

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

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q/A**  
(Amendment No. 1)

(Mark One)

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

**For the quarterly period ended March 31, 2006**

- OR -

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

<b>Commission File Number</b>	<b>Name of Registrants, State of Incorporation, Address and Telephone Number</b>	<b>I.R.S. Employer Identification No.</b>
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

Indicate by check mark whether PNM Resources, Inc. ("PNMR") and Public Service Company of New Mexico ("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

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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  NO

Indicate by check mark whether Texas New Mexico Power Company ("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

(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.)

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

Large accelerated filer  Accelerated filer  Non-accelerated  
filer

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

As of May 1, 2006, 68,818,632 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 May 1, 2006 was 39,117,799 all held

by PNMR (and none held by non-affiliates).

The total number of shares of Common Stock of TNMP outstanding as of May 1, 2006 was 9,615 all held

indirectly by PNMR (and none held by non-affiliates).

**EXPLANATORY NOTE REGARDING AMENDMENT NO. 1**

This Amendment No. 1 to the Quarterly Report on Form 10-Q (“Amendment No. 1”) amends the Registrants’ Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006, initially filed with the Securities and Exchange Commission (“SEC”) on May 10, 2006 (the “Original Filing”).

Amendment No. 1 is being filed to correct the allocation of goodwill recorded for the June 6, 2005 acquisition of TNP Enterprises, Inc. and Subsidiaries by PNM Resources, Inc. (“PNMR”). The goodwill recorded in this purchase was allocated between Texas-New Mexico Power Company (“TNMP”) and First Choice Power, L.P. (“First Choice”). Subsequent to the Original Filing, it was determined that goodwill was not properly allocated between the two entities. The reallocation of goodwill is detailed below.

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

TNMP’s Paid-in-capital is also reduced by the restatement amount shown above. Amendment No. 1 has no effect on the Statements of Earnings or Statements of Cash Flows of TNMP. Amendment No. 1 restates the goodwill allocation between PNMR’s subsidiaries, TNMP and First Choice, and, therefore, has no effect on the Condensed Consolidated Balance Sheets of PNMR, but does impact the Notes to the Condensed Consolidated Financial Statements. Amendment No. 1 does not restate the Condensed Consolidated Financial Statements of Public Service Company of New Mexico. Refer to Note 14 to the Condensed Consolidated Financial Statements for additional detail on the restatement.

For the convenience of the reader, Amendment No. 1 sets forth the Original Filing in its entirety, with the exception of the corrections described above, a related revision to Item 4 and a clarification of the disclosures related to Palo Verde Nuclear Generating Station decommissioning costs. In addition, 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 and to correct several immaterial items.

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

This Form 10-Q 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-Q is incorporated by reference into any filing with the SEC made by PNM or TNMP, the portions of this Form 10-Q 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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**GLOSSARY**

Afton	Afton Generating Station
Altura	Altura Power L.P.
APB	Accounting Principles Board
APS	Arizona Public Service Company
Avistar	Avistar, Inc.
Board	Board of Directors
BTU	British Thermal Unit
Cal PX	California Power Exchange
Cal ISO	California Independent System Operator
Company	PNM Resources, Inc. and Subsidiaries
Constellation	Constellation Energy Commodities Group, Inc.
Decatherm	1,000,000 BTUs
Delta	Delta-Person Limited Partnership
EaR	Earnings at Risk
EIP	Eastern Interconnection Project
EITF	Emerging Issues Task Force
EPA	United States Environmental Protection Agency
EPE	El Paso Electric Company
ERCOT	Electric Reliability Council of Texas
ESPP	Employee Stock Purchase Plan
FASB	Financial Accounting Standards Board
FCPSP	First Choice Power Special Purpose, L.P.
Federal Funds Rate	Overnight Rate on Federal funds transactions with members of the Federal Reserve System, as published by the Federal Reserve Bank
FERC	Federal Energy Regulatory Commission
First Choice	First Choice Power, L. P. and Subsidiaries
GAAP	Generally Accepted Accounting Principles in the United States of America
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
NMPRC	New Mexico Public Regulation Commission
NSPS	New Source Performance Standards
NSR	New Source Review
NYMEX	New York Mercantile Exchange
O&M	Operations and Maintenance
PEP	PNMR Omnibus Performance Equity Plan

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PGAC	Purchased Gas Adjustment Clause
PNM	Public Service Company of New Mexico and Subsidiary
PNMR	PNM Resources, Inc. and Subsidiaries
PPA	Power Purchase Agreement
PRG	Power Resource Group, Inc.
PUCT	Public Utility Commission of Texas

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PURPA	Public Utility Regulatory Policy Act of 1978
PVNGS	Palo Verde Nuclear Generating Station
Reeves	Reeves Generating Station
REP	Retail Electricity Provider
RMC	Risk Management Committee
RMRR	Routine Maintenance, Repair or Replacement
SDG&E	San Diego Gas and Electric Company
SEC	United States Securities and Exchange Commission
Sempra	Sempra Generation, a subsidiary of Sempra Energy
SESCO	San Angelo Electric Service Company
SFAS	Statement of Financial Accounting Standards
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
S&P	Standard and Poors Ratings Services
SPS	Southwestern Public Service Company
TCEQ	Texas Commission on Environmental Quality
TECA	Texas Electric Choice Act
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
Twin Oaks	Assets of Twin Oaks Power, LP and Twin Oaks Power III, LP
VaR	Value at Risk
WSPP	Western Systems Power Pool

## ITEM 1. FINANCIAL STATEMENTS

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In thousands, except per share amounts)	
<b>Operating Revenues:</b>		
Electric	\$ 448,216	\$ 262,443
Gas	207,476	165,233
Other	109	237
Total operating revenues	655,801	427,913
<b>Operating Expenses:</b>		
Cost of energy sold	425,972	247,478
Administrative and general	65,305	41,309
Energy production costs	37,587	36,033
Depreciation and amortization	34,330	28,827
Transmission and distribution costs	19,050	14,062
Taxes, other than income taxes	16,964	8,871
Income taxes	10,247	13,391
Total operating expenses	609,455	389,971
Operating income	46,346	37,942
<b>Other Income and Deductions:</b>		
Interest income	10,151	9,770
Other income	3,167	3,240
Carrying charges on regulatory assets	1,973	-
Other deductions	(1,516)	(2,136)
Other income taxes	(5,101)	(3,884)
Net other income and deductions	8,674	6,990
<b>Interest Charges</b>	28,563	14,291
<b>Preferred Stock Dividend Requirements of Subsidiary</b>	132	132
<b>Net Earnings</b>	\$ 26,325	\$ 30,509
<b>Net Earnings per Common Share (see Note 5):</b>		
<b>Basic</b>	\$ 0.38	\$ 0.50
<b>Diluted</b>	\$ 0.38	\$ 0.50
<b>Dividends Declared per Common Share</b>	\$ 0.220	\$ 0.185

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



**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

**March 31,**  
**2006**

**December 31,**  
**2005**

(In thousands)

**ASSETS**

**Utility Plant:**

Electric plant in service	\$ 3,341,055	\$ 3,315,642
Gas plant in service	725,869	711,823
Common plant in service and plant held for future use	137,155	135,849
	4,204,079	4,163,314
Less accumulated depreciation and amortization	1,399,032	1,374,599
	2,805,047	2,788,715
Construction work in progress	168,601	168,195
Nuclear fuel, net of accumulated amortization of \$17,539 and \$14,679	25,738	27,182
Net utility plant	2,999,386	2,984,092

**Other Property and Investments:**

Investment in lessor notes	275,722	286,678
Other investments	138,942	180,013
Non-utility property, net of accumulated depreciation of \$2,189 and \$22	8,080	4,214
Total other property and investments	422,744	470,905

**Current Assets:**

Cash and cash equivalents	45,770	68,199
Special deposits	533	534
Accounts receivable, net of allowance for uncollectible accounts of \$4,792 and \$3,653	138,801	128,834
Unbilled revenues	112,118	151,773
Other receivables	48,340	64,285
Inventories	43,315	52,037
Regulatory assets	3,377	28,058
Other current assets	102,830	102,577
Total current assets	495,084	596,297

**Deferred Charges:**

Regulatory assets	350,437	347,279
Prepaid pension cost	92,458	91,444
Goodwill	499,155	499,155
Other intangible assets, net of accumulated amortization of \$1,070 and \$742	78,184	78,512

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Other deferred charges	65,515	57,025
Total deferred charges	1,085,749	1,073,415
	\$ 5,002,963	\$ 5,124,709

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>March 31, 2006</b>	<b>December 31, 2005</b>
	(In thousands)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Common stockholders' equity:		
Common stock outstanding (no par value, 120,000,000 shares authorized: issued 68,818,632 and 68,786,286 at March 31, 2006 and December 31, 2005, respectively)		
	\$ 817,075	\$ 813,425
Accumulated other comprehensive loss, net of tax	(96,601)	(91,589)
Retained earnings	575,807	564,623
<b>Total common stockholders' equity</b>	<b>1,296,281</b>	<b>1,286,459</b>
Cumulative preferred stock of subsidiary without mandatory redemption (\$100 stated value, 10,000,000 shares authorized: issued 115,293 at March 31, 2006 and December 31, 2005)		
	11,529	11,529
Long-term debt	1,744,929	1,746,395
<b>Total capitalization</b>	<b>3,052,739</b>	<b>3,044,383</b>
<b>Current Liabilities:</b>		
Short-term debt	330,987	332,200
Accounts payable	120,272	206,648
Accrued interest and taxes	51,549	27,815
Other current liabilities	147,883	156,833
<b>Total current liabilities</b>	<b>650,691</b>	<b>723,496</b>
<b>Long-Term Liabilities:</b>		
Accumulated deferred income taxes	433,457	451,263
Accumulated deferred investment tax credits	32,897	33,806
Regulatory liabilities	391,459	402,253
Asset retirement obligations	56,968	55,646
Accrued pension liability and postretirement benefit cost	226,081	227,202
Other deferred credits	158,671	186,660
<b>Total long-term liabilities</b>	<b>1,299,533</b>	<b>1,356,830</b>
Commitments and Contingencies (see Note 9)	-	-
	\$ 5,002,963	\$ 5,124,709

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

**Three Months Ended March 31,**  
**2006** **2005**

(In thousands)

**Cash Flows From Operating Activities:**

Net earnings	\$	26,325	\$	30,509
Adjustments to reconcile net earnings to net cash flows from operating activities:				
Depreciation and amortization		40,011		36,275
Allowance for equity funds used during construction		47		(470)
Accumulated deferred income tax		(10,279)		(639)
Net unrealized gains on trading and investment securities		(3,933)		(923)
Realized gains on investment securities		(1,407)		(1,616)
Carrying charges on deferred stranded costs		(1,973)		-
Carrying charges on other regulatory assets and liabilities		1,298		-
Stock based compensation expense		4,373		-
Excess tax benefits from stock-based payment arrangements		(313)		-
Other, net		1,139		-
Changes in certain assets and liabilities, net of amounts acquired:				
Accounts receivable - customer		14,266		12,595
Accounts receivable - other		14,180		5,748
Unbilled revenues		31,491		18,341
Inventory		8,722		1,525
Regulatory assets		19,285		(3,776)
Other assets		10,280		(4,149)
Accrued postretirement benefit costs		(2,135)		(2,007)
Accounts payable		(102,391)		(22,060)
Accrued interest and taxes		24,046		44,129
PVNGS lease accrual		(16,573)		(16,573)
Other liabilities		(23,919)		(17,548)
Net cash flows from operating activities		32,540		79,361

**Cash Flows From Investing Activities:**

Utility plant additions		(50,406)		(28,390)
Nuclear fuel additions		(1,415)		(1,303)
Proceeds from sales of securities		30,449		28,222
Purchases of securities		(30,301)		(28,689)
Return of principal PVNGS lessor notes		10,956		9,998
Other, net		870		1,034
Net cash flows from investing activities		(39,847)		(19,128)



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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

**Three Months Ended March 31,**  
**2006** **2005**

(In thousands)

**Cash Flows From Financing Activities:**

Short-term borrowings (repayments), net	(1,213)	(72,900)
Long-term debt borrowings	-	239,832
Issuance of common stock	-	101,231
Net activity related to stock-based payment arrangements	(1,088)	(5,639)
Excess tax benefits from stock-based payment arrangements	313	-
Dividends paid	(13,758)	(11,318)
Other, net	624	145
Net cash flows from financing activities	(15,122)	251,351

**Increase (Decrease) in Cash and Cash**

Equivalents	(22,429)	311,584
Beginning of Period	68,199	17,195
End of Period	\$ 45,770	\$ 328,779

**Supplemental Cash Flow Disclosures:**

Interest paid, net of capitalized interest	\$ 25,750	\$ 12,370
Income taxes paid (refunded), net	\$ -	\$ (20,369)

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

**PNM RESOURCES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

**Three Months Ended March 31,**  
**2006** **2005**  
(In thousands)

<b>Net Earnings</b>	\$	26,325	\$	30,509
Other Comprehensive Income (Loss):				
<b>Unrealized gain (loss) on securities:</b>				
Unrealized holding gains (losses) arising during the period,				
net of tax (expense) benefit of \$(7,605) and \$66		11,604		(101)
Reclassification adjustment for gains included in net income,				
net of tax expense of \$319 and \$498		(486)		(760)
<b>Mark-to-market adjustment for certain derivative transactions:</b>				
Change in fair market value of designated cash flow hedges,				
net of tax (expense) benefit of \$9,064 and \$(2,070)		(14,646)		3,159
Reclassification adjustment for gains included in net income,				
net of tax expense of \$1,195 and \$917		(1,484)		(1,399)
<b>Total Other Comprehensive Income (Loss)</b>		<b>(5,012)</b>		<b>899</b>
<b>Total Comprehensive Income</b>	<b>\$</b>	<b>21,313</b>	<b>\$</b>	<b>31,408</b>

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.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

**Three Months Ended March 31,**  
**2006** **2005**

(In thousands)

**Operating Revenues:**

Electric	\$	311,467	\$	262,443
Gas		207,476		165,233
<b>Total operating revenues</b>		<b>518,943</b>		<b>427,676</b>

**Operating Expenses:**

Cost of energy sold	339,262	247,412
Administrative and general	41,128	40,479
Energy production costs	37,587	36,033
Depreciation and amortization	24,855	27,945
Transmission and distribution costs	14,307	14,063
Taxes, other than income taxes	9,313	8,292
Income taxes	14,962	14,643
<b>Total operating expenses</b>	<b>481,414</b>	<b>388,867</b>
<b>Operating income</b>	<b>37,529</b>	<b>38,809</b>

**Other Income and Deductions:**

Interest income	9,353	9,206
Other income	1,828	3,276
Other deductions	(851)	(1,164)
Other income taxes	(4,011)	(3,841)
<b>Net other income and deductions</b>	<b>6,319</b>	<b>7,477</b>

<b>Interest Charges</b>	13,420	13,800
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<b>Net Earnings</b>	30,428	32,486
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<b>Preferred Stock Dividend Requirements</b>	132	132
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<b>Net Earnings Available for Common Stock</b>	\$	30,296	\$	32,354
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The accompanying notes, as they relate to PNM, are an integral part of these financial statements.



\$	3,450,545	\$	3,587,751
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The accompanying notes, as they relate to PNM, are an integral part of these financial statements.



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

**Three Months Ended March 31,**  
**2006** **2005**

(In thousands)

**Cash Flows From Operating Activities:**

Net earnings	\$	30,428	\$	32,486
Adjustments to reconcile net earnings to net cash flows from operating activities:				
Depreciation and amortization		29,780		35,393
Allowance for equity funds used during construction		1		(470)
Accumulated deferred income tax		(11,832)		(639)
Net unrealized gains on trading securities		(504)		(923)
Realized gains on investment securities		(1,407)		(1,616)
Carrying charges on other regulatory assets and liabilities		1,298		-
Changes in certain assets and liabilities:				
Accounts receivable - customer		11,075		12,595
Accounts receivable - other		9,253		7,151
Unbilled revenues		26,326		18,341
Inventory		8,873		1,719
Regulatory assets		20,899		(3,776)
Other assets		14,942		(573)
Accrued postretirement benefit costs		(1,628)		(2,007)
Accounts payable		(86,765)		(27,888)
Accrued interest and taxes		36,800		20,062
PVNGS lease accrual		(16,573)		(16,573)
Other liabilities		(24,948)		(29,241)
Net cash flows from operating activities		46,018		44,041

**Cash Flows From Investing Activities:**

Utility plant additions		(37,391)		(23,686)
Nuclear fuel additions		(1,415)		(1,303)
Proceeds from sales of securities		30,449		28,222
Purchases of securities		(30,301)		(28,689)
Return of principal PVNGS lessor notes		10,956		9,998
Other, net		652		513
Net cash flows from investing activities		(27,050)		(14,945)

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.**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited)

	Post-Acquisition Three Months Ended 2006	██████████ ██████████ ██████████ 2005	Pre-Acquisition Three Months Ended 2005
	(In thousands)		
<b>Operating Revenues:</b>			
Electric	\$ 62,685	██████████	\$ 65,882
Total operating revenues	62,685	██████████	65,882
<b>Operating Expenses:</b>			
Cost of energy sold	27,172	██████████	27,092
Administrative and general	11,231	██████████	6,497
Depreciation and amortization	7,731	██████████	7,518
Transmission and distribution costs	4,713	██████████	5,167
Taxes, other than income taxes	5,607	██████████	6,033
Income taxes	(680)	██████████	2,247
Total operating expenses	55,774	██████████	54,554
Operating income	6,911	██████████	11,328
<b>Other Income and Deductions:</b>			
Interest income	255	██████████	290
Other income	186	██████████	271
Carrying charges on regulatory assets	1,973	██████████	(2,801)
Other deductions	(30)	██████████	(49)
Other income taxes	(912)	██████████	869
Net other income and deductions	1,472	██████████	(1,420)
<b>Interest Charges</b>	7,227	██████████	7,032
<b>Net Earnings</b>	\$ 1,156	██████████	\$ 2,876

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



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.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

	<b>March 31, 2006 <sup>(a)</sup></b>	<b>December 31, 2005</b>
	(In thousands)	
<b>CAPITALIZATION AND LIABILITIES</b>		
<b>Capitalization:</b>		
Common stockholder's equity:		
Common stock outstanding (\$10 par value, 12,000,000 shares authorized: issued 9,615 at March 31, 2006 and December 31, 2005)		
	\$ 96	\$ 96
Paid-in-capital	494,287	494,287
Accumulated other comprehensive loss, net of tax	(29)	(29)
Retained earnings	6,606	5,450
<b>Total common stockholder's equity</b>	<b>500,960</b>	<b>499,804</b>
Long-term debt	415,938	415,864
<b>Total capitalization</b>	<b>916,898</b>	<b>915,668</b>
<b>Current Liabilities:</b>		
Accounts payable	13,083	11,913
Accrued interest and taxes	17,807	24,250
Accrued payroll and benefits	2,385	3,268
Other current liabilities	5,017	5,516
<b>Total current liabilities</b>	<b>38,292</b>	<b>44,947</b>
<b>Long-Term Liabilities:</b>		
Accumulated deferred income taxes	140,032	139,405
Accumulated deferred investment tax credits	1,343	1,540
Regulatory liabilities	57,500	56,246
Accrued pension liability	2,875	3,585
Accrued postretirement benefit cost	6,728	6,525
Other deferred credits	652	1,174
<b>Total long-term liabilities</b>	<b>209,130</b>	<b>208,475</b>
Commitments and Contingencies (see Note 9)	-	-
	\$ 1,164,320	\$ 1,169,090

<sup>(a)</sup> As restated, see Note 14.

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.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	Post-Acquisition Three Months Ended 2006	██████████ ██████████ ██████████ 2005	Pre-Acquisition Three Months Ended 2005
	(In thousands)		
<b>Cash Flows From Operating Activities:</b>			
Net earnings	\$ 1,156	██████████	\$ 2,876
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization	7,805	██████████	7,592
Allowance for equity funds used during construction	(47)	██████████	(39)
Accumulated deferred income tax	430	██████████	(1,486)
Carrying charges on deferred stranded costs	(1,973)	██████████	2,801
Interest on retail competition transition obligation	437	██████████	-
Other, net	(7)	██████████	-
Changes in certain assets and liabilities:			
Accounts receivable	2,194	██████████	243
Unbilled revenues	(316)	██████████	2,469
Other assets	1,838	██████████	2,739
Accrued postretirement benefit costs	(507)	██████████	329
Accounts payable	725	██████████	(4,999)
Accrued interest and taxes	(6,477)	██████████	(4,498)
Change in affiliate accounts	4,528	██████████	540
Other liabilities	(1,746)	██████████	2,745
Net cash flows from operating activities	8,040	██████████	11,312
<b>Cash Flows From Investing Activities:</b>			
Utility plant additions	(7,216)	██████████	(9,447)
Other, net	31	██████████	(160)
Net cash flows from investing activities	(7,185)	██████████	(9,607)

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.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	<b>Post-Acquisition</b>	<b>Pre-Acquisition</b>
	<b>Three Months Ended</b>	<b>March 31,</b>
	<b>2006</b>	<b>2005</b>
	<b>(In thousands)</b>	
<b>Cash Flows From Financing Activities:</b>		
Other, net	34	-
Net cash flows from financing activities	34	-
Increase in Cash and Cash Equivalents	889	1,705
Beginning of Period	16,228	65,759
End of Period	\$ 17,117	\$ 67,464
<b>Supplemental Cash Flow Disclosures:</b>		
Interest paid, net of capitalized interest	\$ 5,482	\$ 5,242
Income taxes paid, net	\$ -	\$ -

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.**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited)

	<b>Post-Acquisition</b>	<b>Pre-Acquisition</b>
	<b>Three Months Ended</b>	<b>March 31,</b>
	<b>2006</b>	<b>2005</b>
	(In thousands)	
<b>Net Earnings</b>	\$ 1,156	\$ 2,876
Other Comprehensive Income:		
Interest rate hedge net of reclassification adjustment, net of income		
tax benefit (expense) of \$0 and \$(79)	-	129
<b>Total Other Comprehensive Income</b>	-	129
<b>Total Comprehensive Income</b>	\$ 1,156	\$ 3,005

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

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**(1) Significant Accounting Policies and Responsibility for Financial Statements**

In the opinion of the management of PNMR, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments which are necessary to present fairly the Company's financial position at March 31, 2006 and December 31, 2005, the consolidated results of its operations and comprehensive income for the three months ended March 31, 2006 and 2005 and the consolidated statements of cash flows for the three months ended March 31, 2006 and 2005. These Condensed Consolidated Financial Statements are unaudited, and certain information and note disclosures normally included in the Company's annual Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. PNMR's three primary subsidiaries are PNM, TNMP and First Choice. Readers of these financial statements should refer to PNMR's, PNM's and TNMP's audited Consolidated Financial Statements and Notes thereto for the year ended December 31, 2005 that are included in their respective Annual Reports on Form 10-K/A (Amendment No. 2) for the year ended December 31, 2005. The results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

*TNP Acquisition*

As discussed in Note 2, on June 6, 2005, PNMR completed the acquisition of TNP effective at 8:00 AM Central Daylight Time. The acquisition was accounted for using the purchase method of accounting. 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 TNP's principal subsidiaries, TNMP and First Choice. Accordingly, TNMP's post-acquisition financial statements reflect a new basis of accounting, and separate financial statements and note amounts in tabular format are presented for pre-acquisition and post-acquisition periods, separated by a heavy black line.

*Presentation*

The Notes to Condensed Consolidated Financial Statements 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.

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.

*Change in Presentation*

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

*Principles of Consolidation*

The Condensed 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 and TNMP in 2006 or 2005 include energy purchases and sales, dividends paid on common stock and consolidation of the PVNGS capital trust. All significant intercompany transactions and balances have been eliminated. See Note 12.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

*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.

*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.

*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. 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 materials 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. 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.

*Stock-Based Compensation*

See Note 6 for a comprehensive discussion of the accounting for stock-based compensation expense, including a discussion of the assumptions used to estimate the fair market value of awards.



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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

*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 March 31, 2006 and December 31, 2005, the regulatory asset recorded on the Condensed Consolidated Balance Sheets for carrying costs was \$35.9 million and \$33.9 million, respectively (see Note 10).

**(2) Acquisitions**

*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.

*Twin Oaks*

On April 18, 2006, PNMR's wholly owned subsidiary, Altura, purchased Twin Oaks, a 305 MW coal-fired power plant located 150 miles south of Dallas, Texas for \$480.0 million in cash. PNMR secured bridge financing for Altura to close the transaction (see Note 7). It is expected that permanent financing will be provided by a combination of long-term debt and equity.

**(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 PNM Wholesale and TNMP Electric.

**TNMP Electric**

TNMP Electric consists of the operations of TNMP, a regulated utility. In Texas, TNMP Electric provides regulated transmission and distribution services. In New Mexico, TNMP Electric provides integrated electricity services that include the transmission, distribution, purchase and sale of electricity to its New Mexico customers as well as transmission to third parties and to PNM. TNMP Electric's Texas and New Mexico operations are subject to



traditional cost-of-service regulation.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**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**

**PNM Wholesale**

PNM Wholesale consists of the generation and sale of electricity into the wholesale market. PNM 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 PNM Wholesale, the Company includes PNM Wholesale in the unregulated portion of its business because PNM Wholesale is not subject to traditional rate of return regulation.

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*" ("EITF 03-11"), are included in Corporate and Other. This requires a net presentation of trading gains and losses and realized gains and losses for certain non-trading derivatives. Management evaluates PNM 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.

**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 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.

**CORPORATE AND OTHER**

PNMR created PNMR Services Company, a services company, which began operation on January 1, 2005, and is included in the Corporate and Other segment. PNMR provides energy and technology related services through its wholly owned subsidiary, Avistar, and those results are also included in the Corporate and Other segment.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

PNMR Segment Information

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

Segments of Business	PNM Electric	Regulated TNMP Electric	PNM Gas	Unregulated PNM Wholesale	First Choice	Corporate & Other	Consolidated
<b>2006:</b>							
Operating revenues	\$ 136,596	\$ 46,969	\$ 207,476	\$ 164,311	\$ 105,082	\$ (4,633) (a)	\$ 655,801
Intersegment revenues	2,182	15,716	49	15,177	-	(33,124)	-
<b>Total revenues</b>	<b>138,778</b>	<b>62,685</b>	<b>207,525</b>	<b>179,488</b>	<b>105,082</b>	<b>(37,757)</b>	<b>655,801</b>
Less: Cost of energy	45,474	27,172	157,691	142,877	90,335	(37,577) (a)	425,972
Intersegment energy							
Transfer	(5,178)	-	-	5,178	-	-	-
<b>Gross margin</b>	<b>98,482</b>	<b>35,513</b>	<b>49,834</b>	<b>31,433</b>	<b>14,747</b>	<b>(180)</b>	<b>229,829</b>
Operating expenses	67,154	21,532	25,090	11,785	13,178	167 (b)	138,906
Depreciation and							
amortization	14,972	7,731	5,920	3,161	498	2,048	34,330
Income taxes	3,072	(673)	6,266	5,014	300	(3,732) (b)	10,247
<b>Operating income</b>	<b>13,284</b>	<b>6,923</b>	<b>12,558</b>	<b>11,473</b>	<b>771</b>	<b>1,337</b>	<b>46,346</b>
Interest income	6,511	255	1,265	1,279	392	449	10,151
Other							
income/(deductions)	198	2,129	101	706	(10)	368	3,492
Other income taxes	(2,656)	(912)	(541)	(786)	(139)	(67)	(5,101)
Interest charges	(8,597)	(7,227)	(2,997)	(3,821)	(224)	(5,697)	(28,563)
<b>Segment net income</b>							
<b>(loss)</b>	<b>\$ 8,740</b>	<b>\$ 1,168</b>	<b>\$ 10,386</b>	<b>\$ 8,851</b>	<b>\$ 790</b>	<b>\$ (3,610)</b>	<b>\$ 26,325</b>
<b>Gross property</b>							
<b>additions</b>	<b>\$ 30,316</b>	<b>\$ 7,216</b>	<b>\$ 4,365</b>	<b>\$ 3,751</b>	<b>\$ 297</b>	<b>\$ 5,876</b>	<b>\$ 51,821</b>
<b>At March 31, 2006:</b>							
<b>Total assets</b>	<b>\$ 1,913,142</b>	<b>\$ 1,168,674 (c)</b>	<b>\$ 650,588</b>	<b>\$ 406,267</b>	<b>\$ 327,431 (c)</b>	<b>\$ 536,861</b>	<b>\$ 5,002,963</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 367,245 (c)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 131,910 (c)</b>	<b>\$ -</b>	<b>\$ 499,155</b>

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of \$4.7 million are reclassified to a net margin basis in accordance with GAAP.

(b) Includes TNP acquisition integration costs of \$0.9 million and an income tax benefit of \$0.4 million in income taxes.

(c) As restated, see Note 14.



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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

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

Segments of Business	Regulated		Unregulated				Consolidated
	PNM Electric	TNMP Electric	PNM Gas	PNM Wholesale	First Choice	Corporate & Other	
<b>2005:</b>							
Operating revenues	\$ 132,491	\$ -	\$ 165,233	\$ 132,004	\$ -	\$ (1,815) (a)	\$ 427,913
Intersegment revenues	1,691	-	53	-	-	(1,744)	-
<b>Total revenues</b>	<b>134,182</b>	<b>-</b>	<b>165,286</b>	<b>132,004</b>	<b>-</b>	<b>(3,559)</b>	<b>427,913</b>
Less: Cost of energy	47,403	-	114,435	89,312	-	(3,672) (a)	247,478
Intersegment energy							
Transfer	(14,123)	-	-	14,123	-	-	-
<b>Gross margin</b>	<b>100,902</b>	<b>-</b>	<b>50,851</b>	<b>28,569</b>	<b>-</b>	<b>113</b>	<b>180,435</b>
Operating expenses	63,337	-	24,091	10,888	-	1,959	100,275
Depreciation and amortization	17,558	-	5,576	3,987	-	1,706	28,827
Income taxes	4,499	-	7,229	3,831	-	(2,168)	13,391
<b>Operating income (loss)</b>	<b>15,508</b>	<b>-</b>	<b>13,955</b>	<b>9,863</b>	<b>-</b>	<b>(1,384)</b>	<b>37,942</b>
Interest income	7,216	-	756	1,344	-	454	9,770
Other income/(deductions)	557	-	77	933	-	(595)	972
Other income taxes	(3,077)	-	(330)	(901)	-	424	(3,884)
Interest charges	(8,643)	-	(2,924)	(4,016)	-	1,292	(14,291)
<b>Segment net income</b>	<b>\$ 11,561</b>	<b>\$ -</b>	<b>\$ 11,534</b>	<b>\$ 7,223</b>	<b>\$ -</b>	<b>\$ 191</b>	<b>\$ 30,509</b>
<b>Gross property additions</b>	<b>\$ 14,624</b>	<b>\$ -</b>	<b>\$ 8,946</b>	<b>\$ 3,667</b>	<b>\$ -</b>	<b>\$ 2,456</b>	<b>\$ 29,693</b>
<b>At December 31, 2005:</b>							
<b>Total assets</b>	<b>\$ 1,937,811</b>	<b>\$ 1,169,090</b>	<b>\$ 721,021</b>	<b>\$ 421,377</b>	<b>\$ 318,820</b>	<b>\$ 556,590</b>	<b>\$ 5,124,709</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 367,245</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 131,910</b>	<b>\$ -</b>	<b>\$ 499,155</b>

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of \$2.1 million are reclassified to a net margin basis in accordance with GAAP.

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

PNM Segment Information

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

Segments of Business	PNM Electric	PNM Gas	PNM Wholesale	Other	Consolidated
<b>2006:</b>					
Operating revenues	\$ 136,596	\$ 207,476	\$ 164,311	\$ (4,741)	(a) \$ 503,642
Intersegment revenues	2,182	49	15,177	(2,107)	15,301
<b>Total revenues</b>	<b>138,778</b>	<b>207,525</b>	<b>179,488</b>	<b>(6,848)</b>	<b>518,943</b>
Less: Cost of energy	45,474	157,691	142,877	(6,780)	(a) 339,262
Intersegment energy transfer	(5,178)	-	5,178	-	-
<b>Gross margin</b>	<b>98,482</b>	<b>49,834</b>	<b>31,433</b>	<b>(68)</b>	<b>179,681</b>
Operating expenses	67,154	25,090	11,785	(1,694)	102,335
Depreciation and amortization	14,972	5,920	3,161	802	24,855
Income taxes	3,072	6,266	5,014	610	14,962
<b>Operating income</b>	<b>13,284</b>	<b>12,558</b>	<b>11,473</b>	<b>214</b>	<b>37,529</b>
Interest income	6,511	1,265	1,279	298	9,353
Other income/(deductions)	198	101	706	(160)	845
Other income taxes	(2,656)	(541)	(786)	(28)	(4,011)
Interest charges	(8,597)	(2,997)	(3,821)	1,995	(13,420)
<b>Segment net income</b>	<b>\$ 8,740</b>	<b>\$ 10,386</b>	<b>\$ 8,851</b>	<b>\$ 2,319</b>	<b>\$ 30,296</b>
<b>Gross property additions</b>	<b>\$ 30,316</b>	<b>\$ 4,365</b>	<b>\$ 3,751</b>	<b>\$ 374</b>	<b>\$ 38,806</b>
<b>At March 31, 2006:</b>					
<b>Total assets</b>	<b>\$ 1,913,142</b>	<b>\$ 650,588</b>	<b>\$ 406,267</b>	<b>\$ 480,548</b>	<b>\$ 3,450,545</b>

(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of \$4.7 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 three months ended March 31, 2005 is as follows (in thousands):

Segments of Business	PNM Electric	PNM Gas	PNM Wholesale	Other	Consolidated
<b>2005:</b>					
Operating revenues	\$ 132,491	\$ 165,233	\$ 132,004	\$ (2,052)	(a) \$ 427,676
Intersegment revenues	1,691	53	-	(1,744)	-
<b>Total revenues</b>	<b>134,182</b>	<b>165,286</b>	<b>132,004</b>	<b>(3,796)</b>	<b>427,676</b>
Less: Cost of energy	47,403	114,435	89,312	(3,738)	(a) 247,412
Intersegment energy transfer	(14,123)	-	14,123	-	-
<b>Gross margin</b>	<b>100,902</b>	<b>50,851</b>	<b>28,569</b>	<b>(58)</b>	<b>180,264</b>
Operating expenses	63,337	24,091	10,888	551	98,867
Depreciation and amortization	17,558	5,576	3,987	824	27,945
Income taxes	4,499	7,229	3,831	(916)	14,643
<b>Operating income (loss)</b>	<b>15,508</b>	<b>13,955</b>	<b>9,863</b>	<b>(517)</b>	<b>38,809</b>
Interest income	7,216	756	1,344	(110)	9,206
Other income/(deductions)	557	77	933	413	1,980
Other income taxes	(3,077)	(330)	(901)	467	(3,841)
Interest charges	(8,643)	(2,924)	(4,016)	1,783	(13,800)
<b>Segment net income</b>	<b>\$ 11,561</b>	<b>\$ 11,534</b>	<b>\$ 7,223</b>	<b>\$ 2,036</b>	<b>\$ 32,354</b>
<b>Gross property additions</b>	<b>\$ 14,624</b>	<b>\$ 8,946</b>	<b>\$ 3,667</b>	<b>\$ (2,248)</b>	<b>\$ 24,989</b>

**At December 31, 2005:**

<b>Total assets</b>	\$ 1,937,811	\$ 721,021	\$ 421,377	\$ 507,542	\$ 3,587,751
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(a) Reflects EITF 03-11 impact, under which wholesale revenues and the associated cost of energy of \$2.1 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.

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**(4) Fair Value of Financial Instruments**

The Company may enter into agreements for the sale or purchase of derivative instruments, including options and swaps, to manage risks related to changes in interest rates. At the inception of any such transaction, the Company documents the relationships between the hedging instruments and the items being hedged. This documentation includes the strategy that supports executing the specific transaction. See Note 7 for details regarding interest rate swaps PNMR has entered into.

GAAP defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, the fair value estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current transaction. Fair value is based on current market quotes. The market prices used to fair value PNM's energy portfolio are based on closing exchange prices and over-the-counter quotations.

PNMR

*Normal Sales and Purchases Transactions*

PNMR's subsidiary, First Choice, enters into physical energy contracts to meet the needs of its competitive and price-to-beat customer load. These contracts qualify for "normal" accounting designation pursuant to SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as the energy purchased is physically delivered and sold to First Choice customers within ERCOT. Expenses related to these purchases are recorded in cost of energy.

*Hedge Accounting Transactions*

First Choice also enters into natural gas transactions to hedge the variable component of certain heat-rate power products used to serve customer load. These products are priced based on gas to power conversion rates using the spot price for natural gas. The contracts qualify for hedge accounting treatment under SFAS 133 and there is no hedge ineffectiveness on these transactions because the underlying contract and the derivative instrument are both indexed to the NYMEX rates. As a result any market changes in valuation are recorded in other comprehensive income. The fair value of the natural gas hedges as of March 31, 2006, was a short-term loss of \$6.0 million, of which \$6.4 million is recorded in other current liabilities and \$0.4 million is recorded in other current assets. For the three months ended March 31, 2006, First Choice's cost of energy includes losses of \$7.8 million related to the settlement of natural gas hedges.

*Mark-to-Market Transactions*

*Electricity Contracts*

First Choice enters into various forward physical contracts for the purchase and sale of electricity with the intent of optimizing market opportunities. These contracts, which are derivatives, do not qualify for "normal" or "hedge"



designation pursuant to SFAS 133, and are marked to market. At March 31, 2006, First Choice had a short-term mark-to-market unrealized gain (asset position) of \$14.0 million recorded in other current assets. First Choice also had a short-term mark-to-market unrealized loss (liability position) of \$11.7 million recorded in other current liabilities and a long-term mark-to-market unrealized loss of \$0.3 million recorded in other deferred credits.

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*Gas Contracts*

First Choice enters into various gas contracts to optimize market opportunities. These contracts are marked to market in accordance with SFAS 133. The change in market valuation is recognized in earnings each period. For the three months ended March 31, 2006, First Choice had a net settled loss of \$0.5 million related to natural gas contracts. At March 31, 2006, First Choice had a short-term mark-to-market unrealized gain (asset position) of \$15.9 million recorded in other current assets and a long-term mark-to-market unrealized gain of \$0.2 million recorded in other deferred charges. First Choice also had a short-term mark-to-market unrealized loss (liability position) of \$14.3 million recorded in other current liabilities and a long-term mark-to-market unrealized loss of \$0.3 million recorded in other deferred credits.

PNM

*Normal Sales and Purchases Transactions*

PNM enters into physical gas contracts to meet the needs of its gas retail sales-service customers. These contracts qualify for "normal" accounting designations pursuant to SFAS 133 as the gas is physically delivered and sold to end-use customers.

PNM also enters into forward physical contracts for the sale of PNM's electric capacity in excess of its retail and wholesale firm requirement needs, including reserves. In addition, PNM enters into forward physical contracts for the purchase of retail needs, including reserves, when resource shortfalls exist. PNM generally accounts for these as normal sales and purchases as defined by SFAS 133. From time to time PNM makes forward purchases to serve its retail needs when the cost of purchased power is less than the incremental cost of its generation. At March 31, 2006, PNM had open forward positions classified as normal sales of electricity of \$172.4 million and normal purchases of electricity of \$44.7 million, which will be reflected in the financial statements upon physical delivery.

The operations of PNM, including both firm commitments and other wholesale sale activities, are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open position is covered by its own excess generation capabilities. PNM is exposed to market risk if its generation capabilities were disrupted or if its retail load requirements were greater than anticipated. If PNM were required to cover all or a portion of its net open contract position, it would have to meet its commitments through market purchases.

Counterparties to its financial and physical derivative instruments expose PNM to credit risk in the event of non-performance or non-payment. PNM uses a credit management process to assess and monitor the financial conditions of counterparties. PNM's credit risk with its largest wholesale counterparty as of March 31, 2006 and December 31, 2005 was \$28.8 million and \$20.5 million, respectively.

*Hedge Accounting Transactions - PGAC*

The NMPRC has authorized PNM to use financial instruments to hedge certain portions of natural gas supply contracts during the winter months to protect PNM's sales-service gas customers from the risk of adverse price fluctuations in the natural gas market. PNM has elected to use call options and swaps to hedge certain portions of the

physical gas purchase contracts used exclusively for resale to PNM's sales-service gas customers. The contracts qualify for hedge accounting treatment under SFAS 133. Option premium expenses are deferred on PNM's balance sheet as prepaid gas costs as incurred and amortized into the PGAC for recovery as a component of gas costs during the winter heating season. Option premium expense and hedge gains and losses from both types of instruments are passed through PNM's PGAC with no income statement effect if deemed prudently incurred by the NMPRC.

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At March 31, 2006 and December 31, 2005, PNM had \$0 and \$3.4 million of unrecovered option premium costs associated with its call options included in other current assets. PNM recovered \$3.4 million of option premiums as a component of the PGAC during the three months ended March 31, 2006. Included as a reduction of gas costs in the PGAC were call option settlements of \$1.9 million during the three months ended March 31, 2006.

PNM also enters into financial swaps to hedge the variable portion of its winter gas portfolio. PNM has hedged 10.9 million MMBtus utilizing the fixed-for-float strategy for 2005-2006 and the 2006-2007 winter heating season. For the three months ended March 31, 2006, PNM settled fixed-for-float financial transactions resulting in a net loss of \$0.3 million, which was passed through PNM's PGAC.

*Hedge Accounting Transactions - Gas Off-System Sales*

PNM enters into financial swaps to hedge the variable component of its physical natural gas purchases and sales. Both the hedges and the underlying contracts are indexed to the NYMEX rates, and the price movements in the financial transactions offset price movements in the underlying contracts. The hedges are based on prices for spot gas delivered to pipelines at basins within the state of New Mexico. The hedges are effective in offsetting future cash flow volatility caused by changes in natural gas prices. These hedges qualify as cash flow hedges pursuant to SFAS 133. The value of the natural gas hedges as of March 31, 2006, was a gain of \$0.2 million, which is recorded in other current assets. For the three months ended March 31, 2006 and 2005, PNM had no settlements of these gas hedges. There were no open positions for these financial transactions at December 31, 2005. Valuation prior to settlement and eventual settled margins from these types of transactions are shared on a 70%/30% basis with PNM's customers and PNM, respectively. The eventual settled margins from these transactions are returned to PNM's customers.

*Hedge Accounting Transactions - Wholesale Electricity*

PNM enters into various forward physical contracts to hedge the cash flow risk associated with PNM's forecasted excess generation. These hedges are effective in offsetting future cash flow volatility caused by changes in the forward price of electricity and qualify for hedge accounting under SFAS 133. The value of the electricity hedges as of March 31, 2006 was a liability of \$1.4 million, recorded in other deferred charges. There is no hedge ineffectiveness on these transactions because the hedged transactions and the hedged item are based on the same forward curve.

*Hedge Accounting Transactions - Wholesale Gas*

PNM also enters into various fixed-for-float price swaps to manage the costs associated with running PNM's gas generation units. The hedges are effective in offsetting future cash flow volatility caused by increases in natural gas prices. At March 31, 2006, PNM had a gross mark-to-market unrealized gain (asset position) on these derivative forward contracts of \$7.3 million, recorded in other current assets and other deferred charges, and a gross mark-to-market unrealized loss (liability position) of \$0.6 million, recorded in other current liabilities and other deferred credits. There is no hedge ineffectiveness on these transactions because the hedged transactions and the hedged item are based on the same forward curve.



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*Mark-to-Market Transactions - Wholesale Electricity*

For the three months ended March 31, 2006, PNM settled derivative forward contracts for the sale of electricity that generated \$18.8 million of electric revenues by delivering 0.3 million MWh. For the three months ended March 31, 2006, PNM settled derivative forward contracts for the purchase of electricity of \$22.4 million, or 0.3 million MWh, to support these contractual sales and other open market opportunities. For the three months ended March 31, 2005, PNM settled derivative forward contracts for the sale of electricity that generated \$37.9 million of electric revenues by delivering 0.8 million MWh. PNM settled derivative forward contracts for the purchase of electricity of \$28.1 million, or 0.6 million MWh, to support these contractual sales and other open market opportunities.

At March 31, 2006, PNM had open derivative forward contract positions to buy \$69.0 million and to sell \$88.2 million of electricity. At March 31, 2006, PNM had a gross mark-to-market unrealized gain (asset position) on these derivative forward contracts of \$13.6 million, recorded in other current assets and other deferred charges, and a gross mark-to-market unrealized loss (liability position) of \$12.1 million, recorded in other current liabilities and other deferred credits. As of March 31, 2005, PNM had open derivative forward contract positions to buy \$37.2 million and to sell \$56.3 million of electricity. At March 31, 2005, PNM had a gross mark-to-market unrealized gain (asset position) on these derivative forward contracts of \$9.8 million, recorded in other current assets and other deferred charges, and a gross mark-to-market unrealized loss (liability position) of \$8.3 million, recorded in other current liabilities and other deferred credits.

*Mark-to-Market Transactions - Wholesale Gas*

PNM enters into various fixed-for-float price swaps to manage the price risk of certain forward sales of power. These contracts, along with the underlying power sales, are marked to market in accordance with GAAP. The change in mark-to-market valuation is recognized in earnings each period and is recorded in operating revenues, if a sales position, and cost of energy, if a purchase position, as applicable.

For the three months ended March 31, 2006, PNM settled derivative forward contracts for the sale of gas that generated \$3.9 million of revenues and settled derivative forward contracts for the purchase of gas of \$4.5 million. For the three months ended March 31, 2005, PNM did not settle any such contracts.

At March 31, 2006, PNM had a gross mark-to-market unrealized gain (asset position) on these derivative forward contracts of \$1.2 million, recorded in other current assets. At March 31, 2005, PNM had a gross mark-to-market unrealized gain (asset position) on these derivative forward contracts of \$4.7 million, recorded in other current assets and other deferred charges, and a gross mark-to-market unrealized loss (liability position) of \$3.2 million, recorded in other current liabilities and other deferred credits.

TNMP

*Normal Sales and Purchases Transactions*

In the normal course of business, TNMP enters into commodity contracts, which include components for additional purchases or sales of electricity, in order to meet customer requirements. Criteria by which option-type and forward

contracts for electricity can qualify for the normal purchase and sales exception have been defined by SFAS 133. In accordance with SFAS 133, management has determined that its contracts for electricity qualify for the normal purchases and sales exception.

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**(5) Earnings Per Share**