PNMR's common stock, reported as composite transactions (Symbol: PNM), and dividends declared on the common stock for 2005 and 2004, by quarters, are as follows:

Quarter Ended	Range of Sales Prices		Dividends
	High	Low	Per Share
2005			
December 31	$29.22	$24.03	$0.200
September 30	$30.45	$27.62	$0.400
June 30	$30.38	$26.12	$ -
March 31	$28.20	$23.83	$0.185
Fiscal Year	$30.45	$23.83	$0.785
2004			
December 31	$26.11	$22.57	$0.185
September 30	$22.75	$20.09	$0.160
June 30	$20.87	$18.70	$0.160
March 31	$21.20	$18.77	$0.160
Fiscal Year	$26.11	$18.70	$0.665

Dividends declared during the quarter ended September 30, 2005 include a $0.20 per share dividend declared on July 19, 2005 for the quarter ended June 30, 2005 and a $0.20 per share dividend declared on September 27, 2005 for the quarter ended September 30, 2005.

On July 19, 2005, PNMR's Board approved an 8.0% increase in the common stock dividend. The increase raised the quarterly dividend to $0.20 per share, for an indicated annual dividend of $0.80 per share. On February 14, 2006, the Board approved a 10.0% increase in the Company's common stock dividend for an indicated annual rate of $0.88 per share. PNMR targets a payout ratio of 50% to 60% of consolidated earnings.

On February 28, 2006, there were 14,350 holders of record of the Company's common stock.

See Part II. Item 7. "Management's Discussion and Analysis of Results of Operation and Financial Condition - Liquidity and Capital Resources - Dividends," for a discussion on the payment of future dividends.

See Part III. Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Cumulative Preferred Stock

PNMR

PNMR does not have any cumulative preferred stock outstanding.

PNM

PNM is not aware of any active trading market for its cumulative preferred stock. Quarterly cash dividends were paid on PNM's outstanding cumulative preferred stock at the stated rates during 2005 and 2004.

Sales of Unregistered Securities

None not previously reported on a Quarterly Report on Form 10-Q or a Current Report on Form 8-K.

ITEM 6. SELECTED FINANCIAL DATA

The selected financial data and comparative operating statistics should be read in conjunction with the Consolidated Financial Statements and Notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operation. All references to numbers of shares outstanding and per share amounts have been restated to reflect the 3-for-2 stock split that occurred on June 11, 2004. PNMR results include TNP results are included from the date of acquisition, June 6, 2005, in the table below.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2005	2004	2003	2002	2001
		(In thousands except per share amounts and ratios)			
Total Operating Revenues	$ 2,076,810	$ 1,604,792	$ 1,455,653	$ 1,118,694	$ 2,254,178
Net Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 68,153	$ 87,686	$ 58,552	$ 63,686	$ 149,847
Net Earnings	$ 67,227	$ 87,686	$ 95,173	$ 63,686	$ 149,847
Net Earnings per Common Share					
Basic	$ 1.02	$ 1.45	$ 1.60	$ 1.09	$ 2.55
Diluted	$ 1.00				