TEXAS NEW MEXICO POWER CO
Form 10-K/A
August 14, 2007

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

FORM 10-K/A
(Amendment No. 1)

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

For the Fiscal Year Ended December 31, 2006

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”)	YESü	NO_
Public Service Company of New Mexico (“PNM”)	YES_	NOü
Texas-New Mexico Power Company (“TNMP”)	YES_	NOü

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_	NOü
PNM	YES_	NOü
TNMP	YESü	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. ü

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 filerü 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 filerü

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 20, 2007, 76,662,979 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 20, 2007 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 20, 2007 was 9,615 all held indirectly by PNMR (and none held by non-affiliates).

On June 30, 2006 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 $24.96 per share reported by The Wall Street Journal, was $1,727,649,306.

EXPLANATORY NOTE REGARDING AMENDMENT NO. 1

This Amendment No. 1 to the Annual Report on Form 10-K ("Amendment No. 1") amends the Registrants' Annual Report on Form 10-K for the fiscal year ended December 31, 2006, initially filed with the Securities and Exchange Commission ("SEC") on March 1, 2007 (the "Original Filing").

In 1985 and 1986, PNM, a wholly-owned subsidiary of PNMR, entered into 11 separate transactions through which it sold all of its interest in Units 1 and 2 of the Palo Verde Nuclear Generating Station and related common facilities to institutional investors. At the same time, PNM entered into agreements to lease back the facilities that were sold. These transactions resulted in gains, which in accordance with generally accepted accounting principles ("GAAP") were deferred and amortized over the lives of the leases, approximately 30 years.

In 1990, the New Mexico Public Service Commission ("NMPSC"), the predecessor to the New Mexico Public Regulation Commission, ordered that the portion of the gain on the sale-leasebacks attributable to PNM's New Mexico customers was to reduce electric rates over 15 years. Accordingly, under GAAP, the amortization period or the portion of the gain on the sale-leasebacks remaining at that time and attributable to New Mexico customers should have been changed to match the rate-making treatment, which would have resulted in that portion of the gain being completely amortized by 2001. However, PNM continued to amortize the gain over the lives of the leases for financial reporting purposes, which was longer than the 15 years determined by the NMPSC. The portion of the gain not attributable to PNM's New Mexico customers was not affected by the NMPSC order and has continued to be amortized over the lives of the leases in accordance with GAAP.

Management of PNMR and PNM determined that in accordance with SEC Staff Accounting Bulletin 108 the Original Filing for PNMR and PNM should be restated to correct this error.

The restatement has been reflected in the Consolidated Financial Statements by increasing the beginning balance of retained earnings for both PNMR and PNM as of January 1, 2004 by $15.5 million and removing the amortization of the portion of the gain attributable to New Mexico customers, which amounts to a $1.3 million annual decrease in net earnings in each of the years in the three year period ended December 31, 2006. The change in net earnings for removing the amortization, which is a non-cash item, is offset by a change in deferred credits and accumulated on the statements of cash flows resulting in no net impact on cash flows from operating activities and does not impact the subtotals of the statements of cash flows.The restatement also impacts the Notes to the Consolidated Financial Statements. Refer to Note 23 to the Consolidated Financial Statements for additional detail on the restatement.

In addition to these items, the following sections of this Form 10-K/A have been revised to reflect the restatement: Part II – Item 6 – Selected Financial Data, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operation, Item 9A – Controls and Procedures and Part IV – Item 15 – Exhibits and Financial Statement Schedules.

With the exception of the corrections described above, Amendment No. 1 sets forth the Original Filing in its entirety for the convenience of the reader. Amendment No. 1 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.

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 22, 2007.

This Form 10-K/A 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/A is incorporated by reference into any filing with the SEC made by PNM or TNMP, the portions of this Form 10-K/A that relate to PNMR and its subsidiaries other than PNM or TNMP, respectively, are not incorporated by reference therein.

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.
BART	Best Available Retrofit Technologies
BLM	U.S. Department of the Interior Bureau of Land Management
Board	Board of Directors
BTU	British Thermal Unit
Cal PX	California Power Exchange
Cal ISO	California Independent System Operator
Cascade	Cascade Investment, L.L.C.
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
DOE	Department of Energy
Duke	Duke Energy Corporation
EaR	Earnings at Risk
ECJV	ECJV Holdings, L.L.C.
EEI	Edison Electric Institute
EIP	Eastern Interconnection Project
EITF	Emerging Issues Task Force
EnergyCo	Joint Venture between PNMR and ECJV
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
FIN	FASB Interpretation Number
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

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.
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
NOPR	Notice of Proposed Ruling
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NYMEX	New York Merchantile Exchange
OASIS	Open Access Same Time Information System
OATT	Open Access Transmission Tariff
OPEB	Other Post Employment Benefits
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
PSA	Power Supply Agreement
PUCT	Public Utility Commission of Texas
PUHCA	The Public Utility Holding Company Act
PVNGS	Palo Verde Nuclear Generating Station
Reeves	Reeves Generating Station
REC	Renewable Energy Certificate
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
SAB	SEC Staff Accounting Bulletin
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
Senate Bill 7	Legislation that established retail competition in Texas
SFAS	Statement of Financial Accounting Standards
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SO_2	Sulfur Dioxide
S&P	Standard and Poors Ratings Services
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
VCA	Voluntary Compliance Agreement
Wood River	Wood River Partners, L.P.
WSPP	Western Systems Power Pool

PART I

ITEM 1. BUSINESS

THE COMPANY

Overview

PNMR or the "Company" is an investor-owned holding company of energy and energy-related businesses. The Company's primary subsidiaries are PNM, TNMP, First Choice and Altura. PNM is an integrated public utility with regulated operations primarily engaged in the generation, transmission and distribution of electricity, transmission, distribution and sale of natural gas within New Mexico, and unregulated operations primarily focused on the sale and marketing of electricity in the western United States. PNM began service to TNMP's New Mexico customers effective January 1, 2007. TNMP is a regulated utility operating in Texas and through December 31, 2006 in New Mexico. In Texas, TNMP provides regulated transmission and distribution services. In New Mexico, TNMP provided integrated electric services that include the transmission, distribution, purchase and sale of electricity to its New Mexico customers. First Choice is a competitive retail electric provider operating in Texas. Altura operates the Twin Oaks plant. In addition, PNMR provides energy and technology related services through its wholly owned subsidiary, Avistar. In January 2007, PNMR and ECJV, a wholly owned subsidiary of Cascade, created a new unregulated energy company, temporarily named EnergyCo, which will serve expanding U.S. markets throughout the Southwest, Texas and the West. Under the terms of the agreement, PNMR and ECJV each have a 50 percent ownership interest in EnergyCo, a limited liability company. The Company's common stock trades on the New York Stock Exchange under the symbol PNM.

PNMR was incorporated in the State of New Mexico in 2000. PNM was incorporated in the State of New Mexico in 1917. TNMP's predecessor was organized in 1925 and TNMP is incorporated in the State of Texas.

Other Information

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. A reference to "MD&A" in this report refers to "Part II, Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operation" in this report. A reference to a "Note" in this Part I refers to the accompanying notes to Consolidated Financial Statements.

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.

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/A. The Company's filings with the SEC, including annual reports on Form 10-K/A, 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/ec and such information is available in print, without charge, to any shareholder who requests it.

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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, through December 31, 2006, to 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, which are located in Southern New Mexico. PNM Electric owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado and Utah. The Company's largest non-affiliated retail electric customer was served by PNM Electric and accounted for approximately 8.4% of the Company's total retail electric revenues for the year ended December 31, 2006.

The NMPRC has established an off-system sales methodology that provides for a sharing mechanism whereby a certain amount of revenues from off-system sales are 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 February 2007, PNM filed a general rate case that asked the NMPRC to approve an increase in general rates, the first such request in over 20 years. The proposed increase would go into effect January 1, 2008, at the expiration of the current four-year rate path, and would impact 436,000 New Mexico customers. If electric rates were approved as proposed, electric revenues would increase $68.9 million annually. PNM residential electric rates would increase approximately 13.7 percent, while most business customers would see rate increases of approximately 10.3 percent. (See "PNM Electric Rate Case" in MD&A).

Weather-normalized retail electric load growth was 4.2% in 2006. 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

	2006	2005	2004
		(Megawatts)	
Summer	1,855	1,779	1,655
Winter	1,616	1,530	1,481

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 some areas PNM serves including Albuquerque, Santa Fe, and the City of Rio Rancho. 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, so there should be no direct impact on PNM's business. The Albuquerque and Rio Rancho metropolitan areas accounted for approximately 52% and 10% of PNM Electric's 2006 electric utility operating revenues, respectively (excluding transmission revenues), and no other franchise area represents more than approximately 10%. Although PNM does not collect or pay franchise fees in some areas it serves, PNM continues to collect and pay franchise fees in certain parts of its service territory, including

Albuquerque, Santa Fe, and the City of Rio Rancho.

PNM Electric owns or leases 2,905 circuit miles of electric transmission lines, interconnected with other utilities in New Mexico, Arizona, Colorado, Texas 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, through December 31, 2006, in New Mexico.

In New Mexico, TNMP provided integrated electricity services that included 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 through December 31, 2006. PNM began serving these customers on January 1, 2007.

In Texas, TNMP Electric provides regulated transmission and distribution services under the provisions of TECA. TNMP Electric serves a market of small-to-medium-sized communities. Most of the communities in TNMP Electric's service territory have populations of less than 50,000. 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. See "Rates and Regulation" below for more information about ERCOT.

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, 2006, 58 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 27% of TNMP's total retail electric revenues for the year ended December 31, 2006. After First Choice, billed revenues of TNMP's next largest customer accounted for approximately 9% of retail electric revenues.

TNMP holds long-term, non-exclusive franchise agreements for its electric transmission and distribution services, with varying expiration dates. TNMP intends to negotiate and execute new or amended franchise agreements with municipalities as they expire. Since TNMP Electric is the exclusive provider of transmission and distribution services in most areas that it serves the absence of franchise agreements should not have a direct impact on TNMP's business. The remainder of TNMP's revenues is 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 2006. No single sales-service customer accounted for more than 0.8% of PNM Gas' therm sales in 2006. PNM holds non-exclusive franchises with varying expiration dates. Franchise agreements have expired for the City of Rio Rancho and several smaller municipalities, although PNM continues to collect and pay franchise fees to each of these communities. Franchise agreements have also expired for several counties that PNM Gas serves, although counties are not permitted to charge franchise fees. PNM Gas remains obligated to serve these franchise areas pursuant to state law.

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. 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). The NMPRC has 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 2006, 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 1,927 end users that were not PNM Gas customers during 2006.

In 2006, 43% 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 2006, 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 73% 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 2006, 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

Wholesale

The Wholesale segment included in PNMR's results of operations includes PNM Wholesale as well as the results of Altura from the date of acquisition of Twin Oaks on April 18, 2006 (see Note 2).

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 sources of these sales are threefold: 1) PNM's wholesale plants excluded from retail rates; 2) unused capacity of PNM's jurisdictional assets and 3) market purchases. The 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, 2006, these contracts ranged from 1 to 14 year terms with an average term of 6 years. Short-term sales 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. 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.

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 2006, 2005 and 2004, PNM's sales in the wholesale electric markets accounted for approximately 55%, 58% and 62%, respectively, of its total MWh sales. Of the total wholesale electric sales made in 2006, 2005 and 2004, 84%, 87% and 80%, respectively, were transacted through purchases for resale. (See Item 2. "Properties.")

PNM Wholesale has entered into various firm-requirements 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 273 MW in 2006, and is expected, based solely on existing contracts, to be 177 MW in 2007, 172 MW in 2008, 110 MW in 2009, 113 MW in 2010 and 116 MW in 2011. Firm-requirements for TNMP’s New Mexico customers are included in amounts for 2006. Beginning January 1, 2007, TNMP’s New Mexico customers are included in the PNM Electric load. No firm-requirements customer of PNM Wholesale accounted for more than 7.6% of the Company's total electric sales for resale revenues for the year ended December 31, 2006.

Altura

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased the Twin Oaks business, which included a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas. PNMR acquired Twin Oaks to expand the Company's merchant generation fleet in order to serve a growing wholesale market in the Southwest.

Altura has assumed two power sales agreements for the Twin Oaks power generated by the Twin Oaks facility. The first contract is for 100% of the power generated by Twin Oaks and expires in September 2007. The second contract is for 75% of the power generated by Twin Oaks that begins October 2007 and expires December 31, 2010. Altura will have to market the 25% uncommitted portion of the power in the Texas wholesale market.

The coal requirements for Twin Oaks are being supplied by a long-term fuel supply agreement. This fuel supply agreement expires when Twin Oaks meets delivery of a specified number of decatherms. Based on current forecasts of usage, the Company estimates the contract will expire in 2029. If Twin Oaks were to take only the minimum delivery amounts specified under this contract, it would expire in approximately 2040. Altura is not responsible under this agreement for the decommissioning or reclamation costs of this mine. PNMR has issued a parental guarantee on behalf of Twin Oaks' owner, Altura, guaranteeing Altura's performance under this fuel supply agreement.

The Twin Oaks purchase agreement also included the development rights for a possible 600-megawatt expansion of the plant, which PNMR has classified as an intangible asset. An additional $2.5 million payment will be made to the seller upon the issuance of an air permit for the expansion and an additional $2.5 million will be paid upon Altura beginning construction of the expansion. PNMR has not made a decision regarding the Twin Oaks expansion, but it is considering a variety of options, including self development or sale to a third party.

First Choice

First Choice is a certified retail electric provider operating in ERCOT, which provides electricity to residential, small and large commercial, industrial and institutional customers. First Choice's services include acquiring 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 focuses its competitive customer acquisition efforts in the major Texas metropolitan areas that are open to electric choice within ERCOT, including Dallas-Fort Worth, Houston, Corpus Christi, and McAllen-Harlingen. 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'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 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.

First Choice experiences increased sales and operating revenues during the summer months as a result of increased air conditioner usage in hot weather. In 2006, approximately 43% of First Choice's consolidated annual revenues were recorded in June, July, August and September.

First Choice is exposed to market risk to the extent that its retail rates or cost of supply fluctuates with market prices. Additionally, fluctuations in First Choice retail load requirements greater than anticipated may subject First Choice to market risk. First Choice'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 utilizes discrete market-based transactions to take advantage of opportunities that present themselves in the ordinary course of business.

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In 2006, First Choice Power Retail LP was formed for the purpose of conducting business as a retail electric provider in Texas. Although it has not yet started operations, regulatory approval for First Choice Power Retail LP to do business in Texas was granted by the PUCT in 2007.

CORPORATE AND OTHER

PNMR Services Company provides corporate services through shared services agreements to PNMR and to all of PNMR's business units, including Altura, Avistar, First Choice, PNM, TNP and TNMP. 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, 2006, the Company had a 2,638 MW generation capacity from these sources.

Sources of Power - Owned

As of December 31, 2006, PNMR’s wholly owned subsidiary, Altura, owned 305 MW of generation capacity from the Twin Oaks plant. (See Item 2. “Properties.”)

Sources of Power - PSA

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 2006. Additionally, Constellation has agreed to supply power in certain transactions under the PSA beyond the date when that commitment expired. 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.)

PNM

Sources of Power - Owned

As of December 31, 2006, the total net generation capacity of facilities owned by PNM was 1,934 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 89.6% and 89.4% for the years ended December 31, 2006 and 2005, respectively. PVNGS’ equivalent availability was 70.0% and 76.0% for the years ended December 31, 2006 and 2005, respectively. Four Corners’ equivalent availability was 90.5% and 86.3% for the years ended December 31, 2006 and 2005, respectively. Four Corners and PVNGS are operated by APS.

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, this plant may be needed in the future to serve the growing retail load as is the case for Afton, as described below. If so, this plant 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. This plant was 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 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 former New Mexico customers, which were transferred to PNM effective January 1, 2007. The stipulation was approved by the NMPRC on October 5, 2006. Afton is currently under construction for conversion to combined cycle unit. The construction should be completed in mid-2007.

In November 2004, PNMR Development, a subsidiary of PNMR, purchased a one-third interest in Luna. Luna was a 570 MW, partially constructed, natural gas-fired power plant near Deming in southern New Mexico. In November 2005, the one-third interest in Luna was transferred from PNMR Development to PNM. The purchasers invested approximately $100.0 million, one-third from each purchaser, to complete construction. PNM managed the construction project which was completed in April 2006.

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.

PNM leases portions of PVNGS. See Item 2. “Properties” and Note 7 for additional information.

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 with FPL described below, were 599 MW in 2006 and are expected to be 532 MW in 2007, 532 MW in 2008, 532 MW in 2009, and 457 MW in 2010. 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.

<u>TNMP</u>

TNMP purchased all electricity for its New Mexico customers' needs and energy-scheduling services under a wholesale power contract with PNM that ended December 2006. As discussed above, First Choice provides electricity for TNMP’s Texas customers.

MARKET REACH

As of December 31, 2006, PNM owned 50 MW of firm transmission capacity to the Mead market hub, 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 owned 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

PNMR

Twin Oaks

The coal requirements for Twin Oaks are being supplied by a long-term fuel supply agreement. This fuel supply agreement expires when Twin Oaks meets delivery of a specified number of decatherms. Based on current forecasts of usage, the Company estimates the contract will expire in 2029. If Twin Oaks were to take only the minimum delivery amounts specified under this contract, it would expire in approximately 2040. Altura is not responsible under this agreement for the decommissioning or reclamation costs of this mine. PNMR has issued a parental guarantee on behalf of Twin Oaks' owner, Altura, guaranteeing Altura's performance under this fuel supply agreement.

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 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**
2006	70.4%	$1.75	23.7%	$0.54	5.9%	$6.15
2005	71.3%	$1.64	26.3%	$0.46	2.4%	$6.88
2004	70.1%	$1.54	28.1%	$0.53	1.8%	$6.94

The generation mix for 2007 is expected to be 63.0% coal, 26.0 % nuclear and 11.0% 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 for information about PNM's coal supply.

Natural Gas

The natural gas used as fuel for the electric generating plants 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 and obtains its gas transportation services from PNM Gas or third party transportation providers.

Nuclear Fuel

PNM is one of several participants in PVNGS. (See Note 14.) 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 the spring 2009 reload. PVNGS will need to purchase additional concentrates and conversion services in 2008 for the fall 2009 reload. 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 for information about PNM's water supply.

RATES AND REGULATION

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.

PNMR

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.

First Choice

First Choice is a member of ERCOT, the ISO responsible for maintaining reliable operations of the bulk electric power grid in the Texas deregulated electricity market. 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 a clearinghouse for procuring ancillary services.

Members of ERCOT include independent retail electric providers, investor owned utilities, municipals, cooperatives, independent generators, independent power marketers, and consumers. 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 ERCOT. As a result of the deregulated electricity market in Texas, there are no provisions for the specific recovery of fuel and purchased power costs by First Choice. The rates charged to new customers acquired by First Choice are not regulated by the PUCT, but are negotiated by First Choice with each customer. As a result, purchased power costs will affect First Choice's operating results.

Altura

The Twin Oaks plant operates in the deregulated electricity market in Texas served by the ERCOT ISO.

PNM

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.

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. On May 18, 2006, FERC issued a Notice of Proposed Rulemaking (NOPR) to reform its pro forma OATT. FERC emphasized that its purpose for the NOPR was not to create new market structures, redesign approved RTO or ISO markets, require transmission owners to divest control over transmission, impinge on state jurisdiction, or weaken the protection of native load customers. Core OATT elements were retained, including comparability requirements, protection of native load, state's jurisdiction over bundled retail load, functional unbundling to address undue discrimination, and reciprocity. PNM and TNMP have filed comments in this proceeding. The NOPR is still pending before the FERC. The Company cannot predict what impact the final rule may have on its operations.

In November 2005, the FERC issued a NOPR 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 the national transmission grid. In addition to the incentive proposals, the FERC would implement additional reporting requirements for public utilities that operate transmission systems. In July 2006, FERC issued its final rule to promote transmission investment through pricing reform. With its rule, FERC provided various incentives intended to promote transmission investment within the context of existing procedural requirements, with some flexibility. The FERC did not grant outright incentives to any public utility, but rather identified incentives that it would allow when justified in the context of individual utility petitions for declaratory orders or rate filings made pursuant to existing rate change requirements. Under FERC's rule, each applicant must demonstrate a nexus between the incentive sought and the transmission investment being made. In August 2006, various entities, including EEI, filed requests for rehearing requesting the FERC to modify its rule. The Company supported EEI's position in the filing. The petitions for rehearing are currently pending before the FERC. The Company intends to continue to monitor and participate in these FERC notices and rulemakings.

Generation Market Power Filings

On December 20, 2004, the FERC issued an order addressing PNM's updated market power analysis, submitted in August 2004 and supplemented thereafter, in response to a FERC order in *Acadia Power Partners, LLC*. In that order, the FERC instituted an investigation and proceeding under Section 206 of the Federal Power Act to determine whether PNM may continue to charge market-based rates in the PNM and EPE control area markets. PNM submitted several filings to the FERC in 2005 and early 2006 designed to show that, notwithstanding its failure of certain numerical screens, PNM lacked generation market power in both of these control areas.

In April 2006, the FERC issued an order in which it determined that PNM rebutted the presumption of market power in the PNM control area and, accordingly, terminated its investigation into PNM's continued ability to make sales of wholesale power at market-based rates in the control area. The FERC also determined that PNM's analysis could rebut the presumption of market power in EPE's control area, but that it needed additional information regarding periods of transmission constraint. The FERC order gave PNM 60 days to file additional information regarding market power during periods of transmission constraint or, alternatively, propose cost-based mitigation measures for the EPE control area during periods of transmission constraint. In June 2006, PNM filed a proposed cost-based mitigated rate proposal to apply in the EPE control area during periods of transmission outages and transmission constraints. No comments were filed objecting to PNM's filing. In September 2006, FERC issued its order approving PNM's cost-based mitigated rate proposal in the EPE control area during periods of transmission constraints or transmission outages, effective March 6, 2006. The FERC order requires that PNM make refunds for any transactions since March 6, to the extent PNM had any sales in EPE's control area at market rates during periods of transmission constraints or transmission outages that exceeded PNM's mitigated rate proposal. PNM has determined no such refunds were required. With the order, FERC terminated the Section 206 investigation into PNM's market rate sales in the EPE control area, and closed its docket on 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 Enforcement formerly known as the Office of Market Oversight and Investigations would perform a compliance audit of the Company. The audit covers the period from January 2004 to the present and will examine the Company's compliance with the FERC standards of conduct and OASIS requirements, compliance of the Company'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 nine months to a year or more to complete.

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 included a provision that required 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 August 2006, PNM made its annual renewable energy portfolio report filing and its 2007 renewable energy procurement plan filing. In its procurement plan, PNM proposed to continue to procure renewable energy and renewable energy certificates (RECs) from wind resources and solar photovoltaic facilities and to seek recovery of those costs in its next electric rate case. PNM's procurement plan also recommended elimination of the annual ceiling on new customer subscriptions to PNM's solar photovoltaic program. PNM requested NMPRC approval to procure renewable energy and associated RECs under a biomass PPA and to recover related costs. PNM anticipates it will be able to acquire biomass RECs from the PPA beginning in 2009. In December 2006, the NMPRC approved PNM's filing and the biomass PPA.

TNMP

Regulation

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. TNMP is subject to traditional cost-of-service regulation in Texas. 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.

Through December 31, 2006, TNMP was subject to the jurisdiction of the NMPRC and subject to traditional cost-of service regulation within New Mexico and subject to the jurisdiction of the FERC for some of its activities in New Mexico, including the issuance of securities and the acquisition or disposition of properties.

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.

ENVIRONMENTAL MATTERS

PNM and TNMP like other electric and gas utilities, and the Twin Oaks plant 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.

Note 16

- Renewable Portfolio Standard
- Person Station
- Retired Fossil-Fueled Plant Decommissioning Costs
- PVNGS Decommissioning Funding
- Nuclear Spent Fuel and Waste Disposal
- Environmental Matters Under the Caption "The Clean Air Act"
- Excess Emission Reports
- Archaeological Site Disturbance

Note 18

- Environmental Issues

COMPETITION

Through its operating company subsidiaries, PNMR is a merchant utility and a regulated energy service provider. As a merchant utility, PNMR is subject to competition in the wholesale markets and the deregulated electricity market in Texas. Additional information relating to the competitive environment in which the Company operates in is contained in Part II, Item 7.

EMPLOYEES

The following table sets forth the number of employees of PNMR, PNM and TNMP and for each business segment as of December 31, 2006:

	PNMR	PNM	TNMP
Corporate *	774	-	-
PNM Electric	1,154	1,154	-
TNMP Electric	434	-	434
PNM Gas	728	728	-
Wholesale **	125	65	-
First Choice	71	-	-
Other	8	-	-
Total	3,294	1,947	434

* Represents employees of PNMR Services Company.
** PNMR Wholesale includes 60 employees of Altura.

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, 2006:

	PNMR	PNM
PNM Electric	483	483
PNM Gas	80	80
Wholesale	44	44
Total	607	607

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 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.

PNMR may be unable to meet its ongoing and future financial obligations and to pay dividends on its common stock if its subsidiaries are unable to pay upstream dividends or repay funds to PNMR.

PNMR is a holding company and, as such, PNMR has no operations of its own. PNMR's ability to meet its financial obligations and to pay dividends on its common stock at the current rate is primarily dependent on the net income and cash flows of its subsidiaries and their ability to pay upstream dividends or to repay funds to PNMR. Prior to funding PNMR, PNMR's subsidiaries have financial obligations that must be satisfied, including among others, debt service and preferred stock dividends.

PNMR may fail to successfully achieve the anticipated benefits from current or future business development initiatives, joint ventures and acquisitions, including the acquired Twin Oaks business and the EnergyCo joint venture.

As part of PNMR's growth strategy, PNMR is pursuing, and intends to continue to pursue, a disciplined business development and acquisition strategy. While PNMR expects to identify anticipated benefits, potential synergies, cost savings, and growth opportunities prior to entering into business initiatives and 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 business initiative, joint venture or acquisition,
- inability to retain key employees or key customers of business initiatives, joint ventures or acquired companies,
- assumption of liabilities unrecognized in the due diligence process, and
- actual results may differ materially from the anticipated benefits from current or future business development initiatives, joint ventures and acquisitions.

There is no assurance that the EnergyCo joint venture will be able to identify and implement profitable acquisitions.

In January 2007, PNMR and ECJV, a wholly owned subsidiary of Cascade, created a new unregulated energy company, temporarily named EnergyCo, which will serve expanding U.S. markets throughout the Southwest, Texas and the West. Under the terms of the agreement, PNMR and ECJV each have a 50 percent ownership interest in EnergyCo, a limited liability company.

The Company intends to capitalize on the growth opportunities in these markets through its participation and ownership in EnergyCo. In particular, it is anticipated that ECJV will commit capital for the acquisition of assets and that Cascade will make significant credit guarantees to increase EnergyCo's scale in its three anticipated business lines:

- competitive retail electricity sales;
- development, operation and ownership of diverse generation assets; and
- wholesale marketing and trading to optimize its assets.

In addition to purchasing energy-related assets, EnergyCo could grow by PNMR contributing existing unregulated assets and ECJV, in turn, matching those contributions with cash. This would enable PNMR to better separate its regulated utility operations from its unregulated generation assets and businesses. The separation of regulated and unregulated operations also would increase transparency and reduce complexity in PNMR's business segments.

There are a number of conditions that must be satisfied in order for EnergyCo to operate successfully. The parties must agree on the cash and/or assets to be contributed by the members of EnergyCo and that that such investment will not result in an adverse effect on PNMR’s credit ratings. EnergyCo must also receive certain financing commitments with respect to its proposed ongoing operations and any regulatory approvals that may be required in connection with the contributions of the members. There can be no assurance that these conditions will be satisfied and PNMR may not realize the benefits it anticipates from the operation of EnergyCo. In addition, there is a risk that EnergyCo will not be able to identify and implement profitable acquisitions.

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 continuing federal regulatory reforms, the public utility industry continues to undergo change.

The Energy Policy Act of 2005 went into effect in February 2006. The legislation covers many areas, including the items set forth in Note 17 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 the PUHCA of 1935, 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% by agreeing to:

- 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 required the integration of TNMP’s New Mexico assets into PNM effective January 1, 2007 and established how synergy savings would be allocated among PNM’s gas and electric customers. The settlement provided for:

-

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 approximately $0.9 million annually, beginning June 6, 2005,

- a three-phase rate reduction totaling 15%, beginning January 2006 and ending December 2010, to electric customers in southern New Mexico transferred from TNMP to PNM effective January 1, 2007; the rate reduction, which includes TNMP's annual synergy-savings allocation to customers in southern New Mexico, lowered electric rates by $9.6 million in the first year,
- elimination of the fuel and purchased power adjustment clauses for electric customers in southern New Mexico in the first quarter of 2006, and
  - maintain separate rates for PNM's electric customers in southern New Mexico, at a minimum, through 2010.

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 or increased power costs from customers. Therefore, 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.

In February 2007, PNM filed an electric rate case requesting an increase in general electric rates. See Note 17 for additional information relating to this rate filing. 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 profit margin for PNM's natural gas distribution business could be adversely affected if PNM does not obtain adequate rate relief and if PNM does not control its costs.

On May 30, 2006, PNM filed a general gas rate case that asked the PRC to approve an increase in the service fees charged to its 481,000 natural gas customers. The proposal would increase the set monthly fee, the charge tied to monthly usage and miscellaneous on-demand service fees. Those fees are separate from the cost of gas charged to customers. The monthly cost of gas charge would not be affected by the fee increase. The petition requests an increase in base gas service rates of $20.5 million and an increase in miscellaneous on-demand service rates of approximately $0.2 million. The request is designed to provide PNM's gas utility an opportunity to earn an 11% return on equity, which is consistent with the average return allowed by ten comparable natural gas utilities. The petition also requests approval of a line item that provides a true-up mechanism for operational costs when system-wide gas consumption is lower or higher than what is designed in the rates. The NMPRC is expected to issue an order in the case by the end of April 2007.

PNMR and PNM are not able to predict what rate treatment PNM will receive. 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 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 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, and

- 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.

PNMR and TNMP are not able to predict what rate treatment TNMP will receive following the expiration of the retail electric rate provisions in Texas. 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.

PNMR is exposed to competition in the unregulated Texas retail electricity market through First Choice, which serves 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 a 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.

PNM's PVNGS leases describe certain events, including "Events of Loss" and "Deemed Loss Events", the occurrence of which could require PNM to pay the lessor and the equity investor, in return for the investor's interest in PVNGS, cash in the amount provided in the lease and assume debt obligations relating to the PVNGS leases.

The "Events of Loss" generally relate to casualties, accidents and other events at PVNGS, including the occurrence of specified nuclear events, which would severely, adversely affect the ability of the operating agent, APS, to operate, and the ability of PNM to earn a return on its interests in, PVNGS. The "Deemed Loss Events" consist mostly of legal and regulatory changes (such as issuance by the NRC of specified violation orders, changes in law making the sale and leaseback transactions illegal, or changes in law making the lessors liable for nuclear decommissioning obligations). PNM believes that the probability of such "Events of Loss" or "Deemed Loss Events" occurring is remote for the following reasons: (1) to a large extent, prevention of "Events of Loss" and some "Deemed Loss Events" is within the control of the PVNGS participants, including PNM, and the PVNGS operating agent, through the general PVNGS operational and safety oversight process and (2) with respect to other "Deemed Loss Events," which would involve a significant change in current law and policy, PNM is unaware of any pending proposals or proposals being considered for introduction in Congress, or in any state legislative or regulatory body that, if adopted, would cause any of those events.

The financial performance of PNMR, PNM and TNMP may be adversely affected if their power plants and transmission and distribution system are not successfully operated.

The financial performance of PNMR, PNM and TNMP 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 excess generation capacity and therefore limit PNM's ability to opportunistically sell excess power in the wholesale market. Diminished generation capacity could also result in PNM's 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 by PNM 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 that PNM and TNMP provide. These potential generation, distribution and transmission problems, and any potentially related service interruptions, could result in lost revenues and additional costs.

The financial performance of PNMR and PNM may be adversely affected if PVNGS 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. Additional information relating to the performance of PVNGS is contained in MD&A.

Demand for power could exceed supply capacity, resulting in increased costs for purchasing capacity in the open market or building additional generation capabilities.

Through its operating subsidiaries, PNMR is currently obligated to supply power to retail customers and wholesale customers. At peak times, the demand for power required to meet this obligation could exceed PNMR's available generation capacity, as was the case with the reduced availability of PVNGS in 2006 and 2005. Market or competitive forces may require that PNMR's operating subsidiaries purchase capacity on the open market or build additional generation capabilities. Because regulators or market conditions may not permit the operating subsidiaries to pass all of these purchase or construction costs on to their customers, the operating subsidiaries may not be able to recover any of these costs or may have exposure to regulatory lag associated with the time between the incurrence of costs of purchased or constructed capacity and the recovery in customers' rates. These situations could have negative impacts on net income and cash flows for PNMR and the affected operating subsidiary.

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 as described below,
- 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,
- the ability of First Choice to attract and retain customers, and
- the expiration of price-to-beat rates in Texas.

The operating results of PNMR and its operating subsidiaries are affected by weather conditions and may fluctuate on a seasonal and quarterly basis.

Electric power generation and natural gas distribution are generally seasonal businesses. Demand for power from PNMR's electric operations peaks during the hot summer months, while demand for natural gas peaks during the winter. As a result, the operating results of PNMR and its operating subsidiaries may fluctuate substantially on a seasonal basis. In addition, PNMR and its operating subsidiaries have historically sold less power, and consequently earned less income, when weather conditions are milder. Temperature extremes inside an operating subsidiary's service territory may reduce the amount of power available to sell on the wholesale market. Unusually mild weather in the future could reduce the revenues, net income, available cash and borrowing ability of PNMR and its operating subsidiaries.

Drought conditions in New Mexico generally, and especially in the Four Corners region, in which SJGS and the Four Corners 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. Drought conditions or actions taken by regulators or legislators could limit PNM's supply of water, and PNM's and PNMR's business may be adversely impacted. Although PNM has been able to maintain adequate access to water through supplemental contracts and voluntary shortage sharing agreements with tribes and other water users in the 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 securities. Each rating should be evaluated independently of any other rating. Any downgrade or withdrawal of the current ratings of PNMR, PNM or TNMP 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 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, including possible future requirements to address concerns about global climate change, 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 environmental 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.

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.

PNMR's unregulated strategy is focused on some of the nation's growing power markets. 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 the EnergyCo joint venture, load forecasts, acquisition opportunities and wholesale energy sales and related revenues.

Since PNM's sales in the wholesale electric market accounted for approximately 55% of total MWh sales in 2006, the impact on PNMR's and PNM's financial results could be material if PNMR does not successfully compete for wholesale customers and generation plant acquisition opportunities. 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, 2006, PNM's long-term contracts to supply power ranged from 1 to 14 year terms with an average term of 6 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 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, nuclear fuel 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 and amortizing intangible assets for impairment whenever indicators of impairment exist pursuant to SFAS No. 142 "*Goodwill and Other Intangible Assets*" ("SFAS 142") and 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. PNMR, PNM and TNMP determined that no triggering events occurred during 2006 for their tangible long-lived assets and amortizing intangible assets.

PNM will continue to analyze all tangible long-lived assets and amortizing intangible assets for impairment on an on-going basis in accordance with SFAS 144 and SFAS 142.

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

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.

TNP

As of December 31, 2006, PNMR had $495.7 million of goodwill composed of $363.8 million of goodwill at TNMP and $131.9 million of goodwill at First Choice , as a result of the acquisition of TNP in 2005. As required by SFAS 142, PNMR and TNMP 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, beginning in 2005, 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.

The TNP acquisition settlement in New Mexico required the integration of TNMP’s New Mexico assets into PNM. TNMP’s New Mexico assets were transferred to PNM effective January 1, 2007, including the portion of goodwill related to TNMP’s New Mexico assets. As a result, PNM will record goodwill that will be subject to impairment testing pursuant to SFAS 142.

Twin Oaks

The purchase in 2006 of the Twin Oaks plant included the development rights for a possible 600-megawatt expansion of the plant valued at $25 million, which PNMR has classified as an intangible asset. The rights have an indefinite life. Therefore no amortization is recognized, but the asset is evaluated for impairment each reporting period.

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 of 2005 and the repeal of the PUHCA of 2005. See Note 17 for further discussion.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

PNMR

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

PNM

Electric

PNM’s ownership and capacity in electric generating stations in commercial service as of December 31, 2006 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 (i)	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)
Gas (CC)	Luna (h)	Deming, New Mexico	190
			1,934

(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. Units 4 and 5 at Four Corners are jointly owned with SCE, APS, Salt River Project, Tucson and EPE and are operated by APS.

(c) Subject to NMPRC approval, PNM plans to close the Las Vegas Generating Station in 2011.

(d) Afton is currently a gas or oil fired combustion turbine plant in La Mesa, NM. PNM is in the process of converting Afton to a combined cycle plant and bringing 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 which were transferred to PNM effective January 1, 2007.

(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 of approximately 2.3% in 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.

(h) PNM owns 33.3% of Luna. Luna is not included in retail rates. Luna’s power is being sold into the wholesale market.

(i) PNM owns 154 MW of generation capacity at Reeves in Albuquerque, NM.

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.

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 has 132 MW of generation capacity in Albuquerque under an operating lease. The power from Reeves, Lordsburg and the 132 MW under the operating lease 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. (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, 2006, PNM owned, jointly owned or leased, 2,905 circuit miles of electric transmission lines, 4,388 miles of distribution overhead lines, 4,791 cable miles of underground distribution lines (excluding street lighting) and 239 substations.

Gas

As of December 31, 2006, 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 1,572 miles of pipe and compression facilities. The distribution systems consisted of 12,549 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.

<u>PNMR</u>

PNMR's wholly owned subsidiary Altura owns Twin Oaks, a 305 MW coal-fired power plant located in Bremond, Texas which is approximately 150 miles south of Dallas, Texas.

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 owned New Mexico transmission and distribution facilities which are located in southwest and south central New Mexico, including the cities of Alamogordo, Ruidoso, Silver City, Lordsburg and surrounding communities until TNMP's New Mexico assets were transferred to PNM on January 1, 2007. 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.

- PVNGS Water Supply Litigation
- San Juan River Adjudication
- Navajo Nation Environmental Issues
- Citizen Suit Under the Clean Air Act
- Four Corners Federal Implementation Plan Litigation
- Santa Fe Generating Station
- Natural Gas Royalties Qui Tam Litigation
- Archaeological Site Disturbance
- Legal Proceedings discussed under the caption "Western United States Wholesale Power Market"
- Wholesale Power Marketing Antitrust Suit
- TNMP True-Up Proceeding

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, 2007 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	51	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]	53	Senior Vice President and Chief	
		Financial Officer	January 2006
		Vice President and Chief Financial Officer,	
		Omaha Public Power District	November 1999
A. A. Cobb	59	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	57	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	58	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]	49	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]	63		June 2005

		Senior Vice President, Customer and Delivery Services	
		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
T. G. Sategna	53	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.

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. Ranges of sales prices of PNMR’s common stock, reported as composite transactions (Symbol: PNM), and dividends declared on the common stock for 2006 and 2005, by quarters, are as follows:

Quarter Ended	Range of Sales Prices				Dividends Per Share	
	High		Low			
2006						
December 31	$	32.07	$	27.47	$	0.220
September 30	$	28.94	$	25.41	$	0.440
June 30	$	26.60	$	23.92	$	-
March 31	$	25.50	$	22.49	$	0.220
Fiscal Year	$	32.07	$	22.49	$	0.880
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

Dividends declared during the quarter ended September 30, 2006 include a $0.22 per share dividend declared on July 18, 2006 for the quarter ended June 30, 2006 and a $0.22 per share dividend declared on September 26, 2006 for the quarter ended September 30, 2006.

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 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. On February 13, 2007, the board approved a 4.5% increase in the Company’s common stock dividend. This increase raised the quarterly dividend to $0.23 per share, for an indicated annual rate of $0.92 per share. PNMR targets a payout ratio of 50% to 60% of consolidated earnings.

On February 20, 2007, there were 14,087 holders of record of the Company’s common stock.

See MD&A - Liquidity and Capital Resources - Dividends, for a discussion on limitations on the payments of dividends and 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 2006 and 2005.

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, as restated, 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 which are included from the date of acquisition on June 6, 2005. PNMR results also include results for the Twin Oaks business from the date of acquisition on April 18, 2006.

PNM RESOURCES, INC. AND SUBSIDIARIES

	2006 (1)	2005 (1)	2004 (1)	2003 (2)	2002 (2)
	(In thousands except per share amounts and ratios)				
Total Operating Revenues	$ 2,471,669	$ 2,076,810	$ 1,604,792	$ 1,455,653	$ 1,118,694
Net Earnings Before Cumulative Effect of Changes in Accounting Principles	$ 120,818	$ 66,857	$ 86,390	$ 57,256	$ 62,390
Net Earnings	$ 120,818	$ 65,931	$ 86,390	$ 93,877	$ 62,390
Net Earnings per Common Share					
Basic	$ 1.73	$ 1.00	$ 1.43	$ 1.57	$ 1.06
Diluted	$ 1.71	$ 0.98	$ 1.41	$ 1.56	$ 1.04
Cash Flow Data					
Net cash flows provided from operating activities	$ 244,424	$ 210,108	$ 235,142	$ 225,915	$ 97,359
Net cash flows used in investing activities	$ (799,575)	$ (154,300)	$ (143,838)	$ (98,790)	$ (200,427)
Net cash flows provided by (used in) financing activities	$ 610,371	$ (4,804)	$ (86,803)	$ (118,133)	$ 78,362
Total Assets	$ 6,165,624	$ 5,124,709	$ 3,487,635	$ 3,378,629	$ 3,247,227
Long-Term Debt	$ 1,765,907	$ 1,746,395	$ 987,823	$ 987,210	$ 980,092
Common Stock Data					
Market price per common share at year end	$ 31.10	$ 24.49	$ 25.29	$ 18.73	$ 15.88
Book value per common share at year end	$ 22.01	$ 18.58	$ 18.14	$ 17.92	$ 16.75
Average number of common shares outstanding	69,829	65,928	60,414	59,620	58,677
Dividends declared per common share	$ 0.880	$ 0.785	$ 0.665	$ 0.600	$ 0.587
Return on average common equity	8.0%	5.5%	7.8%	9.0%	6.2%
Capitalization					
Common stockholders' equity	49.0%	42.5%	52.7%	52.2%	49.9%
Preferred stock without mandatory redemption requirements	0.3	0.4	0.6	0.6	0.7
Long-term debt	50.7	57.1	46.7	47.2	49.4
	100.0%	100.0%	100.0%	100.0%	100.0%

(1) See the "Explanatory Note" immediately preceding Part I, Item 1 and Note 23, "Restatement" in Notes to Consolidated Financial Statements of this Form 10-K/A.

(2) The Selected Financial Data for years ended December 31, 2002 through December 31, 2006 have been restated to reflect adjustments related to a change in recording the amortization of gains on sales-leaseback transactions that occurred in 1984 and 1985, as further described in the "Explanatory Note" immediately preceding Part I, Item 1 of this Form 10-K/A.

PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2006	2005	2004	2003	2002
Regulated Operations					
PNM Electric MWh Sales					
Residential	2,764,299	2,652,475	2,509,449	2,405,488	2,298,542
Commercial	3,635,423	3,526,133	3,450,503	3,379,147	3,254,576
Industrial	1,327,287	1,277,156	1,283,769	1,292,711	1,612,723
Other	258,294	256,202	253,393	247,255	267,070
Total PNM Electric MWh Sales	7,985,303	7,711,966	7,497,114	7,324,601	7,432,911
TNMP Electric MWh Sales *					
Residential	2,748,751	1,839,741	-	-	-
Commercial	2,565,488	1,399,864	-	-	-
Industrial	2,157,507	1,263,452	-	-	-
Other	121,227	72,262	-	-	-
Total TNMP MWh Sales	7,592,973	4,575,319	-	-	-
PNM Gas Throughput - Decatherms					
(In thousands):					
Residential	27,556	28,119	30,618	27,416	29,627
Commercial	10,409	10,554	11,639	10,810	12,009
Industrial	581	369	413	485	749
Transportation	39,202	37,013	43,208	50,756	44,889
Other	6,450	9,780	13,871	5,510	4,807
Total PNM Gas Throughput	84,198	85,835	99,749	94,977	92,081
Unregulated Operations					
Wholesale MWh Sales **					
Long-term contracts	4,331,374	2,516,907	2,943,372	2,469,707	844,169
Short-term sales	7,207,172	8,069,751	9,057,172	9,432,297	8,605,985
Total PNM Wholesale MWh Sales	11,538,546	10,586,658	12,000,544	11,902,004	9,450,154
First Choice MWh Sales *					
Residential	2,481,557	1,591,005	-	-	-
Mass-market	549,143	400,839	-	-	-
Mid-market	1,132,028	478,531	-	-	-
Other	48,053	29,780	-	-	-
Total First Choice MWh Sales	4,210,781	2,500,155	-	-	-

* TNMP and First Choice are reported from the date of acquisition, June 6, 2005.
** Wholesale includes Twin Oaks from the date of acquisition, April 18, 2006.

Under TECA, customers of TNMP Electric in Texas can choose First Choice or any other REP to provide energy. However, TNMP Electric delivers energy to customers within its service area regardless of the REP chosen. Therefore, TNMP Electric earns revenue for energy delivery and First Choice earns revenue on the usage of that energy by its customers. The MWh reported above for TNMP Electric and First Choice include approximately 2,332,098 and 1,644,675 MWh used by customers of TNMP Electric at December 31, 2006 and 2005, respectively, who have chosen First Choice as their REP.

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PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2006	2005	2004	2003	2002
			(In thousands)		
Regulated Operations					
PNM Electric Revenues					
Residential	$ 222,099	$ 216,890	$ 206,950	$ 203,710	$ 197,174
Commercial	257,661	254,480	251,092	252,876	247,800
Industrial	62,515	61,146	61,905	64,549	82,009
Transmission	28,940	21,509	18,327	19,453	23,857
Other	20,934	19,951	20,138	19,876	19,956
Total PNM Electric Revenues	$ 592,149	$ 573,976	$ 558,412	$ 560,464	$ 570,796
TNMP Electric Revenues *					
Residential	$ 89,378	$ 57,145	$ -	$ -	$ -
Commercial	88,767	51,670	-	-	-
Industrial	40,501	25,189	-	-	-
Other	38,344	20,346	-	-	-
Total TNMP Revenues	$ 256,990	$ 154,350	$ -	$ -	$ -
PNM Gas Revenues					
Residential	$ 328,690	$ 311,043	$ 292,163	$ 226,799	$ 176,284
Commercial	102,877	98,929	92,128	72,269	53,734
Industrial	4,749	3,375	2,889	2,820	2,872
Transportation	14,420	13,813	15,274	18,906	17,735
Other	58,093	84,282	88,467	37,473	26,781
Total PNM Gas Revenues	$ 508,829	$ 511,442	$ 490,921	$ 358,267	$ 277,406
Unregulated Operations					
Wholesale Revenues **					
Long-term contracts	$ 283,411	$ 154,692	$ 158,085	$ 135,674	$ 58,546
Short-term sales	422,104	473,336	430,158	417,486 (a)	285,234
Total PNM Wholesale Revenues	$ 705,515	$ 628,028	$ 588,243	$ 553,160	$ 343,780
First Choice Revenues *					
Residential	$ 345,961	$ 198,218	$ -	$ -	$ -
Mass-market	81,917	53,111	-	-	-
Mid-market	125,510	46,584	-	-	-
Other	31,511	18,417	-	-	-
Total First Choice Revenues	$ 584,899	$ 316,330	$ -	$ -	$ -

* TNMP and First Choice are reported from the date of acquisition, June 6, 2005.
** Wholesale includes Twin Oaks from the date of acquisition, April 18, 2006.

(a) Includes intersegment sales of $1,535 in 2003.

PNM RESOURCES, INC. AND SUBSIDIARIES
COMPARATIVE OPERATING STATISTICS

	2006	2005	2004	2003	2002
Regulated Operations					
PNM Electric Customers					
Residential	388,775	378,116	367,491	358,099	345,588
Commercial	45,678	44,721	43,425	42,391	41,092
Industrial	279	281	290	296	311
Other	829	838	818	822	796
Total PNM Electric Customers	435,561	423,956	412,024	401,608	387,787
TNMP Electric Customers *					
Residential	224,418	222,688	-	-	-
Commercial	39,380	36,582	-	-	-
Industrial	595	121	-	-	-
Other	1,073	878	-	-	-
Total TNMP Customers	265,466	260,269	-	-	-
PNM Gas Customers					
Residential	451,518	440,624	430,578	421,104	411,642
Commercial	36,045	35,136	34,993	34,645	35,194
Industrial	45	42	47	46	58
Transportation	26	26	23	40	27
Other	1,995	2,654	2,931	2,983	3,664
Total PNM Gas Customers	489,629	478,482	468,572	458,818	450,585
Unregulated Operations					
Wholesale Customers **					
Long-term and short-term	75	76	68	72	76
Total Wholesale Customers	75	76	68	72	76
First Choice Customers *					
Residential	206,412	178,128	-	-	-
Mass-market	21,948	23,914	-	-	-
Mid-market	14,308	6,649	-	-	-
Other	3,006	1,760	-	-	-
Total First Choice Customers	245,674	210,451	-	-	-
PNM Generation Statistics					
Reliable Net Capability - MW	1,934	1,744	1,729	1,742	1,734
Coincidental Peak Demand - MW	1,855	1,779	1,655	1,661	1,478
Average Fuel Cost per Million BTU	$ 1.7143	$ 1.4711	$ 1.3751	$ 1.4120	$ 1.3910
BTU per KWh of Net Generation	10,641	10,706	10,442	10,854	10,568

* TNMP and First Choice are reported from the date of acquisition, June 6, 2005.
** Wholesale includes Twin Oaks from the date of acquisition, April 18, 2006.

The customers reported above for TNMP Electric and First Choice include 139,337 and 150,787 customers of TNMP Electric at December 31, 2006 and 2005, respectively, who have chosen First Choice as their REP. These TNMP

Electric customers are also included in the First Choice segment.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following Management's Discussion and Analysis of Financial Condition and Results of Operation for PNMR, PNM and TNMP is presented both on a combined basis as applicable, and on a separate basis. For discussion purposes, this report will use the term "Company" when discussing matters of common applicability to PNMR, PNM and TNMP. Discussions regarding specific contractual obligations generally reference the entity that is legally obligated. In the case of contractual obligations of PNM and TNMP, these obligations are consolidated with PNMR and its subsidiaries under GAAP. A reference to a "Note" in this Item 7 refers to the accompanying Notes to Consolidated Financial Statements. Management's Discussion and Analysis gives effect to the restatement discussed in Note 23.

RESULTS OF OPERATION - EXECUTIVE SUMMARY

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes, Item 1A "Risk Factors" and "Disclosure Regarding Forward Looking Statements" in this Item 7. Trends and contingencies of a material nature are discussed to the extent known.

Results of Operations

PNMR's net earnings for the year ended December 31, 2006 were $120.8 million, or $1.71 per diluted share of common stock, compared to $65.9 million or $0.98 per diluted share of common stock in 2005. The increase in earnings was driven primarily by the acquisition of Twin Oaks in April 2006, load growth at PNM Electric and Gas, and First Choice Power, which PNMR did not own until the TNP acquisition in June 2005. Additional increases include increases in Wholesale margins due to first quarter forward sales, long-term contract growth, and increased market price spreads. These increases were partially offset by below normal levels of plant performance as a result of unexpected plant outages at PVNGS, which reduced the amount of electricity PNM sold in the wholesale market and forced PNM to purchase power to meet jurisdictional and contractual wholesale needs. Also affecting PNMR's earnings was the last phase of an agreed upon 2003 electric rate reduction at PNM which went into effect in September 2005, charges for financing, reduced natural gas consumption, and a New Mexico rate reduction at TNMP, which went into effect in January 2006.

Overview of Structure of Regulated and Unregulated Operations

Through its operating company subsidiaries, PNMR is a merchant utility and a regulated energy service provider. PNM Wholesale is engaged in the sale and marketing of electricity in the competitive wholesale energy marketplace. Altura sells power generated from the Twin Oaks plant, located in central Texas, which was acquired in April 2006. First Choice is a retail electric provider in Texas. PNM is an integrated electric and gas utility operating in New Mexico under the jurisdiction of the NMPRC. TNMP is a regulated utility in Texas operating under the jurisdiction of the PUCT in Texas and through December 31, 2006, operated under the jurisdiction of the NMPRC in New Mexico.

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, through December 31, 2006 to TNMP Electric. 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. Beginning January 1, 2007, PNM began providing retail electric service to TNMP's former New Mexico customers, which are located in southern New Mexico. PNM Electric owns or leases transmission lines, interconnected with other utilities in New Mexico, Texas, Arizona, Colorado and Utah.

PNM Gas

PNM Gas distributes natural gas to most of the major communities in New Mexico, including two of New Mexico's three largest metropolitan areas, Albuquerque and Santa Fe. The customer base for PNM Gas includes both sales-service customers and transportation-service customers. PNM Gas operates under a purchase gas adjustment clause that allows it to purchase natural gas in the open market and resell it at cost to its distribution customers. As a result, increases or decreases in gas revenues resulting from wholesale gas price fluctuations do not impact PNM's consolidated gross margin or earnings.

TNMP Electric

TNMP Electric is a regulated utility operating in Texas and, through December 31, 2006, in New Mexico. TNMP's operations are subject to traditional cost of service regulation. TNMP provides regulated transmission and distribution services in Texas under the TECA.

Through December 31, 2006, TNMP provided integrated electric services that included the transmission, distribution, purchase and sale of electricity to its New Mexico customers as well as transmission to third parties and to PNM. Effective January 1, 2007 TNMP's New Mexico business was transferred to PNM. PNM Wholesale was TNMP's sole supplier for TNMP's load in New Mexico prior to the transfer of assets to PNM.

Unregulated Operations

Wholesale

The Wholesale segment included in PNMR's results of operations includes PNM Wholesale as well as the results of Altura from the date of acquisition of Twin Oaks on April 18, 2006 (see Note 2).

PNM Wholesale

PNM Wholesale is engaged in the generation and sale of electricity into the wholesale market based on two product lines, long-term contracts, including a contract with TNMP that expired December 31, 2006, and short-term sales. PNM Wholesale sells the unused capacity of retail 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. Although PNM Wholesale is regulated in certain respects, including FERC jurisdiction over its rates, PNMR includes PNM Wholesale in the unregulated segment of its business because PNM Wholesale is not subject to traditional rate of return regulation.

The PNM Wholesale strategy utilized by PNMR calls for net asset-backed energy sales supported by long-term contracts sold into the wholesale market. PNM Wholesale's aggregate net open forward electric sales position, including short-term sales and long-term contracts, is covered by its forecasted excess generation capacity. Management actively monitors the net asset-backed sales by the use of stringent risk management policies.

Altura

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased the Twin Oaks business, which included a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas. PNMR acquired Twin Oaks to expand the Company's merchant generation fleet in order to serve a growing wholesale market in the Southwest.

The Twin Oaks purchase agreement also includes the development rights for a possible 600-megawatt expansion of the plant, which PNMR has classified as an intangible asset. An additional $2.5 million payment will be made to the seller upon the issuance of an air permit for the expansion and an additional $2.5 million will be paid upon Altura beginning construction of the expansion. PNMR has not made a decision regarding the Twin Oaks expansion, but it is considering a variety of options, including self development or sale to a third party.

First Choice

First Choice is a certified retail electric provider operating in Texas that provides electricity to residential, small and large commercial, industrial and institutional customers. First Choice serves Texas retail customers by acquiring new retail customers, by 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 the TECA. Although First Choice is regulated in certain respects by the PUCT under ERCOT, PNMR includes First Choice in the unregulated segment of its business because First Choice is not subject to traditional rate of return regulation.

Corporate and Other

PNMR was established as the holding company in 2001. On December 30, 2004, PNMR became a registered holding company under the PUHCA and created PNMR Services Company, which began operating on January 1, 2005. The PUCHA was repealed effective February 2006.

TNMP provided First Choice and TNP with corporate support services under a shared services agreement with First Choice and a similar agreement with TNP. These services were billed at TNMP's cost and, in return, TNP and First Choice compensated TNMP for the use of the services. These agreements were in effect through June 6, 2005 when they were replaced by a new service arrangement with PNMR Services Company.

PNMR Services Company provides corporate services to PNMR and its subsidiaries including Avistar, Altura, First Choice, PNM, TNMP and TNP based on shared services agreements. These services are billed at cost and are allocated to PNMR and its subsidiaries.

As a result of the creation of the EnergyCo, PNMR Services Company entered into a corporate services agreement with EnergyCo effective January 2007.

Competitive Strategy

PNMR's vision is to "Build America's Best Merchant Utility." To achieve this objective, management intends to:

Expand Regulated and Unregulated Operations

PNMR intends to develop both its retail and wholesale business by expanding its current operations and by acquiring additional value-enhancing assets. As evidenced by the formation of the EnergyCo joint venture in 2007, the acquisitions of Twin Oaks in 2006 and TNP in 2005, and the acquisition of an interest in the Luna plant in 2004, PNMR intends to continue to increase its revenues by expanding its geographic coverage in the southwest, a region which not only exhibits rapid customer and load growth, but which PNMR knows well. PNMR also intends to increase its presence in the southwest market by buying additional generating resources and selling power from those resources through long-term contracts.

PNMR's future growth plans call for approximately 75% of its new generation portfolio to be committed through long-term contracts as required by the Global Electric Agreement. In November 2006, PNM extended its existing wholesale power agreement with the Overton Power District #5 in Nevada by five years. The new agreement immediately replaces a two-year contract and calls for PNM to provide Overton with up to 50 MWof power through December 2012. The relationship with Overton, a public utility district serving 10,000 customers in the eastern Clark County, Nevada, dates to October 2003 when PNM agreed to deliver up to 25 MW of power. The contract has been extended and expanded over the years. In October 2005, PNM entered into a 150 MW long-term sale contract with APS that begins in June 2007. PNM currently provides more than 600 megawatts of peak power to various wholesale customers in New Mexico, Arizona, Nevada and California.

In addition, PNMR expects that First Choice, which was a part of the TNP acquisition, will continue to provide a solid foundation for participation in the competitive retail market in Texas. In addition, PNMR also intends to continue to provide energy and technology related services through its wholly owned subsidiary, Avistar.

Acquire Additional Generating Assets in the Southwest Region

PNMR intends to enhance and diversify its presence in the southwest region through the acquisition or development of quality generation assets, including renewable or clean technology resources, to serve PNMR’s retail and wholesale load while maintaining diversity of fuel mix. PNMR also plans to increase long-term sales contracts in tandem with increases in its generation capacity, facilitated by the formation of the EnergyCo joint venture in 2007, and the acquisitions of Twin Oaks in 2006 and TNP in 2005 and an interest in the Luna plant in 2004. As in the past, PNMR intends to continue a disciplined approach to any acquisition, to match acquisitions to demand and to hedge capacity with long-term contracts.

Maintain Prudent Cost Controls

Management maintains cost control procedures for PNMR and its subsidiaries while expanding its business operations.

Continue to Improve Credit Strength and Reduce Cost of Capital

A high priority and long-term commitment is to maintain the Company's investment grade rating in any type of regulatory, natural gas or electricity price scenario. In 2006, PNMR issued additional common stock to repay acquisition-related debt and to strengthen its balance sheet. Pursuant to the terms of the PNM Direct Plan, PNMR began offering new shares of PNMR common stock through the plan beginning June 1, 2006. In August 2006, PNMR entered into an equity distribution agreement to offer and sell up to eight million shares of PNMR common stock from time to time provided that the aggregate gross proceeds from such sales will not exceed $200.0 million. In 2006, PNMR sold 2.0 million shares of its common stock through the PNMR Direct Plan and the equity distribution agreement for net proceeds of $55.3 million. In December 2006, PNMR issued 5,750,000 shares of its common stock in a public offering and received net proceeds of approximately $170.8 million. PNMR used the net proceeds from all of these common stock sales to retire debt associated with the acquisition of Twin Oaks. See “Financing Activities - PNMR” below in “Liquidity and Capital Resources” for further details of this transaction. In addition, PNMR plans to complete the permanent financing for the acquisition of the Twin Oaks facility while maintaining the Company's investment grade rating.

Commitment to Corporate Citizenship

PNMR is committed to its guiding principle, “Do the Right Thing.” This commitment serves as the cornerstone of PNMR’s ethics and compliance efforts and underscores its effort to ensure that dealings with customers, employees, shareholders and business partners are above reproach. This is evidenced by the Company's environmental sustainability program with aggressive goals for reducing water usage, improving air quality, reducing waste streams and becoming a leader in the development of renewable energy. In addition, PNMR is a member of the United States Climate Action Partnership, a group of businesses and leading environmental organizations that have come together to call on the federal government to quickly enact strong national legislation to require significant reductions of greenhouse gas emissions and has issued a landmark set of principles and recommendations to underscore the urgent need for a policy framework on climate change.

Overview of Developments Impacting Results of Operations and Competitive Strategy

EnergyCo Joint Venture

The EnergyCo joint venture with ECJV is a new unregulated energy company that will serve expanding U.S. markets throughout the Southwest, Texas and the West. ECJV is a wholly owned subsidiary of Cascade, which is PNMR’s second-largest shareholder.

PNMR's strategy for unregulated operations is focused on some of the nation's growing power markets. PNMR intends to capitalize on the growth opportunities in these markets through its participation and ownership in EnergyCo. In particular, it is anticipated that ECJV will commit capital for the acquisition of assets and that Cascade will make significant credit guarantees to increase EnergyCo's scale in its anticipated business lines:

- Competitive retail electricity sales;
- Development, operation and ownership of diverse generation assets; and
- Wholesale marketing and trading to optimize its assets.

In addition to purchasing energy-related assets, EnergyCo could grow by PNMR contributing existing unregulated assets and ECJV, in turn, matching those contributions with cash. This would enable PNMR to better separate its regulated utility operations from its unregulated generation assets and businesses.

Twin Oaks Acquisition

In April 2006, Altura purchased the Twin Oaks business to expand the Company's merchant generation fleet in order to serve a growing wholesale market in the Southwest. For additional discussion, see "Altura" above.

PVNGS Operations

PNM is a participant in PVNGS, of which APS is the operating agent. During 2006, PVNGS' equivalent availability was 70.0% and, as a result, PVNGS had the lowest equivalent availability factor that the plant has experienced since 1993. PVNGS is expected to be in the bottom quartile of performance for 2006, relative to the 103 operating reactors in the United States. During 2005, PVNGS' equivalent availability was 76.0%.

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. The NRC utilizes a grading system where a green finding level indicates very low risk significance and therefore having little or no impact on safety. By contrast, white, yellow, or red inspection findings each, respectively, represent a greater degree of safety significance. 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. In 2005 and 2006, the NRC performed its enhanced inspections. 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 PVNGS Unit 1 steam generators were replaced in 2005. Replacement of the PVNGS Unit 3 steam generators should be completed by December 2007. The replacement steam generators contain tubing material significantly more resistant to in-service cracking.

APS operated PVNGS Unit 1 at reduced power levels from December 25, 2005 through March 18, 2006, due to a vibration in the PVNGS Unit 1 shutdown cooling lines. On March 18, 2006, APS shut down PVNGS Unit 1 completely to perform inspections and tests. APS reconnected Unit 1 to the electrical grid on July 7, 2006. The unit achieved full power on July 16, 2006.

PVNGS Unit 1 was shut down on September 19, 2006 because of recurring problems with five of its 36-pressurizer heaters and returned to service on October 16, 2006. PVNGS Unit 1 was automatically shut down on October 21, 2006 because of a problem with control rod indicators and then returned to service on October 23, 2006.

On October 19, 2006, PVNGS Unit 3 was shut down manually after two condensate pumps shut down. The problem was in part of the unit generating system, not its reactor cooling or emergency systems. Repairs were made and PVNGS Unit 3 returned to service on October 21, 2006.

The reduced operation of PVNGS not only affected PNM's ability to make off-system sales, but also caused PNM to purchase power to serve its retail electric customers. PNM estimates that reduced performance at PVNGS, particularly the extended outage at PVNGS Unit 1, resulted in a $15.5 million decrease in 2006 earnings.

In October 2006, the NRC conducted an inspection of the PVNGS emergency diesel generators after a PVNGS Unit 3 generator did not activate during routine inspections on July 25 and September 22, 2006 and issued a preliminary white finding level. The NRC held a public regulatory conference in January 2007 to discuss its preliminary findings. On February 22, 2007, the NRC issued a "white" finding (low to moderate safety significance) for the emergency diesel generator matter. In connection with its finding, the NRC stated that it would "use the NRC Action Matrix to determine the most appropriate response and any increase in NRC oversight, or actions [APS, as PVNGS operating agent, needs] to take in response to the most recent performance deficiencies" and notify APS of its determination at a later date. Under the NRC's Action Matrix, this finding, coupled with a previous NRC "yellow" finding relating to the 2004 matter involving PVNGS's safety injection systems, will place one or more PVNGS units in the "multiple/repetitive degraded cornerstone" column of the NRC's Action Matrix, which will result in an enhanced NRC inspection regimen. APS has reported that it is continuing to implement its plan to improve PVNGS's operational performance.

The financial performance of PNMR and PNM may be adversely affected if PVNGS 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.

Proposed legislation in New Mexico and Texas

Multiple pieces of legislation have been introduced in the Texas and New Mexico legislative sessions which could impact the Company. In New Mexico, a bill that increases the Renewable Portfolio Standard from its current requirements of 10% by 2011 to a renewable mandate of 15% by 2015 and 20% by 2020. The bill also establishes a 5% energy efficiency goal by 2015. Another piece of legislation would provide up to $60 million in state tax credits for the development of clean coal and solar thermal projects and would provide utilities the opportunity to seek cost recovery for environmental projects above and beyond compliance levels. Under proposed legislation, the state would fund the Low Income Home Energy Assistance Program for a recurring amount of $6.0 million a year.

In Texas, two pieces of legislation are aimed at increasing competition and lowering the cost of residential electricity following deregulation of the market in 1999. The first bill, focusing on the Texas retail market, expands the powers of the PUCT to encourage competition by permitting the PUCT to release customer information of non-competitive companies' customers to competitive providers and allows the PUCT to study the reasonableness of residential rates and make changes to rates to ensure reasonableness. Another bill, focused on the Texas wholesale market, restricts the amount of electric capacity a utility can generate within Texas, or a zonal boundary or market, at 20 percent.

The Company is unable to predict the final form of any legislation that may be enacted in either New Mexico or Texas or the impact of such legislation, if any, on the Company.

RESULTS OF OPERATION - PNMR

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

PNMR's net earnings for the year ended December 31, 2006 were $120.8 million, or $1.71 per diluted share of common stock, compared to $65.9 million or $0.98 per diluted share of common stock in 2005. The increase in earnings was driven primarily by the acquisition of Twin Oaks in April 2006, load growth at PNM Electric and Gas, and First Choice Power, which PNMR did not own until the TNP acquisition in June 2005. Additional increases include increases in Wholesale margins due to first quarter forward sales, long-term contract growth, and increased market price spreads, which were partially offset by below normal levels of plant performance as a result of unexpected plant outages at PVNGS, which reduced the amount of electricity PNM sold in the wholesale market and forced PNM to purchase power to meet jurisdictional and contractual wholesale needs. Also affecting PNMR's earnings was the last phase of an agreed upon 2003 electric rate reduction at PNM which went into effect in September 2005, charges for financing, reduced natural gas consumption, and a New Mexico rate reduction at TNMP, which went into effect in January 2006.

In addition to the reasons discussed above, earnings also increased due to the reduction of acquisition-related and other non-recurring charges of $31.7 million, net of income taxes, which were driven by lower acquisition integration costs of $7.4 million, turbine impairment of $9.0 million, charges related to the issuance of equity-linked units of $7.3 million, TNP debt refinancing costs of $5.1 million, a software write-off of $2.7 million, charges associated with the NMPRC's approval of the TNP acquisition of $1.4 million, and the cumulative effect of adoption of FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations"* ("FIN 47") of $0.9 million. These decreases were partially offset by costs incurred as part of the formation of EnergyCo of $2.1 million.

The following discussion is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. See Note 3 for additional information regarding these results and the Consolidated Financial Statements.

In addition, adjustments related to EITF Issue 03-11, *"Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes,"* are excluded from the PNM Wholesale segment and are instead included in the Corporate and Other segment. This accounting pronouncement requires a net presentation of realized gains and losses for certain non-trading derivatives. Management evaluates PNM Wholesale on a gross presentation basis due to its primarily net-asset-backed marketing strategy and the importance it places on PNM's ability to repurchase and remarket previously sold capacity. The other segments are not affected by this EITF.

Corporate costs, income taxes and non-operating items are discussed on a consolidated basis for PNMR and are in conformity with the presentation in PNMR's Consolidated Financial Statements.

Regulated Operations

PNM Electric

The table below sets forth the operating results for PNM Electric:

	Year Ended December 31, 2006	2005	Variance
	(In thousands)		
Operating revenues	**$ 592,149**	**$ 573,976**	**$ 18,173**
Less: Cost of energy	195,155	210,169	(15,014)
Intersegment energy transfer	(6,355)	(35,829)	29,474
Gross margin	**403,349**	**399,636**	**3,713**
Energy production costs	121,878	119,929	1,949
Transmission and distribution O&M	33,023	30,462	2,561
Customer related expense	16,173	19,454	(3,281)
Administrative and general	10,396	11,001	(605)
Total non-fuel O&M	**181,470**	**180,846**	**624**
Corporate allocation	69,923	64,170	5,753
Depreciation and amortization	59,610	69,798	(10,188)
Taxes other than income taxes	22,814	19,726	3,088
Income taxes	13,699	12,551	1,148
Total non-fuel operating expenses	**347,516**	**347,091**	**425**
Operating income	**$ 55,833**	**$ 52,545**	**$ 3,288**

The following table shows electric revenues by customer class and average customers:

PNM Electric Revenues

	Year Ended December 31, 2006	2005	Variance
	(In thousands, except customers)		
Residential	$ 222,099	$ 216,890	$ 5,209
Commercial	257,661	254,480	3,181
Industrial	62,515	61,146	1,369
Transmission	28,940	21,509	7,431
Other	20,934	19,951	983
	$ 592,149	$ 573,976	$ 18,173
Average customers	430,212	417,986	12,226

The following table shows electric sales by customer class:

PNM Electric Sales

	Year Ended December 31, 2006	2005	Variance
		(Megawatt hours)	
Residential	2,764,299	2,652,475	111,824
Commercial	3,635,423	3,526,133	109,290
Industrial	1,327,287	1,277,156	50,131
Other	258,294	256,202	2,092
	7,985,303	7,711,966	273,337

Operating revenues increased $18.2 million, or 3.2%, from the prior year. Retail electricity sales increased 3.5% to 8.0 million MWhs in 2006 compared to 7.7 million MWhs in 2005. Average customers grew 2.9% year over year. Customer load growth, when normalized for the impact of weather, increased revenues by $23.6 million. In addition, transmission revenues increased $7.4 million as a result of a transmission rate increase, an increase in revenues from point-to-point customers, and an increase in intercompany transmission revenues. Joint use revenues increased $0.7 million due to an increase in contract fees and late payment charges. These increases were partially offset by a decrease in revenues of $9.6 million, due to a 2.5% rate reduction which was effective beginning September 2005, and $4.2 million as a result of lower usage due to milder weather.

Gross margin, or operating revenues minus cost of energy sold and intersegment energy transfer, increased $3.7 million, or 0.9%, from the prior year, primarily due to increased customer growth, which was partially offset by weather and the rate decrease discussed above.

Total non-fuel O&M expenses increased $0.6 million, or 0.4%, from the prior year. Energy production costs increased $1.9 million, or 1.6%, primarily due to increased outage costs of $1.7 million at PVNGS and $1.4 million at SJGS as well as an increased incentive bonus at PVNGS of $0.9 million, which were partially offset by decreased plant outage costs at Reeves and Four Corners and the reversal of the Palo Verde decommissioning liability in excess of the required amount. In addition, a new water sharing agreement at SJGS, which started in January 2006, increased energy production costs by $0.5 million. Transmission and distribution O&M expenses increased $2.6 million, or 8.4%, primarily due to increased maintenance costs of $1.1 million, resulting primarily from outage restoration and reliability purposes, an increase in labor costs of $0.9 million, and an increase in the cost of materials of $0.3 million. Customer related expenses decreased $3.3 million, or 16.9%, primarily due to reductions in temporary labor costs of $1.3 million, consulting costs of $0.9 million, and media campaign costs of $0.7 million. Administrative and general expenses decreased $0.6 million, or 5.5%, due to the write-off of fiber optic study costs of $2.6 million in 2005 that did not recur in 2006, higher capitalized costs of $2.4 million due to increased construction activity, which reduced the costs allocated to administrative and general expense, lower insurance costs of $1.2 million, and reduced legal fees of $1.0 million, which were partially offset by higher performance-based compensation costs of $3.4 million and increased labor costs of $2.3 million and an increased incentive bonus at PVNGS of $0.5 million.

Depreciation and amortization decreased $10.2 million, or 14.6%, from the prior year primarily due to an increase in the estimated useful life at SJGS, which was partially offset by asset additions. Taxes other than income increased $3.1 million, or 15.7%, due to a general increase in property taxes from various taxing authorities, and an increase in employer payroll taxes associated with increased performance-based compensation.

Effective January 1, 2007, TNMP's New Mexico operations were transferred to PNM Electric.

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TNMP Electric

PNMR acquired TNP, the parent of TNMP, on June 6, 2005, and results in this section are presented from the acquisition date.

The table below sets forth the operating results for TNMP Electric:

	Year Ended December 31, 2006	For the Period June 6 - December 31, 2005
	(In thousands)	
Operating revenues	**$ 256,990**	**$ 154,350**
Less: Cost of energy	103,021	58,014
Gross margin	**153,969**	**96,336**
Transmission and distribution O&M	20,871	12,403
Customer related expense	5,204	3,111
Administrative and general	(3,239)	415
Total non-fuel O&M	**22,836**	**15,929**
Corporate allocation	32,048	9,386
Depreciation and amortization	31,576	17,596
Taxes other than income taxes	24,351	14,261
Income taxes	4,258	8,442
Total non-fuel operating expenses	**115,069**	**65,614**
Operating income	**$ 38,900**	**$ 30,722**

The following table shows electric revenues by customer class and average customers:

TNMP Electric Revenues

	Year Ended December 31, 2006	For the period June 6 - December 31, 2005
	(In thousands, except customers)	
Residential	$ 89,378	$ 57,145
Commercial	88,767	51,670
Industrial	40,501	25,189
Other	38,344	20,346
	$ 256,990	$ 154,350
Average customers*	262,838	255,335

* Under TECA, customers of TNMP Electric in Texas have the ability to choose First Choice or any other REP to provide energy. However, TNMP Electric delivers energy to customers within its service area regardless of the REP chosen. Therefore, TNMP Electric earns revenue for the delivery of energy to First Choice and First Choice earns revenue on the usage of that energy by its customers. The average customers reported above include 144,866 and 154,252 customers of TNMP Electric at December 31, 2006 and 2005, respectively, who have chosen First Choice as

their REP. These TNMP Electric customers are also included below in the First Choice segment. For PNMR consolidated reporting purposes, these customers are included only once in the consolidated customer count.

The following table shows electric sales by customer class:

TNMP Electric Sales *

	Year Ended December 31, 2006	For the period June 6 - December 31, 2005
	(Megawatt hours)	
Residential	2,748,751	1,839,741
Commercial	2,565,488	1,399,864
Industrial	2,157,507	1,263,452
Other	121,227	72,262
	7,592,973	4,575,319

* The MWhs reported above include 2,332,098 and 1,644,675 MWhs used by customers of TNMP Electric at December 31, 2006 and 2005, respectively, who have chosen First Choice as their REP. The 2005 comparative MWhs have been changed to include unbilled as well as billed MWhs for comparability with 2006 numbers. These MWhs are also included below in the First Choice segment.

TNMP Electric's gross margin was $154.0 million for 2006. The significant factors that impacted gross margin include a decrease in revenues due to rate reductions in both Texas and New Mexico, milder weather, increased transmission costs, and higher purchase power prices in New Mexico. These decreases were partially offset by customer growth year over year and the collection of Competitive Transition Charges beginning in December 2006.

Effective January 1, 2007, TNMP's New Mexico operations were transferred to PNM Electric.

PNM Gas

The table below sets forth the operating results for PNM Gas:

	Year Ended December 31, 2006	2005	Variance
	(In thousands)		
Operating revenues	**$ 508,829**	**$ 511,442**	**$ (2,613)**
Less: Cost of energy	361,873	364,205	(2,332)
Gross margin	**146,956**	**147,237**	**(281)**
Energy production costs	2,273	2,444	(171)
Transmission and distribution O&M	27,881	27,817	64
Customer related expense	16,830	19,616	(2,786)
Administrative and general	7,862	3,487	4,375
Total non-fuel O&M	**54,846**	**53,364**	**1,482**
Corporate allocation	41,103	37,028	4,075
Depreciation and amortization	23,991	22,548	1,443
Taxes other than income taxes	8,937	8,010	927
Income taxes	2,266	5,853	(3,587)
Total non-fuel operating expenses	**131,143**	**126,803**	**4,340**
Operating income	**$ 15,813**	**$ 20,434**	**$ (4,621)**

The following table shows gas revenues by customer and average customers:

PNM Gas Revenues

	Year Ended December 31, 2006	2005	Variance
	(In thousands, except customers)		
Residential	$ 328,690	$ 311,043	$ 17,647
Commercial	102,877	98,929	3,948
Industrial	4,749	3,375	1,374
Transportation*	14,420	13,813	607
Other	58,093	84,282	(26,189)
	$ 508,829	$ 511,442	$ (2,613)
Average customers	482,270	471,321	10,949

*Customer-owned gas.

The following table shows gas throughput by customer class:

PNM Gas Throughput

	Year Ended December 31, 2006	2005	Variance
	(Thousands of decatherms)		
Residential	27,556	28,119	(563)
Commercial	10,409	10,554	(145)
Industrial	581	369	212
Transportation*	39,202	37,013	2,189
Other	6,450	9,780	(3,330)
	84,198	85,835	(1,637)

*Customer-owned gas.

PNM Gas purchases natural gas in the open market and resells it at no profit to its sales-service customers. As a result, increases or decreases in gas revenues driven by gas costs do not impact the consolidated gross margin or earnings of PNM Gas. Operating revenues decreased $2.6 million, or 0.5%, from the prior year. Increased gas prices in 2006 resulted in an increase in revenues of $66.0, with an additional $14.2 million attributable to customer growth. These increases were more than offset by $54.1 million of decreased usage due to customer conservation, $24.5 million of reduced off-system sales transactions resulting from a lack of market activity, and $3.8 million of decreased usage due to milder weather. As a result of the customer conservation and milder weather in 2006, sales volumes decreased 1.9%. Average customer counts increased 2.3% year over year.

Gross margin, or operating revenues minus cost of energy sold, decreased $0.3 million, or 0.2%, from the prior year. Reduced customer usage resulting from customer conservation caused gross margin to decrease $5.9 million. Milder weather and reduced off-system sales transactions also reduced margin compared to the prior year. These decreases were partially offset by customer growth, as discussed above, which increased margin $6.5 million.

Total non-fuel O&M expenses increased $1.5 million, or 2.8%, from the prior year. Customer related expenses decreased $2.8 million, or 14.2%, due to lower costs for advertising of $1.7 million, temporary labor of $1.4 million, and consulting of $0.3 million. These decreases were partially offset by higher bad debt expense of $0.7 million. Administrative and general expenses increased $4.4 million, or 125.5%, primarily due to higher performance-based compensation costs of $2.7 million, increased labor costs of $0.9 million, and higher insurance costs of $0.7 million.

Depreciation and amortization increased $1.4 million, or 6.4%, largely due to asset and software additions placed in service during 2005. Taxes other than income taxes increased $0.9 million, or 11.6%, as a result of an increase in property taxes and employer payroll taxes associated with increased performance-based compensation.

Unregulated Operations

Wholesale

The table below sets forth the operating results for Wholesale:

	Year Ended December 31, 2006	Year Ended December 31, 2005	Variance
	(In thousands)		
Operating revenues	**$ 705,515**	**$ 628,028**	**$ 77,487**
Less: Cost of energy	507,800	506,935	865
Intersegment energy transfer	6,355	35,829	(29,474)
Gross margin	**191,360**	**85,264**	**106,096**
Energy production costs	41,343	29,614	11,729
Transmission and distribution O&M	104	54	50
Customer related expense	1,023	879	144
Administrative and general	7,800	6,446	1,354
Total non-fuel O&M	**50,270**	**36,993**	**13,277**
Corporate allocation	7,025	4,395	2,630
Depreciation and amortization	26,101	15,669	10,432
Taxes other than income taxes	6,192	3,439	2,753
Income taxes	25,687	3,612	22,075
Total non-fuel operating expenses	**115,275**	**64,108**	**51,167**
Operating income	**$ 76,085**	**$ 21,156**	**$ 54,929**

The following table shows revenues by customer class:

Wholesale Revenues

	Year Ended December 31, 2006	Year Ended December 31, 2005	Variance
	(In thousands)		
Long-term contracts	$ 283,411	$ 154,692	$ 128,719
Short-term sales	422,104	473,336	(51,232)
	$ 705,515	$ 628,028	$ 77,487

The following table shows sales by customer class:

Wholesale Sales

	Year Ended December 31, 2006	2005	Variance
		(Megawatt hours)	
Long-term contracts	4,331,374	2,516,907	1,814,467
Short-term sales	7,207,172	8,069,751	(862,579)
	11,538,546	10,586,658	951,888

Operating revenues increased $77.5 million, or 12.3%, from the prior year. This increase in wholesale electric sales was primarily due to increased long-term contracts of $128.7 million, or 83.2%. The acquisition of Twin Oaks increased long-term revenue by $125.1 million, of which $53.6 million related to an existing power agreement and $70.9 million for the amortization of the fair value of a sales contract existing as of the date of the acquisition (see Note 2). Other increases in long-term revenue include the growth of long-term contracts of $9.3 million, which were partially offset by reduced SO_2 allowance sales of $5.0 million. Short-term revenues decreased by $51.2 million, or 10.8%, primarily due to reduced marketing activity and a 2.0% decrease in average short-term sales prices. Wholesale sold 11.5 million MWh of electricity in 2006 compared to 10.6 million MWh in 2005, an increase of 9.0%.

Gross margin, or operating revenues minus cost of energy sold and intersegment energy transfer, increased $106.1 million, or 124.4%, from the prior year, primarily due to the acquisition of Twin Oaks, which increased margin $86.3 million. In addition, margin increased due to the forward sale of first quarter 2006 excess resources in September 2005 when market prices were high. When prices fell in early 2006, PNM Wholesale covered the forward sales with lower-priced market purchases and utilized the excess resources to create additional sales opportunities. This strategy resulted in an increase in gross margin of approximately $10.8 million. Increased margins due to the growth of long-term contracts and higher market price spreads were partially offset by the reduction in SO_2 allowance sales discussed above and a $6.2 million decrease due to reduced base-load plant availability and increased retail load, which reduced the availability of less expensive excess energy for sale in the wholesale market.

Total non-fuel O&M expenses increased $13.3 million, or 35.9%, from the prior year. Energy production costs increased $11.7 million, or 39.6%, due primarily to the addition of Twin Oaks costs of $6.9 million and Luna costs of $1.8 million, which the Company did not have in 2005, increased outage costs of $3.5 million at PVNGS and $0.2 million at SJGS and an increased incentive bonus at PVNGS of $0.7 million, which was partially offset by the reversal of PVNGS decommissioning liability in excess of the required amount of $0.5 million and decreased plant outage costs at Reeves and Four Corners. Administrative and general costs increased $1.4 million, or 21.0% primarily due to the addition of Twin Oaks costs of $0.8 million and an increased incentive bonus at PVNGS of $0.8 million, which was partially offset by higher capitalized costs in 2006 of $0.5 million due to increased construction activity which reduced administrative and general expenses.

Depreciation and amortization increased $10.4 million, or 66.6%, from the prior year primarily due to the addition of Twin Oaks and depreciation expense for assets placed in service during 2005, partially offset by lower depreciation rates at SJGS, Afton and Lordsburg power plants. Taxes other than income increased $2.8 million or 80.1% primarily due to the addition of Twin Oaks.

First Choice

PNMR acquired TNP on June 6, 2005, and results in this section are presented from the acquisition date.

The table below sets forth the operating results for First Choice:

	Year Ended December 31, 2006	For the Period June 6 - December 31, 2005
	(In thousands)	
Operating revenues	**$ 584,899**	**$ 316,330**
Less: Cost of energy	455,126	243,053
Gross margin	**129,773**	**73,277**
Customer related expense	14,416	2,539
Administrative and general	30,620	13,008
Total non-fuel O&M	**45,036**	**15,547**
Corporate allocation	14,457	8,434
Depreciation and amortization	2,026	1,094
Taxes other than income taxes	5,276	3,916
Income taxes	22,152	15,450
Total non-fuel operating expenses	**88,947**	**44,441**
Operating income	**$ 40,826**	**$ 28,836**

The following table shows electric revenues by customer class and average customers:

First Choice Electric Revenues

	Year Ended December 31, 2006	For the Period June 6 - December 31, 2005
	(In thousands, except customers)	
Residential	$ 345,961	$ 198,218
Mass-market	81,917	53,111
Mid-market	125,510	46,584
Other	31,511	18,417
	$ 584,899	$ 316,330
Actual customers [1, 2]	245,674	210,451

(1) See note above in the TNMP Electric segment discussion about the impact of TECA.

(2) Due to the competitive nature of First Choice's business, actual customer count at December 31 is presented in the table above as a more representative business indicator than the average customers that are shown in the table for TNMP customers. First Choice had 224,003 average customers and 209,464 average customers for the years ended December 31, 2006 and 2005, respectively.

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The following table shows electric sales by customer class:

First Choice Electric Sales *

	Year Ended December 31, 2006	For the period June 6 - December 31, 2005
	(Megawatt hours)	
Residential	2,481,557	1,591,005
Mass-market	549,143	400,839
Mid-market	1,132,028	478,531
Other	48,053	29,780
	4,210,781	2,500,155

* See note above in the TNMP Electric segment discussion about the impact of TECA.

First Choice's gross margin was $129.8 million for 2006. The significant factors that impacted gross margin include customer growth, increases in competitive and price-to-beat sales prices, an increase in trading margins, and the amortization of the fair value of sales and purchase contracts existing at the time of the acquisition. As part of the acquisition of TNP, PNMR determined the fair value of a First Choice contractual obligation to purchase power and an obligation to sell power that are being amortized over the contract lives, or approximately three years. These increases were partially offset by reduced usage due to milder weather and higher purchased power prices. Significant factors that increased non-fuel O&M in 2006 include the initial costs of outsourcing customer service operations and higher bad debt expense.

Corporate and Other

Energy Production Costs

Corporate and other energy production costs decreased $14.9 million in 2006 as a result of the write-down of a turbine of $15.0 million in 2005.

Corporate Administrative and General Expenses

Corporate administrative and general expenses, which represent costs that are driven primarily by corporate-level activities, are allocated to the business segments and are presented in the corporate allocation line item in the segment statements. These costs increased $30.5 million, or 22.1%, to $168.8 compared to the prior year. This increase was primarily due to $20.0 million in additional expenses for insurance, benefits, and corporate support activities for TNP, which PNMR did not incur until the acquisition of TNP in June 2005. Wages and benefit costs increased $7.6 million due to additional employees providing corporate services and increases in the payout of employee incentive programs. Stock-based compensation expense increased $5.9 million due to the adoption of SFAS 123R "*Share-Based Payment*" (see Note 13). Additional increases include higher audit fees and costs related to the cost of compliance with the Sarbanes-Oxley Act of $2.1 million, increased consulting costs associated with corporate projects of $1.4 million, and increased postretirement costs in accordance with SFAS No. 106, *"Employers' Accounting for Postretirement Benefits Other Than Pensions"* ("SFAS 106") of $1.3 million. These increases were partially offset by lower costs relating to the integration of the TNP acquisition of $9.1 million.

Depreciation Expense

Corporate and other depreciation expense decreased $3.1 million, or 25.4%, to $9.0 million, primarily due to the write-off of software costs in the second quarter of 2005 that did not recur in 2006 offset, in part, by an increase in the asset base.

Taxes Other Than Income

Corporate and other taxes other than income increased $1.1 million, or 33.6%, to $4.3 million primarily due to an increase in payroll taxes from a transfer of employees to Corporate and increased wages related to stock-based compensation.

PNMR Consolidated

Other Income and Deductions

Other income decreased $4.3 million and other deductions decreased by $16.5 million, for a net increase in other income and deductions of $12.2 million. The increase is a result of a 2005 activity related to the Company's equity investment program, a $3.1 million write down of the Wood River investments offset by a $0.5 million gain on investments from the Company's equity investment program. This program was discontinued and there was no additional equity investment activity in 2006. In addition, there was an $11.3 million charge in 2005 related to the issuance of equity-linked securities (see Note 6), and a $2.5 million contribution by PNMR to the PNM Resources Foundation in 2005. These increases were partially offset by lower realized gains of $3.5 million related to the rebalancing of the PVNGS decommissioning trust assets and a decrease of $1.0 million due to the unwinding of an interest rate swap.

Interest income decreased $3.1 million, or 7.4%, primarily due to lower interest income of $2.2 million as a result of a lower level of investment income in the Palo Verde capital trust and interest earned in 2005 from the investment of cash received from PNMR's issuance of equity-linked units of $1.9 million. These decreases were partially offset by a $0.5 million increase in interest income earned on PVNGS decommissioning trust assets.

Carrying charges on regulatory assets increased $2.6 million from the prior year. This represents interest income on TNMP regulatory assets that were not acquired until June 6, 2005.

Interest Charges

PNMR's consolidated interest charges increased by $51.8 million from the prior year. The increase is primarily due to $20.6 million of interest charges related to the bridge loan associated with the Altura purchase of Twin Oaks, which occurred on April 18, 2006, $12.8 million of interest charges related to debt from the TNP operations, which PNMR did not incur until the acquisition of TNP in June 2005, $9.9 million due to an increase in PNMR commercial paper and other short-term borrowings, interest and refinancing costs of $6.8 million related to the equity-linked units issued in March and October of 2005, $3.0 million of interest charges for pollution control bonds converted from a variable interest rate to a higher fixed interest rate, and $2.6 million of interest charges related to rate increases on PNMR interest rate swaps. These increases were partially offset by $1.7 million of interest capitalized in connection with capital construction projects and $2.3 million of debt retirement in connection with the purchase of TNP in June 2005.

Income Taxes

PNMR's consolidated income tax expense was $64.0 million for the year ended December 31, 2006 compared to $32.9 million in 2005. The increase in consolidated income tax expense was due to the impact of higher earnings. PNMR's effective operating income tax rates for the years ended December 31, 2006 and 2005 were 34.76% and 31.45%, respectively. PNMR's effective non-operating income tax rates for the years ended December 31, 2006 and 2005 were 33.90% and 32.92%, respectively.

RESULTS OF OPERATION - PNM

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

PNM's segments are PNM Electric, PNM Gas and Wholesale. The PNM Electric and PNM Gas segments are identical to the segments presented above in "Results of Operations" for PNMR. The Wholesale segment reported for PNM does not include Altura (see Note 2 and Note 3).

PNM's operating revenues decreased by $51.7 million, or 3.1%, from the prior year. Gross margin increased $23.2 million, or 3.7%, compared to 2005. PNM Electric segment gross margins increased $3.7 million from the prior year, while PNM Gas segment gross margins remained flat, as discussed above. PNM Wholesale segment gross margins increased $19.8 million, resulting predominately from increased marketing activity due to first quarter 2006 forward sales, long-term contract growth, the addition of Luna operations, higher market price spreads and greater availability at base-load coal plants, partially offset by reduced availability at PVNGS and increased retail loads, which caused a decrease in energy available to sell in the wholesale market.

Total operating expenses decreased $80.2 million, or 5.0%, from the prior year, of which $74.9 million is a decrease in cost of energy included in gross margin above.

Administrative and general costs decreased $3.3 million, or 1.9%, primarily due to lower consulting, temporary labor and marketing costs, partially offset by increased incentive-based compensation and bad debt expenses.

Energy Production costs decreased $8.4 million, or 5.0%, as a result of the $15.0 million write-off of a turbine in 2005, partially offset by increased outage and maintenance costs at base-load power plants of $5.7 million and the addition of Luna operations of $1.8 million.

Depreciation and amortization expenses decreased $16.2 million, or 14.0%, primarily as a result of an increase in the life expectancy at the SJGS, Afton and Lordsburg power plants of $15.5 million, the write-off of software costs in the second quarter of 2005 of $4.5 million, and reduced expenses on fully depreciated assets of $3.2 million, partially offset by increased expenses as a result of additions to fixed assets of $6.2 million and the addition of an asset retirement obligation for an existing asset at Lordsburg of $0.7 million.

Transmission and distribution costs increased $2.7 million, or 4.6%, primarily due to higher maintenance, material and labor costs.

Taxes other than income increased $3.8 million, or 12.2%, due to a general increase in property taxes from various taxing authorities and an increase in payroll taxes associated with higher performance-based compensation.

PNM's consolidated income tax expense was $40.0 million for 2006, compared to $25.3 million for 2005. PNM's effective operating income tax rates for 2006 and 2005 were 35.12% and 28.21%, respectively. PNM's effective non-operating income tax rates for 2006 and 2005 were 37.62% and 35.59%, respectively.

Effective January 1, 2007, TNMP's New Mexico operations were transferred to PNM Electric.

RESULTS OF OPERATION - TNMP

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

TNMP operates in only one reportable segment, “TNMP Electric.” Results include the effect of the purchase accounting on June 6, 2005. Amounts for the period January 1 through June 6, 2005 are pre-acquisition and amounts after June 6, 2005 are post-acquisition. (See Note 1.)

TNMP’s operating revenues decreased $10.2 million, or 3.8%, from the prior year. Gross margin decreased $11.3 million, or 6.8%, compared to 2005. The significant factors that impacted gross margin include a decrease in revenues due to rate reductions in conjunction with the acquisition in both Texas and New Mexico, milder weather resulting in reduced usage, increased transmission expense, and higher purchase power costs. These decreases were partially offset by customer growth and higher sales prices.

Total operating expenses increased $2.4 million, or 1.1%, from the prior year, of which $1.1 million is an increase in cost of energy included in gross margin above.

Administrative and general expenses increased $8.8 million, or 35.0%, primarily due to increased labor, employee benefits, consulting, and insurance expenses allocated to TNMP from PNMR and higher incentive-based compensation.

TNMP’s consolidated income tax expense was $7.3 million in 2006, compared to $14.9 million in 2005. TNMP’s effective operating income tax rates for 2006 and 2005 were 29.91% and 35.66%, respectively. TNMP’s effective non-operating income tax rates for 2006 and 2005 were 34.97% and 34.74%, respectively.

Effective January 1, 2007 TNMP’s New Mexico operations were transferred to PNM Electric.

RESULTS OF OPERATION - PNMR

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

PNMR's GAAP earnings for the year ended December 31, 2005 were $65.9 million, or $0.98 per diluted share of common stock, compared to $86.4 million, or $1.41 per diluted share of common stock, in 2004. The decrease in earnings per share was driven primarily by acquisition related and other charges of $36.5 million, net of income taxes, which consisted of the following:

- TNP acquisition integration costs of $10.1 million;
- turbine impairment of $9.0 million;
- charge related to issuance of equity-linked units of $7.3 million (see Note 6);
- TNP debt refinancing costs of $5.1 million;
- software write-off of $2.7 million;
- charge associated with the NMPRC's approval of the TNP acquisition of $1.4 million; and
- cumulative effect of adoption of FIN 47 of $0.9 million (see Note 1).

In addition, as discussed above, PNM experienced below normal levels of plant performance due to unexpected plant outages, particularly at PVNGS, which reduced the amount of electricity PNM sold in the wholesale market and forced PNM to purchase power to meet jurisdictional and contractual wholesale needs. In addition, the margin on fixed-price contracts decreased, as increases in purchased power prices that were driven by increasing fuel prices that could not be passed on to customers with fixed sales prices. These decreases to net earnings were partially offset by the addition of TNP operations from June 6 through December 31, 2005.

The following discussion is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. See Note 3 for additional information regarding these results and the Consolidated Financial Statements.

In addition, adjustments related to EITF Issue 03-11, *"Reporting Realized Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133 and Not Held for Trading Purposes,"* are excluded from the PNM Wholesale segment and are instead included in the Corporate and Other segment. This accounting pronouncement requires a net presentation of realized gains and losses for certain non-trading derivatives. Management evaluates PNM Wholesale on a gross presentation basis due to its primarily net-asset-backed marketing strategy and the importance it places on PNM's ability to repurchase and remarket previously sold capacity. The other segments are not affected by this EITF.

Corporate costs, income taxes and non-operating items are discussed on a consolidated basis for PNMR and are in conformity with the presentation in PNMR's Consolidated Financial Statements.

Regulated Operations

PNM Electric

The table below sets forth the operating results for PNM Electric:

	Year Ended December 31, 2005	2004	Variance
		(In thousands)	
Operating revenues	**$ 573,976**	**$ 558,412**	**$ 15,564**
Less: Cost of energy	210,169	186,517	23,652
Intersegment energy transfer	(35,829)	(42,769)	6,940
Gross margin	**399,636**	**414,664**	**(15,028)**
Energy production costs	119,929	115,144	4,785
Transmission and distribution O&M	30,462	31,360	(898)
Customer related expense	19,454	18,190	1,264
Administrative and general	11,001	4,640	6,361
Total non-fuel O&M	**180,846**	**169,334**	**11,512**
Corporate allocation	64,170	69,820	(5,650)
Depreciation and amortization	69,798	63,050	6,748
Taxes other than income taxes	19,726	20,324	(598)
Income taxes	12,551	22,628	(10,077)
Total non-fuel operating expenses	**347,091**	**345,156**	**1,935**
Operating income	**$ 52,545**	**$ 69,508**	**$ (16,963)**

The following table shows electric revenues by customer class and average customers:

PNM Electric Revenues

	Year Ended December 31, 2005	2004	Variance
	(In thousands, except customers)		
Residential	$ 216,890	$ 206,950	$ 9,940
Commercial	254,480	251,092	3,388
Industrial	61,146	61,905	(759)
Transmission	21,509	18,327	3,182
Other	19,951	20,138	(187)
	$ 573,976	$ 558,412	$ 15,564
Average customers	417,986	406,968	11,018

The following table shows electric sales by customer class:

PNM Electric Sales

	Year Ended December 31, 2005	2004	Variance
		(Megawatt hours)	
Residential	2,652,475	2,509,449	143,026
Commercial	3,526,133	3,450,503	75,630
Industrial	1,277,156	1,283,769	(6,613)
Other	256,202	253,393	2,809
	7,711,966	7,497,114	214,852

Operating revenues increased $15.6 million, or 2.8%, from the prior year. Retail electricity sales increased 2.9%, to 7.7 million MWh in 2005 compared to 7.5 million MWh in 2004. Customer growth was 2.7% year over year and weather-normalized retail electric load growth was 2.5%. Average customer load growth, when normalized for the impact of weather and the leap year in 2004, increased revenues by $14.0 million. Cooling Degree Days for Albuquerque increased approximately 19.6% and Heating Degree Days decreased approximately 4.7%, resulting in a net overall increase in revenues of $3.7 million. In addition, increased transmission revenues, primarily from point-to-point customers, increased revenues $3.2 million. These revenue increases were partially offset by a decrease of $1.3 million attributable to the 2004 leap year, with 2005 including one less day of revenues, and by a decrease of $3.8 million due to the 2.5% electric rate reduction effective September 1, 2005.

The gross margin, or operating revenues minus cost of energy sold and intersegment energy transfer, decreased $15.0 million, or 3.6%, from the prior year due to a reduction in power plant availability resulting from plant outages and a related increase in purchased power requirements to serve load. In addition, an increase in purchased power contract prices on pre-existing contracts reduced the margin earned on fixed-price sales. These decreases were partially offset by the increased revenues associated with retail load growth.

Total non-fuel O&M expenses increased $11.5 million, or 6.9%, over the prior year. Energy production costs increased $4.8 million, or 4.2%, due to higher plant maintenance costs in 2005 compared to 2004. Plant outage costs at PVNGS and Reeves increased costs $2.8 million and $1.4 million, respectively, in 2005. In addition, there were higher general plant maintenance and other costs of $1.0 million compared to 2004. These increases were partially offset by reduced outage costs at Four Corners and SJGS of $0.4 million and $0.3 million, respectively. Transmission and distribution O&M expense decreased $0.9 million, or 2.9%, primarily due to a decrease in maintenance and labor expenses. Customer related expense increased $1.3 million, or 6.9%, primarily due to increased consulting fees related to FERC proceedings. Administrative and general expenses increased $6.4 million over the prior year primarily due to increased incentive-based compensation, labor and insurance costs of $5.3 million (compensation costs were recorded at the corporate level in 2004 but charged to the business segments in 2005) and increased legal and other outside services costs of $0.6 million for routine business matters.

Depreciation and amortization increased $6.7 million, or 10.7%, primarily due to asset and software additions placed in service in December 2004 and in 2005.

TNMP Electric

PNMR acquired TNP, the parent of TNMP, on June 6, 2005, and results in this section are presented from the acquisition date forward only. Comparable results from 2004 are not presented. For the year ended December 31, 2005, which includes results from June 6 through December 31, 2005, the TNMP Electric segment increased PNMR revenues by $154.4 million.

The table below sets forth the operating results for TNMP Electric:

	For the Period June 6 - December 31, 2005 (In thousands)	
Operating revenues	**$**	**154,350**
Less: Cost of energy		58,014
Gross margin		**96,336**
Transmission and distribution O&M		12,403
Customer related expense		3,111
Administrative and general		415
Total non-fuel O&M		**15,929**
Corporate allocation		9,386
Depreciation and amortization		17,596
Taxes other than income taxes		14,261
Income taxes		8,442
Total non-fuel operating expenses		**65,614**
Operating income	**$**	**30,722**

The following table shows electric revenues by customer class and average customers:

TNMP Electric Revenues

	For the period June 6 - December 31, 2005 (In thousands, except customers)	
Residential	$	57,145
Commercial		51,670
Industrial		25,189
Other		20,346
	$	154,350
Average customers*		255,335

* Under TECA, customers of TNMP Electric in Texas have the ability to choose First Choice or any other REP to provide energy. However, TNMP Electric delivers energy to customers within its service area regardless of the REP chosen. Therefore, TNMP Electric earns revenue for the delivery of energy to First Choice and First Choice earns revenue on the usage of that energy by its customers. The average customers reported above include 154,252 customers of TNMP Electric who have chosen First Choice as their REP. These TNMP Electric customers are also included below in the First Choice segment. For PNMR consolidated reporting purposes, these customers are included only once in the consolidated customer count.

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The following table shows electric sales by customer class:

TNMP Electric Sales *

	For the period June 6 - December 31, 2005 (Megawatt hours)
Residential	1,839,741
Commercial	1,399,864
Industrial	1,263,452
Other	72,262
	4,575,319

* The MWh reported above include 1,644,675 MWh used by customers of TNMP Electric who have chosen First Choice as their REP. These MWh are also included below in the First Choice segment.

TNMP Electric's gross margin was $96.3 million for the period June 6 through December 31, 2005. The significant factors that impacted gross margin include increases due to load growth because of warmer than normal weather, a decrease in revenues due to a 9.3% Texas rate reduction, synergy savings effective in May 2005, and lower revenues due to a reduction in operations of a major customer in New Mexico.

PNM Gas

The table below sets forth the operating results for PNM Gas:

	Year Ended December 31, 2005	2004	Variance
	(In thousands)		
Operating revenues	**$ 511,442**	**$ 490,921**	**$ 20,521**
Less: Cost of energy	364,205	343,219	20,986
Gross margin	**147,237**	**147,702**	**(465)**
Energy production costs	2,444	2,338	106
Transmission and distribution O&M	27,817	28,006	(189)
Customer related expense	19,616	19,283	333
Administrative and general	3,487	1,648	1,839
Total non-fuel O&M	**53,364**	**51,275**	**2,089**
Corporate allocation	37,028	38,725	(1,697)
Depreciation and amortization	22,548	18,894	3,654
Taxes other than income taxes	8,010	7,412	598
Income taxes	5,853	8,063	(2,210)
Total non-fuel operating expenses	**126,803**	**124,369**	**2,434**
Operating income	**$ 20,434**	**$ 23,333**	**$ (2,899)**

The following table shows gas revenues by customer and average customers:

PNM Gas Revenues

	Year Ended December 31, 2005	2004	Variance
	(In thousands, except customers)		
Residential	$ 311,043	$ 292,163	$ 18,880
Commercial	98,929	92,128	6,801
Industrial	3,375	2,889	486
Transportation*	13,813	15,274	(1,461)
Other	84,282	88,467	(4,185)
	$ 511,442	$ 490,921	$ 20,521
Average customers	471,321	461,399	9,922

*Customer-owned gas.

The following table shows gas throughput by customer class:

PNM Gas Throughput

	Year Ended December 31,		
	2005	**2004**	**Variance**
	(Thousands of decatherms)		
Residential	28,119	30,618	(2,499)
Commercial	10,554	11,639	(1,085)
Industrial	369	413	(44)
Transportation*	37,013	43,208	(6,195)
Other	9,780	13,871	(4,091)
	85,835	99,749	(13,914)

*Customer-owned gas.

Operating revenues increased $20.5 million, or 4.2%, over the prior year, primarily due to higher natural gas prices in 2005 compared to 2004. PNM Gas purchases natural gas in the open market and resells it at the same price to its sales-service customers. As a result, increases or decreases in gas revenues driven by gas costs do not impact the consolidated gross margin or earnings of PNM Gas. Total gas sales volumes decreased 13.9%, due to a 4.7% decrease in Heating Degree Days and additional customer conservation resulting from higher natural gas prices. These decreases were partially offset by average customer growth of 2.2%, which increased gas revenues $2.2 million, and an increase of $6.7 million due to a residential cost of service rate increase beginning in April 2004.

The gross margin, or operating revenues minus cost of energy sold, was largely unchanged, decreasing only $0.5 million, or 0.3%, from the prior year. Warmer weather resulted in a $7.9 million decrease to margin and additional customer conservation resulted in reduced usage of $1.4 million. These decreases were offset by the residential cost of service rate increase and the customer growth discussed above.

Total non-fuel O&M expenses increased $2.1 million, or 4.1%, over the prior year. Administrative and general expense increased $1.8 million primarily due to a $1.5 million increase in incentive-based compensation, which was recorded at the corporate level in 2004 but charged to the business segments in 2005. Administrative and general expense also increased by $0.9 million due to reduced capitalization of expenses, which increased the costs allocated to administrative and general expense. The increase in administrative and general expense was offset in part by a $0.9 million decrease in workmen’s compensation and insurance.

Depreciation and amortization increased $3.7 million, or 19.3%, primarily due to the addition of $16.0 million in distribution assets, $14.2 million in transmission assets and $18.2 million in software assets.

Unregulated Operations

PNM Wholesale

The table below sets forth the operating results for PNM Wholesale:

	Year Ended December 31, 2005	2004	Variance
		(In thousands)	
Operating revenues	**$ 628,028**	**$ 588,243**	**$ 39,785**
Less: Cost of energy	506,935	449,059	57,876
Intersegment energy transfer	35,829	42,769	(6,940)
Gross margin	**85,264**	**96,415**	**(11,151)**
Energy production costs	29,614	29,967	(353)
Transmission and distribution O&M	54	81	(27)
Customer related expense	879	1,049	(170)
Administrative and general	6,446	7,255	(809)
Total non-fuel O&M	**36,993**	**38,352**	**(1,359)**
Corporate allocation	4,395	4,557	(162)
Depreciation and amortization	15,669	14,809	860
Taxes other than income taxes	3,439	3,533	(94)
Income taxes	3,612	8,537	(4,925)
Total non-fuel operating expenses	**64,108**	**69,788**	**(5,680)**
Operating income	**$ 21,156**	**$ 26,627**	**$ (5,471)**

The following table shows revenues by customer class:

PNM Wholesale Revenues

	Year Ended December 31, 2005	2004	Variance
		(In thousands)	
Long-term contracts	$ 154,692	$ 158,085	$ (3,393)
Short-term sales	473,336	430,158	43,178
	$ 628,028	$ 588,243	$ 39,785

The following table shows sales by customer class:

PNM Wholesale Sales

	Year Ended December 31, 2005	2004	Variance
		(Megawatt hours)	
Long-term contracts	2,516,907	2,943,372	(426,465)
Short-term sales	8,069,751	9,057,172	(987,421)
	10,586,658	12,000,544	(1,413,886)

Operating revenues increased $39.8 million, or 6.8%, from the prior year. This increase in wholesale electric sales was primarily due to increased short-term sales of $43.2 million, or 10.0%, resulting from a 23.5% increase in average short-term prices in 2005 compared to 2004. In addition, long-term sales increased due to higher prices associated with SO_2 credit sales. These increases were partially offset by a decrease in revenues from long-term contracts in 2005 due primarily to the expiration of a customer contract and lower sales volumes resulting from below normal levels of plant performance. PNM Wholesale sold 10.6 million MWh of electricity in 2005 compared to 12.0 million MWh in 2004, a decrease of 11.8%.

The gross margin, or operating revenues minus cost of energy sold and intersegment energy transfer, decreased $11.2 million, or 11.6%, from the prior year. Decreased plant availability and increased retail load decreased the availability of less expensive excess energy for sale in the wholesale market. In addition, higher purchased power contracts prices decreased the margin on fixed-price sales contracts. The long-term sales margin was relatively unchanged from the prior year due to the impacts of customer load growth and higher prices associated with SO_2 credit sales that were offset by a decrease in sales volume due to the expiration of a long-term contract and increased purchased power contract prices that could not be passed through to customers based on fixed-price sales contracts. The short-term margin decreased $11.5 million primarily resulting from lower plant availability and increased retail loads, which caused a decrease in energy available to sell on the wholesale market. PNM Wholesale's mark-to-market position fell to a $0.2 million loss in 2005 from a $1.6 million gain in 2004.

Total non-fuel O&M expense decreased $1.4 million, or 3.5%, from the prior year. Administrative and general expense decreased $0.8 million, or 11.2%, due primarily to the capitalization of expenses from administrative and general activities related to the construction of Luna.

Depreciation and amortization increased $0.9 million, or 5.8%, over the prior year due to the addition of new technology platforms that were placed in service in December 2004 and in 2005.

First Choice

PNMR acquired TNP on June 6, 2005, and results in this section are presented from the acquisition date forward only. For the year ended December 31, 2005, which includes results from June 6 through December 31, 2005, the First Choice segment increased PNMR revenues by $316.3 million.

The table below sets forth the operating results for First Choice:

	For the Period June 6 - December 31, 2005 (In thousands)	
Operating revenues	**$**	**316,330**
Less: Cost of energy		243,053
Gross margin		**73,277**
Customer related expense		2,539
Administrative and general		13,008
Total non-fuel O&M		**15,547**
Corporate allocation		8,434
Depreciation and amortization		1,094
Taxes other than income taxes		3,916
Income taxes		15,450
Total non-fuel operating expenses		**44,441**
Operating income	**$**	**28,836**

The following table shows electric revenues by customer class and average customers:

First Choice Electric Revenues

	For the Period June 6 - December 31, 2005 (In thousands, except customers)	
Residential	$	198,218
Mass-market		53,111
Mid-market		46,584
Other		18,417
	$	316,330
Average customers *		209,464

The following table shows electric sales by customer class:

First Choice Electric Sales *

	For the Period June 6 - December 31, 2005 (Megawatt hours)
Residential	1,591,005
Mass-market	400,839
Mid-market	478,531
Other	29,780

2,500,155

* See note above in the TNMP Electric segment discussion about the impact of TECA.

First Choice's gross margin was $73.3 million for the period June 6 through December 31, 2005. The significant factors that impacted gross margin include revenues of $9.4 million due to an increase in the price-to-beat fuel factor in October 2005, higher purchased power costs, that were lessened by gas hedges, gains of $4.2 million from the amortization of purchase power and power sale contracts (see Note 2), and gains of $4.2 million from a capacity auction.

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

Corporate Administrative and General Expenses

Corporate administrative and general expenses, which represent costs that are driven primarily by corporate-level activities, are allocated to the business segments and are presented in the corporate allocation line item in the segment statements. These costs increased $10.5 million, or 9.3%, from the prior year to $123.6 million. The increase was primarily due to charges in 2005 related to the TNP acquisition of $19.3 million and increased audit and costs related to the cost of compliance with the Sarbanes-Oxley Act of $3.1 million. These increases were offset in part by a decrease of $14.2 million for incentive-based compensation at the corporate level, which were recorded at the corporate level in 2004 but charged to the business segments in 2005.

PNMR Consolidated

Other Income and Deductions

Interest income increased $4.8 million, or 12.7%, due primarily to interest income of $2.5 million earned from the investment of TNP's cash balance, which PNMR did not have in the prior year, interest income of $1.9 million earned from the investment of cash received from PNMR's issuance of equity-linked units, and $1.4 million of interest income earned from higher cash balances from the PGAC caused by increasing gas prices. The increase in interest income was partially offset by lower interest income of $2.0 million due to a lower level of investment in the Palo Verde capital trust.

Other income increased $7.6 million, or 75.3%, due to a realized gain of $4.1 million on the sale of certain PVNGS decommissioning trust assets, a $2.1 million increase in trust earnings and a $2.2 million increase in merchandising revenues, primarily from emergency assistance services to other utilities (offset by the related expenses in other deductions below). The increase in other income was offset in part by a $0.8 million decrease from the sale of water rights in 2004 that did not reoccur in 2005.

Carrying charges on regulatory assets were $4.4 million from June 6 through December 31, 2005. This represents interest income on TNMP regulatory assets from the date of acquisition.

Other deductions increased approximately $16.0 million due primarily to an $11.3 million charge related to the issuance of equity-linked units (see Note 6). In addition, other deductions increased due to a $2.5 million contribution by PNMR to the PNM Resources Foundation and a $2.4 million increase in expenses related to emergency assistance services to other utilities (offset by the related revenues in other income above).

Interest Charges

Interest charges increased $42.3 million, or 82.3%, primarily due to $16.8 million of interest charges related to debt from the TNP operations, which PNMR did not have in the prior year, interest and refinancing costs of $10.8 million related to the hybrid income term securities issued in March and October of 2005 and $8.1 million of interest charges related to increased commercial paper borrowings.

Cumulative Effect of a Change in Accounting Principle

Effective January 1, 2005, PNMR adopted FIN 47, and recognized a cumulative effect of a change in accounting principle that decreased 2005 earnings $0.9 million, net of the income tax benefit, or $0.01 per diluted common share. The $0.9 million decrease to 2005 earnings is net of amounts expensed in prior years for cost of removal included in depreciation. FIN 47 requires the accrual of costs associated with conditional retirement obligations.

Income Taxes

PNMR's consolidated income tax expense was $32.9 million for the year ended December 31, 2005 before the cumulative effect of a change in accounting principle, compared to $49.2 million in 2004. The decrease in consolidated income tax expense was due to the impact of lower pre-tax earnings. PNMR's effective operating income tax rates for the years ended December 31, 2005 and 2004 were 31.45% and 37.45%, respectively. The decrease in the effective operating tax rate, year-over-year, was due to lower pre-tax earnings and changes in permanent tax differences. PNMR's effective non-operating income tax rates for the years ended December 31, 2005 and 2004 were 32.92% and 33.03%, respectively.

RESULTS OF OPERATION - PNM

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

PNM's segments are PNM Electric, PNM Gas and PNM Wholesale and are identical to the segments presented above in "Results of Operation" for PNMR.

Cumulative Effect of a Change in Accounting Principle

In 2005, PNM adopted FIN 47 and recognized a cumulative effect of a change in accounting principle that decreased 2005 earnings $0.5 million, net of the income tax benefit. The $0.5 million decrease to 2005 earnings is net of amounts expensed in prior years for cost of removal included in depreciation. FIN 47 requires the accrual of costs associated with conditional retirement obligations.

RESULTS OF OPERATION - TNMP

YEAR ENDED DECEMBER 31, 2005 COMPARED TO YEAR ENDED DECEMBER 31, 2004

TNMP operates in only one reportable segment, “TNMP Electric.” Results for the year ended December 31, 2005 include the effects of purchase accounting on June 6, 2005, which are not included in the year ended December 31, 2004. Amounts for the period June 6 through December 31, 2005 are post-acquisition and amounts for the period January 1 through June 6, 2005 and the year ended December 31, 2004 are pre-acquisition. (See Note 2.)

Operating revenues decreased $2.5 million, or 0.9%, from the prior year. Gross margin for the year ended December 31, 2005 decreased $3.0 million, or 1.8%, compared with the year ended December 31, 2004. The decrease was primarily due to a $10.5 million decrease in revenues due to a rate reduction effective May 1, 2005 that was part of the PUCT’s approval of the TNP acquisition and $0.9 million decrease in margin due to the reduced operations of a major customer. Partially offsetting the decrease in operating revenues were an increase in revenues of $6.1 million due to customer growth and an increase in revenues of $1.8 million resulting from warm weather.

Total non-fuel operating expenses increased $0.3 million, or 0.2%, due primarily to a decrease in non-fuel O&M of $0.6 million offset by an increase of $0.9 million in depreciation and amortization expense.

Administrative and general expenses decreased $2.8 million primarily due to decreased legal, environmental and regulatory expenses of $4.4 million. The decrease in administrative and general expense was partially offset by increased expenses of $1.5 million related to synergy credits passed to customers.

Transmission and distribution O&M increased $2.2 million primarily due to $0.6 million in increased expenses for the preparation and restoration efforts related to hurricane Rita, $0.9 million related to the maintenance of overhead lines in 2005, and increased payroll expenses of $0.6 million.

Depreciation expenses increased as a result of additions to fixed assets.

Cumulative Effect of a Change in Accounting Principle

In 2005, TNMP adopted FIN 47 and recognized a cumulative effect of a change in accounting principle that decreased 2005 earnings $0.4 million, net of the income tax benefit. The $0.4 million decrease to 2005 earnings is net of amounts expensed in prior years for cost of removal included in depreciation. FIN 47 requires the accrual of costs associated with conditional retirement obligations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires Company management to select and apply accounting policies that best provide the framework to report the results of operations and financial position for PNMR, PNM and TNMP. The selection and application of those policies requires management to make difficult subjective or complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, there exists the likelihood that materially different amounts would be reported under different conditions or using different assumptions. Company management has identified the following accounting policies that it deems critical to the portrayal of the financial condition and results of operations of PNMR, PNM and TNMP and that involve significant subjectivity. Company management believes that its selection and application of these policies best represent the operating results and financial position of PNMR, PNM and TNMP. The following discussion provides information on the processes utilized by Company management in making judgments and assumptions as they apply to its critical accounting policies.

Revenue Recognition and Unbilled Revenues

Operating revenues are recorded as services are rendered to customers. Revenues subject to refund are recorded with a reserve also established for the potential refund. The Company's subsidiaries record unbilled revenues representing management's assessment of the estimated amount customers will be billed for services rendered between the meter-reading dates in a particular month and the end of that month. Company management estimates unbilled revenues based on sales recorded in the billing system, taking into account weather impacts. The method is consistent with the approach to normalization employed for rate case billing determinants and the load forecast. To the extent the estimated amount differs from the amount subsequently billed, revenues will be affected. Unbilled revenues are separately reported on the Consolidated Balance Sheets of PNMR, PNM and TNMP.

Regulatory Assets and Liabilities

The Company is subject to the provisions of SFAS No. 71, as amended, "*Accounting for the Effects of Certain Types of Regulation*" ("SFAS 71"). Accordingly, the Company's utility subsidiaries, PNM and TNMP, have recorded assets and liabilities on the Consolidated Balance Sheets resulting from the effects of the ratemaking process, which would not be recorded under GAAP for non-regulated entities. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in customer rates. Regulatory liabilities generally represent probable future reductions in revenue or refunds to customers. The Company's continued ability to meet the criteria for application of SFAS 71 may be affected in the future by competitive forces and restructuring in the electric industry. In the event that SFAS 71 no longer applied to all, or a separable portion, of the Company's operations, the related regulatory assets and liabilities would be written off unless an appropriate regulatory recovery mechanism is provided.

Until its next rate case, PNM's electric rates are fixed; therefore, the opportunity to recover increased costs and the costs of new investment in facilities through rates is limited through 2007 due to the rate-freeze. As a result, PNM defers certain costs based on its expectation that it will recover these costs in future rate cases. If future recovery of these costs ceases to be probable, PNM would be required to record a charge in current period earnings for the portion of the costs that were not recoverable.

Asset Impairment

Tangible long-lived assets are evaluated in relation to the future undiscounted cash flows to assess recoverability in accordance with SFAS No. 144, when events and circumstances indicate that the assets might be impaired. These potential impairment indicators include Company management's assessment of fluctuating market conditions as a result of industry deregulation; planned and scheduled customer purchase commitments; future market penetration;

fluctuating market prices resulting from factors including changing fuel costs and other economic conditions; weather patterns; and other market trends. The amount of impairment recognized is the difference between the fair value of the asset and the carrying value of the asset.

Goodwill and Other Intangible Assets

In accordance with SFAS No. 141, as amended*, "Business Combinations"* ("SFAS 141"), the Company has revalued the assets and liabilities acquired as part of the acquisition of the Twin Oaks business and TNP at their respective fair values. Under the provisions of SFAS 142, the Company does not amortize goodwill. Certain intangible assets are amortized over their estimated useful lives. Goodwill and unamortized intangible assets are evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill and intangible assets might be impaired. Amortized other intangible assets are evaluated for impairment in accordance with SFAS 144 when events and circumstances indicate that the assets might be impaired.

Purchase Accounting

The acquisition of the Twin Oaks business on April 18, 2006 was accounted for using the purchase method of accounting as prescribed in SFAS 141. Accordingly, purchase accounting adjustments have been reflected in the financial statements of PNMR for all periods subsequent to April 18, 2006. The purchase accounting entries are reflected on PNMR's financial statements as of the purchase date.

The acquisition of TNP in 2005 was accounted for using the purchase method of accounting as prescribed in SFAS 141. Accordingly, purchase accounting adjustments have been reflected in the financial statements of TNP for all periods subsequent to June 6, 2005. The purchase accounting entries are reflected on PNMR's financial statements as of the purchase date. PNMR "pushed down" the effects of purchase accounting to the financial statements of TNMP and First Choice. Accordingly, TNMP's post-acquisition financial statements reflect a new basis of accounting. TNP's largest subsidiary, TNMP, is a regulated utility; therefore, in accordance with SFAS 71, the fair value of the majority of the assets and liabilities did not change significantly. The business operations of TNP were not significantly changed as a result of the acquisition, and post-acquisition and pre-acquisition operating results, except as noted in the discussion, are comparable.

Decommissioning Costs

Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Changes in these estimates could significantly impact PNMR's and PNM's financial position, results of operations and cash flows. PNM owns and leases nuclear and fossil-fuel generation facilities that are within and outside of its retail service areas. In accordance with SFAS No. 143, "*Accounting for Asset Retirement Obligations*" ("SFAS 143"), PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists (see Note 15). Adoption of SFAS 143 changed the method of accounting for both nuclear generation decommissioning and fossil-fuel generation decommissioning. Nuclear decommissioning costs are based on site-specific estimates of the costs for removing all radioactive and other structures at the site. PVNGS Unit 3 is excluded from PNM's retail rates while PVNGS Units 1 and 2 are included. PNM collects a provision for ultimate decommissioning of PVNGS Units 1 and 2 in its rates and recognizes a corresponding expense and liability for these amounts. PNM believes that it will continue to be able to collect in rates for its legal asset retirement obligations for nuclear generation activities included in the ratemaking process.

Financial Instruments

The Company follows the provisions set forth under SFAS 133, as amended. SFAS 133 establishes accounting and reporting standards requiring derivative instruments to be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS 133 also requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting or normal purchase and sale criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to offset related results on the hedged item in the statement of earnings, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the period during which the hedged forecasted transaction affects earnings. The results of hedge ineffectiveness and the change in fair value of a derivative that an entity has chosen to exclude from hedge effectiveness are required to be presented in current earnings.

Pension and Other Postretirement Benefits

PNMR and its subsidiaries maintain a qualified defined benefit pension, a plan providing medical and dental benefits to eligible retirees, and an executive retirement program ("PNM Plans"). PNMR maintains the legal obligation for the benefits owed to participants under these plans. TNMP also maintains a qualified defined benefit pension plan covering substantially all of its employees, a plan providing medical and death benefits to eligible retirees and an executive retirement program ("TNMP Plans"). The actuarial estimates of retiree benefits and the associated significant weighted-average assumptions for these plans are discussed in Note 12.

One of the most significant assumptions is the return on assets assumption, which was 9.0% for the PNM and TNMP Plans for the year ending December 31, 2006. This assumption will be 8.75% for both the PNM and TNMP Plans for 2007. In developing the expected long-term rate of return assumption, the Company evaluated input from its actuaries and its investment consultant, including their review of asset class return expectations as well as long-term inflation assumptions. The 9.0% assumption was based on a passive return of 8.0% and a premium for active management of 1.0% reflecting the target asset allocation and current investment array. If all other factors were to remain unchanged, it is expected that a 1% decrease in the expected long-term rate of return would cause PNM's 2007 net pension income to decrease approximately $4.7 million (analogous change would result from a 1% increase). If all other factors were to remain unchanged, it is expected that a 1% decrease in the expected long-term rate of return would cause TNMP's 2007 net pension income to decrease approximately $0.8 million (analogous change would result from a 1% increase).

Under SFAS No. 87,*"Employers' Accounting for Pensions"* ("SFAS 87") and SFAS No. 106, as revised by SFAS No. 158, "*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*" ("SFAS 158"), the expected long-term rate of return on pension and postretirement plan assets is calculated on the market-related value of assets. SFAS 87 and SFAS 106, as revised, require that actual gains and losses on pension and postretirement plan assets be recognized in the market-related value of assets equally over a period of not more than five years, which reduces year-to-year volatility. For the PNM Plans and TNMP Plans, the market-related value of assets is equal to the prior years' market related value of assets adjusted for contributions, benefit payments and investment gains and losses that lie within a corridor of plus or minus 4.0% around the expected return on market value. Gains and losses that lie outside the corridor are amortized over five years, i.e., if investment return is outside a range of 5.0% to 13.0% (expected long-term rate of return plus or minus 4.0%), this market-related value recognizes the portion of return that is outside the range over a five-year period from the year in which the return occurs. As such, the future value of assets will be impacted as previously deferred returns are recorded.

The discount rate that the Company utilizes for determining future pension and postretirement obligations is based on a review of long-term high-grade bonds and management's expectations. As a result of this review, the Company adjusted the discount rate for the PNM and TNMP Plans to 6.10% at December 31, 2006 from 5.75% at December 31, 2005. Decreasing the discount rate by 0.35% would have increased 2006 pension income for PNM by approximately $0.7 million and would have no impact on TNMP pension expense. The discount rate assumption will be 6.10% for both the PNM and TNMP plans for 2007.

Based on an expected rate of return of 8.75%, a discount rate of 6.10% and various other assumptions, it is estimated that the PNM pension income for the qualified and non-qualified pension plans will be approximately $3.3 million in 2007 and $2.5 million in 2008. It is estimated that TNMP pension income for the qualified and non-qualified pension plans will be approximately $2.5 million in 2007 and $2.4 million in 2008. Future actual pension income or expense will depend on future investment performance, changes in future discount rates and various other factors related to the populations participating in the Company's pension plans.

Note 12 contains further details about the effects of certain changes in assumptions related to medical trend rates on retiree health costs. The Company will continue to evaluate its actuarial assumptions at least annually, and will adjust as necessary. Note 12 also discusses the material impact of the accounting changes to the balance sheets as a result of implementing SFAS 158 as of December 31, 2006.

Market Risk

See Item 7A. “Quantitative and Qualitative Disclosure About Market Risk” for discussion regarding the Company's accounting policies and sensitivity analysis for the Company's financial instruments and derivative energy and other derivative contracts. See also “Financing Activities” below for additional discussion regarding the Company's accounting policies for forward interest rate swaps.

LIQUIDITY AND CAPITAL RESOURCES

PNMR

At December 31, 2006, PNMR had cash and short-term investments of $123.4 million compared to $68.2 million in cash and short-term investments at December 31, 2005.

Cash provided by operating activities for the year ended December 31, 2006 was $244.4 million compared to $210.1 million for the year ended December 31, 2005. PNMR's net earnings excluding non-cash items decreased to $252.7 million for the year ended December 31, 2006 from $260.1 million for the prior year. The decrease in net earnings excluding non-cash items was primarily due to the impacts from PVNGS performance, retail electric rate reductions for PNM and TNMP and increased interest expense. The decrease in net earnings excluding non-cash items was partially offset by twelve months of earnings at First Choice and TNMP, compared to seven months of earnings in 2005 and retail load growth. The decrease in cash from net earnings excluding non-cash items was more than offset by an increase in cash collections of net receivables that were outstanding at the end of 2005. Increased PNM Gas net receivables at the end of 2005 caused by higher gas prices and seasonal gas usage were collected during the first part of 2006, along with increased PNM Wholesale net receivables due to increased market prices and forward sales entered into at the end of 2005 were collected in the first quarter of 2006.

Cash used for investing activities was $799.6 million for the year ended December 31, 2006 compared to $154.3 million for the year ended December 31, 2005. Cash used for investing activities in 2006 was driven primarily by the purchase of the Twin Oaks business for $480.0 million and cash payments of $309.3 million for utility plant additions, including the Luna plant. Cash used for investing activities in 2005 was primarily for cash payments of $211.2 million for utility plant additions, including the Luna plant, which was offset in part by $46.0 million in cash acquired as part of the TNP acquisition.

Cash provided by financing activities was $610.4 million for the year ended December 31, 2006 compared to cash used for financing activities of $4.8 million for the year ended December 31, 2005. The change in cash for financing activities was due to a combination of factors. In 2006, PNMR borrowed $480.0 million in short-term debt and used the proceeds to acquire the Twin Oaks business. Also in 2006, PNMR issued common stock for $226.1 million and used the proceeds to repay a portion of the short-term borrowings for Twin Oaks and borrowed $182.7 million in short-term debt, in part, to fund its construction program. In 2005, PNMR issued equity-linked units for $339.8 million and a portion of the proceeds were used to acquire TNP. Also in 2005, PNMR issued $101.2 million of common stock, redeemed $224.6 million of TNP preferred stock and repaid $399.6 million of long-term debt related to the acquisition of TNP, including the repayment of $289.1 million in TNP senior notes (excluding the final interest payment) and the repayment of $110.5 million under the TNP credit agreement, which did not recur in 2006. In addition, PNMR borrowed $237.5 million in short-term debt in 2005, in part, to fund its construction program.

PNM

At December 31, 2006, PNM had cash and short-term investments of $11.9 million compared to $12.7 million in cash and short-term investments at December 31, 2005.

Cash provided by operating activities for the year ended December 31, 2006 was $97.5 million compared to $171.3 million for the year ended December 31, 2005. PNM's net earnings excluding non-cash items decreased to $166.7 million for the year ended December 31, 2006 from $202.0 million for the prior year. The decrease in net earnings excluding non-cash items was primarily due to the impacts from PVNGS performance and the retail electric rate reduction, which was partially offset by retail load growth. In addition, intercompany cash payments for employee benefit costs and prepayments for services contributed to the decrease in cash provided by operating activities.

Cash used for investing activities was $219.2 million for the year ended December 31, 2006 compared to $150.9 million for the prior year. The increase in cash used for investing activities was due primarily to increased utility plant additions in 2006 compared to 2005.

Cash flows provided by financing activities were $120.8 million for the year ended December 31, 2006 compared to cash used for financing activities of $24.1 million for the prior year. Cash provided by financing activities in 2006 was due primarily to cash received from short-term borrowings of $122.1 million. In 2005, cash received from short-term borrowings of $67.8 million was more than offset by the payment of $91.5 million in dividends in 2005, including $91.0 million in dividends to PNMR.

TNMP

At December 31, 2006, TNMP had cash and short-term investments of $2.5 million compared to $16.2 million in cash and short-term investments at December 31, 2005.

TNMP's cash provided by operating activities for the year ended December 31, 2006 was $33.8 million compared to $67.2 million for the prior year. TNMP's net earnings excluding non-cash items decreased to $39.3 million for the year ended December 31, 2006 from $66.7 million for the prior year. The decrease in cash provided by operating activities and the decrease in net earnings excluding non-cash items was due primarily due to the impacts of rate reductions in both Texas and New Mexico.

Cash used for investing activities, which was primarily for utility plant additions, was $47.6 million for the year ended December 31, 2006, a slight increase from $42.8 million for the prior year.

Cash provided by financing activities for year ended December 31, 2006 was $0.1 million compared to cash used for financing activities of $74.0 million for the prior year. During 2005, TNMP, a wholly owned subsidiary of TNP, paid $62.0 million to redeem a portion of the TNMP common stock held by TNP. TNMP also paid dividends of $12.0 million to TNP in 2005.

Pension and Other Postretirement Benefits

PNMR

The total 2006 contributions to the PNM Plans, in addition to contributions to the TNMP Plans are included in PNMR’s Consolidated Statement of Cash Flows for the year ended December 31, 2006. See the PNM and TNMP contribution discussion below.

PNM

During 2006, PNM did not make any contributions to its qualified pension plan and does not anticipate making any contributions to the qualified pension plan in 2007. PNM made contributions totaling $6.9 million to its postretirement benefit plan for the plan year 2006 and expects to make contributions totaling $6.5 million to its postretirement benefit plan in 2007.

TNMP

During 2006, TNMP did not make any contributions to its qualified pension plan and does not anticipate making any contributions to the qualified pension plan in 2007. TNMP made contributions totaling $0.7 million to its postretirement benefit plan for the plan year 2006 and expects to make contributions totaling $0.6 million to its postretirement benefit plan in 2007.

Capital Requirements

PNMR

Total capital requirements include construction expenditures as well as other major capital requirements and cash dividend requirements for both common and preferred stock. The main focus of the Company's current construction program is upgrading generation resources, including upgrades relating to pollution control, upgrading and expanding the electric and gas transmission and distribution systems and purchasing nuclear fuel. Projections for total capital requirements for 2007, including TNMP and First Choice, are $424.3 million. After applying capital trust payments expected to be received of $23.3 million, the net capital requirements are $401.0 million. Projections for construction expenditures for 2007 constitute $353.2 million of this total. Total capital requirements for the years 2007-2011, including TNMP and First Choice, are projected to be $2,377.9 million. After applying capital trust payments expected to be received of $146.9 million, the net capital requirements are $2,231.0 million. Construction expenditures are projected to be $1,952.3 million of the total. This projection includes $27.9 million for completion of expansion at Afton. These estimates are under continuing review and subject to on-going adjustment.

The Company continues to look for appropriately priced generation acquisition and expansion opportunities to support retail electric load growth, for the continued expansion of its long-term contract business, and to supplement its natural transmission position in the southwest and west areas of the United States.

During the year ended December 31, 2006, the Company utilized cash generated from operations and cash on hand, as well as its liquidity arrangements, to cover its capital requirements and construction expenditures, including the acquisition of the Twin Oaks business. It is expected that permanent financing for the $480 million purchase price of Twin Oaks will come from the issuance of debt and equity structured to maintain PNMR's investment grade rating. As of February 20, 2007, $230.5 million of the term loan due April 17, 2007 had been repaid and $249.5 million remained outstanding. The Company anticipates that internal cash generation and current debt capacity in combination with the Twin Oaks permanent financing will be sufficient to meet all of its capital requirements and construction expenditures for the years 2007 through 2011. To cover the difference in the amounts and timing of cash generation and cash requirements, the Company intends to use short-term borrowings under its current and future liquidity arrangements.

PNM

The main focus of PNM's current construction program is to upgrade generation resources, to upgrade and expand the electric and gas transmission and distribution systems and to purchase nuclear fuel. Projections for total capital requirements for 2007 are $285.6 million. After applying capital trust payments expected to be received of $23.3 million, the net capital requirements are $262.3 million. Projections for construction expenditures for 2007 constitute $285.1 million of this total. Total capital requirements for the years 2007 through 2011 are projected to be $1,642.8 million. After applying capital trust payments expected to be received of $146.9 million, the net capital requirements are $1,495.9 million. Construction expenditures are projected to be $1,640.2 million of this total. These estimates are under continuing review and subject to on-going adjustment. This includes $27.9 million for PNM's expansion of Afton as discussed above. PNM's capital requirements include $116.0 million for the SJGS environmental project to install low NOx combustion control and mercury reduction technologies in SJGS Units 1, 2, 3 and 4 as well as equipment to increase SO_2 controls. The project is scheduled in four phases and completion is anticipated in March of 2009. Also included in PNM's capital requirements are $24.0 million for the Rio Puerco second phase loop and $38.0 million to add a 345kv switching station to Rio Puerco. The second phase loop project will install approximately 15 miles of gas pipeline parallel to the Rio Puerco Main Line and the switching station will add transmission capabilities allowing PNM to meet forecasted future load growth. The above projections are also subject to on-going adjustment.

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TNMP

The main focus of TNMP's current construction program is to upgrade and expand its electric transmission and distribution systems. Projections for total capital requirements for 2007 are $46.8 million. Total capital requirements are projected to be $219.0 million for the years 2007 through 2011. These estimates are under continuing review and subject to on-going adjustment.

After receipt of required regulatory approvals, including approval from the FERC, TNMP's New Mexico and Arizona assets were transferred to PNM effective January 1, 2007. In accordance with conditions imposed by the FERC on debt previously issued by TNMP, the Company committed that an appropriate proportion of debt issued under those FERC conditions would be retired with cash contributed by PNMR and that the retired TNMP debt would be equal to, at a minimum, the ratio of TNMP New Mexico and Arizona property additions to Texas property additions funded by such debt. The Company also committed that TNMP debt would be retired to the extent necessary or advisable to maintain a TNMP equity to debt capitalization ratio in excess of 30%, to maintain any required interest coverage ratios, and to maintain TNMP's credit rating. No TNMP debt has yet been retired as a result of the asset transfer.

PNMR

Liquidity

As of February 20, 2007, PNMR had $615.0 million of liquidity arrangements. The liquidity arrangements consist of $600.0 million from an unsecured revolving credit facility, referred to as the PNMR Facility for purposes of this discussion, and $15.0 million in local lines of credit. As of February 20, 2007, there were no amounts borrowed under the PNMR Facility and there were no amounts borrowed under the local lines of credit.

At February 20, 2007, First Choice had up to $300.0 million of borrowing capacity under the PNMR Facility. Any borrowings made by First Choice under this sublimit are guaranteed by PNMR. At February 20, 2007, First Choice had no borrowings outstanding under the PNMR Facility; however, First Choice had $2.7 million of letters of credit outstanding, which reduces the available capacity under the PNMR Facility. TNMP is also a borrower under the PNMR Facility, see "TNMP" detail below.

In addition, in February 2006, the Board approved intercompany borrowing arrangements between PNMR and its subsidiaries that would authorize each subsidiary to borrow up to $50.0 million from PNMR.

PNMR has established a commercial paper program under which it may issue up to $400.0 million in commercial paper for up to 270 days. The commercial paper is unsecured and the proceeds are used for short-term cash management needs. The PNMR Facility serves as a backstop for the outstanding commercial paper. As of February 20, 2007, there were $270.7 million of borrowings outstanding under this program. PNMR's agreements with its commercial paper dealers require prompt notice to the dealers of any change in PNMR's financial condition that would be material to holders or potential holders of the commercial paper, including any downgrading or notice of potential downgrading in rating.

Security Ratings

PNMR's ability, if required, to access the capital markets at a reasonable cost and to provide for other capital needs is largely dependent upon its ability to earn a fair return on equity, its results of operations, its credit ratings, its ability to obtain required regulatory approvals and conditions in the financial and wholesale markets. Financing flexibility is enhanced by providing a high percentage of total capital requirements from internal sources and having the ability, if necessary, to issue long-term securities and to obtain short-term credit.

Moody’s considered PNMR's credit outlook stable as of the date of this report. In January 2006, S&P revised its outlook for PNMR to negative from stable. The Company is committed to maintaining or improving its investment grade ratings. S&P and Moody’s rated PNMR’s senior unsecured notes issued in March 2005 (see “Financing Activities” below) as BBB- and Baa3, respectively. PNMR's commercial paper program discussed above has been rated P-3 by Moody's, but was lowered to A-3 from A-2 by S&P in January 2006.

Investors are cautioned that a security rating is not a recommendation to buy, sell or hold securities, that it is subject to revision or withdrawal at any time by the assigning rating organization, and that each rating should be evaluated independently of any other rating.

PNM

Liquidity

As of February 20, 2007, PNM had $413.5 million of liquidity arrangements. The liquidity arrangements consist of $400.0 million from an unsecured revolving credit facility, referred to as the PNM Facility for purposes of this discussion and $13.5 million in local lines of credit. As of February 20, 2007, there were no amounts borrowed against the local lines of credit or the PNM Facility; however, $3.1 million of letters of credit were outstanding, which reduces the available capacity under the PNM Facility.

At February 20, 2007, PNM also had a $20.0 million borrowing arrangement with PNMR, which is not included in the $413.5 million of liquidity arrangements discussed above. As of February 20, 2007 there were no amounts outstanding under this arrangement.

PNM has a commercial paper program under which PNM may issue up to $300.0 million in commercial paper for up to 365 days. The commercial paper is unsecured and the proceeds are used for short-term cash management needs. The PNM Facility serves as a backstop for PNM's outstanding commercial paper. As of February 20, 2007, PNM had $226.3 million in commercial paper outstanding under this program. PNM's agreements with its commercial paper dealers require prompt notice to the dealers of any change in PNM’s financial condition that would be material to holders or potential holders of the commercial paper, including any downgrading or notice of potential downgrading in rating.

Security Ratings

PNMR’s ability to access the capital markets at a reasonable cost to meet its capital needs is dependent upon several factors, including (1) its ability to earn a fair return on equity, (2) its results of operations, (3) its credit ratings, (4) receipt of regulatory approvals for its transaction in the capital markets, and (5) conditions in the financial markets. Financing flexibility is enhanced by providing a high percentage of total capital requirements from internal sources and having the ability, if necessary, to issue long-term securities and to obtain short-term credit.

Moody’s considered PNM's credit outlook stable as of the date of this report. In January 2006, S&P revised its outlook for PNM to negative from stable. PNM is committed to maintaining or improving its investment grade ratings. As of December 31, 2006, S&P rated PNM’s business position as six, its senior unsecured notes as BBB with a stable outlook and its preferred stock as BB+. As of December 31, 2006, Moody’s rated PNM’s senior unsecured notes as Baa2 and its preferred stock as Ba1. PNM's commercial paper program is rated P-2 by Moody's, but was lowered to A-3 from A-2 by S&P in January 2006.

PNM Electric Rate Case

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 February 2007, PNM filed a general rate case requesting the NMPRC to approve an increase in general rates, the first such request in over 20 years. The proposed increase would go into effect January 1, 2008, at the expiration of the current four-year rate path, and would impact 436,000 New Mexico customers. If electric rates were approved as proposed, electric revenues would increase $68.9 million annually. PNM residential electric rates would increase approximately 13.7 percent, while most business customers would see rate increases of approximately 10.3 percent.

PNM's electric rate filing also requests NMPRC approval for:

- a fuel and purchased power cost adjustment clause;
- a mechanism that would allow the timely recovery of costs incurred for environmental capital improvements through a bill surcharge;
- the introduction of summer and consumption-based rates designed to encourage energy efficiency and better reflect the seasonal nature of PNM's cost to provide power; and
- a return on equity of 10.75 percent.

As proposed, the environmental improvement rate rider would undergo periodic regulatory review and approval to ensure recovery of only the actual amount of environmental improvement costs. It also would apply only to the additional environmental costs incurred between rate cases.

TNMP

TNMP is a borrower and can issue notes of up to $100.0 million under the PNMR Facility. Any borrowings made by TNMP under this sublimit are not guaranteed by PNMR. At February 20, 2007, TNMP had no outstanding borrowings under the PNMR Facility, but did have $2.0 million letters of credit outstanding, which reduces available capacity under the PNMR Facility.

In September 2005, as part of the TNP acquisition financing, TNMP redeemed and cancelled 1,090 shares of its privately held stock held by TNP at the book value of $56,888.91 per share, for a total of $62.0 million. TNP subsequently paid a cash dividend of $62.0 million to PNMR.

TNMP's ability, if required, to access the capital markets at a reasonable cost and to provide for other capital needs is largely dependent upon its ability to earn a fair return on equity, its results of operations, its credit ratings, its ability to obtain required regulatory approvals and conditions in the financial and wholesale markets. Financing flexibility is enhanced by providing a high percentage of total capital requirements from internal sources and having the ability, if necessary, to issue long-term securities and to obtain short-term credit.

Moody's considered TNMP's credit outlook stable as of the date of this report. In January 2006, S&P revised its outlook for TNMP to negative from stable. The Company is committed to maintaining or improving its investment grade ratings. As of December 31, 2006, S&P rated TNMP's senior unsecured notes at BBB. As of December 31, 2006, Moody's rated TNMP's senior unsecured notes at Baa3.

Off-Balance Sheet Arrangements

The Company's off-balance sheet arrangements consist of PNM's operating lease obligations for PVNGS Units 1 and 2, the EIP transmission line and the entire output of Delta, a gas-fired generating plant. These arrangements help ensure PNM the availability of lower-cost generation needed to serve customers.

The total capitalization for these obligations was $165.1 million as of December 31, 2006 and $170.9 million as of December 31, 2005.

Commitments and Contractual Obligations

Tabular information for PNMR, PNM and TNMP is presented below. See also Note 7 for further details about the Company's significant leases, including those for PNM and TNMP.

PNMR

The following table sets forth PNMR's long-term contractual obligations as of December 31, 2006:

Contractual Obligations	Total	Less than 1 year	Payments Due 2-3 years (In thousands)	4-5 years	After 5 years
Long-Term Debt (a)	$ 1,760,593	$ -	$ 727,473	$ 347,250	$ 685,870
Interest on Long-Term Debt (b)	827,898	102,750	164,191	94,330	466,627
Equity-Linked Units Forward Contracts	10,055	6,095	3,960	-	-
Interest on Forward Contracts	294	251	43	-	-
Capital Leases	9,339	3,298	4,021	1,749	271
Operating Leases	329,167	30,788	59,686	53,829	184,864
Purchased Power Agreements	257,646	90,785	60,217	19,944	86,700
Coal Contracts (c)	1,229,393	70,562	144,627	149,359	864,845
Other Purchase Obligations (d)	1,959,900	360,800	707,200	891,900	-
Total	$ 6,384,285	$ 665,329	$ 1,871,418	$ 1,558,361	$ 2,289,177

(a) Represents total long-term debt excluding unamortized discount of $0.7 million.

(b) Represents the annual interest expense on fixed and variable rate debt. Projections of interest expense on variable rate debt are based on interest rates as of December 31, 2006.

(c) Represents only certain minimum payments that may be required under the coal contracts if no deliveries are made.

(d) Represents commitments for capital expenditures, pension and postretirement benefit obligations and other obligations.

PNM

The following table sets forth PNM's long-term contractual obligations as of December 31, 2006:

Contractual Obligations	Total	Less than 1 year	Payments Due 2-3 years (In thousands)	4-5 years	After 5 years
Long-Term Debt (a)	$ 985,870	$ -	$ 300,000	$ -	$ 685,870
Interest on Long-Term Debt (b)	695,569	53,708	94,217	81,017	466,627
Operating Leases	307,145	27,075	53,395	49,200	177,475
Capital Leases	2,306	710	1,180	361	55
Purchased Power Agreements	151,623	12,582	29,752	22,589	86,700
Coal Contracts (c)	699,974	50,762	106,127	112,159	430,926
Other Purchase Obligations (d)	1,646,900	291,800	577,000	778,100	-
Total	$ 4,489,387	$ 436,637	$ 1,161,671	$ 1,043,426	$ 1,847,653

(a) Represents total long-term debt excluding unamortized premium of $0.3 million.

(b) Represents the annual interest expense on fixed and variable rate debt. Projections of interest expense on variable rate debt are based on interest rates as of December 31, 2006.

(c) Represents only certain minimum payments that may be required under the coal contracts if no deliveries are made.

(d) Represents commitments for capital expenditures, pension and postretirement benefit obligations and other obligations.

TNMP

The following table sets forth TNMP's long-term contractual obligations as of December 31, 2006:

Contractual Obligations	Total	Less than 1 year	Payments Due 2-3 years (In thousands)	4-5 years	After 5 years
Long-Term Debt (a)	$ 416,626	$ -	$ 416,626	$ -	$ -
Interest on Long-Term Debt (b)	49,072	25,728	23,344	-	-
Operating Leases	757	374	366	2	15
Capital Leases	6,909	2,523	2,782	1,388	216
Other Purchase Obligations (c)	219,700	47,500	92,200	80,000	-
Total	$ 693,064	$ 76,125	$ 535,318	$ 81,390	$ 231

(a) Represents total long-term debt excluding unamortized discount of $0.5 million.

(b) Represents the annual interest expense on fixed and variable rate debt. Projections of interest expense on variable rate debt are based on interest rates as of December 31, 2006.

(c) Represents commitments for capital expenditures, pension and postretirement benefit obligations and other obligations.

Contingent Provisions of Certain Obligations

PNMR, PNM and TNMP have a number of debt obligations and other contractual commitments that contain contingent provisions. Some of these, if triggered, could affect the liquidity of the Company. PNMR, PNM or TNMP could be required to provide security, immediately pay outstanding obligations or be prevented from drawing on unused capacity under certain credit agreements if the contingent requirements were to be triggered. The most significant consequences resulting from these contingent requirements are detailed in the discussion below.

PNMR

The committed PNMR Facility contains a "ratings trigger," for pricing purposes only. If PNMR is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost, respectively. In addition, the PNMR Facility contains a contingent requirement that requires PNMR to maintain a debt-to-capital ratio, inclusive of off-balance sheet debt, of less than 65%. If PNMR's debt-to-capital ratio, inclusive of off-balance sheet debt, were to exceed 65%, it could be required to repay all borrowings under the PNMR Facility, be prevented from drawing on the unused capacity under the PNMR Facility, and be required to provide security for all outstanding letters of credit issued under the PNMR Facility.

PNMR's term loan agreement for financing the acquisition of Twin Oaks in April 2006 (see Note 2) includes customary covenants that are substantially the same as those covenants included in the PNMR Facility, including requirements that PNMR maintain a debt-to-capital ratio, inclusive of certain off-balance sheet debt and adjusted for other factors, of less than 65%. The term loan agreement includes customary events of default, including a cross default provision and a change in control provision. If an event of default occurs, the administrative agent may, or upon the request and direction of lenders holding more than 50% of the outstanding term loan shall, declare the unpaid principal and interest on the term loan to be due and payable. Such acceleration will occur automatically in the event of an insolvency or bankruptcy default.

Twin Oaks has a fuel supply agreement to supply its lignite coal needs. This coal contract has certain purchase obligations even if no deliveries are made. As of November 1, 2006, Twin Oaks has met its minimum purchase obligations for 2006. Based on forecasted future prices, for the years 2007 through 2008, Twin Oaks must make minimum payments of $39.2 million. For the years 2009 through 2010, Twin Oaks must make payments of $37.9 million. For years thereafter, Twin Oaks has minimum payment requirements of $452.3 million. PNMR issued a parental guarantee on behalf of Twin Oaks' owner, Altura, guaranteeing Altura's performance under this fuel supply agreement.

PNM

PNM's standard purchase agreement for the procurement of gas for its retail customers contains a contingent requirement that could require PNM to provide security for its gas purchase obligations if the seller were to reasonably believe that PNM was unable to fulfill its payment obligations under the agreement.

The master agreement for the sale of electricity in the WSPP contains a contingent requirement that could require PNM to provide security if its debt were to fall below investment grade rating. The WSPP agreement also contains a contingent requirement, commonly called a material adverse change provision, which could require PNM to provide security if a material adverse change in its financial condition or operations were to occur.

The committed PNM Facility contains a “ratings trigger,” for pricing purposes only. If PNM is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost, respectively. In addition, the PNM Facility contains a contingent provision that requires PNM to maintain a debt-to-capital ratio, inclusive of off-balance sheet debt, of less than 65%. If PNM’s debt-to-capital ratio, inclusive of off-balance sheet debt, were to exceed 65%, PNM could be required to repay all borrowings under the PNM Facility, be prevented from drawing on the unused capacity under the PNM Facility, and be required to provide security for all outstanding letters of credit issued under the PNM Facility.

If a contingent requirement were to be triggered under the PNM Facility resulting in an acceleration of the outstanding loans under the PNM Facility, a cross-default provision in the PVNGS leases could occur if the accelerated amount is not paid. If a cross-default provision is triggered, the lessors have the ability to accelerate their rights under the leases, including acceleration of all future lease payments.

TNMP

TNMP’s borrowing availability under the committed PNMR Facility contains a “ratings trigger,” for pricing purposes only. If TNMP is downgraded or upgraded by the ratings agencies, the result would be an increase or decrease in interest cost, respectively. In addition, the PNMR Facility contains a contingent requirement that requires TNMP to maintain a debt-to-capital ratio, inclusive of off-balance sheet debt, of less than 65%. If TNMP’s debt-to-capital ratio, inclusive of off-balance sheet debt, were to exceed 65%, TNMP could be required to repay all borrowings under the PNMR Facility, be prevented from drawing on the unused capacity under the PNMR Facility, and be required to provide security for all outstanding letters of credit issued under the PNMR Facility.

Financing Activities

PNMR

Twin Oaks Financing

On April 18, 2006, PNMR entered into a short-term loan agreement for temporary financing of the Twin Oaks acquisition (see Note 2). Under the term loan agreement, PNMR was permitted to borrow up to $480.0 million in a single draw on or after April 18, 2006, to finance the acquisition of Twin Oaks and related expenses. Term loans made under this agreement bear interest at a base rate (the greater of the prime rate in effect and the Federal Funds rate plus ½ of 1%) or an adjusted Eurodollar rate (equal to the British Bankers Association LIBOR rate plus an additional percentage based on PNMR’s then current long-term senior unsecured non-credit enhanced debt rating). On April 18, 2006, PNMR borrowed $480.0 million under the term loan agreement. PNMR must repay the loan by April 17, 2007, unless accelerated in accordance with the terms of the agreement or prepaid in whole or in part upon the issuance of certain additional equity or debt. As of February 20, 2007, $230.5 million of the term loan had been repaid and $249.5 million remained outstanding. It is anticipated that this remaining principal amount will be repaid through the issuance of additional debt and equity structured to maintain PNMR’s investment grade rating.

Shelf Registration Statement

PNMR has a universal shelf registration statement filed with the SEC for the issuance of debt securities, equity securities, preferred stock, purchase contracts, purchase contract units and warrants. As of December 31, 2006, PNMR had approximately $400.0 million of remaining unissued securities under this registration statement.

Interest Rate Swaps

PNMR has entered into three fixed-to-floating interest rate swaps with an aggregate notional principal amount of $150.0 million. Under these swaps, PNMR receives a 4.40% fixed interest payment on the notional principal amount on a semi-annual basis and pays a floating rate equal to the six month LIBOR plus 58.15 basis points (0.5815%) on the notional amount through September 15, 2008. The initial floating rate was 1.91% and will be reset every six months. The floating rate was reset on September 15, 2006, to 6.01%. The swap is accounted for as a fair-value hedge with a negative fair-market value (liability position) of approximately $4.2 million as of December 31, 2006.

Forward Starting Swaps

During October 2004, PNMR entered into two forward starting floating-to-fixed rate interest rate swaps with an aggregate notional principal amount of $100.0 million. These swaps became effective August 1, 2005 and terminate November 15, 2009. Under these swaps, PNMR receives a floating rate equal to three month LIBOR on the notional principal amount and pays a fixed interest rate of 3.975% on the notional principal amount on a quarterly basis. The initial floating rate was set on August 1, 2005, at 3.693%, to be reset every three months.

From November 2004 through June 30, 2005, the swaps were accounted for as a cash flow hedge against borrowings under a five-year $400.0 million PNMR revolving credit agreement dated November 15, 2004. The PNMR Facility replaced the November 2004 credit agreement in August 2005. Effective June 30, 2005, the swaps were de-designated as cash flow hedges due to a change in the underlying borrowings being hedged from the November 2004 credit agreement at the inception of the hedge to commercial paper. The mark-to-market change in the fair value of these swaps was subsequently recognized on PNMR's Consolidated Statement of Earnings. At December 31, 2006, the increase in fair value related to these swaps was $2.8 million. Of this increase, $0.4 million was recorded in accumulated other comprehensive income on PNMR's Consolidated Balance Sheet and $2.4 million was recognized in other income on PNMR's Consolidated Statement of Earnings for the year ended December 31, 2005. These two interest rate swaps were sold on May 19, 2006. The current amount recorded in other comprehensive income will be recognized in income over a 3 year period ending in November 2009.

Sale of PNMR Common Stock

Pursuant to the terms of the PNM Direct Plan, PNMR began offering new shares of PNMR common stock through the plan beginning in June 2006. PNMR may also waive the maximum investment limit upon request in individual cases pursuant to the terms of the plan. In August 2006, PNMR entered into an equity distribution agreement to offer and sell up to 8 million shares of PNMR common stock from time to time. The agreement provides that PNMR will not sell more shares than needed for the aggregate gross proceeds from such sales to reach $200.0 million. For the year ended December 31, 2006. PNMR had sold a combined total of 2.0 million shares of its common stock through the PNMR Direct Plan and the equity distribution agreement for net proceeds of $55.3 million, at a weighted average price of $27.63.

In December 2006, PNMR issued 5,750,000 shares of its common stock in a public offering at $30.79 per share. PNMR received net proceeds from this offering, after deducting underwriting discounts and commissions and estimated expenses, of approximately $170.8 million. PNMR used the net proceeds from these stock sales to prepay debt associated with the acquisition of Twin Oaks.

TNP Acquisition

In conjunction with the acquisition of TNP, on June 6, 2005, PNMR made an equity investment of approximately $110.5 million in TNP, which TNP used to repay in full amounts owing under TNP's credit agreement. In addition, pursuant to PNMR's acquisition of TNP, PNMR agreed to provide funds to TNP to enable TNP to redeem (a) TNP's 14.5% Senior Redeemable Preferred Stock, Series C, (b) TNP's 14.5% Senior Redeemable Preferred Stock, Series D (collectively, "Preferred Stock"), and (c) TNP's 10.25% Senior Subordinated Notes due 2010, Series B ("Senior Notes"). On July 6, 2005, TNP redeemed the Preferred Stock by tendering $224.6 million to the holders of the Preferred Stock and redeemed the Senior Notes by tendering $296.5 million to holders of the Senior Notes (tendered amounts include interest, as applicable). In order to fund a portion of the cost of redemption of TNP's Preferred Stock and Senior Notes, PNMR issued $370.0 million of commercial paper short-term notes under the PNMR commercial paper program. The balance of the funds necessary for the redemption came from other cash available to PNMR and the total redemption amount was an equity investment by PNMR in TNP.

In October 2005, PNMR completed a private offering of 4,000,000 equity-linked units at 6.625%. PNMR received $100.0 million in proceeds from this transaction and there were no underwriting discounts or commissions. PNMR used the proceeds to repay short-term borrowings, a portion of which was incurred to finance the acquisition of TNP. See Note 6 for further details about this transaction.

In March 2005, PNMR issued 3,910,000 shares of its common stock at $26.76 per share. PNMR received net proceeds from this offering, after deducting underwriting discounts and commissions and estimated expenses, of approximately $101.0 million. In addition, in March 2005, PNMR also completed a public offering of 4,945,000 equity-linked units at 6.75% yielding net proceeds after fees of $239.6 million. See Note 6 for further details about this transaction and certain restrictions applicable to PNMR under these securities.

PNM

PNM has a universal shelf registration statement filed with the SEC for the issuance of debt securities, equity securities, preferred stock, purchase contracts, purchase contract units and warrants. As of December 31, 2006, PNM had approximately $200.0 million of remaining unissued securities registered under its shelf registration statement. The amount of senior unsecured notes that may be issued is not limited by the senior unsecured notes indenture. However, debt-to-capital requirements in certain of PNM's financial instruments and regulatory agreements could ultimately limit the amount of additional debt PNM could issue.

TNMP

Depending on TNMP's future business strategy, capital needs and market conditions, TNMP could enter into additional long-term financings for the purpose of strengthening TNMP's balance sheet, funding growth and reducing its cost of capital. TNMP continues to evaluate its investment and debt retirement options to optimize its financing strategy and earnings potential. The amount of senior unsecured notes that may be issued is not limited by the senior unsecured notes indenture. However, debt-to-capital requirements in certain of TNMP's financial instruments and regulatory agreements would ultimately limit the amount of additional debt TNMP would issue. See "Capital Requirements, TNMP" above for additional information related to TNMP's commitment to maintain certain capitalization ratios.

Dividends

The declaration of common dividends by PNMR is dependent upon a number of factors including the ability of PNMR's subsidiaries to pay dividends. PNMR's primary sources of dividends are its operating subsidiaries.

PNM paid cash dividends of $0.0 million, $91.0 million and $23.0 million to PNMR for the years ended December 31, 2006, 2005 and 2004, respectively. TNMP paid no cash dividends to PNMR in 2006. In 2005, TNMP paid cash dividends of $12.0 million to its parent company. Altura paid $5.0 million in cash dividends to PNMR in 2006.

A NMPRC order imposes the following conditions regarding dividends paid by PNM and TNMP: PNM or TNMP cannot pay dividends which cause its debt rating to fall below investment grade; and neither PNM nor TNMP can pay dividends in any year, as determined on a rolling four quarter basis, in excess of net earnings without prior NMPRC approval. The Global Electric Agreement (see Note 17) modified the PNM dividend restriction to allow PNM to pay dividends from earnings as well as equity contributions made by PNMR. Additionally, PNM has various financial covenants that limit the transfer of assets, through dividends or other means.

In addition, the ability of PNMR to declare dividends is dependent upon the extent to which cash flows will support dividends, the availability of retained earnings, the financial circumstances and performance, the NMPRC's and PUCT's decisions in various regulatory cases currently pending and which may be docketed in the future, the effect of federal regulatory decisions, Congressional and legislative acts, and economic conditions in the United States. Conditions imposed by the NMPRC or PUCT, future growth plans and the related capital requirements and business considerations may also affect PNMR's ability to pay dividends.

In July 2005, the Board of PNMR approved an 8.0% increase in the common stock dividend for an indicated annual dividend of $0.80 per share. In February 2006, the Board of PNMR approved a 10.0% increase in the common stock dividend for an indicated annual dividend of $0.88 per share. PNMR targets a payout ratio of 50% to 60% of consolidated earnings. On February 13, 2007, the Board of PNMR approved a common stock dividend of $0.23 per share for an indicated annual dividend of $0.92 per share.

PNMR

PNMR's capitalization ratios, including current maturities of long-term debt, at December 31, 2006 and December 31, 2005, are shown below:

	December 31, 2006	**December 31, 2005**
Common Equity	49.0%	42.5%
Preferred Stock of Subsidiary	0.3%	0.4%
Long-term Debt	50.7%	57.1%
Total Capitalization	100.0%	100.0%

Total capitalization does not include as debt the present value of PNM's operating lease obligations for PVNGS Units 1 and 2, EIP and the Delta operating lease, which was approximately $165.1 million as of December 31, 2006 and $170.9 million as of December 31, 2005.

The change in PNMR's capitalization ratios is due primarily to the issuance of 7.9 million shares of common stock during 2006.

PNM

PNM's capitalization ratios, including current maturities of long-term debt, at December 31, 2006 and December 31, 2005, are shown below:

	December 31, 2006	**December 31, 2005**
Common Equity	54.4%	50.5%

Preferred Stock	0.5%	0.6%
Long-term Debt	45.1%	48.9%
Total Capitalization	100.0%	100.0%

TNMP

TNMP's capitalization ratios, including current maturities of long-term debt, at December 31, 2006 and December 31, 2005, are shown below:

	December 31, 2006	December 31, 2005
Common Equity	55.0%	54.6%
Long-term Debt	45.0%	45.4%
Total Capitalization	100.0%	100.0%

COMPETITION

Under current law, TNMP is not in any direct retail competition with any other regulated electric and gas utility, except for sales of natural gas. Nevertheless, the Company is subject to varying degrees of competition in certain territories adjacent to or within the areas it serves with other utilities in its region as well as with rural electric cooperatives and municipal utilities. 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 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 niche product offerings, and stringent risk management practices. The Texas electricity market has been open to retail competition since 2002. The Company is exposed to competition in the unregulated Texas retail electricity market through First Choice, which serves 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.

Since 2002, electric consumers in Texas have been encouraged to switch from their traditional retail energy provider, such as TNMP, to a competitive retail energy provider, such as First Choice. Currently under TECA, consumers whose chosen retail energy provider has exited the Texas market are provided electric service by a "provider of last resort." Rates of the 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 expired on December 31, 2006. On January 1, 2007 new providers of last resort were identified and those providers as well as the rates offered will be effective until December 31, 2008. Also on December 31, 2006, the price-to-beat rate mechanism ceased 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.

Other Matters

See Notes 16, 17 and 18 for a discussion of commitments and contingencies, rate and regulatory matters and environmental issues facing the Company.

NEW ACCOUNTING STANDARDS

See Note 21 for a discussion of FIN 48, "*Accounting for Uncertainty in Income Taxes*," which was issued by the FASB in July 2006, SFAS 157, "*Fair Value Measurements*," issued by the FASB in September 2006 and SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities*," issued by the FASB in February 2007. The Company is currently evaluating the impact of these accounting pronouncements, if any, on its financial statements.

The Company has evaluated SFAS 155, "*Accounting for Certain Hybrid Instruments*," issued by the FASB in February 2006 and SAB 108, "*Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in the Current Year Financial Statements*," issued by the SEC staff in September 2006, and determined these two new pronouncements do not have a material impact on the Company's financial statements. See Note 13 and Note 12, respectively, for a discussion on the impact to the financial statements for SFAS 123R and SFAS 158.

DISCLOSURE REGARDING FORWARD LOOKING STATEMENTS

Statements made in this filing that relate to future events or PNMR's, PNM's or TNMP's expectations, projections, estimates, intentions, goals, targets and strategies, are made pursuant to the Private Securities Litigation Reform Act of 1995. Readers are cautioned that all forward-looking statements are based upon current expectations and estimates and PNMR, PNM and TNMP assume no obligation to update this information.

Because actual results may differ materially from those expressed or implied by these forward-looking statements, PNMR, PNM and TNMP caution readers not to place undue reliance on these statements. PNMR's, PNM's and TNMP's business, financial condition, cash flow and operating results are influenced by many factors, which are often beyond their control, that can cause actual results to differ from those expressed or implied by the forward-looking statements. These factors include:

- The risk that EnergyCo is unable to identify and implement profitable acquisitions,
- The potential unavailability of cash from PNMR's subsidiaries due to regulatory, statutory and contractual restrictions,
- The outcome of any appeals of the PUCT order in the stranded cost true-up proceeding,
- The ability of First Choice to attract and retain customers,
- Changes in ERCOT protocols,
- Changes in the cost of power acquired by First Choice,
- Collections experience,
- Insurance coverage available for claims made in litigation,
- Fluctuations in interest rates,
- Conditions in the financial markets affecting PNMR's permanent financing for the Twin Oaks power plant acquisition,
- Weather,
- Water supply,
- Changes in fuel costs,
- Availability of fuel supplies,
- The effectiveness of risk management and commodity risk transactions,
- Seasonality and other changes in supply and demand in the market for electric power,
- Variability of wholesale power prices and natural gas prices,
- Volatility and liquidity in the wholesale power markets and the natural gas markets,
- Changes in the competitive environment in the electric and natural gas industries,
- The performance of generating units, including PVNGS, and transmission systems,
- The market for electrical generating equipment,
- The ability to secure long-term power sales,

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- The risk that the Company and its subsidiaries may have to commit to substantial capital investments and additional operating costs to comply with new environmental control requirements including possible future requirements to address concerns about global climate change,
- The risks associated with completion of generation, including pollution control equipment at SJGS and the expansion of the Afton Generating Station, transmission, distribution and other projects, including construction delays and unanticipated cost overruns,
- State and federal regulatory and legislative decisions and actions,
- The outcome of legal proceedings,
- Changes in applicable accounting principles, and
- The performance of state, regional and national economies.

See Item 7A. "Quantitative and Qualitative Disclosure About Market Risk" for information about the risks associated with the use of derivative financial instruments.

SECURITIES ACT DISCLAIMER

Certain securities, including commercial paper described in this report, have not been registered under the Securities Act of 1933, as amended, or any state securities laws and may not be reoffered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933 and applicable state securities laws. This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy any securities.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company uses derivative financial instruments to manage risk as it relates to changes in natural gas and electric prices, changes in interest rates and, historically, adverse market changes for investments held by the Company's various trusts. The Company also uses certain derivative instruments for wholesale power marketing and natural gas transactions in order to take advantage of favorable price movements and market timing activities in these power markets.

PNMR controls the scope of its various forms of risk through a comprehensive set of policies and procedures and oversight by senior level management and the PNMR Board. The Board's Finance Committee sets the risk limit parameters. The RMC, comprised of corporate and business segment officers and other managers, oversees all of the activities, which include commodity price, credit, equity, interest rate and business risks. The RMC has oversight for the ongoing evaluation of the adequacy of the risk control organization and policies. PNMR has a risk control organization, headed by a Director of Internal Audit and the Director of Financial Risk Management, which is assigned responsibility for establishing and enforcing the policies, procedures and limits and evaluating the risks inherent in proposed transactions, on an enterprise-wide basis.

The RMC's responsibilities specifically include: establishment of a general policy regarding risk exposure levels and activities in each of the business segments; authority to approve the types of instruments traded; authority to establish a general policy regarding counterparty exposure and limits; authorization and delegation of transaction limits; review and approval of controls and procedures; review and approval of models and assumptions used to calculate mark-to-market and risk exposure; authority to approve and open brokerage and counterparty accounts; review of hedging and risk activities; and quarterly reporting to the Finance Committee and the PNMR Board on these activities.

The RMC also proposes risk limits, such as VaR and EaR, to the Finance Committee. The Finance Committee ultimately sets the Company's risk limits.

It is the responsibility of each business segment to create its own control procedures and policies within the parameters established by the Finance Committee. The RMC reviews and approves these policies, which are created with the assistance of the Corporate Controller, Director of Internal Audit and the Director of Financial Risk Management. Each business segment's policies address the following controls: authorized risk exposure limits; authorized instruments and markets; authorized personnel; policies on segregation of duties; policies on mark-to-market accounting; responsibilities for deal capture; confirmation procedures; responsibilities for reporting results; statement on the role of derivative transactions; and limits on individual transaction size (nominal value).

To the extent an open position exists, fluctuating commodity prices can impact financial results and financial position, either favorably or unfavorably. As a result, the Company cannot predict with certainty the impact that its risk management decisions may have on its businesses, operating results or financial position.

Commodity Risk

Marketing and procurement of energy often involve market risks associated with managing energy commodities and establishing open positions in the energy markets, primarily on a short-term basis. These risks fall into three different categories: price and volume volatility, credit risk of counterparties and adequacy of the control environment. The Company's operations subject to market risk routinely enter into various derivative instruments such as forward contracts, option agreements and price basis swap agreements to hedge price and volume risk on their purchase and sale commitments, fuel requirements and to enhance returns and minimize the risk of market fluctuations.

PNM's wholesale operations, including long-term contracts and short-term sales, are managed primarily through a net asset-backed marketing strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities. PNM is exposed to market risk if its generation capabilities were to be disrupted or if its retail load requirements were to be greater than anticipated. If PNM were required to cover all or a portion of its net open contract position as a result of the aforementioned unexpected situations, it would have to meet its commitments through market purchases. As such, PNM is exposed to risks related to fluctuations in the market price of energy that could impact the sales price or purchase price of energy. In addition, the wholesale operations utilize discrete market-based transactions to take advantage of opportunities that present themselves in the ordinary course of business. These positions are subject to market risk that is not mitigated by PNM's generation capabilities.

First Choice is responsible for energy supply related to the sale of electricity to retail customers in Texas. TECA contains no provisions for the specific recovery of fuel and purchased power costs. First Choice operates within a competitive marketplace. 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 with each customer. As a result, changes in fuel and purchased power costs will affect First Choice's operating results. First Choice is exposed to market risk to the extent that its retail rates or cost of supply fluctuates with market prices. Additionally, fluctuations in First Choice retail load requirements greater than anticipated may subject First Choice to market risk. First Choice'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 utilizes discrete market-based transactions to take advantage of opportunities that present themselves in the ordinary course of business. These positions are subject to market risk that is not mitigated by First Choice's retail operations.

Accounting for Derivatives

Under the derivative accounting rules and the related accounting rules for energy contracts, the Company accounts for its various financial derivative instruments for the purchase and sale of energy differently based on the contract terms. Energy contracts that meet the definition of a derivative under SFAS 133 and do not qualify for a normal purchase or sale designation are recorded on the balance sheet at fair market value at each period end. The changes in fair market value are recognized in earnings unless specific hedge accounting criteria are met. Should an energy transaction qualify as a hedge under SFAS 133, fair market value changes from year to year are recognized on the balance sheet with a corresponding charge to other comprehensive income. Gains or losses are recognized when the hedged transaction settles. Derivatives that meet the normal sales and purchases exceptions within SFAS 133 are not marked to market but rather recorded in results of operations when the underlying transaction settles.

<u>PNMR</u>

The acquisition of TNP occurred on June 6, 2005; therefore First Choice activity is included in the PNMR activity from June 6, 2005.

The following table shows the net fair value of mark-to-market energy contracts for First Choice and PNM Wholesale included in PNMR's Consolidated Balance Sheet:

	December 31, 2006	December 31, 2005
	(In thousands)	
Mark-to-Market Energy Contracts:		
Current asset	$ 43,680	$ 21,857
Long-term asset	10,982	21,292
Total mark-to-market assets	54,662	43,149
Current liability	(42,020)	(17,718)
Long-term liability	(9,176)	(20,903)
Total mark-to-market liabilities	(51,196)	(38,621)
Net fair value of mark-to-market energy contracts	$ 3,466	$ 4,528

The mark-to-market energy transactions represent net assets at December 31, 2006 and December 31, 2005 after netting all applicable open purchase and sale contracts.

The market prices used to value PNMR mark-to-market energy transactions are based on index prices and broker quotations.

The following table details the changes in the net asset or liability balance sheet position from one period to the next for mark-to-market energy transactions for the operations of First Choice and PNM Wholesale:

	Year Ended December 31,	
	2006	2005
	(In thousands)	
Sources of Fair Value Gain/(Loss):		
Fair value at beginning of year	$ 4,528	$ 2,073
Amount realized on contracts delivered during period	(6,722)	(3,673)
Changes in fair value	5,660	6,128
Net fair value at end of period	$ 3,466	$ 4,528
Net change recorded as mark-to-market	$ (1,062)	$ 2,455

The net change in fair value on PNMR's commodity derivative instruments designated as hedging instruments is summarized as follows:

	Year Ended December 31,	
	2006	2005
Type of Derivative	**Hedge Instruments**	
	(In thousands)	
Change in fair value of energy contracts	$ 27,932	$ 18,015

Change in fair value of gas fixed for float swaps		(22,857)		797
Change in the fair value of options		988		(1,097)
Net change in fair value	$	6,063	$	17,715

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The following table provides the maturity of the net assets/(liabilities) of PNMR, giving an indication of when these mark-to-market amounts will settle and generate/(use) cash. The following values were determined using broker quotes:

Fair Value at December 31, 2006

	Maturities		
Less than 1 Year	**1-3 Years**	**4+ Years**	**Total**
	(In thousands)		
$1,660	$1,530	$276	$3,466

As of December 31, 2006, a decrease in market pricing of PNM's mark-to-market energy transactions by 10% would have resulted in a decrease in net earnings of less than 1%. Conversely, an increase in market pricing of these transactions by 10% would have resulted in an increase in net earnings of less than 1%.

Management evaluates the availability of market data for the Company's commodity derivative instruments. As of December 31, 2006, Risk Management has established that valid market pricing exists for gas swap commodities for up to 5 years; as of December 31, 2005, valid market price for gas swap commodities was available for up to 18-months. The change in liquidity periods is a Change in Accounting Estimate under SFAS No. 154, *Accounting Changes and Error Corrections*. The effect on income from continuing operations and net income was an increase of $2.5 million. Fluctuating commodity prices on open positions prevent the Company from predicting with certainty the future impact of the change in estimate.

PNM

The following table shows the net fair value of mark-to-market energy contracts for PNM Wholesale included in the Consolidated Balance Sheet:

	December 31, 2006	**December 31, 2005**
	(In thousands)	
Mark-to-Market Energy Contracts:		
Current asset	$ 21,310	$ 10,309
Long-term asset	10,592	21,292
Total mark-to-market assets	31,902	31,601
Current liability	(20,623)	(8,440)
Long-term liability	(8,694)	(20,903)
Total mark-to-market liabilities	(29,317)	(29,343)
Net fair value of mark-to-market energy contracts	$ 2,585	$ 2,258

The mark-to-market energy transactions represent net assets at December 31, 2006 and December 31, 2005 after netting all applicable open purchase and sale contracts.

The market prices used to value PNM Wholesale's mark-to-market energy transactions are based on index prices and broker quotations.

The following table details the changes in the net asset or liability balance sheet position from one period to the next for mark to market energy transactions for the operations of PNM Wholesale:

	Year Ended December 31, 2006	2005
	(In thousands)	
Sources of Fair Value Gain/(Loss):		
Fair value at beginning of year	$ 2,258	$ 2,073
Amount realized on contracts delivered during period	(144)	(2,319)
Changes in fair value	471	2,504
Net fair value at end of period	$ 2,585	$ 2,258
Net change recorded as mark-to-market	$ 327	$ 185

The net change in fair value on PNM's commodity derivative instruments designated as hedging instruments are summarized as follows:

Type of Derivative	Year Ended December 31, 2006 Hedge Instruments	2005
	(In thousands)	
Change in fair value of energy contracts	$ (5,210)	$ 18,015
Change in fair value of gas fixed for float swaps	(22,810)	1,684
Net change in fair value	$ (28,020)	$ 19,699

The following table provides the maturity of the net assets/(liabilities) of PNM Wholesale, giving an indication of when these mark-to-market amounts will settle and generate/(use) cash. The following values were determined using broker quotes:

Fair Value at December 31, 2006

Maturities Less than 1 Year	1-3 Years	4+ Years	Total
	(In thousands)		
$687	$1,622	$276	$2,585

As of December 31, 2006, a decrease in market pricing of PNM Wholesale's mark-to-market energy transactions by 10% would have resulted in a decrease in net earnings of less than 1%. Conversely, an increase in market pricing of these transactions by 10% would have resulted in an increase in net earnings of less than 1%.

PNM Wholesale

PNM's Wholesale Operations measure the market risk of its long-term contracts and wholesale activities using a VaR calculation to maintain the Company's total exposure within management-prescribed limits. The Company's VaR calculation reports the possible market loss for the respective transactions. This calculation is based on the transaction's fair market value on the reporting date. Accordingly, the VaR calculation is not a measure of the potential accounting mark-to-market loss. The Company utilizes the Monte Carlo simulation model of VaR. The Monte Carlo model utilizes a random generated simulation based on historical volatility to generate portfolio values. VaR models are relatively sophisticated. The quantitative risk information, however, is limited by the parameters established in creating the model. The instruments being evaluated may trigger a potential loss in excess of calculated amounts if changes in commodity prices exceed the confidence level of the model used. The VaR methodology employs the following critical parameters: volatility estimates, market values of open positions, appropriate market-oriented holding periods and seasonally adjusted correlation estimates. The Company's VaR calculation considers the Company's forward position for the next eighteen months. The Company uses a holding period of three days as the estimate of the length of time that will be needed to liquidate the positions. The volatility and the correlation estimates measure the impact of adverse price movements both at an individual position level as well as at the total portfolio level. The two-tailed confidence level established is 99%. For example, if VaR is calculated at $10.0 million, it is estimated at a 99% confidence level that if prices move against PNM's positions, the Company's pre-tax gain or loss in liquidating the portfolio would not exceed $10.0 million in the three days that it would take to liquidate the portfolio.

For PNM's wholesale operations, the Company measures VaR for all transactions that are not directly asset related and have economic risk. The VaR limit established for these transactions is $5.0 million. For the year ended December 31, 2006, the average VaR amount for these transactions was $1.3 million, with high and low VaR amounts for the period of $3.7 million and $0.4 million, respectively. The VaR amount for these transactions at December 31, 2006 was $0.8 million. For the year ended December 31, 2005, the average VaR amount for these transactions was $1.7 million, with high and low VaR amounts for the period of $7.8 million and zero, respectively. The total VaR amount for these transactions at December 31, 2005 was $3.5 million.

First Choice

First Choice measures the market risk of its activities using an EaR calculation to maintain the Company's total exposure within management-prescribed limits. Because of its obligation to serve customers, First Choice must take its obligations to settlement. Accordingly, a measure that evaluates the settlement of First Choice's positions against earnings provides management with a useful tool to manage its portfolio. First Choice's EaR calculation reports the possible losses against forecasted earnings for its retail load and supply portfolio. This calculation is based on First Choice's forecasted earnings on the reporting date. The Company utilizes a Delta/Gamma approximation model of EaR. The Delta/Gamma model calculates a price change within a given time frame, correlation and volatility parameters for each price curve utilized in valuing the mark-to-market of each position to develop a change in value for any position. This process is repeated multiple times to calculate a standard deviation, which is used to arrive at an EaR amount based on a certain confidence level. The model uses the Delta/Gamma approximation to model the optionality related to price-to-beat rate resets by both the Company and the PUCT as discussed above. First Choice utilizes the one-tailed confidence level at 95%. EaR models are relatively sophisticated. The quantitative risk information, however, is limited by the parameters established in creating the model. The instruments being evaluated may trigger a potential loss in excess of calculated amounts if changes in commodity prices exceed the confidence level of the model used. The EaR calculation considers the Company's forward position for the next twelve months and holds each position to settlement. The volatility and the correlation estimates measure the impact of adverse price movements both at an individual position level as well as at the total portfolio level. For example, if EaR is calculated at $10.0 million, it is estimated at a 95% confidence level that if prices move against First Choice's positions, the losses against the Company's forecasted earnings over the next twelve months would not exceed $10.0 million.

Credit Risk

The Company's use of derivatives and the resulting credit risk is regularly monitored by the RMC. In addition, counterparties expose the Company to credit losses in the event of non-performance or non-payment. The Company manages credit on a consolidated basis and uses a credit management process to assess and monitor the financial conditions of counterparties. Credit exposure is regularly monitored by the RMC. The RMC has put procedures in place to ensure that increases in credit risk measures that exceed the prescribed limits are reviewed and, if deemed necessary, acted upon to reduce exposures.

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The following table provides information related to Wholesale's credit exposure as of December 31, 2006. The Company does not hold any credit collateral as of December 31, 2006. The table further delineates that exposure by the credit worthiness (credit rating) of the counterparties and provides guidance as to the concentration of credit risk to individual counterparties Wholesale may have. Also provided is an indication of the maturity of a Company's credit risk by credit ratings of the counterparties.

Schedule of PNM Wholesale Credit Risk Exposure
December 31, 2006

Rating (a)	**(b) Net Credit Risk Exposure**	**Number of Counter -parties >10%**	**Net Exposure of Counter-parties >10%**
		(Dollars in thousands)	
Investment grade	$ 104,387	2	$ 48,792
Non-investment grade	491	-	-
Internal ratings			
Investment grade	153	-	-
Non-investment grade	3,595	-	-
Total	$ 108,626		$ 48,792

(a) ***The Rating*** included in "Investment Grade" is for counterparties with a minimum S&P rating of BBB- or Moody's rating of Baa3. If the counterparty has provided a guarantee by a higher rated entity (e.g., its parent), determination is based on the rating of its guarantor. The category "Internal Ratings - Investment Grade" includes those counterparties that are internally rated as investment grade in accordance with the guidelines established in the Company's credit policy.

(b) The ***Net Credit Risk Exposure*** is the net credit exposure to PNM from PNM Wholesale operations. This includes long-term contracts, forward sales and short-term sales. The exposure captures the net amounts due to PNM from receivables/payables for realized transactions, delivered and unbilled revenues, and mark-to-market gains/losses (pursuant to contract terms). Exposures are offset according to legally enforceable netting arrangements and reduced by credit collateral. Credit collateral includes cash deposits, letters of credit and performance bonds received from counterparties. Amounts are presented before those reserves that are determined on a portfolio basis.

PNM Wholesale
Maturity of Credit Risk Exposure
December 31, 2006

Rating	Less than 2 Years	2-5 Years	>5 Years	Total Net Exposure
		(In thousands)		
Investment grade	$ 92,372	$ 10,992	$ 1,023	$ 104,387
Non-investment grade	491	-	-	491
Internal ratings				
Investment grade	153	-	-	153
Non-investment grade	3,595	-	-	3,595
Total	$ 96,611	$ 10,992	$ 1,023	$ 108,626

The Company provides for losses due to market and credit risk. PNM Wholesale credit risk with its largest counterparty as of December 31, 2006 and December 31, 2005 was $29.7 million and $20.5 million, respectively.

First Choice

First Choice is subject to credit risk from non-performance by its supply counterparties to the extent these contracts have a mark-to-market value in the favor of First Choice. The Constellation power supply agreement established FCPSP, a bankruptcy remote special purpose entity, to hold all of First Choice's customer contracts. Constellation received a lien on accounts receivable, customer contracts, cash, and the equity of FCPSP as security for FCPSP’s performance under the power supply agreement. The provisions of this agreement severely limit FCPSP’s ability to secure power from alternate sources. Additionally, the terms of the security agreement do not require Constellation to post collateral for any mark-to-market balances in FCPSP’s favor. At December 31, 2006, the supply contracted with Constellation was in a favorable mark-to-market position for FCPSP. When netted against amounts owed to Constellation, this exposure was approximately $20.9 million. The Constellation power supply agreement collateral provisions will continue until the expiration of the agreement on December 31, 2007. First Choice's credit exposure to other counterparties at December 31, 2006 was $18.4 million and the tenor of these exposures is less than two years.

Interest Rate Risk

PNMR

PNMR’s senior notes issued as part of the equity-linked units sold in March and October 2005 will be remarketed in 2008. If the remarketing is successful, the interest rate on the senior notes may change to a rate selected by the remarketing agent, and the maturity of the senior notes may be extended to a date selected by PNMR. If the remarketing of the senior notes is not successful, the maturity and interest rate of the senior notes will not change and holders of the equity-linked units will have the option of putting their senior notes to PNMR to satisfy their obligations under the purchase contracts. PNMR expects that the remarketing of the senior notes will be successful.

PNM

PNM has long-term debt which subjects it to the risk of loss associated with movements in market interest rates. The majority of PNM’s long-term debt is fixed-rate debt, and therefore, does not expose PNM’s earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of all long-term debt instruments would increase by approximately 1.8%, or $17.8 million, if interest rates were to decline by 50 basis points from their levels at December 31, 2006. At December 31, 2006, the fair value of PNM's long-term debt was approximately $993.7 million as compared to a book value of $987.2 million. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if PNM were to re-acquire all or a portion of its debt instruments in the open market prior to their maturity.

PNM's $146.0 million, 2.1% pollution control bonds due in 2033 were required to be remarketed in April 2006. Following a successful remarketing, the interest rate on the pollution control bonds change to a fixed rate of 4.875% annually.

During the year ended December 31, 2006, PNM contributed cash of approximately $4.3 million to the PVNGS decommissioning trust. PNM contributed $6.7 million to other post retirement benefits trust. PNM did not make any contributions to the pension trust. The securities held by the trusts had an estimated fair value of $680.7 million at December 31, 2006, of which approximately 24.4% were fixed-rate debt securities that subject PNM to risk of loss of fair value with movements in market interest rates. If rates were to increase by 50 basis points from their levels at December 31, 2006, the decrease in the fair value of the securities would be 3.6% or $6.0 million. PNM does not currently recover or return through rates any losses or gains on these securities. PNM, therefore, is at risk for shortfalls in its funding of its obligations due to investment losses. PNM does not believe that long-term market returns over the period of funding will be less than required for PNM to meet its obligations. However, this belief is based on assumptions about future returns that are inherently uncertain.

TNMP

TNMP has long-term debt which subjects it to the risk of loss associated with movements in market interest rates. The majority of TNMP's long-term debt is fixed-rate debt, and therefore, does not expose TNMP's earnings to a major risk of loss due to adverse changes in market interest rates. However, the fair value of all long-term debt instruments would increase by approximately 0.6%, or $2.6 million, if interest rates were to decline by 50 basis points from their levels at December 31, 2006. At December 31, 2006, the fair value of TNMP's long-term debt was approximately $422.6 million as compared to a book value of $420.5 million. In general, an increase in fair value would impact earnings and cash flows to the extent not recoverable in rates if TNMP were to re-acquire all or a portion of its debt instruments in the open market prior to their maturity.

During the year ended December 31, 2006, TNMP contributed cash of approximately $0.7 million to other postretirement benefits for plan year 2006. The securities held by the trusts had an estimated fair value of $89.6 million at December 31, 2006, of which approximately 26.9% were fixed-rate debt securities that subject TNMP to risk of loss of fair value with movements in market interest rates. If rates were to increase by 50 basis points from their levels at December 31, 2006, the decrease in fair value of the fixed-rate securities would be approximately 2.9%, or $0.7 million. TNMP, therefore, is at risk for shortfalls in its funding of its obligations due to investment losses. TNMP does not believe that long-term market returns over the period of funding will be less than required for TNMP to meet its obligations. However, this belief is based on assumptions about future returns that are inherently uncertain.

Equity Market Risk

PNMR

During 2005, PNMR determined that one of its investments under this program, Wood River, had experienced a loss in market value. During the third quarter of 2005, PNMR wrote down the value of its investment in Wood River to zero and incurred a loss of approximately $3.6 million. In the fourth quarter of 2005, the assets held in the Wood River fund were transferred into receivership as part of a civil complaint filed by the SEC against Wood River. Prior to this, the investments in Wood River were classified and accounted for as trading securities. At December 31, 2005, due to the change in circumstances surrounding Wood River, PNMR's investment was reclassified from trading to available-for-sale in accordance with SFAS 115. The fair value of PNMR's investment in Wood River was determined to be zero at December 31, 2006. PNMR cannot predict when or if it will receive a return of the cash value of its investment in Wood River.

PNM

PNM contributes to trusts established to fund its share of the decommissioning costs of PVNGS and pension and other postretirement benefits. The trusts hold certain equity securities at December 31, 2006. These equity securities also expose the Company to losses in fair value. Approximately 62.0% of the securities held by the various trusts were equity securities as of December 31, 2006. Similar to the debt securities held for funding decommissioning and certain pension and other postretirement costs, PNM does not recover or earn a return through rates on any losses or gains on these equity securities.

TNMP

TNMP contributes to trusts established to fund the pension and other postretirement benefits. The trusts hold certain equity securities at December 31, 2006. These equity securities also expose the Company to losses in fair value. Approximately 52.7% of the securities held by the various trusts were equity securities as of December 31, 2006. TNMP does not recover or earn a return through rates on any losses or gains on these equity securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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.
BART	Best Available Retrofit Technologies
BLM	U.S. Department of the Interior Bureau of Land Management
Board	Board of Directors
BTU	British Thermal Unit
Cal PX	California Power Exchange
Cal ISO	California Independent System Operator
Cascade	Cascade Investment, L.L.C.
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
DOE	Department of Energy
Duke	Duke Energy Corporation
EaR	Earnings at Risk
ECJV	ECJV Holdings, L.L.C.
EEI	Edison Electric Institute
EIP	Eastern Interconnection Project
EITF	Emerging Issues Task Force
EnergyCo	Joint Venture between PNMR and ECJV
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
FIN	FASB Interpretation Number
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

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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.
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
NOPR	Notice of Proposed Ruling
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NYMEX	New York Merchantile Exchange
OASIS	Open Access Same Time Information System
OATT	Open Access Transmission Tariff
OPEB	Other Post Employment Benefits
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
PSA	Power Supply Agreement
PUCT	Public Utility Commission of Texas
PUHCA	The Public Utility Holding Company Act
PVNGS	Palo Verde Nuclear Generating Station
Reeves	Reeves Generating Station
REC	Renewable Energy Certificate
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
SAB	SEC Staff Accounting Bulletin

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
Senate Bill 7	Legislation that established retail competition in Texas
SFAS	Statement of Financial Accounting Standards
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SO_2	Sulfur Dioxide
S&P	Standard and Poors Ratings Services
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
VCA	Voluntary Compliance Agreement
Wood River	Wood River Partners, L.P.
WSPP	Western Systems Power Pool

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

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Management's Annual Report on Internal Control Over Financial Reporting

Management of PNM Resources, Inc. and subsidiaries ("the Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of the Company's internal control over financial reporting based on the *Internal Control - Integrated Framework* set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that the Company's internal control over financial reporting was effective as of December 31, 2006.

Management has excluded Twin Oaks from their report on internal control over financial reporting. The financial statements of Twin Oaks reflect total assets and revenues constituting 12 and 5 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006. The Company has disclosed the material change in the Company's internal control over financial reporting due to the acquisition, which occurred April 18, 2006.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on management's assessment of internal control over financial reporting which is included herein.

/s/ Jeffry E. Sterba
Jeffry E. Sterba,
Chairman, President and
Chief Executive Officer

/s/ Charles Eldred
Charles Eldred
Senior Vice President and
Chief Financial Officer

Management's Annual Report on Internal Control Over Financial Reporting

Management of Public Service Company of New Mexico and subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended.

Management assessed the effectiveness of the Company's internal control over financial reporting based on the *Internal Control - Integrated Framework* set forth by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the assessment performed, management concludes that the Company's internal control over financial reporting was effective as of December 31, 2006.

Deloitte & Touche LLP, an independent registered public accounting firm, has issued an attestation report on management's assessment of internal control over financial reporting which is included herein.

/s/ Jeffry E. Sterba
Jeffry E. Sterba,
Chairman, President and
Chief Executive Officer

/s/ Charles Eldred
Charles Eldred
Senior Vice President and
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
PNM Resources, Inc.
Albuquerque, New Mexico

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that PNM Resources, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Annual Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial reporting at Twin Oaks which was acquired on April 18, 2006 and whose financial statements reflect total assets and revenues constituting 12 and 5 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2006. Accordingly, our audit did not include the internal control over financial reporting at Twin Oaks. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules of the Company as of and for the year ended December 31, 2006 and our reports dated February 28, 2007, August 14, 2007 as to the effects of the restatement discussed in Note 23 and Note 1, relating to the financial statements and financial statement schedules, respectively, of the Company expressed an unqualified opinion on those consolidated financial statements and financial statement schedules, and included an explanatory paragraph relating to the adoption of Financial Accounting Standards Board Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* and PNM Resources, Inc.'s acquisition of TNP Enterprises, Inc. in 2005, the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* in 2006, and the restatement discussed in Note 23 and Note 1, respectively.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Public Service Company of New Mexico
Albuquerque, New Mexico

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Public Service Company of New Mexico and subsidiary (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006 is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules of the Company as of and for the year ended December 31, 2006 and our reports dated February 28, 2007, August 14, 2007 as to the effects of the restatement discussed in Note 23 and Note 1, relating to the financial statements and financial statement schedules, respectively, of the Company expressed an unqualified opinion on those consolidated financial statements and financial statement schedules, and included an explanatory paragraph relating to the adoption of Financial Accounting Standards Board Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* in 2005, the adoption of Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* in 2006, and the restatement discussed in Note 23 and Note 1, respectively.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
PNM Resources, Inc.
Albuquerque, New Mexico

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of PNM Resources, Inc. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of earnings, retained earnings, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PNM Resources, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* in 2005. As discussed in Notes 13 and 12, respectively, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* in 2006. As discussed in Note 2 to the consolidated financial statements, the Company acquired TNP Enterprises, Inc. in 2005.

As discussed in Note 23, the accompanying financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 28, 2007 (August 14, 2007 as to the effects of the restatement discussed in Note 23)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Public Service Company of New Mexico
Albuquerque, New Mexico

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Public Service Company of New Mexico and subsidiary (the “Company”) as of December 31, 2006 and 2005, and the related consolidated statements of earnings, retained earnings, comprehensive income (loss), and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Public Service Company of New Mexico and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* in 2005. As discussed in Notes 13 and 12, respectively, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* in 2006.

As discussed in Note 23, the accompanying financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 28, 2007 (August 14, 2007 as to the effects of the restatement discussed in Note 23)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of
Texas-New Mexico Power Company
Fort Worth, Texas

We have audited the accompanying consolidated balance sheets and consolidated statements of capitalization of Texas-New Mexico Power Company and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of earnings, retained earnings, comprehensive income (loss), and cash flows for the year ended December 31, 2006, for the periods June 6, 2005 to December 31, 2005, and January 1, 2005 to June 6, 2005, and for the year ended December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Texas-New Mexico Power Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, retained earnings, comprehensive income (loss), and cash flows for the year ended December 31, 2006, for the periods June 6, 2005 to December 31, 2005, and January 1, 2005 to June 6, 2005, and for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company adopted Financial Accounting Standards Board Financial Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* in 2005. As discussed in Notes 13 and 12, respectively, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment* and Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132R* in 2006.

/s/ DELOITTE & TOUCHE LLP

Dallas, Texas
February 28, 2007

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31, 2006 (As Restated, See Note 23)	2005 (As Restated, See Note 23)	2004 (As Restated, See Note 23)
	(In thousands, except per share amounts)		
Operating Revenues:			
Electric	$ 1,962,073	$ 1,564,077	$ 1,113,046
Gas	508,410	510,801	490,921
Other	1,186	1,932	825
Total operating revenues	2,471,669	2,076,810	1,604,792
Operating Expenses:			
Cost of energy sold	1,445,790	1,274,647	945,309
Administrative and general	276,023	217,983	168,095
Energy production costs	165,465	166,876	147,449
Depreciation and amortization	152,271	138,722	102,221
Transmission and distribution costs	81,809	70,465	59,447
Taxes, other than income taxes	71,902	52,594	34,607
Income taxes	46,198	19,450	36,062
Total operating expenses	2,239,458	1,940,737	1,493,190
Operating income	232,211	136,073	111,602
Other Income and Deductions:			
Interest income	39,682	42,829	38,007
Investment income	5,979	5,955	2,501
Other income	6,636	9,126	6,857
Carrying charges on regulatory assets	6,993	4,376	-
Other deductions	(6,861)	(21,546)	(7,445)
Other income taxes	(17,772)	(13,411)	(13,185)
Net other income and deductions	34,657	27,329	26,735
Earnings before interest charges	266,868	163,402	138,337
Interest Charges :			
Interest on long-term debt, net	95,301	75,736	46,702
Other interest charges	50,221	17,941	4,673
Net interest charges	145,522	93,677	51,375
Preferred Stock Dividend Requirements of Subsidiary	528	2,868	572
Net Earnings Before Cumulative Effect of Changes in Accounting Principle	120,818	66,857	86,390
Cumulative Effect of Changes in Accounting Principle, Net of Tax (Expense) Benefit of $0, $592, $0	-	(926)	-
Net Earnings	$ 120,818	$ 65,931	$ 86,390

Net Earnings per Common Share (see Note 10):						
Basic	$	1.73	$	1.00	$	1.43
Diluted	$	1.71	$	0.98	$	1.41
Dividends Declared per Common Share	$	0.880	$	0.785	$	0.665

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31, 2006 (As Restated, See Note 23)	2005 (As Restated, See Note 23) (In thousands)	2004 (As Restated, See Note 23)
Balance at Beginning of Year	$ 577,533	$ 564,772	$ 518,571 (a)
Net earnings	120,818	65,931	86,390
Dividends:			
Common Stock	(62,801)	(53,170)	(40,189)
Balance at End of Year	$ 635,550	$ 577,533	$ 564,772

(a) Includes restatement adjustment of $15,502 to originally reported beginning balance of $503,069.

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
ASSETS		
Utility Plant:		
Electric plant in service	$ 4,263,068	$ 3,459,413
Gas plant in service	721,168	711,823
Common plant in service and plant held for future use	157,064	135,849
	5,141,300	4,307,085
Less accumulated depreciation and amortization	1,639,156	1,518,370
	3,502,144	2,788,715
Construction work in progress	230,871	168,195
Nuclear fuel, net of accumulated amortization of $14,008 and $14,679	28,844	27,182
Net utility plant	3,761,859	2,984,092
Other Property and Investments:		
Investment in lessor notes	257,659	286,678
Other investments	169,720	180,013
Non-utility property, net of accumulated depreciation of $2,812 and $22	7,565	4,214
Total other property and investments	434,944	470,905
Current Assets:		
Cash and cash equivalents	123,419	68,199
Special deposits	5,146	534
Accounts receivable, net of allowance for uncollectible accounts of $6,899 and $3,653	168,126	175,169
Unbilled revenues	116,878	105,438
Other receivables	73,744	64,285
Inventories	63,329	52,037
Regulatory assets	17,507	28,058
Other current assets	122,726	102,577
Total current assets	690,875	596,297
Deferred Charges:		
Regulatory assets	553,564	347,279
Prepaid pension cost	8,853	91,444
Goodwill	495,738	499,155
Other intangible assets, net of accumulated amortization of $2,052 and $742	102,202	78,512
Other deferred charges	117,589	57,025

Total deferred charges	1,277,946	1,073,415
	$ 6,165,624	$ 5,124,709

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common Stockholders' equity:		
Common stock outstanding (no par value, 120,000,000 shares authorized: issued 76,648,472 and 68,786,286 at December 31, 2006 and 2005, respectively)	$ 1,040,451	$ 813,425
Accumulated other comprehensive income (loss), net of tax	28,909	(91,589)
Retained earnings	635,550	577,533
Total common stockholders' equity	1,704,910	1,299,369
Cumulative preferred stock of subsidiary without mandatory redemption ($100 stated value, 10,000,000 shares authorized: issued 115,293 at December 31, 2006 and 2005 respectively)	11,529	11,529
Long-term debt	1,765,907	1,746,395
Total capitalization	3,482,346	3,057,293
Current Liabilities:		
Short-term debt	764,345	332,200
Accounts payable	214,229	206,648
Accrued interest and taxes	33,579	27,815
Regulatory liabilities	1,172	7,085
Other current liabilities	297,526	149,748
Total current liabilities	1,310,851	723,496
Long-Term Liabilities:		
Accumulated deferred income taxes	586,283	461,089
Accumulated deferred investment tax credits	30,236	33,806
Regulatory liabilities	389,330	392,427
Asset retirement obligations	61,338	55,646
Accrued pension liability and postretirement benefit cost	134,799	227,202
Other deferred credits	170,441	173,750
Total long-term liabilties	1,372,427	1,343,920
Commitments and Contingencies (see Note 16)		
	$ 6,165,624	$ 5,124,709

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006	**2005**	**2004**
	(As Restated, See Note 23)	(As Restated, See Note 23)	(As Restated, See Note 23)
	(In thousands)		
Cash Flows From Operating Activities:			
Net earnings	$ 120,818	$ 65,931	$ 86,390
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	173,650	162,391	132,454
Allowance for equity funds used during construction	(1,039)	(1,892)	(1,294)
Accumulated deferred income tax (benefit)	46,345	27,332	38,980
Cumulative effect of a change in accounting principle	-	1,518	-
Net unrealized (gains)/losses on energy transactions	1,062	(2,455)	(1,640)
Realized gains on investment securities	(5,871)	(8,562)	(2,584)
Carrying charges on deferred stranded costs	(6,993)	(4,376)	-
Rate case expense deferral	(5,045)	-	-
Interest on retail competition transition obligation	1,658	743	-
Carrying charges on other regulatory assets and liabilities	(3,954)	(3,730)	(2,562)
Equity-linked units charge	-	11,348	-
Turbine impairment	-	14,958	-
Amortization of fair value of acquired Twin Oaks sales contract	(70,851)	-	-
Amortization of emissions allowances	2,589	-	-
Amortization of fair value of acquired First Choice contracts	(2,197)	(4,184)	-
Stock based compensation expense	7,539	-	-
Excess tax benefit from stock-based payment arrangements	(1,072)	-	-
Other, net	(3,975)	1,861	(2,130)
Changes in certain assets and liabilities:			
Customer accounts receivable	25,279	(18,808)	(23,673)
Other accounts receivable	(7,814)	(14,843)	(1,351)
Unbilled revenues	(11,440)	5,464	(18,523)
Regulatory assets	25,136	(29,904)	15,486
Other assets	(6,500)	(28,913)	(5,283)
Accrued postretirement benefit costs	(4,141)	(1,539)	(4,535)
Accounts payable	(18,555)	48,674	29,503
Accrued interest and taxes	10,434	17,945	(10,164)
Deferred credits	(28,467)	(12,253)	(10,020)
Other liabilities	7,828	(16,598)	16,088
Net cash flows provided by operating activities	244,424	210,108	235,142
Cash Flows From Investing Activities:			
Utility plant additions	(309,286)	(211,160)	(135,795)
Nuclear fuel additions	(11,832)	(10,654)	(9,915)
Proceeds from sales of securities	96,624	104,623	81,218
Purchases of securities	(102,265)	(109,795)	(87,823)

Return of principal PVNGS lessor notes	23,279	21,432	20,292
Cash acquired from purchase of TNP, net of cash paid	-	45,965	-
Twin Oaks business acquisition	(481,058)	-	-
Luna investment	-	-	(13,379)
Other, net	(15,037)	5,289	1,564
Net cash flows used for investing activities	(799,575)	(154,300)	(143,838)

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006 (As Restated, See Note 23)	**2005** (As Restated, See Note 23)	**2004** (As Restated, See Note 23)
		(In thousands)	
Cash Flows From Financing Activities:			
Short-term borrowings (repayments), net	182,650	237,500	(31,218)
Short-term interim financing for Twin Oaks acquisition	480,000	-	-
Repayments of interim financing for Twin Oaks acquisition	(230,505)	-	-
Long-term debt borrowings	15,000	339,832	-
Long-term debt repayments	-	(399,626)	-
Issuance of common stock	226,098	101,231	-
Redemption of TNP preferred stock	-	(224,564)	-
Retirement of PNM preferred stock	-	-	(1,118)
Proceeds from stock option exercise	14,072	-	-
Cash expenditures from stock option exercises	(20,243)	(9,735)	(16,430)
Excess tax benefit from stock-based payment arrangements	1,072	-	-
Dividends paid	(59,708)	(51,128)	(38,848)
Other, net	1,935	1,686	811
Net cash flows provided by (used for) financing activities	610,371	(4,804)	(86,803)
Increase in Cash and Cash Equivalents	55,220	51,004	4,501
Beginning of Period	68,199	17,195	12,694
End of Period	$ 123,419	$ 68,199	$ 17,195
Supplemental Cash Flow Disclosures:			
Interest paid, net of capitalized interest	$ 140,459	$ 77,066	$ 46,469
Income taxes paid (refunded), net	$ 16,158	$ (4,174)	$ 14,459

Supplemental schedule of noncash investing and financing activities:

During 2005, PNMR purchased all of the outstanding common shares of TNP for $74.6 million in cash and $87.4 million in PNMR common stock. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired	$ 1,501,114
Cash paid for transaction costs	(21,520)
Cash paid for TNP common shares	(74,648)
PNMR common stock exchanged for TNP common stock	(87,392)
Liabilities assumed	$ 1,317,554

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
Common Stockholders' Equity:		
Common Stock, no par value	$ 1,040,451	$ 813,425
Accumulated other comprehensive income, net of tax	28,909	(91,589)
Retained earnings	635,550	577,533
Total common stockholders' equity	1,704,910	1,299,369
Cumulative Preferred Stock of Subsidiary:		
Without mandatory redemption requirements:		
1965 Series, 4.58% with a stated value of $100.00 and a current redemption price of $102.00; 115,293 outstanding shares at December 31, 2006 and 2005	11,529	11,529
Long-Term Debt:		
Issue and Final Maturity		
First Mortgage Bonds, Pollution Control Revenue Bonds:		
5.7% due 2016	65,000	65,000
Senior Unsecured Notes, Pollution Control Revenue Bonds:		
6.30% due 2016	77,045	77,045
5.75% due 2022	37,300	37,300
5.80% due 2022	100,000	100,000
6.375% due 2022	90,000	90,000
6.30% due 2026	23,000	23,000
6.60% due 2029	11,500	11,500
2.10% due 2033	-	46,000
2.10% due 2033	-	100,000
4.875% due 2033	46,000	-
4.875% due 2033	100,000	-
4.00% due 2038	36,000	36,000
Total Senior Unsecured Notes, Pollution Control Revenue Bonds	520,845	520,845
Senior Unsecured Notes:		
4.40% due 2008	300,000	300,000
7.50% due 2018	100,025	100,025
6.125% due 2008	248,935	248,935
6.25% due 2009	167,690	167,690
Other, including unamortized discounts	16,162	(3,350)
Total Senior Unsecured Notes	832,812	813,300
Equity-Linked Units:		
6.75% due 2010	247,250	247,250

6.625% due 2010	100,000	100,000
Total Equity-Linked Units	347,250	347,250
Total long-term debt	1,765,907	1,746,395
Total Capitalization	$ 3,482,346	$ 3,057,293

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2006 (As Restated, See Note 23)	**2005** (As Restated, See Note 23)	**2004** (As Restated, See Note 23)
		(In thousands)	
Net Earnings	$ 120,818	$ 65,931	$ 86,390
Other Comprehensive Income:			
Unrealized gain (loss) on securities:			
Unrealized holding gains (losses) arising during the period, net of tax (expense) benefit of $(8,403), $(2,948), and $(1,212)	12,823	4,498	1,849
Reclassification adjustment for (gains) included in net income, net of tax expense of $261, $2,925, and $745	(398)	(4,464)	(1,137)
Additional minimum pension liability adjustment, net of tax (expense) benefit of $14,135, $8,322, and $14,415	21,569	(12,701)	(21,996)
Fair value adjustment for certain derivative transactions:			
Change in fair market value of designated cash flow hedges, net of tax (expense) benefit of $(7,217), $(7,913), and $(3,567)	10,873	11,844	5,443
Reclassification adjustment for (gains) losses included in net income, net of tax expense (benefit) of $4,848, $624, and $318	(7,132)	(953)	(485)
Total Other Comprehensive Income (Loss)	37,735	(1,776)	(16,326)
Total Comprehensive Income	$ 158,553	$ 64,155	$ 70,064

The accompanying notes, as they relate to PNMR, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

	Year Ended December 31,		
	2006	**2005**	**2004**
	(As Restated, See Note 23)	(As Restated, See Note 23)	(As Restated, See Note 23)
		(In thousands)	
Operating Revenues:			
Electric	$ 1,115,362	$ 1,164,656	$ 1,113,046
Gas	508,410	510,801	490,921
Total operating revenues	1,623,772	1,675,457	1,603,967
Operating Expenses:			
Cost of energy sold	968,570	1,043,490	945,186
Administrative and general	173,328	176,641	165,942
Energy production costs	158,486	166,876	147,449
Depreciation and amortization	99,617	115,791	99,633
Transmission and distribution costs	60,906	58,231	59,447
Taxes, other than income taxes	34,992	31,175	31,270
Income taxes	24,372	8,217	37,964
Total operating expenses	1,520,271	1,600,421	1,486,891
Operating income	103,501	75,036	117,076
Other Income and Deductions:			
Interest income	35,760	37,919	37,721
Investment income	5,957	8,533	2,969
Other income	3,571	8,698	7,037
Other deductions	(3,737)	(7,161)	(5,497)
Other income taxes	(15,632)	(17,077)	(14,733)
Net other income and deductions	25,919	30,912	27,497
Earnings before interest charges	129,420	105,948	144,573
Interest Charges :			
Interest on long-term debt, net	51,069	49,102	49,015
Other interest charges	7,400	5,022	4,416
Net interest charges	58,469	54,124	53,431
Net Earnings Before Cumulative Effect of Changes in Accounting Principle	70,951	51,824	91,142
Cumulative Effect of Changes in Accounting Principle, Net of Tax (Expense) Benefit of $0, $331 and $0	-	(506)	-
Net Earnings	70,951	51,318	91,142
Preferred Stock Dividend Requirements	528	528	572

Net Earnings Available for Common Stock	$ 70,423	$ 50,790	$ 90,570

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31,		
	2006 (As Restated, See Note 23)	**2005** (As Restated, See Note 23)	**2004** (As Restated, See Note 23)
		(In thousands)	
Balance at Beginning of Year as Restated	$ 345,452	$ 385,661	$ 318,091 (a)
Net earnings	70,951	51,318	91,142
Dividends:			
Cumulative preferred stock	(528)	(528)	(572)
Common Stock dividends paid to parent company	-	(90,999)	(23,000)
Balance at End of Year	$ 415,875	$ 345,452	$ 385,661

(a) Includes restatement adjustment of $15,502 to originally reported beginning balance of $302,589.

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
ASSETS		
Utility Plant:		
Electric plant in service	$ 2,742,795	$ 2,576,182
Gas plant in service	721,168	711,823
Common plant in service and plant held for future use	72,806	74,857
	3,536,769	3,362,862
Less accumulated depreciation and amortization	1,279,349	1,205,386
	2,257,420	2,157,476
Construction work in progress	191,403	137,663
Nuclear fuel, net of accumulated amortization of $14,008 and $14,679	28,844	27,182
Net utility plant	2,477,667	2,322,321
Other Property and Investments:		
Investment in PVNGS lessor notes	257,659	286,678
Other investments	138,777	170,422
Non-utility property	966	966
Total other property and investments	397,402	458,066
Current Assets:		
Cash and cash equivalents	11,886	12,690
Special deposits	376	263
Accounts receivable, net of allowance for uncollectible accounts of $1,788 and $1,435	122,648	154,904
Unbilled revenues	81,166	75,118
Other receivables	62,040	53,546
Affiliate accounts receivable	7,879	-
Inventories	51,801	50,411
Regulatory assets	17,507	28,058
Other current assets	78,981	75,885
Total current assets	434,284	450,875
Deferred Charges:		
Regulatory assets	410,979	223,325
Prepaid pension cost	-	91,444
Other deferred charges	78,969	41,720

Total deferred charges	489,948	356,489
	$ 3,799,301	$ 3,587,751

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common Stockholder's equity:		
Common stock outstanding (no par value, 40,000,000 shares authorized: issued 39,117,799 at December 31, 2006 and 2005 respectively)	$ 765,500	$ 765,500
Accumulated other comprehensive income (loss), net of tax	8,761	(90,515)
Retained earnings	415,875	345,452
Total common stockholder's equity	1,190,136	1,020,437
Cumulative preferred stock without mandatory redemption ($100 stated value, 10,000,000 shares authorized: issued 115,293 at December 31, 2006 and 2005 respectively)	11,529	11,529
Long-term debt	987,205	987,068
Total capitalization	2,188,870	2,019,034
Current Liabilities:		
Short-term debt	250,274	128,200
Accounts payable	138,577	170,517
Affiliate accounts payable	16,898	50,070
Accrued interest and taxes	28,118	15,951
Regulatory liabilities	1,172	7,085
Other current liabilities	125,358	91,668
Total current liabilities	560,397	463,491
Long-Term Liabilities:		
Accumulated deferred income taxes	368,256	310,578
Accumulated deferred investment tax credits	29,404	32,266
Regulatory liabilities	335,196	336,181
Asset retirement obligations	60,493	54,940
Accrued pension liability and postretirement benefit cost	129,595	217,092
Other deferred credits	127,090	154,169
Total long-term liabilities	1,050,034	1,105,226
Commitments and Contingencies (see Note 16)		

	$ 3,799,301	$ 3,587,751

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2006 (As Restated, See Note 23)	2005 (As Restated, See Note 23) (In thousands)	2004 (As Restated, See Note 23)
Cash Flows From Operating Activities:			
Net earnings	$ 70,951	$ 51,318	$ 91,142
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	119,086	137,673	129,847
Allowance for equity funds used during construction	(769)	(1,757)	(1,228)
Accumulated deferred income tax	(6,448)	19,053	37,176
Cumulative effect of changes in accounting principle	-	837	-
Net unrealized (gains)/losses on energy transactions	(327)	(185)	(1,640)
Realized gains on investment securities	(5,856)	(8,562)	(2,584)
Carrying charges on other regulatory assets and liabilities	(3,954)	(3,730)	(2,562)
Turbine impairment	-	14,958	-
Other, Net	(5,948)	(7,651)	3,964
Changes in certain assets and liabilities			
Customer accounts receivable	31,903	(30,830)	(33,198)
Unbilled revenues	(6,048)	2,010	(18,523)
Regulatory assets	27,439	(26,783)	15,486
Accrued postretirement benefit costs	(3,491)	(3,052)	(6,373)
Other assets	(51,791)	(22,112)	2,554
Accounts payable	(30,440)	53,986	36,462
Accrued interest and taxes	11,726	(8,564)	20,405
Deferred credits	(7,498)	(14,014)	(7,657)
Other liabilities	(41,007)	18,665	(2,258)
Net cash flows from operating activities	97,528	171,260	261,013
Cash Flows From Investing Activities:			
Utility plant additions	(234,327)	(157,092)	(128,236)
Nuclear fuel additions	(11,832)	(10,654)	(9,915)
Proceeds from sales of securities	96,624	104,623	81,218
Purchases of securities	(102,265)	(109,795)	(87,823)
Return of principal PVNGS lessor notes	23,279	21,432	20,292
Purchase of EIP Investment	-	-	(12,247)
Other, net	9,354	555	4,942
Net cash flows used for investing activities	(219,167)	(150,931)	(131,769)

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2006 (As Restated, See Note 23)	**2005** (As Restated, See Note 23)	**2004** (As Restated, See Note 23)
		(In thousands)	
Cash Flows From Financing Activities:			
Short-term borrowings (repayments), net	122,074	67,800	(64,500)
Long-term debt repayments	(1,133)	(611)	-
Retirement of preferred stock	-	-	(1,118)
Dividends paid	(528)	(91,527)	(23,586)
Change in intercompany borrowings	-	255	(34,871)
Other, net	422	(4)	(328)
Net cash flows provided by (used for) financing activities	120,835	(24,087)	(124,403)
Increase (Decrease) in Cash and Cash Equivalents	(804)	(3,758)	4,841
Beginning of Period	12,690	16,448	11,607
End of Period	$ 11,886	$ 12,690	$ 16,448
Supplemental Cash Flow Disclosures:			
Interest paid, net of capitalized interest	$ 55,385	$ 51,593	$ 49,937
Income taxes paid, net	$ 503	$ 5	$ 18,002

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 2006 (As Restated, See Note 23)	December 31, 2005 (As Restated, See Note 23)
	(In thousands)	
Common Stockholder's Equity:		
Common Stock, no par value	$ 765,500	$ 765,500
Accumulated other comprehensive income, net of tax	8,761	(90,515)
Retained earnings	415,875	345,452
Total common stockholders' equity	1,190,136	1,020,437
Cumulative Preferred Stock:		
Without mandatory redemption requirements:		
1965 Series, 4.58% with a stated value of $100.00 and a current redemption price of $102.00; 115,293 outstanding shares at December 31, 2006 and 2005	11,529	11,529
Long-Term Debt:		
Issue and Final Maturity		
First Mortgage Bonds, Pollution Control Revenue Bonds:		
5.7% due 2016	65,000	65,000
Senior Unsecured Notes, Pollution Control Revenue Bonds:		
6.30% due 2016	77,045	77,045
5.75% due 2022	37,300	37,300
5.80% due 2022	100,000	100,000
6.375% due 2022	90,000	90,000
6.30% due 2026	23,000	23,000
6.60% due 2029	11,500	11,500
2.10% due 2033	-	46,000
2.10% due 2033	-	100,000
4.875% due 2033	46,000	-
4.875% due 2033	100,000	-
4.00% due 2038	36,000	36,000
Total Senior Unsecured Notes, Pollution Control Revenue Bonds	520,845	520,845
Senior Unsecured Notes:		
4.40% due 2008	300,000	300,000
7.50% due 2018	100,025	100,025
Other, including unamortized discounts	1,335	1,198
Total Senior Unsecured Notes	401,360	401,223
Total long-term debt	987,205	987,068
Total Capitalization	$ 2,188,870	$ 2,019,034

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARY
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2006 (As Restated, See Note 23)	**2005** (As Restated, See Note 23) (In thousands)	**2004** (As Restated, See Note 23)
Net Earnings Available for Common Stock	$ 70,423	$ 50,790	$ 90,570
Other Comprehensive Income (Loss):			
Unrealized gain (loss) on securities:			
Unrealized holding gains (losses) arising during the period, net of tax (expense) benefit of $(8,403), $(2,948), and $(1,212)	12,823	4,498	1,849
Reclassification adjustment for (gains) included in net income, net of tax expense of $261, $2,925, and $745	(398)	(4,464)	(1,137)
Additional minimum pension liability adjustment, net of tax (expense) benefit of $(14,144), $8,304 and $14,415	21,582	(12,672)	(21,996)
Fair value adjustment for certain derivative transactions:			
Change in fair market value of designated cash flow hedges, net of tax (expense) benefit of $5,547, $(8,447) and $(3,567)	(8,464)	12,889	5,443
Reclassification adjustment for (gains) included in net income, net of tax expense (benefits) of $5,523, $624 and $318	(8,427)	(953)	(485)
Total Other Comprehensive Income (Loss)	17,116	(702)	(16,326)
Total Comprehensive Income	$ 87,539	$ 50,088	$ 74,244

The accompanying notes, as they relate to PNM, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF EARNINGS

	Post-Acquisition Year Ended December 31, 2006	Post-Acquisition For the Period June 6- December 31, 2005	Pre-Acquisition For the Period January 1 - June 6, 2005	Pre-Acquisition Year Ended December 31, 2004
	(In thousands)			
Operating Revenues:				
Electric	$ 256,990	$ 154,350	$ 112,820	$ 269,665
Total operating revenues	256,990	154,350	112,820	269,665
Operating Expenses:				
Cost of energy sold	103,021	58,014	43,885	101,361
Administrative and general	34,035	14,165	11,048	27,963
Depreciation and amortization	31,576	17,596	12,954	29,691
Transmission and distribution costs	20,870	12,403	9,111	19,314
Taxes, other than income taxes	24,351	14,261	9,228	22,884
Income taxes	4,250	7,965	5,055	13,680
Total operating expenses	218,103	124,404	91,281	214,893
Operating income	38,887	29,946	21,539	54,772
Other Income and Deductions:				
Interest income	922	1,001	650	677
Other income	1,108	528	523	844
Carrying charges on regulatory assets	6,993	4,376	(1,407)	32,006
Other deductions	(200)	(74)	(79)	(254)
Other income taxes	(3,085)	(2,071)	154	(12,711)
Net other income and deductions	5,738	3,760	(159)	20,562
Earnings before interest charges	44,625	33,706	21,380	75,334
Interest Charges :				
Interest on long-term debt, net	25,728	14,650	11,077	25,855
Other interest charges	3,198	1,225	1,043	2,836
Net interest charges	28,926	15,875	12,120	28,691
Net Earnings Before Extraordinary Item and Cumulative Effect of Change in Accounting Principle	15,699	17,831	9,260	46,643
Extraordinary Item - Disallowance of Stranded costs, Net of Tax Benefit of $57,317	-	-	-	(97,836)

Cumulative Effect of Change in Accounting				
Principle, Net of Tax Benefit of $234	-	(381)	-	-
Net Earnings (Loss)	$ 15,699	$ 17,450	$ 9,260	$ (51,193)

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

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TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Year Ended December 31, 2006	Post-Acquisition For the Period June 6 - December 31, 2005	Pre-Acquisition For the Period January 1- June 6, 2005	Pre-Acquisition Year Ended December 31, 2004
		(In thousands)		
Balance at Beginning of Year	$ 5,450	$ -	$ (6,795)	$ 50,398
Net earnings	15,699	17,450	9,260	(51,193)
Dividends:				
Common Stock dividends paid to parent company	-	(12,000)	-	(6,000)
Balance at End of Year	$ 21,149	$ 5,450	$ 2,465	$ (6,795)

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
	(In thousands)	
ASSETS		
Utility Plant:		
Electric plant in service	$ 925,538	$ 877,893
Construction work in progress	13,799	7,138
Common plant in service and plant held for future use	589	589
	939,926	885,620
Less accumulated depreciation and amortization	326,404	296,611
Net utility plant	613,522	589,009
Other Property and Investments:		
Other investments	511	548
Non-utility property, net of accumulated depreciation of $3 and $3	2,120	2,120
Total other property and investments	2,631	2,668
Current Assets:		
Cash and cash equivalents	2,542	16,228
Accounts receivable, net of allowance for uncollectible accounts of $31 and $100	10,317	13,191
Federal income tax refund	36,392	36,392
Unbilled revenues	6,000	6,679
Other receivables	1,515	6,087
Inventories	1,509	1,478
Other current assets	944	1,211
Total current assets	59,219	81,266
Deferred Charges:		
Stranded costs	89,949	87,316
Carrying charges on stranded costs	41,584	33,918
Other regulatory assets	11,052	2,720
Goodwill	363,764	367,245
Prepaid pension cost	8,853	-
Other deferred charges	9,205	4,948
Total deferred charges	524,407	496,147
	$ 1,199,779	$ 1,169,090

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2006	December 31, 2005
	(In thousands)	
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stockholder's equity:		
Common stock outstanding ($10 par value, 12,000,000 shares authorized:		
issued 9,615 at December 31, 2006 and 2005 respectively)	$ 96	$ 96
Paid-in-capital	492,812	494,287
Accumulated other comprehensive income (loss), net of tax	562	(29)
Retained earnings	21,149	5,450
Total common stockholder's equity	514,619	499,804
Long-term debt	420,546	415,864
Total capitalization	935,165	915,668
Current Liabilities:		
Accounts payable	11,332	11,913
Affiliate accounts payable	15,673	-
Accrued interest and taxes	19,029	24,250
Other current liabilities	10,102	8,784
Total current liabilities	56,136	44,947
Long-Term Liabilities:		
Accumulated deferred income taxes	145,641	139,405
Accumulated deferred investment tax credits	832	1,540
Regulatory liabilities	54,134	56,246
Accrued pension liability and postretirement benefit cost	5,203	10,110
Other deferred credits	2,668	1,174
Total long-term liabilities	208,478	208,475
Commitments and Contingencies (see Note 16)		
	$ 1,199,779	$ 1,169,090

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Post-Acquisition Year Ended December 31, 2006	Post-Acquisition For the Period June 6-December 31, 2005	Pre-Acquisition For the Period January 1-June 6, 2005	Pre-Acquisition Year Ended December 31, 2004
	(In thousands)			
Cash Flows From Operating Activities:				
Net earnings (Loss)	$ 15,699	$ 17,450	$ 9,260	$ (51,193)
Adjustments to reconcile net earnings to				
net cash flows from operating activities:				
Depreciation and amortization	33,194	18,619	14,042	32,279
Allowance for equity funds used during construction	(270)	(112)	(60)	(384)
Accumulated deferred income tax	4,055	9,870	(1,267)	43,135
Carrying charges on deferred stranded costs	(6,993)	(4,376)	1,407	(32,006)
Rate case expense deferral	(5,045)	-	-	-
Cumulative effect of change in accounting principle	-	615	-	-
Disallowance of stranded costs, net of tax benefit	-	-	-	97,836
Deferred purchase power and fuel costs	-	-	-	(511)
Interest on retail competition transition obligation	1,658	285	-	-
Other, net	(2,965)	220	787	-
Changes in certain assets and liabilities:				
Accounts receivable	2,943	(510)	149	820
Unbilled revenues	(2,535)	246	(356)	1,225
Accrued postretirement benefit costs	(751)	(1,021)	(412)	-
Other assets	(4,715)	(977)	(193)	-
Accounts payable	4,431	(6,755)	(5,379)	2,347
Accrued interest and taxes	(4,554)	(1,979)	(4,134)	(16,621)
Acquisition related benefit program	-	(2,604)	-	-
Payments for stranded/fuel costs	-	(4,284)	-	-
Receipt/Payments-retail competition transition obligation				
obligation	(18,214)	16,336	-	-
Change in affiliate accounts	17,537	10,846	297	-
Other liabilities	314	(126)	1,339	(9,520)
Net cash flows provided by operating activities	33,789	51,743	15,480	67,407
Cash Flows From Investing Activities:				

Utility plant additions	(47,659)	(27,801)	(17,895)	(42,817)
Other, net	93	3,111	(169)	(356)
Net cash flows used for investing activities	(47,566)	(24,690)	(18,064)	(43,173)

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Post-Acquisition Year Ended December 31, 2006	Post-Acquisition For the Period June 6-December 31, 2005	Pre-Acquisition For the Period January 1-June 6, 2005	Pre-Acquisition Year Ended December 31, 2004
Cash Flow From Financing Activities:				
Long-term debt costs and repayments	-	-	-	(9,382)
Redemption of common stock	-	(62,000)	-	-
Dividends paid	-	(12,000)	-	(6,000)
Other, net	91	-	-	-
Net cash flows provided by (used for) financing activities	91	(74,000)	-	(15,382)
Increase (Decrease) in Cash and Cash Equivalents	(13,686)	(46,947)	(2,584)	8,852
Beginning of Period	16,228	63,175	65,759	56,907
End of Period	$ 2,542	$ 16,228	$ 63,175	$ 65,759
Supplemental Cash Flow Disclosures:				
Interest paid, net of capitalized interest	$ 27,231	$ (609)	$ 12,868	$ 26,145
Income taxes paid, net	$ 2	$ (20,014)	$ 2,456	$ 8,434

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31, 2006	December 31, 2005
	(In thousands)	
Common Stockholder's Equity:		
Common stock outstanding, par value $10 per share	$ 96	$ 96
Paid-in-capital	492,812	494,287
Accumulated other comprehensive income (loss), net of tax	562	(29)
Retained earnings	21,149	5,450
Total common stockholder's equity	514,619	499,804
Long-Term Debt:		
<u>Issue and Final Maturity</u>		
Senior Notes:		
6.125% due 2008	248,935	248,935
6.25% due 2009	167,690	167,690
Total Senior Notes	416,625	416,625
Other, including unamortized discounts	3,921	(761)
Total long-term debt	420,546	415,864
Total Capitalization	$ 935,165	$ 915,668

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Post-Acquisition Year Ended December 31, 2006	Post-Acquisition For the Period June 6 - December 31, 2005	Pre-Acquisition For the Period January 1 - June 6, 2005	Pre-Acquisition Year Ended December 31, 2004
	(In thousands)			
Net Earnings	$ 15,699	$ 17,450	$ 9,260	$ (51,193)
Other Comprehensive Income (Loss):				
Interest rate hedge net of reclassification adjustment, net of tax (expense) benefit of $0, $0, $(1,084) and $(317)	-	-	1,761	516
Additional minimum pension liability adjustment, net of tax (expense) benefit of $8, $18, $0 and $0	(13)	(29)	-	-
Total Other Comprehensive Income (Loss)	(13)	(29)	1,761	516
Total Comprehensive Income (Loss)	$ 15,686	$ 17,421	$ 11,021	$ (50,677)

The accompanying notes, as they relate to TNMP, are an integral part of these financial statements.

PNM RESOURCES, INC. AND SUBSIDIARIES
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December 31, 2006, 2005 and 2004

(1) Summary of the Business and Significant Accounting Policies

Nature of Business

PNMR or the "Company" is an investor-owned holding company of energy and energy-related businesses. The Company's primary subsidiaries are PNM, TNMP, First Choice and Altura. PNM is an integrated public utility with regulated operations primarily engaged in the generation, transmission and distribution of electricity, transmission, distribution and sale of natural gas within New Mexico, and unregulated operations primarily focused on the sale and marketing of electricity in the western United States. PNM began service to TNMP's New Mexico customers effective January 1, 2007. TNMP is a regulated utility operating in Texas and through December 31, 2006 in New Mexico. In Texas, TNMP provides regulated transmission and distribution services. In New Mexico, TNMP provided integrated electric services that included the transmission, distribution, purchase and sale of electricity to its New Mexico customers. First Choice is a competitive retail electric provider operating in Texas. Altura operates the Twin Oaks plant. In addition, PNMR provides energy and technology related services through its wholly owned subsidiary, Avistar. The Company's common stock trades on the New York Stock Exchange under the symbol PNM.

Twin Oaks Acquisition

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased the Twin Oaks business, including the Twin Oaks power plant located in central Texas. The acquisition was accounted for using the purchase method of accounting. Under this method, the purchase price was allocated and fair market value adjustments were made to the assets acquired and the liabilities assumed.

TNP Acquisition

On June 6, 2005, PNMR completed the acquisition of TNP. TNP's principal subsidiaries are TNMP and First Choice.

The acquisition was accounted for using the purchase method of accounting. Under this method, the purchase price was allocated and fair market value adjustments were made to the assets acquired and the liabilities assumed. The excess of the purchase price over net assets acquired was allocated to goodwill. Other intangible assets were also recorded. Adjustments to goodwill and intangible assets were recorded in 2005 and 2006 (see *"Goodwill and Intangible Assets"* below in this Note 1 and see also Note 2).

The purchase accounting entries are reflected on PNMR's financial statements as of the purchase date. PNMR "pushed down" the effects of purchase accounting to the financial statements of TNMP and First Choice. Accordingly, TNMP's post-acquisition financial statements reflect a new basis of accounting, and separate financial statements and footnote amounts in tabular format are presented for pre-acquisition and post-acquisition periods, separated by a heavy black line.

Presentation

The Notes to Consolidated Financial Statements include disclosures for PNMR, PNM and TNMP. For discussion purposes, this report will use the term the "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.

Corporate and Other

PNMR Services Company provides corporate services to PNMR and its subsidiaries including Avistar, Altura, First Choice, PNM, TNMP and TNP based on shared services agreements. These services are billed at cost and are allocated to PNMR and its subsidiaries.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Segment Information

Financial information relating to amounts of sales, revenue, net income and total assets of the Company's reportable segments is contained in Note 3 in the Notes to Consolidated Financial Statements.

Accounting for the Effects of Certain Types of Regulation

The Company maintains its accounting records in accordance with the uniform system of accounts prescribed by the FERC and the National Association of Regulatory Utility Commissioners, and adopted by the NMPRC.

The Company's accounting policies conform to the provisions of SFAS No. 71, as amended, *"Accounting for the Effects of Certain Types of Regulation,"* ("SFAS 71"), as applicable. In accordance with SFAS 71, the Company has deferred certain costs and recorded certain liabilities pursuant to the rate actions of the FERC, the NMPRC and the PUCT. These "regulatory assets" and "regulatory liabilities" are enumerated and discussed in Note 4.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and subsidiaries in which it owns a majority voting interest. Corporate administrative and general expenses, which represent costs that are driven primarily by corporate level activities, are allocated to the business segments. Other significant intercompany transactions between PNMR, PNM, TNP and TNMP in 2006 or 2005 include energy purchases and sales, dividends paid on common stock, the redemption of common stock by TNMP from its parent company, TNP, and consolidation of PVNGS capital trust. All significant intercompany transactions and balances (see Note 20) have been eliminated.

Financial Instruments

PNM adopted SFAS No. 150 "*Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*" ("SFAS 150") effective in May 2003. SFAS 150 established standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. Under SFAS 150, issuers are required to classify as liabilities a financial instrument that is within its scope as a liability because that financial instrument embodies an obligation of the issuer. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003.

Financial Statement Preparation

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual recorded amounts could differ from those estimated.

Cash and Cash Equivalents

Investments in highly liquid investments with original maturities of three months or less at the date of purchase are considered cash equivalents.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006, 2005 and 2004

Utility Plant

Utility plant is stated at cost, which includes capitalized payroll-related costs such as taxes, pension and other fringe benefits, administrative costs and allowance for funds used during construction as deemed appropriate.

It is Company policy to charge repairs and minor replacements of property to maintenance expense and to charge major replacements to utility plant as incurred. Gains or losses resulting from retirements or other dispositions of regulated property in the normal course of business are credited or charged to the accumulated provision for depreciation.

Allowance For Funds Used During Construction

As provided by the FERC uniform systems of accounts, allowance for funds used during construction is charged to utility plant. This allowance is a non-cash item designed to enable a utility to capitalize financing costs during periods of construction of property subject to rate regulation. It represents the cost of borrowed funds (allowance for borrowed funds used during construction) and a return on other funds (allowance for equity funds used during construction).

In 2006, 2005, and 2004, PNM recorded $4.1 million, $4.2 million, and $2.9 million, respectively, of allowance for funds used during construction on certain projects. In 2006, 2005 and 2004, TNMP recorded $0.5 million, $0.4 million, and $0.8 million, respectively, of allowance for funds used during construction.

Capitalized Interest

In accordance with SFAS No. 34, *"Capitalization of Interest Costs"* ("SFAS 34"), PNMR capitalizes interest on its construction projects not included in rate base. Interest was capitalized at the overall weighted average borrowing rate of 5.9%, 5.6%, and 5.2% for 2006, 2005, and 2004, respectively. PNMR's capitalized interest was $3.0 million, $1.4 million, and $1.0 million in 2006, 2005, and 2004, respectively.

Carrying Charges on Stranded Costs

TNMP's estimate of allowable carrying charges on stranded costs that it may recover from its transmission and distribution customers is based on a United States Supreme Court ruling, and the PUCT's application of that ruling. As of December 31, 2006, the accrual for carrying costs was $41.6 million net of one month's amortization.

Inventories

Inventory consists principally of materials and supplies, natural gas held in storage for eventual resale, and coal held for use in electric generation.

Generally, materials and supplies include the costs of transmission, distribution and generating plant materials. Materials and supplies are charged to inventory when purchased and are expensed or capitalized as appropriate when issued. Materials and supplies are valued using an average costing method. Obsolete materials and supplies are immediately expensed when identified.

Gas in underground storage is valued using a weighted average inventory method. Withdrawals are charged to sales service customers through the PGAC.

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Coal is valued using a rolling weighted average costing method that is updated based on the current period cost per ton. Periodic aerial surveys are performed on the coal piles and any material adjustments would be recorded as identified.

Inventories consisted of the following at December 31:

	PNMR		PNM		TNMP	
	2006	2005	2006	2005	2006	2005
			(In thousands)			
Coal	$ 12,642	$ 11,410	$ 11,777	$ 11,410	$ -	$ -
Gas in underground storage	9,824	12,487	9,823	12,487	-	-
Materials and supplies	40,863	28,140	30,201	26,514	1,509	1,478
	$ 63,329	$ 52,037	$ 51,801	$ 50,411	$ 1,509	$ 1,478

Investments

In 1985 and 1986, PNM entered into operating leases for interests in certain PVNGS generation facilities (see Note 7). The remaining lessor notes that were issued by the owners of the assets subject to these leases are now held by the PVNGS Capital Trust, which is consolidated by PNM. The leases continue in existence and are classified as operating leases. PNM understands that the PVNGS Capital Trust intends to hold the lessor notes until such notes mature. The notes are classified as held-to-maturity debt securities and are carried at amortized cost.

The Company's other investments are comprised of United States, state, and municipal government obligations and corporate securities. All investments are held in the Company's name and are in the custody of major financial institutions. The specific identification method is used to determine the cost of securities disposed of, with realized gains and losses reflected in other income and deductions. At December 31, 2006 and 2005, substantially all of the Company's investments were classified as available for sale. Unrealized gains and losses on these investments are included in other comprehensive income, net of any related tax effect.

The Company holds investment securities in a nuclear decommissioning trust. In accordance with SFAS No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"* ("SFAS 115"), the Company evaluates these investment securities for impairment on an on-going basis. Since third party investment managers have sole discretion over the purchase and sales of the nuclear decommissioning trust securities, the Company records impairment losses for any securities that have a market value that is less than cost at the end of each quarter. For the year ended December 31, 2006, the Company recorded impairment losses on securities held in the nuclear decommissioning trust of $0.6 million.

Goodwill and Other Intangible Assets

The excess purchase price over the fair value of the assets acquired and the liabilities assumed by PNMR for its June 6, 2005 acquisition of TNP was recorded as goodwill. Under the provisions of SFAS No. 142, "*Goodwill and Other*

Intangible Assets" ("SFAS 142"), the Company does not amortize goodwill. Certain intangible assets are amortized over their estimated useful lives. Goodwill and unamortized intangible assets are evaluated for impairment at least annually, or more frequently if events and circumstances indicate that the goodwill and intangible assets might be impaired. Amortized other intangible assets are evaluated for impairment in accordance with SFAS No. 144 "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS 144") when events and circumstances indicate that the assets might be impaired. In 2006, the Company completed its purchase accounting for the TNP acquisition.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006, 2005 and 2004

The changes in the carrying amount of goodwill by reportable segment (see Note 3) for the year ended December 31, 2006 and 2005 were as follows:

	TNMP Electric	First Choice (In thousands)	Total PNMR
Balance as of January 1, 2005	$ -	$ -	$ -
Purchase of TNP during 2005	367,245	131,910	499,155
Balance as of December 31, 2005	367,245	131,910	499,155
Tax adjustments during 2006	(3,481)	64	(3,417)
Balance as of December 31, 2006	$ 363,764	$ 131,974	$ 495,738

Of the $79.3 million of acquired intangible assets from the TNP acquisition, $68.8 million relates to the trade name "First Choice." The trade name has an indefinite useful life; therefore, no amortization is recognized, but the asset is evaluated for impairment each reporting period. The other $10.5 million intangible asset relates to the First Choice customer list. The useful life of the customer list is estimated to be approximately eight years; and is being amortized on a straight-line basis over this period. The purchase in 2006 of the Twin Oaks plant included the development rights for a possible 600-megawatt expansion of the plant valued at $25 million, which PNMR has classified as an intangible asset. The rights have an indefinite life; therefore no amortization is recognized, but the asset is being evaluated for impairment each reporting period.

The components of PNMR's identifiable intangible assets at December 31, 2006 are as follows:

	Gross Carrying Amount	Accumulated Amortization
	(In thousands)	
Amortized intangible asset:		
First Choice customer list	$ 10,480	$ 2,052
Unamortized intangible assets:		
First Choice trade name	68,774	-
Twin Oaks expansion rights	$ 25,000	$ -

Expected future amortization expense for the First Choice customer list is $1.3 million annually through 2010.

Asset Impairment

Tangible long-lived assets are evaluated in relation to the future undiscounted cash flows to assess recoverability in accordance with SFAS 144 when events and circumstances indicate that the assets might be impaired. Impairment testing of power generation assets excluded from jurisdictional rates is performed periodically in response to changes in market conditions.

PNM had planned to convert its Afton plant from a combustion turbine to a combined-cycle unit using a turbine in storage. As part of a stipulation that will allow PNM to convert Afton to a combined cycle plant and include it as a jurisdictional resource, with 50% of Afton's capacity designated to serve PNM's customers and 50% designated to serve TNMP's New Mexico customers, an alternative equipment configuration will be used for Afton instead of the turbine in storage. In the fourth quarter of 2005, PNM management determined that it would make the turbine available for sale. Based on its market survey, PNM recorded an impairment charge of approximately $15.0 million, included in energy production costs on the Consolidated Statement of Earnings for the year ended December 31, 2005. The impairment charge is recorded in the Corporate and Other segment (see Note 3).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006, 2005 and 2004

Revenue Recognition

First Choice, PNM and TNMP record electric and gas operating revenues, as applicable, in the period of delivery, which includes estimated amounts for service rendered but unbilled at the end of each accounting period.

The determination of the energy sales by PNM, TNMP and First Choice to individual customers is based on the reading of their meters, which occurs on a systematic basis throughout the month. At the end of each month, amounts of energy delivered to customers since the date of the last meter reading are estimated and the corresponding unbilled revenue is estimated. Unbilled electric revenue is estimated based on the daily generation volumes, estimated customer usage by class, weather factors, line losses and applicable customer rates based on regression analyses reflecting historical trends and experience.

PNM purchases gas on behalf of sales-service customers while other marketers or producers purchase gas on behalf of transportation-service customers. PNM collects a cost of service revenue for the transportation, delivery, and customer service provided to these customers. Sales-service tariffs are subject to the terms of the PGAC and billed under a cycle-bill basis. Transportation service customers are metered and billed on the last day of the month. Therefore, PNM estimates unbilled decatherms and records cost of service and PGAC revenues for sales-service customers only.

PNM’s wholesale electricity sales are recorded as operating revenues and the wholesale electricity purchases are recorded as costs of energy sold. In accordance with EITF Issue 03-11, “*Reporting Gains and Losses on Derivative Instruments That Are Subject to FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and Not Held for Trading Purposes*” (“EITF 03-11”), non-normal derivative contracts that are net settled or “booked-out” are recorded net in earnings. A book-out is the planned or unplanned netting of off-setting purchase and sale transactions. A book-out is a transmission mechanism to reduce congestion on the transmission system or administrative burden (see further discussion below in “Financial Instruments” in this Note 1). For accounting purposes, a book-out, as referred to above, is the recording of net revenues upon the settlement of a non-normal derivative contract.

PNM enters into merchant energy contracts to take advantage of market opportunities associated with the purchase and sale of electricity. Unrealized gains and losses resulting from the impact of price movements on PNM’s derivative energy contracts that are not designated normal purchases and sales or hedges are recognized as adjustments to operating revenues or costs of energy sold. The market prices used to value these transactions reflect Company management’s best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the commitments.

Depreciation and Amortization

PNM’s provision for depreciation and amortization of utility plant is made based upon rates approved by the NMPRC. PNM’s average rates used are as follows:

	2006	2005	2004
Electric plant	2.43%	3.10%	3.07%

Gas plant	2.86%	2.93%	2.87%
Common plant	7.55%	8.65%	8.08%

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December 31, 2006, 2005 and 2004

TNMP's provision for depreciation and amortization of utility plant is made based upon rates approved by the PUCT and, through December 31, 2006, by the NMPRC. TNMP's electric and common plant assets rates are both regulated rates and are depreciated on a straight-line basis. TNMP's average rates used are as follows:

	2006	2005	2004
Electric plant and common plant	3.53%	3.34%	3.62%

The provision for depreciation of certain equipment is charged to depreciation expense and allocated to construction projects based on the use of the equipment. Depreciation of non-utility property is computed based on the straight-line method. Amortization of nuclear fuel for PNM is computed based on the units of production method.

Due to the Company's growth strategy in unregulated electricity generation and the purchase of Twin Oaks during 2006, the Company has an increasing amount of unregulated depreciable property. Other than nuclear fuel, which is depreciated based on units of production, depreciation of non-utility property, including property associated with the Twin Oaks purchase, is computed using the straight-line method over the following estimated useful lives:

Structures and improvements	8 to 35 years
Office and plant equipment	8 to 35 years
Office furniture and fixtures	8 to 15 years
Transportation equipment/trailers	12 to 17 years
Computer and communications equipment	3 to 15 years

Amortization of Debt Acquisition Costs

Discount, premium and expense related to the issuance of long-term debt are amortized over the lives of the respective issues. In connection with the early retirement of long-term debt, such amounts associated with resources subject to NMPRC regulation are amortized over the lives of the respective issues. Amounts associated with PNM's firm-requirements wholesale customers and its resources excluded from NMPRC retail rates are recognized immediately as expense or income as they are incurred.

Financial Instruments

The Company follows the provisions set forth under SFAS No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("SFAS 133"), as amended. SFAS 133 establishes accounting and reporting standards requiring derivative instruments to be recorded in the balance sheet as either an asset or liability measured at their fair value. SFAS 133 also requires that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting or normal purchase and sale criteria are met. Special accounting for qualifying hedges allows derivative gains and losses to offset related results on the hedged item in the statement of earnings, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS 133 provides that the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedging instrument be reported as a component of other comprehensive income and be reclassified into earnings in the period during which the hedged forecasted transaction affects earnings. The results of hedge ineffectiveness and the change in fair value of a derivative that an entity has chosen to exclude from hedge effectiveness are required to be presented in current earnings.

Under SFAS No. 149, "*Amendment of Statement 133 on Derivative Instruments and Hedging Activities*" ("SFAS 149"), the Company treats all forward electric purchases and sales contracts subject to unplanned netting or book-out by the transmission provider as derivative instruments subject to mark-to-market accounting, unless the contract qualifies for the normal exception by meeting the definition in SFAS 149 of a capacity contract. Under this definition, the contract cannot permit net settlement, the seller must have the resources to serve the contract and the buyer must be a load serving entity.

In addition, the Company follows the provisions of EITF 02-3, "*Issues Related to Accounting for Contracts Involved in Energy Trading and Risk Management Activities.*" Under EITF 02-3 all energy contracts held for trading purposes are presented on a net margin basis in the statement of earnings. Energy contracts that do not meet the definition of a derivative under SFAS 133 are recognized in current earnings and are not marked to market.

EITF 03-11 was effective for PNM on October 1, 2003. EITF 03-11 gives guidance on whether realized gains and losses on derivative contracts not held for trading purposes should be reported on a net or gross basis and concludes such classification is a matter of judgment that depends on the relevant facts and circumstances. PNM nets all realized gains and losses on non-normal derivative transactions that do not physically deliver and that are offset by similar transactions during settlement. For the years ended December 31, 2006, 2005, and 2004, wholesale purchases of $48.5 million, $30.9 million, and $33.6 million, respectively, were netted with electric revenues in the Consolidated Statements of Earnings (see Note 3).

Decommissioning Costs

Accounting for decommissioning costs for nuclear and fossil-fuel generation involves significant estimates related to costs to be incurred many years in the future after plant closure. Changes in these estimates could significantly impact PNMR's and PNM's financial position, results of operations and cash flows. PNM owns and leases nuclear and fossil-fuel facilities that are within and outside of its retail service areas. In accordance with SFAS No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS 143"), PNM is only required to recognize and measure decommissioning liabilities for tangible long-lived assets for which a legal obligation exists (see Note 15). Adoption of the statement changed the method of accounting for both nuclear generation decommissioning and fossil-fuel generation decommissioning. Nuclear decommissioning costs and related accruals are based on site-specific estimates of the costs for removing all radioactive and other structures at the site. PNM's accruals for Units 1, 2 and 3 have been made based on such estimates, the guidelines of the NRC and the probability of a license extension (see Note 15). PVNGS Unit 3 is excluded from PNM's retail rates while PVNGS Units 1 and 2 are included. PNM collects a provision for ultimate decommissioning of PVNGS Units 1 and 2 in its rates and recognizes a corresponding expense and liability for these amounts. PNM believes that it will continue to be able to collect in rates for its legal asset retirement obligations for nuclear generation activities included in the ratemaking process.

Pension and Other Postretirement Benefits

See Note 12 for a comprehensive discussion of pension and postretirement benefits expense, including a discussion of the actuarial assumptions.

Stock-Based Compensation

See Note 13 for a comprehensive discussion of stock-based compensation expense.

Income Taxes

Income taxes are accounted for in accordance with the provisions of SFAS No. 109, "*Accounting for Income Taxes*" ("SFAS 109"), which uses the asset and liability method for accounting for income taxes. Under SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying value of existing assets and liabilities and their respective tax basis. Current NMPRC and PUCT approved rates include the tax effects of the majority of these differences. SFAS 109 requires that rate-regulated enterprises record deferred income taxes for temporary differences accorded flow-through treatment at the direction of a regulatory commission. The resulting deferred tax assets and liabilities are recorded at the expected cash flow to be reflected in future rates. Because the NMPRC and the PUCT have consistently permitted the recovery of tax effects previously flowed-through earnings, the Company has established regulatory liabilities and assets offsetting such deferred tax assets and liabilities. Items accorded flow-through treatment under rate orders, deferred income taxes and the future ratemaking effects of such taxes, as well as corresponding regulatory assets and liabilities, are recorded in the financial statements.

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In July 2006, the FASB issued Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). FIN 48 requires that the Company recognize only the impact of tax positions that, based on their merits, are more likely than not to be sustained upon an IRS audit. It also requires expanded financial statement disclosure of such positions. The Company will adopt FIN 48 in the first quarter of 2007 (see Note 21).

Excise Taxes

The Company pays certain fees or taxes which are either considered to be an excise tax or similar to an excise tax. These excise and excise-type taxes are recorded on both a net basis and a gross basis.

Cumulative Effect of Changes in Accounting Principles

In 2005, PNMR, PNM and TNMP adopted FASB Interpretation No. 47, *"Accounting for Conditional Asset Retirement Obligations"* ("FIN 47"), and recognized a cumulative effect of a change in accounting principle that decreased 2005 earnings. The amount is net of amounts expensed in prior years for cost of removal included in depreciation. FIN 47 requires the accrual of costs associated with conditional retirement obligations. PNMR, PNM and TNMP 2005 earnings were decreased $0.9 million, $0.5 million and $0.4 million, respectively, net of income tax benefits. PNMR's 2005 net earnings per diluted common share was decreased $0.01.

Extraordinary Item

During 2004, TNMP recorded a loss of $97.8 million related to the PUCT true-up proceeding regarding TNMP's stranded costs. The purpose of the true-up proceeding was to quantify and reconcile the amount of stranded costs that TNMP may recover from its transmission and distribution customers. The PUCT decision established $128.4 million as TNMP's stranded costs and allowed TNMP to recover $87.3 million of the $266.5 million that TNMP requested for its true-up balance. This decision resulted in a loss of $155.2 million before tax ($97.8 million after tax). TNMP recorded the $97.8 million after tax loss as an extraordinary item in accordance with the requirements of SFAS No. 101, *"Regulated Enterprises - Accounting for the Discontinuance of the Application of FASB Statement No. 71."*

Change in Presentation

As of December 31, 2006, the Company adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106, and 132R)" ("SFAS 158"). SFAS 158 changes the recognition requirements for defined benefit plans. SFAS 158 requires that the current economic status of pension and postretirement plans be recognized in the financial statements. SFAS 158 has no effect on the income or expense recognized for pension or other postretirement plans but does impact the balance sheet presentation of defined benefit plans. SFAS 158 was implemented in 2006, but was not applied retrospectively. See Note 12 for additional information.

During 2006, the Company reclassified PNM Wholesale receivables at month end as accounts receivable rather than unbilled revenue for the receivables associated with wholesale power sales. PNM Wholesale is on a calendar month billing cycle whereas PNM Gas and Electric employ a utility cycle billing period requiring a portion of the accounts receivable to be accounted for as unbilled revenue. This change in presentation reclassified $46.3 million of unbilled revenue as accounts receivable in 2005 in accordance with 2006 presentation.

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As of December 31, 2006, PNMR reclassified the presentation on its balance sheet of TNMP's utility plant acquired as part of the acquisition of TNP in 2005. TNMP presents its utility plant on its balance sheet on a gross basis and also presents the corresponding amount of accumulated depreciation and amortization for its utility plant. Prior to December 31, 2006, PNMR had included TNMP's utility plant on its balance sheet net of accumulated depreciation. The effect of the reclassification of TNMP's utility plant on PNMR's balance sheet at December 31, 2005 was to increase gross utility plant by $143.8 million and to increase accumulated depreciation and amortization by $143.8 million. PNMR made the reclassification to include TNMP's utility plant on its consolidated financial statements on a consistent basis with TNMP and consistent with the application of SFAS 71 to purchase accounting. PNMR believes that the reclassification does not have a material impact on its financial statements because the reclassification did not change its net utility plant or total assets, including TNMP that was previously reported.

Certain amounts in the 2005 and 2004 Consolidated Financial Statements and Notes thereto for PNMR, PNM and TNMP have been reclassified to conform to the 2006 and 2005 financial statement presentation. Specifically, certain amounts in the 2005 and 2004 Consolidated Financial Statements and Notes thereto of TNMP have been reclassified to conform to PNMR's presentation for comparability.

(2) Acquisitions

Twin Oaks

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased the Twin Oaks business, which included a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas for $480.0 million in cash plus the assumption of contracts and liabilities. The results of Twin Oaks operations have been included in the Consolidated Financial Statements of PNMR from that date. PNMR acquired Twin Oaks to expand the Company's merchant generation fleet in order to serve a growing wholesale market in ERCOT. PNMR secured interim financing for Altura to close the transaction (see Note 6). In addition, PNMR incurred transaction and other costs of $1.1 million.

The following table presents the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	At April 18, 2006 (In thousands)	
Net utility plant	$	594,653
Other current assets		10,341
Other intangible assets		25,000
Other deferred charges		99,598
Total assets acquired		729,592
Other current liabilities		95,758
Other deferred credits		152,776
Total liabilities assumed		248,534
Net assets acquired	$	481,058

The Twin Oaks purchase agreement also includes the development rights for a possible 600-megawatt expansion of the plant, which PNMR has classified as an intangible asset. An additional $2.5 million payment will be made to the seller upon the issuance of an air permit for the expansion and an additional $2.5 million will be paid upon Altura beginning construction of the expansion. PNMR has not made a decision regarding the Twin Oaks expansion, but it is considering a variety of options, including self development or sale to a third party.

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As part of the acquisition of Twin Oaks, PNMR determined the fair value of two contractual obligations to sell power. The first contract obligates PNMR to sell power through September 2007 at which time the second contract begins and extends for three years. In comparing the pricing terms of the contractual obligations against the forward price of electricity in the relevant market, PNMR concluded that the contracts were below market. In accordance with SFAS No. 141, as amended, *"Business Combinations"* ("SFAS 141"), the contracts were recorded at fair value and will be amortized as an increase in operating revenue over the contract lives. The amortization matches the difference between the forward price curve and the contractual obligations for each month in accordance with the contract as of the acquisition date. For the first contract, $94.9 million was recorded in other current liabilities and $52.4 million was recorded in other deferred credits for a contract total of $147.3 million. As of December 31, 2006, the Company had amortized $70.9 million leaving a balance on the first contract of $76.4 million. For the second contract, $29.6 million was recorded in other deferred credits; the amortization will start in 2007.

The following unaudited pro forma financial information presents a summary of PNMR's consolidated results of operations for the year ended December 31, 2006 and 2005 assuming the acquisition of Twin Oaks had been completed as of January 1, 2006 and 2005, respectively, including adjustments, which are based upon preliminary estimates, to reflect the allocation of the purchase price to the acquired net assets. The pro forma financial information does not include synergy savings that may result from the business combination and is not necessarily indicative of the results of operations if the acquisition had been effective as of these dates. In addition, the pro forma financial information does not include results of operations from TNP prior to its acquisition on June 6, 2005.

	For the Year Ended December 31, 2006	2005
	(In thousands, except per share amounts)	
Operating revenues	$ 2,531,377	$ 2,252,630
Operating expenses	$ 2,276,535	$ 2,055,448
Earnings before extraordinary item	$ 135,698	$ 100,814
Net earnings	$ 135,698	$ 99,888
Net earnings per common share:		
Basic	$ 1.94	$ 1.52
Diluted	$ 1.92	$ 1.49

TNP

On June 6, 2005, PNMR acquired all of the outstanding common shares of TNP, including its principal subsidiaries, TNMP and First Choice. The aggregate purchase price was $1,221 million, including a net payment to the previous owner of $162.0 million consisting of $74.6 million of cash and common stock valued at $87.4 million. The results of TNP's operations have been included in the Condensed Consolidated Financial Statements of PNMR from that date.

As part of the acquisition of TNP, PNMR determined the fair value of a First Choice contractual obligation to purchase power. In comparing the pricing terms of the contractual obligation against the forward price of electricity in the relevant market, First Choice concluded that the contract was above market. In accordance with SFAS No. 141, as amended, *"Business Combinations"* ("SFAS 141"), the contract was recorded at fair value and a deferred liability of $3.8 million was recorded that will be amortized as a reduction in cost of energy over the contract life, or approximately three years. The amortization matches the difference between the forward price curve and the contractual obligation for each month in accordance with the contract as of the acquisition date.

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PNMR also determined the fair value of a First Choice contractual obligation to sell power to certain commercial and industrial customers. The valuation was based on the difference between the current market rates charged by First Choice for these customers compared to the contractual rate embedded in the customer agreement. As a result of the analysis, First Choice determined that its rates for these contractual customers are below market rates for this class of customer and recorded a deferred liability of $3.5 million that will be amortized into revenues over the contract life, or approximately three years. The amortization matches the difference between the retail market rate and the contractual obligation for each month as of the date of acquisition.

TNP's largest subsidiary, TNMP, is a regulated utility; therefore, in accordance with SFAS 71, the valuations of the majority of the assets and liabilities did not change significantly.

The $499.2 million of goodwill was allocated to the TNMP and First Choice segments in the amounts of $367.3 million and $131.9 million, respectively, as restated. None of the total goodwill amount is expected to be deductible under Section 197 of the Internal Revenue Code.

The following unaudited pro forma financial information presents a summary of PNMR's consolidated results of operations for the years ended December 31, 2005 and 2004, assuming the acquisition of TNP had been completed as of January 1, 2004. The pro forma financial information does not include other items or synergy savings that may result from the business combination and is not necessarily indicative of the results of operations if the acquisition had been effective as January 1, 2004. Specifically, it does not include a charge of $11.3 million ($7.3 million net of tax) that was recorded during 2005 in conjunction with the issuance of equity-linked units in connection with the acquisition (see Note 6).

	For the Year Ended December 31, 2005	2004
	(In thousands, except per share amounts)	
Operating revenues	$ 2,301,333	$ 2,286,680
Operating expenses	$ 2,142,678	$ 2,095,515
Earnings before extraordinary item and cumulative effect of change in accounting principle	$ 79,781	$ 146,269
Net earnings	$ 78,855	$ 48,433
Net earnings per common share before extraordinary item and cumulative effect of change in accounting principle:		
Basic	$ 1.16	$ 2.13
Diluted	$ 1.14	$ 2.10
Net earnings per common share:		
Basic	$ 1.15	$ 0.71
Diluted	$ 1.13	$ 0.70

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(3) Segment Information

The following segment presentation is based on the methodology that the Company's management uses for making operating decisions and assessing performance of its various business activities. The following presentation reports operating results without regard to the effect of accounting or regulatory changes and similar other items not related to normal operations. A reconciliation from the segment presentation to the GAAP financial statements is provided.

REGULATED OPERATIONS

PNM Electric

PNM Electric consists of the operations of PNM, a regulated utility. PNM Electric provides integrated electricity services that include the 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 the Wholesale and TNMP Electric segments.

TNMP Electric

TNMP Electric is a regulated utility operating in Texas and, through December 31, 2006, in New Mexico. TNMP's operations are subject to traditional cost of service regulation. TNMP provides regulated transmission and distribution services in Texas under the TECA.

Through December 31, 2006, TNMP provided integrated electric services that included the transmission, distribution, purchase and sale of electricity to its New Mexico customers as well as transmission to third parties and to PNM. Effective January 1, 2007 TNMP's New Mexico business was transferred to PNM. PNM Wholesale was TNMP's sole supplier for TNMP's load in New Mexico prior to the transfer of assets to PNM.

PNM Gas

PNM Gas distributes natural gas to most of the major communities in New Mexico. The customer base of PNM Gas includes both sales-service customers and transportation-service customers. PNM Gas purchases natural gas in the open market and resells it at cost to its sales-service customers. As a result, increases or decreases in gas revenues resulting from gas price fluctuations do not impact PNMR's or PNM's consolidated gross margin or earnings.

UNREGULATED OPERATIONS

Wholesale

For PNMR and PNM, Wholesale consists of the generation and sale of electricity into the wholesale market. Wholesale sells the unused capacity of PNM's jurisdictional assets as well as the capacity of PNM's wholesale plants excluded from retail rates. Although the FERC has jurisdiction over the rates of Wholesale, the Company includes Wholesale in the unregulated portion of its business because Wholesale is not subject to traditional rate of return regulation.

The Wholesale segment included in PNMR's results of operations also includes the results of Altura from the date of acquisition of Twin Oaks on April 18, 2006 (see Note 2). Altura is not included in the results of operations for PNM.

Adjustments related to EITF Issue 03-11 are included in Corporate and Other. This requires a net presentation of non-trading gains and losses and realized gains and losses for certain non-trading derivatives. Management evaluates Wholesale operations on a gross presentation basis due to its primarily net asset-backed marketing strategy and the importance it places on the Company's ability to repurchase and remarket previously sold capacity.

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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. Although First Choice is regulated in certain respects by the PUCT, 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 Power Retail LP was formed in 2006 for the purpose of conducting business as a retail electric provider in Texas. In January 2007, the PUCT authorized the new entity to do business as a retail electric provider.

CORPORATE AND OTHER

PNMR provides energy and technology related services through its wholly owned subsidiary, Avistar, and those results are included in the Corporate and Other segment. PNMR Services Company is also included in the Corporate and Other segment.

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PNMR Segment Information

Summarized financial information for PNMR by business segment for the year ended December 31, 2006 is as follows (in thousands):

Segments of Business	Regulated PNM Electric	Regulated TNMP Electric *	Regulated PNM Gas	Unregulated Wholesale	Unregulated First Choice *	Corporate & Other	Consolidated
2006:							
Operating revenues	$ 582,979	$ 187,935	$ 508,410	$ 654,896	$ 584,759	$ (47,310) (a)	$ 2,471,669
Intersegment revenues	9,170	69,055	419	50,619	140	(129,403)	-
Total revenues	592,149	256,990	508,829	705,515	584,899	(176,713)	2,471,669
Less: Cost of energy	195,155	103,021	361,873	507,800	455,126	(177,185) (a)	1,445,790
Intersegment energy transfer	(6,355)	-	-	6,355	-	-	-
Gross margin	403,349	153,969	146,956	191,360	129,773	472	1,025,879
Operating expenses	274,207	79,235	104,886	63,487	64,769	8,615 (b)	595,199
Depreciation and amortization	59,610	31,576	23,991	26,101	2,026	8,967	152,271
Income taxes	13,699	4,258	2,266	25,687	22,152	(21,864) (b)	46,198
Operating income	55,833	38,900	15,813	76,085	40,826	4,754	232,211
Interest income	25,829	922	3,669	5,370	2,474	1,418	39,682
Other income/(deductions)	4,098	7,902	467	1,669	(390)	(1,527)	12,219
Other income taxes	(11,848)	(3,085)	(1,637)	(2,787)	(745)	2,330	(17,772)
Net interest charges	(34,931)	(28,926)	(12,356)	(36,887)	(802)	(31,620)	(145,522)
Segment net income (loss) **	$ 38,981	$ 15,713	$ 5,956	$ 43,450	$ 41,363	$ (24,645)	$ 120,818
Gross property additions	$ 174,864	$ 47,659	$ 32,824	$ 39,410	$ 272	$ 26,089	$ 321,118
At December 31, 2006:							
Total Assets	$ 2,091,335	$ 1,156,842	$ 704,519	$ 1,097,375	$ 349,846	$ 765,707	$ 6,165,624
Goodwill	$ -	$ 363,764	$ -	$ -	$ 131,974	$ -	$ 495,738

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $48.5 million are reclassified to a net margin basis in accordance with GAAP.
(b) Includes TNP and Twin Oaks acquisition integration costs of $4.3 million and costs associated with the formation of EnergyCo of $3.4 million and an income tax benefit of $3.0 million.

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Summarized financial information for PNMR by business segment for the year ended December 31, 2005 is as follows (in thousands):

Segments of Business	Regulated			Unregulated				
	PNM Electric	**TNMP Electric***	**PNM Gas**	**PNM Wholesale**	**First Choice***	**Corporate & Other**		**Consolidated**
2005:								
Operating revenues	$ 567,270	$ 108,475	$ 510,801	$ 602,939	$ 316,330	$ (29,005)	(a)	$ 2,076,810
Intersegment revenues	6,706	45,875	641	25,089	-	(78,311)		-
Total revenues	573,976	154,350	511,442	628,028	316,330	(107,316)		2,076,810
Less: Cost of energy	210,169	58,014	364,205	506,935	243,053	(107,729)	(a)	1,274,647
Intersegment energy transfer	(35,829)	-	-	35,829	-	-		-
Gross margin	399,636	96,336	147,237	85,264	73,277	413		802,163
Operating expenses	264,742	39,576	98,402	44,827	27,897	32,474	(b)	507,918
Depreciation and amortization	69,798	17,596	22,548	15,669	1,094	12,017	(c)	138,722
Income taxes	12,551	8,442	5,853	3,612	15,450	(26,458)	(b,c,e)	19,450
Operating income	52,545	30,722	20,434	21,156	28,836	(17,620)		136,073
Interest income	27,459	1,001	3,769	5,249	1,545	3,806		42,829
Other income/(deductions)	6,859	4,829	689	2,856	(79)	(20,111)	(d)	(4,957)
Other income taxes	(13,586)	(2,071)	(1,765)	(3,209)	(528)	7,748	(d)	(13,411)
Net interest charges	(33,392)	(15,875)	(11,503)	(15,644)	(905)	(16,358)	(e)	(93,677)
Segment net income (loss)**	$ 39,885	$ 18,606	$ 11,624	$ 10,408	$ 28,869	$ (42,535)		$ 66,857
Gross property additions	$ 135,632	$ 27,801	$ 31,019	$ 14,595	$ 482	$ 12,285		$ 221,814
At December 31, 2005:								
Total Assets	$ 1,937,811	$ 1,169,090	$ 721,021	$ 421,377	$ 318,820	$ 556,590		$ 5,124,709
Goodwill	$ -	$ 367,245	$ -	$ -	$ 131,910	$ -		$ 499,155

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $30.9 million are reclassified to a net margin basis in accordance with GAAP.

(b) Includes the impairment of a turbine of $15.0 million, TNP acquisition related costs of $14.5 million and regulatory costs associated with the NMPRC's approval of the acquisition of $2.3 million in operating expense and an income tax benefit of $12.5 million in income taxes.

(c) Includes a write-off of software costs of $4.5 million in depreciation and amortization and an income tax benefit of $1.8 million in income taxes.

(d) Includes an $11.3 million charge related to the issuance of equity-linked units in October 2005, TNP acquisition related costs of $2.5 million, TNP debt refinancing costs of $1.0 million in other income/(deductions) and an income tax benefit of $4.5 million in other income taxes.

(e) Includes TNP debt refinancing costs of $5.3 million in interest charges and an income tax benefit of $2.0 million in income taxes.

* Includes results from June 6 through December 31, 2005.
** Net earnings before cumulative effect of change in accounting principle.

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Summarized financial information for PNMR by business segment for the year ended December 31, 2004 is as follows (in thousands):

Segments of Business	Regulated PNM Electric	Regulated TNMP Electric	PNM Gas	Unregulated PNM Wholesale	First Choice	Corporate & Other	Consolidated
2004:							
Operating revenues	$ 552,563	$ -	$ 489,767	$ 588,243	$ -	$ (32,784) (a)	$ 1,597,789
Intersegment revenues	5,849	-	1,154	-	-	-	7,003
Total revenues	558,412	-	490,921	588,243	-	(32,784)	1,604,792
Less: Cost of energy	186,517	-	343,219	449,059	-	(33,486) (a)	945,309
Intersegment energy transfer	(42,769)	-	-	42,769	-	-	-
Gross margin	414,664	-	147,702	96,415	-	702	659,483
Operating expenses	259,478	-	97,412	46,442	-	6,266	409,598
Depreciation and amortization	63,050	-	18,894	14,809	-	5,468	102,221
Income taxes	22,628	-	8,063	8,537	-	(3,166)	36,062
Operating income	69,508	-	23,333	26,627	-	(7,866)	111,602
Interest income	28,445	-	2,253	5,468	-	1,841	38,007
Other income/(deductions)	2,045	-	190	1,640	-	(2,534)	1,341
Other income taxes	(12,072)	-	(967)	(2,814)	-	2,668	(13,185)
Net interest charges	(34,981)	-	(11,029)	(13,601)	-	8,236	(51,375)
Segment net income (loss)	$ 52,945	$ -	$ 13,780	$ 17,320	$ -	$ 2,345	$ 86,390
Gross property additions	$ 89,124	$ -	$ 35,547	$ 8,023	$ -	$ 13,016	$ 145,710
At December 31, 2004:							
Total Assets	$ 1,764,032	$ -	$ 512,538	$ 430,493	$ -	$ 780,572	$ 3,487,635

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $33.6 million are reclassified to a net margin basis in accordance with GAAP.

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PNM Segment Information

Summarized financial information for PNM by business segment for the year ended December 31, 2006 is as follows (in thousands):

Segments of Business	PNM Electric	PNM Gas	PNM Wholesale	Corporate & Other	Consolidated
2006:					
Operating revenues	$ 582,979	$ 508,410	$ 529,764	$ (48,495) (a)	$ 1,572,658
Intersegment revenues	8,675	419	-	(9,094)	-
Affiliated Sales	495	-	50,619	-	51,114
Total revenues	592,149	508,829	580,383	(57,589)	1,623,772
Less: Cost of energy	195,155	361,873	468,939	(57,397) (a)	968,570
Intersegment energy transfer	(6,355)	-	6,355	-	-
Gross margin	403,349	146,956	105,089	(192)	655,202
Operating expenses	274,207	104,886	50,505	(1,886)	427,712
Depreciation and amortization	59,610	23,991	13,041	2,975	99,617
Income taxes	13,699	2,266	10,124	(1,717)	24,372
Operating income	55,833	15,813	31,419	436	103,501
Interest income	25,829	3,669	5,120	1,142	35,760
Other income/(deductions)	4,098	467	1,655	(957)	5,263
Other income taxes	(11,848)	(1,637)	(2,682)	535	(15,632)
Net interest charges	(34,931)	(12,356)	(15,970)	4,788	(58,469)
Segment net income (loss)	$ 38,981	$ 5,956	$ 19,542	$ 5,944	$ 70,423
Gross property additions	$ 174,864	$ 32,824	$ 38,471	$ -	$ 246,159
At December 31, 2006:					
Total Assets	$ 2,117,674	$ 713,028	$ 401,585	$ 567,014	$ 3,799,301

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $48.5 million are reclassified to a net margin basis in accordance with GAAP.

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Summarized financial information for PNM by business segment for the year ended December 31, 2005 is as follows (in thousands):

Segments of Business	PNM Electric	PNM Gas	PNM Wholesale	Corporate & Other		Consolidated
2005:						
Operating revenues	$ 567,270	$ 510,801	$ 602,939	$ (30,930)	(a)	$ 1,650,080
Intersegment revenues	6,418	641	-	(7,059)		-
Affiliated Sales	288	-	25,089	-		25,377
Total revenues	573,976	511,442	628,028	(37,989)		1,675,457
Less: Cost of energy	210,169	364,205	506,935	(37,819)	(a)	1,043,490
Intersegment energy transfer	(35,829)	-	35,829	-		-
Gross margin	399,636	147,237	85,264	(170)		631,967
Operating expenses	264,742	98,402	44,827	24,952	(b)	432,923
Depreciation and amortization	69,798	22,548	15,669	7,776	(c)	115,791
Income taxes	12,551	5,853	3,612	(13,799)	(b,c)	8,217
Operating income	52,545	20,434	21,156	(19,099)		75,036
Interest income	27,459	3,769	5,249	1,442		37,919
Other income/(deductions)	6,859	689	2,856	(862)		9,542
Other income taxes	(13,586)	(1,765)	(3,209)	1,483		(17,077)
Net interest charges	(33,392)	(11,503)	(15,644)	6,415		(54,124)
Segment net income (loss) *	$ 39,885	$ 11,624	$ 10,408	$ (10,621)		$ 51,296
Gross property additions	$ 135,632	$ 31,019	$ 14,595	$ (13,500)		$ 167,746
At December 31, 2005:						
Total Assets	$ 1,937,811	$ 721,021	$ 421,377	$ 507,542		$ 3,587,751

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $30.9 million are reclassified to a net margin basis in accordance with GAAP.
(b) Includes the impairment of a turbine of $15.0 million, TNP acquisition related costs of $8.7 million and regulatory costs associated with the NMPRC's approval of the acquisition of $2.3 million in operating expenses and an income tax benefit of $10.3 million in income taxes.
(c) Includes a write-off of software costs of $4.5 million in depreciation and amortization and an income tax benefit of $1.8 million in income taxes.

* Net earnings before cumulative effect of change in accounting principle.

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Summarized financial information for PNM by business segment for the year ended December 31, 2004 is as follows (in thousands):

Segments of Business	PNM Electric	PNM Gas	PNM Wholesale	Corporate & Other	Consolidated
2004:					
Operating revenues	$ 552,563	$ 489,767	$ 588,243	$ (33,609) (a)	$ 1,596,964
Intersegment revenues	5,849	1,154	-	-	7,003
Affiliated Sales	-	-	-	-	-
Total revenues	558,412	490,921	588,243	(33,609)	1,603,967
Less: Cost of energy	186,517	343,219	449,059	(33,609) (a)	945,186
Intersegment energy transfer	(42,769)	-	42,769	-	-
Gross margin	414,664	147,702	96,415	-	658,781
Operating expenses	259,478	97,412	46,442	776	404,108
Depreciation and amortization	63,050	18,894	14,809	2,880	99,633
Income taxes	22,628	8,063	8,537	(1,264)	37,964
Operating income	69,508	23,333	26,627	(2,392)	117,076
Interest income	28,445	2,253	5,468	1,555	37,721
Other income/(deductions)	2,045	190	1,640	62	3,937
Other income taxes	(12,072)	(967)	(2,814)	1,120	(14,733)
Net interest charges	(34,981)	(11,029)	(13,601)	6,180	(53,431)
Segment net income (loss)	$ 52,945	$ 13,780	$ 17,320	$ 6,525	$ 90,570
Gross property additions	$ 89,124	$ 35,547	$ 8,023	$ 5,457	$ 138,151
At December 31, 2004:					
Total Assets	$ 1,764,032	$ 512,538	$ 430,493	$ 686,667	$ 3,393,730

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of $33.6 million are reclassified to a net margin basis in accordance with GAAP.

TNMP

TNMP operates in only one reportable segment; therefore tabular presentation of segment data is not required.

(4) Regulatory Assets and Liabilities

The Company's operations are regulated by the NMPRC, PUCT and the FERC and the Company applies the provisions of SFAS 71 to its regulated operations as applicable. Regulatory assets represent probable future recovery of previously incurred costs, which will be collected from customers through the ratemaking process. Regulatory liabilities represent probable future reductions in revenues associated with amounts that are to be credited to customers through the ratemaking process. Regulatory assets and liabilities reflected in the Consolidated Balance

Sheets are presented below.

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PNMR

	December 31,	
	2006	**2005**
Assets:	(In thousands)	
Current:		
PGAC	$ 217	$ 24,885
Gas Take-or-Pay Costs	149	1,065
Underground Rate	356	790
Gas Mark-to-Market – PGAC	16,748	1,318
Other	37	-
Subtotal	17,507	28,058
Non-Current:		
Mine Reclamation Costs	90,960	94,758
Deferred Income Taxes	80,646	78,671
Gas Mark-to-Market	3,297	-
Financing Costs	24,471	25,362
Pension and OPEB	185,225	-
Loss on Reacquired Debt	18,258	17,398
Renewable Energy Certificates	7,950	5,739
Stranded Costs	89,949	87,316
Carrying Charges on Stranded Costs	41,584	33,918
Rate Case Expense	4,905	-
Other	6,319	4,117
Subtotal	553,564	347,279
Total Regulatory Assets	$ 571,071	$ 375,337
Liabilities:		
Current:		
Gas Mark-to-Market – PGAC	$ -	$ (7,085)
Off-system sales margin	(1,172)	-
Subtotal	(1,172)	(7,085)
Non-Current:		
Cost of Removal	(310,618)	(298,307)
Retail competition transition obligation	(65)	(16,621)
Deferred Income Taxes	(18,500)	(20,244)
Asset Retirement Obligation	(36,068)	(33,367)
Unrealized Gain on PVNGS Decommissioning Trust	-	(7,251)
PVNGS Prudence Audit	(2,734)	(3,555)
Pension and OPEB	(9,940)	-
Industrial Fuel Credit	(3,475)	-
Settlement Due Customers	(853)	(1,075)
Gain on Reacquired Debt	(380)	(692)
Gas Mark-to-Market – PGAC	-	(5,564)

TNP Acquisition – Settlement Due Customers	(2,671)	(2,448)
Other	(4,026)	(3,303)
Subtotal	(389,330)	(392,427)
Total Regulatory Liabilities	$ (390,502)	$ (399,512)

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PNM

	December 31, 2006	December 31, 2005
	(In thousands)	
Assets:		
Current:		
PGAC	$ 217	$ 24,885
Gas Take-or-Pay Costs	149	1,065
Underground Rate	356	790
Gas Mark-to-Market – PGAC	16,748	1,318
Other	37	-
Subtotal	$ 17,507	$ 28,058
Non-Current:		
Mine Reclamation Costs	90,960	94,758
Deferred Income Taxes	75,353	75,951
Financing Costs	24,471	25,362
Loss on Reacquired Debt	17,471	17,398
Pension and OPEB	185,158	-
Renewable Energy Certificates	7,950	5,739
Gas Mark-to-Market – PGAC	3,297	-
Other	6,319	4,117
Subtotal	410,979	223,325
Total Regulatory Assets	$ 428,486	$ 251,383
Liabilities:		
Current:		
Gas Mark-to-Market – PGAC	$ -	$ (7,085)
Off-system sales margin	(1,172)	-
Subtotal	(1,172)	(7,085)
Non-Current:		
Cost of Removal	(269,964)	(258,682)
Deferred Income Taxes	(18,500)	(20,244)
Asset Retirement Obligation	(36,068)	(33,367)
Unrealized Gain on PVNGS Decommissioning Trust	-	(7,251)
PVNGS Prudence Audit	(2,734)	(3,555)
Settlement Due Customers	(853)	(1,075)
Gain on Reacquired Debt	(380)	(692)
Gas Mark-to-Market – PGAC	-	(5,564)
TNP Acquisition – Settlement Due Customers	(2,671)	(2,448)
Other	(4,026)	(3,303)
Subtotal	(335,196)	(336,181)
Total Regulatory Liabilities	$ (336,368)	$ (343,266)

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TNMP

	December 31, 2006	December 31, 2005
	(In thousands)	
Assets:		
Non-Current:		
Stranded Costs	$ 89,949	$ 87,316
Carrying Charges on Stranded Costs	41,584	33,918
Deferred Income Taxes	5,293	2,720
Pension and OPEB	67	-
Loss on Reacquired Debt	787	-
Rate Case Expense	4,905	-
Subtotal	142,585	123,954
Total Regulatory Assets	$ 142,585	$ 123,954
Liabilities:		
Non-Current:		
Cost of Removal	(40,654)	(39,625)
Industrial Fuel Credit	(3,475)	-
Pension and OPEB	(9,940)	-
Retail competition transition obligation	(65)	(16,621)
Total Regulatory Liabilities	$ (54,134)	$ (56,246)

The Company’s regulatory assets and regulatory liabilities are reflected in rates charged to customers or have been addressed in a regulatory proceeding. The Company receives or pays a rate of return on these regulatory assets and regulatory liabilities, except for mine reclamation costs and financing costs. Financing costs are amortized over the life of the debt, with the remaining amortization periods ranging from 2 to 29 years.

The Company is permitted, under rate regulations, to accrue and record a regulatory liability for the estimated cost of removal and salvage associated with certain of its assets through depreciation expense.

With the issuance of SFAS 158, actuarial losses and prior service costs are required to be recorded in accumulated other comprehensive income; however, the amortization of these items is recoverable through the Company’s rates (see Note 12.)

For information related to TNMP’s stranded costs, see Note 17.

PNM records a regulatory asset for renewable energy certificates at $0.005 per KWh. A renewable energy certificate represents one KWh of energy produced from a renewable energy source as defined by the New Mexico Renewable Energy Act. The source of the renewable energy certificates is PNM’s PPA to purchase renewable energy from the New Mexico Wind Energy Center.

PNM's cost-of-gas revenues collected from sales-service customers are recovered in accordance with NMPRC regulations through the PGAC and represent a pass-through of the cost of natural gas to the customer. An order was issued by the NMPRC in 2001 that approved an agreement regarding the hedging strategy of PNM 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 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.

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Based on a current evaluation of the various factors and conditions that are expected to impact future cost recovery, the Company believes that future recovery of its regulatory assets are probable.

(5) Stockholders' Equity

PNMR

Stock Split

In May 2004, the Board of PNMR approved a 3-for-2 stock split for shareholders of record on June 1, 2004. All references in the accompanying Consolidated Financial Statements and Notes thereto to PNMR's shares outstanding and per share amounts have been restated to reflect the stock split.

Changes in common stock for PNMR are as follows:

	Common Stock		
	Number of Shares		Aggregate Value
	(Dollars in thousands)		
Balance at December 31, 2004	60,464,595	$	638,826
Exercise of stock options	-		(16,261)
Tax benefit from exercise of stock options	-		6,527
Issuance of equity-linked units	-		(18,769)
Other charge - equity-linked units	-		11,348
Stock based compensation	-		1,259
Sale of common stock	3,910,000		101,231
Common stock issued for TNP acquisition	4,326,337		87,392
ESPP purchase	85,354		1,872
Balance at December 31, 2005	68,786,286	$	813,425
Exercise of stock options	-		(9,641)
Tax benefit from exercise of stock options	-		1,072
Stock based compensation	-		7,539
Sale of common stock	7,777,097		226,098
ESPP purchase	85,089		1,958
Balance at December 31, 2006	76,648,472	$	1,040,451

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PNM

Changes in common stock for PNM are as follows:

	Common Stock Number of Shares		Common Stock Aggregate Value
	(Dollars in thousands)		
Balance at December 31, 2004	39,117,799	$	752,350
Equity from parent	-		13,150
Balance at December 31, 2005	39,117,799	$	765,500
Balance at December 31, 2006	39,117,799	$	765,500

TNMP

Changes in common stock and additional paid-in capital for TNMP are as follows:

	Common Stock Number of Shares		Common Stock Aggregate Par Value		Additional Paid-In Capital
	(Dollars in thousands)				
Pre-Acquisition:					
Balance at December 31, 2004	10,705	$	107	$	197,751
Post-Acquisition:					
Balance at June 6, 2005	10,705	$	107	$	-
Purchase accounting adjustments	-		-		556,287
Stock redemption	(1,090)		(11)		(62,000)
Balance at December 31, 2005	9,615	$	96	$	494,287
Tax on goodwill adjustments	-		-		(1,475)
Balance at December 31, 2006	9,615	$	96	$	492,812

Dividends

The declaration of common dividends by PNMR is dependent upon a number of factors including the ability of PNMR's subsidiaries to pay dividends. PNMR's primary sources of dividends are its operating subsidiaries.

PNM did not pay any cash dividends to PNMR in 2006. PNM paid cash dividends of, $91.0 million and $23.0 million to PNMR in 2005, and 2004, respectively. TNMP did not pay any cash dividends to PNMR in 2006. TNMP paid cash dividends of $12.0 million to PNMR in 2005.

As part of the order approving the formation of PNMR, the NMPRC placed certain restrictions on the ability of PNM and TNMP to pay dividends to PNMR. PNM or TNMP cannot pay dividends which cause its debt rating to fall below investment grade; and neither PNM nor TNMP can pay dividends in any year, as determined on a rolling four quarter basis, in excess of net earnings without prior NMPRC approval. PNM can pay dividends from earnings to PNMR as well as equity contributions made by PNMR. Additionally, PNM has various financial covenants that limit the transfer of assets, through dividends or other means.

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In addition, the ability of PNMR to declare dividends is dependent upon the extent to which cash flows will support dividends, the availability of retained earnings, the financial circumstances and performance, the NMPRC's and PUCT's decisions in various regulatory cases currently pending and which may be docketed in the future, the effect of federal regulatory decisions, Congressional and legislative acts and economic conditions in the United States. Conditions imposed by the NMPRC or PUCT, future growth plans and the related capital requirements and business considerations may also affect PNMR's ability to pay dividends.

Cumulative Preferred Stock

PNMR has no preferred stock outstanding. PNMR's restated articles of incorporation authorize 10 million shares of preferred stock, which may be issued without restriction.

The number of authorized shares of PNM cumulative preferred stock is 10 million shares. PNM has 115,293 cumulative preferred shares outstanding. PNM preferred stock does not have a mandatory redemption requirement but may be redeemed at 102% of the stated value with accrued dividends. The holders of the preferred stock are entitled to payment before the holders of common stock in the event of any liquidation or dissolution or distribution of assets of PNM. In addition, PNM's preferred stock is not entitled to a sinking fund and cannot be converted into any other class of stock of PNM.

TNMP has no preferred stock outstanding. The number of authorized shares of TNMP cumulative preferred stock is 1 million shares.

PNMR Equity-Linked Units and Common Stock

See Note 6 for details related to PNMR's issuance of equity-linked units and common stock.

TNMP Common Stock

In September 2005, as part of the TNP acquisition financing, TNMP redeemed and cancelled 1,090 shares of its privately held stock held by TNP at the book value of $56,888.91 per share, for a total of $62.0 million. TNP subsequently paid a cash dividend of $62.0 million to PNMR.

(6) Financing

Borrowing Arrangements Between PNMR and Subsidiaries

In February 2006, the Board approved affiliate borrowing arrangements between PNMR and its subsidiaries that would authorize each subsidiary to borrow up to $50.0 million from PNMR. Neither PNM nor TNMP has entered into an intercompany loan agreement under that authority in 2006. Subsequently, in January 2007, TNMP entered into an intercompany loan agreement with PNMR and can borrow up to $50.0 million.

As of December 31, 2006, TNMP had not entered into an intercompany borrowing arrangement under that PNMR authorization. On January 12, 2007, TNMP entered into a $25.0 million intercompany loan with PNMR under the authorization.

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Pursuant to a separate borrowing arrangement, PNM has a $20.0 million promissory note to PNMR payable on or before September 30, 2007. Under this arrangement, PNM agrees to pay all applicable interest on the outstanding balance at the interest rates provided in the agreement. As of December 31, 2006 and December 31, 2005, there were no outstanding borrowings on the promissory note. PNM's $20.0 million intercompany loan agreement with PNMR was put in place prior to the February 2006 authorization.

PNMR

Long-Term Debt

During 2005, PNMR issued senior notes in conjunction with private and public offerings (see "Equity-Linked Units Offerings" below).

Revolving and Other Credit Facilities

In August 2005, PNMR completed arrangements to expand the size, extend the maturity and modify certain terms and conditions of its previous unsecured revolving credit facility and executed an amended and restated credit agreement (the "PNMR Facility"). The PNMR Facility expands the size of its previous revolving credit facility from $400.0 million to $600.0 million. Under the PNMR Facility, the borrowing availability of First Choice was increased from $100.0 million to $300.0 million to support First Choice's future business activities. The PNMR Facility has an expiration date of August 15, 2010 and includes two one-year extension options that are subject to approval by a majority of the lenders. One such extension option was exercised extending the maturity of $574.0 million of borrowing capacity to August 15, 2011. At December 31, 2006, no borrowings were outstanding under the PNMR Facility (see First Choice below); however, $63.3 million of letters of credit are outstanding, which reduces the available capacity under the PNMR Facility.

At December 31, 2006, PNMR also had $15.0 million in local lines of credit. There were no outstanding borrowings under the local lines of credit at December 31, 2006.

In June 2005, PNMR established a commercial paper program under which it may issue up to $400.0 million in commercial paper for up to 270 days. The commercial paper is unsecured and the proceeds are used for short-term cash management needs. The PNMR Facility serves as a backstop for the outstanding commercial paper. At December 31, 2006, PNMR had $263.6 million of commercial paper outstanding.

At December 31, 2006, First Choice had up to $300.0 million of borrowing capacity under the PNMR Facility. Any borrowings made by First Choice under this sublimit are guaranteed by PNMR. At December 31, 2006, First Choice had no borrowings outstanding under the PNMR Facility; however, First Choice had $5.0 million of letters of credit outstanding, which reduces the available capacity under the PNMR Facility. TNMP is also a borrower under the PNMR Facility (see "TNMP" below).

Financing Activities

Shelf Registration Statement

PNMR has a universal shelf registration statement filed with the SEC for the issuance of debt securities and equity securities, preferred stock, purchase contracts, purchase contract units and warrants. As of December 31, 2006, PNMR had approximately $400.0 million of remaining unissued securities under this registration statement.

In August 2006, PNMR filed a new universal shelf registration statement with the SEC. Under SEC rules, this new universal shelf registration statement may be amended to add additional securities. As a result, subject to certain conditions and limitations, this new shelf registration statement has unlimited capacity.

Interest Rate Swaps

PNMR has entered into three fixed-to-floating interest rate swaps with an aggregate notional principal amount of $150.0 million. Under these swaps, PNMR receives a 4.40% fixed interest payment on the notional principal amount on a semi-annual basis and pays a floating rate equal to the six month LIBOR plus 58.15 basis points (0.5815%) on the notional amount through September 15, 2008. The initial floating rate was 1.91% and will be reset every six months. The floating rate was reset on September 15, 2006, to 6.01%. The swap is accounted for as a fair-value hedge with a liability position of approximately $4.2 million as of December 31, 2006.

Twin Oaks Financing

On April 18, 2006, PNMR entered into a short-term loan agreement for temporary financing of the Twin Oaks acquisition (see Note 2). Under the term loan agreement, PNMR was permitted to borrow up to $480.0 million in a single draw on or after April 18, 2006, to finance the acquisition of Twin Oaks and related expenses. Term loans made under this agreement bear interest at a base rate (the greater of the prime rate in effect and the Federal Funds Rate plus ½ of 1%) or an adjusted Eurodollar rate (equal to the British Bankers Association LIBOR rate plus an additional percentage based on PNMR's then current long-term senior unsecured non-credit enhanced debt rating). On April 18, 2006, PNMR borrowed $480.0 million under the term loan agreement. PNMR used the proceeds of the loan to make capital contributions totaling $480.0 million to Altura through the two wholly owned subsidiaries that are partners in Altura to provide the funds for the acquisition of Twin Oaks. PNMR must repay the loan by April 17, 2007, unless accelerated in accordance with the terms of the agreement or prepaid in whole or in part. As of December 31, 2006, $230.5 million of the term loan was repaid.

Forward Starting Swaps

During October 2004, PNMR entered into two forward starting floating-to-fixed rate interest rate swaps with an aggregate notional principal amount of $100.0 million. These swaps became effective August 1, 2005 and were to terminate November 15, 2009. Under these swaps, PNMR receives a floating rate equal to the three month LIBOR rate on the notional principal amount and pays a fixed interest rate of 3.975% on the notional principal amount on a quarterly basis. The initial floating rate was set on August 1, 2005, at 3.693%, to be reset every three months.

From November 2004 through June 30, 2005, the swaps were accounted for as a cash flow hedge against borrowings under a five-year $400.0 million PNMR revolving credit agreement dated November 15, 2004. The PNMR Facility replaced the November 2004 credit agreement in August 2005. Effective June 30, 2005, the swaps were de-designated as cash flow hedges due to a change in the underlying borrowings being hedged from the November 2004 credit agreement at the inception of the hedge to commercial paper. The mark-to-market change in the fair value of theses swaps was subsequently recognized on PNMR's Consolidated Statement of Earnings. At December 31, 2005, the increase in fair value related to these swaps was $2.8 million. Of this increase, $0.4 million was recorded in accumulated other comprehensive income on PNMR's Consolidated Balance Sheet and $2.4 million was recognized in other income on PNMR's Consolidated Statement of Earnings for the year ended December 31, 2005. These two interest rate swaps were sold on May 19, 2006. The current amount recorded in other comprehensive income will be recognized in income over a 3 year period ending in November 2009.