

TEXAS NEW MEXICO POWER CO

Form 10-Q

November 02, 2012

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

Commission File Number	Name of 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) 577 N. Garden Ridge Blvd. Lewisville, Texas 75067 (972) 420-4189	75-0204070

Indicate by check mark whether each registrant (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.

PNM Resources, Inc. ("PNMR")	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>
Public Service Company of New Mexico ("PNM")	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>
Texas-New Mexico Power Company ("TNMP")	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>

(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 whether each registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PNMR
PNM
TNMP

YES ü NO
YES ü NO
YES ü NO

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

	Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
PNMR	ü			
PNM			ü	
TNMP			ü	

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 ü

As of October 26, 2012, 79,653,624 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 October 26, 2012 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 October 26, 2012 was 6,358 all held indirectly by PNMR (and none held by non-affiliates).

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 combined Form 10-Q is separately filed by PNMR, PNM, and TNMP. Information contained herein relating to any individual registrant is filed by such registrant on its own behalf. Each registrant makes no representation as to information relating to the other registrants. When this Form 10-Q is incorporated by reference into any filing with the SEC made by PNMR, PNM, or TNMP, as a registrant, the portions of this Form 10-Q that relate to each other registrant are not incorporated by reference therein.

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

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GLOSSARY

Definitions:

Afton	Afton Generating Station
AFUDC	Allowance for Funds Used During Construction
ALJ	Administrative Law Judge
AMS	Advanced Meter System
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company, which is the operator and a co-owner of PVNGS and Four Corners
BART	Best Available Retrofit Technology
BHP	BHP Billiton, Ltd, the Parent of SJCC
Board	Board of Directors of PNMR
CAA	Clean Air Act
CCB	Coal Combustion Byproducts
CO ₂	Carbon Dioxide
CTC	Competition Transition Charge
D.C. Circuit	U.S. Court of Appeals for the District of Columbia Circuit
Decatherm	Million British Thermal Units
Delta	Delta-Person Generating Station
DOE	United States Department of Energy
DOI	United States Department of Interior
ECJV	ECJV Holdings, LLC, a wholly owned subsidiary of Cascade Investment, L.L.C.
EIB	New Mexico Environmental Improvement Board
EIP	Eastern Interconnection Project
EPA	United States Environmental Protection Agency
ERCOT	Electric Reliability Council of Texas
Exchange Act	Securities Exchange Act of 1934
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
First Choice	FCP Enterprises, Inc. and Subsidiaries
Four Corners	Four Corners Power Plant
FPPAC	Fuel and Purchased Power Adjustment Clause
GAAP	Generally Accepted Accounting Principles in the United States of America
GEaR	Gross Earnings at Risk
GHG	Greenhouse Gas Emissions
GWh	Gigawatt hours
IBEW	International Brotherhood of Electrical Workers, Local 611
IRP	Integrated Resource Plan
KW	Kilowatt
KWh	Kilowatt Hour
Lordsburg	Lordsburg Generating Station
Luna	Luna Energy Facility
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
Moody's	Moody's Investor Services, Inc.
MW	Megawatt
MWh	Megawatt Hour
NAAQS	National Ambient Air Quality Standards
Navajo Acts	

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Navajo Nation Air Pollution Prevention and Control Act, Navajo Nation Safe Drinking Water Act, and Navajo Nation Pesticide Act

NDT Nuclear Decommissioning Trusts for PVNGS

NEC Navopache Electric Cooperative, Inc.

NERC North American Electric Reliability Corporation

NMAG New Mexico Attorney General

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NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission
NOI	Notice of Inquiry
NOPR	Notice of Proposed Rulemaking
NO _x	Nitrogen Oxides
NRC	United States Nuclear Regulatory Commission
NSPS	New Source Performance Standards
NSR	New Source Review
O&M	Operations and Maintenance
OCI	Other Comprehensive Income
OPEB	Other Post Employment Benefits
Optim Energy	Optim Energy, LLC, a limited liability company, formerly known as EnergyCo, LLC
OSM	United States Office of Surface Mining Reclamation and Enforcement
PCRBs	Pollution Control Revenue Bonds
PNM	Public Service Company of New Mexico and Subsidiaries, a wholly owned subsidiary of PNMR
PNM Revolving Credit Facility	PNM's \$400.0 Million Unsecured Revolving Credit Facility
PNMR	PNM Resources, Inc. and Subsidiaries
PNMR Revolving Credit Facility	PNMR's \$300.0 Million Unsecured Revolving Credit Facility
PPA	Power Purchase Agreement
PSD	Prevention of Significant Deterioration
PUCT	Public Utility Commission of Texas
PV	Photovoltaic
PVNGS	Palo Verde Nuclear Generating Station
RCRA	Resource Conservation and Recovery Act
RCT	Reasonable Cost Threshold
REA	New Mexico's Renewable Energy Act of 2004
REC	Renewable Energy Certificates
REP	Retail Electricity Provider
RFP	Request for Proposal
RMC	Risk Management Committee
RPS	Renewable Energy Portfolio Standard
SCE	Southern California Edison Company
SCR	Selective Catalytic Reduction
SEC	United States Securities and Exchange Commission
SIP	State Implementation Plan
SJCC	San Juan Coal Company
SJGS	San Juan Generating Station
SNCR	Selective Non-Catalytic Reduction
SO ₂	Sulfur Dioxide
SPS	Southwestern Public Service Company
S&P	Standard and Poor's Ratings Services
TECA	Texas Electric Choice Act
Tenth Circuit	U.S. Court of Appeals for the Tenth Circuit
TNMP	Texas-New Mexico Power Company and Subsidiaries, a wholly owned subsidiary of TNP TNMP's \$75.0 Million Revolving Credit Facility

TNMP Revolving
Credit Facility

TNP
Valencia
VaR

TNP Enterprises, Inc. and Subsidiaries, a wholly owned subsidiary of PNMR
Valencia Energy Facility
Value at Risk

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Electric Operating Revenues	\$390,411	\$549,498	\$1,019,646	\$1,352,747
Operating Expenses:				
Cost of energy	110,777	250,854	297,342	582,814
Administrative and general	45,283	69,755	135,371	197,016
Energy production costs	40,365	39,730	131,546	135,510
Regulatory disallowances	—	—	—	21,402
Depreciation and amortization	42,820	42,370	122,289	119,115
Transmission and distribution costs	17,082	17,925	50,896	52,962
Taxes other than income taxes	15,934	20,580	45,218	50,564
Total operating expenses	272,261	441,214	782,662	1,159,383
Operating income	118,150	108,284	236,984	193,364
Other Income and Deductions:				
Interest income	3,130	3,748	9,808	12,010
Gains (losses) on investments held by NDT	5,716	(4,109)	) 9,376	7,688
Other income	2,484	1,755	6,991	3,559
Other deductions	(3,451)	) (4,685)	) (10,719)	) (11,638)
Net other income (deductions)	7,879	(3,291)	) 15,456	11,619
Interest Charges	30,515	31,124	90,280	92,251
Earnings before Income Taxes	95,514	73,869	162,160	112,732
Income Taxes	33,538	25,964	54,609	37,206
Net Earnings	61,976	47,905	107,551	75,526
(Earnings) Attributable to Valencia Non-controlling Interest	(3,980)	) (4,111)	) (10,699)	) (10,764)
Preferred Stock Dividend Requirements of Subsidiary	(132)	) (132)	) (396)	) (396)
Net Earnings Attributable to PNMR	\$57,864	\$43,662	\$96,456	\$64,366
Net Earnings Attributable to PNMR per Common Share:				
Basic	\$0.73	\$0.48	\$1.21	\$0.70
Diluted	\$0.72	\$0.48	\$1.20	\$0.70
Dividends Declared per Common Share	\$0.145	\$0.125	\$0.435	\$0.375

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

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

	Three Months Ended September 30, 2012		2011		Nine Months Ended September 30, 2012		2011	
	(In thousands)							
Net Earnings	\$61,976		\$47,905		\$107,551		\$75,526	
Other Comprehensive Income (Loss):								
Unrealized Gain on Investment Securities:								
Unrealized holding gains (losses) arising during the period, net of income tax (expense) of \$(4,972), \$1,123, \$(15,409), 7,587 and \$(8,157)			(1,713	)	23,511		12,448	
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,248, \$1,593, \$12,786, and \$11,555	(6,481	)	(2,431	)	(19,509	)	(17,632)
Changes in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$(476), \$(425), \$(1,428), and \$176			648		2,181		(318)
Fair Value Adjustment for Cash Flow Hedges:								
Change in fair market value, net of income tax (expense) benefit of \$51, \$123, \$150, and \$441	(92	)	(219	)	(270	)	(781)
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$(16), \$(827), \$(47), and \$(1,129)	29		1,493		85		2,036	
Total Other Comprehensive Income (Loss)	1,770		(2,222	)	5,998		(4,247)
Comprehensive Income	63,746		45,683		113,549		71,279	
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,980	)	(4,111	)	(10,699	)	(10,764)
Preferred Stock Dividend Requirements of Subsidiary	(132	)	(132	)	(396	)	(396)
Comprehensive Income Attributable to PNMR	\$59,634		\$41,440		\$102,454		\$60,119	

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

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

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$107,551	\$75,526
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	153,992	151,984
Bad debt expense	2,458	20,120
Deferred income tax expense	55,141	43,167
Net unrealized (gains) losses on derivatives	3,076	(5,869)
Realized (gains) on investments held by NDT	(9,376)	(7,688)
Stock based compensation expense	2,748	4,302
Regulatory disallowances	—	21,402
Other, net	(4,495)	) 991
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(31,550)	) (88,462)
Materials, supplies, and fuel stock	(6,769)	) (985)
Other current assets	(4,225)	) (2,901)
Other assets	(9,499)	) (3,310)
Accounts payable	3,973	13,781
Interest and taxes	22,336	33,049
Other current liabilities	(21,681)	) (12,919)
Proceeds from governmental grants	21,567	—
Other liabilities	(80,248)	) (43,691)
Net cash flows from operating activities	204,999	198,497
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(214,743)	) (236,275)
Proceeds from sales of investments held by NDT	136,305	121,202
Purchases of investments held by NDT	(138,658)	) (122,174)
Proceeds from sale of First Choice	4,034	—
Return of principal on PVNGS lessor notes	23,455	32,274
Proceeds from sales of utility plant	1,367	—
Other, net	260	145
Net cash flows from investing activities	(187,980)	) (204,828)

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

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

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	30,700	67,000
Long-term borrowings	20,000	50,000
Repayment of long-term debt	(20,000)	(50,000)
Proceeds from stock option exercise	10,301	2,570
Purchases to satisfy awards of common stock	(21,930)	(5,288)
Dividends paid	(33,454)	(34,690)
Valencia's transactions with its owner	(12,034)	(11,972)
Proceeds from transmission interconnection agreements	983	1,246
Repayment of transmission interconnection agreements	(1,169)	(4,637)
Other, net	(151)	2,458
Net cash flows from financing activities	(26,754)	16,687
Change in Cash and Cash Equivalents	(9,735)	10,356
Cash and Cash Equivalents at Beginning of Period	15,091	15,404
Cash and Cash Equivalents at End of Period	\$5,356	\$25,760
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$64,040	\$64,130
Income taxes paid (refunded), net	\$5,302	\$(3,744)
Supplemental schedule of noncash financing activities:		
Liability incurred for purchase of Convertible Preferred Stock, Series A		\$73,475

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

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

	September 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$5,356	\$15,091
Accounts receivable, net of allowance for uncollectible accounts of \$1,931 and \$1,778	119,887	87,794
Unbilled revenues	54,399	57,401
Other receivables	43,418	71,069
Materials, supplies, and fuel stock	61,000	54,231
Regulatory assets	47,899	44,993
Commodity derivative instruments	1,184	3,713
Income taxes receivable	100,802	95,130
Other current assets	38,467	33,397
Total current assets	472,412	462,819
Other Property and Investments:		
Investment in PVNGS lessor notes	54,666	79,049
Investments held by NDT	186,839	168,851
Other investments	9,977	12,207
Non-utility property, net of accumulated depreciation of \$137 and \$120	4,615	4,631
Total other property and investments	256,097	264,738
Utility Plant:		
Plant in service and plant held for future use	5,223,543	5,120,167
Less accumulated depreciation and amortization	1,766,689	1,705,520
	3,456,854	3,414,647
Construction work in progress	148,313	132,420
Nuclear fuel, net of accumulated amortization of \$50,106 and \$36,411	86,496	80,067
Net utility plant	3,691,663	3,627,134
Deferred Charges and Other Assets:		
Regulatory assets	468,991	482,155
Goodwill	278,297	278,297
Other deferred charges	92,747	89,470
Total deferred charges and other assets	840,035	849,922
	\$5,260,207	\$5,204,613

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

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

	September 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 113,400	\$ 82,700
Current installments of long-term debt	2,387	2,387
Accounts payable	81,463	103,139
Customer deposits	17,655	15,971
Accrued interest and taxes	82,169	53,114
Commodity derivative instruments	1,888	1,632
Dividends declared	11,680	10,089
Current portion of accumulated deferred income taxes	9,080	9,080
Other current liabilities	73,269	95,156
Total current liabilities	392,991	373,268
Long-term Debt	1,672,124	1,671,626
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	705,945	645,099
Accumulated deferred investment tax credits	14,101	15,771
Regulatory liabilities	438,377	418,098
Asset retirement obligations	84,191	79,233
Accrued pension liability and postretirement benefit cost	129,858	224,766
Commodity derivative instruments	2,770	2,437
Other deferred credits	94,749	106,378
Total deferred credits and other liabilities	1,469,991	1,491,782
Total liabilities	3,535,106	3,536,676
Commitments and Contingencies (See Note 9)		
Cumulative Preferred Stock of Subsidiary		
without mandatory redemption requirements (\$100 stated value; 10,000,000 shares authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNMR common stockholders' equity:		
Common stock outstanding (no par value; 120,000,000 shares authorized; issued and outstanding 79,653,624 shares)	1,183,886	1,193,191
Accumulated other comprehensive income (loss), net of income taxes	(60,858	) (66,856)
Retained earnings	509,456	447,650
Total PNMR common stockholders' equity	1,632,484	1,573,985
Non-controlling interest in Valencia	81,088	82,423
Total equity	1,713,572	1,656,408
	\$ 5,260,207	\$ 5,204,613

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
 (Unaudited)

	Attributable to PNMR			Total PNMR Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock	AOCI	Retained Earnings			
	(In thousands)					
Balance at December 31, 2011	\$1,193,191	\$(66,856)	\$447,650	\$1,573,985	\$82,423	\$1,656,408
Proceeds from stock option exercise	10,301	—	—	10,301	—	10,301
Purchases to satisfy awards of common stock	(21,930)	—	—	(21,930)	—	(21,930)
Excess tax (shortfall) from stock-based payment arrangements	(424)	—	—	(424)	—	(424)
Stock based compensation expense	2,748	—	—	2,748	—	2,748
Valencia's transactions with its owner	—	—	—	—	(12,034)	(12,034)
Net earnings before subsidiary preferred stock dividends	—	—	96,852	96,852	10,699	107,551
Subsidiary preferred stock dividends	—	—	(396)	(396)	—	(396)
Total other comprehensive income	—	5,998	—	5,998	—	5,998
Dividends declared on common stock	—	—	(34,650)	(34,650)	—	(34,650)
Balance at September 30, 2012	\$1,183,886	\$(60,858)	\$509,456	\$1,632,484	\$81,088	\$1,713,572

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Electric Operating Revenues	\$321,731	\$323,760	\$832,242	\$797,232
Operating Expenses:				
Cost of energy	99,217	108,708	263,009	279,419
Administrative and general	41,150	37,916	120,857	110,833
Energy production costs	40,365	39,730	131,546	135,510
Regulatory disallowances	—	—	—	17,479
Depreciation and amortization	24,437	25,058	72,017	71,691
Transmission and distribution costs	11,172	11,848	33,679	35,357
Taxes other than income taxes	8,417	12,586	25,386	30,323
Total operating expenses	224,758	235,846	646,494	680,612
Operating income	96,973	87,914	185,748	116,620
Other Income and Deductions:				
Interest income	3,173	3,770	9,938	12,052
Gains (losses) on investments held by NDT	5,716	(4,109)	) 9,376	7,688
Other income	1,176	1,179	4,378	1,921
Other deductions	(1,682)	) (2,643)	) (4,553)	) (5,480)
Net other income (deductions)	8,383	(1,803)	) 19,139	16,181
Interest Charges	19,230	18,487	56,652	54,593
Earnings before Income Taxes	86,126	67,624	148,235	78,208
Income Taxes	31,235	25,052	51,929	26,574
Net Earnings	54,891	42,572	96,306	51,634
(Earnings) Attributable to Valencia Non-controlling Interest	(3,980)	) (4,111)	) (10,699)	) (10,764)
Net Earnings Attributable to PNM	50,911	38,461	85,607	40,870
Preferred Stock Dividends Requirements	(132)	) (132)	) (396)	) (396)
Net Earnings Available for PNM Common Stock	\$50,779	\$38,329	\$85,211	\$40,474

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Net Earnings	\$54,891	\$42,572	\$96,306	\$51,634
Other Comprehensive Income (Loss):				
Unrealized Gain on Investment Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of \$(4,972), \$1,123, \$(15,409), and \$(8,157)	7,587	(1,713)	) 23,511	12,448
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,248, \$1,593, \$12,786 and \$11,555	(6,481)	) (2,431)	) (19,509)	) (17,632)
Change in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$(476), \$(423), \$(1,428), and \$9		646	2,181	(13)
Fair Value Adjustment for Cash Flow Hedges:				
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$0, \$0, \$0, and \$(11)		—	—	17
Total Other Comprehensive Income (Loss)	1,833	(3,498)	) 6,183	(5,180)
Comprehensive Income	56,724	39,074	102,489	46,454
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,980)	) (4,111)	) (10,699)	) (10,764)
Comprehensive Income Attributable to PNM	\$52,744	\$34,963	\$91,790	\$35,690

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$96,306	\$51,634
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	97,086	97,918
Deferred income tax expense	52,558	33,835
Net unrealized (gains) losses on derivatives	3,076	(4,120)
Realized (gains) on investments held by NDT	(9,376)	(7,688)
Regulatory disallowances	—	17,479
Other, net	(1,005)	3,228
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(26,183)	(25,871)
Materials, supplies, and fuel stock	(6,404)	(974)
Other current assets	(6,942)	1,626
Other assets	(9,425)	8,187
Accounts payable	2,353	(2,013)
Interest and taxes	80,418	18,186
Other current liabilities	(9,850)	(4,173)
Proceeds from governmental grants	21,567	—
Other liabilities	(75,629)	(45,417)
Net cash flows from operating activities	208,550	141,837
Cash Flows From Investing Activities:		
Utility plant additions	(144,571)	(185,402)
Proceeds from sales of NDT investments	136,305	121,202
Purchases of NDT investments	(138,658)	(122,174)
Return of principal on PVNGS lessor notes	23,455	32,274
Other, net	(720)	496
Net cash flows from investing activities	(124,189)	(153,604)

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	(66,000	) 67,000
Long-term borrowings	20,000	—
Repayment of long-term debt	(20,000) —
Valencia's transactions with its owner	(12,034	) (11,972)
Proceeds from transmission interconnection arrangements	983	1,246
Repayment of transmission interconnection arrangements	(1,169	) (4,637)
Dividends paid	(18,076	) (47,730)
Other, net	(151	) 2,558
Net cash flows from financing activities	(96,447	) 6,465
Change in Cash and Cash Equivalents	(12,086	) (5,302)
Cash and Cash Equivalents at Beginning of Period	12,307	10,336
Cash and Cash Equivalents at End of Period	\$221	\$5,034
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$43,167	\$40,582
Income taxes paid (refunded), net	\$(63,114	) \$(1,539)

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$221	\$12,307
Accounts receivable, net of allowance for uncollectible accounts of \$1,931 and \$1,778	94,315	68,661
Unbilled revenues	46,998	48,928
Other receivables	42,454	65,465
Affiliate receivables	8,930	8,912
Materials, supplies, and fuel stock	57,925	51,521
Regulatory assets	46,940	44,480
Commodity derivative instruments	1,184	3,713
Income taxes receivable	66,374	128,858
Other current assets	33,144	26,776
Total current assets	398,485	459,621
Other Property and Investments:		
Investment in PVNGS lessor notes	54,666	79,049
Investments held by NDT	186,839	168,851
Other investments	3,985	2,900
Non-utility property	976	976
Total other property and investments	246,466	251,776
Utility Plant:		
Plant in service and plant held for future use	4,075,995	4,009,873
Less accumulated depreciation and amortization	1,342,958	1,305,754
	2,733,037	2,704,119
Construction work in progress	120,303	116,030
Nuclear fuel, net of accumulated amortization of \$50,106 and \$36,411	86,496	80,067
Net utility plant	2,939,836	2,900,216
Deferred Charges and Other Assets:		
Regulatory assets	352,871	352,387
Goodwill	51,632	51,632
Other deferred charges	84,041	79,655
Total deferred charges and other assets	488,544	483,674
	\$4,073,331	\$4,095,287

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$—	\$66,000
Accounts payable	64,213	82,619
Affiliate payables	11,922	14,592
Customer deposits	17,655	15,971
Accrued interest and taxes	51,092	32,111
Commodity derivative instruments	1,888	1,632
Dividends declared	16,885	132
Current portion of accumulated deferred income taxes	16,562	16,562
Other current liabilities	53,219	60,944
Total current liabilities	233,436	290,563
Long-term Debt	1,215,569	1,215,540
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	562,534	504,419
Accumulated deferred investment tax credits	14,101	15,771
Regulatory liabilities	390,563	373,703
Asset retirement obligations	83,337	78,425
Accrued pension liability and postretirement benefit cost	125,840	213,688
Commodity derivative instruments	2,770	2,437
Other deferred credits	83,514	94,700
Total deferred credits and liabilities	1,262,659	1,283,143
Total liabilities	2,711,664	2,789,246
Commitments and Contingencies (See Note 9)		
Cumulative Preferred Stock		
without mandatory redemption requirements (\$100 stated value; 10,000,000 authorized; issued and outstanding 115,293 shares)	11,529	11,529
Equity:		
PNM common stockholder's equity:		
Common stock outstanding (no par value; 40,000,000 shares authorized; issued and outstanding 39,117,799 shares)	1,061,776	1,061,776
Accumulated other comprehensive income (loss), net of income taxes	(60,615	) (66,798)
Retained earnings	267,889	217,111
Total PNM common stockholder's equity	1,269,050	1,212,089
Non-controlling interest in Valencia	81,088	82,423
Total equity	1,350,138	1,294,512
	\$4,073,331	\$4,095,287

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 SUBSIDIARIES
A WHOLLY OWNED SUBSIDIARY OF PNM RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Unaudited)

	Attributable to PNM			Total PNM Common Stockholder's Equity	Non- controlling Interest in Valencia	Total Equity
	Common Stock (In thousands)	AOCI	Retained Earnings			
Balance at December 31, 2011	\$1,061,776	\$(66,798)	\$217,111	\$1,212,089	\$82,423	\$1,294,512
Valencia's transactions with its owner	—	—	—	—	(12,034)	(12,034)
Net earnings	—	—	85,607	85,607	10,699	96,306
Total other comprehensive income	—	6,183	—	6,183	—	6,183
Dividends declared on preferred stock	—	—	(396)	(396)	—	(396)
Dividends declared on common stock	—	—	(34,433)	(34,433)	—	(34,433)
Balance at September 30, 2012	\$1,061,776	\$(60,615)	\$267,889	\$1,269,050	\$81,088	\$1,350,138

The accompanying notes, as they relate to PNM, 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.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
	(In thousands)			
Electric Operating Revenues:				
Non-affiliates	\$68,680	\$54,787	\$187,404	\$150,175
Affiliate	—	12,196	—	30,608
Total electric operating revenues	68,680	66,983	187,404	180,783
Operating Expenses:				
Cost of energy	11,560	10,307	34,333	30,719
Administrative and general	10,130	9,998	30,700	29,798
Regulatory disallowances	—	—	—	3,923
Depreciation and amortization	13,819	12,674	37,173	33,662
Transmission and distribution costs	5,910	6,072	17,217	17,597
Taxes other than income taxes	6,291	6,381	16,322	16,113
Total operating expenses	47,710	45,432	135,745	131,812
Operating income	20,970	21,551	51,659	48,971
Other Income and Deductions:				
Interest income	—	1	1	1
Other income	771	418	1,708	1,068
Other deductions	(405	) (105	) (464	) (181
Net other income (deductions)	366	314	1,245	888
Interest Charges	7,047	7,276	21,214	21,880
Earnings Before Income Taxes	14,289	14,589	31,690	27,979
Income Taxes	5,205	5,721	11,577	10,845
Net Earnings	\$9,084	\$8,868	\$20,113	\$17,134

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.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30, 2012		2011		Nine Months Ended September 30, 2012		2011	
	(In thousands)							
Net Earnings	\$9,084		\$8,868		\$20,113		\$17,134	
Other Comprehensive Income (Loss):								
Change in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$0, \$(1), \$0, and \$169	—		2		—		(305))
Fair Value Adjustment for Cash Flow Hedges:								
Change in fair market value, net of income tax (expense) benefit of \$51, \$110, \$150, and \$382	(92	)	(198	)	(270	)	(689)
Reclassification adjustment for losses included in net earnings, net of income tax expense (benefit) of \$(16), \$(850), \$(47), and \$(1,052)	29		1,535		85		1,900	
Total Other Comprehensive Income (Loss)	(63	)	1,339		(185	)	906	
Comprehensive Income	\$9,021		\$10,207		\$19,928		\$18,040	

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.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$20,113	\$17,134
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	41,222	36,352
Deferred income tax expense	11,337	9,981
Regulatory disallowances	—	3,923
Other, net	(275)	) (69)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(5,367)	) (8,751)
Materials and supplies	(365)	) 124
Other current assets	(709)	) (1,547)
Other assets	(498)	) (2,985)
Accounts payable	(358)	) 1,858
Interest and taxes	4,860	4,277
Other current liabilities	1,980	2,383
Other liabilities	(3,411)	) (1,101)
Net cash flows from operating activities	68,529	61,579
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(61,168)	) (44,214)
Proceeds from sales of utility plant	1,367	—
Net cash flows from investing activities	(59,801)	) (44,214)
Cash Flow From Financing Activities:		
Short-term borrowings (repayments), net – affiliate	2,300	(1,200)
Long-term borrowings	—	50,000
Repayment of long-term debt	—	(50,000)
Dividends paid	(11,028)	) (7,066)
Other, net	—	(100)
Net cash flows from financing activities	(8,728)	) (8,366)
Change in Cash and Cash Equivalents	—	8,999
Cash and Cash Equivalents at Beginning of Period	1	1
Cash and Cash Equivalents at End of Period	\$1	\$9,000
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$13,074	\$14,474
Income taxes paid (refunded), net	\$1,848	\$3,250

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.
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$1	\$1
Accounts receivable	25,572	19,133
Unbilled revenues	7,401	8,473
Other receivables	1,126	847
Materials and supplies	3,075	2,710
Regulatory assets	959	513
Current portion of accumulated deferred income taxes	2,273	2,272
Other current assets	1,426	694
Total current assets	41,833	34,643
Other Property and Investments:		
Other investments	267	271
Non-utility property	2,240	2,240
Total other property and investments	2,507	2,511
Utility Plant:		
Plant in service and plant held for future use	985,318	947,327
Less accumulated depreciation and amortization	338,600	323,123
	646,718	624,204
Construction work in progress	20,141	12,968
Net utility plant	666,859	637,172
Deferred Charges and Other Assets:		
Regulatory assets	116,120	129,768
Goodwill	226,665	226,665
Other deferred charges	6,078	6,686
Total deferred charges and other assets	348,863	363,119
	\$1,060,062	\$1,037,445

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.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt – affiliate	\$3,000	\$700
Accounts payable	8,055	12,263
Affiliate payables	2,258	1,314
Accrued interest and taxes	25,525	20,666
Other current liabilities	10,412	9,480
Total current liabilities	49,250	44,423
Long-term Debt	311,432	310,963
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	170,552	159,197
Regulatory liabilities	47,814	44,395
Asset retirement obligations	737	699
Accrued pension liability and postretirement benefit cost	4,018	11,078
Other deferred credits	4,106	3,437
Total deferred credits and other liabilities	227,227	218,806
Total liabilities	587,909	574,192
Commitments and Contingencies (See Note 9)		
Common Stockholder's Equity:		
Common stock outstanding (\$10 par value; 12,000,000 shares authorized; issued and outstanding 6,358 shares)	64	64
Paid-in-capital	405,366	416,394
Accumulated other comprehensive income (loss), net of income taxes	(243	) (58
Retained earnings	66,966	46,853
Total common stockholder's equity	472,153	463,253
	\$1,060,062	\$1,037,445

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.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN COMMON STOCKHOLDER'S EQUITY
(Unaudited)

	Common Stock	Paid-in Capital	AOCI	Retained Earnings	Total Common Stockholder's Equity
	(In thousands)				
Balance at December 31, 2011	\$64	\$416,394	\$(58	) \$46,853	\$463,253
Net earnings	—	—	—	20,113	20,113
Total other comprehensive income (loss)	—	—	(185	) —	(185)
Dividends declared on common stock	—	(11,028	) —	—	(11,028)
Balance at September 30, 2012	\$64	\$405,366	\$(243	) \$66,966	\$472,153

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

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Significant Accounting Policies and Responsibility for Financial Statements

Financial Statement Preparation

In the opinion of management, the accompanying unaudited interim Condensed Consolidated Financial Statements reflect all normal and recurring accruals and adjustments that are necessary to present fairly the consolidated financial position at September 30, 2012 and December 31, 2011, consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2012 and 2011, and consolidated cash flows for the nine months ended September 30, 2012 and 2011. The preparation of financial statements in conformity with GAAP 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 results could ultimately differ from those estimated. The Notes to Condensed Consolidated Financial Statements include disclosures for PNMR, PNM, and TNMP. This report uses the term "Company" when discussing matters of common applicability to PNMR, PNM, and TNMP. Discussions regarding only PNMR, PNM, or TNMP are so indicated. Certain amounts in the 2011 Condensed Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2012 financial statement presentation.

These Condensed Consolidated Financial Statements are unaudited. Certain information and note disclosures normally included in the annual Consolidated Financial Statements have been condensed or omitted, as permitted under the applicable rules and regulations. Readers of these financial statements should refer to PNMR's, PNM's, and TNMP's audited Consolidated Financial Statements and Notes thereto that are included in their respective 2011 Annual Reports on Form 10-K. Weather causes the Company's results of operations to be seasonal in nature and the results of operations presented in the accompanying Condensed Consolidated Financial Statements are not necessarily representative of operations for an entire year.

GAAP defines subsequent events as events or transactions that occur after the balance sheet date but before financial statements are issued or are available to be issued. Based on their nature, magnitude, and timing, certain subsequent events may be required to be reflected at the balance sheet date and/or required to be disclosed in the financial statements. The Company has evaluated subsequent events as required by GAAP.

Principles of Consolidation

The Condensed Consolidated Financial Statements of each of PNMR, PNM, and TNMP include their accounts and those of subsidiaries in which that entity owns a majority voting interest. PNM also consolidates the PVNGS Capital Trust and Valencia. PNM owns undivided interests in several jointly-owned power plants and records its pro-rata share of the assets, liabilities, and expenses for those plants.

PNMR shared services' administrative and general expenses, which represent costs that are primarily driven by corporate level activities, are charged to the business segments. These services are billed at cost, except those billed to Optim Energy, which included a profit element. Other significant intercompany transactions between PNMR, PNM, and TNMP include transmission and distribution services; lease, interest, and income tax sharing payments; and dividends paid on common stock. All intercompany transactions and balances have been eliminated. See Note 12.

Dividends on Common Stock

Dividends on PNMR's common stock are declared by its Board. The timing of the declaration of dividends is dependent on the timing of meetings and other actions of the Board. This has historically resulted in dividends considered to be attributable to the second quarter of each year being declared through actions of the Board during the third quarter of the year. The Board declared dividends on common stock considered to be for the second quarter of \$0.145 per share in July 2012 and \$0.125 in July 2011, which are reflected as being in the second quarter within "Dividends Declared per Common Share" on the PNMR Condensed Consolidated Statements of Earnings. The Board declared dividends on common stock for the third quarter of \$0.145 per share in September 2012 and \$0.125 per share in September 2011, which are reflected as third quarter within "Dividends Declared per Common Share."

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

PNM declared a cash dividend on its common stock to PNMR of \$16.8 million in September 2012, which was paid in October 2012, and declared and paid a dividend of \$17.7 million in June 2012. PNM declared cash dividends on its common stock to PNMR of \$39.1 million in December 2010, which was paid in January 2011, \$4.6 million in March 2011, which was paid in April 2011, and \$3.6 million in June 2011, which was paid in July 2011. TNMP declared and paid cash dividends to PNMR of \$11.0 million in the nine months ended September 30, 2012 and \$7.1 million in the nine months ended September 30, 2011. TNMP dividends were recorded as reductions of its paid-in-capital.

(2) Segment Information

The following segment presentation is based on the methodology that management uses for making operating decisions and assessing performance of its various business activities. A reconciliation of the segment presentation to the GAAP financial statements is provided.

PNM Electric

PNM Electric includes the retail electric utility operations of PNM that are subject to traditional rate regulation by the NMPRC. PNM Electric provides integrated electricity services that include the generation, transmission, and distribution of electricity for retail electric customers in New Mexico. PNM Electric also includes the generation and sale of electricity into the wholesale market as well as providing transmission services to third parties. The sale of electricity includes the asset optimization of PNM's jurisdictional assets as well as the capacity excluded from retail rates. FERC has jurisdiction over wholesale and transmission rates.

TNMP Electric

TNMP Electric is an electric utility providing regulated transmission and distribution services in Texas under the TECA. TNMP's operations are subject to traditional rate regulation by the PUCT.

First Choice

First Choice, which was sold by PNMR on November 1, 2011 (Note 14), operated as a certified retail electric provider in Texas. First Choice provided electricity to residential, small commercial, and governmental customers. Although First Choice was regulated in certain respects by the PUCT, it was not subject to traditional rate regulation.

Corporate and Other

The Corporate and Other segment includes PNMR holding company activities, primarily related to corporate level debt and PNMR Services Company.

The following tables present summarized financial information for PNMR by segment. PNM and TNMP each operate in only one segment. Therefore, tabular segment information is not presented for PNM and TNMP.

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PNM RESOURCES, INC. AND SUBSIDIARIES
PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES
TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

PNMR SEGMENT INFORMATION

	PNM Electric	TNMP Electric	Corporate and Other	Consolidated
Three Months Ended September 30, 2012	(In thousands)			
Electric operating revenues	\$321,731	\$68,680	\$—	\$390,411
Cost of energy	99,217	11,560	—	110,777
Margin	222,514	57,120	—	279,634
Other operating expenses	101,104	22,331	(4,771)	) 118,664
Depreciation and amortization	24,437	13,819	4,564	42,820
Operating income	96,973	20,970	207	118,150
Interest income	3,173	—	(43)	) 3,130
Other income (deductions)	5,210	366	(827)	) 4,749
Net interest charges	(19,230)	) (7,047)	) (4,238)	) (30,515)
Segment earnings (loss) before income taxes	86,126	14,289	(4,901)	) 95,514
Income taxes (benefit)	31,235	5,205	(2,902)	) 33,538
Segment earnings (loss)	54,891	9,084	(1,999)	) 61,976
Valencia non-controlling interest	(3,980)	) —	—	(3,980)
Subsidiary preferred stock dividends	(132)	) —	—	(132)
Segment earnings (loss) attributable to PNMR	\$50,779	\$9,084	\$(1,999)	) \$57,864
Nine Months Ended September 30, 2012				
Electric operating revenues	\$832,242	\$187,404	\$—	\$1,019,646
Cost of energy	263,009	34,333	—	297,342
Margin	569,233	153,071	—	722,304
Other operating expenses	311,468	64,239	(12,676)	) 363,031
Depreciation and amortization	72,017	37,173	13,099	122,289
Operating income (loss)	185,748	51,659	(423)	) 236,984
Interest income	9,938	1	(131)	) 9,808
Other income (deductions)	9,201	1,244	(4,797)	) 5,648
Net interest charges	(56,652)	) (21,214)	) (12,414)	) (90,280)
Segment earnings (loss) before income taxes	148,235	31,690	(17,765)	) 162,160
Income taxes (benefit)	51,929	11,577	(8,897)	) 54,609
Segment earnings (loss)	96,306	20,113	(8,868)	) 107,551
Valencia non-controlling interest	(10,699)	) —	—	(10,699)
Subsidiary preferred stock dividends	(396)	) —	—	(396)
Segment earnings (loss) attributable to PNMR	\$85,211	\$20,113	\$(8,868)	) \$96,456
At September 30, 2012:				
Total Assets	\$4,073,331	\$1,060,062	\$126,814	\$5,260,207
Goodwill	\$51,632	\$226,665	\$—	\$278,297
Additions to utility and non-utility plant included in accounts payable	\$6,056	\$886	\$1,063	\$8,005

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	PNM Electric	TNMP Electric	First Choice	Corporate and Other	Consolidated
Three Months Ended September 30, 2011 (In thousands)					
Electric revenues from non-affiliates	\$ 323,760	\$ 54,787	\$ 170,999	\$(48)	) \$ 549,498
Intersegment revenues	—	12,196	—	(12,196)) —
Total electric operating revenues	323,760	66,983	170,999	(12,244)	) 549,498
Cost of energy	108,708	10,307	144,035	(12,196)	) 250,854
Margin	215,052	56,676	26,964	(48)	) 298,644
Other operating expenses	102,080	22,451	25,076	(1,617)	) 147,990
Depreciation and amortization	25,058	12,674	346	4,292	42,370
Operating income (loss)	87,914	21,551	1,542	(2,723)	) 108,284
Interest income	3,770	1	29	(52)	) 3,748
Other income (deductions)	(5,573)	) 313	(115)	) (1,664)	) (7,039)
Net interest charges	(18,487)	) (7,276)	) (249)	) (5,112)	) (31,124)
Segment earnings (loss) before income taxes	67,624	14,589	1,207	(9,551)	) 73,869
Income taxes (benefit)	25,052	5,721	594	(5,403)	) 25,964
Segment earnings (loss)	42,572	8,868	613	(4,148)	) 47,905
Valencia non-controlling interest	(4,111)	) —	—	—	) (4,111)
Subsidiary preferred stock dividends	(132)	) —	—	—	) (132)
Segment earnings (loss) attributable to PNMR	\$ 38,329	\$ 8,868	\$ 613	\$(4,148)	) \$ 43,662
Nine Months Ended September 30, 2011					
Electric revenues from non-affiliates	\$ 797,232	\$ 150,175	\$ 405,485	\$(145)	) \$ 1,352,747
Intersegment revenues	—	30,608	—	(30,608)) —
Total electric operating revenues	797,232	180,783	405,485	(30,753)	) 1,352,747
Cost of energy	279,419	30,719	303,285	(30,609)	) 582,814
Margin	517,813	150,064	102,200	(144)	) 769,933
Other operating expenses	329,502	67,431	67,693	(7,172)	) 457,454
Depreciation and amortization	71,691	33,662	987	12,775	119,115
Operating income (loss)	116,620	48,971	33,520	(5,747)	) 193,364
Interest income	12,052	1	63	(106)	) 12,010
Other income (deductions)	4,129	887	(494)	) (4,913)	) (391)
Net interest charges	(54,593)	) (21,880)	) (535)	) (15,243)	) (92,251)
Segment earnings (loss) before income taxes	78,208	27,979	32,554	(26,009)	) 112,732
Income taxes (benefit)	26,574	10,845	11,833	(12,046)	) 37,206
Segment earnings (loss)	51,634	17,134	20,721	(13,963)	) 75,526
Valencia non-controlling interest	(10,764)	) —	—	—	) (10,764)
Subsidiary preferred stock dividends	(396)	) —	—	—	) (396)
	\$ 40,474	\$ 17,134	\$ 20,721	\$(13,963)	) \$ 64,366

Segment earnings (loss) attributable to
PNMR

At September 30, 2011:

Total Assets	\$3,936,468	\$1,041,613	\$274,741	\$119,818	\$5,372,640
Goodwill	\$51,632	\$226,665	\$43,013	\$—	\$321,310
Additions to utility and non-utility plant included in accounts payable	\$6,811	\$4,672	\$106	\$253	\$11,842

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(3) Variable Interest Entities

GAAP determines how an enterprise evaluates and accounts for its involvement with variable interest entities, including determining the primary beneficiary of a variable interest entity, by focusing primarily on whether the enterprise has the power to direct the activities that most significantly impact the economic performance of a variable interest entity. GAAP also requires continual reassessment of the primary beneficiary of a variable interest entity. Additional information concerning PNM's variable interest entities is contained in Note 9 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K.

PNM has a PPA to purchase all of the electric capacity and energy from Valencia, a 145 MW natural gas-fired power plant near Belen, New Mexico, through May 2028. A third-party built, owns, and operates the facility while PNM is the sole purchaser of the electricity generated. PNM is obligated to pay fixed O&M and capacity charges in addition to variable O&M charges under this PPA. For the three and nine months ended September 30, 2012, PNM paid \$4.8 million and \$14.0 million for fixed charges and \$0.6 million and \$0.9 million for variable charges. For the three and nine months ended September 30, 2011, PNM paid \$4.6 million and \$13.7 million for fixed charges and \$0.9 million and \$1.3 million for variable charges. PNM does not have any other financial obligations related to Valencia. The assets of Valencia can only be used to satisfy obligations of Valencia and creditors of Valencia do not have any recourse against PNM's assets. PNM has concluded that the third party entity that owns Valencia is a variable interest entity and that PNM is the primary beneficiary of the entity under GAAP. As the primary beneficiary, PNM consolidates the entity in its financial statements. The assets and liabilities of Valencia set forth below are immaterial to PNM and, therefore, not shown separately on the Condensed Consolidated Balance Sheets. The owner's equity and net income of Valencia are considered attributable to non-controlling interest.

Summarized financial information for Valencia is as follows:

Results of Operations

	Three Months Ended		Nine Months Ended September	
	September 30, 2012	2011	2012	2011
	(In thousands)			
Operating revenues	\$ 5,358	\$ 5,505	\$ 14,916	\$ 15,024
Operating expenses	(1,378	) (1,394	) (4,217	) (4,260
Earnings attributable to non-controlling interest	\$ 3,980	\$ 4,111	\$ 10,699	\$ 10,764

Financial Position

	September 30,	December 31,
	2012	2011
	(In thousands)	
Current assets	\$ 3,507	\$ 2,405
Net property, plant, and equipment	78,661	80,785
Total assets	82,168	83,190

Current liabilities	1,080	767
Owners' equity – non-controlling interest	\$ 81,088	\$ 82,423

PNM leases interests in Units 1 and 2 of PVNGS under arrangements, which were entered into in 1985 and 1986, that are accounted for as operating leases. PNM is not the legal or tax owner of the leased assets. PNM has an option to purchase the leased assets at appraised value at the end of the leases, but does not have a fixed price purchase option and does not provide residual value guarantees. PNM has options to renew the leases at fixed rates set forth in the leases, which represent 50% of the amounts during the original terms of the leases, for two years beyond the termination of the original lease terms. The option

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periods on certain leases may be further extended for up to an additional six years if the appraised remaining useful lives and fair value of the leased assets are greater than parameters set forth in the leases. PNM is only obligated to make payments to the trusts for the scheduled semi-annual lease payments, which, net of amounts that will be returned to PNM through its ownership in related lessor notes, aggregate \$80.0 million as of September 30, 2012 over the remaining terms of the leases. Under certain circumstances (for example, final shutdown of the plant, the NRC issuing specified violation orders with respect to PVNGS, or the occurrence of specified nuclear events), PNM would be required to make specified payments to the beneficial owners and take title to the leased interests. If such an event had occurred as of September 30, 2012, PNM could have been required to pay the beneficial owners up to approximately \$167.6 million, which would result in PNM taking ownership of the leased assets and termination of the leases. PNM has no other financial obligations or commitments to the trusts or the beneficial owners. Creditors of the trusts have no recourse to PNM's assets other than with respect to the contractual lease payments. PNM has no additional rights to the assets of the trusts other than the use of the leased assets. PNM has evaluated the PVNGS lease arrangements and concluded that it does not have the power to direct the activities that most significantly impact the economic performance of the trusts and, therefore, is not the primary beneficiary of the trusts under GAAP. PNM has recorded no assets or liabilities related to the trusts other than the accrual of lease payments between the scheduled payment dates, which were \$11.8 million at September 30, 2012 and \$26.0 million at December 31, 2011 and are included in other current liabilities on the Condensed Consolidated Balance Sheets. For additional information regarding these leases, see Risk Factors, MD&A – Off Balance Sheet Arrangements and Note 7 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K.

PNM has a PPA covering the entire output of Delta, which is a variable interest under GAAP. This arrangement was entered into prior to December 31, 2003 and PNM has been unsuccessful in obtaining the information necessary to determine if it is the primary beneficiary of the entity that owns Delta, or to consolidate that entity if it were determined that PNM is the primary beneficiary. Accordingly, PNM is unable to make those determinations and, as provided in GAAP, continues to account for this PPA as an operating lease. PNM makes fixed and variable payments to Delta under the PPA. For the three and nine months ended September 30, 2012, PNM incurred fixed payments of \$1.6 million and \$4.7 million and variable payments of \$0.3 million and \$0.6 million under the PPA. For the three and nine months ended September 30, 2011, PNM incurred fixed payments of \$1.5 million and \$4.5 million and variable payments of \$0.7 million and \$1.0 million under the PPA. PNM's only quantifiable obligation under the PPA is to make the fixed payments, which as of September 30, 2012, aggregated \$46.7 million through the end of the PPA in 2020. PNM will also pay variable costs, which cannot be quantified since the amounts are based on how much the generating plant is in operation. PNM has no other obligations or commitments with respect to Delta.

(4) Fair Value of Derivative and Other Financial Instruments

Energy Related Derivative Contracts

Overview

The primary objective for the use of commodity derivative instruments, including energy contracts, options, and futures, is to manage price risk associated with forecasted purchases of energy or fuel used to generate electricity, or to manage anticipated generation capacity in excess of forecasted demand from existing customers. The Company's

energy related derivative contracts are designed to manage commodity risk. PNM is required to meet the demand and energy needs of its retail and firm-requirements wholesale customers. PNM is exposed to market risk for its share of PVNGS Unit 3 and the needs of its firm-requirements wholesale customers not covered under a FPPAC. PNM's operations are managed primarily through a net asset-backed strategy, whereby PNM's aggregate net open forward contract position is covered by its forecasted excess generation capabilities or market purchases. PNM could be exposed to market risk if its generation capabilities were to be disrupted or if its load requirements were to be greater than anticipated. If all or a portion of load requirements were required to be covered as a result of such unexpected situations, commitments would have to be met through market purchases. Additional information concerning the Company's energy related derivative contracts, including how commodity risk is managed, is contained in Note 8 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K.

On November 1, 2011, PNMR completed the sale of First Choice. See Note 14. Accordingly, First Choice information after October 31, 2011 is not included. The difference between PNMR and PNM amounts represents First Choice.

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Accounting for Derivatives

Energy contracts that meet the definition of a derivative under GAAP and do not qualify, or are not designated, for the normal sales and purchases exception are recorded on the balance sheet at fair value at each period end. The changes in fair value are recognized in earnings unless specific hedge accounting criteria are met and elected. Normal sales and purchases are not marked to market and are reflected in results of operations when the underlying transactions settle. The Company had no designated cash flow or fair value hedges related to commodity derivatives in the year ended December 31, 2011 and the nine months ended September 30, 2012.

The contracts recorded at fair value that do not qualify or are not designated for cash flow hedge accounting are classified as economic hedges. Economic hedges are defined as derivative instruments, including long-term power agreements, used to economically hedge generation assets, purchased power and fuel costs, and customer load requirements. Changes in the fair value of economic hedges are reflected in results of operations and are classified between operating revenues and cost of energy according to the intent of the hedge. The Company has no trading transactions.

The Company does not offset fair value, cash collateral, and accrued payable or receivable amounts recognized for derivative instruments under master netting arrangements. At September 30, 2012 and December 31, 2011, amounts posted as cash collateral under margin arrangements were \$1.6 million and \$1.8 million for both PNMR and PNM. Cash collateral amounts are included in other current assets on the Condensed Consolidated Balance Sheets. At September 30, 2012 and December 31, 2011, PNMR and PNM had the legal right to reclaim cash collateral of \$1.6 million and zero. PNMR and PNM had no obligation to return cash collateral at September 30, 2012 and December 31, 2011.

Commodity Derivatives

Commodity derivative instruments are summarized as follows:

	Economic Hedges	
	September 30, 2012	December 31, 2011
	(In thousands)	
PNMR and PNM		
Current assets	\$ 1,184	\$ 3,713
Current liabilities	(1,888	) (1,632
Long-term liabilities	(2,770	) (2,437
	(4,658	) (4,069
Net	\$ (3,474	) \$ (356

PNM has a NMPRC approved hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes \$0.1 million of current assets and current liabilities at September 30, 2012, and \$0.5 million of current assets and current liabilities at December 31, 2011 related to this plan. The offsets to these amounts are recorded as regulatory assets and liabilities on the Condensed Consolidated Balance Sheets.

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The following table presents the effect of commodity derivative instruments on earnings, excluding income tax effects.

	Economic Hedges			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
PNMR	(In thousands)			
Electric operating revenues	\$ (740	) \$ 2,915	\$ 897	\$ 4,250
Cost of energy	263	(2,873	) (278	) (2,788
Total gain (loss)	\$ (477	) \$ 42	\$ 619	\$ 1,462
PNM				
Electric operating revenues	\$ (740	) \$ 2,915	\$ 897	\$ 4,250
Cost of energy	263	(562	) (278	) (404
Total gain (loss)	\$ (477	) \$ 2,353	\$ 619	\$ 3,846

Commodity contract volume positions are presented in Decatherms for gas related contracts and in MWh for power related contracts. The table below presents PNMR's and PNM's net buy (sell) volume positions:

	Economic Hedges	
	Decatherms	MWh
September 30, 2012		
PNMR and PNM	1,435,000	(1,786,923
December 31, 2011		
PNMR and PNM	1,499,000	(366,448

In connection with managing its commodity risks, the Company enters into master agreements with certain counterparties. If the Company is in a net liability position under an agreement, some agreements provide that the counterparties can request collateral from the Company if the Company's credit rating is downgraded; other agreements provide that the counterparty may request collateral to provide it with "adequate assurance" that the Company will perform; and others have no provision for collateral.

The table below presents information about the Company's contingent requirements to provide collateral under commodity contracts having an objectively determinable collateral provision that are in net liability positions and are not fully collateralized with cash. Contractual liability represents commodity derivative contracts recorded at fair value on the balance sheet, determined on an individual contract basis without offsetting amounts for individual contracts that are in an asset position and could be offset under master netting agreements with the same counterparty. The table only reflects cash collateral that has been posted under the existing contracts and does not reflect letters of credit under the Company's revolving credit facilities that have been issued as collateral. Net exposure is the net contractual liability for all contracts, including those designated as normal purchases and sales, offset by existing cash collateral and by any offsets available under master netting agreements, including both asset and liability positions.

Contingent Feature – Credit Rating Downgrade	Contractual Liability	Existing Cash	Net Exposure
		Collateral	
(In thousands)			
September 30, 2012			
PNMR and PNM	\$ 3,977	\$—	\$ 3,943

December 31, 2011
PNMR and PNM

\$4,036

\$—

\$4,036

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Sale of Power from PVNGS Unit 3

Since January 1, 2011, PNM has been selling power from its interest in PVNGS Unit 3 daily at market prices. PNM has established fixed rates for the substantial majority of these sales through the end of 2013 through hedging arrangements that are accounted for as economic hedges. PNM is also partially hedged for 2014.

Non-Derivative Financial Instruments

The carrying amounts reflected on the Condensed Consolidated Balance Sheets approximate fair value for cash, receivables, and payables due to the short period of maturity. Available-for-sale securities are carried at fair value. Available-for-sale securities for PNMR and PNM consist of PNM assets held in the NDT for its share of decommissioning costs of PVNGS and, beginning in August 2012, a trust for PNM's share of post-term reclamation costs related to the coal mines serving SJGS (Note 9), which investments are included in "other investments" on the Condensed Consolidated Balance Sheet. PNMR and PNM do not have any unrealized losses on available-for-sale securities. The fair value and gross unrealized gains of investments in available-for-sale securities are presented in the following table.

	September 30, 2012		December 31, 2011	
	Unrealized Gains	Fair Value	Unrealized Gains	Fair Value
	(In thousands)			
Equity securities:				
Domestic value	\$5,083	\$29,856	\$3,549	\$25,143
Domestic growth	20,062	53,246	16,714	52,187
International and other	434	12,064	662	12,754
Fixed income securities:				
Municipals	4,307	44,173	2,861	41,463
U.S. Government	1,451	33,479	1,353	25,367
Corporate and other	1,167	13,788	742	9,171
Cash investments	—	2,820	—	2,766
	\$32,504	\$189,426	\$25,881	\$168,851

The proceeds and gross realized gains and losses on the disposition of available-for-sale securities for PNMR and PNM are shown in the following table. Realized gains and losses are determined by specific identification of costs of securities sold.

	Three Months Ended		Nine Months Ended	
	September 30, 2012	September 30, 2011	September 30, 2012	September 30, 2011
	(In thousands)			
Proceeds from sales	\$90,518	\$26,312	\$136,305	\$121,202
Gross realized gains	\$6,263	\$2,800	\$11,029	\$16,290
Gross realized (losses)	\$(5,131)	\$(1,847)	\$(7,055)	\$(4,129)

Held-to-maturity securities are those investments in debt securities that the Company has the ability and intent to hold until maturity. Held-to-maturity securities consist of the investment in PVNGS lessor notes and certain items within other investments, including the EIP lessor note.

The Company has no available-for-sale or held-to-maturity securities for which carrying value exceeds fair value. There are no impairments considered to be “other than temporary” that are included in AOCI and not recognized in earnings.

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At September 30, 2012, the available-for-sale and held-to-maturity debt securities had the following final maturities:

	Fair Value		
	Available-for-Sale	Held-to-Maturity	
	PNMR and PNM	PNMR	PNM
	(In thousands)		
Within 1 year	\$ 1,543	\$ 951	\$ 951
After 1 year through 5 years	30,977	85,484	78,420
After 5 years through 10 years	14,418	2,110	—
After 10 years through 15 years	9,196	—	—
After 15 years through 20 years	12,102	—	—
After 20 years	23,204	—	—
	\$ 91,440	\$ 88,545	\$ 79,371

Fair Value Disclosures

The Company determines the fair values of its derivative and other instruments based on the hierarchy established in GAAP, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes three levels of inputs that may be used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Level 3 inputs used in determining fair values for the Company consist of internal valuation models.

For NDT investments, Level 2 fair values are provided by the trustee utilizing a pricing service. The pricing provider predominantly uses the market approach using bid side market value based upon a hierarchy of information for specific securities or securities with similar characteristics. For commodity derivatives, Level 2 fair values are determined based on market observable inputs, which are validated using multiple broker quotes, including forward price, volatility, and interest rate curves to establish expectations of future prices. Credit valuation adjustments are made for estimated credit losses based on the overall exposure to each counterparty. For long-term debt, Level 2 fair values are provided by an external pricing service. The pricing service primarily utilizes quoted prices for similar debt in active markets when determining fair value. For investments categorized as Level 3, primarily the PVNGS lessor notes and other investments, fair values were determined by discounted cash flow models that take into consideration discount rates that are observable for similar type assets and liabilities. Management of the Company independently verifies the information provided by pricing services.

The Company records any transfers between fair value hierarchy levels as of the end of each calendar quarter. There were no transfers between levels during the nine months ended September 30, 2012 and 2011.

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Items recorded at fair value on the Condensed Consolidated Balance Sheets are presented below:

	Fair Value	GAAP Fair Value Hierarchy		
		Level 1	Level 2	Level 3
September 30, 2012				
PNMR and PNM				
Decommissioning and reclamation investments				
Cash and equivalents	\$2,820	\$2,820	\$—	\$—
Equity securities:				
Domestic value	29,856	29,856	—	—
Domestic growth	53,246	53,246	—	—
International and other	12,064	12,064	—	—
Fixed income securities:				
U.S. government	33,479	29,746	3,733	—
Municipals	44,173	—	44,173	—
Corporate and other	13,788	—	13,788	—
Total	\$189,426	\$127,732	\$61,694	\$—
Commodity derivative assets	\$1,184	\$—	\$1,184	\$—
Commodity derivative liabilities	(4,658)	) —	(4,658)) —
Net	\$ (3,474)	) \$—	\$ (3,474)) \$—
December 31, 2011				
PNMR and PNM				
NDT investments				
Cash and equivalents	\$2,766	\$2,766	\$—	\$—
Equity securities:				
Domestic value	25,143	25,143	—	—
Domestic growth	52,187	52,187	—	—
International and other	12,754	12,754	—	—
Fixed income securities:				
U.S. government	25,367	21,409	3,958	—
Municipals	41,463	—	41,463	—
Corporate and other	9,171	—	9,171	—
Total	\$168,851	\$114,259	\$54,592	\$—
Commodity derivative assets	\$3,713	\$—	\$3,713	\$—
Commodity derivative liabilities	(4,069)	) —	(4,069)) —
Net	\$ (356)	) \$—	\$ (356)) \$—

A reconciliation of the changes in Level 3 fair value measurements for PNMR is as follows. PNM had no Level 3 fair value measurements during the nine months ended September 30, 2012 and 2011.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
PNMR	(In thousands)			
Balance at beginning of period	\$—	\$4,392	\$—	\$(822)
Total gains (losses) included in earnings	—	(5,025)	—	201
Purchases	—	429	—	3,163
Settlements	—	1,142	—	(1,604)
Balance at end of period	\$—	\$938	\$—	\$938
Total gains (losses) included in earnings attributable to the change in unrealized gains or losses relating to assets still held at the end of the period	\$—	\$589	\$—	\$1,455

The above gains and losses (realized and unrealized) for Level 3 fair value measurements included in earnings are reported in cost of energy.

The carrying amounts and fair values of investments in PVNGS lessor notes, other investments, and long-term debt, which are not recorded at fair value on the Condensed Consolidated Balance Sheets are presented below:

	Carrying Amount	Fair Value	GAAP Fair Value Hierarchy ⁽¹⁾		
	(In thousands)		Level 1	Level 2	Level 3
September 30, 2012					
PNMR					
Long-term debt	\$1,674,511	\$2,107,877	\$—	\$2,102,638	\$5,239
Investment in PVNGS lessor notes	\$78,023	\$78,420	\$—	\$—	\$78,420
Other investments	\$7,390	\$12,059	\$758	\$—	\$11,301
PNM					
Long-term debt	\$1,215,569	\$1,512,711	\$—	\$1,512,711	\$—
Investment in PVNGS lessor notes	\$78,023	\$78,420	\$—	\$—	\$78,420
Other investments	\$1,398	\$1,443	\$491	\$—	\$952
TNMP					
Long-term debt	\$311,432	\$426,934	\$—	\$426,934	\$—
Other investments	\$267	\$267	\$267	\$—	\$—
December 31, 2011					
PNMR					
Long-term debt	\$1,674,013	\$1,873,002			
Investment in PVNGS lessor notes	\$107,094	\$108,742			
Other investments	\$12,207	\$14,208			
PNM					
Long-term debt	\$1,215,540	\$1,294,846			
Investment in PVNGS lessor notes	\$107,094	\$108,742			

Other investments	\$2,900	\$3,052
TNMP		
Long-term debt	\$310,963	\$413,966
Other investments	\$271	\$271

⁽¹⁾ GAAP does not require disclosure of the fair value hierarchy information prior to 2012.

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(5) Earnings Per Share

In accordance with GAAP, dual presentation of basic and diluted earnings per share is presented in the Condensed Consolidated Statements of Earnings of PNMR. Information regarding the computation of earnings per share is as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Net Earnings Attributable to PNMR	\$57,864	\$43,662	\$96,456	\$64,366
Average Number of Common Shares:				
Outstanding during period	79,654	86,673	79,654	86,673
Equivalents from convertible preferred stock (Note 7)	—	4,363	—	4,638
Vested awards of restricted stock	114	164	156	154
Average Shares - Basic	79,768	91,200	79,810	91,465
Dilutive Effect of Common Stock Equivalents ⁽¹⁾ :				
Stock options and restricted stock	622	542	600	516
Average Shares - Diluted	80,390	91,742	80,410	91,981
Net Earnings Per Share of Common Stock:				
Basic	\$0.73	\$0.48	\$1.21	\$0.70
Diluted	\$0.72	\$0.48	\$1.20	\$0.70

⁽¹⁾ Excludes the effect of out-of-the-money options for 1,108,946 shares of common stock at September 30, 2012.

(6) Stock-Based Compensation

Additional information concerning stock-based compensation under PNMR's Performance Equity Plan ("PEP") is contained in Note 13 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K. In 2011, the Company changed its approach to awarding stock-based compensation. As a result, no stock options have been granted in 2011 or 2012 and awards of restricted stock have increased.

Stock Options

The following table summarizes activity in stock options for the nine months ended September 30, 2012:

	Shares	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Remaining Contract Life
Outstanding at beginning of period	3,202,229	\$18.95		
Granted	—	\$—		
Exercised	(757,497)) \$13.60		
Forfeited	(5,101)) \$12.22		

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Expired	(265,443) \$25.71		
Outstanding at end of period	2,174,188	\$20.01	\$9,429,630	⁽¹⁾ 4.52 years
Exercisable at end of period	2,033,857	\$21.39	\$8,195,812	4.32 years

⁽¹⁾ At September 30, 2012, the exercise price of 1,108,946 outstanding stock options is greater than the closing price of PNMR common stock on that date; therefore, those options have no intrinsic value.

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The following table provides additional information concerning stock options:

	Nine Months Ended September 30,	
	2012	2011
Weighted-average grant date fair value of options granted	\$—	\$—
Total fair value of options that vested (in thousands)	\$ 1,058	\$ 1,189
Total intrinsic value of options exercised (in thousands)	\$ 4,515	\$ 1,077

Restricted Stock and Performance Shares

PNMR has agreements with employees for awards of restricted stock subject to time vesting requirements. PNMR also has awards subject to achieving performance or market targets, some of which also have time vesting requirements. The grant date fair value for restricted stock and stock awards with performance targets is determined based on the market price of PNMR common stock on the date of the agreements reduced by the present value of future dividends, which will not be received prior to vesting, applied to the total number of shares that are anticipated to vest, although the number of performance shares ultimately awarded cannot be determined until after the performance periods end. The grant date fair value of stock awards with market targets is determined using Monte Carlo simulation models, which provide grant date fair values that include an expectation of the number of shares to be issued.

Compensation expense for performance-based shares is recognized ratably over the performance period and is adjusted periodically to reflect the level of achievement expected to be attained. Compensation expense related to market-based shares is recognized ratably over the measurement period, regardless of the actual level of achievement, provided the employees remain with the Company during the period. Compensation expense for other restricted stock awards is recognized ratably over the vesting period.

The following table summarizes restricted stock activity, including performance-based and market-based shares, for the nine months ended September 30, 2012:

	Shares	Weighted- Average Grant-Date Fair Value
Nonvested at beginning of period	418,730	\$ 12.36
Granted	320,597	\$ 15.63
Vested	(375,402)	\$ 12.67
Forfeited	(7,503)	\$ 12.48
Nonvested at end of period	356,422	\$ 14.71

The following table provides additional information concerning restricted stock, including performance-based and market-based shares:

Nine Months Ended
September 30,

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	2012	2011
Weighted-average grant date fair value of shares granted	\$ 15.63	\$ 13.10
Total fair value of shares that vested (in thousands)	\$ 4,755	\$ 1,084
Expected quarterly dividends per share	\$ 0.145	\$ 0.125
Risk-free interest rate	0.76	% 1.20 %

Included as granted and vested in the above tables are 42,768 shares that were based on achieving performance targets during the 2009 through 2011 period. The Board approved these shares at maximum levels in March 2012. Also included as

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granted and vested in the tables above are 117,174 shares that were based upon achieving performance or market targets for 2011. The Board approved these shares in March 2012, including the performance-based shares at near maximum levels.

PNMR also has share agreements that provide for performance or market targets through 2014. Excluded from the above tables are maximums of 168,269, 190,369, and 205,878 shares for periods ending in 2012, 2013, and 2014 that would be awarded if all performance or market criteria are achieved and all executives remain eligible.

In March 2012, the Company entered into a retention award agreement with its Chairman, President, and Chief Executive Officer under which she would receive 135,000 shares of PNMR's common stock if the Company meets specific market targets at the end of 2016 and she remains an employee of the Company. If the Company achieves specific market targets at the end of 2014 and she remains an employee of the Company, she would receive 35,000 of the total shares at that time. The retention award was made under the PEP and was approved by the Board on February 28, 2012. The above tables do not include any shares under the retention award agreement.

(7) Capitalization

Additional information concerning financing activities, including a TNMP cash-flow hedge that establishes a fixed interest rate on a variable rate loan, is contained in Note 6 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K.

Short-term Debt

PNMR has a revolving credit financing capacity of \$300.0 million under the PNMR Revolving Credit Facility. PNM has a revolving credit financing capacity of \$400.0 million under the PNM Revolving Credit Facility. Both of these facilities included two one-year extension options, subject to approval by the lenders. In October 2012, the first of the one-year extension options for the PNMR Revolving Credit Facility and the PNM Revolving Credit Facility were exercised extending the expiration of both facilities to October 31, 2017. TNMP has a revolving credit facility with financing capacity of \$75.0 million under the TNMP Revolving Credit Facility that expires in December 2015. At September 30, 2012, the weighted average interest rate was 1.97% for borrowings outstanding under the PNMR Revolving Credit Facility. Short-term debt outstanding consisted of:

	September 30, 2012	December 31, 2011
Short-term Debt		
	(In thousands)	
PNM – Revolving credit facility	\$—	\$ 66,000
TNMP – Revolving credit facility	—	—
PNMR		
Revolving credit facility	113,400	16,700
Bi-lateral line of credit	*	—
	\$ 113,400	\$ 82,700

* This \$5.0 million line of credit was allowed to expire in August 2012.

At October 26, 2012, PNMR, PNM, and TNMP had \$182.3 million, \$396.5 million, and \$74.7 million of availability under their respective revolving credit facilities, including reductions of availability due to outstanding letters of credit. Total availability at October 26, 2012, on a consolidated basis, was \$653.5 million for PNMR. As of October 26, 2012, TNMP had \$12.3 million in borrowings from PNMR under their intercompany loan agreement. At October 26, 2012, PNMR, PNM and TNMP had consolidated invested cash of \$6.6 million, \$6.6 million, and none.

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Financing Activities

In April 2012, PNM filed an application with the NMPRC requesting approval to participate in the refunding of \$20.0 million of PCRBs, which was approved in May 2012. PNM also received NMPRC authority to exercise the two one-year extension options under the PNM Revolving Credit Facility.

In September 2012, PNM participated in the issuance of \$20.0 million of new PCRBs by the City of Farmington, New Mexico, which bear interest at 2.54% and mature September 1, 2042 with a mandatory tender on June 1, 2017. The new PCRBs refunded a \$20.0 million series of PCRBs, which bore interest at 5.15% and matured in 2037, that were redeemed at par and retired.

Convertible Preferred Stock

PNMR had 477,800 shares of Series A convertible preferred stock outstanding through September 23, 2011 when it entered into an agreement to purchase all of the outstanding shares. The purchase closed on October 5, 2011. The Series A convertible preferred stock was convertible into PNMR common stock in a ratio of 10 shares of common stock for each share of preferred stock and received dividends equivalent to dividends paid on PNMR common stock as if the preferred stock had been converted into common stock. The Series A convertible preferred stock was entitled to vote on all matters voted upon by common stockholders, except for the election of the Board, and would have received distributions substantially equivalent to common stock in the event of liquidation of PNMR. The terms of the Series A convertible preferred stock resulted in it being substantially equivalent to common stock. Therefore, for earnings per share purposes, the number of common shares into which the Series A convertible preferred stock was convertible was included in the weighted average number of common shares outstanding for periods the Series A convertible preferred stock was outstanding. Similarly, dividends on the Series A convertible preferred stock were considered to be common dividends in the accompanying Condensed Consolidated Financial Statements.

(8) Pension and Other Postretirement Benefit Plans

PNMR and its subsidiaries maintain qualified defined benefit pension plans, postretirement benefit plans providing medical and dental benefits, and executive retirement programs (“PNM Plans” and “TNMP Plans”). PNMR maintains the legal obligation for the benefits owed to participants under these plans.

Additional information concerning pension and OPEB plans is contained in Note 12 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K. Annual net periodic benefit cost (income) for the plans is actuarially determined using the methods and assumptions set forth in that note and is recognized ratably throughout the year.

PNM Plans

The following tables present the components of the PNM Plans’ net periodic benefit cost:

Three Months Ended September 30,	
Pension Plan	OPEB Plan

	2012	2011	2012	2011	Executive Retirement Program	
	2012	2011	2012	2011	2012	2011
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	\$—	\$—	\$54	\$65	\$—	\$—
Interest cost	8,058	8,202	1,324	1,345	219	233
Long-term return on plan assets	(10,325)	(9,269)	(1,225)	(1,347)	—	—
Amortization of net loss	2,629	2,302	972	801	21	23
Amortization of prior service cost	79	79	(336)	(662)	—	—
Net periodic benefit cost	\$441	\$1,314	\$789	\$202	\$240	\$256

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	Nine Months Ended September 30,					
	Pension Plan		Other Postretirement Benefits		Executive Retirement Program	
	2012	2011	2012	2011	2012	2011
	(In thousands)					
Components of Net Periodic Benefit Cost						
Service cost	\$—	\$—	\$162	\$195	\$—	\$—
Interest cost	24,174	24,606	3,972	4,035	657	699
Long-term return on plan assets	(30,975)	(27,807)	(3,675)	(4,041)	—	—
Amortization of net loss	7,887	6,906	2,916	2,403	63	69
Amortization of prior service cost	237	237	(1,008)	(1,986)	—	—
Net periodic benefit cost	\$1,323	\$3,942	\$2,367	\$606	\$720	\$768

PNM made contributions to its pension plan trust of zero and \$77.7 million in the three and nine months ended September 30, 2012 and \$20.5 million and \$34.0 million in the three and nine months ended September 30, 2011. PNM does not anticipate making additional contributions to its pension trust in 2012. Based on current law, including recent amendments to funding requirements, and estimates of portfolio performance, PNM estimates minimum required contributions for its pension plan trust would total \$74.4 million for 2013-2016. Minimum required contributions were developed using current funding assumptions, including discount rates of 5.3% to 6.1%. Actual amounts required to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. PNM may make additional contributions at its discretion. PNM made contributions to the OPEB trust of \$0.8 million and \$2.4 million in the three and nine months ended September 30, 2012 and \$0.7 million and \$1.9 million in the three and nine months ended September 30, 2011. PNM expects contributions during 2012 to the OPEB trust to total \$3.2 million. Disbursements under the executive retirement program, which are funded by the Company and considered to be contributions to the plan, were \$0.4 million and \$1.1 million in the three and nine months ended September 30, 2012 and \$0.4 million and \$1.2 million in the three and nine months ended September 30, 2011 and are expected to total \$1.5 million during 2012.

TNMP Plans

The following tables present the components of the TNMP Plans' net periodic benefit cost (income):

	Three Months Ended September 30,					
	Pension Plan		OPEB Plan		Executive Retirement Program	
	2012	2011	2012	2011	2012	2011
	(In thousands)					
Components of Net Periodic Benefit Cost (Income)						
Service cost	\$—	\$—	\$61	\$77	\$—	\$—
Interest cost	909	951	156	163	11	12
Long-term return on plan assets	(1,331)	(1,368)	(129)	(133)	—	—

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Amortization of net (gain) loss	115	86	(52) (48) —	—
Amortization of prior service cost	—	—	14	15	—	—
Net Periodic Benefit Cost (Income)	\$(307) \$(331) \$50	\$74	\$11	\$12

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	Nine Months Ended September 30,					
	Pension Plan		Other Postretirement Benefits		Executive Retirement Program	
	2012	2011	2012	2011	2012	2011
	(In thousands)					
Components of Net Periodic Benefit Cost (Income)						
Service cost	\$—	\$—	\$183	\$231	\$—	\$—
Interest cost	2,727	2,853	468	489	33	36
Long-term return on plan assets	(3,993)	(4,104)	(387)	(399)	—	—
Amortization of net (gain) loss	345	258	(156)	(144)	—	—
Amortization of prior service cost	—	—	42	45	—	—
Net Periodic Benefit Cost (Income)	\$(921)	\$(993)	\$150	\$222	\$33	\$36

TNMP made contributions to its pension plan trust of zero and \$5.3 million in the three and nine months ended September 30, 2012 and \$0.8 million and \$1.0 million in the three and nine months ended September 30, 2011. TNMP does not anticipate making additional contributions to its pension trust in 2012. Based on current law, including recent amendments to funding requirements, and estimates of portfolio performance, TNMP estimates there would be no minimum required contributions to its pension plan trust for 2013-2016. Minimum required contributions were developed using current funding assumptions, including discount rates of 5.3% and 6.1%. Actual amounts to be funded in the future will depend on the actuarial assumptions at that time, including the appropriate discount rate. TNMP may make additional contributions at its discretion. TNMP made contributions to the OPEB trust of zero and \$0.3 million in the three and nine months ended September 30, 2012 and zero and \$0.4 million in the three and nine months ended September 30, 2011. TNMP does not expect to make additional contributions during 2012 to the OPEB trust. Disbursements under the executive retirement program, which are funded by the Company and considered to be contributions to the plan, were less than \$0.1 million in the three and nine months ended September 30, 2012 and 2011 and are expected to total \$0.1 million during 2012.

(9) Commitments and Contingencies

Overview

There are various claims and lawsuits pending against the Company. The Company is also subject to federal, state, and local environmental laws and regulations and periodically participates in the investigation and remediation of various sites. In addition, the Company occasionally enters into financial commitments in connection with its business operations. The Company is also involved in various legal and regulatory (Note 10) proceedings in the normal course of its business. It is not possible at this time for the Company to determine fully the effect of all litigation and other legal and regulatory proceedings on its financial position, results of operations, or cash flows.

With respect to some of the items listed below, the Company has determined that a loss is not probable or that, to the extent probable, cannot be reasonably estimated. In some cases, the Company is not able to predict with any degree of certainty the range of possible loss that could be incurred. Notwithstanding these facts, the Company has assessed these matters based on current information and made judgments concerning their potential outcome, giving due

consideration to the nature of the claim, the amount and nature of damages sought, and the probability of success. Such judgments are made with the understanding that the outcome of any litigation, investigation, and other legal proceeding is inherently uncertain. In accordance with GAAP, the Company records liabilities for matters where it is probable a loss has been incurred and the amount of loss is reasonably estimable. The actual outcomes of the items listed below could ultimately differ from the judgments made and the differences could be material. The Company cannot make any assurances that the amount of reserves or potential insurance coverage will be sufficient to cover the cash obligations that might be incurred as a result of litigation or regulatory proceedings. The Company does not expect that any known lawsuits, environmental costs, and commitments will have a material effect on its financial condition, results of operations, or cash flows.

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Additional information concerning commitments and contingencies is contained in Note 16 of the Notes to Consolidated Financial Statements in the 2011 Annual Reports on Form 10-K.

Commitments and Contingencies Related to the Environment

Nuclear Spent Fuel and Waste Disposal

Nuclear power plant operators are required to enter into spent fuel disposal contracts with the DOE that require the DOE to accept and dispose of all spent nuclear fuel and other high-level radioactive wastes generated by domestic power reactors. Although the Nuclear Waste Policy Act required the DOE to develop a permanent repository for the storage and disposal of spent nuclear fuel by 1998, the DOE announced that it would not be able to open the repository by 1998 and sought to excuse its performance under the contract. In November 1997, the D.C. Circuit issued a decision preventing the DOE from excusing its own delay, but refused to order the DOE to begin accepting spent nuclear fuel. PNM estimates that it will incur approximately \$42.8 million (in 2010 dollars) for its share of the costs related to the on-site interim storage of spent nuclear fuel at PVNGS during the term of the operating licenses. PNM accrues these costs as a component of fuel expense as the fuel is consumed. At September 30, 2012 and December 31, 2011, PNM had a liability for interim storage costs of \$13.8 million and \$14.5 million included in other deferred credits.

On June 8, 2012, the D.C. Circuit issued its decision on a challenge by several states and environmental groups of the NRC's rulemaking regarding temporary storage and permanent disposal of high-level nuclear waste and spent nuclear fuel. The petitioners had challenged the NRC's 2010 update to the agency's Waste Confidence Decision. Previous versions of the Waste Confidence Decision had expressed the NRC's confidence, in a generic fashion, that high level nuclear waste and spent nuclear fuel safe storage could be safely stored on the sites of the country's commercial nuclear power plants until a mined geologic repository becomes available. The D.C. Circuit found that the agency's 2010 Waste Confidence Decision update constituted a major federal action, which requires either an environmental impact statement or a finding of no significant impact from the agency's actions. The D.C. Circuit found that the NRC's evaluation of the environmental risks from spent nuclear was deficient, and therefore remanded the 2010 Waste Confidence Decision update for further action. PNM is unable to predict the impact that the decision may have on the operation of PVNGS.

The Clean Air Act

Regional Haze

In 1999, EPA developed a regional haze program and regional haze rules under the CAA. The rule directs each of the 50 states to address regional haze. States are required to establish goals for improving visibility in national parks and wilderness areas (also known as Class I areas) and to develop long-term strategies for reducing emissions of air pollutants that cause visibility impairment in their own states and for preventing degradation in other states. States must establish a series of interim goals to ensure continued progress. The first planning period specifies setting reasonable progress goals for improving visibility in Class I areas by the year 2018. In July 2005, the EPA promulgated its final regional haze rule. A major provision of the rule included guidelines for states to conduct BART determinations for certain covered facilities. The BART requirements of the regional haze rule apply to facilities,

including utility boilers, built between 1962 and 1977 that have the potential to emit more than 250 tons per year of visibility impairing pollution. If it is demonstrated that the emissions from these sources cause or contribute to visibility impairment in any Class I area, then BART must be installed. The regional haze rules require that BART controls must be installed on an eligible facility by 2018.

SJGS

Several provisions of the CAA aim to improve visibility in certain national parks and wilderness areas to natural conditions by the year 2064. SJGS is a source that is subject to these statutory obligations to reduce visibility impacts.

Pursuant to the CAA, states have the primary role to regulate visibility requirements by promulgating SIPs. The State of New Mexico submitted its SIP on the two elements of the visibility rules - regional haze and interstate transport - for review by EPA in June 2011. The SIP found that BART to reduce NO_x emissions from SJGS is selective non-catalytic reduction technology

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