

TEXAS NEW MEXICO POWER CO

Form 10-Q

August 03, 2012

Table of Contents

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 June 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

Table of Contents

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 July 27, 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 July 27, 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 July 27, 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.

Table of Contents

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

INDEX

	Page No.
<u>GLOSSARY</u>	<u>4</u>
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)</u>	
<u>PNM RESOURCES, INC. AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>7</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>8</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>10</u>
<u>Condensed Consolidated Statement of Changes in Equity</u>	<u>12</u>
<u>PUBLIC SERVICE COMPANY OF NEW MEXICO AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings (Loss)</u>	<u>13</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	<u>14</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>15</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>17</u>
<u>Condensed Consolidated Statement of Changes in Equity</u>	<u>19</u>
<u>TEXAS-NEW MEXICO POWER COMPANY AND SUBSIDIARIES</u>	
<u>Condensed Consolidated Statements of Earnings</u>	<u>20</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>21</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>22</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>23</u>
<u>Condensed Consolidated Statement of Changes in Common Stockholder's Equity</u>	<u>25</u>
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	<u>26</u>
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>61</u>
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>82</u>
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	<u>85</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1. LEGAL PROCEEDINGS</u>	<u>85</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>86</u>
<u>ITEM 6. EXHIBITS</u>	<u>86</u>
<u>SIGNATURE</u>	<u>88</u>

Table of Contents

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
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
Navajo Acts	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
NMED	New Mexico Environment Department
NMIEC	New Mexico Industrial Energy Consumers Inc.
NMPRC	New Mexico Public Regulation Commission

Table of Contents

NO _x	Nitrogen Oxides
NOI	Notice of Inquiry
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
TNMP	Texas-New Mexico Power Company and Subsidiaries, a wholly owned subsidiary of TNP
TNMP Revolving Credit Facility	TNMP's \$75.0 Million Revolving Credit Facility
TNP	TNP Enterprises, Inc. and Subsidiaries, a wholly owned subsidiary of PNMR
Valencia	Valencia Energy Facility
VaR	Value at Risk

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands, except per share amounts)			
Electric Operating Revenues	\$323,860	\$415,586	\$629,234	\$803,249
Operating Expenses:				
Cost of energy	94,719	173,454	186,565	331,961
Administrative and general	45,289	68,795	90,089	127,260
Energy production costs	46,053	47,127	91,182	95,779
Regulatory disallowances	—	21,402	—	21,402
Depreciation and amortization	41,054	38,272	79,468	76,745
Transmission and distribution costs	17,565	18,161	33,814	35,038
Taxes other than income taxes	14,074	15,515	29,281	29,985
Total operating expenses	258,754	382,726	510,399	718,170
Operating income	65,106	32,860	118,835	85,079
Other Income and Deductions:				
Interest income	3,386	4,234	6,678	8,261
Gains (losses) on investments held by NDT	(795	) 5,894	3,660	11,797
Other income	1,862	809	4,507	1,804
Other deductions	(2,716	) (3,881	) (7,268	) (6,953
Net other income (deductions)	1,737	7,056	7,577	14,909
Interest Charges	30,198	30,512	59,765	61,127
Earnings before Income Taxes	36,645	9,404	66,647	38,861
Income Taxes	11,546	1,735	21,071	11,241
Net Earnings	25,099	7,669	45,576	27,620
(Earnings) Attributable to Valencia Non-controlling Interest	(3,455	) (3,470	) (6,720	) (6,652
Preferred Stock Dividend Requirements of Subsidiary	(132	) (132	) (264	) (264
Net Earnings Attributable to PNMR	\$21,512	\$4,067	\$38,592	\$20,704
Net Earnings Attributable to PNMR per Common Share:				
Basic	\$0.27	\$0.04	\$0.48	\$0.23
Diluted	\$0.27	\$0.04	\$0.48	\$0.22
Dividends Declared per Common Share	\$0.145	\$0.125	\$0.290	\$0.250

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net Earnings	\$25,099	\$7,669	\$45,576	\$27,620
Other Comprehensive Income (Loss):				
Unrealized Gain on Investment Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of \$(3,022), \$(5,827), \$(10,437), and 4,611 \$(9,280)		8,892	15,924	14,161
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,992, \$7,892, \$8,538, and \$9,962	(7,617	) (12,043	) (13,028	) (15,201
Changes in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$(476), \$(425), \$(952), and \$601		648	1,454	(966
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of \$40, \$327, \$99, and \$318	(72	) (585	) (178	) (562
Reclassification adjustment for (gains) losses included in net earnings, net of income tax expense (benefit) of \$(16), \$(215), \$(31), and \$(302)	29	389	56	543
Total Other Comprehensive Income (Loss)	(2,322	) (2,699	) 4,228	(2,025
Comprehensive Income	22,777	4,970	49,804	25,595
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,455	) (3,470	) (6,720	) (6,652
Preferred Stock Dividend Requirements of Subsidiary	(132	) (132	) (264	) (264
Comprehensive Income Attributable to PNMR	\$19,190	\$1,368	\$42,820	\$18,679

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$45,576	\$27,620
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	99,971	97,404
Bad debt expense	1,790	11,732
Deferred income tax expense	21,354	17,992
Net unrealized (gains) losses on derivatives	1,978	(6,996)
Realized (gains) on investments held by NDT	(3,660)	(11,797)
Stock based compensation expense	1,435	2,867
Regulatory disallowances	—	21,402
Other, net	(2,610)	(443)
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(20,901)	(44,371)
Materials, supplies, and fuel stock	(5,250)	1,109
Other current assets	(12,021)	1,679
Other assets	(6,659)	(257)
Accounts payable	(4,882)	6,101
Interest and taxes	(9,944)	(6,798)
Other current liabilities	(3,016)	(10,532)
Proceeds from governmental grants	21,567	—
Other liabilities	(83,432)	(21,972)
Net cash flows from operating activities	41,296	84,740
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(156,796)	(153,168)
Proceeds from sales of investments held by NDT	45,787	94,890
Purchases of investments held by NDT	(47,313)	(96,410)
Return of principal on PVNGS lessor notes	12,632	15,374
Proceeds from sales of utility plant	1,367	—
Other, net	2,320	760
Net cash flows from investing activities	(142,003)	(138,554)

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	124,300	82,000
Proceeds from stock option exercise	5,410	2,172
Purchases to satisfy awards of common stock	(12,674	) (4,535
Dividends paid	(21,770	) (23,127
Valencia's transactions with its owner	(7,449	) (7,232
Proceeds from transmission interconnection agreements	983	589
Other, net	—	2,566
Net cash flows from financing activities	88,800	52,433
Change in Cash and Cash Equivalents	(11,907	) (1,381
Cash and Cash Equivalents at Beginning of Period	15,091	15,404
Cash and Cash Equivalents at End of Period	\$3,184	\$14,023
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$56,217	\$57,930
Income taxes paid (refunded), net	\$5,302	\$(1,775

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

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$3,184	\$15,091
Accounts receivable, net of allowance for uncollectible accounts of \$1,931 and \$1,778	89,479	87,794
Unbilled revenues	74,827	57,401
Other receivables	49,077	71,069
Materials, supplies, and fuel stock	59,481	54,231
Regulatory assets	47,906	44,993
Commodity derivative instruments	4,659	3,713
Income taxes receivable	100,715	95,130
Other current assets	41,463	33,397
Total current assets	470,791	462,819
Other Property and Investments:		
Investment in PVNGS lessor notes	67,400	79,049
Investments held by NDT	178,834	168,851
Other investments	8,450	12,207
Non-utility property, net of accumulated depreciation of \$132 and \$120	4,621	4,631
Total other property and investments	259,305	264,738
Utility Plant:		
Plant in service and plant held for future use	5,196,375	5,120,167
Less accumulated depreciation and amortization	1,748,487	1,705,520
	3,447,888	3,414,647
Construction work in progress	140,409	132,420
Nuclear fuel, net of accumulated amortization of \$43,218 and \$36,411	88,961	80,067
Net utility plant	3,677,258	3,627,134
Deferred Charges and Other Assets:		
Regulatory assets	475,366	482,155
Goodwill	278,297	278,297
Other deferred charges	91,572	89,470
Total deferred charges and other assets	845,235	849,922
	\$5,252,589	\$5,204,613

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

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$207,000	\$82,700
Current installments of long-term debt	2,387	2,387
Accounts payable	74,227	103,139
Customer deposits	17,350	15,971
Accrued interest and taxes	48,755	53,114
Commodity derivative instruments	1,742	1,632
Dividends declared	132	10,089
Current portion of accumulated deferred income taxes	9,080	9,080
Other current liabilities	90,526	95,156
Total current liabilities	451,199	373,268
Long-term Debt	1,671,958	1,671,626
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	670,608	645,099
Accumulated deferred investment tax credits	14,658	15,771
Regulatory liabilities	431,454	418,098
Asset retirement obligations	82,503	79,233
Accrued pension liability and postretirement benefit cost	133,490	224,766
Commodity derivative instruments	5,156	2,437
Other deferred credits	99,291	106,378
Total deferred credits and other liabilities	1,437,160	1,491,782
Total liabilities	3,560,317	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)	1,186,985	1,193,191
Accumulated other comprehensive income (loss), net of income taxes	(62,628	) (66,856)
Retained earnings	474,692	447,650
Total PNMR common stockholders' equity	1,599,049	1,573,985
Non-controlling interest in Valencia	81,694	82,423
Total equity	1,680,743	1,656,408
	\$5,252,589	\$5,204,613

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

Table of Contents

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	5,410	—	—	5,410	—	5,410
Purchases to satisfy awards of common stock	(12,674)	—	—	(12,674)	—	(12,674)
Excess tax (shortfall) from stock-based payment arrangements	(377)	—	—	(377)	—	(377)
Stock based compensation expense	1,435	—	—	1,435	—	1,435
Valencia's transactions with its owner	—	—	—	—	(7,449)	(7,449)
Net earnings before subsidiary preferred stock dividends	—	—	38,856	38,856	6,720	45,576
Subsidiary preferred stock dividends	—	—	(264)	(264)	—	(264)
Total other comprehensive income	—	4,228	—	4,228	—	4,228
Dividends declared on common stock	—	—	(11,550)	(11,550)	—	(11,550)
Balance at June 30, 2012	\$1,186,985	\$(62,628)	\$474,692	\$1,599,049	\$81,694	\$1,680,743

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Electric Operating Revenues	\$260,094	\$239,234	\$510,510	\$473,472
Operating Expenses:				
Cost of energy	83,235	81,497	163,792	170,711
Administrative and general	40,657	38,580	79,706	72,916
Energy production costs	46,053	47,127	91,182	95,779
Regulatory disallowances	—	17,479	—	17,479
Depreciation and amortization	23,946	22,897	47,580	46,632
Transmission and distribution costs	11,664	11,902	22,507	23,509
Taxes other than income taxes	7,870	9,209	16,969	17,740
Total operating expenses	213,425	228,691	421,736	444,766
Operating income	46,669	10,543	88,774	28,706
Other Income and Deductions:				
Interest income	3,429	4,225	6,764	8,282
Gains (losses) on investments held by NDT	(795	) 5,894	3,660	11,797
Other income	1,370	441	3,203	742
Other deductions	(1,564	) (1,851	) (2,868	) (2,837
Net other income (deductions)	2,440	8,709	10,759	17,984
Interest Charges	18,928	18,027	37,422	36,107
Earnings before Income Taxes	30,181	1,225	62,111	10,583
Income Taxes (Benefit)	9,841	(872	) 20,694	1,522
Net Earnings	20,340	2,097	41,417	9,061
(Earnings) Attributable to Valencia Non-controlling Interest	(3,455	) (3,470	) (6,720	) (6,652
Net Earnings (Loss) Attributable to PNM	16,885	(1,373	) 34,697	2,409
Preferred Stock Dividends Requirements	(132	) (132	) (264	) (264
Net Earnings (Loss) Available for PNM Common Stock	\$16,753	\$(1,505	) \$34,433	\$2,145

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net Earnings	\$20,340	\$2,097	\$41,417	\$9,061
Other Comprehensive Income (Loss):				
Unrealized Gain on Investment Securities:				
Unrealized holding gains arising during the period, net of income tax (expense) of \$(3,022), \$(5,827), \$(10,437), and 4,611 \$(9,280)		8,892	15,924	14,161
Reclassification adjustment for (gains) included in net earnings, net of income tax expense of \$4,992, \$7,892, \$8,538 and \$9,962	(7,617	) (12,043	) (13,028	) (15,201
Change in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$(476), \$(423), \$(952), and \$432		646	1,454	(659
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)	(2,279	) (2,505	) 4,350	(1,682
Comprehensive Income (Loss)	18,061	(408	) 45,767	7,379
Comprehensive (Income) Attributable to Valencia Non-controlling Interest	(3,455	) (3,470	) (6,720	) (6,652
Comprehensive Income (Loss) Attributable to PNM	\$14,606	\$(3,878	) \$39,047	\$727

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$41,417	\$9,061
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	63,303	63,077
Deferred income tax expense	21,067	8,784
Net unrealized (gains) losses on derivatives	1,978	(1,453)
Realized (gains) on investments held by NDT	(3,660)	(11,797)
Regulatory disallowances	—	17,479
Other, net	(545)	) 874
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(17,867)	) (8,796)
Materials, supplies, and fuel stock	(5,152)	) 830
Other current assets	(10,885)	) 7,467
Other assets	(5,868)	) 3,301
Accounts payable	(7,112)	) (2,791)
Interest and taxes	61,503	(4,196)
Other current liabilities	10,095	6,730
Proceeds from governmental grants	21,567	—
Other liabilities	(78,105)	) (22,339)
Net cash flows from operating activities	91,736	66,231
Cash Flows From Investing Activities:		
Utility plant additions	(111,344)	) (125,939)
Proceeds from sales of NDT investments	45,787	94,890
Purchases of NDT investments	(47,313)	) (96,410)
Return of principal on PVNGS lessor notes	12,632	15,374
Other, net	1,372	1,037
Net cash flows from investing activities	(98,866)	) (111,048)

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash Flows From Financing Activities:		
Short-term borrowings (repayments), net	20,400	83,000
Valencia's transactions with its owner	(7,449)	(7,232)
Proceeds from transmission interconnection arrangements	983	589
Dividends paid	(17,944)	(43,949)
Other, net	1	2,558
Net cash flows from financing activities	(4,009)	34,966
Change in Cash and Cash Equivalents	(11,139)	(9,851)
Cash and Cash Equivalents at Beginning of Period	12,307	10,336
Cash and Cash Equivalents at End of Period	\$1,168	\$485
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$36,286	\$35,081
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.

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$1,168	\$12,307
Accounts receivable, net of allowance for uncollectible accounts of \$1,931 and \$1,778	67,910	68,661
Unbilled revenues	65,756	48,928
Other receivables	44,218	65,465
Affiliate receivables	8,893	8,912
Materials, supplies, and fuel stock	56,673	51,521
Regulatory assets	44,219	44,480
Commodity derivative instruments	4,659	3,713
Income taxes receivable	66,117	128,858
Other current assets	36,376	26,776
Total current assets	395,989	459,621
Other Property and Investments:		
Investment in PVNGS lessor notes	67,400	79,049
Investments held by NDT	178,834	168,851
Other investments	1,525	2,900
Non-utility property	976	976
Total other property and investments	248,735	251,776
Utility Plant:		
Plant in service and plant held for future use	4,062,329	4,009,873
Less accumulated depreciation and amortization	1,333,994	1,305,754
	2,728,335	2,704,119
Construction work in progress	120,092	116,030
Nuclear fuel, net of accumulated amortization of \$43,218 and \$36,411	88,961	80,067
Net utility plant	2,937,388	2,900,216
Deferred Charges and Other Assets:		
Regulatory assets	353,110	352,387
Goodwill	51,632	51,632
Other deferred charges	82,521	79,655
Total deferred charges and other assets	487,263	483,674
	\$4,069,375	\$4,095,287

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

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	\$86,400	\$66,000
Accounts payable	57,372	82,619
Affiliate payables	17,092	14,592
Customer deposits	17,350	15,971
Accrued interest and taxes	30,874	32,111
Commodity derivative instruments	1,742	1,632
Dividends declared	132	132
Current portion of accumulated deferred income taxes	16,563	16,562
Other current liabilities	67,387	60,944
Total current liabilities	294,912	290,563
Long-term Debt	1,215,560	1,215,540
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	529,370	504,419
Accumulated deferred investment tax credits	14,658	15,771
Regulatory liabilities	384,336	373,703
Asset retirement obligations	81,667	78,425
Accrued pension liability and postretirement benefit cost	128,857	213,688
Commodity derivative instruments	5,156	2,437
Other deferred credits	88,444	94,700
Total deferred credits and liabilities	1,232,488	1,283,143
Total liabilities	2,742,960	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	(62,448	) (66,798)
Retained earnings	233,864	217,111
Total PNM common stockholder's equity	1,233,192	1,212,089
Non-controlling interest in Valencia	81,694	82,423
Total equity	1,314,886	1,294,512
	\$4,069,375	\$4,095,287

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

Table of Contents

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	—	—	—	—	(7,449)	(7,449)
Net earnings	—	—	34,697	34,697	6,720	41,417
Total other comprehensive income	—	4,350	—	4,350	—	4,350
Dividends declared on preferred stock	—	—	(264)	(264)	—	(264)
Dividends declared on common stock	—	—	(17,680)	(17,680)	—	(17,680)
Balance at June 30, 2012	\$1,061,776	\$(62,448)	\$233,864	\$1,233,192	\$81,694	\$1,314,886

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

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Electric Operating Revenues:				
Non-affiliates	\$63,766	\$50,359	\$118,724	\$95,387
Affiliate	—	9,598	—	18,412
Total electric operating revenues	63,766	59,957	118,724	113,799
Operating Expenses:				
Cost of energy	11,484	10,259	22,773	20,412
Administrative and general	10,103	10,135	20,570	19,801
Regulatory disallowances	—	3,923	—	3,923
Depreciation and amortization	12,066	10,726	23,353	20,987
Transmission and distribution costs	5,901	6,256	11,307	11,524
Taxes other than income taxes	5,315	4,963	10,031	9,733
Total operating expenses	44,869	46,262	88,034	86,380
Operating income	18,897	13,695	30,690	27,419
Other Income and Deductions:				
Other income	448	288	937	650
Other deductions	326	(29)	(59)	(75)
Net other income (deductions)	774	259	878	575
Interest Charges	7,069	7,305	14,167	14,604
Earnings Before Income Taxes	12,602	6,649	17,401	13,390
Income Taxes	4,584	2,547	6,372	5,125
Net Earnings	\$8,018	\$4,102	\$11,029	\$8,265

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

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Net Earnings	\$8,018	\$4,102	\$11,029	\$8,265
Other Comprehensive Income (Loss):				
Change in unrecognized amounts of pension and postretirement benefits, net of income tax (expense) benefit of \$0, \$(1), \$0, and \$170	—	2	—	(307)
Fair Value Adjustment for Cash Flow Hedges:				
Change in fair market value, net of income tax (expense) benefit of \$40, \$307, \$99, and \$272	(72)	(555)	(178)	(491)
Reclassification adjustment for losses included in net earnings, net of income tax expense (benefit) of \$(16), \$(102), \$(31), and \$(202)	29	184	56	365
Total Other Comprehensive Income (Loss)	(43)	(369)	(122)	(433)
Comprehensive Income	\$7,975	\$3,733	\$10,907	\$7,832

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

Table of Contents

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

	Six Months Ended June 30,	
	2012	2011
	(In thousands)	
Cash Flows From Operating Activities:		
Net earnings	\$11,029	\$8,265
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	25,885	22,569
Deferred income tax expense	6,247	4,805
Regulatory disallowances	—	3,923
Other, net	(258)	) 31
Changes in certain assets and liabilities:		
Accounts receivable and unbilled revenues	(3,034)	) (5,798)
Materials and supplies	(98)	) 74
Other current assets	(3,904)	) (2,243)
Other assets	(1,066)	) (657)
Accounts payable	2,987	(154)
Interest and taxes	(4,755)	) (6,034)
Other current liabilities	4,214	1,628
Other liabilities	(3,408)	) (1,078)
Net cash flows from operating activities	33,839	25,331
Cash Flows From Investing Activities:		
Additions to utility and non-utility plant	(39,595)	) (24,072)
Proceeds from sales of utility plant	1,367	—
Net cash flows from investing activities	(38,228)	) (24,072)
Cash Flow From Financing Activities:		
Short-term borrowings (repayments), net – affiliate	7,400	5,800
Dividends paid	(3,010)	) (7,066)
Debt issuance costs and other	(1)	) 7
Net cash flows from financing activities	4,389	(1,259)
Change in Cash and Cash Equivalents	—	—
Cash and Cash Equivalents at Beginning of Period	1	1
Cash and Cash Equivalents at End of Period	\$1	\$1
Supplemental Cash Flow Disclosures:		
Interest paid, net of amounts capitalized	\$12,761	\$13,852
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.

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$1	\$1
Accounts receivable	21,569	19,133
Unbilled revenues	9,071	8,473
Other receivables	1,199	847
Materials and supplies	2,808	2,710
Regulatory assets	3,687	513
Current portion of accumulated deferred income taxes	2,272	2,272
Other current assets	1,786	694
Total current assets	42,393	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	972,383	947,327
Less accumulated depreciation and amortization	332,193	323,123
	640,190	624,204
Construction work in progress	14,409	12,968
Net utility plant	654,599	637,172
Deferred Charges and Other Assets:		
Regulatory assets	122,256	129,768
Goodwill	226,665	226,665
Other deferred charges	6,259	6,686
Total deferred charges and other assets	355,180	363,119
	\$1,054,679	\$1,037,445

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

Table of Contents

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

	June 30, 2012	December 31, 2011
	(In thousands, except share information)	
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt – affiliate	\$8,100	\$700
Accounts payable	11,065	12,263
Affiliate payables	3,136	1,314
Accrued interest and taxes	15,910	20,666
Other current liabilities	12,425	9,480
Total current liabilities	50,636	44,423
Long-term Debt	311,276	310,963
Deferred Credits and Other Liabilities:		
Accumulated deferred income taxes	165,493	159,197
Regulatory liabilities	47,118	44,395
Asset retirement obligations	722	699
Accrued pension liability and postretirement benefit cost	4,633	11,078
Other deferred credits	3,651	3,437
Total deferred credits and other liabilities	221,617	218,806
Total liabilities	583,529	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	413,384	416,394
Accumulated other comprehensive income (loss), net of income taxes	(180)	(58)
Retained earnings	57,882	46,853
Total common stockholder's equity	471,150	463,253
	\$1,054,679	\$1,037,445

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

Table of Contents

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	—	—	—	11,029	11,029
Total other comprehensive income (loss)	—	—	(122	) —	(122)
Dividends declared on common stock	—	(3,010	) —	—	(3,010)
Balance at June 30, 2012	\$64	\$413,384	\$(180	) \$57,882	\$471,150

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

Table of Contents

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 June 30, 2012 and December 31, 2011, consolidated results of operations and comprehensive income for the three and six months ended June 30, 2012 and 2011, and consolidated cash flows for the six months ended June 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. For discussion purposes, 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.

PNM declared and paid cash dividends on its common stock to PNMR of \$17.7 million in the six months ended June 30, 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.

Table of Contents

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)

TNMP declared and paid cash dividends to PNMR of \$3.0 million and \$7.1 million in the six months ended June 30, 2012 and 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. 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.

Table of Contents

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 June 30, 2012				
	(In thousands)			
Electric operating revenues	\$260,094	\$63,766	\$—	\$323,860
Cost of energy	83,235	11,484	—	94,719
Gross margin	176,859	52,282	—	229,141
Other operating expenses	106,244	21,319	(4,582)	) 122,981
Depreciation and amortization	23,946	12,066	5,042	41,054
Operating income (loss)	46,669	18,897	(460)	) 65,106
Interest income	3,429	—	(43)	) 3,386
Other income (deductions)	(989)	) 774	(1,434)	) (1,649)
Net interest charges	(18,928)	) (7,069)	) (4,201)	) (30,198)
Segment earnings (loss) before income taxes	30,181	12,602	(6,138)	) 36,645
Income taxes (benefit)	9,841	4,584	(2,879)	) 11,546
Segment earnings (loss)	20,340	8,018	(3,259)	) 25,099
Valencia non-controlling interest	(3,455)	) —	—	) (3,455)
Subsidiary preferred stock dividends	(132)	) —	—	) (132)
Segment earnings (loss) attributable to PNMR	\$16,753	\$8,018	\$(3,259)	) \$21,512
Six Months Ended June 30, 2012				
Electric operating revenues	\$510,510	\$118,724	\$—	\$629,234
Cost of energy	163,792	22,773	—	186,565
Gross margin	346,718	95,951	—	442,669
Other operating expenses	210,364	41,908	(7,906)	) 244,366
Depreciation and amortization	47,580	23,353	8,535	79,468
Operating income (loss)	88,774	30,690	(629)	) 118,835
Interest income	6,764	—	(86)	) 6,678
Other income (deductions)	3,995	878	(3,974)	) 899
Net interest charges	(37,422)	) (14,167)	) (8,176)	) (59,765)
Segment earnings (loss) before income taxes	62,111	17,401	(12,865)	) 66,647
Income taxes (benefit)	20,694	6,372	(5,995)	) 21,071
Segment earnings (loss)	41,417	11,029	(6,870)	) 45,576
Valencia non-controlling interest	(6,720)	) —	—	) (6,720)
Subsidiary preferred stock dividends	(264)	) —	—	) (264)
Segment earnings (loss) attributable to PNMR	\$34,433	\$11,029	\$(6,870)	) \$38,592
At June 30, 2012:				
Total Assets	\$4,069,375	\$1,054,679	\$128,535	\$5,252,589
Goodwill	\$51,632	\$226,665	\$—	\$278,297
Additions to utility and non-utility plant included in accounts payable	\$8,681	\$551	\$392	\$9,624

Table of Contents

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 Electric	TNMP Electric	First Choice	Corporate and Other	Consolidated
Three Months Ended June 30, 2011	(In thousands)				
Electric revenues from non-affiliates	\$239,234	\$50,359	\$126,036	\$(43)	) \$415,586
Intersegment revenues	—	9,598	—	(9,598)) —
Total electric operating revenues	239,234	59,957	126,036	(9,641)	) 415,586
Cost of energy	81,497	10,259	91,296	(9,598)	) 173,454
Gross margin	157,737	49,698	34,740	(43)	) 242,132
Other operating expenses	124,297	25,277	23,630	(2,204)	) 171,000
Depreciation and amortization	22,897	10,726	360	4,289	38,272
Operating income (loss)	10,543	13,695	10,750	(2,128)	) 32,860
Interest income	4,225	—	31	(22)	) 4,234
Other income (deductions)	4,484	259	(273)	) (1,648)	) 2,822
Net interest charges	(18,027)	) (7,305)	) (141)	) (5,039)	) (30,512)
Segment earnings (loss) before income taxes	1,225	6,649	10,367	(8,837)	) 9,404
Income taxes (benefit)	(872)	) 2,547	3,745	(3,685)	) 1,735
Segment earnings (loss)	2,097	4,102	6,622	(5,152)	) 7,669
Valencia non-controlling interest	(3,470)	) —	—	—	(3,470)
Subsidiary preferred stock dividends	(132)	) —	—	—	(132)
Segment earnings (loss) attributable to PNMR	\$(1,505)	) \$4,102	\$6,622	\$(5,152)	) \$4,067
Six Months Ended June 30, 2011					
Electric revenues from non-affiliates	\$473,472	\$95,387	\$234,486	\$(96)	) \$803,249
Intersegment revenues	—	18,412	—	(18,412)) —
Total electric operating revenues	473,472	113,799	234,486	(18,508)	) 803,249
Cost of energy	170,711	20,412	159,250	(18,412)	) 331,961
Gross margin	302,761	93,387	75,236	(96)	) 471,288
Other operating expenses	227,423	44,981	42,616	(5,556)	) 309,464
Depreciation and amortization	46,632	20,987	641	8,485	76,745
Operating income (loss)	28,706	27,419	31,979	(3,025)	) 85,079
Interest income	8,282	—	34	(55)	) 8,261
Other income (deductions)	9,702	575	(379)	) (3,250)	) 6,648
Net interest charges	(36,107)	) (14,604)	) (286)	) (10,130)	) (61,127)
Segment earnings (loss) before income taxes	10,583	13,390	31,348	(16,460)	) 38,861
Income taxes (benefit)	1,522	5,125	11,237	(6,643)	) 11,241
Segment earnings (loss)	9,061	8,265	20,111	(9,817)	) 27,620
Valencia non-controlling interest	(6,652)	) —	—	—	(6,652)
Subsidiary preferred stock dividends	(264)	) —	—	—	(264)
	\$2,145	\$8,265	\$20,111	\$(9,817)	) \$20,704

Segment earnings (loss) attributable to
PNMR

At June 30, 2011:

Total Assets	\$3,920,154	\$1,018,425	\$254,352	\$108,702	\$5,301,633
Goodwill	\$51,632	\$226,665	\$43,013	\$—	\$321,310
Additions to utility and non-utility plant included in accounts payable	\$16,514	\$360	\$237	\$1,165	\$18,276

Table of Contents

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)

(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 six months ended June 30, 2012, PNM paid \$4.6 million and \$9.3 million for fixed charges and \$0.2 million and \$0.3 million for variable charges. For the three and six months ended June 30, 2011, PNM paid \$4.6 million and \$9.1 million for fixed charges and \$0.3 million and \$0.4 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(In thousands)			
Operating revenues	\$4,888	\$4,849	\$9,559	\$9,519
Operating expenses	(1,433	) (1,379	) (2,839	) (2,867
Earnings attributable to non-controlling interest	\$3,455	\$3,470	\$6,720	\$6,652

Financial Position

	June 30,	December 31,
	2012	2011
	(In thousands)	
Current assets	\$3,092	\$2,405
Net property, plant, and equipment	79,369	80,785
Total assets	82,461	83,190
Current liabilities	767	767

Owners' equity – non-controlling interest	\$ 81,694	\$ 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 periods on certain leases may be further extended for up to an additional six years if the appraised remaining useful lives and fair

Table of Contents

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)

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 \$93.7 million as of June 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 June 30, 2012, PNM could have been required to pay the beneficial owners up to approximately \$174.2 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 \$26.0 million at June 30, 2012 and 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 six months ended June 30, 2012, PNM incurred fixed payments of \$1.5 million and \$3.1 million and variable payments of \$0.2 million and \$0.3 million under the PPA. For the three and six months ended June 30, 2011, PNM incurred fixed payments of \$1.5 million and \$2.9 million and variable payments of less than \$0.1 million and \$0.3 million under the PPA. PNM's only quantifiable obligation under the PPA is to make the fixed payments, which as of June 30, 2012, aggregated \$48.1 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.

Table of Contents

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)

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 six months ended June 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 June 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 June 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 June 30, 2012 and December 31, 2011.

Commodity Derivatives

Commodity derivative instruments are summarized as follows:

	Economic Hedges	
	June 30, 2012	December 31, 2011
PNMR and PNM	(In thousands)	
Current assets	\$4,659	\$3,713
	4,659	3,713
Current liabilities	(1,742	) (1,632
Long-term liabilities	(5,156	) (2,437
	(6,898	) (4,069
Net	\$ (2,239	) \$ (356

In April 2010, PNM received NMPRC approval of a hedging plan to manage fuel and purchased power costs related to customers covered by its FPPAC. The table above includes \$0.6 million of current assets and \$0.4 million of current liabilities at June 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.

Table of Contents

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)

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

	Economic Hedges			
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
PNMR	(In thousands)			
Electric operating revenues	\$ (3,581	) \$ 190	\$ 1,637	\$ 1,334
Cost of energy	63	(4,594	) (541	) 86
Total gain (loss)	\$ (3,518	) \$ (4,404	) \$ 1,096	\$ 1,420
PNM				
Electric operating revenues	\$ (3,581	) \$ 190	\$ 1,637	\$ 1,334
Cost of energy	63	(284	) (541	) 159
Total gain (loss)	\$ (3,518	) \$ (94	) \$ 1,096	\$ 1,493

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
June 30, 2012		
PNMR and PNM	2,435,000	(2,028,674
December 31, 2011)
PNMR and PNM	1,499,000	